KINGDOM OF SAUDI ARABIA

Impact of Increased VAT Rate

Effective July, 2020

CENTURY 21
Saudi Arabia

CENTURY 21 SAUDI ARABIA

Anas Ibn Malik Road,
Al-Malga, Riyadh,
Kingdom of Saudi Arabia

P.O. Box 300374 - Riyadh 11372
Tel: +966 (11) 4000360
www.century21saudi.com

INTRODUCTION

The government of the Kingdom of Saudi Arabia has taken a number of fiscal measures in the past couple of months to combat the economic and financial impact of COVID-19 on the budget. One of the key measures recently announced by the government is the increase in the Value Added Tax rate (VAT). As per the statement from the Kingdom's General Authority of Zakat and Tax (GAZT), the rise in the Value Added Tax (VAT) from 5% to 15% will go into effect starting July 1, 2020.

The decision for the hike in VAT has been made in order to combat the unprecedented financial challenges due to declining oil prices in the international market. Other measures included a 100 billion riyals cut in capital expenditures and a suspension of the cost of living allowance from June 1 onwards.

IMPACT ON TAXPAYERS

The increased rate in VAT is expected to apply to all goods and services that are currently subject to the 5% rate. VAT was introduced in Saudi Arabia on January 1, 2018, at the rate of 5% and generated an estimated $12bn for the government in its first year of implementation. Taxpayers will have to act smartly to ensure that their systems are ready to charge VAT at the new rate. In the short-term, the increased VAT rate may increase the cash flow costs and operating costs, while in the long run, many businesses may need to reconsider their structure, contracts and transaction flows to mitigate the impact of the increased rate.

Taxpayers should consider:

- Adjustments to the higher rate
- Update ERP accounting systems
- Cash flow implications as per changed rate

IMPACT ON CONSUMERS & ECONOMY

A wave of price inflation is expected and is obvious that the burden of additional VAT rate will ultimately fall on the end consumer. Many businesses may have no choice but to pass on the additional cost to customers and end users. Businesses with exempt activities and unregistered businesses are also going to face the impact of the increased VAT rate on their revenues.

However, as KSA is progressing towards its goals as part of Vision 2030, especially in relation to infrastructure spending, the increased VAT rate would ultimately help drive continued government investment, particularly in the context of low oil prices.

As per the Article 72 of KSA VAT Regulations, Non-resident businesses who are carrying out economic activities outside of Saudi Arabia may be eligible for a refund of Value Added Tax they have paid in the Kingdom. However, the deadline of submitting a claim for the VAT incurred during the last year is June 30, 2020.

Apart from KSA, UAE along with the other GCC states have not yet announced any plans to increase the VAT rate. As the GCC VAT Framework Agreement can only be amended by the agreement of all the six GCC states, hence it is unclear whether the increased rate would require the amendment in the GCC VAT Framework Agreement.

Please contact for more information

Mr. Al-Waleed Binzouman
CEO
+966 555 194 919
alwaleed@century21saudi.com

Mr. Mahomed Carrim
Head of Valuations & Advisory
+966 543 004 045
mcarrim@century21saudi.com

Mr. Turki Alkhathlan
Head of Property Management
+966 554 949 555
turki@century21saudi.com

Mr. Khuram Ilyas
Asst. Manager - Advisory
+966 599 359 390
khuram@century21saudi.com

ABOUT CENTURY 21®

Century 21® is one of the most recognized name in Real Estate Market with approximately 8,800 independently owned and operated franchised brokerage offices in 81 countries and territories worldwide and represented by more than 122,000 real estate experts.