



Tax Newsletter

June 2022 Edition

Part II



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Landscape

In our June Part II 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.



The UAE Update



1. UAE Tax Development

The Federal Tax Authority (FTA) Publishes Public Clarification “VATP029” Clarifying the VAT Treatment of Gold-Making Charges

The FTA has published a new Public Clarification ‘VATP029’ clarifying the VAT treatment of gold-making charges.

The export of Gold Items and the supply of Investment precious metals do not fall within the scope of this clarification since they do not qualify for a special reverse charge mechanism.

VAT may not be imposed on the supply by Tax registrants if the following conditions have been met:

- a. The recipient is registered for VAT and
- b. The supplier must retain a written declaration from the recipient confirming that the recipient would either use the goods purchased for production or would resell the goods, is registered for VAT on the date of supply and that the recipient shall account for the VAT under Reverse Charge Mechanism (RCM) on the gold items supplied to him.

The recipient would be responsible to account for the VAT under RCM on the gold items supplied to him as per Cabinet Decision No. 25 of 2018 on the Mechanism of Applying Value Added Tax on Gold and Diamonds between Registrants (Cabinet Decision no. 25) if he satisfies the above conditions.

It is important to note that this treatment is applicable only to goods and not to services.

If the supplier supplies both Gold Items and is also making services then it is vital to evaluate whether it is a single composite supply or multiple supplies in order to determine the correct VAT treatment.

The recipient would be responsible to account for the VAT under RCM on the single composite supply of goods supplied to him as per Cabinet Decision No. 25 of 2018 on the Mechanism of Applying Value Added Tax on Gold and Diamonds between Registrants (Cabinet Decision no. 25) if he satisfies the below conditions:

- a. The supply consists of a principal component (Gold Item) and ancillary/incidental elements (the making service), or that these components are so closely linked that they constitute a single supply that would be impossible or unnatural to split;
- b. The price for the gold item and the making charge are not separated;
- c. The gold item and the making service are supplied by the same supplier.

Where it is considered that multiple supplies are being made (ie. Separate charges for Gold and making charges), a proper VAT treatment must be given to each separate component. Only the VAT related to the Gold Items may be accounted for under the RCM, provided all the requirements of Cabinet Decision No. 25 are fulfilled.

The clarification ends on an advisory note that the supplier needs to correct any errors in filed VAT returns (if any). Further, the supplier would be required to submit the voluntary disclosure if the payable amount due to all errors is more than AED 10,000.

For further information on the above-mentioned Public Clarification, please click [here](#).

Should you need further clarification and details regarding this update, please contact our Tax Director [Harsh Bhatia](#) or our VAT Associate Director [Charlotte Stanley](#).

The Federal Tax Authority (FTA) Publishes Public Clarification “EXTP007” Clarifying the Excise Tax Treatment of Excise Goods Which Are Deficient or Missing and the Process for the Destruction of Excise Goods Within A Designated Zone

The FTA has published Public Clarification “EXTP007” addressing the Excise Tax treatment of Excise Goods which are deficient or missing and the process for the destruction of Excise Goods within a Designated Zone.

The following key points have been discussed under this clarification:

- a. Relief of any form will not be provided on excise goods that were unable to be sold in the normal course of the business, provided that such goods were already subject to Excise Tax. Such goods are considered as “wastage.”
- b. Pursuant to Article 12(3)(d) of the Executive Regulation (ER), excise goods will be considered as leaving the excise tax designated zone and released for free circulation where they are found to be deficient or there is a shortage in their quantity from a designated zone, or during a transfer between designated zones, or whilst held in a suspension arrangement in accordance with the Customs Laws. An exception to this rule will be available, where:

- i. The warehouse keeper responsible for the excise goods notifies the FTA within 30 days of discovering the deficiency in the stock or shortage in quantity; and
- ii. If the FTA accepts that the deficiency or shortage of the excise goods is due to a legitimate reason.

The taxable person will not be required to account on the deficient excise goods where the above conditions have been fulfilled.

It should be noted that if the Excise Goods require destruction, it cannot be destroyed until FTA’s approval has been received on this regard.

The legitimate causes accepted by the FTA includes the following:

- i. Force Majeure: If the excise goods have been destroyed due to reasons beyond the control of the Warehouse Keeper or the Taxable Person.

Police report, or other rescue services report (e.g. Civil Defence) relating to the issue; Insurance claim reporting the issue and the arising damage, Photographic evidence of the damage, etc. can be provided as the supporting documentation.

- ii. Natural wastage and shortage: unintentional spoiling, shortage, contamination, etc. are a few classic examples of Natural wastage and shortage. Photographic evidence, Details relating to the way the goods were stored, where the inadequate storage of the goods has resulted in their natural wastage, Inventory reports that indicate a shortage in the quantity of excise goods (for example as a result of moisture loss), Reports or other records indicating that there was insufficient time or insufficient demand to sell the products prior to expiry etc. can be provided as the supporting documentation.
- iii. Wastage or shortage during production: Excise goods that have been lost as a part of the manufacturing process up to the allowable threshold. Production reports indicating the volumes of production, the volumes produced, percentage of product wastage etc. can be provided as the supporting documentation.

For obtaining excise relief, the taxable person must fill the Lost and Damaged Declaration EX203B and submit to the Warehouse Keeper, responsible for the Designated Zone who will then approve and submit the request to the FTA. The declaration must be submitted to the FTA within 30 days of discovering the deficiency or shortage along with the required supporting documentation.

Supporting documentation can be provided at deficiencyandshortage@tax.gov.ae. In all cases where destruction of the goods is requested, the declaration should include an approval from the competent authority e.g. Customs, the Municipality, etc. granting permission for destruction of the goods. The approval should ideally specify the manner of destruction which is allowable.

The FTA may grant full or partial Excise Tax relief, reject the request or notify the Warehouse Keeper of its intent to inspect the goods or to allow the goods to be destroyed or disposed of without the need for inspection. In both cases, the Taxable Person will be required to provide the Destruction Certificate from the party responsible for the destruction process.

For further information on the above-mentioned Public Clarification, please click [here](#).

Should you need further clarification and details regarding this update, please contact our VAT Associate Director [Sunny Kachalia](#).



The GCC Update



INDIRECT TAX

1. VAT

Saudi Arabia – Zakat and Tax Customs Authority (ZATCA) Offers Tax Amnesty Measures

ZATCA has announced the re-launch of the Tax amnesty initiative, through a notification, that waives off the penalties on Income Tax, Withholding Tax, VAT, Excise Tax and Real Estate Transaction Tax (RETT) for the taxpayers for six months starting from 1 June 2022 till 30 November 2022.

The initiative includes all penalties relating to late registration with ZATCA for Income Tax, Withholding Tax, VAT, Excise Tax and Real Estate Transaction Tax (RETT), late payment of Income Tax, Withholding Tax, VAT, Excise Tax and Real Estate Transaction Tax (RETT), late filing of returns, and field penalties related to e-invoicing. However, to be eligible for the waive-off, the taxpayer must report and pay the principal amount of tax. The initiative does not cover fines for tax evasion or the fine paid before the launch of the initiative.

The initiative provides flexibility to the taxpayers by allowing payments in installments, which will be subject to certain conditions and formal approval of ZATCA.

For further information on the above-mentioned announcement, please click [here](#).

Should you need further clarification and details regarding this update, please contact our VAT Associate Director [Charlotte Stanley](#).

Saudi Arabia – Significant Increase in Customs Duties on 99 Commodities Effective From 12 June 2022

The Finance Minister of Kingdom of Saudi Arabia and Chairman of the Zakat, Tax and Customs Authority (ZATCA) has issued [Decision NO. 59334](#) on the customs duties on 99 commodities, as a measure to increase the customs duties levied.

The Customs duty range has increased from 0% to 20% to 6% to 25% with the new decision in force. The following goods will be impacted by the increase in the customs duty:

- a. Mineral Products
- b. Plastics and plastic articles
- c. Glass and related products
- d. Live Animals
- e. Fish
- f. Foodstuffs
- g. Organic Chemicals
- h. Vehicles
- i. Aluminium Products
- j. Machinery and mechanical appliances

The purpose of this decision is to protect and encourage national industries and local production of agricultural products and will be effective from 12 June 2022.

For further information on the above-mentioned Tax Circular, please click here for [Arabic](#) and here for [English](#).

Should you need further clarification and details regarding this update, please contact our VAT Associate Director [Sunny Kachalia](#).

Saudi Arabia – The Zakat, Tax and Customs Authority (ZATCA) Declares the Initiation of Phase Two of the E-Invoicing Project

The Zakat, Tax and Customs Authority (ZATCA) has announced that Phase Two of the E-invoicing project will be implemented on 1st of January of 2023. Phase Two of the E-invoicing project will combine the ZATCA's platform (FATOORA) with the taxpayer's E-invoicing software generating the electronic invoices in a specific format with the addition of a few fields.

Phase Two of the E-invoicing project will be carried out in multiple waves. The first wave will be implemented on the selected taxpayers whose taxable revenue had exceeded 3 billion SAR in the year 2021. ZATCA will notify about the waves at least 6 months ahead, and this implementation will proceed gradually.

For further information on the above-mentioned announcement, please click [here](#).

Should you need further clarification and details regarding this update, please contact our VAT Associate Director [Charlotte Stanley](#).



International Tax & Tax Treaty

OECD Releases New Transfer Pricing Country Profiles for Egypt, Liberia, Saudi Arabia, and Sri Lanka

The OECD has announced the release of new transfer pricing profiles for [Egypt](#), [Liberia](#), [Saudi Arabia](#), and [Sri Lanka](#), bringing the total number of countries covered to 73. The profiles contain up-to-date and harmonized information on key aspects of transfer pricing legislation and practice. This includes information regarding the arm's length principle, transfer pricing methods, comparability analysis, intangible property, intra-group services, cost contribution agreements, transfer pricing documentation, administrative approaches to avoiding and resolving disputes, safe harbors, and other implementation measures. The information contained in the profiles is intended to clearly reflect the current state of a country's legislation and to indicate to what extent their rules follow the OECD Transfer Pricing Guidelines.

Should you need further clarification and details regarding this update, please contact our International Tax team – Partner [Anuj Kapoor](#), Transfer Pricing Associate Director [Nimesh Malik](#).

Saudi Arabia Relaunches COVID-19 Penalty Exemption Initiative

The Saudi Zakat, Tax, and Customs Authority (ZATCA) recently [announced](#) the relaunch of its penalty exemption initiative that was first introduced in response to the COVID-19 pandemic in 2020. The initiative is relaunched with effect from 1 June 2022 to 30 November 2022 for all taxpayers. As explained in the [English-language simplified guide](#) on the penalty exemption initiative, exemptions are provided from:

- Fines resulting from late registration under all tax systems or tax laws;
- Fines for delayed (late) payment and tax return filing in all tax systems;
- Fines resulting from the correction of a VAT return; and
- Fines resulting from field detection of violations of VAT and e-invoicing.

In order to benefit from the initiative, specific conditions must be met, including but not limited to:

- Registration in the tax system where registration is required for persons that are not registered; and
- The filing of all tax returns not yet filed and/or returns for the correction of previously filed returns, and the payment of the full tax debt associated with such late and/or corrected tax returns.
- Taxes covered by the initiative include VAT, Withholding Tax, Excise Tax, Income Tax, and Real Estate Transaction Tax (RETT).

Should you need further clarification and details regarding this update, please contact our International Tax team – Partner [Anuj Kapoor](#), Tax Senior Manager [Amisha Anil](#).

GCC Tax Treaty Development

BEPS MLI in Force for Bahrain

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force for Bahrain and Romania on 1 June 2022.

With respect to the covered agreements (tax treaties) between Bahrain and the other countries for which the MLI has already entered into force, the MLI is generally effective from 1 January 2023 in respect of withholding taxes and for taxable periods beginning on or after 1 December 2022 in respect of other taxes (six months after entry into force).

With respect to the covered agreements (tax treaties) between Romania and other countries for which the MLI has already entered into force, Romania took the reservation that the MLI will not be effective until additional internal procedures have been completed for each covered agreement and notification on the completion of the procedures is deposited. Such notification has not yet been deposited.

Should you need further clarification and details regarding this update, please contact our International Tax team –
Partner [Anuj Kapoor](#),
Tax Senior Manager [Amisha Anil](#).

Chilean Senate Approves Tax Treaties with India, the Netherlands, and the United Arab Emirates

On 8 June 2022, the Chilean Senate (upper house of Congress) approved the laws for the ratification of the pending tax treaties with India, the Netherlands, and the United Arab Emirates. The laws were approved by the Chamber of Deputies (lower house) on 3 March 2022.

The income tax treaty between Chile and the United Arab Emirates was signed on 31 December 2019. The treaty will enter into force once the ratification instruments are exchanged and will generally apply from 1 January of the year following its entry into force.

Should you need further clarification and details regarding this update, please contact our International Tax team –
Partner [Anuj Kapoor](#),
Manager [Tamer El Khatib](#).

Oman and Tanzania Conclude Tax Treaty Negotiations

According to a [joint statement](#) published by the Oman Ministry of Foreign Affairs on 14 June 2022, officials from Oman and Tanzania have concluded negotiations with the initialing of an income tax treaty. The treaty is the first of its kind between the two countries and must be signed and ratified before entering into force.

Should you need further clarification and details regarding this update, please contact our International Tax team –
Partner [Anuj Kapoor](#),
Manager [Tamer El Khatib](#).

Singapore Publishes MLI Impact for Tax Treaty with Bahrain

The Inland Revenue Authority of Singapore (IRAS) has published the impact of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) for the 2004 income tax treaty with Bahrain. Rather than including the MLI impacts directly within the text of the treaty as some countries have done (so-called synthesized texts), the impacts are provided in a new Annex A to the treaty.

The impacts of the MLI on the treaty have effect in Singapore:

- with respect to taxes withheld at source, in respect of amounts paid, deemed paid or liable to be paid (whichever is the earliest), on or after 1 January 2023; and
- with respect to taxes other than those withheld at source, where the income is derived or received in a basis period beginning on or after 1 December 2022.

Should you need further clarification and details regarding this update, please contact our International Tax team –
Partner [Anuj Kapoor](#),
Tax Senior Manager [Amisha Anil](#).

Tax Treaty Between the Czech Republic and Qatar Signed

The Czech Ministry of Finance has announced the signing of an income tax treaty with Qatar on 21 June 2022. The treaty is the first of its kind between the two countries and will enter into force after the ratification instruments are exchanged. Details of the treaty will be published once available.

Should you need further clarification and details regarding this update, please contact our International Tax team –
Partner [Anuj Kapoor](#),
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Protocol to Tax Treaty Between Guernsey and Qatar Signed

On 21 June 2022, officials from Guernsey and Qatar signed an amending protocol to the 2013 income tax treaty between the two jurisdictions.

The protocol is the first to amend the treaty and includes changes to implement the minimum BEPS standards. Details of the protocol will be published once available.

Should you need further clarification and details regarding this update, please contact our International Tax team –
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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.

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