VALUE ADDED TAX IN THE GCC

Details on the new VAT established in the region covered by the GCC, including implementation best practices and documentation requirements

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According to BusinessDictionary.com, a value added tax (VAT) was first introduced by the European Economic Community (now the European Union) in the 1970s and is an "indirect tax on the domestic consumption of goods and services, except those that are zero-rated or are otherwise exempt. It is levied at each stage in the chain of production and distribution from raw materials to the final sale based on the value (price) added at each stage. It is not a cost to the producer or the distribution chain members, and whereas its full brunt is borne by the end consumer, it avoids the double taxation of a direct sales tax." (2017). VAT can also be referred to as a GST, or Goods and Services Tax. More than 150 countries, including Australia, Canada, New Zealand, Singapore and Malaysia, have implemented VAT taxes ranging from 5 percent in the Gulf Cooperation Council (GCC) states up to 25 percent in Denmark.

A new value added tax (VAT) has been established by the Gulf Cooperation Council (GCC) with an implementation date of January 1, 2018 in the United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA). Other GCC countries such as Kuwait, Bahrain and Oman will follow in the coming years with most indicating implementation in 2019. Who must register? Any business under the jurisdiction of the UAE or KSA "with a total annual taxable turnover, achieved or expected to be achieved in this jurisdiction, exceeding the mandatory registration threshold of AED 375,000 /SAR 375,000 (approximately USD 100,000)" *(PWC, 2017)*.

The new VAT implemented by the GCC provides general guidelines for the member states, but rules may differ from state to state. For example, member states have some flexibility when it comes to applicable exemptions and zero rates. The areas with some flexibility include

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VAT, GST and Sales Taxes

To view a complete listing of VAT, GST and sales taxes around the globe, go to the following link to tax guides developed by EY. The current publication, *Worldwide VAT, GST and Sales Tax Guide*, is over 1,100 pages long and provides guidelines for hundreds of countries around the world. They also provide other tax guides on topics such as corporate taxes, personal taxes, and worldwide capital and fixed assets.

EY Global Tax Guide Archive:
http://www.ey.com/gl/en/services/tax/global-tax-guide-archive

GCC VAT Deadlines

UAE companies with annual taxable turnover in excess of AED 150m must have registered.	October 31, 2017
UAE companies with annual taxable turnover in excess of AED 10m must have registered.	November 30, 2017
All UAE companies required to be registered by January 1, 2018 to apply for registration before December 4, 2018.	December 4, 2017
All KSA companies (over SAR 1m turnover) required to be registered by December 20, 2017.	December 20, 2017
All invoices to be issued must comply with VAT.	January 1, 2018
Non-compliance penalties for late/non-registration.	February 1, 2018
First submittal date for monthly VAT returns	February 28, 2018
Non-compliance penalties for late, non-filing and non-payment.	March 1, 2018
First submittal date for quarterly VAT returns	April 30, 2018

Source: https://www.pwc.com/m1/en/tax/vat-in-the-middle-east/pdf/vat-are-you-prepared-oct17.pdf (PWC, 2017)

education, real estate, healthcare, financial services and transport *(Deloitte, 2017)*. If you are located in the UAE or KSA; whereas of January 1, 2018 all invoices issued must comply with VAT, confirm with the presiding taxing authority on the proper treatment.

Registration Deadlines

Many of the registration deadlines have already passed; so, if your business has not registered, check with the local taxing authority to determine the correct actions to take to comply with the new requirements. Registration in the UAE began in 2017 with an October 31, 2017 deadline for businesses with an annual taxable turnover in excess of AED 150m. November 30, 2017 was the deadline for businesses with a taxable turnover in excess of AED 10m, and all other businesses had to be registered by January 1, 2018 *(see GCC VAT Deadlines chart above)*. In Saudi Arabia many businesses were automatically registered by the taxing authority; and, if not, then businesses where turnover exceeds SAR 1m needed to register by December 20, 2017. Businesses with turnover under SAR 1m have until December 20, 2018 to be registered *(PWC, 2017)*.

VAT Requirements and Documentation

There are four primary parts to the VAT: charging the value added tax, issuing tax invoices, filing periodical VAT returns and paying any VAT due to the taxing authorities. As with any type of taxes and taxing authorities, it is important to retain the proper documentation. According to Deloitte, the following are some of the documents which are typically required to be maintained for VAT purposes. Again, this may vary from state to state within the GCC, so confirm with your local taxing authorities.

VAT Documentation

- Sales invoices
- Credit notices issued to customers
- Purchase invoices on which an Input Tax credit is claimed
- Credit notes or debit notes received from vendors for purchases
- Contracts setting out terms under which VAT may become payable
- General accounts which identify the audit trail between the original documentation and the eventual VAT return for the period.
- Any correspondence with the authorities that dictates, or agrees the treatment of VAT in specific circumstances.

Source: https://www2.deloitte.com/xe/en/pages/tax/articles/vat-gcc-faq.html

Impact on the Hospitality Industry

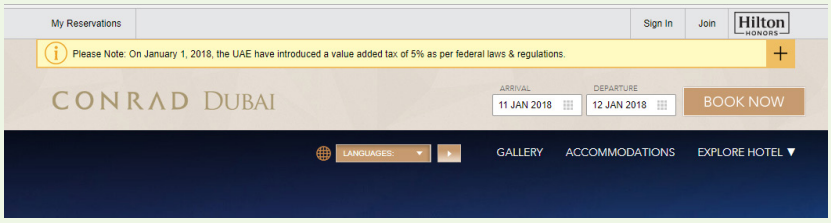
There are several segments of the hospitality and tourism industry which will be impacted. The following sectors or sources of revenue for the hospitality industry subject to the 5 percent value added tax: private transport services, food and beverage, cinema and theme park

tickets, entertainment and recreational fees, hotel services, tour packages, service charges, and dining out *(Abbas, 2017; EY, 2017)*. This list provides a glimpse at the items impacting the hospitality industry, but there are many other items which will be subject to VAT as well including: gold jewelry, clothing and shoes, and cosmetic products.

For the hospitality industry, it is important to be transparent with guests about any pricing changes, additional fees or taxes which will be added to their final bill. Hoteliers are notifying guests of the new VAT in various ways: formal letters, emails, flyers and via hotel staff. Hotel staff in many locations have been instructed to provide guests with information on the new 5 percent tax when guests are checking into hotels; and, as seen in the web page image below, companies like Hilton are notifying guests as they are booking rooms on the company's website.

At this point, organizations should have all of the pieces of the puzzle in place for this taxing change which will impact all areas of the business: cash flow, costing of capital, pricing of products and services, financial reporting, tax accounting, compliance processes, supply chain management, procurement, contracting, and all technology systems *(EY, 2017)*. As technology is a key element of any business, companies must insure their systems are up to date and can accommodate these changes.

Notification of New VAT Tax



The Conrad Dubai informed guests of the new 5 percent VAT tax with a notification at the top of its website.

Source: http://conradhotels3.hilton.com/en/hotels/uae/conrad-dubai-DXBCDCI/index.html

Implementing Accounting Changes

When changing accounting practices, whether it be to comply with new industry guidelines set forth in publications such as the *Uniform System of Accounts for the Lodging Industry (USALI)* or instituting a new value added tax, there are key concerns and questions a business must address. Experts at EY outlined the following top 10 key actions to take when preparing for the VAT in the GCC states. These guidelines could be easily modified and utilized any time there is a change in accounting processes.

1. Make a project plan and budget for the cost of implementing VAT (e.g., consultant fees, configuration of accounting systems, training expenses and hiring of additional finance support)
2. Consider the cash flow impact as VAT is paid on an accrual basis
3. Analyze the capabilities of existing accounting systems to deal with VAT
4. Review accounts payable processes to assess whether tracking and posting of expenses are done in a timely manner.
5. Review employees' benefits and the process of approving expense claims
6. Determine the changes required for existing documentation to support compliance with VAT
7. Analyze and understand transitional issues for supplies of goods and services that span the VAT implementation period.
8. Evaluate the impact on pricing for any supplies that span the VAT implementation period.
9. Train employees to appreciate the impact of VAT on accounting and reporting processes.
10. Identify the legal implications of existing long-term contracts spanning the VAT implementation period.

(EY, 2017)

System Modifications Due to the USALI 11th Edition Adoption

In a survey conducted by HFTP in 2015, lodging participants were asked about the transition from the 10th to the 11th edition of *the Uniform System of Accounts for the Lodging Industry*. Major changes had to be made for properties to become current with the latest edition. Survey participants indicated that many of the systems had to be modified, with nearly 61 percent indicating that "general ledger/accounting software" had to be adjusted to meet the new accounting guidelines.

Systems	%
General Ledger/Accounting Software	60.9%
Property Management System (PMS)	32.6%
Point of Sale System (POS)	19.6%
Time-Keeping/Labor Management System	19.6%
Human Resources Software	13.0%
Sales & Catering Systems	13.0%
Other	8.7%

Source: DeFranco, A., Venegas, T., and Wei, Y. (2016). USALI 11th Edition: A Year Later: survey assesses the industry's adoption of the newest edition. The Bottomline, 31(2), p. 27–32.

For further information on VAT implementation in the GCC states visit the following websites or contact Tanya Venegas (tanya.venegas@hftp.org) at the HFTP Americas Research Center. ■

Deloitte
https://www2.deloitte.com/xe/en/pages/tax/topics/vat-value-added-tax.html

EY
http://www.ey.com/em/en/services/tax/ey-vat-gcc

PWC
https://www.pwc.com/gx/en/services/tax/indirect-taxes.html

Thomson Reuters
https://blogs.thomsonreuters.com/answerson/vat-middle-east-region/

Terminology

If you are new to the VAT, the following definitions provided by Deloitte will help explain some of the terminology utilized in these indirect taxes.

- **Taxable Supply:** supply which is subject to VAT
- **Exempt Supply:** specific categories of supply where no VAT is charged, and no associated VAT recovery on costs is allowed
- **Zero-rated Supply:** VAT charged at zero percent
- **Input:** costs incurred by the business on purchases of goods and services
- **Output:** activities generating income including taxable, exempt and outside of the scope of VAT activities
- **Input Tax:** VAT incurred on costs incurred in the course of furtherance of business
- **Output Tax:** VAT charged by a business on taxable supplied it makes

Source: https://www2.deloitte.com/xe/en/pages/tax/articles/vat-gcc-faq.html

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