The Saudi Arabian Cabinet announced the approval of the Gulf Cooperation Council (GCC) Value Added Tax (VAT) Framework Agreement on 31 January 2017. The Cabinet has entrusted the Ministry of Finance to implement the VAT in the Kingdom effective from 1 January 2018. It is expected that the Government will be issuing the VAT Law and its bylaws within the next two to three months.

VAT general awareness campaigns

The General Authority for Zakat and Tax (GAZT) has commenced engagement with various business group on the VAT and Excise Tax regimes that are to be introduced in the Kingdom. These campaigns are aimed to ensure businesses are fully appraised as to the registration and compliance requirements under the tax regimes.

The threshold limit for mandatory VAT registration for businesses has been set at an annual revenue of over SAR375,000. However, businesses with an annual revenue between SAR375,000 and SAR187,500 can voluntarily register with the Tax authority to avail of the benefits under the VAT regime. This low threshold limit for mandatory VAT registration means that substantially all businesses operating in the Kingdom will be required to register and comply with the VAT law.

General Authority for Zakat and Income Tax survey

The GAZT has issued an SMS alert to companies (registered in the ERAD system) to take part in a survey related to VAT readiness. The survey has been initiated to assess the awareness and the readiness of the companies to implement the VAT system.

The survey constitutes 30 questions and aims to understand the complexity of businesses and their readiness to implement VAT with effect from 1 January 2018. The main objectives for initiating the survey is to understand:

1. The general awareness of the business sector as to VAT implementation
2. The readiness of businesses to implement VAT coding and reconfigure their existing IT systems and business processes, including maintenance of books and records and to assess the human resource capabilities of these businesses
3. The threshold limit for mandatory and voluntary VAT registration with the Tax authority
4. Corporate information of company (optional) to have direct interaction with the officials of the tax authority.

Upon conclusion of the survey, the GAZT may select large companies (i.e., companies with a turnover of more than SAR 100,000,000) to address key questions and concerns regarding the VAT implementation.

We understand that as a first step of the registration process, these large companies are required to update their corporate
Electronic invoicing

As part of the Saudi Arabian Government’s digital initiative, it has issued a Royal Decree No. 24957 dated 12/05/1437H (21 February 2016), requiring companies to maintain accounting books and records in electronic form and implement electronic invoicing from 2 October 2016 (1/1/1438H).

It is important for the company to upgrade their existing IT system to cater for the upcoming VAT and Excise compliance and reporting requirements.

Next steps

It is important for businesses to initiate a VAT impact assessment immediately in order to determine the VAT registration requirement and the impact that VAT will have across their operations. This assessment should consider the impact of VAT on the following key areas:

► Finance and Accounting
► Documentation and processes
► IT and systems
► Tax and compliance
► Supply chain – goods and services
► Contracts
► Sales and marketing
► Legal structure
► Human resources

The impact assessment should be used to develop a clear plan for the businesses as to the steps that must be taken in order to be VAT ready.

Read the Global Tax Alert on Saudi Arabia officially announces adoption of GCC VAT, dated 31 January 2017.

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