VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Tax Due Date for Transactions with Government Entities Guideline

Note: The English version is for guidance purposes only. In case of any discrepancy between the Arabic and English versions, the Arabic version shall prevail

The Zakat, Tax and Customs Authority (ZATCA) has issued this Guideline with the aim of clarifying certain treatments related to the application of the prevailing statutory provisions at the time of its issuance. The content of this Guideline does not constitute an amendment to any of the provisions of the laws and regulations in force in the Kingdom.

ZATCA emphasizes the application of the illustrative treatments contained in this Guideline—where applicable—in light of the relevant statutory texts. In the event that any clarification or content in this Guideline is amended without changes to the underlying statutory text, the updated illustrative treatment shall apply only to transactions occurring after the publication date of the updated version of the Guideline on ZATCA's website.

Contents

1. Introduction 4

2. About VAT 4

3. Scope of the Amendment and Its Effect, with Simplified Practical Examples to Illustrate the Difference Between the Current Treatment and the Treatment After the Amendment 5

4. Government Entities Intended by the Amendments Introduced by ZATCA 7

5. Supplies Covered by the Amendment (New Claims / Goods and Services of Whatever Nature) 9

6. Requirements for Issuing Tax Invoices in Accordance with the Provisions of the Law and the Implementing Regulations 12

7. Declaration of Tax Due within the Periodic Returns of Taxable Persons 14

8. Mechanism for Filing the Tax Return 15

9. Penalties Imposed for Non-Compliance 17

10. Frequently Asked Questions 18

1. Introduction

Zakat, Tax and Customs Authority ("ZATCA" or "Authority") announced a legislative amendment to the provisions of the Implementing Regulations of the Value Added Tax (VAT) Law to support VAT-registered entities contracting with government entities under the Government Tenders and Procurement Law. The amendment changes the tax due date for all supplies of goods or services made to government entities under contracts executed with such entities in accordance with the Government Tenders and Procurement Law.

According to this amendment, the date on which VAT becomes due shall be the earlier of the date of issuance of the payment order corresponding to the claim for the taxable supply under the tender procedures, or the date of receipt of payment for the supply or part thereof. This change aims to assist taxpayers supplying to government entities in fulfilling their tax obligations correctly without imposing undue burden, particularly with respect to cash flow.

Accordingly, ZATCA amended the provisions of Article 20 of the Implementing Regulations of the VAT Law concerning the determination of the supply date and the tax due date in specific cases. The amendment came into effect on 1st November 2021, reflecting the ZATCA's commitment to mitigating challenges and difficulties that may be faced by entities contracting with government bodies. This measure contributes to ensuring compliance with the relevant provisions of the VAT Law, especially by reducing the impact of delayed VAT payments on claims that may be collected late from various government entities, while ensuring continuity of activity for taxpayers contracting with government entities.

2. About VAT

VAT is an indirect consumption tax imposed on the import and supply of goods and services at every stage of production and distribution, from the manufacturer's purchase of raw materials to the retailer's sale of the final product to the consumer. Similar to other indirect tax systems, VAT-registered persons are required to:

Collect VAT from their customers on every taxable sale at the specified tax rate.

Pay VAT to their suppliers if applicable on every taxable purchase at the specified tax rate.

When persons subject to VAT sell a good or provide a service, they must impose VAT at the standard rate of 15% (assuming that the standard rate applies to such supplies), which is added to the final sale price. Taxable persons must account separately for the 15% collected from taxable sales from their revenues in order for it to be remitted subsequently to ZATCA. The VAT collected by taxable persons on their sales is referred to as Output Tax.

Similarly, purchases made by taxable persons are treated such that VAT at the rate of 15% is added to purchases of taxable goods and services made by persons subject to VAT (assuming that the standard rate applies to such supplies). The VAT they pay to their suppliers is referred to as Input Tax.

At the end of each tax period, taxable persons registered with ZATCA deduct the Input Tax incurred on their purchases and costs, which is deductible, from the Output Tax due on supplies of goods or services made by them. The net tax shall either be payable to ZATCA or refundable to the taxpayer.

3. Scope of the Amendment and Its Effect, with Simplified Practical Examples to Illustrate the Difference Between the Current Treatment and the Treatment After the Amendment

Contracts with government entities, and consequently supplies of goods or services made pursuant to such contracts, are governed by specific rules and procedures in light of the statutory provisions that must be complied with in respect of such contracts under the Government Tenders and Procurement Law, and the amendments and updates thereto. These differ entirely from ordinary transactions conducted between independent persons, particularly with respect to the following:

- Procedures for the offering of tenders, their types, and the procedures applicable to each type.
- Procedures for the submission of bids, the award and cancellation of tenders.

- Procedures for award and announcement thereof, and procedures for termination of contracts.
- The conclusion of contracts, their types, the forms applicable to each type, their wording, contract duration, the general provisions applicable thereto, and the conditions for their approval.
- Procedures for implementation of contracts, approval and verification of supplies, payment of consideration, evaluation of contractor performance, and extension or termination of contracts.

ZATCA has introduced the legislative amendments that were announced to apply only to transactions carried out by taxable suppliers with government entities pursuant to contracts concluded with such entities in accordance with the provisions, controls, and procedures of the Government Tenders and Procurement Law.

The amendment introduced by ZATCA stipulates that: "In cases where supplies of goods or services are made to a government entity under contracts concluded in accordance with the Government Tenders and Procurement Law, the date of supply shall be deemed to have occurred, and the tax shall become due, on the date of issuance of the payment order issued to the supplier in respect of the supply, or on the date of receipt of the consideration or part thereof, to the extent of the amount received, whichever is earlier."

In practical terms, this means that the date of supply of goods or services made by a taxable supplier to a government entity under the Government Tenders and Procurement Law, and consequently the date on which the tax becomes due, is no longer linked to the date of submission of the claim or invoice to the contracting government entity, as was previously applied in accordance with the provisions relating to the date of supply set out in Paragraph 1 of Article 23 of the Unified VAT Agreement concerning the determination of the general tax point in ordinary cases.

In particular, the supply shall be deemed to have occurred, and the tax shall become due on the earlier of the following two dates:

1. The issuance of the payment order relating to the claim submitted to the government entity in respect of a taxable supply.
2. The receipt of the consideration for the supply, in whole or in part, or the payment thereof in advance in relation to taxable supplies.

Example 1:

XYZ Company entered into a contract with a ministry for the supply of computers with a value of SAR 1,000,000, exclusive of VAT. The contract concluded with the company in accordance with the Government Tenders and Procurement Law stipulates that the devices shall be supplied in batches and that the company shall submit a claim to the entity for each batch supplied.

The company supplied 30 devices with a value of SAR 180,000, exclusive of VAT, during November and December 2021 and submitted a claim to the ministry through the Etimad platform on 25th December 2021. After the supply of the devices and receipt of the claim from the company, the ministry verifies the specifications of the devices and ensures their conformity with the agreed specifications and descriptions, and then follows the approved disbursement procedures pursuant to the Government Tenders and Procurement Law.

On 20th February 2022, a payment order was issued to the company through the Etimad platform for the value of the devices, for the full amount of the claim submitted to the ministry, inclusive of VAT. The date of supply and the date on which the tax becomes due shall be deemed to have occurred on the date of issuance of the payment order (20th February 2022) through the Etimad platform. The company must declare the tax due on the claim for which the payment order was issued, in the amount of SAR 27,000, within the VAT return for February 2022, which must be submitted to ZATCA and the tax due thereunder paid before 31st March 2022.

In the above example:

The company was previously required to declare the tax due on the supply, amounting to SAR 27,000, within the VAT returns for November and December 2021 in accordance with the basic rules relating to the date of supply and the tax becoming due. Following the amendments introduced by ZATCA, the company shall declare such tax within the VAT return for February 2022, which must be submitted and paid to ZATCA before 31st March 2022. This effectively enables the company to pay the tax to ZATCA without creating a burden on the company's cash flows in accordance with the approved disbursement procedures under the Government Tenders and Procurement Law.

Example 2:

On 15th November 2021, an independent public authority, entered into a contract, in accordance with the Government Tenders and Procurement Law, with a consulting company to provide general consultancy services with a value of SAR 3,450,000 inclusive of VAT. On the date of contracting, the company received an advance payment from the contract value in the amount of SAR 345,000 and provided the entity with a bank guarantee equal to the value of that advance payment.

The contract stipulates that the consulting company shall commence providing its services to the entity from the date of contracting, and that it shall submit its claims on a periodic basis in accordance with the work performed for the entity and the agreed value of the consultancy services supplied.

On 1st March 2022, G, the company submitted a claim to the entity for SAR 400,000 inclusive of VAT in respect of works performed during the period from 15th November 2021 until 28th February 2022. A payment order was issued to the company by the government entity on 1st August 2022 after the entity completed all requirements that must be verified in accordance with the Government Tenders and Procurement Law.

The consulting company must declare the tax due on the above supplies within the VAT return for August 2022, which must be submitted to ZATCA and the tax due thereunder paid before the end of September 2022.

In the above example:

With respect to the advance payment received on the date of conclusion of the contract, the consulting company was required to declare the tax due on the advance payment, amounting to SAR 45,000, within the VAT return for November 2021, during which the payment, inclusive of VAT, was received.

With respect to the claim submitted to the entity for the supply of services during the period from 15th November until 28th February, the company was previously required to declare the tax due on such continuous supply within the VAT return for March 2022 (on the date of submission of the claim to the entity), in accordance with the basic rules relating to the date of supply and the tax becoming due.

Following the amendments introduced by ZATCA, the company shall declare the tax due on the services supplied to the government entity within the VAT return for August 2022, which must be submitted and paid to the ZATCA before 30th September 2022. This effectively enables the company to pay the tax due to ZATCA without creating a burden on the company's cash flows.

4. Government Entities Intended by the Amendments Introduced by ZATCA

The government entities referred to in the amendments introduced by ZATCA include ministries, government bodies, authorities, departments, public institutions, and entities with independent public legal personality that are required to comply with the provisions of the Government Tenders and Procurement Law when contracting with their suppliers to procure their purchases and requirements, and to execute such contracts in accordance with contracts that meet all requirements stipulated under the Law.

The definition of government entities does not extend to establishments owned by the government, even if the ownership percentage reaches 100% of the capital of such establishments. Suppliers contracting with such establishments must declare the tax due on supplies made to them in accordance with the date on which the tax becomes due under the ordinary provisions and according to the nature of each supply.

Example 3:

A construction company entered into a contract with a company wholly owned by the State (100%) for the supply of a new production line to the company. The company drafts its contracts in light of the provisions set out in the Government Tenders and Procurement Law and settles suppliers' claims in accordance with the terms stipulated in those contracts.

The construction company supplied the production line during December 2021 and issued an invoice to the customer on 13th January 2022. The special treatment relating to the determination of the date of supply applicable to government entities shall not apply to supplies made by the construction company to the company, as the customer does not qualify as a government entity under the statutory provisions set out in the Implementing Regulations, notwithstanding the company's reliance on the Government Tenders and Procurement Law in drafting its contracts and engagements with third parties.

The supplier must declare the tax due on the supply within the VAT return for the tax period of December 2021 (on the date of supply), and the tax due under the return must be paid before the end of January 2022.

It is important to emphasize that the special treatment relating to the determination of the date on which the tax becomes due for supplies made to government entities does not apply to transactions and supplies made by subcontractors to a main contractor who is, in turn, contracted with a government entity, even where the subcontractor performs part of the main contractor's obligations. ZATCA considers that supplies made by subcontractors constitute independent supplies made in favour of the main contractor and not in favour of the government entity. Accordingly, subcontractors must submit their claims to the main contractor (the main contractor being the customer in this case) and declare the tax due thereon to ZATCA in accordance with the ordinary rules for determining the date on which the tax becomes due and the date of supply, and according to the nature of each supply.

Example 4:

A company entered into a contract with a government entity, pursuant to a contract concluded in accordance with the Government Tenders and Procurement Law, for the construction of an administrative building for that entity with a value of SAR 10,000,000. The company entered into a separate contract with a Saudi establishment (subcontractor) to execute part of the construction works relating to that building for a value of SAR 2,000,000.

The special treatment applicable to government contracts applies only to supplies made by the main contractor to the government entity. As for supplies made by the establishment (subcontractor) to the main contractor, the ordinary provisions relating to the determination of the date of supply shall apply.

It should also be noted that the special treatment relating to the determination of the date on which the tax becomes due for supplies made to government entities does not apply to cash purchases that may be made directly by government entities without the existence of contracts and without specific approval and disbursement procedures, such as petty cash purchases made from the cash advances of employees of government entities.

The amendment applies only to supplies made pursuant to contracts or equivalent instruments such as award letters and purchase orders. Cash purchases are not made pursuant to contracts

or purchase orders, and the consideration is paid on the same date as the purchase, which means that there is no impact on the tax point under the previous ordinary rules or under the new rules pursuant to the amendment.

It is also worth noting that, pursuant to the Government Tenders and Procurement Law, exchanged correspondence may be deemed a substitute for a contract where the contract value does not exceed SAR 300,000. In certain cases, the entity may also issue a direct award order in specific circumstances and in accordance with prescribed rules to agree on the supply of goods or services with specified suppliers.

In all the foregoing cases, the special treatment relating to the adjustment of the date of supply for government entities may apply to supplies made pursuant to any of the aforementioned contracts or agreements, provided that the provisions of the Government Tenders and Procurement Law are satisfied in respect of the contract or agreement, particularly the procedures for approval and disbursement of claims.

5. Supplies Covered by the Amendment (New Claims / Goods and Services of Whatever Nature)

The special treatment for determining the tax due date for supplies made to government entities applies to all supplies of goods and/or services supplied to such entities, whether representing a single supply, multiple supplies, successive supplies, or continuous supplies, and only where such supplies are made by the main contractor contracted with the government entity under contracts concluded with it pursuant to the Government Tenders and Procurement Law, whether the tender was offered and/or approved through the Etimad platform or was offered directly by the entity, and whether payment orders are issued through the Etimad platform or issued independently by the entity. This is intended to facilitate compliance for taxable suppliers dealing with government entities of various classifications.

New Claims (1-11-2021):

The special treatment for determining the tax due date for supplies made to government entities, under contracts concluded pursuant to the Government Tenders and Procurement Law, shall apply only to claims that are submitted to the government entity as of the effective date of the amendment on 1st November 2021. In such case, taxable persons shall declare the value of supplies to the government entity relating to such claims in accordance with the

special treatment, namely on the date of issuance of the payment order relating to the relevant claim, or on the date of receipt of the consideration or part thereof, to the extent of the amount received, whichever occurs first.

With respect to prior claims and invoices that were submitted to the government entity before the effective date of the amendment on 1st November 2021 (for which no payment order was issued before 1st November 2021), the special treatment for determining the tax due date for supplies made to government entities, under contracts concluded pursuant to the Government Tenders and Procurement Law, shall not apply. Accordingly, in such case, taxpayers must declare the tax due to ZATCA in accordance with the ordinary rules for determining the tax due date and the date of supply, depending on the nature of each supply.

The amendment made to the provisions of Article 20 is effective from 1st November 2021 and applies only to claims submitted to the entities on or after that date. It should be noted that, under the ordinary rules applicable prior to the implementation of this amendment, ZATCA considers that any claim submitted in respect of any supply, regardless of its designation by taxable suppliers, constitutes a tax invoice for that supply; therefore, the ordinary tax due date rules apply thereto. As of the effective date of the amendment on 1st November 2021, the supply shall not be regarded as having occurred and, consequently, a tax invoice shall not be issued in respect thereof except on the date determined in accordance with the amendment. Further clarification regarding tax invoices will be provided in Section 6 of this Guideline.

In general, the following supplies shall not be subject to the special treatment relating to the date of supply and tax due date in respect of government transactions pursuant to Paragraph 5 of Article 20 of the Implementing Regulations:

- Supplies made between a taxable person and another non-governmental establishment (business-to-business or "B2B").
- Supplies made between a taxable person and individual consumers (business-to-consumer or "B2C").
- Supplies made by a taxable person acting as a subcontractor to a client acting as a main contractor for a government entity with which the main contractor has concluded a contract.

Example 5:

AB Company, specialized in cleaning services, contracted with a government entity to supply cleaning services within the premises of the government entity. The government entity concludes its contracts in accordance with the provisions of the Government Tenders and Procurement Law and settles suppliers' claims in accordance with the terms stipulated in such contracts. AB Company supplied the cleaning services and issued invoices during 2021 to the client as follows:

Description	Invoice No. 1	Invoice No. 2	Invoice No. 3	Invoice No. 4
Invoice Issue Date / Claim Submission	1-Sep-2021	1-Oct-2021	1-Nov -2021	1-Dec-2021
Payment Order Issue Date	16-Oct-2021	15-Nov-2021	16-Jan-2022	15- March-2022

Accordingly, pursuant to the amendment, AB Company must declare claims No. 3 and No. 4 on the date of issuance of the payment order. However, AB Company must declare claims No. 1 and No. 2 in accordance with the ordinary rules for determining the tax due date, as illustrated in the table below:

Description	Invoice No. 1	Invoice No. 2	Invoice No. 3	Invoice No. 4
Invoice Issue Date/Claim Submission	1-sep-2021	1-Oct-2021	1-Nov -2021	1-Dec-2021
Payment Order Issue Date	16-Oct-2021	15-Nov-2021	16-Jan-2021	15-March-2022
Tax Due Date	Sep-21	Oct-21	Jan-22	March-22

The table below illustrates the tax due date before and after the effective date of the amendment to Article 20 of the Implementing Regulations in respect of supplies to government entities pursuant to the Government Tenders and Procurement Law:

Supplies to Government Entities pursuant to the Government Tenders and Procurement Law	Claim (or Tax Invoice) Submission Date before 1-11-2021	Claim Submission Date on or after 1-11-2021
Non-Continuous Supplies	The tax shall become due on the date of issuance of the payment order or the date of receipt of the consideration or part thereof, to the extent of the amount received, whichever occurs first.	The tax shall become due on the date of supply of the goods or services, or the date of issuance of the tax invoice, or the date of receipt of the consideration in whole or in part, to the extent of the amount received, whichever occurs first.
Continuous / Successive Supplies	In cases where goods or services are supplied, and the invoice or agreement between the supplier and the customer provides for payment of the consideration in periodic instalments, each instalment shall be regarded as a separate supply occurring on the due date of the instalment or the actual payment date, whichever occurs first. In all other cases where supplies of goods or services are made on a continuous basis, this shall be regarded as a separate supply on the date of issuance of the invoice or the date of payment, whichever occurs first, to the extent of the invoice value or payment received. Where no payment is received and no invoice is issued in respect of continuous supplies of goods or services made by a taxable person, the supply shall be deemed to have occurred on the date falling twelve months after the later of the following two dates: **a.** the date of commencement of the supply of goods or services; **b.** the previous date on which the supply occurred by virtue of the issuance of an invoice or the making of a payment.	

6. Requirements for Issuing Tax Invoices in Accordance with the Provisions of the Law and the Implementing Regulations

In accordance with the provisions of the VAT Law and its Implementing Regulations, a taxable person must issue a tax invoice for its taxable supplies made to another taxable person or to a non-taxable legal person, or for payments received in respect of a supply of goods or services to a taxable person or to a non-taxable legal person prior to the occurrence of the supply, within a period not exceeding 15 days from the month following the month in which the supply took place.

Accordingly, and pursuant to the provisions relating to the amendment of the date of supply and the due date of the tax in respect of supplies made to government entities (to which the definition of legal persons will undoubtedly apply, whether they are taxable persons or not) under contracts concluded with them in accordance with the Government Tenders and Procurement Law, taxable suppliers dealing with such entities must issue tax invoices relating to those supplies on or after the date of occurrence of the supply in accordance with the rules applicable to government supplies.

In such cases, the supply shall be deemed to have occurred on the earlier of the following two dates (the date of issuance of the payment order / the date of receipt of the consideration or part thereof), and no later than 15 days from the month following the month in which the supply occurred pursuant to either of the two aforementioned dates.

In accordance with the provisions relating to tax invoices set out in Article 53 of the Implementing Regulations of the VAT Law, a tax invoice must include, at a minimum, a number of particulars, including the date of issuance of the tax invoice (being the date on which the invoice is created). Such date must be on or after the date on which the tax becomes due, as a tax invoice must not be issued prior to that date, given that issuance is linked to the occurrence of the supply as stated above. The tax invoice must also include the date of supply where the date of supply differs from the date of issuance of the invoice. The date of supply referred to herein means the date on which the tax becomes due in accordance with the special rules referred to above, namely the date of issuance of the payment order to the supplier or the date of receipt of the consideration for the supply in whole or in part, whichever is earlier.

Example 6:

Al-Huda General Supplies Company, which files monthly returns with ZATCA, supplied office equipment to a government entity under a contract concluded with that entity in accordance with the Government Tenders and Procurement Law, with a total value of SAR 700,000 inclusive of VAT, with the supply to be made in instalments over a period of six months from the commencement date of the contract. The Company supplied a shipment of office equipment with a value of SAR 150,000 and issued Claim No. (1) to the government entity in respect of that shipment on 1st February 2022. The government entity completed the approval and payment procedures in accordance with the Government Tenders and Procurement Law, and a payment order was issued to the Company in respect of Claim No. (1) on 27th March 2022.

The Company must issue a tax invoice for the supply made pursuant to the payment order issued to it. The Company may issue the tax invoice on 27th March 2022 or thereafter, provided that it is issued no later than 15th April 2022 (15 days from the month following the month in which the supply took place). In all cases, the date of supply stated on the invoice must be the same as the date of issuance of the payment order to the Company by the government entity (27th March 2022).

The Company must declare the tax due in respect of the above supply in the tax return relating to the period of March 2022, which must be filed with ZATCA and the tax due thereunder paid before the end of April 2022, regardless of the date of issuance of the tax invoice relating to that supply.

It should be emphasised that, effective from the date of entry into force of the amendment to Article 20 on 1st November 2021, ZATCA shall not consider what are referred to as "claims", "payment certificates", or "statements of works", which are submitted by taxable suppliers to government entities in respect of supplies made to such entities, as tax invoices for VAT purposes. Such documents must not include any indication that they are to be considered tax invoices (they must not contain any reference indicating that they are tax invoices or VAT invoices or any other similar designation), as tax invoices must be issued on or after the date of supply as clarified above in this section.

It should also be noted that the aforementioned documents ("claims", "payment certificates", or "statements of works") shall not entitle the customer (where the customer is a government entity registered for VAT purposes) to deduct or recover VAT thereunder, as such documents shall not be considered tax invoices. Furthermore, one of the conditions for deduction is that the

tax must have become due on the supply in respect of which deduction is claimed, which shall not be satisfied under such documents, since the tax shall only become due on the date specified pursuant to the amendment (the date of issuance of the payment order / or the date of receipt of the consideration, whichever is earlier).

ZATCA reiterates that taxable persons who have supplies to which the special rule regarding the date of supply for government entities applies, under contracts concluded with such entities in accordance with the Government Tenders and Procurement Law, must issue tax invoices compliant with the provisions of VAT only on or after the date of supply and the date the tax becomes due in accordance with the amended supply provisions applicable to such entities, as stipulated in Paragraph 5 of Article 20 of the Implementing Regulations; namely, on or after the date of issuance of the payment order to the supplier or the date of receipt of the consideration for the supply in whole or in part, whichever is earlier.

7. Declaration of Tax Due within the Periodic Returns of Taxable Persons

Starting from the submission of the tax return for the tax period of November 2021, which will be made available for completion by taxpayers beginning 1st December 2021, the VAT return form will include a new field enabling the taxable supplier to report the value of taxable supplies subject to the standard rate that are made to government entities in accordance with the special treatment of the date of supply for government entities under the Government Tenders and Procurement Law.

Accordingly, taxable persons who have taxable supplies subject to the special treatment and for which the tax became due within the return period of November 2021, such return to be submitted to ZATCA and the tax due thereunder paid before the end of December 2021, must declare the value of such supplies in that designated field.

For the avoidance of doubt, the value of supplies to government entities relating to claims submitted starting from 1st November 2021 must be declared in accordance with the special treatment on the date of issuance of the payment order relating to the supply, or on the date of receipt of the consideration or part thereof, to the extent of the amount received, whichever is earlier.

ZATCA further confirms that the special treatment pursuant to the amendment to Article 20 of the Implementing Regulations of the VAT Law does not apply to supplies made by subcontractors, even where such supplies are connected to supplies made to government entities through an indirect contractual arrangement with them via a main contractor. Subcontractors must declare supplies made to the main contractor or to another subcontractor in accordance with the ordinary rules relating to the date on which the tax becomes due, as they do not make such supplies directly to government entities under contracts concluded pursuant to the Government Tenders and Procurement Law. Accordingly, their supplies must not be declared in the new field referred to above in the return.

With respect to the deduction of Input Tax, it should be noted that taxable suppliers who benefit from the amendments relating to the date on which the tax becomes due for supplies to government entities are entitled to deduct and recover the Input Tax charged to them by their suppliers and which is deductible in accordance with the ordinary rules of deduction and refund. The amendment to the date on which the tax becomes due for government entities shall not be linked to the timing of deduction and recovery of Input Tax relating to purchases and costs directly or indirectly associated with such supplies.

In practical terms, this means that such suppliers may deduct any Input Tax incurred on their purchases, whether charged to them by subcontractors contracted with them or by other suppliers, in the same tax period in which such tax became due, provided that they hold tax invoices issued by their suppliers confirming the validity of the tax becoming due and their entitlement to deduction.

Example 7:

During March 2022, a government entity contracted with Al-Sabah Contracting Company to carry out improvements to one of the entity's buildings, with a contract value of SAR 10,000,000, to be executed over a period of 12 months from the commencement of the contract. Al-Sabah Company subsequently contracted with Integrated Construction Company (a subcontractor) to perform part of its obligations towards the government entity for a value of SAR 3,000,000.

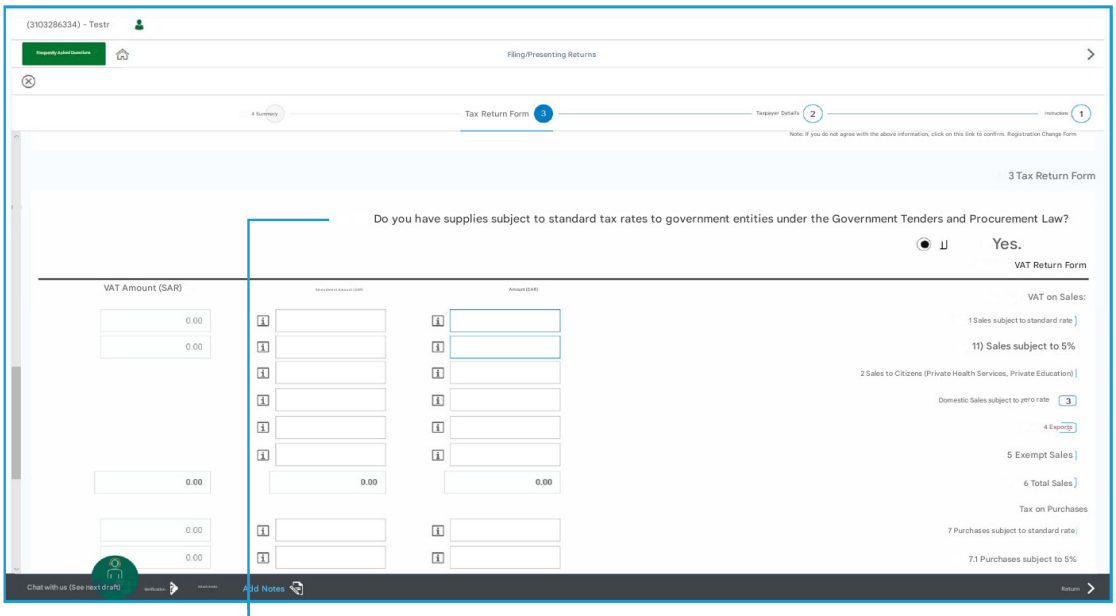
On 25th April 2022, Integrated Construction Company issued a tax invoice to Al-Sabah Company for works performed during the period from March to April, with a value of SAR 300,000 plus VAT of SAR 45,000. As of that date, Al-Sabah Company had not issued any claims to the government entity, nor did it have any other taxable transactions with any customer in the Kingdom.

Al-Sabah Company is entitled to deduct the Input Tax incurred on the works performed for it by Integrated Construction Company within the tax return for the period of April 2022. As it has no Output Tax due during that period, it may request a refund of that amount from ZATCA within its tax return in accordance with the ordinary rules of deduction and refund.

In the above example:

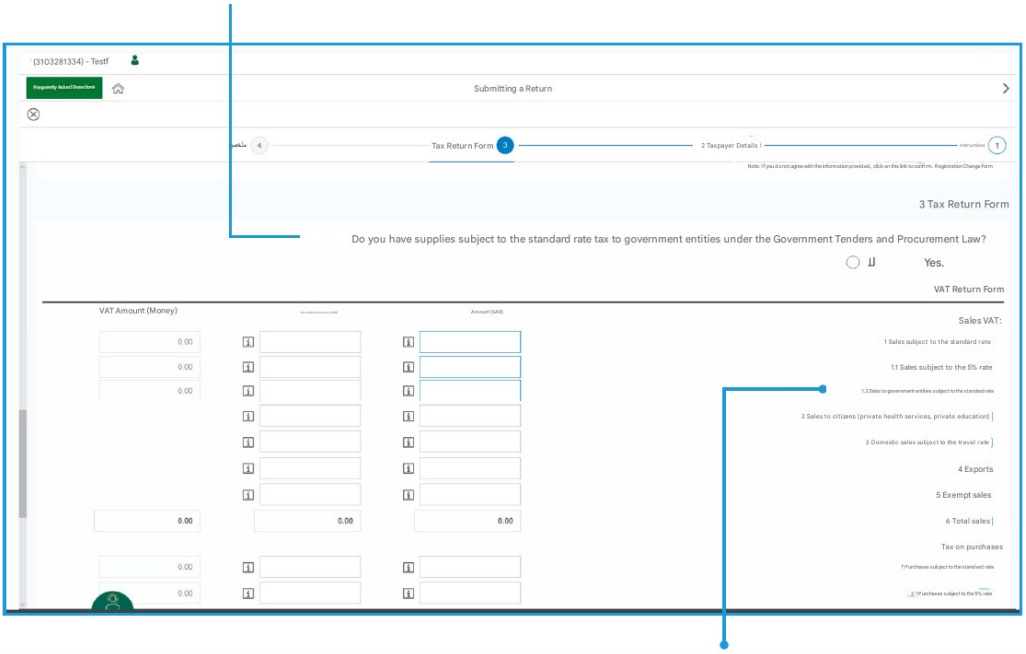
There is no cash flow impact between the subcontractor and the main contractor despite the difference in the timing of supply and the date on which the tax becomes due for each of them. This is because the main contractor is entitled to deduct and recover the Input Tax incurred by it from its suppliers, including subcontractors contracted with it, in relation to its taxable activity. Accordingly, the main contractor may pay such tax to its suppliers and recover it from ZATCA within the same period through its tax return submitted to ZATCA.

8. Mechanism for Filing the Tax Return



A question will be added for the taxpayer in all returns relating to periods from November 2021 and the fourth quarter of 2021 onward. The default answer will be "No," in which case there will be no change to the form.

If the answer is "Yes," an additional section for supplies to government entities will be displayed.



Additional Section in the Sales Section

9. Penalties Imposed for Non-Compliance

If a taxable person fails to comply with this special treatment regarding the determination of the date on which the tax becomes due for supplies made to government entities, the statutory penalties shall apply. Accordingly, in cases where these supplies are not declared on the date of issuance of the payment order relating to the supply, or on the date of receipt of the consideration or part thereof, to the extent of the amount received, whichever is earlier, this shall be considered a violation of the provisions of the VAT Law and its Implementing Regulations.

Furthermore, if a taxable person declares the tax due on its supplies to other persons, other than government entities, in accordance with the special treatment for government entities, or applies it in cases where the conditions and controls of the special treatment for government entities do not apply to the supply, ZATCA shall demand the tax due at its statutory due date and shall be entitled to impose the statutory penalties relating to incorrect disclosure.

ZATCA may impose fines and penalties on taxable persons in relation to violations of the provisions and conditions of the VAT Law and the Implementing Regulations

10. Frequently Asked Questions

1. Is it permissible to amend the tax relating to claims previously declared before the amendment of Article 20, for which no payment order has been issued to date, and declare them on the date of issuance of the payment order under the new provisions?

No. It is not permissible to amend tax that has already become due and has been declared to ZATCA, as long as the supply has not been cancelled under the amendment cases set out in the Agreement, Law, and Implementing Regulations. The amendment to Article 20 applies from the effective date of the amendment, 1st November 2021, and only applies to claims, payment certificates, or statements of works submitted to government entities for the purpose of initiating payment procedures with the contracting government entities from the effective date of the amendment, 1st November 2021.

2. A taxable supplier submitted a claim to a government entity before the effective date of the amendment and has not yet declared it in a VAT return. Is it permissible to declare it in the return for the period in which the payment order will be issued to the supplier?

No. The declaration cannot be deferred and must be made in accordance with the ordinary date of supply rules in effect at the time the claim was submitted to the government entity. If the claim is not included in the return for the period in which it was submitted and the invoice issued to the government entity, ZATCA has the right to adjust that return to require the correct tax from the taxpayer and may impose penalties for failure to correctly disclose the tax.

3. Does the amendment to Article 20 regarding supplies to government entities apply to payment orders issued by government entities that are not required to register payment orders through the Etimad platform?

Yes. The amendment to Article 20 applies to all supplies made by taxable suppliers to any government entity as defined in this Guideline and under the Government Tenders Law, where supplies are made under contracts concluded with the supplier in accordance with the Government Tenders and Procurement Law, regardless of whether the payment order is issued

through the Etimad platform or directly by the entity, and regardless of whether the tendering and award procedures were conducted through the Etimad platform or not.

4. Do the obligations for issuing a tax invoice for government supplies differ after the amendment of Article 20 compared to before?

As of the effective date of the amendment to Article 20 of the Implementing Regulations, 1st November 2021, a tax invoice must be issued on or after the date of occurrence of the supply in accordance with the supply rules set out in the Article. Suppliers must not issue tax invoices prior to that date. Suppliers may use the designation "claims," "payment certificates," or "statements of works" on documents submitted to government entities to initiate payment procedures under the Government Tenders and Procurement Law, provided that the taxable person supplies the government entity (the customer) with the tax invoice issued in accordance with the VAT Law immediately upon issuance and in accordance with the ordinary rules for issuing tax invoices.

5. A subcontractor has contracted with another contractor to maintain buildings for the Ministry of Transport. Can the subcontractor benefit from the special treatment for supplies to government entities?

No. There is no direct contractual relationship between the subcontractor and the government entity.

6. Will there be any changes to the tax return form after the amendment of the date of supply for government supplies under Article 20?

A field will be added for standard-rated supplies made to a government entity under the Government Tenders and Procurement Law. The value of supplies for which tax becomes due under the special treatment for government entities must be reported in this field. Such supplies must not be declared in the main field. Failure to correctly declare may result in penalties for non-compliance under the Law and the Implementing Regulations.

7. When will the amendment to Article 20 regarding government supplies take effect?

The amendments to Article 20 of the Implementing Regulations shall apply from 1st November 2021.

8. Does the amendment regarding supplies to government entities apply to contracts concluded with state-owned companies, such as the Electricity Company?

No. The amendment applies only to supplies made to government entities under contracts concluded directly with them in accordance with the Government Tenders and Procurement Law.

9. A taxpayer who submits monthly tax returns received an advance payment in November 2021 for a claim to be submitted in December 2021 and has not yet declared it. Can the taxpayer declare the tax after the issuance of the payment order for the full value of the claim?

No. The declaration of these supplies must be made on the date of occurrence of the supply and the date the tax becomes due, which is the earlier of the following two dates: the date of issuance of the payment order relating to the supply, or the date of receipt of the consideration or part thereof, to the extent of the amount received. Accordingly, the supply is considered to have occurred, and the tax becomes due on the date the advance payment was received (November 2021).



Scan this code to view the latest update of this document and all published documents, or visit the website of the Zakat, Tax and Customs Authority at zatca.gov.sa.