Transition into the GCC’s new VAT era

10 GCC VAT questions you need to know
The introduction of Value-Added Tax (VAT) has been a paradigm shift for countries and companies based in the Gulf Cooperation Council (GCC). Tax reform is well underway in the region. The United Arab Emirates (UAE), Kingdom of Saudi Arabia (KSA) and Bahrain have already gone live with VAT; and Oman, Qatar and Kuwait are preparing to transition into their VAT regimes soon.

Companies that have been managing VAT for some time should now shift their focus toward strengthening their VAT knowledge and skills base, while refining processes and systems in order to meet compliance obligations with confidence, accuracy and efficiency. It’s also essential for these organizations to be sure that they have taken the necessary preventive steps to cope with tax audits. In the UAE, KSA and Bahrain, any VAT-registered entity can be subjected to an audit by the Federal Tax Authority (FTA), the General Authority for Zakat & Tax (GAZT) or the National Bureau of Revenue (NBR) respectively.

On the other hand, those businesses operating in countries that are not yet VAT live, are advised to make VAT compliance a priority – focusing on their VAT policies, updating their risk profiles, assessing their IT systems and considering a range of other elements as they prepare for their new tax obligations.

Pierre Arman, Market Development Lead for Tax & Accounting at Thomson Reuters, MENA, answers the 10 most common questions that businesses ask about VAT in the GCC – advising businesses on the steps they can take to overcome challenges.
1 Where is VAT applicable? Is there any exemption?

VAT is a broad-based consumption tax. This means it covers a wide range of goods and services in its tax net and the burden of this tax is borne by the final consumer. VAT is also an indirect tax, which means it is remitted to the government by companies even though the government is not taxing companies but rather final consumers. This is in contrast with direct tax, such as income tax, where the individual remitting tax to the government is the same individual that the government wants to tax.

Typically, each country has its own specifications about what is taxable under VAT; and we have seen countries in the GCC take different approaches when defining what is taxable, zero-rated and exempt under their respective VAT laws. However, a general trend worldwide is for certain products, such as luxury goods (cars, perfumes and so forth), to be taxable under VAT, while basic food elements and services such as education, healthcare and the provision of utilities (such as water and electricity) are usually either exempt or zero-rated.

2 Companies in Oman, Qatar and Kuwait are being advised to ‘take action’ now and prepare for the introduction of VAT. What step should be taken first?

First and foremost, every company should engage with their tax advisor(s). Before organizations can plan for VAT, they need to understand its potential impact on their business. Companies need to gain insight into the tax treatment of all their day-to-day transactions, understand the impact of VAT on each function/department, and identify the gaps between where they are now and where they need to be when VAT goes live in their countries of operation.
In practical terms, what are the compliance requirements under VAT for companies?

At a very high level, organizations need to be able to track and record VAT on every single transaction they undertake as a business, to show how much VAT they have either collected on sales (VAT output) or paid on purchases (VAT input). At the end of the period, which can be on a monthly or quarterly basis, or even annually (typically for very small businesses), they summarize this information into a VAT return. This return then needs to be filed into the relevant government portal (or in some countries, delivered in paper form).

At a more strategic level, to achieve this goal and be fully compliant under VAT, every company needs to design a VAT policy, understand its risk profile, implement a compliance strategy and operational process, and finally review its existing IT systems.

It’s also always good to remember that VAT is a self-assessed tax. This means that the government’s main interest is in the VAT return filed – the business is responsible for determining its own VAT liability. However, this also means that, should the tax authorities challenge a company on a particular VAT return and that company is unable to justify certain key figures (because its compliance processes are not robust enough or its data is not detailed enough), then that company could find it challenging to defend itself. This is not a pleasant position to be in.

How can companies ensure that their tax strategies are compliant with the VAT law?

The only sensible option here is to work with a tax advisor who has the dedicated VAT expertise and resources available to help a company understand how VAT might impact its business, as well as provide advice on how it can reduce its liability. This way, a company knows that its tax strategy and its VAT policy, procedures and controls have been reviewed and approved by a competent and independent party. This is very important from a risk management point of view.
What are some of the challenges faced by companies in the UAE, KSA and Bahrain; and which areas should they invest in to reduce the risk of non-compliance?

Two of the most striking challenges I’ve experienced when consulting with clients in the region are 1) the lack of knowledgeable resources and 2) the complex IT environment companies must deal with.

Most companies have legacy systems or in-house-built solutions that were never developed with tax in mind. Most of these systems are unable to cope with any VAT-induced logic needed to capture the correct tax treatment on each transaction.

In addition, the lack of knowledgeable resources sometimes leads to an assumption that the VAT project is an IT project only. This disconnection between the IT and finance/tax functions leads to multiple challenges down the line. The IT team will never understand the type of data required to produce a VAT return if the finance/tax team does not provide guidance. The tax function must therefore work closely with the finance/tax function to ensure systems are fit for purpose in good time. This helps to avoid last-minute chaos when the VAT return is due to be filed.

A key goal is for all companies – including those already registered for VAT and those preparing for VAT implementation – to future-proof their organizations. The processes and systems in place should be able to cope with both current and future compliance obligations in the GCC’s complex and ever-evolving tax environment.

What are the implications for businesses not ready for VAT when it goes live?

The implications can be profound. Not being sufficiently prepared to manage VAT may see companies failing to comply with the VAT law of the country in which they operate. This could expose these organizations to fines, penalties and even jail time (in the case of Bahrain, for instance).

While people expected tax authorities to be lenient on companies during the early days of VAT compliance, this has not necessarily been the case. It was reported that the General Authority of Zakat and Tax (GAZT) in KSA issued over 5000 orders for VAT violations during the first six months of 2018 alone.

There is therefore only one rule when it comes to VAT compliance: it’s better to be safe than sorry.
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How will VAT impact GDP growth, inflation and investment behavior in the GCC?

I strongly believe that VAT is a great opportunity for this region, as it will provide governments with a consistent source of revenue that can help them to diversify their commodity-based economies (i.e. those reliant mostly on oil and gas).

To date, VAT revenue in the UAE and KSA has exceeded expectations. During 2018, the UAE collected Dh27 billion in VAT revenues, outstripping its target of Dh12 billion for the year, as well as its Dh20 billion estimate for 2019. Similarly, Saudi Arabia collected 45.6 billion riyals in VAT revenue during 2018, which equates to more than double initial projections for the Kingdom.

If you also look at the economic impact, VAT is probably one of the least harmful taxes, since it is – in theory – cost-neutral for businesses (if managed correctly). It also drives job creation in multiple countries. Ultimately, investors should see the region’s VAT introduction as a sign of stability and willingness to move away from a commodity-centric economic model, which can be extremely volatile as we have witnessed in recent years.

What are the potential factors that determine the success of the implementation of VAT?

VAT is a duty on both sides of the equation. Thus, its success should be looked at from both a government and taxpayer point of view. On one hand, a clear key performance indicator (KPI) for governments is how much VAT is collected throughout the fiscal year.

On the other hand, KPIs for taxpayers are focused on how easy it is for any company to be VAT compliant – for example, the amount of time spent producing each VAT return, the amount of manual effort required to produce accurate figures, and the amount of VAT that can be recovered as opposed to the amount eligible for recovery in that period.

Finally, VAT is a journey; and both sides of the equation will continue to improve as time goes by. Governments will become more accurate and astute in refining VAT policies and enforcing compliance, while companies will learn how produce VAT returns more efficiently and accurately.
What can be learned from the VAT experiences in the UAE, KSA and Bahrain?

One of the main lessons we have learned from VAT introduction initiatives in the region and worldwide, is that they generate a substantial revenue stream for governments. At the same time, VAT represents a paradigm shift for companies, which must devote more resources towards VAT management and compliance; and adjust their processes and infrastructures accordingly.

As companies in the UAE, Saudi Arabia and Bahrain have adapted to the new tax environment, for example, many have come to realize that manual VAT processes are not compatible with efficient, accurate compliance and reporting. Instead of relying on time-consuming and error-prone manual processes, many of the companies I work with are realizing that they can streamline VAT management and reporting with technology that’s tailor-made for the GCC’s VAT environment. This type of platform can automate the grunt work and provide access to the latest government-issued regulations and taxpayer guides; as well as the official forms, logic and tax calculations required for creating and filing compliant tax returns in any GCC country.

Which sectors are most affected by VAT?

All sectors are affected by VAT, no matter whether they are caught in the VAT net or branded as an exempt, zero-rated or out-of-scope industry (each country might have a different approach). People tend to view VAT as a problem for the finance department or IT to solve on their own. However, this could not be further from the truth. All departments feel the ripple-effects – from operations to human resources. Industries are in the same boat. From financial services and education through to retail and luxury, every sector is impacted.

In this context, businesses in Oman, Qatar and Kuwait should gain an understanding of how VAT will affect them and start preparing now for effective VAT compliance. The old adage has never been so true – “failing to plan is planning to fail”.

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How can Thomson Reuters help your business become more VAT confident?

Thomson Reuters is the world leader in tax and accounting technology solutions. We provide VAT automation solutions and work in conjunction with companies and tax advisors (as Thomson Reuters does not provide tax advisory services). We offer companies an end-to-end VAT automation solution, from calculating the right amount of tax on your invoices to e-filing your VAT return every month, based on our expertise serving thousands of clients worldwide.

If you’d like to know more about the benefits of VAT Technology, there’s no time like the present.

Contact us to speak with our specialist: onesource.mena@thomsonreuters.com

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