



Transitional Measures for Supplies within GCC States

Previously, the FTA have stated that the UAE shall treat the movement of goods between UAE and Kingdom of Saudi Arabia (“KSA”) as Non-GCC Exports (when goods are shipped from the UAE to KSA) and Non-GCC Imports (when goods are shipped from KSA to the UAE). This shall be the practice until both the UAE and KSA recognise each other as “VAT Implementing States”. There were some doubts as to whether this approach extends to supply of services between the UAE and KSA. The FTA has announced that this approach for supplies of goods between the UAE and KSA, shall also apply to the supply of services between the UAE and KSA. Highlighted below are impact scenarios on the approach for the cross border supply of services.

Specific Services:

The following services should not be affected by these transitional rules:

- Supply of Services related to Goods, such as installation of Goods (Article 30 Clause 3 of the Federal Decree Law No. (8) of 2017)
- Supply of means of transport to a lessee who is not a Taxable Person in the UAE and does not have a TRN in an Implementing State (Article 30 Clause 4 of the Federal Decree Law No. (8) of 2017)
- Supply of restaurant, hotel, and food and drink catering Services (Article 30 Clause 5 of the Federal Decree Law No. (8) of 2017)
- Supply of any cultural, artistic, sporting, educational or any similar Services (Article 30 Clause 6 of the Federal Decree Law No. (8) of 2017)
- Supply of Services related to real estate as specified in the Executive Regulations of this Decree Law (Article 30 Clause 7 of the Federal Decree Law No. (8) of 2017)
- Supply of transportation Services (Article 30 Clause 8 of the Federal Decree Law No. (8) of 2017)

Non-Specific Services:

Where UAE Suppliers provide non-specific service to a customer located in KSA, their services will fall within the scope of UAE VAT. This shall be the approach for customers who are registered in KSA (B2B) and for customers who are not registered in KSA (B2C). With this transitional measure in place, KSA shall be regarded as a Non-Implementing State and such services shall qualify as an export of services subject to 0% UAE VAT, pursuant to Article (45) of the Federal Decree Law No. (8) and Article (31) of the Executive Regulations of the Federal Decree Law No. (8), whether supplied to customers B2B or B2C.

Impact:

Such services should be reported as “zero-rated supplies” in the UAE supplier’s VAT Returns. The UAE Supplier is not required to issue a Tax Invoice for a wholly zero-rated supply should there be sufficient records to establish the particulars of the supply (Article (59) Clause 3 of the Executive Regulations of the Federal Decree Law No. (8).

General Services: KSA to UAE

Customers registered in the UAE will continue to account for UAE VAT on import of Services from the KSA as the transaction will be treated as an import of Services from outside Implementing States. The registered customer shall account for UAE VAT on behalf of their overseas supplier via the reverse charge mechanism where applicable. For customers who are not registered in the UAE, the supplies from KSA may be subject to KSA VAT at either 5% or 0%. This will depend on whether KSA decides to follow a similar transitional measure for services.

Impacts:

- No impact on customers who are registered in the UAE.
- Customers who are not registered in the UAE will have to wait for the decision from KSA before we can foresee any potential impact.

Next Steps:

UAE companies should evaluate the impact of these rules announced by the FTA on their IT systems, pricing decisions and other requirements relating to any services provided to or procured from the KSA.

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