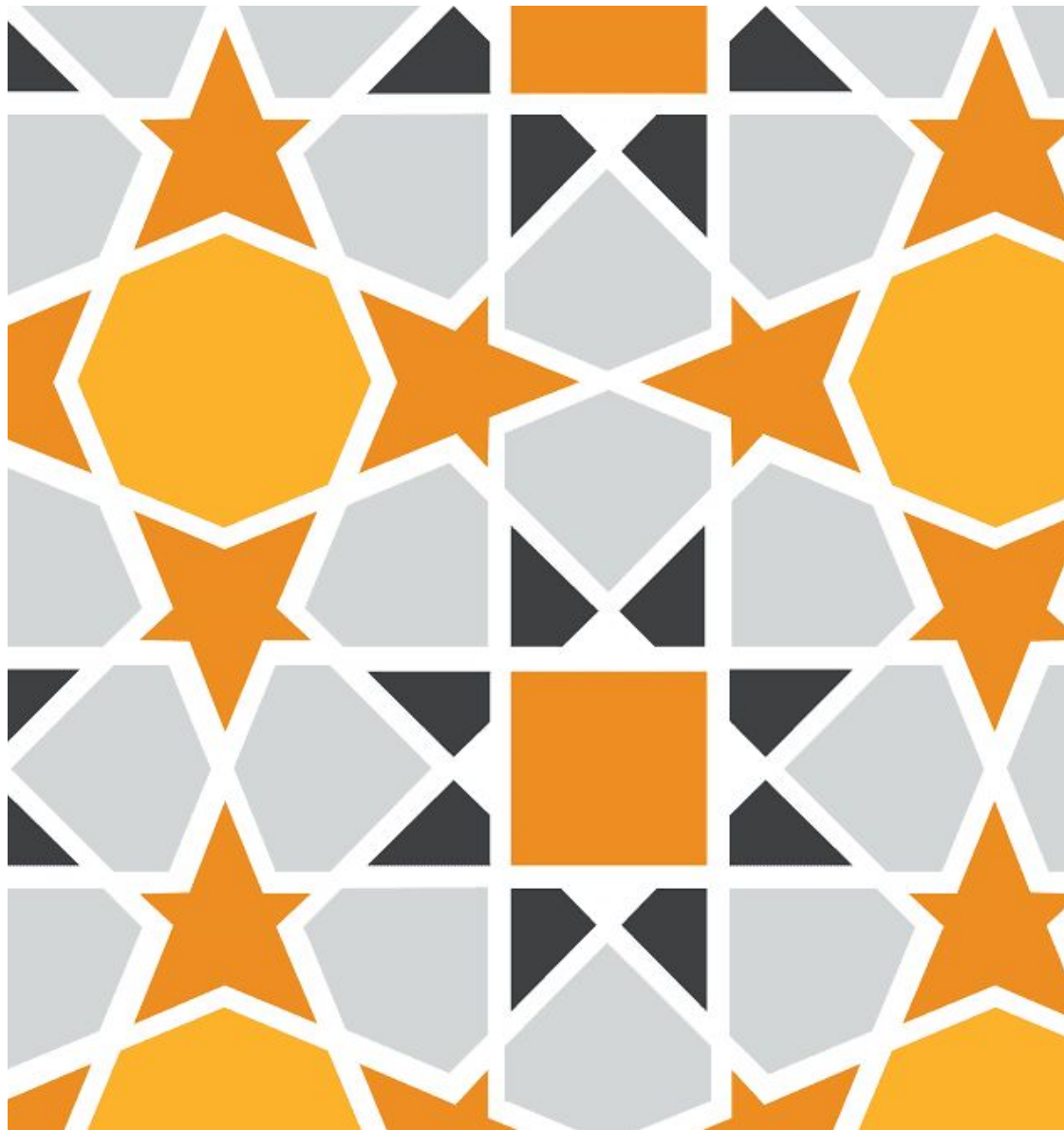


Saudi Arabia: Circular on loyalty programs and VAT implications

December 2022





In brief

The Zakat, Tax and Customs Authority ('ZATCA') published a Circular on its official website explaining the VAT implications (along with illustrative examples) associated with various types of 'Loyalty programs' offered by financial institutions operating in KSA.

The Circular, issued in Arabic at the moment, also contains some important definitions such as what constitutes an eligible voucher, ineligible voucher, consideration etc, and can be accessed [here](#).

In detail

In the context of loyalty programs offered by financial institutions as a marketing tool for attracting and retaining customers, this Circular provides ZATCA's interpretation on the VAT implications associated with the following:

- Offering loyalty points to the customer
- Transactions between the financial institution and participating merchant
- Loyalty points redemption

General principles of loyalty programs

In the normal course of a loyalty program operated by a financial institution, customers earn loyalty points based on certain activities such as use of a credit card etc and no separate consideration is usually charged for the provision of these points.

ZATCA considers that there is no additional service provided to the customers in relation to earning of these loyalty points.

Treatment of loyalty programs from a VAT standpoint

ZATCA considered 4 loyalty program scenarios in the Circular and explained the VAT implications associated with transactions involved under such scenarios. In general, the key common highlights relevant to these scenarios have been summarized hereunder:

Offering loyalty points to the customer

The financial institution issues loyalty points to the customer based on their purchases. Where no additional consideration has been charged to the customer for the provision of loyalty points, no separate supply shall be seen to be taking place and hence no additional VAT implications will apply.

Financial institution and participating merchant

Depending upon the contractual arrangement, where the merchant



VAT implications associated with loyalty programs offered by financial institutions is dependant on the nature of the program as well as underlying contractual arrangements.





will supply goods and services to the financial institution for onwards supply to the customers, any input VAT incurred by the financial institution will be inadmissible.

However, where the financial institution is merely affecting the payment, no additional VAT implications will be involved.

Loyalty point redemption

Depending upon the contractual arrangement, where the points are redeemed by the customers through a merchant, VAT shall be applicable on the underlying goods/ services that the customer will acquire and merchant will be required to discharge its VAT obligations in the prescribed manner.

Input VAT implications for the financial institutions

Where the financial institution (acting in the capacity of a principle to the transaction) incurred input VAT on purchase of goods and services based on instructions from the customer, the financial institution is not entitled to deduct input tax on the purchases as the acquired goods/services shall not be seen to be used in the course of carrying on its economic activity by the financial institution.

ZATCA clarified that where no deduction of input VAT is made by the financial institution, the subsequent supply of goods or services by the financial institution to the customer for no consideration (in return for loyalty points) does not give rise to any VAT implications for the financial institution.

The guide also included a list of Frequently Asked Questions along with ZATCA responses to assist the taxpayers in clarifying the VAT implications associated with loyalty programs.

The takeaway

Taxpayers who are running loyalty programs are encouraged to carefully examine the content of this Circular as well as the illustrative examples provided by ZATCA in order to assess their existing practice of discharging VAT obligations associated with loyalty programs.

Any corrective action (if required) should be taken within the validity period of extended tax amnesty initiative of ZATCA.

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Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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Thank you

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