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SAUDI ARABIA IMPLEMENTS VAT REGULATION AMENDMENTS: KEY CHANGES AND STRATEGIC IMPLICATIONS

The latest Saudi VAT regulation amendments 2025, published in April 2025, introduce key changes affecting VAT grouping, digital marketplaces, input VAT deductions, and zero-rating rules. With phased deadlines extending into 2026, the updates aim to tighten compliance, enhance transparency, and align with global standards. Businesses must act quickly to review their structures, contracts, and tax processes to stay ahead of the new requirements.



Introduction

On April 18, 2025, the Zakat, Tax, and Customs Authority (ZATCA) officially published Board Resolution No. (01-06-24) in the Official Gazette, marking significant amendments to the Value Added Tax (VAT) Implementing Regulations in Saudi Arabia. These changes are part of the Kingdom's ongoing efforts to enhance tax compliance, align with international best practices, and support the objectives of Vision 2030.

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While most of the amendments are effective immediately, some provisions provide for delayed implementation dates to allow businesses time to get adjusted for adopting the changes. In addition, the ZATCA published new guidelines to clarify its interpretation of the amended regulations and assist businesses in implementing the changes.

Key Changes

Below, we highlight some of the significant changes introduced through the amended VAT regulations.

VAT Grouping Rules Saudi Arabia 2025 Article "13-10"

Overview:

ZATCA has revised the criteria and conditions for forming and maintaining a VAT group. These changes aim to align group structures with stricter compliance standards, reducing potential misuse and tax avoidance.

Key Changes:

- Each member of the VAT Group must independently meet VAT registration requirements.
- Entities must be resident in Saudi Arabia and have at least 50% common ownership/control.
- Companies in customs suspension zones or eligible for Article 70 refunds are generally not eligible, with limited exceptions.
- Transitional period until October 15, 2025, to allow businesses to adjust.
- Setting up of a new administrative authority for ZATCA to dissolve groups where conditions are no longer met.

Implications:

- Businesses must immediately reassess their group structure for compliance.
- Ineligible members must be removed from the Group before the grace period ends.
- Groups must formalize internal agreements and ensure documentation aligns with regulatory requirements.
- There is increased risk of penalties for non-compliance or improper grouping.

Definition of Services Article "14"

Overview:

The amendment to Article 14 significantly broadens what is considered a "service" under the VAT law, aiming to close loopholes and capture modern commercial arrangements.

Key Changes: *Services now explicitly include:*

- Assignments or transfers of rights (including IP).
- Granting of facilities.
- Refraining from exercising rights.
- Any benefit offered to a third party.

Implications:

- Businesses must review contracts and transactions previously classified as non-taxable (from VAT perspective) or ambiguous.
- IP licensing, access to platforms, and similar intangible benefits may now trigger VAT obligations.
- Requires more detailed invoicing and documentation for service-based transactions.

Nominal Supplies Article "15"

Overview:

Article 15 amendments clarifies the nominal supplies VAT treatment KSA (supplies made without consideration or internal use of goods), enhancing transparency and input-output VAT tracking.

Key Changes:

- Certain transactions without payment such as gifts, internal transfers, or marketing use are treated as taxable supplies.
- VAT must be charged if input VAT was previously recovered on those goods/services.

Implications:

- Businesses must monitor internal asset usage and apply VAT where applicable.
- Failure to report nominal supplies could lead to audit risks and penalties.
- Input VAT recovery processes must be closely linked to actual utilization.

Transfer of Economic Activity Article "17"

Overview:

ZATCA now enforces stricter rules for TOGC scenarios, ensuring tax compliance in mergers, acquisitions, or asset transfers that involve operational businesses.

Key Changes:

- Buyer and seller must notify ZATCA within 30 days of the transfer.
- Transfer of Going Concern (TOGC) is treated as non-taxable, but only if conditions are met and timely notice is submitted.
- Failure to notify converts the transaction into a taxable transaction.

Implications:

- Buyers and sellers must review sale agreements and include notification clauses.
- Legal and finance teams must coordinate closely on deal completion and ZATCA filings.
- Non-compliance could result in unexpected tax liabilities for either party.

Zero Rating of Services Article "33"

Overview:

ZATCA redefined the conditions for zero-rating services provided to non-GCC residents to ensure more targeted and fair treatment of cross-border transactions.

Key Changes: *Zero-rating applies only if:*

- The recipient is outside the GCC.
- The recipient directly benefits from the service.
- The recipient is not related to any local (KSA) entity..

Implications:

- Contracts involving cross-border services must clearly document the recipient's location and independence.
- Zero-rating eligibility must be evidenced through documentation, or risk denial of the treatment.
- Multinational structures must avoid internal charges that could disqualify them from zero-rating.

Deemed Supplier Rules for Marketplaces Article "47"

Overview:

To enhance VAT compliance covering the digital economy, electronic platforms facilitating sales will be considered deemed suppliers. The change is delayed until January 1, 2026, concerning telecommunication and electronic services..

Key Changes:

- Online platforms that control the terms, payment processing, delivery, or returns of sales will be considered suppliers for VAT purposes.
- Platforms must collect and remit VAT directly to ZATCA.
- This applies to both domestic and cross-border third-party sales.

Implications:

- Marketplaces must update their systems to handle VAT collection, reporting, and remittance.
- Contracts with sellers need revision to reflect new tax responsibilities.
- Sellers may be relieved from VAT collection, but must review how this affects pricing, compliance, and customer communication.

Input VAT Deduction Restrictions Saudi Arabia Article "50"

Overview:

ZATCA introduced a narrower scope for deductible input VAT, disallowing recovery on certain non-essential or personal expenses.

Key Changes: *Input VAT is non-recoverable for:*

- Entertainment and hospitality.
- Non-mandatory employee health insurance.
- Personal vehicles and fuel.
- Certain travel-related expenses.

Implications:

- Expense policies and internal controls must be revised.
- VAT recoverability must be evaluated case-by-case, especially for staff-related costs.
- Businesses must segregate ineligible expenses to prevent audit penalties.

Tourist Refunds Article "73"

Overview:

ZATCA laid the foundation for a Saudi tourist VAT refund system, aligning Saudi Arabia with international tourism tax refund practices.

Key Changes: *Refund eligibility limited to:*

- ETourists from outside the GCC.
- Goods carried personally out of the country.
- Items not used within KSA prior to export.

Further implementation details will be announced by ZATCA.

Implications:

- Retailers may need to adapt their POS systems and issue eligible receipts to tourists to claim refunds.
- The initiative may enhance tourism competitiveness, encouraging more purchases by foreign visitors.
- Businesses must await technical guidance to fully participate in the refund program.

Conclusion

The recent amendments related to VAT in Saudi Arabia cover major changes impacting VAT groups, digital or electronic platforms, invoicing, and input VAT claims and exemptions. These reforms reflect ZATCA's push for clearer regulations and tighter compliance. Businesses must act quickly to review structures, update systems, train staff, and stay aligned with the new rules. ALGhazzawi & Partners is ready to support clients in navigating these updates effectively.