On 8 March 2017, Saudi Arabia’s General Authority for Zakat and Tax (GAZT) released excise tax regulations on its official website. Although not officially announced, the excise tax regulations are expected to be effective from 1 April 2017.

Excise tax is a selective tax that will be imposed on goods considered harmful to humans or the environment, and on luxury items. The GAZT has identified tobacco, tobacco products and sweetened beverages, including soft drinks and energy drinks as being the first commodities to be subject to the excise levy.

In order to comply with the Saudi Arabian excise tax regulations, manufacturers and importers of these commodities will be required to register with the GAZT for excise tax purposes. Businesses in these sectors that fail to register and comply with the guidance to be issued by the GAZT will be subject to penalties. The GAZT is expected to publish guidance on the procedures required for registration during March 2017.

Excise tax rates

The excise tax regulations do not specify the excise tax rates. However, the Gulf Cooperation Council (GCC) Member States have agreed to impose excise tax rates of 50% on soft drinks, and 100% on energy drinks, tobacco and tobacco products.
Excise tax compliance

Excise tax collected is required to be remitted to the tax authorities within time limits to be specified in the proposed excise tax bylaws. Excise tax will be due once the goods are made available for consumption.

The taxpayers will be required to file excise tax returns according to the guidance to be stipulated in the executive regulations.

The excise tax regulations include provisions covering:

- Application dates for the tax
- Conditions where selective goods are presented for consumption
- Value of selective goods
- Persons in charge of application of the provisions of this law
- Registration for tax purposes and deregistration
- Licensing rules for bonded warehousing
- Maintenance of books and records for recording the movement of selective goods
- Tax assessment on the basis of the recognition of tax and installed data
- Cases of suspension of tax, and its recovery and exemption
- Confidential information and financial sanctions
- Tax dispute resolution procedures

Fines and penalties for noncompliance

The regulations specify the fines and penalties that will be imposed in the case of the following violations:

(i) **Tax avoidance**: a penalty equal to five times the tax avoided.

(ii) In the case of a ruling against the taxpayer for a violation, a maximum additional penalty of SAR1 million (US$266,658) may be imposed or imprisonment for a period of two years.

(iii) **Late declaration**: the penalty shall range between 5% and 25% depending on the duration of the delay.

(iv) **False declaration**: the penalty will amount to 50% of the non-declared tax.

(v) **Monthly late payment of taxes**: the penalty shall be equal to 5% of the tax due per month.

Indirect taxes - policy initiatives

The excise tax is different and separate from the value-added tax (VAT) of 5% that is to be implemented across the GCC countries by 2018. The introduction of the excise tax will meet two fundamental Government policy objectives: to raise the Government revenues and to discourage the consumption of goods considered harmful to health or the environment. This is an important policy reform in Saudi Arabia aimed at promoting economic growth and fiscal stability by 2020.

The introduction of excise taxes follows customs duty increases introduced in December 2016, whereby customs tariff rates were increased on the importation of 193 commodities, including increases across the following product categories:

<table>
<thead>
<tr>
<th>Product category</th>
<th>Old rate</th>
<th>New rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages (e.g., meat, poultry and dairy products)</td>
<td>5%</td>
<td>6%-25%</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>5%</td>
<td>12%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td>Consumer products</td>
<td>5%</td>
<td>10%-20%</td>
</tr>
<tr>
<td>Building and electrical materials</td>
<td>5%</td>
<td>12%-15%</td>
</tr>
</tbody>
</table>

The policy initiatives on excise taxes, VAT and customs duties show a clear trend that governments in the GCC region are placing increased reliance on indirect taxes as a source of revenue aimed at diversifying away from reliance on oil and gas revenues as a source of funding government expenditures.
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