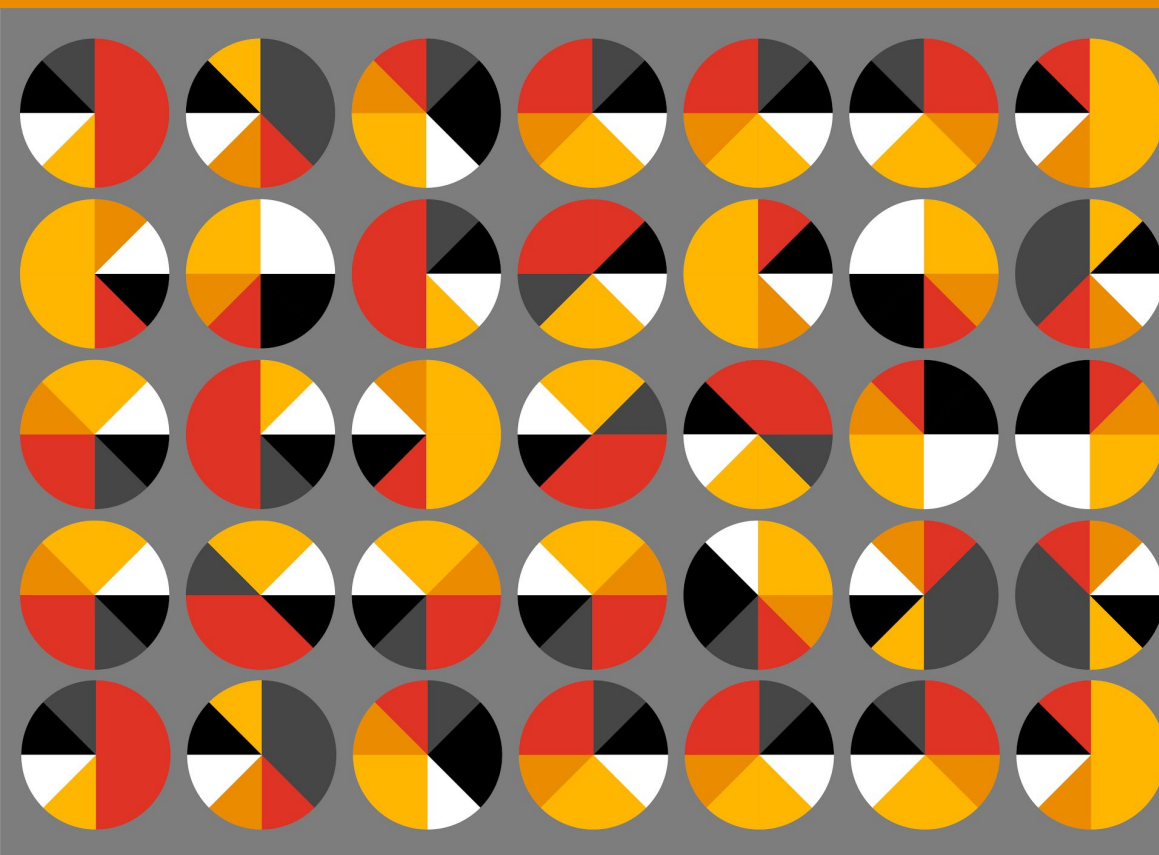


Saudi Arabia: Increase in VAT rate announced to address the Kingdom's medium and long term fiscal position

May 2020



In brief

The Government of the Kingdom of Saudi Arabia ('KSA') has announced several measures to counter the financial and economic impact of COVID-19 on the government budget. Such measures include a reduction in capital expenditures, discontinuation of the cost of living allowance and an increase in the VAT rate to 15%. The announced increase in VAT rate would be applicable from July 1, 2020 onwards.

The necessary legislative changes and details of the VAT rate increase have yet to be announced.

In detail

Background

In order to mitigate the financial and economic impact of COVID-19 on the government budget in the medium and long term, and in order to manage the unprecedented financial burden due to declining oil prices and the issuance of a fiscal stimulus package introduced to counter the COVID-19 situation, the KSA government has issued an order with the following directions, through its Minister of Finance (Acting Minister of Economy and Planning):

- A reduction in various expenditures: KSA will cancel, extend, or postpone some operational and capital expenditures for some government agencies, in addition to reducing provisions for a number of initiatives from its Vision 2030 and major projects for the 2020 fiscal year.
- Discontinuation of providing a cost of living allowance: The cost of living allowance will be discontinued as of June 2020.
- Change in VAT rate: Increase in VAT rate to 15%, effective July 1, 2020.

Furthermore, a ministerial committee has also been formed to study all financial benefits paid to public sector employees and contractors which will submit/present its recommendations within 30 days.

Legislative changes and impact on the framework agreement

The VAT regime was introduced in KSA in 2018 as part of the Common VAT Agreement ('VAT Framework') agreed upon between the States of the Gulf Cooperation Council (GCC) with a VAT rate of 5% to be implemented across all member states.

Noting that the framework agreement has not yet been implemented in all GCC states to date, we have yet to see what would be the legislative tool under which the KSA government will enforce the application of the VAT rate at 15%, and what would be the impact on the application of the GCC framework agreement.

Important considerations

The announced increase in VAT rate to 15% from July 1, 2020 requires that VAT registered businesses in KSA start considering the necessary changes required to manage the impact on their operations, and comply with the legal requirements in terms of charging and reporting the correct amount of tax due to the authorities. Taxpayers are also recommended to consider potential cash flow implications on their businesses, due to such rate change, as well as the pricing implications.

As tax becomes an increasingly important tool for governments to shape fiscal policies, taxable persons are recommended to assess their VAT systems and compliance statuses to identify and mitigate any tax leakages, and avoid the imposition of significant penalties.

The press release can be accessed through the following link:

<https://www.spa.gov.sa/viewfullstory.php?lang=en&newsid=2084883#2084883>

Let's talk

For a deeper discussion of how this issue might affect your business, please contact one of the KSA partners below:

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