

IN SHORT

**The Situation:** Businesses and consumers are confronting a pair of new tax laws in Saudi Arabia.

**The Action:** A new Excise Tax, on luxury products and goods deemed harmful to human health or the environment, came into force on June 11, 2017. Saudi Arabian tax authorities are accepting comments on a Draft Value Added Tax Law until June 29, 2017.

**Looking Ahead:** The Value Added Tax Law is scheduled for implementation on January 1, 2018. However, obligations for qualifying persons to register for VAT will come into force a day after the Draft Law's publication in the *Saudi Arabian Official Gazette*.

**Saudi Arabian Excise Tax Law**

On June 11, 2017, the Saudi Arabian Excise Tax Law ("Excise Tax Law"), as enacted by Royal Decree No. M/86 and dated 27/8/1438 H / May 23, 2017, came into force in Saudi Arabia. The new law implements the GCC Unified Selective Tax Agreement in Saudi Arabia.

Under the new Excise Tax Law, a variety of luxury goods and goods harmful to human health or the environment ("Excise Products") are subject to a new excise tax at varying rates. In addition, manufacturers and importers of Excise Products are required to register as such with Saudi Arabia's tax authority, the General Authority of Zakat and Tax ("GAZT").

Violations of and penalties under the Excise Tax Law will be determined and imposed directly by GAZT and not by a specialized committee or judicial body. Penalties imposed by GAZT may be appealed to the Saudi courts.



Manufacturers and importers of Excise Products are required to register as such with Saudi Arabia's tax authority.



**Saudi Arabian Draft Value Added Tax Law**

GAZT has published a draft Value Added Tax Law ("Draft Law") on its website for review and comments from the public. The Draft Law seeks to implement the GCC Unified VAT Agreement ("Agreement") in Saudi Arabia.

According to its terms, the Draft Law and its implementing regulations ("Regulations") will enter into force on January 1, 2018, although Articles 4, 5, and 6 of the Draft Law—which impose the obligation on qualifying persons to register for VAT—will come into force on the day following the Draft Law's publication in the *Saudi Arabian Official Gazette*.

As previously stated, the purpose of the Draft Law is to implement the Agreement and, as such, much of the Draft Law simply reflects the provisions of the Agreement. Consistent with most Saudi legislation, the Draft Law establishes a general framework, leaving the Regulations to provide the details necessary for implementation. Therefore, the Draft Law does not (for example) identify which goods and services (if any) will be exempt from VAT or zero rated, but merely specifies that such details will be addressed in the Regulations.

The Draft Law does, however, contain a variety of provisions not found in the Agreement, including those outlined below.

**VAT Group Registration**

Article 5 of the Draft Law states that the Regulations will prescribe the circumstances in which two or more legal persons (but not natural persons) may elect to register as a VAT Group. Although further details will be provided by the Regulations, the Draft Law provides that members of a VAT Group must each carry on an economic activity, must be resident in Saudi Arabia, and must have close financial or economic links to each other. Members of a VAT Group shall be registered as a single taxable person and shall be jointly and severally liable for the tax debts and obligations of the VAT Group.

**Mediation and Dispute Resolution**

Article 54 of the Draft Law provides that the Ministry of Finance shall establish a Committee for the Resolution of VAT Disputes and that an Appeals Committee will be established by the Council of Ministers to address appeals from the decisions of the committee. More interestingly, the Draft Law provides that the Ministry of Finance may also establish a mediation mechanism for resolving disputes, to which GAZT and taxable persons may agree to resort in place of the committee.

**Transactions Outside the Scope of VAT**

Article 9 of the Draft Law provides that supplies of goods and services provided by a legal person (but not a natural person) to itself (with the exception of nominal supplies) and supplies of goods between members of a VAT Group will not be considered to be supplies of goods and services within the scope of VAT.

**Financial Security**

Finally, it is worth mentioning Article 44 of the Draft Law, which provides that as a condition precedent to the making of a taxable supply or being registered for tax purposes, GAZT may require a taxable person to provide a financial security in such amount and in such form as GAZT may specify in order to secure the payment of VAT.

The deadline for submission of comments on the Draft Law is June 29, 2017.

TWO KEY TAKEAWAYS

1. A new Excise Tax Law on certain goods implements the GCC Unified Selective Tax Agreement in Saudi Arabia.
2. Much of the VAT Draft Law simply reflects the provisions of the GCC Unified VAT Agreement, but some provisions—regarding VAT group registration, dispute resolution, transactions beyond the VAT scope, and financial security—are not part of the Agreement.

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