

VAT Alert: ZATCA issues a new VAT guide for e-commerce in Saudi Arabia

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In brief

Saudi tax authorities' activities in the e-commerce has been receiving media coverage recently. Previously to this, in August 2021 The Zakat, Tax and Customs Authority (ZATCA) published a new guideline in which it rethinks its vision of the VAT regime of the e-commerce industry in Saudi Arabia, mostly addressing the treatment of the ride-sourcing applications.

The guide can be accessed through the following links:

[Arabic](#)

[English](#)

In detail

While, generally, the guideline aggregates the statements already made in ZATCA's previous guides, it also offers a few further details regarding the VAT treatment of some specific e-commerce scenarios as outlined further.

Issuing a tax invoice by the online platform

ZATCA says that where a VAT-registered agent (i.e. online platform in this case) makes a supply on behalf of a principal, the agent may issue a tax invoice in relation to that supply as if that agent had made the supply. A tax invoice issued by the agent must contain all the usual particulars required, but may include the agent's, rather than the supplier's, details – in which case, the invoice should, however, contain a reference to the principal supplier (including the supplier's name and tax number) somewhere on the invoice.

They also mention that where an agent is an undisclosed agent, the undisclosed agent has the responsibility to issue a tax invoice in its own name. *Based on this we assume that the previous interpretation is intended to address the case with an online platform acting as a disclosed agent.*

ZATCA also provides for the example in which it expresses the view that:

- The application must issue an invoice to the buyer. *It is further to be clarified with ZATCA if the invoice is to be issued in the name of the platform as a seller, as the example may be interpreted as given for both supplies on behalf of VAT-registered and not VAT-registered sellers;*

- If the seller is registered for VAT, the application must indicate the seller's tax identification number in the invoice, collecting the tax on his behalf, and then transferring it to him as the seller is responsible for reporting and paying the tax to ZATCA. *It is unclear if ZATCA wants the platform to invoice, collect and pay to the state VAT on behalf of taxpayers not registered for VAT in KSA. If this is the case, the legal grounds for such a conclusion should be further investigated – both from the standpoint of the platform's obligation to collect the tax and its right to issue a tax invoice. Also, in its previous guide on Invoices and Records, ZATCA opined that the third-party invoicing is subject to a pre-approval under a special procedure to be developed in future;*
- The electronic application is responsible for declaring/reporting the value of the commission from the sale and fees collected from users as entry fees. *The platform's obligation to disclose its portion of the charge to the customers in the tax invoice is not commented on here. So, this remains a serious concern from the business standpoint for such online platforms.*

Returned goods

Previously, in its Digital Economy guide, ZATCA said that “The Customs Authority or GAZT will not refund import VAT paid on goods which are subsequently returned. The cost of bearing import VAT for returned goods falls on the importer of the goods.”

In the new guide, the wording is changed shifting the burden by default from the importer to the end customer: “ZATCA will not refund import VAT paid on goods which are subsequently returned. The cost of bearing import VAT for returned goods falls on the importer of the goods – end customer.”

Ride-sourcing applications

In ZATCA’s view, the business (i.e. online platform) acts as principal in performing the transportation service and individual drivers provide their services to the business (not to the end customer) provided the following conditions are met:

- An individual traveler or company holds an account with a business offering taxi or similar land transportation services (including a business operating a mobile ride sourcing application);
- The requests for transport are made through the business; and
- The payment is collected by the business.

The ZATCA’s aligns its approach to ride-sourcing applications compared to other businesses. Earlier in the guide it uses the following criteria: “In many cases, the platform has the ability to set the parameters of the supply (such as arranging the delivery of goods and services, determining the selling price and setting terms and conditions of sale) and may also take on commercial risks for the supply (e.g. offering refund to a customer where the goods and services are not satisfactory).”

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Food Delivery applications

ZATCA differentiates the following business models and their VAT regime interpretation:

- Connection services with restaurants: The application is not considered the principal in this process due to the fact that the name of the restaurant is visible to the end consumer. The restaurant is free to change menus and prices, accordingly, the application does not have to disclose the transferred products from the restaurant to the end consumer as his own purchases.
- Connection services with drivers: the application will be considered as a principal in this transaction, and must disclose the whole delivery value as revenue in its VAT return. *ZATCA does not provide any further detail for this model. Still, it may be assumed to be aligned with the ride-sourcing applications approach as outlined above.*
- *[Resale model]*: the full amount is considered subject to VAT in hands of the online platform.

Implications for the businesses

Businesses engaged in the e-commerce sector should analyse the guide in more detail and, potentially, request additional clarification from ZATCA.

Even though this guide is mostly introducing interpretation in respect of ride-sourcing applications, it shows ZATCA's constant attention to the e-commerce area where VAT treatment of many transactions still may be interpreted differently.

For more information on this topic or to learn more about KPMG's VAT services in Saudi Arabia, kindly contact our team at KPMG:

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