VAT implications for retail sector

August 2017
• Kingdom of Saudi Arabia (KSA) has adopted narrow exemption model of introducing VAT, supply of almost all goods and services in the Kingdom will be subject to VAT at standard rate of 5% unless specifically exempt or zero-rated.

• Apart from the specific exemption or zero rating in the KSA VAT law, all the supplies made by the retailers in KSA are subject to VAT at the standard rate of 5%.

**Equipment and records**

1. **Price Displays:** In a number of countries, VAT Law requires that the price tags on retail goods displayed for sale include the VAT inclusive price. This is to ensure that the customers know the final price payable for the goods. Retailers will have to face a huge exercise of changing the prices of all goods at their retail outlets to be inclusive of VAT. This will be required to be done on 30 December 2017 in order to be ready on 1 January 2018.

2. **Accounting records:** A bookkeeping system must be sufficiently comprehensive to complete the VAT return form.

3. **Invoices**
   - Retailers must issue the tax invoice for the supplies made to the customers. Such tax invoice should contain the information as specified in the KSA VAT Implementing Regulations and should be in Arabic, in addition to any other language.
   - A simplified Tax Invoice may be provided for the supply of goods and services valued at less than SAR1,000.

**Types of sales**

1. **Gift vouchers:** A retailer supplying gifts or samples (goods) without consideration to promote its economic activity will be treated as a nominal supply provided that the fair market value of such gifts or samples does not exceed SAR200, exclusive of VAT, per recipient per calendar year. The maximum annual value of supplies of gifts or samples which the retailer may make without consideration is SAR50,000 in any calendar year, which will be based on fair market value of those goods.

2. **Agents:** An agent must account for VAT only on the commission earned for agency work.

3. **Credit card sales:** VAT will be charged at the time the credit card sale is made.

4. **Discounts**
   - Prompt payment discounts: Where goods are sold on credit and a discount is given for prompt payment (i.e. discount for the early payment as per credit terms), the VAT will be charged on the gross amount of the invoice. If the prompt payment is made and accordingly discount is provided by the retailer, then it shall provide the customer with the credit note.
   - Trade or bulk purchase discounts: These are really special prices offered to certain customers. The VAT will be payable on price net of such discount.

5. **Lay-by sales:** Lay-by sales are delayed sales i.e., where the payment is initially made by the customer and delivery of goods to customer are postponed to future agreed date. The Output VAT must be paid by the Retailer in the tax return period which will be earlier of invoice issued or goods purchased under a lay-by agreement are delivered or uplifted to/by the customer.

6. **Hire purchase:** The VAT liability arises when the hire purchase agreement is entered into. VAT is calculated only on the cash price of the goods noted in the hire purchase agreement. Credit charges are a financial service and are exempt from VAT.

7. **Repossession:** In hire purchase arrangements, goods are usually repossessed if the buyer does not keep up the payments. The repossession can claim the credit of the bad debts if it fulfills the specified criteria.

8. **Exempt goods and services:** Retailers of financial services and lease of residential real estate will not be entitled to claim input tax in respect of supply of such services.

9. **Exported goods:** A retailer posting goods overseas, such goods would be classed as exports and VAT will be charged at a zero rate rather than standard rate. VAT paid by the retailer on the purchase of those goods would be subject to full VAT credit subject to timely submission of export documents.

10. **Retailer of specified products:** Retailers of specified medicines and medical equipment will be subject to zero rate VAT and such retailers will be entitled to full VAT credit.
**Goods**

1. **Sold at less than market value:** Where the retailer makes the supply of taxable goods or services to the Related/associated Persons at a value which is less than their fair market value, then such goods or services should be subject to VAT at their open market value. Article 35 of the draft KSA Implementing Regulations outlines the instances where two or more persons are considered to be Related Persons.

2. **Purchased for private use:** A VAT credit cannot be claimed if goods are bought through a business account for private use.

3. **Returned:** In case the goods are returned by the customer and Output VAT has already been paid by the retailer for those goods then the retailer is entitled to claim a VAT credit on such goods. If a refund is made to the customer then record of returned goods should be kept so that the appropriate credit can be claimed in the VAT return.

4. **Damaged/lost goods:** There are no VAT consequences about goods which have been purchased but which cannot be sold by the retailer because of damage or lost. The VAT credit will have been claimed for the purchase. If however damages are claimed from the supplier, the supplier will issue a credit note and the retailer will account for VAT on that figure.

5. **Hired:** VAT will apply to items hired out to customers and is payable with earlier of invoice or goods are supplied.

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**Key contacts**

**EY contacts for VAT inquiries**

**Finbarr Sexton**
MENA Indirect Tax Services Leader  
+ 974 4457 4200  
finbarr.sexton@qa.ey.com

**David Stevens**
MENA VAT Implementation Leader  
+ 971 4 312 9442  
david.stevens@ae.ey.com

**Asim J. Sheikh**
KSA Tax Leader  
+966 11 215 876  
asim.sheikh@sa.ey.com

**KSA VAT Services Leaders**

**Michael Hendroff**  
+971 4 332 4000  
michael.hendroff@ae.ey.com

**Rolf Winand**  
+966 12 221 8501  
rolf.winand@sa.ey.com

**KSA VAT Coordination Desk**

**Mohammed Bilal Akram**  
+966 11 215 9898  
mohammedbilal.akram@sa.ey.com

**Ahmed A Hassanin**  
+966 11 273 4740  
ahmed.hassanin@sa.ey.com

**Nazar Hussain Khan**  
+966 11 215 9898  
nazar.khan@sa.ey.com

**Sujit Narayanan**  
+ 966 11 215 9898  
sujit.narayanan@xe04.ey.com
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