

## **KSA Zakat, Tax and Customs Authority (ZATCA) has issued Circular on VAT Treatment of Financial services industry.**

It provides information and guidance on the application of VAT rules in respect of two types of transactions involving banks and financial institutions in the Kingdom of Saudi Arabia (KSA):

- Supplies of services by international banks established in KSA to non-resident customers; and
- Incentives provided by credit card companies to banks in return for achieving operational targets.

Key highlights of the circular:

### **1. Supplies of services by international banks established in KSA to non-resident customers.**

Supplies of services to non-resident customers are considered exported services and provided that the conditions for zero-rating prescribed in Article 33 of the VAT Implementing Regulations are met, the supply of exported services can be subject to the zero-rate.

Article 33 (1) of the Implementing Regulations states that a supply of services is zero-rated where it is made by a taxable person to a customer without a place of residence in any GCC member state.

The zero-rate does not apply to a supply of services where any of the following exceptions apply:

- If the place of supply of the services is in any GCC member state pursuant to the special cases listed in Articles 17-21 of the Unified VAT Agreement. This does not include services supplied separately from services whose place of supply is located in any Member State in accordance with any of such special cases, and to which they may be directly or indirectly related.
- If the customer, who is receiving the Services, is resident in any member state.
- If the customer, or any other person, benefits directly from the services when such customer or person is situated in a member state, and the other person is not permitted to deduct the input tax on such services in full.
- If the services are performed in relation to tangible goods which are located within a member state during a supply.

**Direct benefit to another person:** where a benefit of a service is provided in any of the GCC member state to another person, not a non-resident customer or the customer's employee, the supplier cannot zero-rate the supply under Article 33 unless that other person is eligible to fully deduct KSA VAT which would have been charged on the supply of the services.

\*In case any of the exceptions apply, the supply should not be subject to VAT at the zero-rate and the relevant VAT treatment applies to services supplied to "local" customers (either at the rate of 15% or exempt).

## **2. Incentives provided by credit card companies to banks in return for achieving operational targets.**

The VAT treatment of the incentives will depend on the contractual arrangement entered into by a credit card company and a bank. It is expected that these would fall into two major categories:

### **Payments are consideration for a supply of services by the bank to the credit card company.**

Where a bank agrees to perform certain activities for the benefit of a credit card company in return for a payment, there will be a supply of a service by the bank to the credit card company. Payment arrangements could vary and could be conditional.

### **Payments are considered a settlement made by the card issuer to reduce consideration in respect of an earlier supply by the credit card company.**

Credit card companies may provide discounts or rebates to banks in relation to services previously provided by them to banks. This will constitute a retrospective adjustment to consideration for the earlier supply.

As a consequence, where the credit card company is a taxable person in KSA, it would be required to issue a credit note to reflect the adjustment to consideration, after which the credit card company may adjust the output tax originally reported in the VAT return.

Additionally, if the bank has previously deducted input tax on the original supply made by the credit card company (in case of a taxable person in the KSA), it must correct its input tax to reflect the input tax amount calculated on the change of consideration in the tax period in which the credit note is issued.

### **3. Interchange Services**

Interchange fees are amounts paid by the Retailer's bank (Acquirer Bank) to a cardholder's bank (Issuing Bank) for the service provided by the Issuing Bank.

#### **Payment Network Operator (PNO)**

The payment network operator determines the percentage of internal exchange fees that are acceptable to both the issuing bank and the POS bank (Retailer's bank), and also receives fees for its services, in addition to verification services and use permits for transactions. In KSA, this is the Saudi Payments Network or "mada".

#### **Interchange fees where the PNO, the Issuing Bank and the Acquirer Bank are based:**

##### **IN KSA**

Is consideration for a supply of services by the Issuing bank. Whilst interchange fees receivable and payable are often communicated to banks on a net basis, the Issuing Bank must determine the gross value of its supplies made to apply Output Tax to the appropriate amount.

##### **OUTSIDE KSA**

ZATCA considers that, in arrangements where interchange fees are charged and collected by a non-resident PNO, the Acquirer Bank remains the service recipient. This means that zero-rating may only apply in circumstances where the Acquirer Bank is known to be a non-resident.

#### **Interchange fees charged by the Issuing Bank for domestic operations through the PNO**

Income received by an Issuing Bank from a non-resident PNO is consideration for services provided to the Acquirer Bank and the underlying merchant. If the income relates to merchants and their Acquirer Banks who are resident in a GCC State, this is consideration for a domestic supply of services and is not eligible for zero-rating. The place of residence of the PNO does not affect the application of VAT.

#### **Interchange fees charged by the Issuing Bank in relation to foreign merchants**

Income received by an Issuing Bank from a non-resident PNO, which relates to a merchant and Acquirer bank outside of the GCC States, is consideration for supplies made to a non-resident. The zero-rate may be applied to this income, provided that the remaining conditions of Article 33 are met. The Issuing Bank should also have adequate documentation to support any portion of revenue derived from a PNO which is supplied in relation to non-resident merchants and their Acquirer Banks.

### Charges by an Acquirer Bank to a merchant

An Acquirer Bank charges fees known as a “merchant fee” to the merchants for use of the electronic point of sale facilities. Merchants are expected to usually be established in the same country as the Acquirer Bank, and if a merchant is in the same country as an Acquirer Bank, these services would be subject to VAT at the standard rate. If a KSA Acquirer Bank were to charge a non-resident merchant for use of point-of-sale facilities in the KSA, the facts would need to be analysed to determine if the zero-rate could apply in each case.

### Charges made by a non-resident PNO

A non-resident PNO may charge authorisation, settlement, or other fees for its services to Issuing or Acquirer Banks. These services would be subject to VAT if charged to a Bank in the KSA, with VAT to be reported under the Reverse Charge Mechanism. It is important that the gross amount of the PNO’s fees is separately identified for VAT purposes (and not offset against the gross value of Interchange fees earned by the Bank)

[Click here for Zakat Tax Circular](#)

#### Disclaimer:

This document has been prepared as a general guide. It is not a substitute for professional advice. Neither Premier Brains nor its partners or employees accept any responsibility for loss or damage incurred as a result of acting or refraining from acting upon anything contained in or omitted from this document. If you wish to be included on the regular mailing list for this newsletter, forward your request [info@premier-brains.com](mailto:info@premier-brains.com)  
Premier Brains is a member firm of the Audit Trust and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member or correspondent firm or firms.  
If you would like to discuss Tax & VAT services, please drop us an email at [info@premier-brains.com](mailto:info@premier-brains.com) or call us at + 971 4 3542959