

Introduction:

The Professional Magazine is a specialized publication issued by Ali Ibrahim Al-Nasser & Partners - Certified Public Accountants and Consultants. In this nineteenth issue, we cover the key obligations related to Transfer Pricing instructions, and review the latest professional updates, including notably the amendment of the methodology for calculating Excise Tax on sweetened beverages. This issue also highlights common professional mistakes and practices, among which is the failure to pay Real Estate Transaction Tax (RETT) on undocumented real estate transactions.

Key Developments and Updates

1. The GCC Financial and Economic Cooperation Committee Approves the Amendment of the Methodology for Calculating Excise Tax on Sweetened Beverages Based on Total Sugar Content:

The Financial and Economic Cooperation Committee of the Gulf Cooperation Council (GCC) has approved a resolution to amend the methodology for levying Excise Tax on sweetened beverages so that it is based on the total sugar content of the beverage.

This approach, known as the tiered volumetric system, calculates the Excise Tax by assigning progressive tax bands to sweetened beverages according to the total amount of sugar contained in every (100 milliliters) of the ready-to-drink product falling within each tier. This replaces the current methodology, under which the Excise Tax on sweetened beverages is levied at a fixed rate of (50%) of the retail selling price of the taxable sweetened beverage.

In this context, the Zakat, Tax and Customs Authority (ZATCA) has published through the "Istitlaa" platform the proposed amendments to the Implementing Regulations of the Excise Tax Law, which include the tax rules related to the transition to the tiered volumetric system, following the approval of the Authority's Board of Directors to release the proposed amendments for public consultation. The Authority has invited everyone to submit their comments and feedback no later than (23 October 2025).

The term "sweetened beverages" refers to any products with added source of sugar, artificial sweeteners, or other types of sweeteners, and that are produced for consumption as a beverage. This includes all forms of beverages such as ready-to-drink products, concentrates, powders, gels, extracts, or any other form that can be transformed into a drink. The implementation of the new tiered volumetric system across the GCC Member States is based on the decision of the GCC Financial and Economic Cooperation Committee to amend the mechanism for calculating excise tax on sweetened beverages. In the Kingdom of Saudi Arabia, the new methodology is scheduled to take effect at the beginning of 2026, following the completion of the necessary legislative and regulatory requirements and the publication of all related details.

The announcement of the new methodology comes as part of the Zakat, Tax and Customs Authority's (ZATCA) efforts to provide importers and manufacturers with sufficient time to prepare ahead of implementation. In the coming period, the Authority will organize a series of awareness workshops in coordination with relevant entities to enhance awareness among targeted groups regarding the technical details of the transition to the new approach, ensuring a smooth and effective implementation.

The new methodology also aims to promote public health and encourage the reduction of added sugars in beverages by promoting the availability of consumer products with lower sugar content, in line with international best practices.



2- The Accounting Standards Board at the Authority decides to remove the additional requirement related to appointing an independent qualified valuer:

The Accounting Standards Board at the Saudi Organization for Chartered and Professional Accountants (SOCPA) has reconsidered its previous addition to the International Financial Reporting Standards (IFRS), which required the mandatory appointment of an independent qualified valuer when an entity applies the revaluation model for property, plant, and equipment or the fair value model for investment property under the full version of IFRS, or the corresponding requirements under the IFRS for Small and Medium-sized Entities (SMEs). This requirement was originally introduced when IFRS standards were adopted for implementation in the Kingdom starting from early 2017. Taking into consideration the circumstances under which this requirement was originally introduced to the international standards, and in the interest of ensuring consistency with international standards and their global application, the Board decided - after due study - to remove this additional requirement during its meeting held on 29 Rabi Al-Awwal 1447 AH (corresponding to 21 September 2025). This decision is effective as of its issuance date.

Accordingly, the IFRS Adoption Document in the Kingdom has been updated to reflect the Board's decision with respect to the standards affected by this decision.

3- ZATCA Determines the Criteria for Selecting the Targeted Taxpayers in Wave 24 for “Integration Phase” of E-invoicing

The Zakat, Tax and Customs Authority (ZATCA) determined the criteria for selecting the targeted taxpayers in the Twenty-Fourth Wave for implementing the “Integration Phase” of E-invoicing, as it clarified that the Twenty-Fourth Wave included all taxpayers whose revenues subject to VAT exceeded (SAR 375,000) during 2022, 2023 or 2024.

Moreover, ZATCA explained that it will notify all targeted taxpayers in the Twenty-Fourth Wave to integrate their E-invoicing solutions with the “Fatoora” Platform by no later than 30 June 2026.

The Authority added that the second phase – the Integration Phase – requires additional requirements beyond the first phase – the Generation Phase. Among the most notable of these are linking taxpayers’ e-invoicing systems with the “Fatoora” platform, issuing electronic invoices in a specified format, and including several additional elements in the invoice. The Authority also clarified that the implementation of the second phase – Integration – is being carried out gradually in waves, and that it will notify the remaining groups at least six months prior to their designated integration date.

It is worth noting that the first phase of the e-invoicing project – the Generation Phase – was implemented on December 4, 2021, obliging taxpayers subject to the E-invoicing Regulation to stop generating handwritten invoices or computer-generated invoices through text editing software or spreadsheet software, ensuring that there is a technical solution for E-invoicing that is compatible with the authority’s requirements, in addition to generating and storing E-invoices with the required fields, including the QR code and other requirements.

Transfer Pricing Obligations

Transfer pricing obligations are among the most important requirements related to tax and Zakat compliance, which must be adhered to by all taxpayers. Transfer pricing involves evaluating the prices of transactions between related parties or parties under common control for the purpose of determining the taxable or Zakat base. The objective is to prevent profit shifting and to ensure that each country where the parties to the transactions are resident receives its fair share of taxes or Zakat.

The Transfer Pricing Instructions were issued by a resolution of the Authority’s Board of Directors at the beginning of 2019 and were amended by a Board resolution at the beginning of 2023 to expand their scope to include Zakat payers as well, in accordance with the rules and specifications outlined in the resolution.

The transfer pricing procedures and requirements establish the governance and control of pricing transactions with related parties for tax and Zakat purposes. They define specific pricing methods to ensure that transactions adhere to the arm’s length range. A transaction between related parties is considered within the arm’s length range if its price is consistent with prices of comparable transactions conducted under similar conditions between unrelated persons. Where conditions are made or imposed between two or more Related Persons in their commercial or financial relations which differ from those which would be made between Unrelated Persons. Then, the unrealized profits that could have been earned by any of the related persons, but for those terms and conditions, shall be included in the profits of such related persons.

Therefore, the arm’s length price can be defined as the price that should be applied when related persons engage in transactions with each other, as if they were independent persons.

The Authority ensures compliance with transfer pricing rules through a set of procedural and documentation requirements that taxpayers are required to adhere to, which can be summarized as follows:

1- Submission of the Annual Disclosure Form:

This is a preliminary, non-detailed annual disclosure submitted together with the annual return by Zakat and income tax payers. The disclosure includes transactions conducted during the year with related parties and certain relevant information. The taxpayer must submit the disclosure form with the annual return within 120 days from the end of the financial year, including details of transactions between related persons, such as the following:

- Transactions between related persons, their nature, and the pricing method applied.
- Country of residence of the related persons.
- Disclosure of non-cash transactions with related parties.
- Disclosure of total revenues, expenses, and net profit/loss as reported in the return.

Other requirements specified in the disclosure form.

All Zakat and Income Tax payers are required to submit the Disclosure Form, regardless of the volume of transactions conducted with related persons. In addition, they must attach a certificate from a licensed Certified Public Accountant (CPA) in the Kingdom, confirming that the group complies with the transfer pricing policy applied in relation to the taxpayer.



2- The Master File and the Local File:

The Master File and the Local File are among the most important Transfer Pricing documentation requirements that taxpayers are obligated to prepare and submit to the Authority, where applicable. The Master File must include a general overview of the group's business, pricing policies, functions, and activities, while the Local File should contain detailed information on transactions between the related persons and the taxable person in the Kingdom, in addition to other relevant information and details about the taxpayer. These two files are considered the most comprehensive among the Transfer Pricing documentation requirements—particularly the Local File—which requires significant effort and sufficient knowledge during preparation. The key information included in these files can be summarized as follows:

Some of the information included in the Master File is as follows:

- Organizational structure.
- Description of the group's business, (including products and services, main markets, and other relevant details).
- Information on intangible assets, (such as a list of intangible assets, locations of research and development facilities, and transfer pricing policies related to intangibles).
- Information on financial activities, (including financing arrangements, intercompany financing, and related pricing policies).
- Financial and tax positions of the group, (including consolidated financial statements and other relevant financial information).

Some of the information included in the Local File is as follows:

- Description of the business and business strategy pursued by the Taxable Person.
- Organizational structure and financial information.
- Industry analysis (competitors, suppliers, size, supply and demand, marketing, etc.).
- Functional analysis (functions, risks, and assets).
- Analysis of related party transactions.
- Selection of the most appropriate transfer pricing method.
- Comparability analysis and benchmarking study.
- Documentation of key related persons transactions.
- Transfer pricing agreements and contracts.



The Master File and Local File are to be submitted upon the Authority's request within the period specified by the Authority, provided that it is not less than 30 days from the date of the request. These documents are required for Income Tax taxpayers if transactions with related persons during the year exceed 6 million Saudi Riyals, and for Zakat taxpayers if transactions with related persons during the year amount to 100 million Saudi Riyals or more during Phase One, and more than 48 million Saudi Riyals during Phase Two. Phase One covers the years 2024 to 2026, while Phase Two starts from 2027 and onwards.



3- Country-by-Country Report (CbCR):

The Country-by-Country Report is a file that is submitted in specific cases. It includes information related to all activities of the multinational group in all countries. A multinational company refers to two or more persons whose tax residency is in different countries, or a group that includes a permanent establishment subject to tax in another country.

The Country-by-Country Report must be submitted for all multinational groups with a presence in the Kingdom whose total consolidated revenues exceed Three Billion & Two Hundred Million Saudi Riyals (SAR 3.2 billion), based on their consolidated financial statements for the fiscal year covered by the report. The report provides tax-related information on the income earned by the group's subsidiaries, their identities and activities, the taxes paid in each country, and the locations where the activities are conducted.

The Country-by-Country Report must be submitted to the Authority if the specified threshold is exceeded, by the ultimate parent entity of the group or the surrogate entity of the ultimate parent of the multinational group. The report must be submitted in the format specified by the Authority and within a period not exceeding twelve (12) months following the Tax/Zakat year of the multinational group.

The Transfer Pricing Instructions include a number of important details and rules related to transfer pricing obligations, including certain exceptions regarding the submission of transfer pricing documentation as well as the approved transfer pricing methods. The instructions were issued comprising twenty-seven articles published over approximately thirty pages, followed by the issuance of the Transfer Pricing Guidance Manual, which provides a comprehensive explanation of the instructions along with practical examples and case studies.



Common Professional Mistakes and Practices

Common Practice:

Neglecting Zakat planning for the entity and failing to take advantage of Zakat-related benefits.

Correct Procedure:

During the Zakat year, the entity should review the items in the statement of financial position and determine the potential for achieving Zakat savings by implementing the applicable regulatory or accounting procedures.

Clarification (Example):

It is common for some entities to submit their Zakat return after the end of the year without a prior review of the Zakat base items or assessing the possibility of taking certain regulatory or accounting procedures that could result in Zakat savings for the entity, in accordance with the applicable regulations and procedures. Examples of such procedures include:

- Filing a consolidated Zakat return.
- Deducting investments in foreign entities or investment funds in exchange for paying the taxpayer's share of their Zakat.
- Disposing of certain assets that can be disposed of.
- Restructuring certain types of assets that may increase the Zakat burden.
- Taking actions on sources of funds, such as distributing profits or repaying loans.

These are non-exhaustive examples that may vary depending on the nature and size of the business activity, and generally require prior review before the end of the taxpayer's Zakat year.



Common Error:

Failure to pay Real Estate Transaction Tax (RETT) on undocumented real estate transactions.

Correct Procedure:

RETT must be paid on all real estate transactions, whether documented or undocumented.

Clarification (Example):

Some persons may carry out certain real estate transactions without formally documenting the title deed transfer. This can occur in various forms, including:

- Selling properties that do not have official title deeds.
- Selling properties after buying directly to a third party and transferring them directly to the third party.
- Transferring properties between related persons.

And other similar cases, which constitute a real estate transaction and therefore require the payment of Real Estate Transaction Tax (RETT), unless the transaction falls under one of the exemptions provided by the RETT regulations.



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