

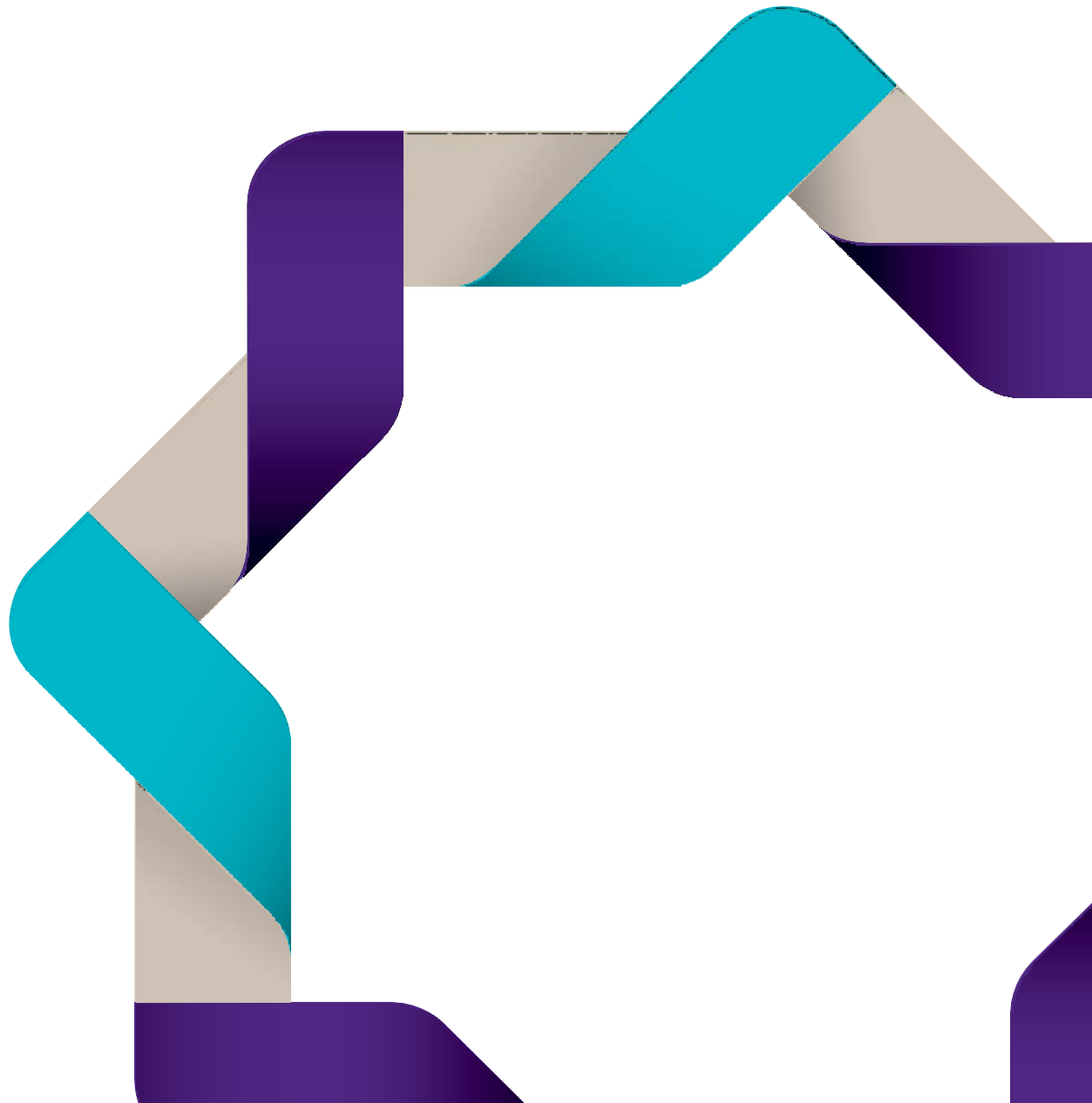


Grant Thornton

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VAT updates in the GCC

July, 2017



Clarification of VAT rules within the UAE

The content in this news bulletin has been published by the Ministry of Finance (MOF), therefore no interpretations, guidance or solutions have been offered by Grant Thornton. Full insights are available on the MOF website. This bulletin is intended as a synopsis of the latest information which has been announced.



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No special exemptions for SMEs



Exempt

The supply of some financial services (clarified in VAT legislation); Residential properties; Bare land; and Local passenger transport



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A business must retain receipts for 5 years



187,500

Voluntarily VAT registration threshold, should businesses who make less than the mandatory AED375,000 wish to register for VAT

What measures will the government take to ensure that businesses don't use VAT implementation as an excuse to increase prices?

The MOF will include rules that require businesses to be clear about how much VAT they are paying for each transaction. Businesses will have the required information to decide whether to buy something or not.

How can one object to the decisions of the Authority?

1. The person shall request the FTA to reconsider its decision. Such request of re-consideration has to be made within 20 business days from the date the person was notified of the original decision of the FTA, and the FTA will have 20 business days from receipt of such application to provide its revised decision.
2. If the person is not satisfied with the revised decision of the FTA, an appeal process is in place which includes objecting to the Tax Disputes Resolution Committee
3. As a final step, the person may challenge its decision before the competent court. The appeal must be made within 20 business days from the date of the appellant being notified of the Committee's decision.

Who can or will be able to register for VAT?

A business must register for VAT if their taxable supplies and imports exceed the mandatory registration threshold of AED 375,000. A business may choose to register for VAT voluntarily if their supplies and imports are less than the mandatory registration threshold, but exceed the voluntary registration threshold of AED 187,500.

How long must a taxable person retain VAT invoices for?

Any taxable person must retain VAT invoices issued and received for a minimum of 5 years.

How should a business determine the place of supply?

For a supply of goods, the place of supply should be the location of goods when the supply takes place with special rules for certain categories of supplies (e.g. water and energy, cross border supplies). For the supply of services, the place of supply should be where the supplier is established with special rules for certain categories of supplies (e.g. cross border supplies between businesses).

VAT for businesses

Can businesses offset customs duty against VAT payments?

VAT shall be payable in addition to the custom duties paid by the importer of the goods and cannot be deducted. VAT shall be computed on the value that includes the customs duties.

How will real estate be treated?

Supplies (including sales or leases) of commercial properties will be taxable at the standard VAT rate (i.e. 5%). Supplies of residential properties will generally be exempt from VAT. This will ensure that VAT would not constitute an irrecoverable cost to persons who buy their own properties. In order to ensure that real estate developers can recover VAT on construction of residential properties, the first supply of residential properties within 3 years from their completion will be zero-rated.

Will there be VAT grouping?

Businesses that satisfy certain requirements covered under the Legislation (such as being resident in the UAE and being related/associated parties) will be able to register as a VAT group.

Will there be bad debt relief?

VAT registered businesses will be able to reduce their output tax liability by the amount of VAT that relates to bad debt which has been written off by the VAT registered business. The legislation will include the conditions and limitations concerning the use of this relief.

Will there be a margin scheme?

To avoid double taxation where second hand goods are acquired by a registered person from an unregistered person for the purpose of resale, the VAT-registered person will be able to account for VAT on sales of second hand goods with reference to the difference between the purchase price of the goods and the selling price of the goods (that is, the profit margin). The VAT which must be accounted for by the registered person will be included in the profit margin. The legislation will include the details of the conditions to be met in order to apply this mechanism.

How will partial exemption work?

Where a VAT registered person incurs input tax on its business expenses, this input tax can be recovered in full if it relates to a taxable supply made, or intended to be made, by the registered person. In contrast, where the expense relates to a non-taxable supply (e.g. exempt supplies), the registered person may not recover the input tax paid.

In certain situations, an expense may relate to both taxable and non-taxable supplies made by the registered person (such as activities of the banking sector). In these circumstances, the registered person would need to apportion input tax between the taxable and non-taxable (exempt) supplies. Businesses will be expected to use input tax (ratio of recoverable to total) as a basis for apportionment in the first instance although there will be the facility to use other methods where they are fair and agreed with the Federal Tax Authority.

What are the cases that would lead to the imposition of penalties?

Penalties will be imposed for non-compliance.

Examples of actions and omissions that may give rise to penalties include:

- A person failing to register when required to do so;
- A person failing to submit a tax return or make a payment within the required period;
- A person failing to keep the records required under the issued tax legislation;
- Tax evasion offences where a person performs a deliberate act or omission with the intention of violating the provisions of the issued tax legislation.

Will there be any special schemes for SMEs?

No special rules are planned for small or medium sized enterprises.

Will there be transitional rules?

Special rules will be provided to deal with various situations that may arise in respect of supplies that span the introduction of VAT. For example: Where a payment is received in respect of a supply of goods before the introduction of VAT but the goods are actually delivered after the introduction of VAT, this means that VAT will have to be charged on such supplies. Likewise, special rules will apply with regards to supplies of services spanning the introduction of VAT.

Where a contract is concluded prior to the introduction of VAT in respect of a supply which is wholly or partly made after the introduction of VAT, and the contract does not contain clauses relating to the VAT treatment of the supply, then consideration for the supply will be treated as inclusive of VAT. There will, however, be special provisions to allow suppliers to charge VAT in situations where their recipient is able to recover their VAT but where there is no VAT.

How will insurance be treated?

Generally, insurance (vehicle, medical, etc.) will be taxable. Life insurance, however, will be treated as an exempt financial service.

How will financial services be treated?

It is expected that fee based financial services will be taxed but margin based products are likely to be exempt.

How will Islamic finance be treated?

To ensure that there are no inconsistencies between the VAT treatment of standard financial services and Islamic finance products, the treatment of Islamic finance products will be aligned with the treatment of similar standard financial services.

How quickly will refunds be released?

Refunds will be made after the receipt of the application and subject to verification checks, with a particular focus on avoiding fraud.

Will FTA issue rulings or provide tax advice?

In the course of its interaction with taxpayers, the FTA may provide its views on various matters in the law. Taxpayers may choose to challenge these views.

Will it be possible to issue cash receipts instead of VAT invoices?

A supplier registered or required to be registered for VAT must issue a valid VAT invoice for the supply. To be considered as a valid VAT invoice, the document must follow a specific format as mentioned in the legislation. In certain situations the supplier may be able to issue a simplified VAT invoice. The conditions for the VAT invoice and the simplified VAT invoice are mentioned in the legislation.

Will there be any VAT that businesses are not allowed to claim?

VAT will not be deductible in respect of expenses incurred for making non-taxable supplies. Furthermore, input tax cannot be deducted if it is incurred in respect of specific expenses such as entertainment expenses e.g. employee entertainment.

Under which conditions will businesses be allowed to claim VAT incurred on expenses?

VAT on expenses that were incurred by a business can be deducted in the following circumstances:

- The business must be a taxable person
- VAT should have been charged correctly
- The business must hold documentation showing the VAT paid (e.g. valid tax invoice).
- The goods or services acquired are used or intended to be used for making taxable supplies.
- VAT input tax refund can be claimed only on the amount paid or intended to be paid before the expiration of 6 months after the agreed date for the payment of the supply.

Will non-residents be required to register for VAT?

Non-residents that make taxable supplies in the UAE will be required to register for VAT unless there is any other UAE resident person who is responsible for accounting for VAT on these supplies. This exclusion may apply, for example, where a UAE business is required to account for VAT under a reverse charge mechanism in respect of a purchase from a non-resident.

Will VAT be paid on imports?

VAT is due on the goods and services purchased from abroad. In case the recipient in the State is a registered person with the Federal Tax Authority for VAT purposes, VAT would be due on that import using a reverse charge mechanism. In case the recipient in the State is a non-registered person for VAT purposes, VAT would be paid on import of goods from a place outside the GCC. Such VAT will typically be required to be paid before the goods are released to the person.

How will Government Entities be treated for VAT purposes?

Supplies made by government entities will typically be subject to VAT. This will ensure that government entities are not unfairly advantaged as compared to private businesses. Certain supplies made by government entities will, however, be excluded from the scope of VAT if they are not in competition with the private sector or where the entity is the sole provider of such supplies. For the supplies provided for government entities, the treatment of such supplies shall depend on the same supply and not on the recipient of the supply. Therefore, if the supply is subject to the standard tax rate, the treatment would remain the same even if it is provided to a government entity.

Will Businesses have to report on their business in each of the Emirates?

It is expected that businesses will need to complete additional information on their VAT returns to report revenues earned in each Emirate. Guidance will be provided to businesses with regards to this.

Will the goods exempt from customs duties also be exempt from VAT?

Some goods that are imported may be exempt from customs duties but subject to VAT.

Registering for VAT in KSA

The background features a light beige color with several overlapping, rounded geometric shapes in shades of purple and teal. The shapes are arranged in a way that creates a sense of depth and movement, with some appearing to be layered on top of others. The overall aesthetic is modern and clean.

Registering for VAT in KSA

Registered businesses within Saudi Arabia will have recently received communication from The General Authority of Zakat and Tax (GAZT) in relation to pre-registration for VAT. This short summary concludes the key elements which businesses need to be aware of prior to taking action, whilst preparing for the VAT legislation which is projected for circulation in the coming week.

The General Authority of Zakat and Tax (GAZT), responsible for managing the implementation of VAT in Saudi Arabia, have invested extensively in order to build effective systems and processes in order to embed VAT efficiently. To this effect, local businesses are encouraged to consider the impact which VAT will have on their business, internal processes, systems and people. The extent of change management required will have an impact on both time and current resources.

Registration process:

GAZT is contacting businesses to complete the VAT registration process - the first step in preparing businesses for VAT.

GAZT will call from one of the following numbers:
011 511 4570, 011 434 6638 or 011 261 7411

One day prior to a call, you will receive an SMS as a reminder. To complete the registration process, businesses will need to prepare the information below, which will be requested by the GAZT registration agent. Businesses are required by law to ensure that all information provided is accurate.

INFORMATION REQUIRED FOR VAT REGISTRATION

Personal Information

- Taxpayer's Name
- Taxpayer's Mobile Number
- Taxpayer's Email Address
- Taxpayer Identification Number
- KSA residency

Tax Information

- Taxpayer's Type
- If Individual taxpayer:
 - Taxpayer ID type
 - Taxpayer ID number
 - Date of birth
 - Commercial ID type
 - Commercial ID number (CR)
- If Company taxpayer:
 - Company ID
 - KSA Shareholder (capital and profit percentages)
 - Commercial ID type and number (CR)
 - Estimated VAT sales value over the next 12 months
 - Estimated VAT expenses over the next 12 months
 - Sales value over the last 12 months
 - Expenses over the last 12 months

How can Grant Thornton help prepare your business for the introduction of VAT?

Grant Thornton's VAT team take a rigorous approach to helping you meet the VAT obligations set across the GCC, whatever challenges you may face along the way.

Using our finely tuned local knowledge, global experience in preparing businesses to embrace VAT and using our global organisation of member firms, we help you understand and comply with often complex and time-consuming changes which are required.

Our team of specialists have worked with businesses which range in size and industry, alongside supporting government entities in order to support the transition from Phase 1 to full VAT compliance.

Contact us



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