VAT brief | **Proposed changes to VAT penalties**

Kingdom of Saudi Arabia | 1 March 2023

Saudi Arabia's *Zakat*, Tax and Customs Authority (ZATCA) recently proposed changes to articles 42 and 43 of Saudi Arabia's VAT law, and added a new article. Broadly, while penalties are lowered for failing to submit VAT returns or for paying VAT late (or not at all), the power to seize and sell taxpayer assets is also introduced, along with some new penalties.

What are the proposed changes?

- Penalty for failing to submit a VAT return reduced to 2% of the tax due for every month (full or part) of delay, capped at 24% of the tax due.
- New minimum penalty for failure to submit a VAT return – SAR1,000 for monthly filers and SAR500 for those with longer tax periods.
- Penalties for late payment of VAT reduced to 2% of the tax due for every month (full or part) late, capped at 50% of the amount due.
- New penalty of 1% of the tax amount due for every month (full or part) of delay if ZATCA issues a VAT assessment and the taxpayer fails to pay within a specified timeframe.
- New provisions allowing a taxable person's assets to be seized and sold to settle tax obligations and collect VAT due from third parties, where there is a failure to pay VAT-related liabilities.

What does this mean for taxpayers?

- These proposed reductions in and capping of penalties will be welcomed by many taxpayers.
- The additional 1% penalty where ZATCA issues an assessment after finding an error and payment is not made within the stipulated timeframe may encourage taxpayers to settle assessed amounts – particularly as this penalty appears to be uncapped.
- Minimum penalties are unlikely to worry late filers but will mean a fine is still payable where no output tax is due.
- The seizure and sale of business assets to settle VAT-related liabilities is only likely to apply in severe cases.

What should key decision makers at Saudi businesses do now?

- Assess the potential impact of the proposed amendments on their business.
- Consider contributing to the public consultation, which ends on 12 March 2023.
- Speak to an adviser to discuss any matters that may be affected by the proposed changes.

Disclaimer: This tax alert is based on our review and translation of Saudi Arabia's tax legislation - including the tax law and tax by-laws - and leading practice in taxation matters. It is for general information only. Seek professional advice in relation to your particular circumstances.

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