Grant Thornton

Tax Newsletter

July 2021 Edition

Steve Kitching

Tax Partner

Landscape

In our July edition of GT's Monthly Tax Newsletter, you can read the latest news updates affecting Indirect Tax, International Tax, and Transfer Pricing in the UAE and across the Middle East Region.

Grant Thornton

The UAE Update

1. VAT in UAE

The Federal Tax Authority (FTA) Releases Guidelines on the applicability of VAT in the Automotive Sector – VATGAM1

The FTA has released a new guide on the 29th June 2021 which comprehensively covers VAT implications on the supplies made by the Automotive Industry, including but not limited to; new car dealers, used car dealers and servicing and parts' suppliers.

The guide explains rules applicable to registration, issuance of VAT invoices and activities related to import and export of cars within or outside the UAE respectively. The key specific issues that may be of particular interest for the concerned taxable person in the Automotive sector are summarised below.

Profit Margin scheme applicability	In accordance with Article 43 of the Decree-Law and Article 29 of the VAT Executive Regulations, Profit Margin Scheme is applicable on used cars subject to some conditions. It allows the taxable person to account for VAT on the profit earned i.e. difference between purchase price and sale price of used cars rather than the total selling price. The Scheme is subject to specific requirements, including record keeping and invoicing requirements. It is important to note that applying the Profit Margin Scheme is optional, thus any business willing to use the scheme must ensure all the conditions are met. However, the Scheme would not apply in below cases: • Cars purchased prior to the implementation of VAT • Cars imported into the UAE where the VAT paid upon import has been recovered
Free Promotional Gifts and Giveaways	Where businesses offer promotional gifts to customers without any consideration, the provisions of 'Deemed Supply' would apply if input VAT incurred on the expenses to provide free items, has been claimed by the Company.
Input VAT recovery on the purchase, rent or lease of a company car	Input VAT recovery is allowed on the purchase, rent or lease of a company car provided it is not available for personal use of an employee. Otherwise, the input VAT will be classified as blocked on such expenses.
Treatment of Salik reimbursement	Reimbursement of Salik is subject to VAT at 5% provided the lease contract mentions the cost of salik will be recharged to customers.
Repair services and parts provided under warranty	Instances where VAT would apply at the standard rate of 5% are as under: • Sale of vehicles that include warranty i.e. cost of the car includes warranty also • Warranty packages sold separately Any subsequent supply of services/ spare parts that are covered under warranty claims would not be subject to VAT provided no additional consideration is received against such supplies.

Please refer the link to access the Guide on Automotive Sector here.

Should you need any expert advice or assistance, please contact our Tax advisers Harsh Bhatia or Angela Sharma

The Federal Tax Authority ('FTA') Encourages Registrants to Take Advantage of Penalty Redetermination

The FTA has called on VAT registrants in the UAE to benefit from the penalty redetermination scheme introduced by Cabinet Decision No. 49, effective from 28th June 2021. It is important to note that the three conditions must be understood well and complied with for penalty reductions, imposed prior to 28 June 2021, to equal 30% of the total unpaid penalties.

Further, the FTA has launched a dashboard on the E-Services portal to keep registrants up to date on their outstanding VAT and administrative penalties subject to redetermination of penalties scheme and ensure VAT is paid before 28th June 2021 to avoid incurring additional penalties.

The clarifications can be accessed using the below links:

Amendment of Penalties

Redetermination of administrative penalties levied prior to the effective date of Cabinet Decision No.49

Cabinet Decision No. 49 of 2021 on amending provisions of cabinet decision No. 40 of 2017

Should you need any expert advice or assistance, please contact our Tax advisers Harsh Bhatia or Angela Sharma

Grant Thornton

The GCC Update

INDIRECT TAX

1. VAT

Zakat, Tax, and Customs Authority (ZATCA) Has Issued an Updated Real Estate Guide

The ZATCA has recently introduced an updated version of Real Estate guide which superseded the initial version that was released in December 2017.

The guide provides further clarification on VAT treatments on purchase, sale or rental of commercial, residential or any other types of real estate properties.

The ZATCA communicates information in relation to the transition of standard VAT rate from 5% to 15% (effective from 1 July 2020), accounting for particular real estate supplies as exempt from VAT and implementation of RETT at 5% effective from 4 October 2020.

The updated version of the guide is published in Arabic which can be accessed Arabic Version.

ZATCA Releases VAT Guide on Insurance and Reinsurance Companies

The Zakat, Tax and Customs Authority ('ZATCA') has released a new guide on 14 June 2021 to provide further clarifications on VAT implication for insurance and reinsurance activities.

The guide covers various important topics for the taxpayers and tax agents which are as follows:

1. Application of standard rates on insurance and reinsurance contracts and premiums;
2. VAT exemption for life insurance contracts;
3. Input VAT deductibility including input VAT apportionment / partial deduction principles; and
4. List of insurance and reinsurance activities.

Registrants involved in insurance and reinsurance activities are encouraged to refer the guide to ensure that the VAT treatments for all insurance/ reinsurance activities, claims etc. are in accordance with the applicable VAT provisions.

The new real estate guide can be accessed here Arabic Version or English Version.

The Oman Tax Authority (OTA) Publishes a Taxpayer Guide on VAT Return Filing

The OTA has recently published a guide to explain the mechanism of presenting tax returns for VAT registrants, as well as terms for tax refund with respect to the VAT Law and the Executive Regulations.

The guide summarizes the rules in relation to mandatory and voluntary registration where the Backward and Forward tests must be carried out to determine if the taxable supplies are in excess of respective threshold limits and determine the eligibility for registration. However, a non-resident of a member state making any taxable supply in the Sultanate, is required to register regardless of the value of the taxable supplies.

The OTA emphasises on the importance of submission of VAT Returns to be duly submitted periodically (i.e. quarterly) within the specified time frame to avoid attracting penalties. The guide outlines the different types of supply for VAT purposes in order to identify where Output VAT is due and where Input VAT is deductible followed by a detailed process for filing the return on the OTA portal.

The full guide can be accessed through Tax Payer Guide.

Should you need further clarification or an expert opinion on any unclear position, please contact our Senior Manager Sunny Kachalia.

The OTA Has Released a Taxpayer Checklist

The OTA has recently released a taxpayer checklist to assist taxable persons in filing the periodic VAT returns in a prescribed manner.

The checklist consists of different sections like sales and purchase which are further categorized into different boxes and their preferred return format has also been provided.

The checklist can be accessed here Taxpayer Checklist.

Should you need further clarification or an expert opinion on any unclear position, please contact our Senior Manager Sunny Kachalia.

Grant Thornton

International Tax & Transfer Pricing

132 Countries Agree on International Tax Reform Framework

On 1st July 2021, 132 countries out of the 139 members of OECD/G20 Base Erosion and Profit Shifting (**BEPS**) Inclusive Framework (**IF**) issued a Statement on their agreement on a two-pillar approach to reform international tax rules and address the tax challenges arising from the digitalisation of the economy. The new framework aims to ensure that large multinational enterprises (**MNEs**) pay their fair of tax wherever they operate.

Pillar One aims to ensure a fairer international tax framework by allocating taxing rights on business profits to market jurisdictions where goods or services are consumed, irrespective of whether the MNE has physical presence in such jurisdictions.

Pillar Two will introduce a global minimum tax rate of at least 15% those countries can use to protect their tax bases as well as allow source jurisdictions to impose limited source taxation on certain related party payments, which are subject to tax below a minimum rate between 7.5% to 9% as agreed in bilateral treaties.

The two-pillar plan is expected to provide the much-needed support to governments to boost revenues, and provide support to post-Covid recovery plans. The G20 finance ministers - who represent 19 countries with the largest and fastest-growing economies, as well as the European Union - announced their support following a two-day meeting in Venice, Italy.

Saudi Arabia, a member of the G20, along with the other GCC countries, Bahrain, UAE, Qatar, and Oman that are members of OECD/G20 BEPS IF are most likely to adopt the proposals, making the required legislative and policy changes in the foreseeable future.

Further, GCC countries such as the UAE and Bahrain, where there is currently no corporate tax (except for companies operating in the oil and gas sector and branches of foreign banks in the UAE) and formal transfer pricing rules can be expected to make potential changes to be tax competitive and boost fiscal revenues. Such changes include the potential introduction of corporate tax and formal transfer pricing rules in the near future.

Qatar Extends Deadline for Filing of Master File and Local File for 2020

On 17 June 2021, Qatar's General Tax Authority (GTA) issued Decision No. 8 of 2021, extending the deadline for filing transfer pricing documentation, Local file and Master file, for the financial year ended 31 December 2020 to 30 September 2021.

With effect from the tax year beginning on or after 1 January 2020, Qatar resident taxpayers with transactions with foreign related parties are required to submit the Local file and Master file transfer pricing documentation to the GTA by 30 June of the following year, if they report amount of total revenues or amount of total assets above **QAR50 million** for the relevant financial year. With the extension, taxpayers who meet the threshold amount must now submit their Local file and Master file to the GTA by 30 September 2021.

However, there has been no extension for filing the TP Declaration Form, which must be submitted, along with the annual corporate income tax returns, by Qatar resident taxpayers with total value of assets or total annual turnover exceeding the threshold amount of **QAR10 million** and having associated entities in Qatar or abroad. The requirement for filing the TP Declaration became effective from the tax year beginning on or after 1 January 2020.

In March 2021, the GTA extended the filing deadline for corporate income tax returns for the tax year 2020 by two months for Qatar entities owned by non-Qatari / GCC nationals, extending the corporate income tax filing due date for taxpayers with a 31 December 2020 financial year-end to 30 June 2021 from 30 April 2021. For Qatar entities wholly owned by resident Qatari / GCC nationals, the filing deadline has been extended by four months i.e. 31 August 2021.

Since there has been no further extension for submission of returns or disclosure forms, taxpayers who meet the QAR 10 million total revenues or total assets threshold for filing the TP Declaration Form are expected to have made the filing by 30 June 2021.

Given that the extended deadline of 30 September 2021 for filing Local file and Master file in Qatar is fast approaching, we would encourage all Qatari taxpayers to carry out a proper review of their transfer pricing compliance obligations and ensure that they promptly file the Local file and Master file ahead of the deadline, if they meet the requisite filing threshold. For taxpayers who do not meet the threshold, we would recommend that appropriate transfer pricing documentation should be prepared and maintained to support the arm's length nature of their related party transactions and the disclosures made in the TP Declaration Form. This would help to avoid unnecessary scrutiny by the GTA of their related party arrangements.

Oman Suspends CbCR Local Filing

The OTA has recently released an announcement suspending the Country-by-Country Reporting (CbCR) local filing requirements mentioned in the decision of Tax Authority Chairman No. 79/2020 for Multinational Enterprises (MNEs), including the subsidiaries and branches with operations in Oman until further notice.

As per Chairman's Decision No. 79/2020, local filing requirements include the CbC notification and the CbC report which were introduced for reporting periods starting from 1 January 2020.

The due date for the CbC notification was initially 31 December 2020 (if the reporting year is the same as the calendar year), and the CbC report would be due by 31 December 2021. The Tax Authority later extended the CbC notification deadline to 30 April 2021.

It was initially unclear, from the OTA's announcement, if only local UPEs will be subject to Oman's CbCR filing obligation. However, the OTA subsequently issued a clarification statement, confirming that the CbCR filing suspension will only apply to UPEs of in-scope MNEs that are resident outside Oman. It is also important to note that the suspension does not apply to Omani CbCR qualifying MNE Groups with UPE resident in Oman. In addition, CbCR notification requirements will continue to apply to all MNEs that fall within the scope of the Omani CbCR rules.

All Taxpayers are therefore advised to continue to comply with their obligations under the Omani CbCR rules.

GCC Tax Treaty Development

Amending Protocol to Tax Treaty Between Austria and the UAE Signed

On 1 July 2021, Austria and the UAE signed an amending protocol to the 2003 income tax treaty between the two jurisdictions. The protocol is the first to amend the treaty and will enter into force after the ratification instruments are exchanged.

Saudi Arabia Approves Pending Tax Treaty with Taiwan

On 22 June 2021, Saudi Arabia approved the pending income tax treaty with Taiwan, which was signed on 2 December 2020. The treaty is the first of its kind between the two jurisdictions, and it will enter into force after the ratification instruments are exchanged. The treaty will apply from 1 January of the year following its entry into force.

Tax Treaty Between Kuwait and the UAE to be Negotiated

On 15 June 2021, Kuwait and the UAE discussed bilateral relations including the negotiation of a tax treaty. The treaty would be the first of its kind between the two countries and will enter into force after signing and ratification.

Indonesia Ratifies New Tax Treaty with the UAE

Indonesia has issued Presidential Regulation No. 34 which provides for the ratification of the new income tax treaty with the UAE. The treaty was signed 24 July 2019 will replace the 1995 tax treaty between the two jurisdictions once in force.

The treaty covers Indonesian income tax under Law No. 7 of 1983 as amended and covers UAE income tax and corporation tax. Key features of the treaty include:

- Dividend payments – 10%
- Interest - 7%
- Royalties - 5%
- Fees for Technical Services (technical, managerial, or consultancy) - 5%
- A permanent establishment will arise when an enterprise provides services through employees or other personnel if the activities continue for the same or connected project within a Contracting State for a period or periods aggregating more than 6 months.

The treaty will enter into force once the ratification instruments are exchanged and will apply from 1 January of the year following its entry into force.

Kuwait and Mauritania Discuss Ratification of Pending Tax Treaty

One 13 June 2021, officials from Kuwait and Mauritania discussed bilateral relations which included discussions to ratify pending agreements between the two jurisdictions The treaty was signed on 27 December 2009, and would be the first of its kind between the two jurisdictions and will enter into force after the ratification instruments are exchanged.

Rwanda Ratifies Pending Tax Treaty with Qatar

On 31 May 2021 Rwanda issued Law No. 026/2021 which provides for the ratification of the pending income tax treaty with Qatar. The treaty was signed 8 February 2021 and the first of its kind between the two jurisdictions. The treaty will enter into force once the ratification instruments are exchanged and will apply from 1 January of the year following its entry into force.

The UAE is Expected to be Removed from Brazil’s “Black Listed Countries”

The UAE is currently included on Brazil's “black listed countries” of tax haven jurisdictions. Inclusion on this list has numerous tax consequences, such as a compulsory application of the transfer pricing rules, a reduced debt-to-equity ratio according to the Brazilian thin capitalisation rules, and an increase of withholding income tax rate from 15% to 25%. It is expected that there will be a change in the UAE’s status (i.e. tax haven) before the tax treaty becomes effective from 1 January 2022.

Want to know more? The Tax Team at Grant Thornton UAE aims to provide you with updates regarding the latest developments in Tax within the Middle East region.

For more details with respect to this alert or queries on other Tax issues, please contact the following in-country GT Tax leaders, whose details are given below.

United Arab Emirates

Steve Kitching
Partner,
Tax Advisory
+971 58 550 90 64
steve.kitching@ae.gt.com

Steven Ireland
Director,
UAE Head of International Tax
Tax Advisory
+971 56 663 29 99
steven.ireland@ae.gt.com

Dubai

Rolex Tower, 23 Floor
Sheikh Zayed Road
PO Box 1620
Dubai, UAE

T +971 4 388 9925
F +971 4 388 9915

Abu Dhabi

Al Kamala Tower
Office 1101, 11 Floor
Zayed the 1st Street
Abu Dhabi, UAE

T +971 2 666 9750
F +971 2 666 9816

Abu Dhabi

DD-16-121-031
16th Fl. WeWork Hub 71
Al Khatem Tower
ADGM Square
Al Maryah Island
Abu Dhabi, UAE

F +971 2 666 9816

Sharjah

Al Bakr Tower
Office 305
7/9 Al Khan Street
Sharjah, UAE

T +971 6 525 9691
F +971 6 525 9690

www.grantthornton.ae

Kingdom of Saudi Arabia

Imad Adileh
Partner,
Tax Advisory, GT KSA

+966 (0)59 558 0027

iadileh@sa.gt.com

Adel Daglas
Director,
Zakat & Tax, GT KSA

+966 (0) 55 280 7442

adaglas@sa.gt.com

Mohamed Hwitat
Senior Manager,
VAT Advisory, GT KSA

+966 (0) 53 454 3017

mhwitat@sa.gt.com

Bahrain

Jatin Karia
Senior Partner,
Tax Advisory, GT Bahrain

+937 3957 5562

jatin.karia@bh.gt.com

Oman

Tammam Al-Mughairi
CEO,
GT Oman

tammam.al-mughairi@om.gt.com

Grant Thornton refers to the brand under which the Grant Thornton member firms provide assistance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Dubai

Rolex Tower, 23 Floor
Sheikh Zayed Road
PO Box 1620
Dubai, UAE

T +971 4 388 9925
F +971 4 388 9915

Abu Dhabi

Al Kamala Tower
Office 1101, 11 Floor
Zayed the 1st Street
Abu Dhabi, UAE

T +971 2 666 9750
F +971 2 666 9816

Abu Dhabi

DD-16-121-031
16th Fl. WeWork Hub 71
Al Khatem Tower
ADGM Square
Al Maryah Island
Abu Dhabi, UAE

F +971 2 666 9816

Sharjah

Al Bakr Tower
Office 305
7/9 Al Khan Street
Sharjah, UAE

T +971 6 525 9691
F +971 6 525 9690