# KSA VAT Readiness Materials For Healthcare Sector

November 2017

# Table of contents

| | | |
|---|---|---|
| 1 | **Core VAT concepts and legal framework** | Key concepts, terms and definitions related to VAT and summary of key policy positions and key transitional provisions |
| 2 | **VAT treatment for the Healthcare sector** | Definition of healthcare terms, taxable services, VAT treatment, VAT charging mechanism. |
| 3 | **VAT processes** | Self-registration, group registration, de-registration, calculation of VAT, return filing, refund management, |
| 4 | **VAT Readiness** | Overview of Tax payer Readiness Framework |
| 5 | **Penalties** | Offences and respective fines |

# Core VAT concepts and legal framework

# VAT Launch in KSA

## The Kingdom of Saudi Arabia has committed to implement VAT on January 1st 2018

### Key facts of the VAT implementation

**January 1st 2018**

Confirmed launch date of VAT in the KSA

**5%**

Standard VAT rate for products and services

**SAR 375,000[1]**

As a mandatory threshold for VAT registration

### A critical contributor to the Vision 2030

VISION رؤية 2030 المملكة العربية السعودية KINGDOM OF SAUDI ARABIA

برنامج التحوّل الوطني 2020

*"Achieving budgetary balance … … strengthening financial governance, increasing non-oil revenues and improving spending on programs and projects."*

### Significant benefits

Reduction of the cash-based and shadow economy and thus greater transparency for market participants

VAT expected to be one of the largest revenue source after oil & gas

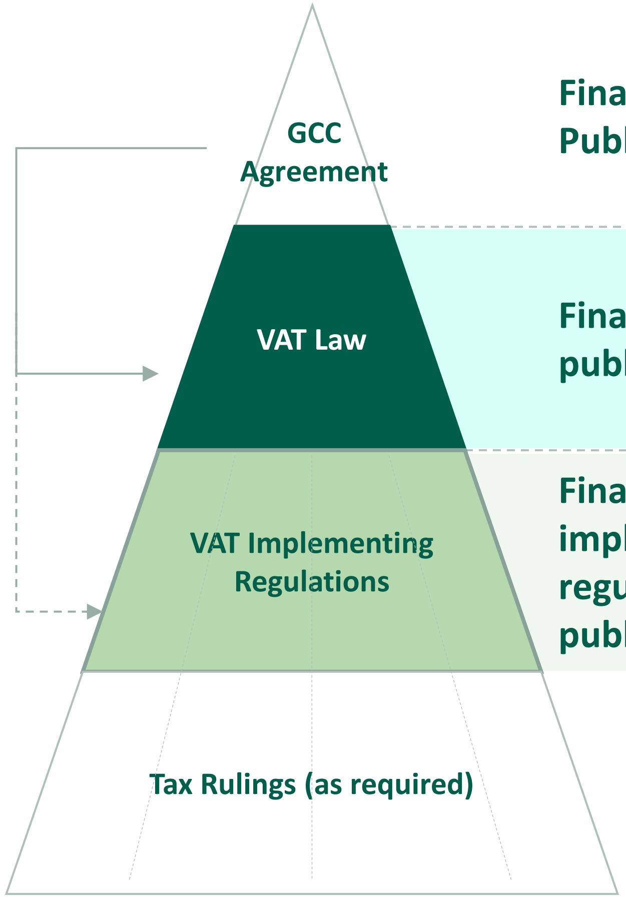
New jobs through creation of a new profession within the accounting industry

Relative to other taxes, VAT is designed to be a stable and efficient tax

---

1. Persons whose value of annual supplies exceeds the Mandatory Registration Threshold but does not exceed one million (1,000,000) riyals are exempted from the requirement to register in the Kingdom until 20 December 2018.

# KSA VAT legal framework



| Legal Framework | Status | Key Points |
|---|---|---|
| GCC Agreement | **Finalized & Published** | • Sets broad principles of VAT with some mandatory elements<br>• Agreement enforcement is responsibility of each state |
| VAT Law | **Final law published** | • Primary legislation in KSA:<br>– Gives effect to GCC agreement, governing how VAT is administered<br>– Sets out VAT implementation and VAT compliance enforcement<br>• Issued by Royal Decree on 26/07/17, published on 28/07/17 in Um Al-Qura |
| VAT Implementing Regulations | **Final implementing regulations published** | • VAT Regulations are the secondary domestic legislation<br>• Provide additional rules and interpretation of the Agreement and the Law<br>• Approved by GAZT Board on 26/08/2017, published on 29/08/2017 on VAT website |
| Tax Rulings (as required) | | |

# Scope of VAT implementation: Economic activities conducted by taxable persons

**A** **Economic Activity**

- **Activity** that is conducted in an **ongoing and regular manner**
- **Includes** commercial, industrial, agricultural or professional **activities or Services** or any use of material or immaterial property and any other similar activity.

**B** **Taxable Person**

- A **Person** that **conducts** an **Economic Activity**
- **Independently** for the purpose of **generating income**
- **Registered or obligated to register** for VAT

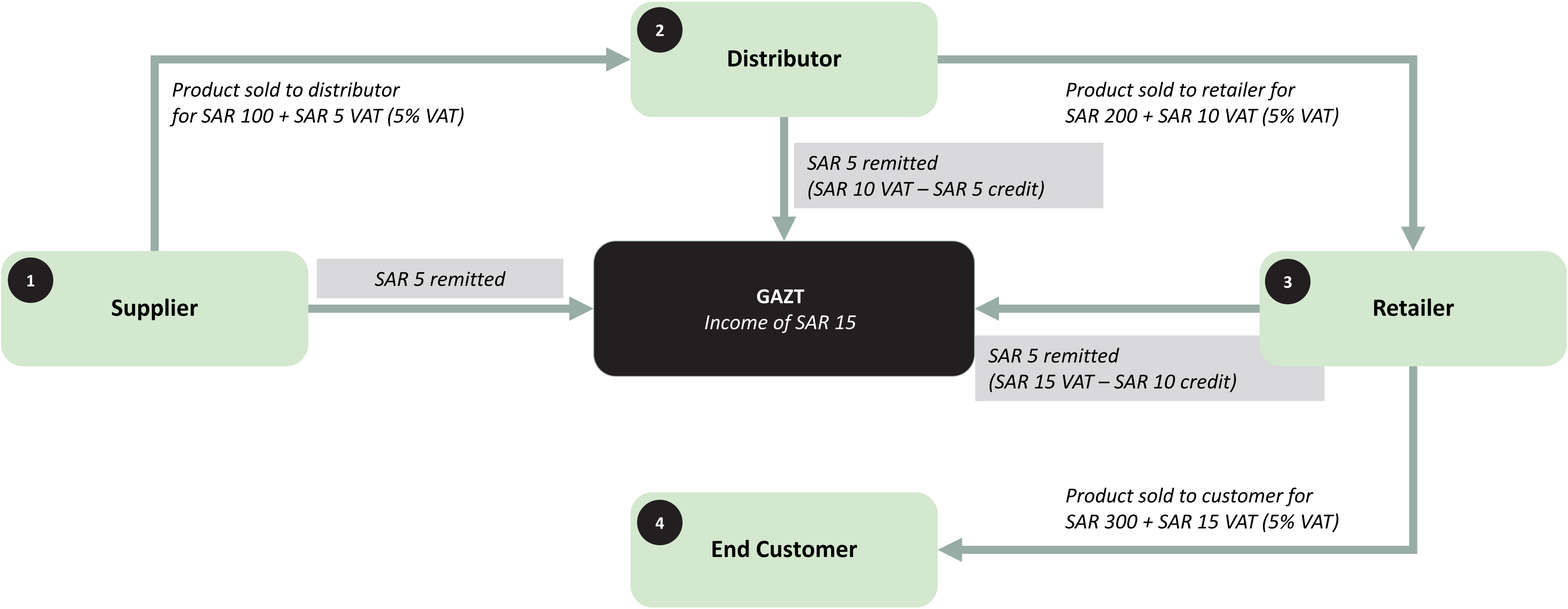
# Scope of VAT and taxable persons

KSA follows a broad taxation policy with limited number of zero-rated and exempt items

## KSA taxation policy summary

| VAT Rate | Output tax | Input tax deductible | Areas of application |
|---|---|---|---|
| **Standard rated** | 5% | ✓ | • **Majority of goods and services** |
| **Zero rated** | 0% | ✓ | • Supply of any **qualifying medicine or qualifying medical equipment**<br>• Intra-GCC and **international transport**<br>• **Supplies of investment gold, silver, and platinum** that are at least 99% pure and tradable in international bar market<br>• **Exports outside the GCC** |
| **Exempt** | nil | ✗ | • **Rental** of **residential** real estate<br>• **Financial services** with no explicit fee, commission or commercial discount |
| **Out of scope** | N.A. | N.A. | • **Government services** (e.g. public healthcare, public education etc.)<br>• **Supply of real estate** that **was used** or intended for use as a **permanent dwelling** by the Person, or by a related person |

# VAT collection mechanism



1 **Supplier**

Product sold to distributor
for SAR 100 + SAR 5 VAT (5% VAT)

2 **Distributor**

SAR 5 remitted

**GAZT**
*Income of SAR 15*

SAR 5 remitted
(SAR 10 VAT – SAR 5 credit)

Product sold to retailer for
SAR 200 + SAR 10 VAT (5% VAT)

3 **Retailer**

SAR 5 remitted
(SAR 15 VAT – SAR 10 credit)

Product sold to customer for
SAR 300 + SAR 15 VAT (5% VAT)

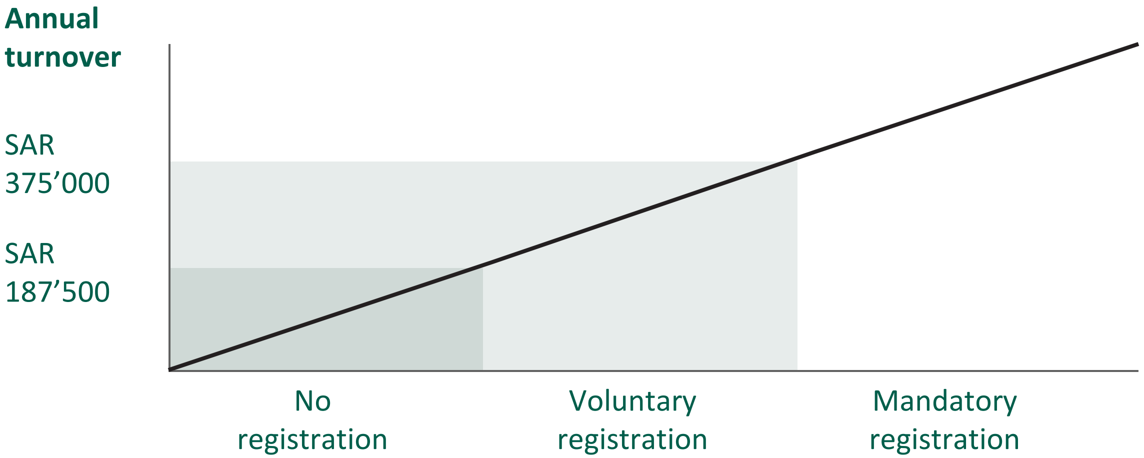
4 **End Customer**

# Registration Thresholds & VAT Grouping

Registration Thresholds & VAT Grouping are detailed in Implementing Regulations

## Registration Thresholds

Annual turnover in SAR



- **Mandatory Registration Threshold – 375’000 SAR[1]**
  The lower limit of the value of actual supplies at which the Taxable Person becomes obligated to register for Tax purposes.
- **Voluntary Registration Threshold – 187’500 SAR**
  The lower limit of the value of actual supplies at which the Taxable Person may apply to register for Tax purposes

## VAT Grouping

- **2 or more** KSA **residents[2]** can **register as a VAT Group** in case 50% or more of the capital of each legal Person, or ownership or control of 50% or more of the voting rights or value, in both or all of the legal Persons, is held by same Person or group of Persons, whether directly or indirectly)
- VAT Group is treated as a single Taxable Person with **consolidated Supplies** and **joint responsibility**

---

1. Persons whose value of annual supplies exceeds the Mandatory Registration Threshold but does not exceed one million (1,000,000) riyals are exempted from the requirement to register in the Kingdom until 20 December 2018.
2. Both conducting an Economic Activity in its own right and at least one of the legal Person is a Taxable Person

# Place, time and value of taxation

Place, time and value are three key elements to be considered in tax administration

## Place of Supply

**Destination principle**

- The place of supply (where tax is ultimately levied) is the jurisdiction where the final consumption occurs which does not necessarily have to be the country where the value is created

## Tax point (time)

**Earliest of…**

1 **Delivery**

2 **Invoice**

3 **Payment**

- VAT becomes due at the earliest of the following:
  1. The date where goods are **delivered** or made available or performance of service is completed;
  2. The date when any tax **invoice** is issued in respect of the supply.
  3. Partial or full **receipt of consideration**, to the extent of the amount received

## Value of supply

**Price tag**

Price includes **all other taxes**

States **VAT inclusive amount**

- The value of the supply includes all **other taxes** or charges in respect of that supply (including **excise tax** and **customs duties**)
- Prices for goods and services supplied to consumers or in retail transactions must be stated as the **VAT inclusive amounts**

# VAT Treatment For the Healthcare Sector

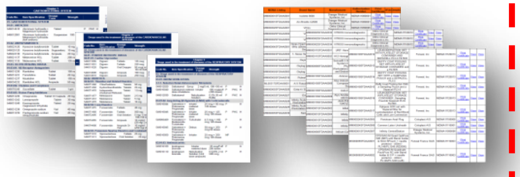
# Treatment of Health Care

## VAT Taxation Scope for Medicine & Medical Equipment under suggested unified Controls

| | | **Type of product / service offered** | | |
|---|---|---|---|---|
| | | 1 **Healthcare services** | 2 **Supply of medicine & medical equipment** | |
| A | **Public sector** | Out of VAT scope | | |
| B | **Private sector** | **Standard rate VAT** | **Zero-rate VAT under unified controls** | **Standard rate VAT for others** |

When providing **zero-rated** items, such items will be subject to zero rate VAT only if **billed separately**

**Supplies listed by MoH[1]**



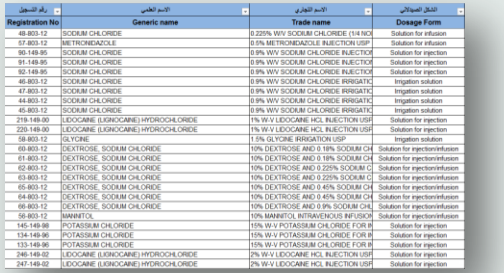
Focus of next slide

[1] Ministry of Health or SFDA

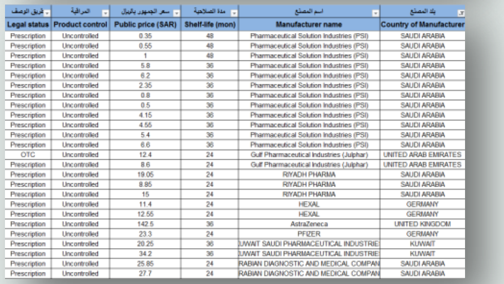
# SFDA issued the lists of Qualifying medicines and medical equipment to be zero-rated

**A** **SFDA human drug list**

Highly detailed list of **6909** human drugs



| رقم التسجيل | الاسم العلمي | الاسم التجاري | الشكل الصيدلاني |
|---|---|---|---|
| **Registration No** | **Generic name** | **Trade name** | **Dosage Form** |
| 48-803-12 | SODIUM CHLORIDE | 0.225% W/V SODIUM CHLORIDE (1/4 NO | Solution for infusion |
| 57-803-12 | METRONIDAZOLE | 0.5% METRONIDAZOLE INJECTION USP | Solution for infusion |
| 90-149-95 | SODIUM CHLORIDE | 0.9% W/V SODIUM CHLORIDE INJECTIO | Solution for injection |
| 91-149-95 | SODIUM CHLORIDE | 0.9% W/V SODIUM CHLORIDE INJECTIO | Solution for injection |
| 92-149-95 | SODIUM CHLORIDE | 0.9% W/V SODIUM CHLORIDE INJECTIO | Solution for injection |
| 46-803-12 | SODIUM CHLORIDE | 0.9% W/V SODIUM CHLORIDE IRRIGATIC | Irrigation solution |
| 47-803-12 | SODIUM CHLORIDE | 0.9% W/V SODIUM CHLORIDE IRRIGATIC | Irrigation solution |
| 44-803-12 | SODIUM CHLORIDE | 0.9% W/V SODIUM CHLORIDE IRRIGATIC | Irrigation solution |
| 45-803-12 | SODIUM CHLORIDE | 0.9% W/V SODIUM CHLORIDE IRRIGATIC | Irrigation solution |
| 219-149-00 | LIDOCAINE (LIGNOCAINE) HYDROCHLORIDE | 1% W-V LIDOCAINE HCL INJECTION USP | Solution for injection |
| 220-149-00 | LIDOCAINE (LIGNOCAINE) HYDROCHLORIDE | 1% W-V LIDOCAINE HCL INJECTION USP | Solution for injection |
| 58-803-12 | GLYCINE | 1.5% GLYCINE IRRIGATION USP | Irrigation solution |
| 60-803-12 | DEXTROSE, SODIUM CHLORIDE | 10% DEXTROSE AND 0.18% SODIUM CH | Solution for injection/infusion |
| 61-803-12 | DEXTROSE, SODIUM CHLORIDE | 10% DEXTROSE AND 0.18% SODIUM CH | Solution for injection/infusion |
| 62-803-12 | DEXTROSE, SODIUM CHLORIDE | 10% DEXTROSE AND 0.225% SODIUM C | Solution for injection/infusion |
| 63-803-12 | DEXTROSE, SODIUM CHLORIDE | 10% DEXTROSE AND 0.225% SODIUM C | Solution for injection/infusion |
| 65-803-12 | DEXTROSE, SODIUM CHLORIDE | 10% DEXTROSE AND 0.45% SODIUM CH | Solution for injection/infusion |
| 64-803-12 | DEXTROSE, SODIUM CHLORIDE | 10% DEXTROSE AND 0.45% SODIUM CH | Solution for injection/infusion |
| 66-803-12 | DEXTROSE, SODIUM CHLORIDE | 10% DEXTROSE AND 0.9% SODIUM CHL | Solution for injection/infusion |
| 56-803-12 | MANNITOL | 10% MANNITOL INTRAVENOUS INFUSION | Solution for injection/infusion |
| 145-149-98 | POTASSIUM CHLORIDE | 15% W-V POTASSIUM CHLORIDE FOR IN | Solution for injection |
| 134-149-96 | POTASSIUM CHLORIDE | 15% W-V POTASSIUM CHLORIDE FOR IN | Solution for injection |
| 133-149-96 | POTASSIUM CHLORIDE | 15% W-V POTASSIUM CHLORIDE FOR IN | Solution for injection |
| 246-149-02 | LIDOCAINE (LIGNOCAINE) HYDROCHLORIDE | 2% W-V LIDOCAINE HCL INJECTION USP | Solution for injection |
| 247-149-02 | LIDOCAINE (LIGNOCAINE) HYDROCHLORIDE | 2% W-V LIDOCAINE HCL INJECTION USP | Solution for injection |



| طريق الوصف | المراقبة | سعر الجمهور بالريال | مدة الصلاحية | اسم المصنع | بلد المصنع |
|---|---|---|---|---|---|
| **Legal status** | **Product control** | **Public price (SAR)** | **Shelf-life (mon)** | **Manufacturer name** | **Country of Manufacturer** |
| Prescription | Uncontrolled | 0.35 | 48 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 0.55 | 48 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 1 | 48 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 5.8 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 6.2 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 2.35 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 0.8 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 0.5 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 4.15 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 4.55 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 5.4 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| Prescription | Uncontrolled | 6.6 | 36 | Pharmaceutical Solution Industries (PSI) | SAUDI ARABIA |
| OTC | Uncontrolled | 12.4 | 24 | Gulf Pharmaceutical Industries (Julphar) | UNITED ARAB EMIRATES |
| Prescription | Uncontrolled | 8.6 | 24 | Gulf Pharmaceutical Industries (Julphar) | UNITED ARAB EMIRATES |
| Prescription | Uncontrolled | 19.05 | 24 | RIYADH PHARMA | SAUDI ARABIA |
| Prescription | Uncontrolled | 8.85 | 24 | RIYADH PHARMA | SAUDI ARABIA |
| Prescription | Uncontrolled | 15 | 24 | RIYADH PHARMA | SAUDI ARABIA |
| Prescription | Uncontrolled | 11.4 | 24 | HEXAL | GERMANY |
| Prescription | Uncontrolled | 12.55 | 24 | HEXAL | GERMANY |
| Prescription | Uncontrolled | 142.5 | 36 | AstraZeneca | UNITED KINGDOM |
| Prescription | Uncontrolled | 23.3 | 24 | PFIZER | GERMANY |
| Prescription | Uncontrolled | 20.25 | 36 | UWAIT SAUDI PHARMACEUTICAL INDUSTRIE | KUWAIT |
| Prescription | Uncontrolled | 34.2 | 36 | UWAIT SAUDI PHARMACEUTICAL INDUSTRIE | KUWAIT |
| Prescription | Uncontrolled | 25.85 | 24 | RABIAN DIAGNOSTIC AND MEDICAL COMPAN | SAUDI ARABIA |
| Prescription | Uncontrolled | 27.7 | 24 | RABIAN DIAGNOSTIC AND MEDICAL COMPAN | SAUDI ARABIA |

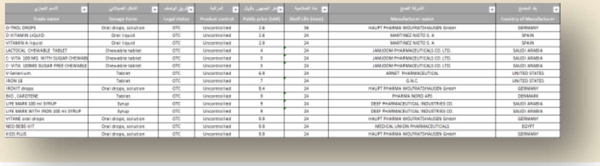
**Content includes:**

1. Registration no
2. Generic name
3. Trade name
4. Dosage form *(tablet, syrup, injection etc.)*
5. Legal status *(OTC vs. prescription)*
6. Price in SAR
7. Shelf life in months
8. Manufacturing origin and company

…

**B** **SFDA vitamin list**

Detailed list of **285** vitamins



| الاسم التجاري | الشكل الصيدلاني | طريق الوصف | المراقبة | سعر الجمهور بالريال | مدة الصلاحية | الشركة المصنع | بلد المصنع |
|---|---|---|---|---|---|---|---|
| Trade name | Dosage Form | Legal status | Product control | Public price (SAR) | Shelf Life (mon) | Manufacturer name | Country of Manufacturer |
| D-TROL DROPS | Oral drops, solution | OTC | Uncontrolled | 2.6 | 36 | HAUPT PHARMA WOLFRATSHAUSEN GmbH | GERMANY |
| D VITAMIN LIQUID | Oral liquid | OTC | Uncontrolled | 2.6 | 24 | MARTINEZ NIETO S. A | SPAIN |
| VITAMIN A liquid | Oral liquid | OTC | Uncontrolled | 2.9 | 24 | MARTINEZ NIETO S. A | SPAIN |
| LACTOCAL CHEWABLE TABLET | Chewable tablet | OTC | Uncontrolled | 4 | 24 | JAMJOOM PHARMACEUTICALS CO. LTD. | SAUDI ARABIA |
| C- VITA 100 MG WITH SUGAR CHEWABL | Chewable tablet | OTC | Uncontrolled | 5 | 24 | JAMJOOM PHARMACEUTICALS CO. LTD. | SAUDI ARABIA |
| C- VITA 100MG SUGAR FREE CHEWABLE | Chewable tablet | OTC | Uncontrolled | 5 | 24 | JAMJOOM PHARMACEUTICALS CO. LTD. | SAUDI ARABIA |
| V-Selenium | Tablet | OTC | Uncontrolled | 6.9 | 24 | ARNET PHARMACEUTICAL | UNITED STATES |
| IRON 18 | Tablet | OTC | Uncontrolled | 7 | 24 | G.N.C. | UNITED STATES |
| IROVIT drops | Oral drops, solution | OTC | Uncontrolled | 8.4 | 24 | HAUPT PHARMA WOLFRATSHAUSEN GmbH | GERMANY |
| BIO . CAROTENE | Tablet | OTC | Uncontrolled | 9 | 24 | PHARMA NORD APS | DENMARK |
| LIFE MARK 100 ml SYRUP | Syrup | OTC | Uncontrolled | 9 | 24 | DEEF PHARMACEUTICAL INDUSTRIES CO. | SAUDI ARABIA |
| LIFE MARK WITH IRON 100 ml SYRUP | Syrup | OTC | Uncontrolled | 9 | 24 | DEEF PHARMACEUTICAL INDUSTRIES CO. | SAUDI ARABIA |
| VITANE oral drops | Oral drops, solution | OTC | Uncontrolled | 9.9 | 24 | HAUPT PHARMA WOLFRATSHAUSEN GmbH | GERMANY |
| NEO BEBE-VIT | Oral drops, solution | OTC | Uncontrolled | 9.9 | 24 | MEDICAL UNION PHARMACEUTICALS | EGYPT |
| KIDS PLUS | Oral drops, solution | OTC | Uncontrolled | 9.9 | 24 | HAUPT PHARMA WOLFRATSHAUSEN GmbH | GERMANY |

**Content includes:**

*Similar content to human drugs*

**C** **Medical equipment and supplies**

Detailed list of **248** equipment and supply

بنود التعرفة الجمركية السعودية - للأجهزة والمنتجات الطبية

| Description | الصنف | رمز النظام المنسق |
|---|---|---|
| Wadding- gauze- bandages and similar articles (for example- dressings | [illegible] | 300500000000 |
| - Adhesive dressings and other articles having an adhesive layer | [illegible] | 300510000000 |
| ---Cotton wool | ... قطن طبي | 300590100000 |
| ---Wadding covered or saturated with pharmaceuticals | ... مغطاة أو مشربة بمواد صيدلية | 300590210000 |
| ---Wadding not covered or saturated with pharmaceuticals | [illegible] | 300590220000 |
| ---Other adhesive | ... غيرها | 300590900000 |
| - Sterile surgical catgut- similar sterile suture materials (including sterile | [illegible] | 300610000000 |
| ---Sterile surgical catgut for surgical closures | ... خيوط جراحية معقمة لخياطة الجروح | 300610100000 |

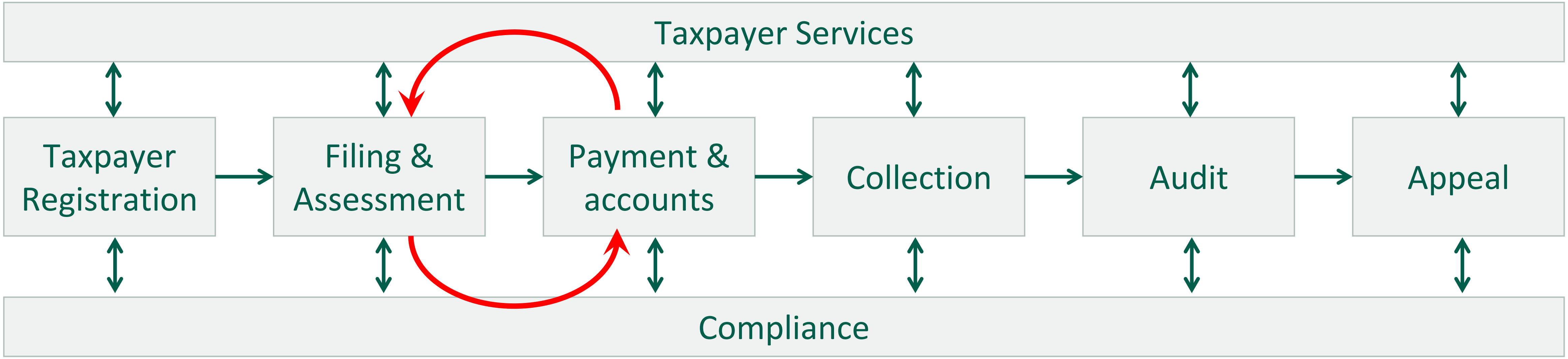
**Content includes:**

1. *Description*
2. *Reference no*

**Please refer to the SFDA website to acquire the full list of zero-rated items**

# VAT processes

# Main Tax Administration Business Function



A closed pipe system: once a taxpayer is registered against a tax type, he is expected to file and pay. If not, the system will file for him and if he doesn’t pay forced collection will kick in

# All companies with annual supplies above SAR 375,000 are required to register for VAT with GAZT

| Key questions | Answers |
|---|---|
| **Who** is required to register? | • A **“person”** (individual or a legal entity ) who is:<br>– **Doing business** in KSA in **VAT- eligible goods and services**<br>– Exceeds **sales threshold** for mandatory registration: **SAR 375k**<br>– Calculated on **12 month basis**<br>– **Retrospective** (historical sales) or **prospective** (expected sales)<br>• **Voluntary registration** open to persons with **sales of ≥187.5k but ≤375k or expenses ≥187.5k**<br>– Retrospective (historical sales) or prospective (expected sales) |
| **When** do they need to register? | • Persons expecting to exceed the threshold **from 1-January 2018**:<br>– Must register no later than **20th December 2017**<br>• Persons who exceed the threshold ***after* 1-January 2018**:<br>– Must register within **20 days** of exceeding the threshold<br>• **Exception for small taxpayers** with annual supplies **<1MM SAR**<br>– Must register no later than **20th December 2018** |
| **How** do they register? | • Using the **GAZT online portal**<br>• In practice there will two categories of registrants:<br>– **“Pre-Registration”** (registered **passively** by GAZT)<br>– **Self-registration** (required to **actively** register) with an existing TIN<br>– **Self-registration** (required to **actively** register) without an existing TIN |

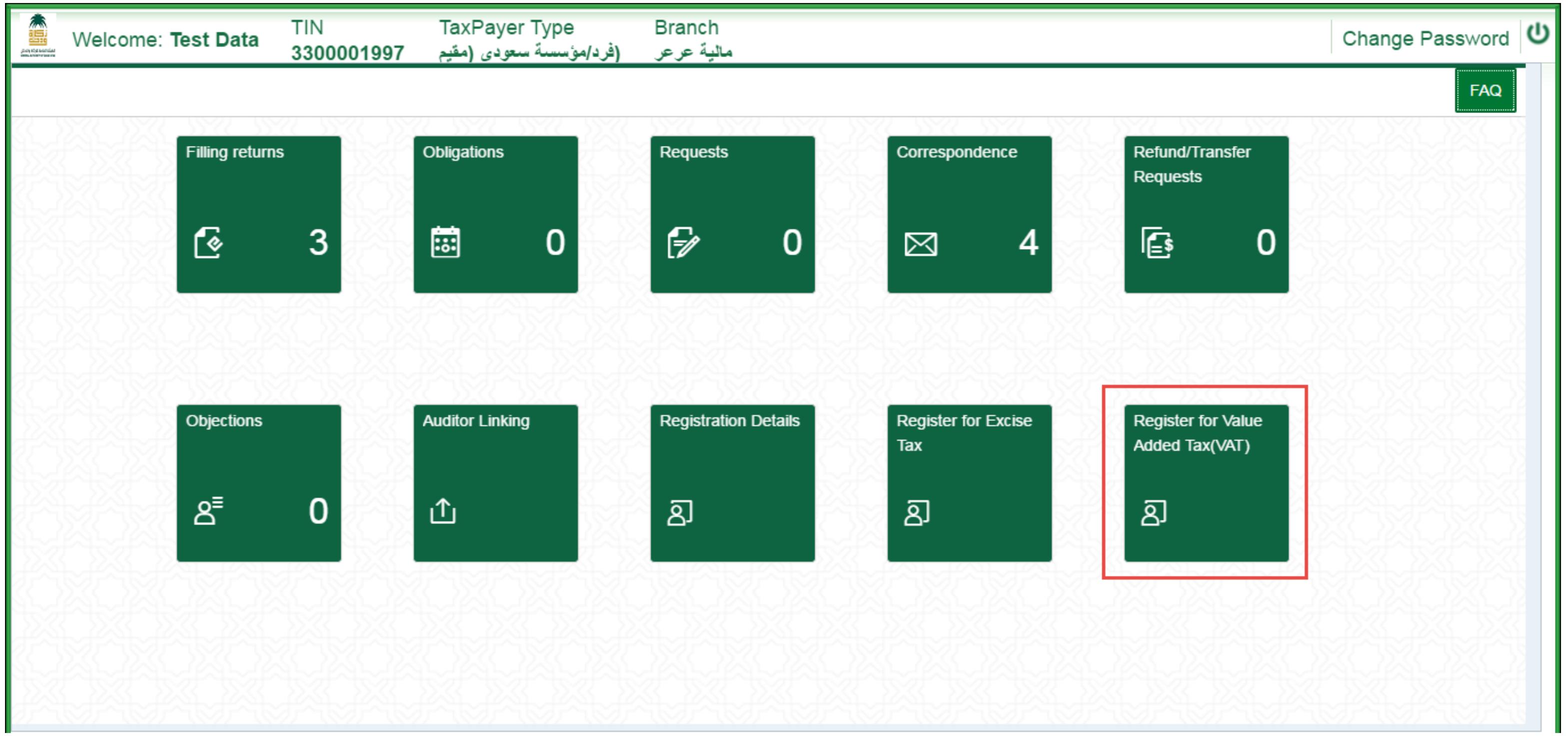
# For the registration of taxpayers there are three main cases that require specific set of actions

| | Existing Tax Identification Number (TIN) from GAZT | Pre-registration notification received from GAZT | Required action |
|---|---|---|---|
| 1 | ✓ | ✓ | • Access and validate your VAT registration details on the GAZT portal |
| 2 | ✓ | ✗ | • Self-register for VAT on the GAZT portal<br>• Self-registration will be open from August 28th |
| 3 | ✗ | ✗ | • Register with GAZT for ZAKAT & Income Tax in order to obtain a TIN<br>• Subsequently, register for VAT |

See next pages for details on the registration process under each scenario

# Taxpayer may need to log on to the GAZT portal in order to register

## Access is through the registration portal



Welcome: **Test Data**

TIN 3300001997

TaxPayer Type (فرد/مؤسسة سعودى (مقيم

Branch مالية عرعر

- Open GAZT web site https://gazt.gov.sa/ and click on "User Login"
- Enter existing User ID and Password and click "sign in"
- Enter one time log-in code that is sent to the GAZT-registered mobile number by SMS (same as for other taxes)
- The GAZT Taxpayer's Dashboard will open
- Here there will be a tile where taxpayers can register for VAT (if not already pre-registered) or change their registration details

# If taxpayer does not have a TIN, it have to undergo a two step process in order to register for VAT

## Taxpayer registration

- ~25 fields e.g.
  - Taxpayer ID information
  - Business’ CR and license numbers
  - Declaration form
- mandatory attachments e.g.
  - Copy of CR
  - Copy of license
- Separate forms for companies and individuals

## VAT registration

- **5 Steps e.g.**
  - VAT eligible sales and expenses
  - Financial representative’s details (optional for KSA resident taxpayers)
  - Declaration
- **All fields are mandatory** [1]
  - Taxpayers are encouraged to submit supporting documents
- **Same form for companies and individuals**

---

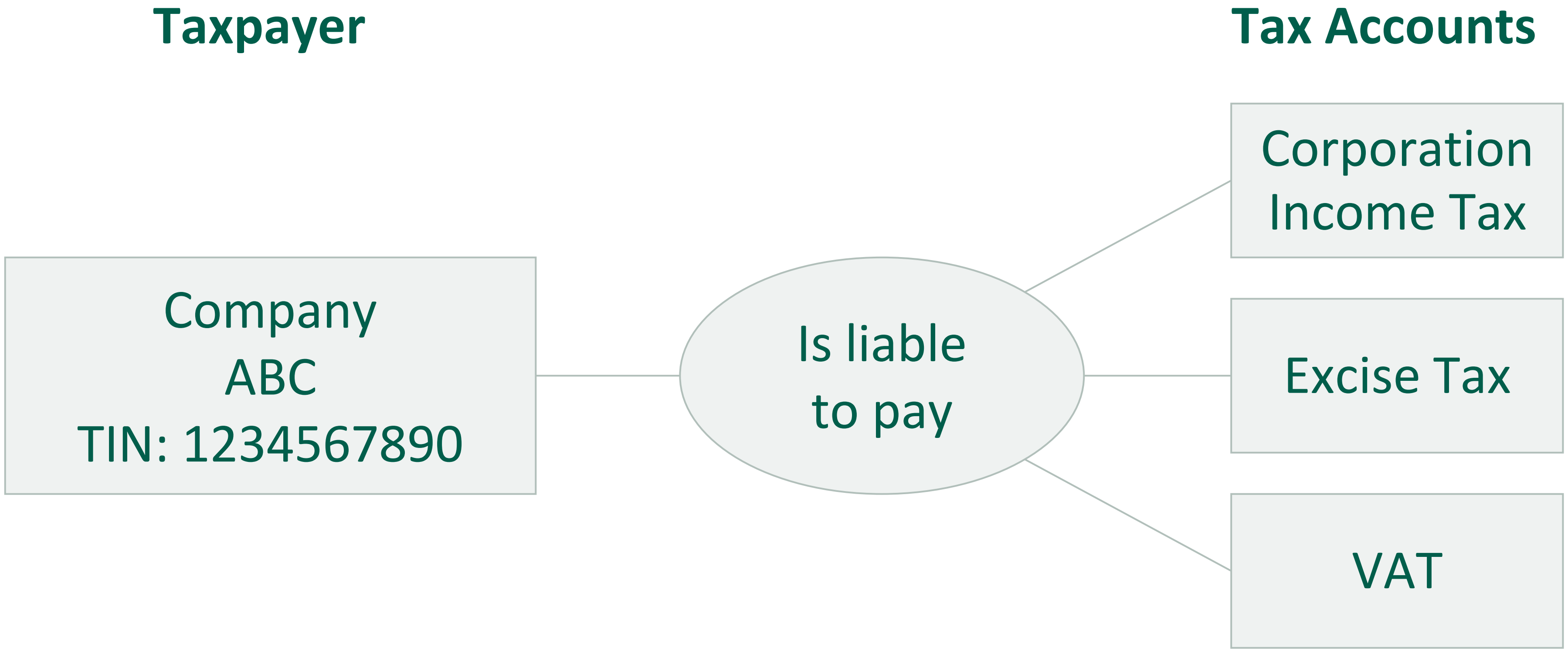
1. Except financial representative details if the taxpayer is a KSA resident

# Taxpayer Registration

2 steps taxpayer registration:

1. Registration of natural (person) or legal entity (business) identification data:
   - Will issue a Tax Identification Number (TIN)
   - TIN is unique and should never change for an entity, from birth to death
   - TIN can’t be transferred or sold
   - TIN is never deleted or cancelled: it can only be inactivated (for death or closure of business, after any tax liability is closed)
2. Registration of Taxpayer liability for a tax type (VAT, Excise, CIT, Zakat): each tax type liability creates a tax account, where all tax transactions will be registered

# Registration of Taxpayer Liability



**Taxpayer**

**Tax Accounts**

Company
ABC
TIN: 1234567890

Is liable
to pay

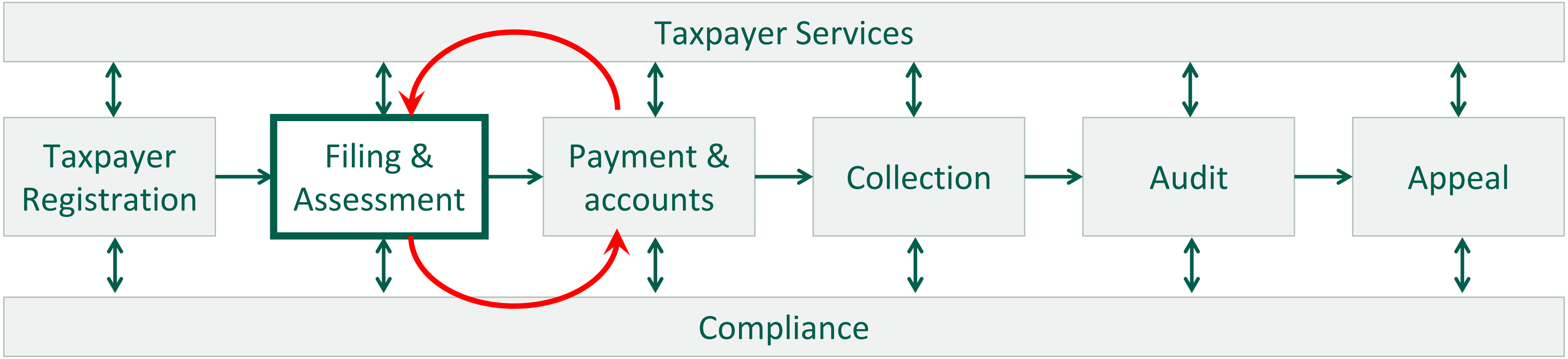
Corporation Income Tax

Excise Tax

VAT

- Registration of tax liability through a tax account starts automatically a series of business processes
- The set of tax accounts for 1 taxpayer provides an integrated view of its tax liability

# VAT return Filing and Assessment



Taxpayer Services

Taxpayer Registration

Filing & Assessment

Payment & accounts

Collection

Audit

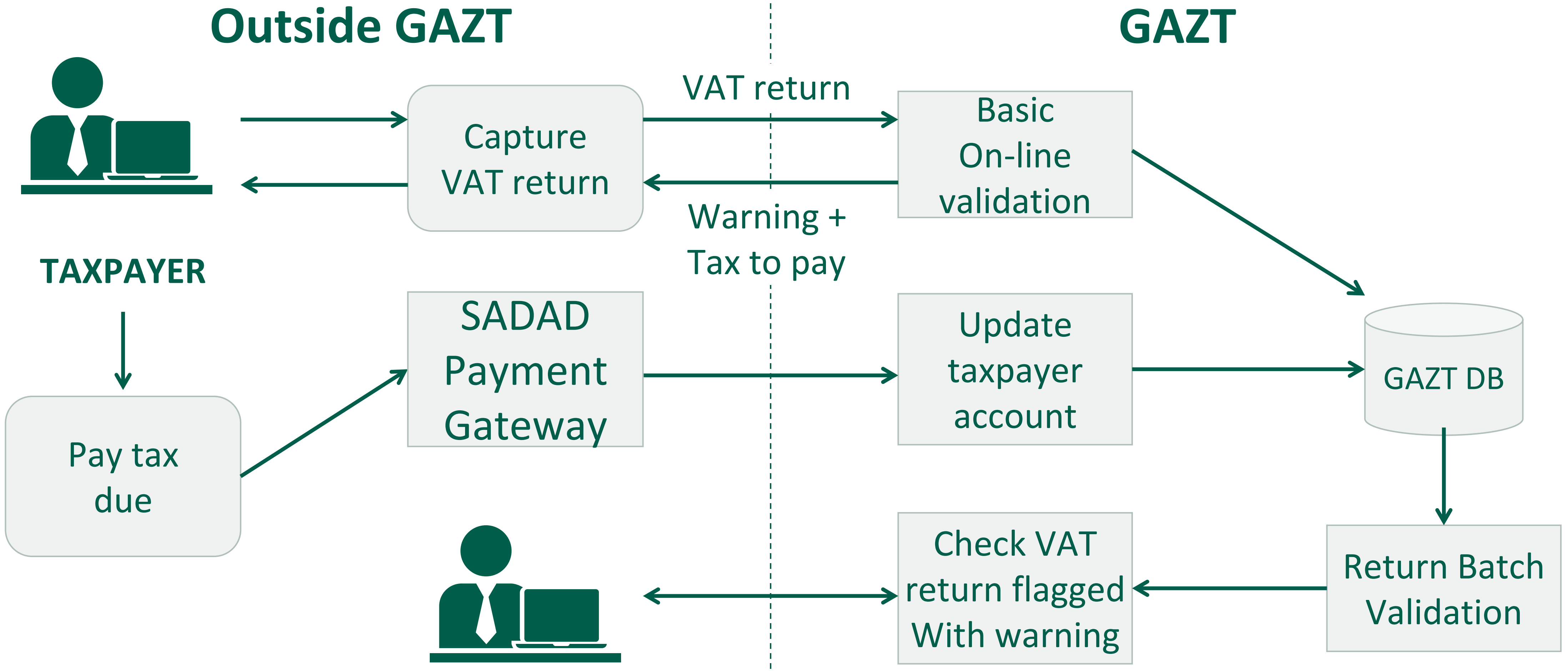
Appeal

Compliance

# Filing and Assessment

- A **self-assessment** system: the taxpayer is filing his return and GAZT needs to capture it and check/confirm the assessment
- Mainly 2 sub-processes:
  1. Taxpayer is submitting his VAT return online (on GAZT web portal)
     - Basic online validation will be done during initial VAT form submission and mostly warning is provided to facilitate tax payment
  2. GAZT must then validates as much as possible what is captured against any possible data (i.e. Customs) and confirms to the taxpayer that his declaration is accepted as such (but might be revised anytime for compliance)
     - Off-line/batch validation will be executed at night to run further validations on the daily VAT forms received

# Self-Assessment: Trust but Verify



**Outside GAZT**

**GAZT**

**TAXPAYER**

Capture VAT return

VAT return

Basic On-line validation

Warning + Tax to pay

Pay tax due

SADAD Payment Gateway

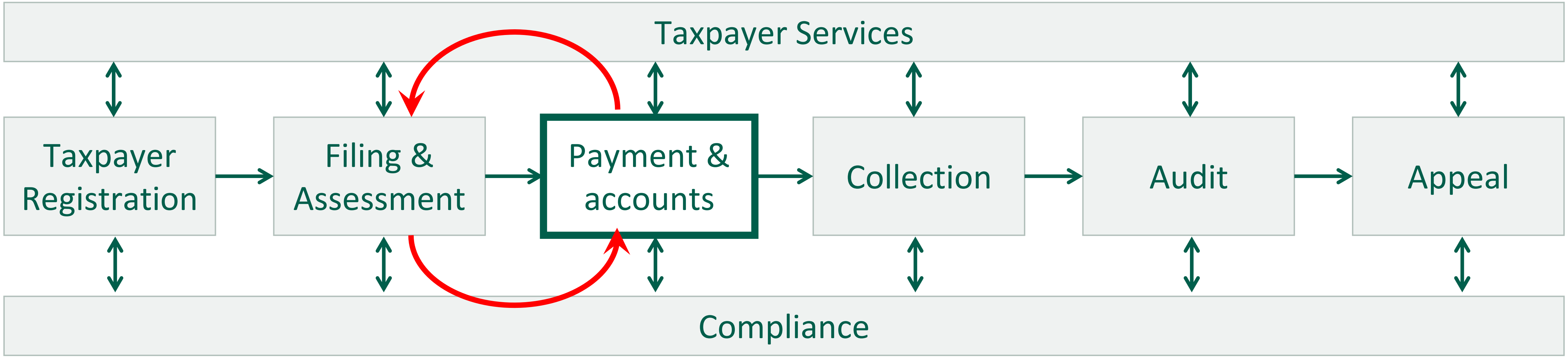
Update taxpayer account

GAZT DB

Return Batch Validation

Check VAT return flagged With warning

# Payments and Account Management



Taxpayer Services

Taxpayer Registration

Filing & Assessment

Payment & accounts

Collection

Audit

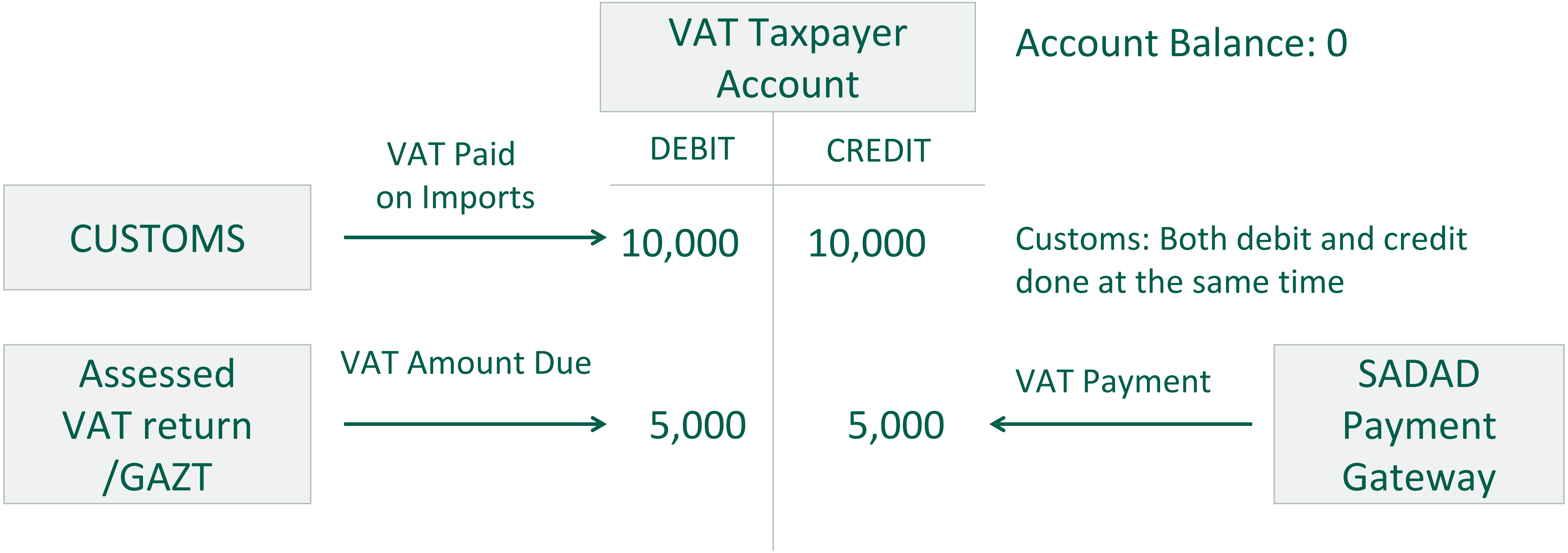
Appeal

Compliance

# Payment of VAT and Taxpayer Account Management

- VAT taxpayer account is recording any liability created by the assessment processing (initial submission and adjustments coming from reassessment or corrections originating from audit or appeal)
- Taxpayer is paying using the SADAD payment gateway
- When taxpayer payment is done and confirmed, SADAD send taxpayer payment to GAZT and taxpayer account is also updated with payments
- Tax transactions are maintained by type (tax base, fixed and monthly penalty, write off, corrections) and following accounting principles (debit and credit)
- Tax transactions can not be deleted; can only be reversed and replaced
- All tax transactions are tagged with date and time and with the program id which creates it or tax officer id who approves it
- Some transaction types (correction, write off) have restricted access

# Tax Account Management (Account Receivable)



VAT Taxpayer Account

Account Balance: 0

| DEBIT | CREDIT |
|---|---|
| 10,000 | 10,000 |
| 5,000 | 5,000 |

CUSTOMS

VAT Paid on Imports

Customs: Both debit and credit done at the same time

Assessed VAT return /GAZT

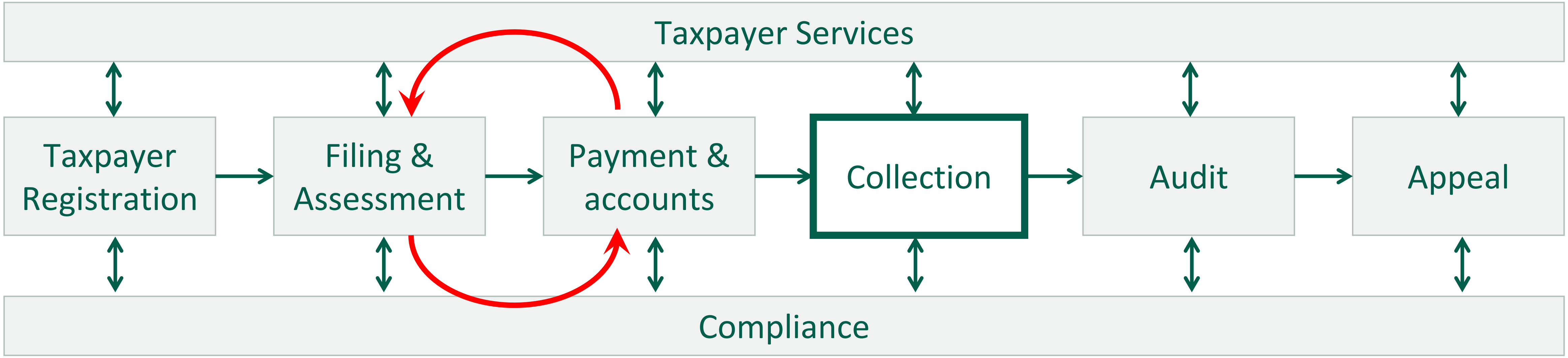
VAT Amount Due

VAT Payment

SADAD Payment Gateway

- Taxpayer can file but not pay, eventually creating a collection case

# Collecting tax due but not paid



Taxpayer Services

Taxpayer Registration

Filing & Assessment

Payment & accounts

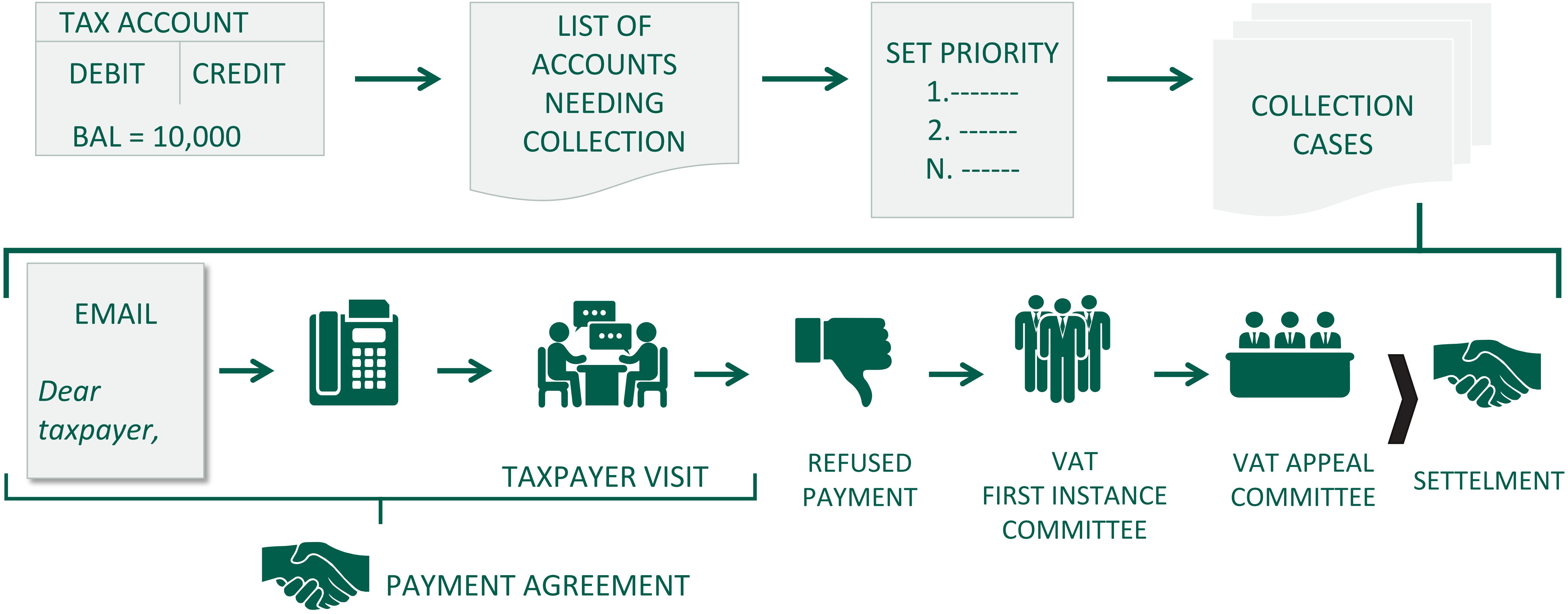
Collection

Audit

Appeal

Compliance

# Collecting VAT due but not paid (collection activities)



TAX ACCOUNT

DEBIT | CREDIT

BAL = 10,000

LIST OF ACCOUNTS NEEDING COLLECTION

SET PRIORITY

1.-------

2. ------

N. ------

COLLECTION CASES

EMAIL

*Dear taxpayer,*

TAXPAYER VISIT

REFUSED PAYMENT

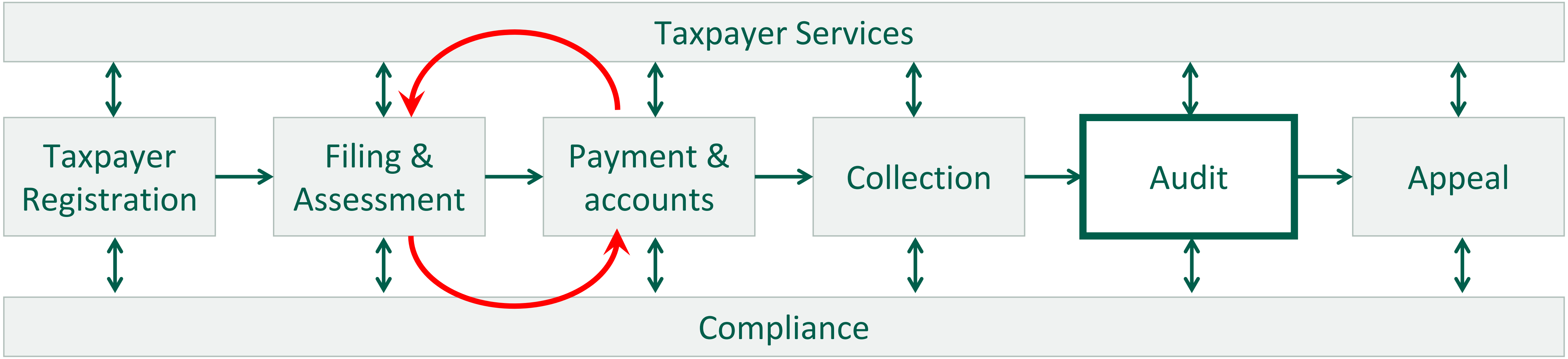
VAT FIRST INSTANCE COMMITTEE

VAT APPEAL COMMITTEE

SETTELMENT

PAYMENT AGREEMENT

# Auditing VAT taxpayers



Taxpayer Services

Taxpayer Registration

Filing & Assessment

Payment & accounts

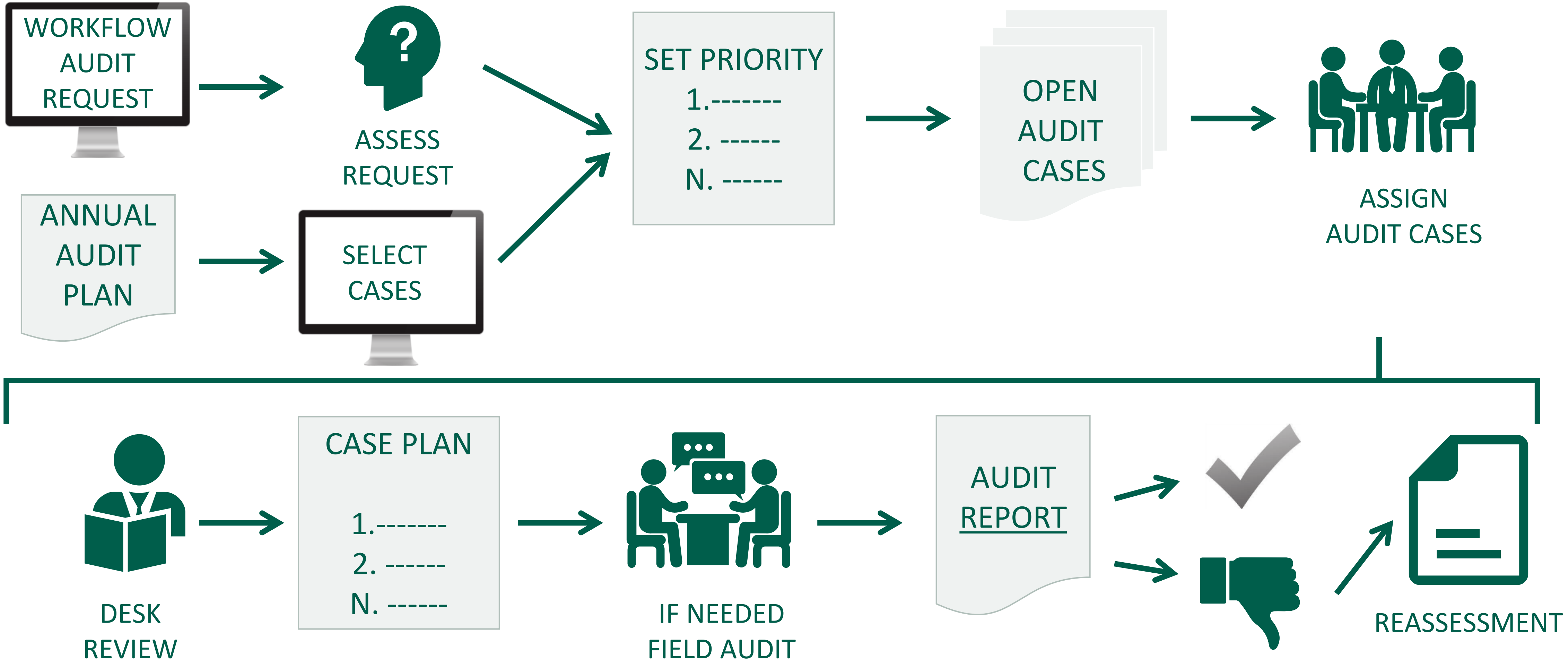
Collection

Audit

Appeal

Compliance

# Auditing VAT return (audit activities)



WORKFLOW AUDIT REQUEST

ASSESS REQUEST

ANNUAL AUDIT PLAN

SELECT CASES

SET PRIORITY
1.--------
2. ------
N. ------

OPEN AUDIT CASES

ASSIGN AUDIT CASES

DESK REVIEW

CASE PLAN

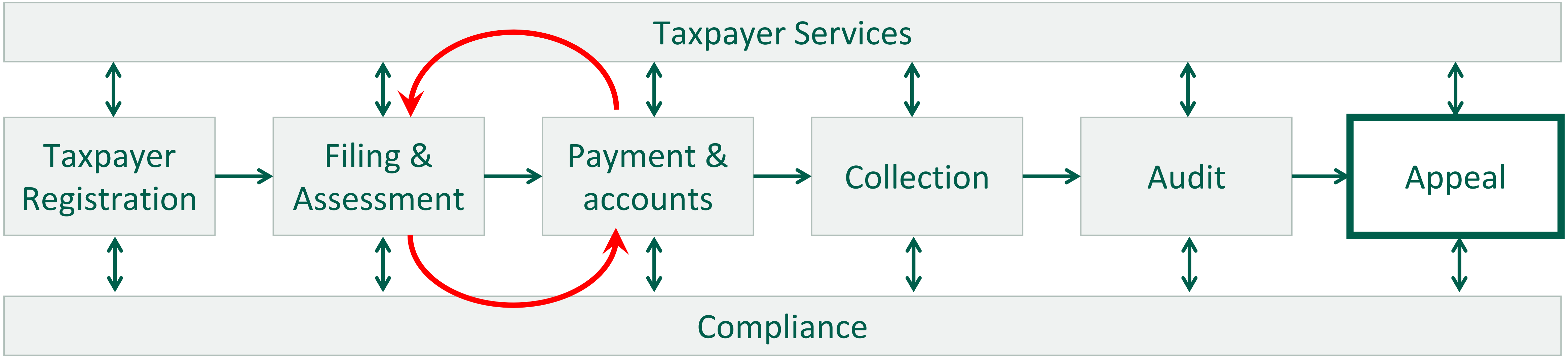
1.--------
2. ------
N. ------

IF NEEDED FIELD AUDIT

AUDIT REPORT

REASSESSMENT

# Main Tax Administration Business Function



Taxpayer Services

Taxpayer Registration

Filing & Assessment

Payment & accounts

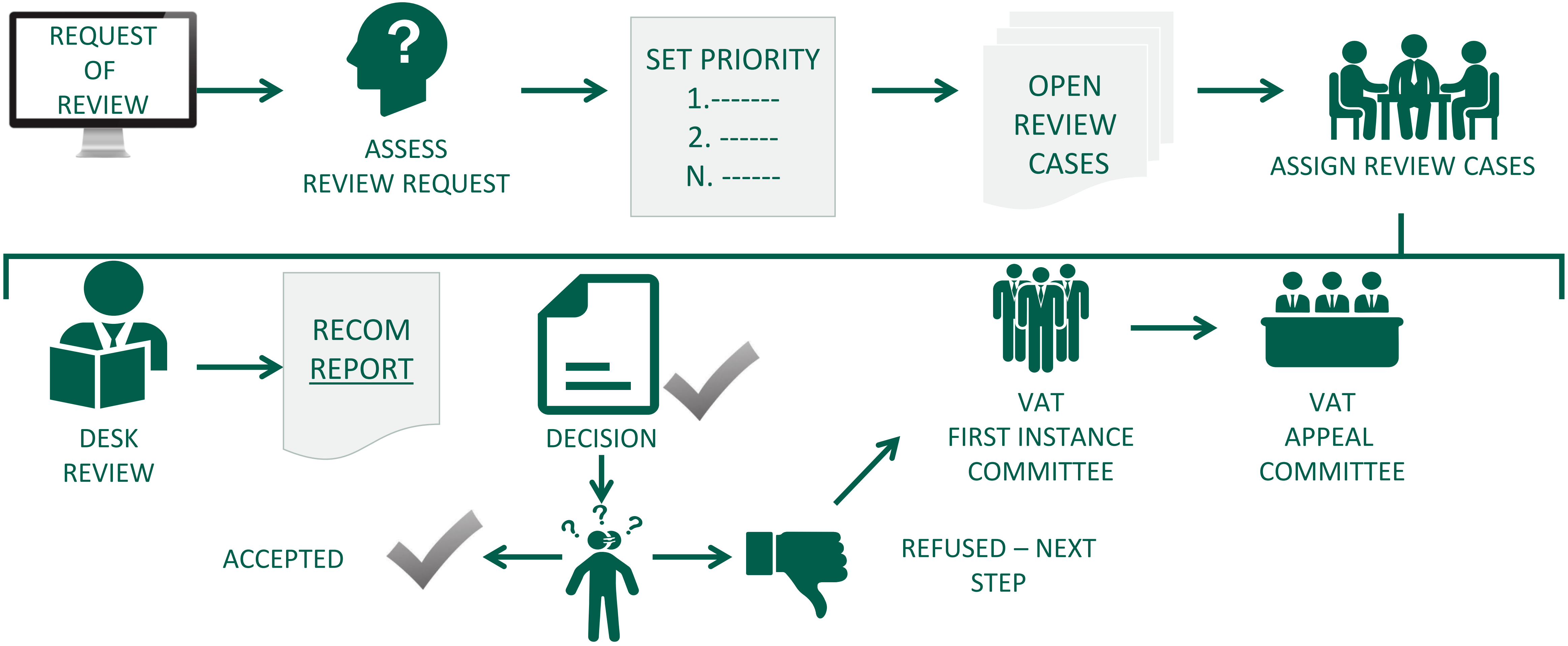
Collection

Audit

Appeal

Compliance

# Internal Review and Appeal (for any reassessment)



REQUEST OF REVIEW

ASSESS REVIEW REQUEST

SET PRIORITY
1.--------
2. ------
N. ------

OPEN REVIEW CASES

ASSIGN REVIEW CASES

DESK REVIEW

RECOM REPORT

DECISION

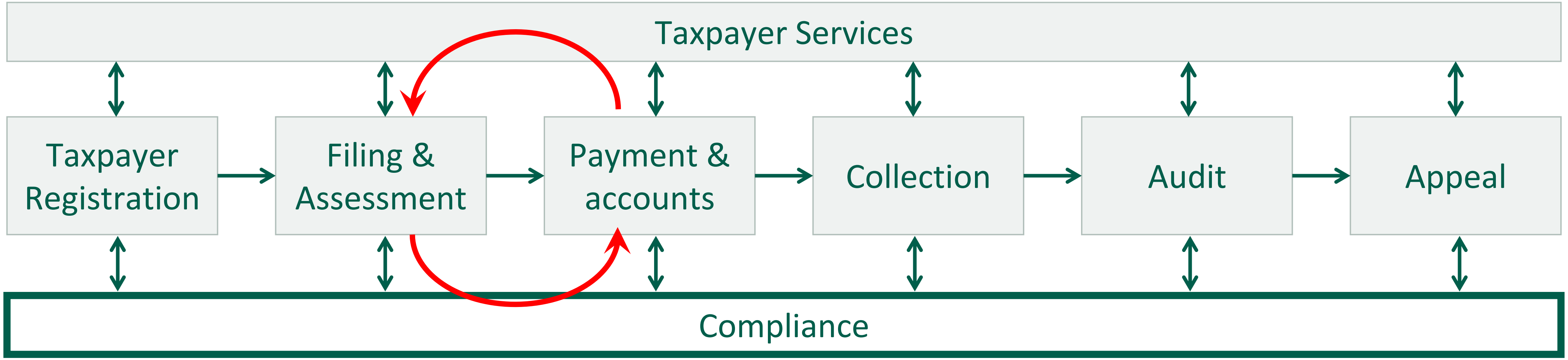
ACCEPTED

REFUSED – NEXT STEP

VAT FIRST INSTANCE COMMITTEE

VAT APPEAL COMMITTEE

# Compliance



Taxpayer Services

Taxpayer Registration

Filing & Assessment

Payment & accounts

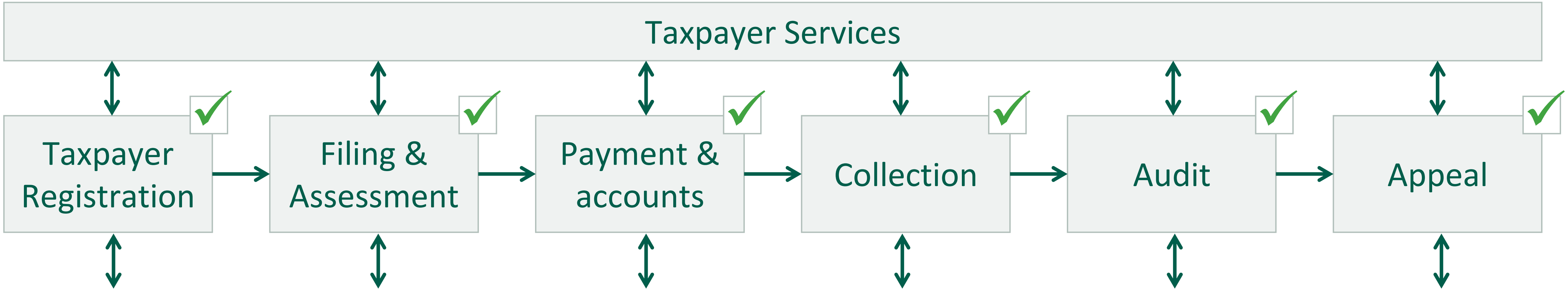
Collection

Audit

Appeal

Compliance

# Compliance (Check, Treat and Report)

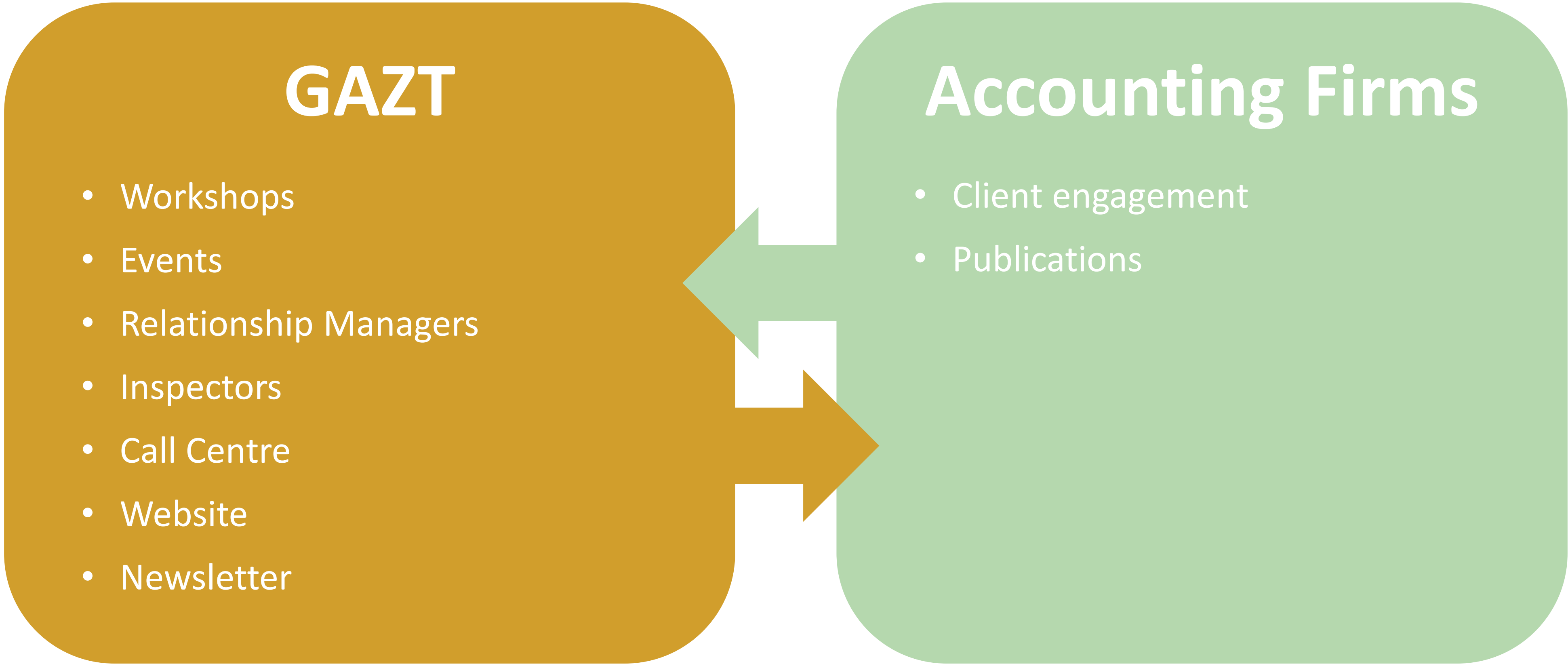


Taxpayer Services

| | |
|---|---|
| Taxpayer Registration ✓ | • Incomplete TP records<br>• Hidden taxpayers |
| Filing & Assessment ✓ | • Non filers<br>• Late filers |
| Payment & accounts ✓ | • Late payers<br>• Non-payers |
| Collection ✓ | • Amount of Arrears<br>• Age of arrears |
| Audit ✓ | • Level of reassessment |
| Appeal ✓ | • Level of reassessment<br>• Cases won/lost |

# VAT Readiness

# Tax payer readiness must be steered via GAZT led initiatives and need to be sustained by professional accounting firms



## GAZT

- Workshops
- Events
- Relationship Managers
- Inspectors
- Call Centre
- Website
- Newsletter

## Accounting Firms

- Client engagement
- Publications

# Large taxpayers are getting ready for VAT in 5 steps

| | *Until Jul* | | *Aug – Mid-Nov* | *Mid-Nov - Dec* | |
|---|---|---|---|---|---|
| | **Awareness** | **Planning/preparation** | **Implementation** | **Testing** | **Post-implementation** |
| **VAT preparation steps** | • Understand VAT mechanics<br>• Put in place VAT implementation team | • Conduct VAT impact assessment<br>• Define implement. roadmap<br>• Hold internal awareness sessions<br>• Engage with accountants, ERP providers | • Transaction classification<br>• Configuration of IT and accounting systems and business processes<br>• Adjustments to contracts<br>• Update of invoices | • Testing of systems and new processes / procedures | • Fine-tuning of systems and processes |
| **GAZT role** | • Basic VAT information and awareness sessions | • Confirmation of timelines<br>• Technical education on VAT mechanics | • Detailed information on VAT treatment by type of industry / transaction<br>• Publication of guidance materials<br>• Inbound request handling | • UATs / simulations<br>• Inspections<br>• Inbound request handling | • Inbound request handling |

Approval of GCC framework

Publication of law

Publication of final impl. regs

VAT launch

# Prior to the launch, there are several channels that are being used to engage with taxpayers

Guidance materials

Newsletters

Taxpayer events

Accounting Firm engagement

Inbound request handling

RM Engagement

Focus Groups

CEO / Chairmen outreach

Simulations / UAT

Outbound contact center

**Target group** 🟩 Very large taxpayers ⬛ Large taxpayers 🟩 Both segments

# Readiness inspections: Prior to the VAT launch, there will be offsite & onsite inspections to ensure taxpayer readiness

**Inspection objectives**

***Track & detail***
*taxpayer readiness*

***Define** mitigation actions*

***Communicate***
*results to taxpayers*

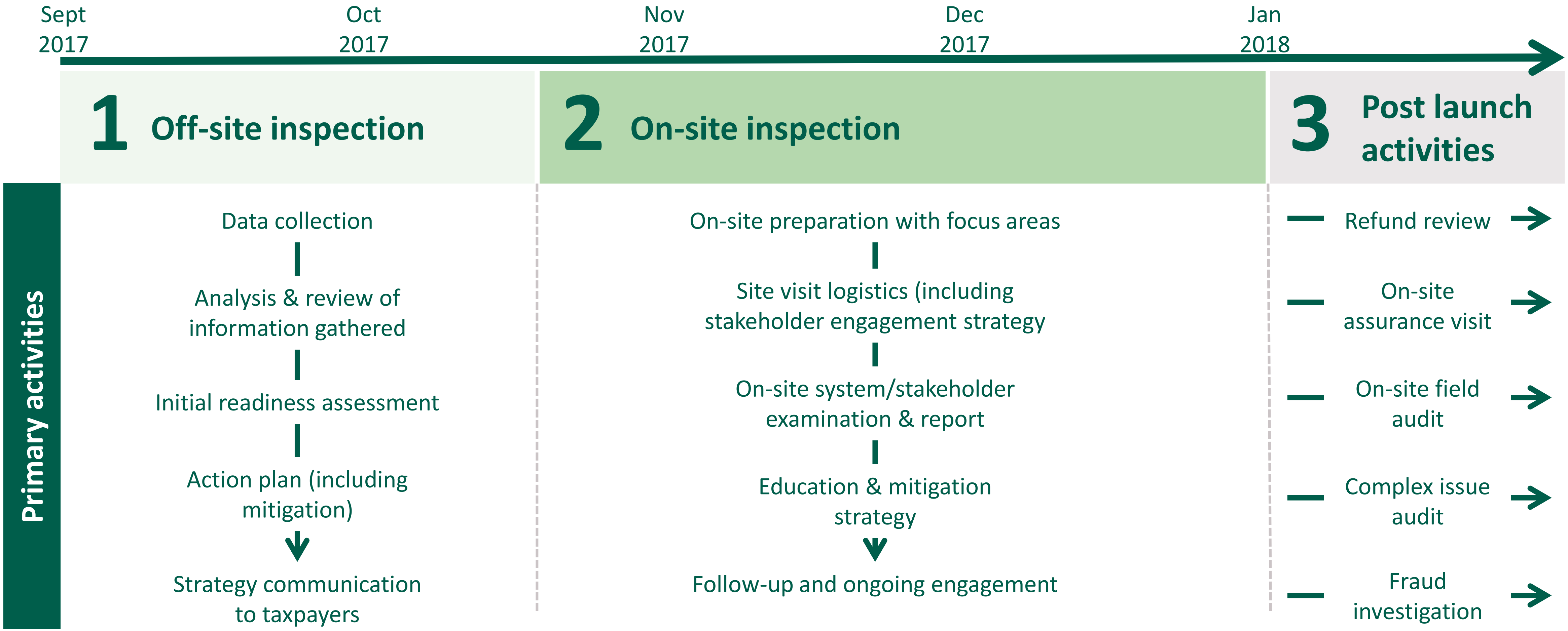
## Offsite inspection

- **High level examination** of taxpayer readiness
- Opportunity to **troubleshoot areas**
- Establish **taxpayer view** of their readiness

## Onsite inspection

- **Deep examination** of taxpayer readiness
- Provide **education & insights** to taxpayers
- **Relationship development** for future engagement

# Inspector activities are divided into three periods pre- and post-launch of the VAT



Sept 2017

Oct 2017

Nov 2017

Dec 2017

Jan 2018

**Primary activities**

## 1 Off-site inspection

Data collection

Analysis & review of information gathered

Initial readiness assessment

Action plan (including mitigation)

Strategy communication to taxpayers

## 2 On-site inspection

On-site preparation with focus areas

Site visit logistics (including stakeholder engagement strategy

On-site system/stakeholder examination & report

Education & mitigation strategy

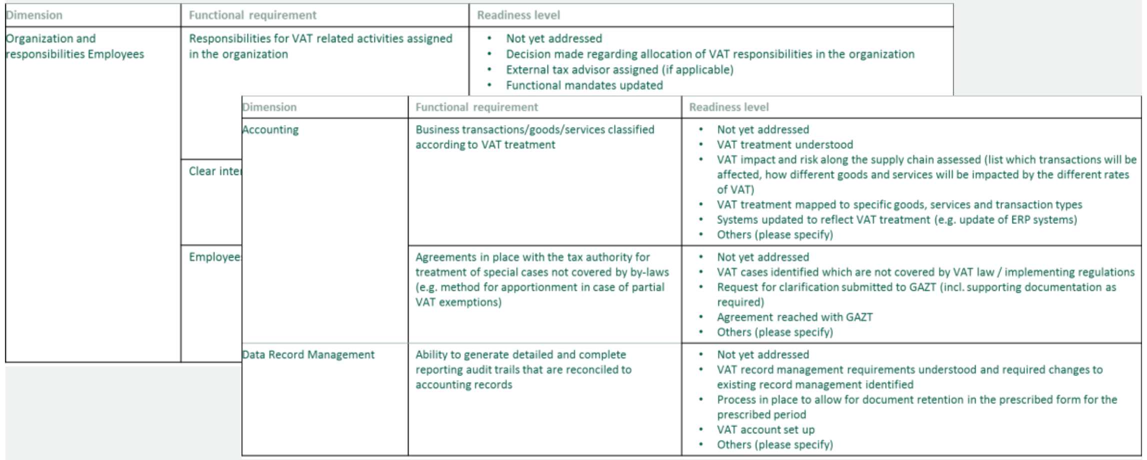
Follow-up and ongoing engagement

## 3 Post launch activities

- Refund review →
- On-site assurance visit →
- On-site field audit →
- Complex issue audit →
- Fraud investigation →

# There are two forms of readiness trackers for offsite review

## Online Readiness Tool

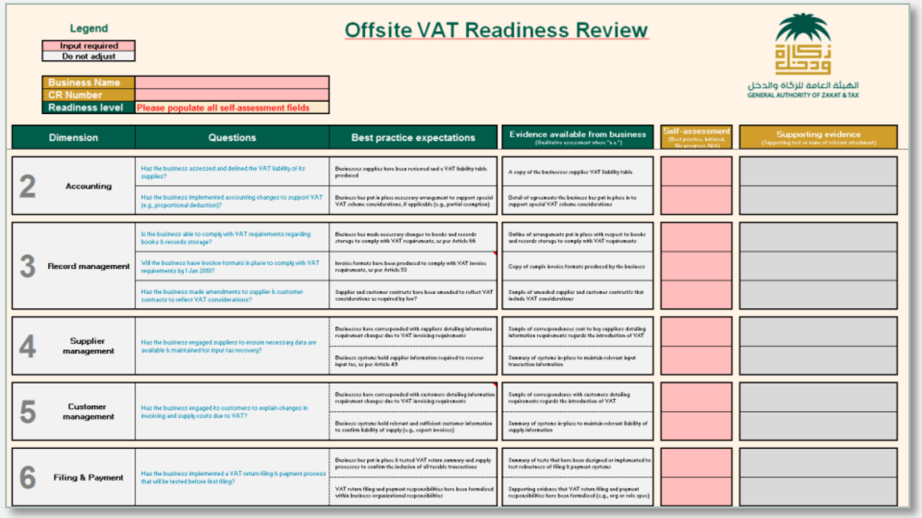


| Dimension | Functional requirement | Readiness level |
|---|---|---|
| Organization and responsibilities Employees | Responsibilities for VAT related activities assigned in the organization | - Not yet addressed<br>- Decision made regarding allocation of VAT responsibilities in the organization<br>- External tax advisor assigned (if applicable)<br>- Functional mandates updated |
| | Clear inte | |
| | Employee | |

| Dimension | Functional requirement | Readiness level |
|---|---|---|
| Accounting | Business transactions/goods/services classified according to VAT treatment | - Not yet addressed<br>- VAT treatment understood<br>- VAT impact and risk along the supply chain assessed (list which transactions will be affected, how different goods and services will be impacted by the different rates of VAT)<br>- VAT treatment mapped to specific goods, services and transaction types<br>- Systems updated to reflect VAT treatment (e.g. update of ERP systems)<br>- Others (please specify) |
| | Agreements in place with the tax authority for treatment of special cases not covered by by-laws (e.g. method for apportionment in case of partial VAT exemptions) | - Not yet addressed<br>- VAT cases identified which are not covered by VAT law / implementing regulations<br>- Request for clarification submitted to GAZT (incl. supporting documentation as required)<br>- Agreement reached with GAZT<br>- Others (please specify) |
| Data Record Management | Ability to generate detailed and complete reporting audit trails that are reconciled to accounting records | - Not yet addressed<br>- VAT record management requirements understood and required changes to existing record management identified<br>- Process in place to allow for document retention in the prescribed form for the prescribed period<br>- VAT account set up<br>- Others (please specify) |

*"To-do list" for taxpayers*

## Offsite Readiness Questionnaire



**Offsite VAT Readiness Review**

الهيئة العامة للزكاة والدخل
GENERAL AUTHORITY OF ZAKAT & TAX

Legend
🟥 Input required
☐ Do not adjust

| | |
|---|---|
| Business Name | |
| CR Number | |
| Readiness level | Please populate all self-assessment fields |

| Dimension | Questions | Best practice expectations | Evidence available from business | Self-assessment (Best practice, Initiated, No progress, N/A) | Supporting evidence |
|---|---|---|---|---|---|
| 2 Accounting | Has the business assessed and defined the VAT liability of its supplies? | Businesses supplies have been reviewed and a VAT liability table produced | A copy of the businesses supplies VAT liability table | | |
| | Has the business implemented accounting changes to support VAT (e.g. proportional deduction)? | Business has put in place necessary arrangement to support special VAT scheme considerations, if applicable (e.g. partial exemption) | Detail of agreements the business has put in place in to support special VAT scheme considerations | | |
| 3 Record management | Is the business able to comply with VAT requirements regarding books & records storage? | Business has made necessary changes to books and records storage to comply with VAT requirements, as per Article 66 | Outline of arrangements put in place with respect to books and records storage to comply with VAT requirements | | |
| | Will the business have invoice formats in place to comply with VAT requirements by 1 Jan 2018? | Invoice formats have been produced to comply with VAT invoice requirements, as per Article 53 | Copy of sample invoice formats produced by the business | | |
| | Has the business made amendments to supplier & customer contracts to reflect VAT considerations? | Supplier and customer contracts have been amended to reflect VAT considerations as required by law? | Sample of amended supplier and customer contracts that include VAT considerations | | |
| 4 Supplier management | Has the business engaged suppliers to ensure necessary data are available & maintained for input tax recovery? | Businesses have corresponded with suppliers detailing information requirement changes due to VAT invoicing requirements | Sample of correspondences sent to key suppliers detailing information requirements regards the introduction of VAT | | |
| | | Business systems hold supplier information required to recover input tax, as per Article 49 | Summary of systems in-place to maintain relevant input transaction information | | |
| 5 Customer management | Has the business engaged its customers to explain changes in invoicing and supply costs due to VAT? | Businesses have corresponded with customers detailing information requirement changes due to VAT invoicing requirements | Sample of correspondence with customers detailing requirements regards the introduction of VAT | | |
| | | Business systems hold relevant and sufficient customer information to confirm liability of supply (e.g. export invoices) | Summary of systems in-place to maintain relevant liability of supply information | | |
| 6 Filing & Payment | Has the business implemented a VAT return filing & payment process that will be tested before first filing? | Business has put in place & tested VAT return summary and supply processes to confirm the inclusion of all taxable transactions | Summary of tests that have been designed or implemented to test robustness of filing & payment systems | | |
| | | VAT return filing and payment responsibilities have been formalized within business organizational responsibilities | Supporting evidence that VAT return filing and payment responsibilities have been formalized (e.g., org or role spec) | | |

*Assessment form to establish readiness across multiple dimensions*

---

Inspectors will manage & track developments on both of these forms to track readiness & help inform Relationship Managers where problem areas may exist

# Penalties

# Penalties to discourage non-compliance

| Example conditions under which a penalty is imposed[1] | Level of penalty |
|---|---|
| Failure to register for VAT | **SAR 10,000** |
| Failure to submit VAT returns when due | **5%-25% of the value of the unpaid tax** |
| Failure to pay the Tax when due | **5% of the value of unpaid tax for each month or part thereof** |
| Issue of a VAT invoice as an unregistered person | **SAR 100,000 or less** |
| Failure to maintain the prescribed tax invoices, books, records and accounting documents | **SAR 50,000 or less** |
| Submission of false, forged or artificial documents, declarations, records and information | **Not less than 100% of tax due** |
| Entering or attempting to enter and removing or attempting to remove goods outside of KSA without paying tax | **< 3X value of goods and services subject of evasion** |
| Obstruction of GAZT officer from performing duty | **SAR 50,000 or less** |

[1] If the same violation is repeated within three years from the date of issuing the Authority's decision of the violation, it is permissible to double the fine imposed on the offender under that decision.

# For any questions, reach out to GAZT via one of the following communication channels

## Overview of available communication and engagement channels

### Contact center

- Contact GAZT via the dedicated contact center on 19993
- The contact center is available between 7am and 11pm, Saturday to Thursday

### E-mail

- Address your questions via e-mail to GAZT via VAT@gazt.gov.sa

### Website

- Visit GAZT's comprehensive VAT website at VAT.GOV.SA and access a broad set of information and tools

**@SaudiVAT**

### VAT events

- Attend a VAT event by GAZT or one of the partners in your region
  - Chambers of Commerce
  - SOCPA
- Dates are published on the VAT website

VAT.GOV.SA

@SaudiVAT