



Capital Assets VAT Adjustments: What Every KSA Business Should Know

When a Valid VAT Claim Can Still Change Later?

A business can claim input VAT correctly on a capital asset and still face a reversal years later if the asset's actual use changes over time. In one common audit scenario, a business walks into a ZATCA review confident its VAT position is clean, only to discover that a building, system, or machine claimed years ago should have been adjusted because its taxable use changed during the review period. That kind of surprise does not happen because the original VAT claim was wrong. It happens because the business treated capital asset VAT as a one-time exercise instead of an annual control process.

If you are a finance head, tax manager, or business owner in KSA, this issue matters more than it may first appear. Capital asset VAT adjustments directly affect cash flow, audit exposure, and the accuracy of your VAT recovery.

Many businesses correctly recover input VAT when purchasing capital assets. However, VAT recovery does not always end with the initial claim. If the actual use of the asset changes over time, the input VAT originally recovered may need to be adjusted.

This is one of the most overlooked areas of VAT compliance. Businesses often focus only on the purchase-stage recovery and fail to monitor how the asset is actually used during subsequent years. As a result, businesses may either lose legitimate VAT recovery opportunities or face compliance exposure during VAT audits.

Under Article 52 of the VAT Implementing Regulations, taxable persons are required to review the use of capital assets throughout the adjustment period and revise input VAT recovery wherever necessary.

Who Should Review Capital Asset Adjustments?

This topic is especially relevant if you are managing VAT for a business that owns long-term operational assets in KSA. Capital asset adjustment provisions are particularly relevant for businesses owning assets

These rules become especially important where businesses:

- Change from taxable use to mixed use
- Increase in exempt activities
- Transfer of assets to non-business use
- Sale of capital assets during adjustment period
- Permanent disposal or withdrawal of assets
- Change in business model or operational structure

Understanding the Capital Asset Adjustment Mechanism

The adjustment mechanism works through a periodic review process.

Step 1 -- Initial Input VAT Recovery

At the time of purchase, the business claims input VAT based on the intended taxable use of the asset.

Step 2 -- Annual Usage Review

At the end of each twelve-month period, the business reviews the actual taxable use of the asset.



Step 3 -- Comparison of Usage

The actual taxable usage is compared with the original intended taxable usage.

Step 4 -- VAT Adjustment

Any increase or decrease in taxable usage results in an adjustment in the VAT return for the last tax period falling within that twelve-month period.

Outcome of Adjustment

Scenario	VAT Impact
Increase in taxable use	Additional input VAT may be claimed
Decrease in taxable use	Previously recovered VAT may need reversal

Adjustment Period for Capital Assets

The adjustment period depends upon the nature of the capital asset.

Asset Type	Adjustment Period
Movable assets	6 years
Immovable capital assets	10 years

The adjustment period begins from the date of purchase. If the accounting useful life is shorter, the shorter period applies.

Practical Example -- Annual Capital Asset Adjustment

Example 1 -- Office Building Used for Mixed Activities

A VAT-registered company purchases an office building for:

Particulars	Amount
Building Cost	SAR 7,000,000
VAT Charged	SAR 350,000

At the time of purchase, the company estimates taxable usage at 45%.

Initial VAT Recovery

Particulars	Amount
VAT incurred	SAR 350,000
Initial Recovery Percentage	45%
Input VAT recovered	SAR 157,500
Total Input tax incurred per Year	35000
Input Tax potentially subject to adjustment	15750



Since the building is an immovable property, the adjustment period is 10 years.

the Actual Taxable Use Percentages in the first three twelve-month periods were as follows:

Twelve month period	Taxable Use
1st Jan 2019 – 31st Dec 219	45%
1st Jan 2020 – 3st Dec 2020	40%
1st Jan 2021 – 31st Dec 2021	58%

Annual Review of Usage

Particulars	Year 2	Year 3
Total input tax incurred (per year)	35000	35000
Actual Taxable Use Percentage in twelve months	40%	58%
Input tax properly deductible for twelve months to 31st Dec 2020	14000	
Input tax properly deductible for twelve months to 31st Dec 2021		20300
Input Tax potentially subject to adjustment	15750	15750
Adjustment – decreasing Deductible Tax in quarter ended 31st Dec 2020	1750	
Adjustment – increasing Deductible Tax in quarter ended 31st Dec 2021		4550

Cases Where No Adjustment Is Required

No annual adjustment is required where:

- Actual taxable usage remains unchanged from the original recovery percentage
- The asset continues to be used in the same manner as initially intended

However, businesses should still maintain annual review documentation for audit purposes.

Permanent Adjustment on Sale of Capital Asset

Where a capital asset is sold during the adjustment period, a permanent adjustment becomes necessary.



The law requires adjustment of the remaining useful life of the asset to reflect the permanent change in taxable usage. In taxable sales, the remaining usage is generally treated as 100% taxable.

Practical Example -- Sale of Capital Asset

Example 2 -- Sale of Server During Adjustment Period

A company purchases a server:

Particulars	Amount
Purchase Value	SAR 240,000
VAT Charged	SAR 12,000
Initial Taxable Usage	50%
Initial VAT Recovered	SAR 6,000

The server is sold after 3 years during the 6-year adjustment period.

Permanent Adjustment Calculation

Particulars	Amount
VAT incurred	SAR 12,000
Permanent taxable use	100%
Initial recovery percentage	50%
Difference	50%
Remaining useful life	3 years
Adjustment period	6 years

Adjustment Amount

$$= (12,000 \times 50\% \times 3) \div 6 = \text{SAR } 3,000$$

The business may claim additional deductible VAT of SAR 3,000.

Assets Ceasing to Be Used for Taxable Activities

Where a capital asset permanently ceases to be used for economic activities:

- No further annual adjustments are required
- However, the business may be treated as making a nominal supply, resulting in output VAT liability

This commonly arises where assets are transferred for private use or permanently withdrawn from business operations.

Recommended Compliance Practices

Businesses should maintain a dedicated Capital Asset Register containing:

- Purchase date
- Asset description



VAT incurred

- Initial recovery percentage
- Annual taxable usage
- Annual VAT adjustments
- Remaining adjustment period

An annual VAT review of fixed assets before filing VAT returns can significantly reduce compliance risk and improve VAT recovery accuracy.

APMH Perspective

Capital asset adjustment is one of the most practical VAT control mechanisms available to businesses.

The stronger view is this: businesses treating capital asset VAT as a one-time exercise are not just creating compliance risk, they are often mismanaging working capital. In practice, this area is ignored because the rules are difficult to understand. It is ignored because no one has built a simple annual review habit around asset usage, and that gap can become expensive.

Businesses are advised to manage this area effectively treat VAT on capital assets as an annual decision-making process rather than a one-time accounting entry.



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