

The Impact of Applying Reverse Charge Mechanisms and Withholding Tax on Reducing Tax Avoidance in the Saudi Business Environment

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Abstract: - The research aimed to measure the impact of applying the accounting mechanisms of reverse charge and withholding tax to reduce tax avoidance in the Saudi business environment by studying and analyzing the reverse charge and withholding tax mechanisms as well as the methods of measuring the tax base of transactions that take place between residents and non-residents. It also studied the impacts of applying accounting mechanisms for reverse charge and withholding tax and clarified their impact on reducing tax avoidance.

The research found a statistically significant relationship at the level of significance ($\alpha \leq 0.05$) between applying reverse accounting mechanisms and withholding tax in Saudi Arabia's business environment for taxable enterprises and reducing tax avoidance. The application of reverse charge mechanisms and withholding tax has a positive impact on controlling the tax community, increasing tax revenues, and reducing tax avoidance. For a tax examination, the transactions that take place between residents and non-residents are limited by the declaration of value-added tax, the declaration of withholding tax, and access to the tax base properly and fairly without resorting to personal estimates.

These findings benefit users of this information in the tax administration. Indeed, tax administrators are able to determine the tax base fairly, limit transactions between residents and non-residents, and have access to correct, accurate, and undistorted information. This will limit tax avoidance, increase tax revenue and achieve tax justice.

Key-Words: reverse charge; withholding tax; tax avoidance.

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1 Introduction

In line with the policies of developing the tax system, eliminating the phenomenon of tax evasion and avoidance, tightening control over commercial transactions- especially services imported from abroad- and reducing the transactions of the informal economy, the Authority needed to follow the reverse charge method and apply withholding tax to reduce tax evasion and avoidance. This is triggered by the evolution of economic activities and the emergence of the digital market, which is known as business sites where sales are carried out remotely and through digital platforms, [1].

The reverse charge method is considered one of the modern methods for determining the tax base of transactions that take place between residents and non-residents. It is considered the mechanism by which the taxable customer (the buyer) is obligated to pay the tax on behalf of the supplier and is responsible for all the obligations stipulated in the agreement and local law. This means assigning the buyer who receives the service to declare and supply

it to the authority. He is obligated to calculate the output tax, deduct the input tax associated with that service, and pay the difference between them to the authority. In addition, the withholding tax, deducted from the amounts that a non-resident receives from a source in the Kingdom that the resident is compelled to pay, helps in limiting transactions between residents and non-residents. Interest has increased in the use of reverse charge mechanisms globally as one of the methods of measuring the VAT base to reach the tax base for transactions of goods and services that are carried out correctly and fairly with non-residents. It also helps to determine the withholding tax base fairly. The application of accounting mechanisms for reverse charge and withholding tax reduces tax avoidance. It limits all transactions that do not pass through customs ports such as services and software. It maximizes tax revenues and spreads tax awareness among taxpayers.

The problem of the research is focused on how to measure the tax base for imported services that do not go through customs ports, as well as the base for transactions that take place between residents and non-residents through customs border crossings, and the application of withholding tax rules. Indeed, a non-resident individual is not charged with the General Authority for Zakat and Income, and therefore it is difficult to collect tax from them, hence this problem appears. Therefore, there was a trend towards assigning the resident customer registered in the value-added tax a reverse charge to collect the tax for those transactions and submit it to the authority based on their tax return. However, another problem arises if the resident Customer is not registered for the VAT: how to collect and pay the tax. Therefore, the study problem is summarized by answering the following main question:

Will the application of reverse charge and withholding tax mechanisms have an impact on reducing tax avoidance, achieving tax justice, and increasing tax revenues?

The following sub-questions are derived from the above main question:

1. Is there an effective basis for applying reverse charge and withholding tax?
2. Is there a way to measure the tax base of taxable transactions between residents and non-residents?
3. Does the application of withholding tax help limit transactions between residents and non-residents?
4. Do reverse charge mechanisms and withholding tax have an impact on reducing tax avoidance, achieving tax justice, and increasing tax revenues?

The answer to the previous questions contributes to providing solutions to the problem of the study and reaching results and recommendations that enable the provision of a scientific contribution through which the accounting mechanisms of reverse charge and withholding tax can be applied to reduce tax avoidance.

Therefore, this study mainly aims to measure the impact of applying reverse charge and withholding tax mechanisms to reduce tax avoidance and achieve tax justice in the Saudi business environment.

The objectives of this study are multifaceted. Firstly, the study aims to determine the scope of the accounting mechanisms for the reverse charge. This involves identifying the transactions that fall under the scope of the reverse charge and the corresponding tax implications. Additionally, the

study seeks to determine the methods of calculating the tax in relation to the mechanisms of the reverse charge. This involves identifying the appropriate tax calculation method that aligns with the reverse charge mechanism.

Moreover, the study aims to examine the accounting mechanisms for applying withholding tax. This involves identifying the types of transactions that are subject to the withholding tax, as well as the corresponding tax calculation methods. Furthermore, the study seeks to evaluate the effects of applying reverse charge and withholding tax mechanisms on reducing tax avoidance and the relationship between them. This involves analyzing the impact of these mechanisms on tax compliance and the disclosure of taxpayers' activities.

2 Conceptual Framework

The next section deals with the accounting mechanisms of the reverse charge and withholding tax in the field of tax accounting in the Saudi business environment, and the relationship between them to clarify the relationship between the independent variables and the dependent variables. Then, this is followed by dealing with the previous studies related to the current research. The research methodology, the standards used, and the hypotheses tests were presented. The final section deals with the summary, results, and recommendations, followed by a list of references.

2.1 Accounting Mechanisms for Reverse Charge Application

In this section, the accounting mechanisms for applying the reverse charge will be reviewed, in accordance with the unified agreement and the tax system and implementing regulations in the Kingdom.

The reverse charge mechanism is defined as the mechanism whereby the taxable customer is obligated to pay the tax on behalf of the supplier and is responsible for all the obligations stipulated. They must declare the output tax on those supplies and any deductible input tax (Article 1 of the GCC Unified Value Added Tax Agreement Cooperation and Article 47 of the executive regulations of the value-added tax system).

The reverse charge method is one of the modern accounting methods for determining the value-added tax base for transactions of goods and services that take place between residents and non-residents to combat tax avoidance if the non-

residents do not appoint an agent or a representative responsible for calculating the tax, [2].

The charging mechanism is applied by transferring the obligation and supplying the tax from the supplier to the customer as the taxable person, [3].

Many countries, including the Czech Republic, applied the reverse charge method to transactions between residents and non-residents while allowing tax deduction as one of the inputs to be deducted in the tax return for that period, [4].

It is clear from the above that non-resident outside the borders of the region are not concerned with registration. So, the trend was towards assigning resident customers who are registered for the value-added tax the reverse charge to self-collect the tax for their transactions and submit it to the Authority according to their tax return. Accordingly, if a non-resident supplier provides electronic services to a taxable customer residing in the Kingdom of Saudi Arabia, the customer must calculate the tax himself according to the reverse charge mechanism. The reverse charge mechanism is applied in the following cases:

First case: services received by a taxable customer from a non-resident supplier:

In this case, the resident customer applies the reverse charge method and has to include the tax related to these goods and services with his tax return. This principle is based on transferring the burden of tax collection from the non-resident service supplier to the beneficiary of this service so that the latter undertakes to comply with the tax on imported services and supplies them to the Authority instead of the supplier, [5].

Article (41) of the agreement stipulated that if the place of supply of goods or services is in a member state in which the supplier is not a resident, the taxable customer becomes obligated to pay the tax according to the tax return.

As indicated in Article (42) of the agreement, the person appointed as the importer is obligated to pay the tax due upon import. Also, Article (44) of the agreement indicated that the customer who is obligated to pay the tax according to the reverse charge mechanism has the right to deduct the related deductible tax, provided that he declares the tax due in his tax return.

It is clear from these articles that when applying the reverse charge mechanism, the recipient is considered to have supplied services for him, which does not require a tax bill. Therefore, he is obligated to calculate an output tax and at the same time

deduct the related input tax, provided that the deduction conditions are met.

Second case: services received by a non-taxable customer from a non-resident supplier:

In this case, the customer is not subject to the tax. It is the non-resident supplier's responsibility to register and impose a tax on supplies (Article 5 of the implementing regulations of the value-added tax system). As indicated in Article (50) of the agreement, if the supply of electronic service is made by a non-resident supplier to a customer who is not registered in the Kingdom, then the supplier has to register for VAT goods. Article (77/2) requires non-residents to appoint a tax representative and be jointly responsible with the taxable person for the payment of any tax. Hence, the tax representative replaces the non-resident person in all rights and obligations.

It is worth noting that the tax payment is linked to the place of supply of the service: If it is performed in the Kingdom, it becomes taxable, and if it is performed outside the country, then it is considered among the exported services and is subject to a zero price.

This problem arises in imported (electronic) services that do not go through customs ports and are difficult to detect and identify. It is also difficult to locate where electronic services are used and can be evaded. One researcher indicated that such services represent a supportive environment for tax avoidance because it is difficult to prove transactions and track the tax bases.

To remedy this problem, the authority considered the Internet broker- or portal that acts as a broker for a non-resident supplier- responsible for paying the tax, when supplying electronic services in the Kingdom via the Internet (Article 47/2).

According to the researcher, it is difficult in practice to register a non-resident supplier outside the territory of the Kingdom, as stated in the tax system and its implementing regulations, without any simplified procedures for the obligations of the representative or agent of the non-resident. This means that the system did not meet international standards in this regard, which indicated the need to use a simplified system for non-residents and encourage them to adhere to tax compliance, and that the procedures lead to a reduction in the potential cost of compliance, [6].

This implies the need to spread tax awareness among the taxpayers and make them aware of their entitlement to deduct input tax on these supplies. This also requires creating a text in the executive regulations to allow non-taxable persons who meet all qualification requirements to submit an

application to the Authority to calculate the tax on these services and allow them the right to deduct the input tax for the transactions related to the reverse charge. It is important to take advantage of the experience of Germany and France, which began applying the reverse charge mechanism on January 1, 2014, and obligated residents, whether registered or unregistered, to supply tax on the transactions that take place with non-residents as the beneficiary of the service and allow them to deduct the input tax on those services when they register for value-added tax.

One researcher pointed out that the reverse charge tax is triggered by the receipt of the service by the beneficiary, [7]. The majority of tax legislation also refers to the principle of consumption as a basis for determining the incident that generates the tax to measure the revenue according to which the value-added tax is calculated, [8].

The researcher believes that the reverse charge tax mechanism is created by the performance of the service, which is considered an assumed supply. It is as if the supplier sold to himself and is not required to issue a tax bill. Yet, the supplier's invoice should be kept and recorded in the commercial records.

The tax base regarding the reverse charge of goods and services is determined through the customs release and the customs declaration based on the invoice of the external supplier. Also, for imported services that do not go through customs ports, the tax base is determined upon receipt of the service according to the value mentioned in the invoice.

The reverse charge mechanism tax is calculated as follows:

- For supplies and services provided to a VAT-registered customer, the taxable customer must self-calculate the VAT on the received supply and approve the output tax on the supply and any deductible input (to the extent that the customer can benefit from VAT deduction on inputs to the tax return (Article 47 of the Implementing Regulations)).

- For supplies and services provided by a non-resident company to an unregistered customer or end consumer, the non-resident company will therefore be required to register for VAT purposes and calculate the tax on the value of the service performed according to the tax bill as if it were a resident. Sometimes a resident customer engaged in economic activity exceeds the mandatory registration limit for goods and services received from a non-resident supplier and therefore must

register and self-calculate the tax in accordance with the reverse charge mechanism.

- For transactions between a non-resident holding company and its subsidiaries residing in the Kingdom of Saudi Arabia, the resident subsidiaries are responsible for supplying the tax for the total of those transactions since they are representative of the supplying holding company according to the reverse charge method, and have the right to deduct that tax on those transactions. In case the service is resold to a subsidiary company residing in another country, these transactions are subject to a zero price as an exported service. In the case of reselling the service to another company within the group, at the group level, these transactions are excluded to show transactions with third parties outside the group according to International Accounting Standard No. (10) In the Consolidated Financial Statements, [2].

When goods are shipped to an end consumer, the supplier must apply value-added tax in his country, while no tax will be calculated in the country where the goods will be received. The authority also makes it possible for the shipping company, in its capacity as the importer, to pay the tax on imports that must be collected either from the seller or the customer (the end consumer), [9].

The customer who is obligated to pay the tax according to the reverse charge mechanism has the right to deduct the related deductible tax, provided that he has declared the tax due in accordance with the second clause of Article (41) of the agreement. To be eligible to deduct input tax on this supply, the customer in the Kingdom must have commercial documents available to prove the nature of the supply and the payable amount for the supply (Tax Bulletin No. 2106001). As for the case of paying tax from a non-resident supplier who supplied services to a non-resident customer, the former is not entitled to deduct his inputs, given that the Kingdom is the target country, but has the right to impose the tax in his country, i.e., the source country, [10]

Undoubtedly, there is a necessary need to apply the reverse charge mechanism, follow the principles of the destination country, and impose a tax on those supplies of goods and services performed within the Kingdom of Saudi Arabia, to remove any financial advantage for purchasing services from abroad compared to local purchases to achieve tax justice.

2.2 Accounting Mechanisms for Applying Withholding Tax

- Withholding tax is a direct tax deducted from the amounts that a non-resident receives from a source

in the Kingdom, according to specific rates and according to the type of service (from 5% to 20%). It has been applied in the Kingdom since 2004.

- The tax is imposed on a non-resident who does not have a permanent company in the Kingdom when he earns income from a source in the Kingdom.

- The Zakat, Tax, and Customs Authority is responsible for deducting and supplying the tax amount to the residents, whether taxpayers or not; as well as the permanent company of a non-resident in the Kingdom which pays an amount to a non-resident from a source in the Kingdom, in accordance with the provisions regulating income tax (Article 68 of the tax system).

- As for the natural resident person, he is not obligated to deduct tax except in cases where he pays an amount from a source in the Kingdom to a non-resident, and this amount is related to the activity he practices. Companies subject to Zakat tax in the Kingdom are also subject to tax deductions according to amounts paid to non-residents despite their lack of commissioning status (article 68 of the tax system).

- The withholding tax is triggered by the actual payment of the tax by the resident person or the settlement of the balances.

- The scope of applying the withholding tax is on payments subject to a source in the Kingdom paid from residents to non-residents. Services are defined as any work for compensation except for the purchase and sale of goods or any other property.

The person withholding the tax must comply with the following, [11].

- Register with the Authority, submit the monthly statement, and pay the deducted amount within the first ten days of the month following the month of payment to the beneficiary.

- Provide the authority with an annual statement that includes a summary of all monthly withholding data at the end of the tax year.

- Provide the beneficiary with a certificate showing the amount paid and the amount of withholding tax.

- Maintain the records required to prove the validity of the withheld tax as specified by the regulations.

- The person responsible for withholding the tax is obligated to pay the value of the unpaid tax and the delay fines according to paragraph (a) of Article (77) of the tax law.

For instance, let us give the example of an American company providing technical services in the Kingdom but with no permanent company there. In this case, the resident person must deduct tax from the amount paid to the American company and

supply it with his tax return for withholding tax. This is confirmed by some researchers, [12].

Indeed, when a non-resident foreign company provides services but does not have a permanent company, it must rely on the place of the service beneficiary as a basis for determining the country of income source. The presence of the host server can be considered a basis for determining the source of income. Double taxation is reduced through bilateral agreements or individual efforts.

A researcher pointed out that to reduce tax avoidance, the tax must be withheld at source, [13]. It is necessary to apply an electronic database that includes all information related to taxpayers, [14].

To ensure uniformity of application, the authority issued Circular No. 3227/1 on 9/6/1431 A.D (Decisions and circulars related to withholding tax). It was decided that if an amount is paid to a non-resident party, it is subject to withholding tax under the tax system and agreements to avoid double taxation. The procedures are described as follows:

- The resident party charged with withholding tax has to pay it to the Authority in accordance with the provisions and prices included in the tax system. The withholding party must submit a letter to the authority requesting a refund of the paid amount while making sure that the tax is paid in its country.

International tax agreements generally aim to avoid double taxation and prevent tax evasion. Indeed, they distribute the rules of tax jurisdiction among countries, either by granting one country, the country of residence, the right to impose a tax, as in the case of a permanent company. Or by granting a specific country the right to impose the tax in accordance with the tax legislation while retaining the other contracting country with the right to impose the tax, [15].

It is clear from the foregoing that the international agreements concluded with the Kingdom of Saudi Arabia to avoid double taxation and to prevent tax evasion have an impact on the subjecting of services to withholding tax, as some services are tax-exempt according to the international agreements.

2.3 The Impact of Applying Reverse Charge and Withholding Tax Mechanisms on Reducing Tax Avoidance

Tax avoidance means trying to avoid paying tax in whole or in part by legally using legitimate means. It is a behavior that is not criminalized by the system.

The Organization for Economic Cooperation for Development defined tax avoidance as arranging

matters in such a way that enables tax to be legally reduced. This definition has several criticisms, namely that there are taxable persons who avoid tax and deal in good faith, [16].

It is also defined by [17], as a feature obtained by the financier leading to his exemption from the tax obligation thanks to the tax advantages provided by the tax system, or taking advantage of the gaps in the tax system and its executive regulations without being considered a tax evader.

The researcher believes that tax avoidance means that the taxpayer who is subject to tax exploits loopholes in the tax system and its executive regulations to reduce his tax burdens and legitimately achieve benefits. Tax avoidance also has negative effects on reducing tax revenues, which negatively affects revenues and leads to a deficit in the state's general budget and weak competition in the markets.

Reverse charge mechanisms have a significant impact on reducing tax avoidance since the value-added tax system approved some measures to counter tax avoidance, the most important of which are the following, [10].

- The joint responsibility of the representative or agent with the taxable person to pay any financial obligations related to value-added tax (Article 77/2 of the executive regulations).

- The taxable person is responsible for paying the tax on supplies received from a non-resident supplier according to the reverse charge mechanism, and therefore he must declare the output tax and deduct the value-added tax on the inputs in the tax return (Article 47/1).

- Applying the reverse charge mechanism helps in deducting the value-added tax on inputs.

- Applying the reverse charge mechanisms helps in providing correct and undistorted information, which contributes to the disclosure of the taxpayers' real activity.

The application of withholding tax has many effects on reducing tax avoidance, the most important of which are:

- Limiting the transactions that take place between residents and non-residents by approving the withholding tax submitted by residents in order to prevent tax evasion and avoidance.

- For the tax auditing for the withholding tax, the auditor looks at the value-added tax declarations to count the amounts paid to non-residents, who applied the reverse charge mechanism.

- Obliging government agencies, resident companies, and non-resident permanent companies to register with the Authority and report monthly withholding tax.

- The withholding tax provides correct financial information on the taxpayers' real activity.

3 Literature Review

3.1 Studies Dealing with the Reverse Charge Mechanism

The study of [18], aimed to use the logistics reverse charge in the United Kingdom and showed the role of management accounting in building a database for the transactions that take place between residents and non-residents. It recommended the necessity of applying the reverse charge to all goods and services received from non-residents, and all taxable and non-taxable residents who benefit from those tax supplies.

The study of [5], aimed to assess the effects of applying reverse charge VAT mechanisms on the supplier and service recipient who are subject to tax. Its effects are reflected in the transfer of the tax burden from the supplier to the taxable customer due to the difficulty of claiming the tax from the supplier to reduce tax avoidance. The study concluded that the reverse charge mechanism has a positive effect on the collection of income tax.

The study of [19], aimed to develop a new method to reduce tax evasion that focuses on corporate transactions, rather than corporate profits, specifically. The study found that the effect of taxes decreases with increasing distance. This is consistent with the idea that long distances between trading partners hinder government oversight and increase the possibility of tax evasion. The study recommended that all transactions between resident and non-resident companies be subject to obligating the company receiving the service to supply the tax if the supplying company does not have a representative office or an agent in America. This implies the existence of a mechanism for international coordination and reverse charge.

The study of [20], aimed to identify the impact of tax haven operations and reverse commissioning on the tax burdens of companies listed on the stock exchange and companies residing in Europe in particular. It found that tax havens should be used as a mechanism to avoid taxes to relieve tax burdens. The study recommended that regulators and tax enforcement agencies should focus on applying the reverse charge method to non-EU suppliers, with input deductions applied to all companies.

The study of [21], aimed to shed light on the importance of value-added tax and to identify the mechanisms and scope of applying the tax and its

effects. It proved the volume of Internet transactions between residents and non-residents through the reverse charge mechanism to reduce tax evasion. It recommended that all taxpayers should be obligated to keep regular ledgers and accounts to reduce tax evasion.

The study of [22], aimed to review the most important problems in the value-added tax and their proposed treatment. It concluded that it is difficult for the auditor to access, discover, and examine Internet services and that there are no agreed-upon mechanisms to tax invisible digital products. It recommended the need to tighten control over bank transactions between residents and non-residents and to apply reverse charge mechanisms.

The study by [2], aimed to identify the technical organization of the reverse charge method to measure the value-added tax base in Egypt, the effects and financial returns resulting from its application in Egypt, and to measure the impact on the tax revenues. It concluded that there is a significant effect when applying reverse commissioning, which is reflected in combating tax avoidance because non-residents failed to register or appoint an agent responsible for measuring the taxable base, calculating and supplying the tax, in addition to its contribution to increasing tax revenues.

However, the study of [3], aimed to determine the relationship between the implementation of the value-added tax neutrality principle and the reverse charge mechanism. It concluded that to achieve the tax neutrality principle, tax deduction must be applied, and it is considered an integral part of the value-added tax mechanism. It also found that applying the reverse charge mechanism does not affect the implementation of this principle and that the taxable customer is entitled to deduct the tax on his inputs from the tax on his outputs.

The study of [23], aimed to develop a general mechanism for reverse charges in the value-added European Union tax system to address tax avoidance for taxpayers. It concluded that the expansion of the reverse charge mechanism and the collection of tax on all transactions between companies while allowing a tax deduction on inputs from the tax on outputs, reduces the scope of tax evasion and tax non-compliance.

The study of [24], aimed to present a concept for exchanging data and information on value-added tax using modern tax techniques between the European Union member states to reduce tax avoidance. The study concluded that applying the reverse charge mechanism to reduce tax avoidance is insufficient due to the possibility of transforming

data into goods and services not covered by the reverse charge mechanism. The study recommended the necessity of concluding bilateral agreements between the European Union member states for the exchange of data and information to help reduce tax avoidance and provide common solutions.

3.2 Studies Dealing with the Withholding Tax Mechanisms

The aim of the study [25], was to demonstrate the effectiveness of integration between the control systems to achieve justice in calculating the direct withholding tax. The study reached a set of conclusions, the most important of which is the weakness of coordination between the state departments concerned with this subject (internal control in the centrally funded departments, the treasuries, the General Authority for Taxes, and the Office of Financial Supervision), and the shortcomings in the control and information procedures among them. The study presented a set of recommendations, including the need to adopt clear and simple procedures for calculating the direct withholding tax, and the need to activate a mechanism for cooperation in the field of control and informatics between the departments.

The study of [26], aimed to analyze the aspects of taxes on international capital income with regard to the imposition of withholding tax on the interest paid to non-residents and its impact on investment returns, exchange rates, and distortions resulting from the differential tax treatment of local and international investors. The study found a decrease in the outcome of withholding tax on interest income paid to non-residents due to tax avoidance in the home country.

The study of [14], aimed to identify the role of information technology in withholding tax. It concluded that there is a need for an electronic system that shows tax accounting procedures for direct withholding tax while building a database for taxpayers and preparing the necessary decision-making reports.

The study of [10], aimed to strengthen mechanisms to combat tax avoidance for digital economy activities in the Egyptian and Saudi tax systems and to evaluate the tax treatment of digital economy activities in light of international guidelines. It concluded that tax transactions that take place between residents and non-residents are subject to withholding tax based on the place of the service and that tax avoidance of digital economy activities leads to the erosion of tax bases. It recommended the need to reconsider the concept of

permanent companies for a non-resident person in terms of withholding tax.

The study by [27], aimed to identify the obstacles to collecting the direct withholding tax at the tax administration, which negatively affects the tax revenue, and to propose solutions to address them. It reached several results, the most important of which is an increase in the evasion of withholding tax. The study recommended applying an electronic database that includes all the taxpayers' data to reduce tax evasion and avoidance of withholding tax.

The study of [28], aimed to evaluate the withholding tax procedures as a tool to increase tax revenues in Iraq. The study concluded that there is a large discrepancy between the number of taxpayers and the number of tax employees to audit the withholding tax. It recommended the need to work on simplifying procedures to ensure that tax deductions are transferred in a timely manner.

The difference between the current study and previous studies

- By explaining and analyzing previous studies, it was found that the majority of studies that dealt with the rules of reverse charge mechanisms linked them with tax havens, tax evasion, and avoidance in the European Union countries and Egypt; but neither dealt with the reverse charge and withholding tax mechanisms in the Saudi business environment, This is what the current study will address.

- With regard to the application of the withholding tax and linking it to the mechanisms of reverse commissioning, there are no studies that deal with this subject due to its novelty.

For previous studies related to withholding tax, it was found that they dealt with its impact on the benefits paid to non-residents and on tax planning and its relationship with tax coordination. Also, the studies conducted in the Iraqi business environment focused on the sums that are deducted from the employees' salaries in the public and private sectors. These previous studies did not address the link between the variables of the present study- namely the application of reverse charge and withholding tax mechanisms to reduce tax avoidance- which is what the current research applies to the Saudi business environment. The latter is a representative sample of the tax community and a tool for the development and application of modern methods to measure the tax base of imported services.

This study is one of the relatively few studies that contribute to providing a framework for applying the accounting mechanisms for reverse

calculation and withholding tax and linking them to reduce tax avoidance.

4 Research Methodology

4.1 Research Community

The field research community is represented by those interested in taxation and reverse charge. It showed cooperation with the researcher, and a set of vocabulary was chosen to represent the research sample. This sample included 51 financial managers in companies registered with value-added tax, 87 employees of the Zakat, Tax, and Customs Authority, and 63 auditors, so the total number of the selected sample is 201 respondents. Our research model is presented in Figure (1).

4.2 Module and Analysis Tools

The analysis unit included employees of the Zakat, Tax, and Customs Authority at various administrative levels, auditors, and financial managers in companies, and their number reached 201 individuals. They were selected as the most appropriate to answer the questions in the study tool. Data were processed and analyzed using SMART PLS software, and many statistical methods will be used in this research, such as descriptive statistical methods. These include the calculation of arithmetic means, the standard deviations of the research variables, and the bilateral linear correlation coefficients between them, to give initial results about these variables. The Structural Model was also used in the study, according to the Maximum Likelihood Estimation method, using the Analysis Moment of Structure tool to test the study hypotheses.

4.3 Data collection Tool

The research tool was to design an electronic questionnaire as a central tool for the research. The first page introduced the sample members and the study objectives:

The first part: Included statements related to the application of reverse charge mechanisms in companies. This part included a set of questions to identify the reverse charge mechanisms and the application of withholding tax, measured through statements for each axis on a scale from 1 to 5.

Part Two: It included statements related to limiting tax avoidance. This axis included a set of questions to identify the extent of the impact of reverse charge

and withholding tax on limiting tax avoidance, measured through statements on a scale from 1 to

4.4 Study Model

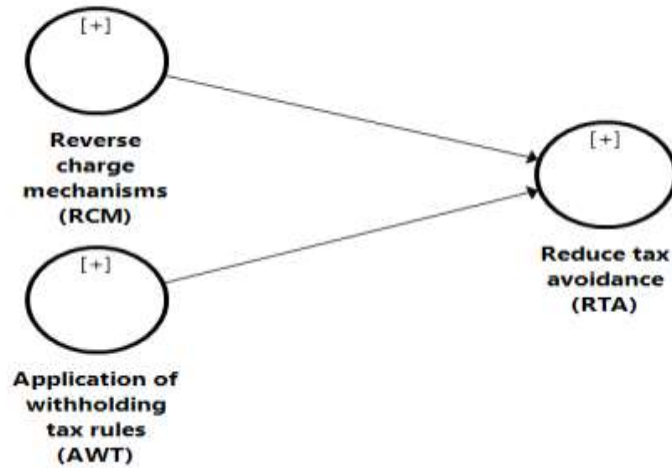


Fig. 1: Research model

5 Results

5.1 Reliability

Reliability was evaluated by examining the ramifications of the factors with their latent structures. More than one reliability index was calculated: Cronbach's alpha, Composite reliability, and Average Variance Extracted.

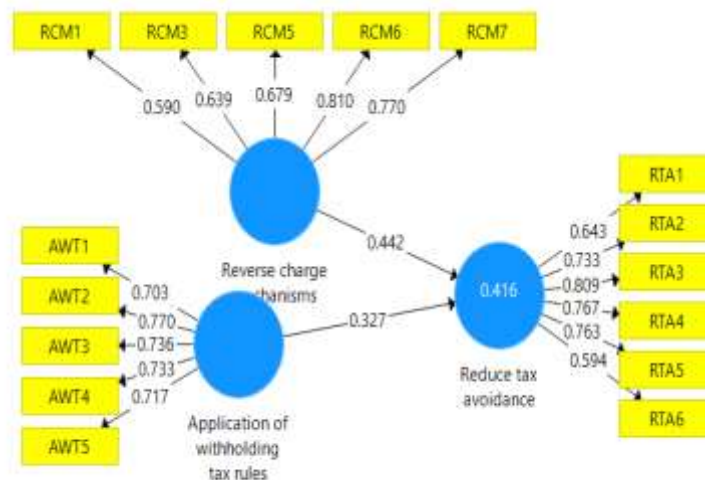


Fig. 2: Statistical analysis performed

Figure (2) and Table (1) show the results of the statistical analysis of the asymptotic validity test of the research data and model using the Smart PLS program.

Table 1. Results of Measurements Model: Convergent Validity

Items	Constructs	Loading	Cronbach's Alpha	Rho_A	Composite Reliability	Average Variance Extracted (AVE)
AWT1	Application of withholding tax rules	0.703	0.791	0.801	0.852	0.536
AWT2		0.770				
AWT3		0.736				
AWT4		0.733				
AWT5		0.717				
RCM1	Reduce tax avoidance_	0.590	0.814	0.828	0.866	0.522
RCM3		0.639				
RCM5		0.679				
RCM6		0.810				
RCM7		0.770				
RTA1	Reverse charge mechanisms	0.643	0.744	0.773	0.827	0.593
RTA2		0.733				
RTA3		0.809				
RTA4		0.767				
RTA5		0.763				
RTA6		0.594				

Note. Source: Prepared by researchers using Smart PLS outputs.

From Table (1) and Figure (2), the research variables achieved very high values for the measures and variables used. Factors Loadings ranged between 0.810 and 0.643, which are good reliability coefficients. The values of Cronbach's alpha coefficient (CA) and composite reliability (CR) ranged between 0.814 and 0.872, and the mean values of variance (AVE) ranged between 0.522 and 0.593.

It is clear from the above table that all variance averages (AVE) are greater than 0.5, and all composite reliability coefficients (CR) are significant and statistically acceptable because they are higher than 0.7. In addition, all Cronbach's alpha coefficients (CA) are statistically acceptable, because they are higher than 0.7 and within the recommended rates according to (Dijkstra & Henseler, 2015).

5.2 Discriminant Validity

Discriminant validity indicates that the constructs of a variable are differentiated logically and are not repeated nor overlapped with other variables. This is confirmed by testing the discriminant validity matrix between the variables and dimensions of the study and comparing the pair of correlations between the factors obtained with the estimates of the variance extracted for the constructs. The discriminant validity is determined when it is confirmed by observing the diagonal elements (the

root square of the average value of the covariance AVE for each construction) whose values must be higher than the correlated values in rows and columns. The two tables hereunder display the discriminant validity indicators. The results of the Discriminant Validity of the Measures are presented in Table 2.

Table 2. The results of the Discriminant Validity of the Measures

	Reverse charge mechanisms	Reduce tax avoidance_	Application of withholding tax rules
Application of withholding tax rules	0.732		
Reduce tax avoidance_	0.500	0.722	
Reverse charge mechanisms	0.391	0.570	0.702

Note. Source: Prepared by researchers using Smart PLS outputs.

Table 3. The HTML Discriminant Validity Test

	Reverse charge mechanisms	Reduce tax avoidance_	Application of withholding tax rules
Application of withholding tax rules			
Reduce tax avoidance_	0.586		
Reverse charge mechanisms	0.475	0.696	

Note. Source: Prepared by researchers using Smart PLS outputs.

Table 4. R-Squared, F-Squared, and Q² of the Endogenous Latent Variables

Constructs	R-Squared	Q ²	F-Squared
Reduce tax avoidance	0.416	0.575	/
Application of withholding tax rules			0.155
Reverse charge mechanisms	/	/	0.283

Note. Source: Prepared by researchers using SmartPLS outputs.

Table (3) shows that all the diagonal values are higher than the associated values in the rows and columns and range between 0.702 and 0.73. This supports the discriminant validity of the research tool statements.

If the HTMT is lower than 0.90, the two reflective structures are nearly identical and have a weak correlation (Dijkstra & Henseler, 2015). Table (3) shows that the measures are reliable and valid because all values are lower than 0.90. Thus, the discriminant validity (HTMT) of the model can be trusted, as the HTMT result achieved the lower bound and it was confirmed that there was no multicollinearity.

5.3 Model Fit Quality

The structural model of the research is assessed through the use of a set of statistical standards and methods described in the following table:

We note from Table (4) that the value of the determination coefficient for the variable Reduce tax avoidance towards both Applications of withholding tax rules and Reverse charge mechanisms in the model is (R² = 0.416). This indicates that 41.6% of the variance in Reduced tax avoidance is explained by two constructs: The application of withholding tax rules and Reverse charge mechanisms. To determine the effect of each

of these constructs on Reducing tax avoidance, the (F²) coefficient was calculated. The effect of the Application of the withholding tax rules variable was (0.155), and the effect of the Reverse charge mechanisms was (0.283).

Also, the Blindfolding test was used to clarify the ability of the variable of the Application of reverse charge mechanisms in companies to predict the changes that will occur to reduce tax avoidance. Table (4) indicates that the (Q²) value reached 0.575, and this ability is considered good.

The researcher believes that all of the above confirms that the two dimensions Application of withholding tax rules and Reverse charge mechanisms have the ability to predict and interpret the variation in Reducing tax avoidance. Therefore, the research hypotheses can be tested.

5.4 Testing the Research Hypotheses

Based on the foregoing, after making sure that there is no overlap between the dimensions of the variables, that the study data follow a normal distribution, and to ensure the quality of the model, it is possible to test the research hypotheses. Indeed, the analysis of least squares (PLS) was used based on the Bootstrapping test to analyze the direct and indirect effect between the variables of the research.

Table 5. Path Coefficient of the Research Hypotheses

Hypotheses	Relationship	Std. Beta	Std. Error	T-Values	P-Values	Decision
HP1	Application of withholding tax rules -> Reduce tax avoidance_	0.327	0.070	4.686	0.000	Supported**
HP2	Reverse charge mechanisms -> Reduce tax avoidance_	0.442	0.067	6.599	0.000	Supported**

Significant at P** =< 0.01, p*<0.05

Note. Source: Prepared by researchers using Smart PLS outputs.

Based on the foregoing, after making sure that there is no overlap between the dimensions of the variables and that the study data follow a normal distribution, and to ensure the quality of the model, it is possible to test the research hypotheses. Indeed, the analysis of least squares (PLS) was used based on the Bootstrapping test to analyze the direct and indirect effect between the variables of the research.

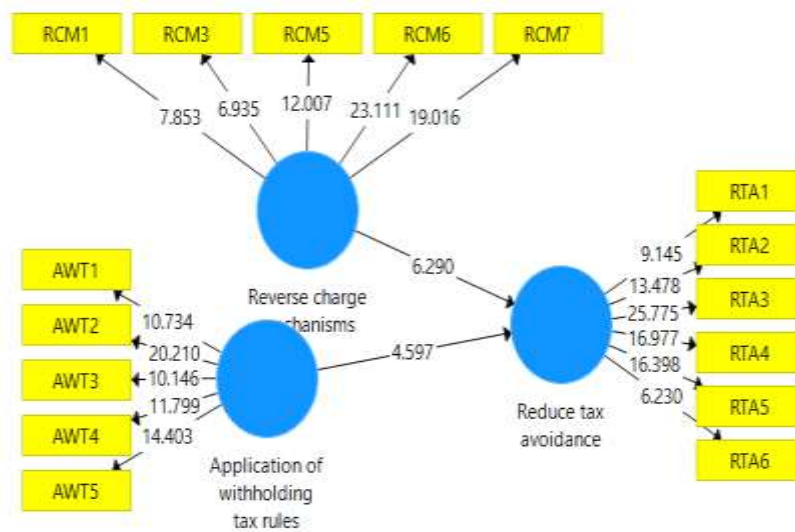


Fig. 3: Bootstrapping Test Structural Model

According to the results presented in Table [5] and Figure (3), there exists a direct positive effect of the application of withholding tax rules on the reduction of tax avoidance. This effect is statistically significant at a significance level of $\alpha \leq 0.05$. The statistical significance of this effect is further confirmed by the associated (t) value of 4.686 at a significance level of 0.01. Therefore, the first hypothesis is accepted. Similarly, the results presented in Table [5] and Figure (3)) indicate a

statistically significant positive effect of reverse charge mechanisms on the reduction of tax avoidance. The [t] value for this effect was found to be 6.599 at a significance level of $\alpha \leq 0.01$. Hence, the second hypothesis is accepted.

The results suggest that the application of withholding tax rules and reverse charge mechanisms has a direct positive effect on the reduction of tax avoidance. Tax avoidance refers to the legal use of tax regulations to reduce one's tax

liability. However, excessive tax avoidance can be harmful to the economy, as it can lead to reduced tax revenues, increased income inequality, and a perception of unfairness in the tax system.

The application of withholding tax rules and reverse charge mechanisms can help to reduce tax avoidance by making it more difficult for taxpayers to manipulate tax regulations. Withholding tax rules require that a portion of an individual's income is withheld by the payer and remitted to the tax authority. Reverse charge mechanisms, on the other hand, shift the responsibility for paying taxes from the seller to the buyer. Both of these mechanisms make it more difficult for taxpayers to evade taxes or manipulate tax regulations for their own benefit. The statistically significant positive effects observed in the study suggest that the application of these mechanisms can be an effective way to reduce tax avoidance. These findings are important for policymakers and tax authorities, as they suggest that efforts to strengthen withholding tax rules and reverse charge mechanisms may be an effective way to combat tax avoidance and improve tax compliance.

6 Discussion

Based on the research findings, the following is shown:

The present study demonstrates a positive effect of the application of reverse charge mechanisms and withholding tax on reducing tax avoidance, which is consistent with previous research conducted by [18], [24], [25], [10], [21], [26], [27]. The application of the reverse charge mechanism to all transactions between a resident customer and a non-resident supplier in the Kingdom of Saudi Arabia allows the disclosure of taxpayers' real activities and enhances tax compliance, thereby reducing tax avoidance. However, the researcher notes that non-resident companies providing services to residential clients who are not subject to tax may not be required to register for value-added tax, given their residence outside the country and the absence of any tax obligations or tax returns.

To address the challenge of imported (electronic) services that are difficult to detect and identify, the researcher proposes holding Internet brokers or portals that act as intermediaries for non-resident suppliers responsible for paying taxes. Similarly, in the case of shipping a commodity to a final consumer, the intermediary shipping company can be considered the importer and responsible for paying taxes.

There is also a direct positive effect of applying the withholding tax on reducing tax avoidance. This is consistent with the studies of [10], [25], [26], [27]. Indeed, the withholding tax is imposed on the non-resident person, and the Authority obliges the resident companies, whether taxpayers or non-residents, as well as permanent companies in the Kingdom for non-residents that pay an amount to a non-resident from a source in the Kingdom, to deduct tax from the amount paid according to the prices mentioned in the system and to declare the withholding tax monthly. This allows the provision of information for transactions between residents and non-residents, to prevent the occurrence of tax avoidance for the activities of the digital economy resulting from transactions that take place via the Internet.

The withholding tax is linked to the reverse charge mechanism. This is in line with the study of because the supplier is a non-resident and performs a service within the Kingdom. Therefore, transactions between residents and non-residents can be counted through the monthly withholding tax and value-added tax declarations for services that are subject to the reverse charge mechanism. This prevents tax avoidance and evasion while taking into account services exempt from withholding tax.

The application of reverse charge and withholding tax mechanisms enhance providing correct and undistorted financial information, which contributes to the disclosure of the taxpayers' real activity.

For withholding tax auditing, the auditor shall review the value-added tax declarations to account for the amounts paid to non-residents, applying the reverse calculation mechanism. Likewise, when auditing the tax for the reverse charge, the examiner shall review the declarations and amounts paid for the withholding tax, which contributes to preventing tax avoidance.

Reverse charge mechanisms help in determining the withholding tax base, given that the tax base is calculated on the whole amount paid or the value of the service provided by the resident to the non-resident.

Finally, the discussion notes that calculating the tax for the reverse calculation based on the transfers received from the withholding tax can be difficult due to differences in accounting bases. However, limiting transactions between residents and non-residents can guide this area. Overall, the discussion highlights the importance of implementing reverse charge and withholding tax mechanisms in reducing tax avoidance and promoting tax compliance.

7 Recommendations

- It is necessary to spread tax awareness regarding the application of the mechanisms of reverse charge and withholding tax to enact the taxpayers' obligation to supply the tax on transactions with non-residents.

- It is essential to improve the relationship between the taxpayers and the Zakat, Tax, and Customs Authority and to overcome the obstacles facing the taxpayers.

- It is essential to simplify tax procedures and to measure the tax base of the reverse charge and withholding tax objectively.

- It is necessary to introduce a provision in the Executive Regulations to allow non-taxable persons who meet all qualification requirements to apply to the Authority to calculate the tax on those services and to allow them to deduct the input tax for reverse charge transactions.

- It is essential to benefit from the experiences of France and Germany, which obligated the residents, whether registered or unregistered, to supply the tax on transactions with non-residents as the service beneficiary.

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Conflict of Interest

The author states that there is no conflict of interest.

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