



Tax Newsletter

September 2021 Edition



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Landscape

In our September 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



INDIRECT TAX

1. VAT in UAE

Federal Tax Authority (FTA) Conducts Events and Workshops to Educate More People

The FTA has been conducting various workshops to increase awareness amongst individuals and businesses about rules and regulations on various aspects of UAE taxation system.

On 14th September, the UAE Ministry of Finance held an awareness workshop on Common Reporting Standard ('CRS') compliance requirements in the UAE. During the session, a brief overview of entities in the scope of CRS was provided. Further, compliance obligations and due diligence procedures were also highlighted.

Subsequent tax clinic - virtual workshops were also conducted on 20th and 27th of September 2021.

The workshops and events are not only for VAT but also include other topics amongst others, Excise Tax, entrepreneurs – Dubai SME workshop, etc.

For further details or to register for the upcoming events, please email [FTA](#).

2. UAE Customs and Excise

Dubai Customs Exempt E-Commerce from Service Charges

By Customs Notice No. 13/2021, Dubai Customs provides an exemption for service charges on movement of e-commerce goods between companies, effective from 14th November 2021. The companies could be commercial companies, free zone companies and customs warehouse.

The logistics and e-commerce companies must adhere to the following requirement to be eligible for the exemptions:

- The value of the goods is below AED 30,000.
- Companies trading via e-commerce channels must register with Dubai Customs CRM.
- Logistics companies must register their clients under the Dubai Customs CRM before they clear goods on behalf the clients.

Considering the above, it is critical for the companies purchasing and selling e-commerce goods in the UAE to determine if they are eligible for the exemptions on customs service charges.

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

For more information on the Dubai Customs exemption update, please refer to [Customs Notice No. \(13/2021\)](#).

Dubai Customs Introduces Comprehensive Guide on its Customs Services During Expo 2020 Dubai

Dubai Customs launched a comprehensive guide for all the services and facilities it provides to enable traders and businesses, who selected Dubai as their preferred investment destination, to increase their trade and boost their revenues.

The guide will be introduced to the participants and exhibitors of EXPO 2020 Dubai. Within the national efforts and preparations to fulfil the requirements of bold plans and agendas of EXPO 2020, Dubai Customs has built a network of smart channels that add value to any business activity. One of them is the dedicated Smart Expo 2020 Customs Channel, which will serve exhibitors at the global event. Further, Custom centers are to be set up in Jebel Ali and Al Maktoum International Airport to ensure around the clock services for streamlined and quick custom processes thereby, saving time and cost.

Specialised programmes such as the Authorized Economic Operator (AEO) are being launched at the Federal level to improve external trade. With the assistance of the AEO, 80 companies' members amount to AED20 billion in external trade. Cross Border E-Commerce platform was designed to attract more business and investments with the aim to achieve AED 24 billion through increasing business share in e-commerce on a local and regional level by 2024.

Should you need further clarification and details regarding this update, please contact our Tax Director [Harsh Bhatia](#) or Senior Manager [Angela Sharma](#).

Federal Tax Authority to Implement Digital Tax Stamp with New Design on Excise Goods

As per the FTA Decision No. 3 of 2021, a new product scheme will be implemented on the designated excise goods. For the purpose of this decision, 'Designated Excise Goods' mean all of the following:

1. All types of cigarettes
2. Electrically heated cigarettes
3. Water pipe tobacco – which is any product being imported, produced or cultivated in the State that could be classified as “Water Pipe tobacco” according to schedule 24 of the United Customs tariff for the GCC States.

The marks with new designs once approved for the above products will supersede the older designs. Further, the decision illustrates the application of effective dates as follows:

Scope	Date	Event
Local markets and duty-free markets – Arrival terminal	1 October 2021	Receiving requests for marks with the new design for Local markets and duty-free markets – Arrival terminal
Duty-free markets – Departure terminals	1 January 2022	Receiving requests for marks with the new design for Duty-free markets – Departure terminals



The GCC Update



INDIRECT TAX

1. VAT

KSA to Bear VAT on Private Educational Services Provided to Citizens

The Zakat, Tax and Customs Authority ('ZATCA') has recently approved new mechanism for the private educational sectors where that the Kingdom will bear value-added tax ('VAT') on behalf of citizens benefiting from private education.

The new mechanism is applicable on educational services, which include tuition costs and textbooks, sold directly by a VAT registered educational institution which are approved by the Ministry of Education ('MoE'). This would also include educational services provided by the private universities (i.e., Bachelor's Degree) which fall under the supervision of the Ministry of Education.

The mechanism for Saudi and non-Saudi citizens is listed below:

Non-Saudi citizens: Private educational systems are required to issue VAT invoices including VAT at 15% in correspondence with the KSA VAT Law and Implementing Regulations.

Saudi citizens: Private educational systems registered for VAT are required to issue VAT invoices to Saudi citizens for the amount due for the services provided exclusive of VAT. The institutions must include the national's contact information and National identification number on the VAT invoice issued to them. When filing their VAT returns, the educational provider should declare the value of such supply within the designated field "Sales to citizens (private health services/ private education /first residence)" without paying VAT due on that supply.

Similar to other sectors, the private educational institutions registered for VAT are entitled to deduct VAT due on inputs, subject to the conditions outlined by the KSA VAT Law and Implementing Regulations.

While educational services in the UAE and Bahrain are zero-rated and in Oman they are treated as exempt supplies, the initiative taken by the Saudi government reflects divergent practices in the GCC countries with regards to the application of the GCC VAT Agreement.

Zakat, Tax and Customs Authority (ZATCA) Released an E-invoicing Guide in English

The guidelines on the e-invoicing project or "Fatoorah" were issued in the beginning of 2021 and the English version of the regulations were recently published by ZATCA. The guide describes the conditions for e-invoicing and the technical and compliance requirements for e-invoicing such as invoice specification, data dictionary, rights and obligations of taxable persons for e-invoicing application.

KSA plans to implement the e-invoicing system in two phases:

Phase	Effective From	Obligations of Taxpayer
I Generation	4 December 2021	Creation and storage of e-invoices in specific invoice formats
II Integration	1 January 2023	Integration of taxpayer's e-invoicing solutions with ZATCA e-invoicing platform

The first phase begins on 4 December 2021 where taxpayers will equip their system on or before the deadline to be able to create, edit, and store e-invoices in specified electronic formats.

In this phase, the ZATCA clarified the requirements that the taxpayers must avoid generating handwritten or typed invoices through text editing software or figure analysis software and ensure availability of an e-invoicing system or solution which is compliant with the requirements published by the authority.

The second phase of implementation is set to start, beginning on 1 January 2023. By this date, the e-invoicing solutions used by the taxpayers should be integrated with the ZATCA's e-invoicing portal for Continuous Transaction Controls (CTC) to work. In this phase, the taxpayers must start getting their invoices authenticated by the ZATCA portal before delivering them to the customers.

The English version of the guide can be accessed using the link [here](#).

We highly encourage businesses in KSA to start assessing the requirements and applicability of e-invoicing guidelines to current and future operations in KSA to avoid penalties for non-compliance.

According to licensed solution and software providers, transition of systems to fulfil e-invoicing requirements may require a month or two to fully integrate a compatible solution that allows to streamline and automate Accounts Payable/ Accounts Receivable invoicing processes. Apart from that, relevant manpower should also be trained and prepared for ongoing digital transformation, data exchange regulations, and modern data transfer standards.

It should be taken into consideration that there may be cash flow impact on a business if e-invoicing is not properly planned and executed which can result into rejection of non-compliant e-invoices, amongst other issues.

E-invoicing in KSA changes not only the manner of issuing invoices but also transform the way, modern accounting integrates with the digital requirements for rapid data capturing of the government, resulting to better transparency of the economic condition of the country.

Given the advent of e-invoicing in KSA (and expectedly across other GCC countries as well), it is imperative that KSA taxpayers with transfer pricing profiles pre-align their related party transaction pricing and TP policy in advance to the roll-out of e-invoicing. KSA taxpayer(s) tend to make necessary transfer pricing adjustments, say through issuance of credit notes or debit notes (as the case may be), in order to bring its financial results within the arm's length range for comparable independent transactions. The timing and values of these adjustments may not necessarily coincide with the issuance and values ascribed to VAT e-invoices. This could potentially raise a red flag before the tax department unless such gaps are properly classified and supported by robust documentation. There could be other transfer pricing related triggers for similar mis-match to arise and be reconciled; and hence such plausible events should be assessed and measured as a readiness preparation for embracing e-invoicing regime.

We would be conducting a series of webinar from October 2021 in partnership with solution providers to share our insights on the general requirements of e-invoicing, other areas of the business that may be impacted by it, and how it may influence the financial and economic developments in KSA. It would be also a platform to hear your concerns and to initiate a thought process for a tailored fit solution development.

Should you need further clarification and details regarding this update, please contact our Tax Director [Harsh Bhatia](#) or Senior Manager [Angela Sharma](#).

Zakat, Tax and Customs Authority (ZATCA) Releases Guide for Government Bodies in KSA

ZATCA recently published guide for Government Bodies in KSA with the intent to provide clarifications with respect to the interpretation of Economic Activity for VAT purposes, in addition to the VAT treatment of transactions between persons and such bodies. The guideline provides information on the VAT treatment of activities undertaken by these bodies, especially those activities that are subject to VAT, and which are outside the scope of VAT.

Government bodies can be defined as “Public Authority” who carry out the designated activities assigned to them by the State through the Law, Royal Decree or order. This does not constitute an Economic Activity thus, they fall outside the scope of VAT, regardless of whether the body charges for carrying out these functions.

To illustrate, a Saudi government authority is responsible to issue operational licenses to businesses in a certain sector as one of its core functions. The authority charges a fee of SAR 1,500 to the businesses for the license and an administrative fee of SAR 750 for renewal of the operational license. The government authority does not carry out an Economic Activity in respect of issue and renewal of these licenses. VAT is not included on the fees charged to companies in consideration of the issue and renewal of such licenses. On the other hand, if a government body carries out activities which involve making supplies of goods or services in a capacity other than its capacity as a public authority, the government body shall be regarded as carrying on an economic activity for VAT purposes.

It is important to note that the private companies fully/ partially owned by the State will not be considered as a Governmental body since such companies will be viewed to be carrying on an Economic Activity similar to privately owned companies and will be subject to normal VAT rules in KSA.

Further, the guide stipulates the requirements for input VAT deduction on purchases made by VAT registered government bodies which can be summarized as follows.

Purchases	Regulations for Input VAT deductions
Input VAT incurred in relation to activities in the capacity of a public authority (i.e., non-economic activity)	No deduction
Input VAT incurred partly in relation to economic activities and partly to non-economic activities	Partial VAT deduction – subject to Apportionment

For more information on VAT guidelines for Government Bodies in the KSA, please access [English Version](#) or [Arabic Version](#).

Bahrain Proposes to Increase the Current VAT Rate of 5% to 10%

Following in the footsteps of KSA to increase the standard rate of VAT in 2020, Bahrain will double the VAT rate from 5% to 10% to stabilize budget deficits as well as to boost State revenue. The Council of Ministers in Bahrain have approved the increase in VAT which should then, be followed by the issuance of circulars and regulations before actual implementation which is expected to come into effect from 1 January 2022.

During this time, it is not expected that there will be any changes to the supplies currently subject to the zero-rate of VAT (such as on basic food items, healthcare, oil and gas sector and certain construction services). It is also expected that the VAT exemptions will remain for certain Financial Services and Real Estate supplies.

Nevertheless, with the three months remaining in 2021, affected Bahrain registered businesses may face a crunch time to implement changes and apply transitional rules such as configuration of IT accounting systems, review of affected contracts, apply grandfathering rules , and notify customers of this increase and effecting on pricing.

We shall provide further updates on the progress or any outcome of the discussion in our subsequent newsletters.



International Tax
& Transfer Pricing

International Tax and Transfer Pricing

Bahrain Extends ESR Filing Deadline to 18 September 2021

Bahrain's Ministry of Industry, Commerce and Tourism (MOICT) recently announced that the deadline for filing the economic substance return for the fiscal year ending 2020 has been extended to 18 September 2021, a further extension from 12 September 2021 deadline as previously declared. The granted extension aims to provide more time for Bahrain entities to file their returns due to the increased level of registrations and submissions through the new [International Tax Information Exchange System \(ITIES\)](#) portal.

Bahrain introduced Economic Substance Regulations (ESR) in January 2019 and it applies to Bahrain entities that undertake any of the Relevant Activities under Ministerial Order No. 106 Concerning ESR in Bahrain or fall within one or more of the 'relevant activity' codes under the entities' commercial registration.

Bahrain entities in-scope of the ESR rules are required to submit an economic substance return within the statutory deadline of three months from the entity's financial year end. We expect that no further deadline extension will be granted, therefore, Bahrain entities subject to the ESR are advised to register and comply with the filing through the online portal <https://ities.nbr.gov.bh> before the specified deadline.

Qatar Further Extends Tax Return Deadline for Exempt Entities

On 30 August, Qatar's General Tax Authority issued Circular No. 6 of 2021 announcing an additional extension by four months for the submission of tax returns for the fiscal year 2020, thereby making the new deadline to be 31 December 2021.

The extension only applies to Qatari and GCC owned entities in Qatar that are exempt from Income Tax.

Qatar entities with total value of assets or total annual turnover equal to or in excess of QAR10 million for the year 2020, and having associated entities in Qatar or abroad, are also required to submit a Transfer Pricing (TP) Declaration Form for the relevant financial year.

The TP Declaration Form must be submitted electronically, along with the annual income tax return, through the "Dhareeba" tax portal. We recommend that relevant Qatari taxpayers comply with the filing requirements within the prescribed deadline to avoid incurring penalties.

GCC Tax Treaty Development

Protocol to Tax Treaty Between Qatar and China Entered Into Force

On 24 August 2021, the amending protocol to the 2021 income tax treaty between Qatar and China has entered into force. The protocol was signed on 11 March 2021 and provides that an enterprise of a contracting state obtaining income from the operation of aircraft in international traffic in the other contracting state shall be exempt from Value Added Tax in that other contracting state. The protocol is effective for income received on or after 1 April 2021.

Qatar Cabinet Approves Pending Tax Treaty with the Democratic Republic of Congo

On 4 August 2021, Qatar approved the pending income tax treaty with the Democratic Republic of Congo. The treaty was signed on 29 March 2021 and is the first of its kind between the two countries and will enter into force once the ratification instruments are exchanged. The income tax treaty will apply from 1 January of the year following its entry into force.

Ukraine Approves Pending Protocol to Tax Treaty with the UAE

On 8 September 2021, Ukraine approved the ratification of the pending protocol to the 2003 income and capital tax treaty with the UAE. The protocol was signed on 14 February 2021 and is the first to amend the treaty and includes changes to bring the treaty in line with OECD BEPS standards, as well as amendments to the withholding tax provisions for dividends, interest, and royalties, and other changes. The protocol will enter into force once the ratification instruments are exchanged and will apply from 1 January of the year following its entry into force.

Amending Protocol to Tax Treaty Between Qatar and Ukraine Signed

On 2 September 2021, Ukraine has announced the signing of an amending protocol to the 2018 income tax treaty with Qatar. The protocol is the first to amend the treaty and includes updates to Articles 25 (Mutual Agreement Procedure) and 26 (Exchange of Information), as well as a new Article 28 (Entitlement to Benefits). The protocol will be effective after the ratification instruments are exchanged.



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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