

Sector spotlight | VAT and the automotive sector

Kingdom of Saudi Arabia | 21 March 2021



VAT rules are particularly complex for vehicle dealers, with cross-border transactions, third-party payments, rebates and discounts. With VAT now business as usual, our brief focuses on key issues for the kingdom's automotive dealers, including VAT complications from discounts and rebates and the profit margin scheme.

Prices and promotions

Display prices

Dealers should ensure that all published (physically or electronically) or displayed prices of vehicles and vehicle-related services are inclusive of VAT.

Discounts offered by car dealers and local manufacturers

If a discount is offered, calculate VAT on the total consideration payable for the supply of goods or services after discount.

VAT cost borne by vehicle dealers

Vehicle dealers often use promotional language such as "VAT-free" to imply that customers are not paying VAT on a supply. Suppliers are always subject to VAT – what the dealer means is that they are going to pay any VAT liability on the customer's behalf.

Free goods or services to customers

Goods or services provided for free as part of a business promotion – such as a "free" safety check provided as part of a service – may result in a nominal supply and must be analysed on a case-by-case basis. If services or goods are provided as part of a package of other goods or services, the free good or service is not an independent supply and cannot be treated as a nominal supply.

If goods and services are supplied independently for no consideration, the supplier may have to account for VAT on the free supply, subject to specific exceptions, including low value gifts or samples falling within the threshold of SAR200/recipient/year up to an annual limit of SAR50,000.

A supply cannot be treated as nominal if input tax has not been deducted by the supplier.

Marketing contributions

If a dealer agrees to provide promotional services to a manufacturer, any payment represents a consideration for that supply of services. If promotional activities relate to specific goods (in this case, vehicles) within Saudi Arabia, regardless of the manufacturer's location, the zero-rating conditions for exports of services are not fulfilled and VAT (at the standard rate) applies. Contrast this with payments received by dealers from manufacturers when meeting agreed targets.

Incentive and rebates

Manufacturers often provide incentives to dealers to encourage the sale of particular models – for example, run-out payments to move old models. This may qualify as a third-party consideration. The VAT implications of rebates received when sales or purchase targets are met are often overlooked by dealers.

Vehicle-related goods and services

Free servicing and roadside assistance

Suppliers must determine whether services constitute a single supply or multiple supplies. When a sale of vehicle includes free servicing and roadside assistance for a period of time, it can be argued that this is a single supply as the free servicing and roadside assistance are ancillary to the vehicle. If the incentive is offered completely free of cost as an independent supply, the nominal supply rules may apply.

Your success is our business



Contact us:



Ali Almohammedali
Managing Director | Office of
Ali bin Ahmed bin Mohammed
Almohammedali Accounting
Consultancy
ali.almohammedali@keypoint.com
+966 54 541 8183



Mark Gamble
Head | Indirect tax
mark.gamble@keypoint.com
+973 3833 8641



Raman Ohri
Head | Direct tax
raman.ohri@keypoint.com
+966 50 286 4266



Dinesh Ravi
Manager
dinesh.ravi@keypoint.com
+966 50 063 8571



Adil Fawzi
Manager
adil.fawzi@keypoint.com
+966 53 251 0366



Tariq Haq
Manager
tariq.haq@keypoint.com
+973 3628 3351



AbdulRahman Bucheeri
Assistant Manager
abdulrahman.bucheeri@keypoint.com
+973 3937 7564



Mohammed Al Dalili
Senior consultant
mohammed.dalili@keypoint.com
+966 13 845 9229

Accessories and insurance

Accessories (such as window tinting or rust proofing) included in the price of a vehicle are treated as a single supply. If purchased separately, they constitute a separate supply subject to VAT at the standard rate. If provided completely free of cost, the nominal supply rules may apply. The same concept applies to the provision of insurance services. Other aspects of insurance services that should be considered include the recovery of excess claims and their recharge to customers. The relationship between dealers and insurance companies should be carefully reviewed as there could be an agency relationship or VAT-able transaction between the parties.

Dealer financing

Where a dealer provides or arranges financing, consider whether an exempt supply is made or whether any commission earned is taxable.

Warranty services

GAZT has not issued detailed guidelines on warranty services. However, where vehicles are repaired during the initial warranty period as part of a new vehicle purchase, no supply has taken place for VAT purposes. This is generally the case when the price paid by a customer for a warranty is included in the initial purchase value of a vehicle.

Vehicle dealers should consider various aspects of warranty services from a VAT perspective, such as their provision, repair costs provided by third parties and the reimbursement of repair costs by manufacturers. Dealer should also consider whether these services were included in the original sale value of the vehicle.

Other considerations

Profit margin scheme

Under GAZT's profit margin scheme (PMS), VAT is due only on the margin earned on the supply of a used good. A taxable person must obtain GAZT's approval to apply the PMS and it can only be applied on 'qualifying or eligible goods'. While GAZT has not provided a list of 'eligible used goods', used vehicles may fall under this list as they do in other GCC VAT implementing member states. Dealers must ensure they comply with invoicing and record-keeping requirements.

International trade

Nearly all vehicle dealers and manufacturers in the GCC import (and sometimes) export vehicles or accessories. VAT at the standard rate is generally imposed by Saudi Customs on vehicles and accessories being imported into Saudi Arabia. Exports to customers located outside Saudi can be zero-rated where specific conditions are met. In all cases, appropriate documentation should be retained by the supplier to evidence both the transaction and associated tax treatments. Special rules for cross-border transactions within the GCC are expected in due course.

Disclaimer: This sector spotlight is based on our review of the Saudi retail industry VAT guide, GAZT's business promotions guidelines and our understanding of Saudi Arabia's VAT legislation, the GCC framework agreement and general VAT principles. It is for general information only. Seek professional advice in relation to your particular circumstances.