



8. Advance Payments

1. Invoice towards Advance Payments and adjustment thereof from subsequent invoices:

As per VAT Regulations, receipt of payment in advance towards taxable supplies necessitates issuance of a tax Invoice. Currently, from the XML perspective the value on which VAT was paid via advance payment invoice can be adjusted from subsequent invoices using the tag <cbc:PrepaidAmount>. However, based on requests from taxpayers and to cater to different scenarios involving advance payment adjustments, ZATCA has introduced additional data fields in the Data Dictionary and XML Implementation Standard as explained below:

- a. **Invoice Type Code (BT-3):** An invoice that is issued at the time of receiving payment in advance must have Invoice Type Code (BT-3) as a fixed value "386". The subsequent invoice(s) where the advance is adjusted should have Invoice Type Code "388".
- b. **Reference to Advance Payment Invoice in the subsequent invoice(s) where it is adjusted:** When an adjustment is required to be made on an invoice towards the VAT paid earlier via Advance Payment Invoice, such adjustment can be made by providing the following additional reference data:
 - Invoice Reference Number – IRN (BT-1) of the Prepayment invoice(s). Additionally, the UUID (KSA-1) of Advance Payment Invoice can also be provided (currently optional but it shall be mandated in future)
 - Issue date (BT-2) of the prepayment invoice(s)
 - Issue time (KSA-25) of the prepayment invoice(s)
 - The Invoice line document reference "Prepayment Document Type Code (KSA-30)" must be provided as a fixed value "386".





c. How to adjust the values on which VAT was paid upon issuance of Advance Payment invoice from the subsequent invoice(s):

For adjusting the value, the taxpayer must provide the amount under the tag <cbc:PrepaidAmount> (BT-113) as the Amount inclusive of VAT. Please note that this field should be populated only if the taxpayer has issued a separate invoice at the time of receiving payment in advance and not otherwise.

Once the field <cbc:PrepaidAmount> (BT-113) is populated, then corresponding rules get triggered requiring the taxpayer to provide reference information (as explained above) and quantitative information as described below:

- The adjustment has to be made by providing one consolidated sum per VAT Category and per rate. For example, if Advance Payment was made with 10 line items having VAT Category Code "S" and "Z" then only 2 consolidated lines must be provided in subsequent invoice(s) while adjusting the advance as one line for VAT Category Code "S" and another line for "Z". This value has to be provided in Prepayment VAT category Taxable Amount (KSA-31).
- Similarly, the VAT amount shall be provided for specific VAT Category Code under Prepayment VAT Category Tax Amount (KSA-32) as sum total of tax amounts subject to specific VAT Category code of the prepayment invoice(s).
- Each line should mandatorily contain the VAT Category Code of the associated Prepayment invoice(s) under the prepayment VAT category code (KSA-33)
- Each line should also contain the VAT rate of the specific VAT Category code of the prepayment invoice(s) as the prepayment VAT rate (KSA-34). Please note that this rate may also be 5% in case advance payment was received when the VAT Rate was 5%. This field addresses the concerns about VAT Rate change in handling advance payment adjustments.





d. Validation of calculations related to adjustment of advance payment:

Please note that there is no real-time cross-check between data of Advance Payment Invoice that is adjusted from subsequent invoices. However, such checks will be made on the backend as part of analytics and discrepancies may be further investigated resulting in initiation of audits.

There will be bare minimum arithmetic checks on a real-time basis as below:

- The Prepayment VAT Category Tax Amount (KSA-32) must be = Prepayment VAT category Taxable Amount (KSA-31) x Prepayment VAT rate (KSA-34) /100) and
- If Pre-Paid amount (BT-113) is provided then the Pre-Paid amount (BT-113) must equal the sum total of the Prepayment VAT category Taxable Amount (KSA-31) and Prepayment VAT Category Tax Amount (KSA-32)

e. Rounding rules related to advance payment adjustments:

The following amounts related to adjustment of advance payment must be rounded to two decimals:

- Pre-Paid amount (BT-113).
- Prepayment VAT Category Taxable Amount (KSA-31)
- Prepayment VAT Category Tax Amount (KSA-32).

f. Currency of the advance payment adjustments:

The currency of advance payment adjustments should be same as the currency used in the invoice. In other words, all currencyID attributes (BT-5) must have the same value as the invoice currency code (BT-5).





g. What if the amount paid in advance is more than that is being adjusted?

In case the amount paid in advance is more than the amount of the subsequent invoice that is being adjusted, the taxpayer has the option either to provide the full value on which VAT was paid in advance (though being higher than the subsequent invoice) or to limit the adjustment to the value of the current invoice. Both options are valid and XML will not be rejected just because the advance payment value is higher than the current invoice value.

For example, if the advance was received on 1 Jan 2023 for SAR 115,000 (100,000 + 15,000 VAT) and this is being adjusted from a subsequent invoice of SAR 92,000 (80,000 + 12000 VAT) on 1 July 2023, then `<cbc:PrepaidAmount>` (BT-113) can either be provided with the full value of advance payment as 115,000 which will result in Amount Due for Payment as -23,000 or it can be limited to 92,000 resulting in Amount Due for Payment as 0. Both options are valid, and decision may be taken based on reconciliation process followed by the taxpayer.

Please note that, in the above scenario, if the full value of advance payment is adjusted resulting in negative amount under the Amount Due for Payment and this amount has to be refunded back to the customer, then a Credit Note for 23,000 has to be issued. Such Credit Note should also be sent for Clearance / Reporting.

h. Technical details:

Developers may kindly refer to paragraph 9.5 of the XML Implementation Standard to see the usage of UBL tags for advance payment adjustment. The examples cover scenarios of one-to-one adjustment and many-to-one adjustments (where advances received under multiple invoices can be adjusted against one final invoice).

It is important to note that some mandatory UBL tags which must be present in advance payment adjustment lines with fixed value as "zero" (0) to avoid schema validation errors or XSD errors. Therefore, it is important for developers to make use of all UBL tags provided in paragraph 9.5 of the XML Implementation Standard to avoid errors/warnings related to advance payment adjustments.

