



BUSINESS PROMOTION GUIDE

Introduction

Recently the General Authority of Zakat and Tax ('GAZT') has released its Guideline on Business Promotions, covering multiple scenarios where retailers provide discounts, promotions, loyalty points, etc. and how they are to be treated from a VAT perspective. The GAZT has laid out in detail the valuation procedure, adjustments to output/input VAT and allied compliances for promotional schemes being offered in the Kingdom. This Alert aims to highlight some of the major developments that have taken place for the retail sector as a result of the Business Promotion Guideline ('the Guide').

a) Key terms

Below are certain terms that are not defined in the VAT law but are important to consider for the purpose of VAT.

Term	Meaning
Value of the supply	The 'value of consideration less the tax' collected or to be collected in respect of such supply.
Published price	Any price advertised or published or displayed (whether in physical or electronic form) to the public through retail. The published price or any price initially given by the supplier may differ from the final agreed price between the supplier and the customer.
Consideration paid by a third party	The consideration paid or payable in respect of the supply of goods or services by someone other than the actual customer either in whole or in part.



Fair market value	The consideration for which the supply of similar and contemporaneous goods or services can be dealt with freely in the open market between two independent/unrelated parties.
Nominal supply	A supply of goods or services that is made without any consideration but is deemed as a supply for the purpose of VAT.
Voucher	An instrument where there is an obligation to accept it as consideration or part of consideration for a supply of goods or services, and where the nature of the goods or services to be supplied or the identity of the supplier is indicated on the voucher or in related documentation.
Voucher with a face value	A voucher that is issued with a pre-defined monetary redemption value indicated in it or in any related document.
Non-qualifying voucher	Any document, instrument or offer which is commercially described as a 'voucher' but does not fall within the scope of the definition described above.

b) Consideration for supplies

Consideration is the amount that the recipient has to pay to the supplier for the supplies and it may be monetary as well as non-monetary. There are a few factors that affect the consideration and its VAT-related implications which are as follows:

1. Fair Market Value (FMV)

In the cases where consideration is non-monetary it becomes relevant to value it on fair market value (FMV). The FMV for the transactions of supply of goods and services is ascertained based on all relevant factors such as the characteristics, quality, quantity of the goods and services, their place/date of supply and the reputation of the supplier. Accordingly, the fair market value may consider the discounts usually made to other (unrelated) customers during the same period of time.

For the transactions of supply between two related parties, the consideration – whether monetary or non-monetary has to be based on the FMV where:

- Consideration for the supply is less than the FMV of the supply; and
- The customer is not entitled to a full input tax deduction in relation to the supply.

It is important to note that entitlement to full input tax credit to the recipient shall be required to be shown only for the specific transaction between related parties. For example, if the supply received by a customer is an input that is going to be used by him/her for making a



fully taxable output supply, there will be no requirement to value the receipt of input supply from a related party at FMV.

2. Acts that do not constitute non-monetary consideration

Sometimes, promotional offers require a customer to do something in order to receive a discount. Often the acts to be done by the customer have a negligible or no value, for example:

- Buying a certain number or quantity of goods or services (for a volume or quantity discount).
- Answering the question about competition correctly.
- Bringing reusable packaging, such as a bag or coffee cup.
- Commenting on the supplier's account on social networks.

In such cases, the customer's actions shall not be considered as a non-monetary consideration. The supplier shall calculate the VAT based on the discounted price.

3. Consideration paid by a third party

In the case of a third-party payment, a third party makes the full or partial payment as the consideration for the supply made by the supplier to the actual customer. In order to determine the value of the supply and the applicable VAT on that supply, the total payment made by the third party shall be taken into consideration, in addition to the amount paid by the customer.

The following illustration explains a third-party payment scenario:

C (a coffee shop) is running a scheme where a discount of SAR 5 per cup of coffee (regular rate for coffee being SAR 9 [VAT inclusive]) shall be offered to customers who have made purchases from R (a retail store). R has agreed to compensate C SAR 4 for each cup of coffee on which every such discount provided by C to R's customers. A (a customer), who has made a purchase from R, goes to the coffee shop to avail of the discount and pays SAR 4 (regular price SAR 9 minus special offer SAR 5). C will calculate VAT at 5% on SAR 8 (paid by customer SAR 4 + paid by store R SAR 4). The invoice of C will read as:

Coffee	SAR 7.62
VAT	SAR 0.38
Total	SAR 8.00
Promotion Payment by R	SAR 4.00
Payment collected	SAR 4.00



Sometimes the payments made by the third parties are also called subsidies. However, if a subsidy is paid by KSA Government Ministry or an authority to a supplier (in the same way as a consideration from any other third party) in respect of a supply of goods or services, the subsidy does not contribute to the value of supply.

4. Trade-in offers in case of goods

In the case of trade-in promotional offers, the customer is given the option to exchange (trade) his/her old/used product while he/she buys a new product and in return, a discount is offered which results in lowering the net acquisition price to the customer.

The following example illustrates a trade-in promotional offer for a mobile phone.

'Give your old/used mobile phone and get a discount on the purchase of a new mobile phone'

A new branded mobile is sold by the supplier (mobile phone retailer) for SAR 1000. The customer gives his old/used mobile phone to the supplier who values it at SAR 100. This SAR 100 represents the reduction in the net price of the new phone for trading in the old/used mobile phone and therefore the customer is entitled to purchase a new phone worth SAR 1000 for SAR 900.

The valuation for the old/used mobile phone shall be indicative of the fair market value of the old/used phone. For the purpose of VAT, SAR 100 (value for the old/used phone) shall not be treated as a discount but is treated as a non-monetary consideration, and VAT shall be calculated on SAR 1000.

However, in the event that the value of the old/used phone is shown to be marginal/zero then it shall not be considered as a non-monetary consideration. In such case, if the supplier gives a discount to the customer on trade-in for a new mobile phone, VAT shall be calculated on the discounted value.

5. Barter

In the case of a pure barter transaction, the supplier and the recipient exchange goods or services without using any monetary/cash consideration. In such a scenario, if both parties are taxable persons, the exchange of goods or services shall be treated as independent supplies made by both the parties and the VAT is to be paid on the fair market value of the goods or services.

The following example illustrates a barter transaction.



A, who is a lawyer, and B, who is an owner of commercial real estate, are both registered for the purposes of VAT. A provides the legal services to B and in lieu of these legal services, B has permitted A to conduct his business in the office space owned by B without payment of any rent. This is a barter of legal services against leasing of commercial real estate services. Accordingly, both parties will have to value the fair market value of their services and raise an invoice accounting for VAT against the same, i.e. A shall collect VAT for the legal services provided by him (as output VAT), and B shall collect VAT for the leasing of commercial real estate (as output VAT).

6. Pricing display requirements

The following are the few points with regard to the pricing that need to be considered:

- The prices of the goods or services in a retail environment are required to be displayed as VAT inclusive. This applies to the prices of all goods or services that are published either physically or electronically or that are presented to the public in the retail store.
- The prices between two private parties can be quoted as exclusive of VAT.
- For the purpose of levy of VAT, the actual price paid or payable as consideration for the supply shall be considered, which may differ from the published price.
- In certain cases, both the retail price and the discounted price are published/displayed. In such a case, the discounted price shall be considered for the purpose of VAT.

7. Combined price – single and multiple supplies

Many times, bundles of goods and services are offered to customers for a single price as well as a separate price for each item in the bundle. The following table helps us in understanding the implications under VAT for such offerings.

	Meaning	VAT treatment	Example
Single supplies	The bundle of items that consist of multiple goods or services or combinations of goods and services are sold for a single consideration.	VAT shall be charged on the single consideration provided that: <ul style="list-style-type: none"> • The supply consists of one clearly dominant element and the 	A mobile phone is offered for sale for SAR 2000 (including VAT). This price includes a standard one-year warranty provided



		<p>other elements are merely part of this dominating element belonging to that main supply; and</p> <ul style="list-style-type: none">• These elements are so closely linked that the separation of individual elements into individual supplies will be artificial.	<p>to all customers against manufacturing defects. The customer does not have the option to obtain a lower price by refusing the standard warranty. There is one single supply of the mobile phone for VAT purposes.</p>
Multiple supplies	<p>The individual items in the bundle/ combination:</p> <ul style="list-style-type: none">• have a separate value• are capable of being enjoyed independently• can be selected by the customer as any or all items out of the combination.	<p>Each item is to be shown separately on the tax invoice and VAT shall be charged on the consideration of each individual item separately except where all the items in the bundle are taxable at the same rate.</p>	<p>A mobile phone is offered for sale for SAR 2300 (including VAT) along with two years' additional warranty against manufacturing defects. The price of this additional warranty is SAR 300. The customer has the option to obtain a lower price by refusing the additional warranty. This is multiple supply of mobile phone and the additional warranty for VAT purposes.</p>



The contractual terms and the commercial documentation become important to ascertain whether the supply is to be treated as a single supply or a multiple supply. For example, if the items in a bundle have a separate price in a contract and are not being offered for a single price, or if the invoice has the break-up of each of the items separately, such supplies will not fall under the term 'single supply'. The bundled items in the case of single supply must be subjected to the same tax treatment.

In the case of multiple supplies, even if a single price has been offered, the taxpayer is required to break the price of each individual item and show it on the tax invoice accordingly, unless all the items in the supply are taxable at the same rate.

8. Nominal supplies

Sometimes certain independent supplies are made to third parties without any consideration. However, for the purpose of VAT these are deemed to be supplies and taxed accordingly. There are a few exceptions where such supplies are not treated as nominal supplies, which are as follows:

- The supplies of goods as gifts or samples etc. or providing goods or services without any consideration for the promotion of the economic activity of the taxable person. The value of such gift/sample given to each of the recipients does not exceed SAR 200 in a year and the total value of all such supplies made by the taxable person in a year does not exceed SAR 50,000.
- The input tax has not been deducted by the taxable person for such supplies.
- Such supplies are ancillary to other supplies which are made for a consideration.

The consideration in the case of nominal supplies is the purchase price or cost to the supplier.

9. Adjustment to consideration

The following table helps show how the adjustment to the consideration is required to be reported in the VAT returns.

Scenario	VAT adjustment
Adjustment in consideration by way of debit or credit note in the same tax period in which the original supply took place, before the submission of the VAT return for the tax period of original supply.	The output tax is adjusted (by increase or decrease) and such adjusted figure is reported in the VAT return for the tax period in which the original supply was made.
Adjustment to the consideration (increase or decrease) by way of debit/credit note in the subsequent tax period(s) in which the original	The output tax is to be adjusted (increase or decrease) and reported in the VAT returns for the relevant tax period during which;



<p>supply took place after the submission of the VAT return for period of original supply.</p>	<p>In case of increase;</p> <ul style="list-style-type: none"> • the event giving rise to the increase took place. 	<p>In case of decrease, the earliest of;</p> <ul style="list-style-type: none"> • the credit note was issued; or • the event giving rise to the decrease took place.
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c) Promotions and discounts

Discounts and promotions are offered to customers in many ways. The following table helps us understand the VAT implications in a few of the cases.

Discount scenario	Particulars	VAT treatment
<p>Retrospective discount</p>	<p>Such discounts are provided after:</p> <ul style="list-style-type: none"> • the supply of goods or services is made; or • the invoice is issued by the supplier; or • the initially agreed consideration is paid. 	<ul style="list-style-type: none"> • A tax credit note to be issued by the supplier and reduction of his/her output VAT liability in his VAT return in the tax period in which the credit note is issued. • The taxable customer is also required to reduce his/her input VAT deduction accordingly based on the tax credit note in his VAT return in the tax period in the which credit note is issued.
<p>Payment on behalf of customer</p>	<p>The supplier offers to incur the expense on account of the customer e.g. installation expense paid to a third party on behalf of the customer. Payment of such expense reduces the consideration of the original supply and is like a discount.</p>	<ul style="list-style-type: none"> • Such amount will be reported by the supplier in his/her VAT return by way of reduction of his/her output VAT liability in the tax period in which the credit note is issued. • The taxable customer is also required to reduce his/her input VAT deduction accordingly based on the tax credit note.



<p>Where supplier will 'pay VAT' for the supply</p>	<p>Suppliers may use promotional language to indicate that the supplier will 'pay the cost of VAT' on a supply.</p>	<ul style="list-style-type: none"> • Irrespective of promotional language used, where a supplier makes supplies (subject to VAT at 5%), the supplies shall be taxable. • The supplier may opt to reduce the amount of consideration to the extent of VAT, but this is simply a deduction on total consideration. • Total consideration charged will be inclusive of VAT (represented by (5/105) of such consideration). • The supplier must issue a tax invoice showing VAT applied.
<p>Volume discount</p>	<p>The supplier provides a discount upon the customer reaching a specified quantity of purchases within a period of time, resulting in retrospective adjustment to the previous supplies which have been made.</p> <p>For example, a customer has earned the discount of SAR 500 based on the volume of his/her previous purchases. The next supply is of SAR 1200. The discount of SAR 500 can be adjusted from this supply and VAT will apply on the balance of SAR 700 only.</p>	<ul style="list-style-type: none"> • A tax credit note is to be issued by the supplier and reduction of his/her output VAT liability in his/her VAT return in the tax period in which the credit note is issued. • Alternatively, such volume discount can be adjusted against the consideration payable for future supplies provided that: <ol style="list-style-type: none"> i. the discount does not exceed the value of adjusted supply; and ii. all supplies made to the customer are subject to VAT at 5%.
<p>Early payment discount</p>	<p>The customer makes an early payment of the invoice in order to avail of a discount.</p>	<ul style="list-style-type: none"> • A tax credit note is to be issued by the supplier and reduction of his/her output VAT liability in his/her VAT return in the tax period in which the credit note is issued.
<p>Free supplies</p>	<p>The supplies are made without consideration but are ancillary to the other supplies with consideration e.g. free home delivery of goods sold to a customer.</p>	<ul style="list-style-type: none"> • This will be considered as if the price charged is for the goods delivered at the customer's premises and will be a single supply without having the requirement of mentioning the



		<p>separate price for the home delivery service.</p> <ul style="list-style-type: none"> • VAT will apply on the sale price of the goods (this does not amount to a nominal supply). 																																
One plus one free	<p>The customer pays a single price but expects to receive two or more items e.g. receiving a free printer along with the purchase of a laptop from a store. The said printer is otherwise sold for a price in the same store.</p>	<ul style="list-style-type: none"> • Despite the use of the word 'free' in the promotional language, the supplier actually offers two items for a single price. • The value of the printer is considered as the discount on both the items which needs to be allocated on the laptop and printer separately. • The following example helps to understand: 																																
		<table border="1"> <thead> <tr> <th>Details</th> <th>Quantity</th> <th>Unit Price (Excluding tax)</th> <th>VAT rate</th> </tr> </thead> <tbody> <tr> <td>The laptop model number 45678</td> <td>1</td> <td>3,000</td> <td>5 %</td> </tr> <tr> <td>Basic printer - model number P100</td> <td>1</td> <td>400</td> <td>5 %</td> </tr> <tr> <td>Subtotal</td> <td></td> <td></td> <td>3,400</td> </tr> <tr> <td>Discount: Laptop Deals for March</td> <td></td> <td></td> <td>(400)</td> </tr> <tr> <td>Total (Excluding VAT)</td> <td></td> <td>SAR</td> <td>3,000</td> </tr> <tr> <td>VAT at the rate of 5%</td> <td></td> <td></td> <td>150</td> </tr> <tr> <td>Total due</td> <td></td> <td>SAR</td> <td>3,150</td> </tr> </tbody> </table>	Details	Quantity	Unit Price (Excluding tax)	VAT rate	The laptop model number 45678	1	3,000	5 %	Basic printer - model number P100	1	400	5 %	Subtotal			3,400	Discount: Laptop Deals for March			(400)	Total (Excluding VAT)		SAR	3,000	VAT at the rate of 5%			150	Total due		SAR	3,150
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d) Vouchers

Vouchers are very common these days. They are an instrument that is used as a consideration or part of the consideration in lieu of supply of goods or services where the identity of the supplier or the goods/services is disclosed. Under VAT the following are the salient features of vouchers:



- The monetary value of the voucher, which is also known as its face value, is also indicated thereupon.
- VAT is not applicable at the time of issuance of the voucher by its supplier.
- VAT becomes applicable on the value of supply of goods or services for which the voucher is redeemed.
- In the case where the consideration for the supply is made in excess of its face value, such difference in the consideration and the face value shall be considered as a supply of service and liable to VAT.

The vouchers can be categorised as ‘qualifying’ or ‘non-qualifying’. For the purpose of VAT, qualifying vouchers are considered and some of the points that need to be considered in this regard are as follows:

Sr. No.	Particulars	Example
1	Voucher can be a physical document or an electronic card with a stored cash amount.	An electronic gift card or prepaid phone card is an eligible voucher, where other criteria are met.
2	The voucher must: <ul style="list-style-type: none">• Be transferable and redeemable by different persons or• be eligible to be honored by different persons at the suitable time of issuance or supply• be capable of being redeemed as consideration for a supply of goods or services• be capable of allowing the holder to elect to redeem it against a supply of his/her choice.	A telecom prepaid top up voucher or a voucher entitling a customer to a one-night stay in a hotel.
3	The voucher with an expiry date may be considered an eligible voucher, provided that on the date of its issuance or supply, it is capable of being redeemed by the holder against the supply of goods or services.	A gift card worth SAR 100 which expires within three-months and can be utilised against supply of goods/services at a retail store.

The following example helps demonstrate what can be understood to be a ‘non-qualifying voucher’ for the purpose of VAT.



1	A document which only entitles a specified person to 'redeem' it for specific goods and services at a specific time with a known supplier is not a qualifying voucher.	<ul style="list-style-type: none"> • A fuel card registered to a particular user and available for his/her exclusive use. • A 'voucher' entitling the recipient to a stay at a specified hotel on a specific date is not a qualifying voucher. <p>These are considered as an advanced amount paid by the buyer.</p>
2	Vouchers that entitle the recipient to receive only a discount on one of the supplies are not considered qualifying vouchers as they cannot be used as a consideration for this supply.	<ul style="list-style-type: none"> • Receiving a discount coupon/voucher of 20% off against your next purchase.

e) Loyalty programs

Several retail outlets, hotel chains, etc. run loyalty point schemes whereby the customer is incentivised by earning the points upon buying goods or services from the taxable person. The loyalty points earned thereafter can be utilised by the customer for receipt of goods/services. Some of the following examples help us understand the VAT implications on loyalty points:

Scenario	Particulars	VAT treatment
Free goods/ services provided upon completion of stamped cards	Schemes whereupon getting a stamped/sealed card showing purchase of four coffees, a customer gets the fifth one for free; in such cases the customer who completes the card and gets a 'free' cup of coffee, actually buys five cups of coffee over time for the price of four.	<ul style="list-style-type: none"> • VAT is not required to be paid on the 'free' cup of coffee supplied to the customer.
Purchase stamps	Making the purchases of goods or services for a specific volume that entitles the customer to receive certain supply of goods or services without consideration.	<ul style="list-style-type: none"> • VAT is not required to be paid on the 'free' goods/services supplied to the customer as part of the loyalty scheme.
Loyalty points	Loyalty points which can be earned through purchase of goods/services	<ul style="list-style-type: none"> • The supplier does not provide any separate supply of



	<p>or by meeting some conditions while receiving supplies.</p> <p>Such loyalty points can be used to further purchase goods/services or receive discounts.</p>	<p>goods/services by giving a customer loyalty point.</p> <ul style="list-style-type: none">• Assignment of loyalty points to a customer for reward or service shall not be considered as a separate consideration for the supply.• Provision of a free commodity or service is related to the points acquired for the previous purchases from the same supplier that are taxable at the same tax rate.• A supplier can claim input VAT deduction in relation to goods/services supplied against loyalty points, as such supplies constitute a part of the economic activity undertaken by the supplier.• Loyalty points utilised against supply of goods or services are treated as discounts, and no VAT is charged on the same, since loyalty points are considered linked to the previous purchases made by the customer.• However, in the case of loyalty schemes with multiple participating members, the transaction needs to be analysed for impact on VAT based on the arrangement between the participating members.
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Dhruva Insights

The Business Promotion Guideline is very comprehensive and provides a thorough explanation of existing promotional and marketing schemes out in the market. This shows the business understanding and lengths to which the GAZT has gone to address the concerns of the retail industry. This Guide has indeed made a laudable effort to provide clarity to the taxpayers, and procedures showcasing correct tax compliance. The Guidelines for Agents issued by the GAZT provides certainty and clarity to taxpayers and simplifies compliance procedures for businesses on the role of VAT in matters of agency relationships. It will become easier for taxpayers to assess their VAT liabilities and ensure proper deduction of input tax.



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