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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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).

GCC VAT Deadlines

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


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:

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.

### 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.

<table>
<thead>
<tr>
<th>Systems</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Ledger/Accounting Software</td>
<td>60.9%</td>
</tr>
<tr>
<td>Property Management System (PMS)</td>
<td>32.6%</td>
</tr>
<tr>
<td>Point of Sale System (POS)</td>
<td>19.6%</td>
</tr>
<tr>
<td>Time-Keeping/Labor Management System</td>
<td>19.6%</td>
</tr>
<tr>
<td>Human Resources Software</td>
<td>13.0%</td>
</tr>
<tr>
<td>Sales &amp; Catering Systems</td>
<td>13.0%</td>
</tr>
<tr>
<td>Other</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

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**

**EY**

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

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

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**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


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**Sources**


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