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Value Added Tax in the GCC

All in the details for value added tax in the GCC

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WHAT does VAT imply for Businesses?

VAT will impact every part of the business with regard to cash flow, costing of capital, pricing of products and services, financial reporting, tax accounting, compliance processes, supply chain, procurement and contracting, and all technology currently enabling this ecosystem. In addition, there will be significant training needs for personnel to understand and operate effectively under a VAT regime.

The businesses which have operations in multiple GCC member states, must examine the impact of the special rules on intra-GCC supplies and acquisitions and intra-group transactions to ascertain whether the current organization model will remain effective after the new VAT system is implemented," said Sexton.

There is a relatively short time frame in which to consider the implications of the introduction of VAT and to make the necessary changes. Therefore, there will be a penalty regime applicable in cases of errors made, and this is why it will be key to have the right systems and procedures in place to limit the exposure.

WHEN will VAT be implemented?

The UAE and Saudi will introduce value-added tax from January, 2018 but other countries in the Gulf may take a little longer, on account of major administrative and technical challenges for GCC governments, requiring them to draft detailed regulations, register companies paying the tax and create bureaucracies to oversee the system.

Kuwait in particular may lag, partly because of its slow-moving civil service and partly because it's relatively independent parliament may want a say in the process. Officials in Oman have not announced a firm date for VAT introduction, and those in Bahrain, which has also struggled to push austerity measures past parliament, have said it is expected by mid-2018. Since regional agreement on the tax was reached, Saudi Arabia, the UAE and Bahrain have cut diplomatic and transport ties with Qatar, accusing it of supporting terrorism. Qatari officials have not said whether this could affect their timetable for introducing VAT.

HOW will it affect the businesses and consumers in terms of cost?

As VAT is a tax on consumption rather than tax on sales, in an ideal scenario VAT shall be only a pass-through liability of the business wherein the company collects the VAT from its customers, takes the credit of the VAT it has already paid and pays the balance to the government. However, if sales process and purchase process is not designed with required controls there may be a scenario wherein there is loss in the margin of business due to VAT.

Businesses in the tourism sector may face multiple registration obligations and significant compliance requirements, as many functions are loosely categorized under tourism industry. Capital intensive industry like Oil and Gas may face issues related to working capital and time taken for refund of input VAT credits.

WHY is implementation of VAT so important?

The economies of the GCC countries are highly dependent on the energy sector, where the hydrocarbon sector constitutes around 40% of their GDP. Moreover, revenues from the oil and gas sector accounts for about 80% of the governments' budgets. Consequently, the recent drop in oil prices has had a large impact on the GCC countries' budgets, as reflected in their fiscal deficits in the past year, compared with large surpluses in 2012. The volatility of oil prices has motivated GCC countries to initiate reforms with the goal of diversifying their income sources. Hence, came their decision to impose a 5% Value Added Tax (VAT) in an effort to elevate the robustness of government income.

Existing taxes are modest and their contribution to the budget is insignificant. For example, Bahrain, the UAE and Oman have taxes below 10% on hotels and entertainment, property rents, and government services. No personal income tax is imposed in the GCC, while corporate taxes are applied only on foreign-owned companies. Therefore, higher revenues can be generated and the efficiency of the tax system can be improved by introducing VAT.

Imposing 5% VAT in the GCC countries is expected to generate revenues approximately equal to 1.6% of the GDP in Bahrain and Saudi Arabia, 1.5% in the UAE, 1.4% in Kuwait and Oman, and 0.8% in Qatar, implying a significant rise in current, non-oil revenues.

References

1. Is VAT the best choice for the GCC countries?
2. Other GCC states may introduce VAT after UAE and Saudi
3. How VAT will impact businesses in UAE
4. VAT and its impact on businesses in GCC Countries

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