

VAT Awareness Briefing



Agenda & objectives

- Understand key features of VAT
- VAT implementation considerations
- Questions

1

Introduction



What's new? – Latest developments



A common VAT framework

- GCC Member States have agreed to and signed the GCC VAT Framework



GAZT and VAT legislation

- The VAT Law was officially approved and published on H1438/11/4
- VAT draft Implementing Regulations also passed by KSA Govt.
- Official position: 1 January 2018 go live date
- Pre Registration for large companies has commenced
- VAT Registration will start in KSA in September 2017



VAT Regulations

- VAT Regulations follow issuance of local VAT legislation – KSA regulations currently released in draft
- Regulations provide guidance on interpretation of VAT legislation and clarify administrative processes



Go live

- The introduction of VAT in UAE / KSA is expected to take effect from **1 January 2018**
- Other GCC Member States: Q1 / Q2 2018

Understanding of the GCC VAT system

- Full fledged VAT system
- Applicable on most supplies of goods and services
- Possible **exemptions** on limited types of goods and services

VAT on goods & services

Standard rate
5%

VAT
exemptions

Deduction of
input VAT

Reverse
charge
mechanism

Exports
subject to 0%

SAR 375K:
Minimum
annual
turnover

Periodical
filing and
reporting



UAE / KSA:
1 January 2018
go live

Administrative /
policy driven
variances in
drafting of local
VAT legislation in
Member States

2

Key VAT features

What is VAT?



Value Added Tax (“VAT”) is a **tax on consumption**. Standard VAT rate expected at 5%. Possibly limited selection of goods / services which will be **exempt** or **zero rated**



Transaction based tax – VAT is levied on each transaction throughout the supply chain



VAT **collected** on supplies (output tax) and VAT **reclaimed** on purchases (input tax)



Collected by VAT registered businesses on behalf of the tax authority i.e. GAZT



Self-assessment system – businesses will submit a periodic return to the Tax Administration. Net VAT will be either *payable* or *refundable*



Registration– *mandatory* registration if business has \geq SAR 375k in annual turnover
Voluntary registration may be allowed if annual turnover or expenses are \geq SAR 187.5k

How VAT works – Simple illustration



Manufacturer



Distributor



Customer pays
SAR 6,300



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Transactions	Value	VAT at 5%
Sells Product "A"	SAR 5,000	=(SAR 250) <i>Input tax</i>
Distributes Product "A"	SAR 6,000	=SAR 300 <i>Output tax</i>
Net value add by Distributor	SAR 6,000 – SAR 5,000 = SAR 1,000	$5\% \times \text{SAR } 1,000$ = SAR 50



SAR 50 remitted by Distributor to GAZI



Who is required to register for VAT?

Compulsory registration - A taxable person with turnover of taxable supplies exceeding the registration threshold of SAR 375,000 must register for VAT

Voluntary registration - A taxable person making taxable supplies below the registration threshold of SAR 375,000 and above SAR 187,500 may choose to register for VAT

VAT Registration starts in September 2017

Registration Grace Period for Small Co. (< 1M Revenue) is 31st December 2018

A person making only exempt supplies **may NOT register** for VAT

Payment of VAT/Submission of VAT Return (VAT Return: a documents stating output minus input calculations)

<u>Quarter</u>	<u>Payment Deadline</u>
Jan – March	30 th April
April – June	31 st July
July – Sep	30 th October
Oct – Dec	31 st January

- Businesses are required to submit their VAT return with payment of VAT **one month after the end** of relevant Quarter i.e. last day of following month of quarter end
- Business who have annual turnover **greater than 40 Million SAR** need to submit their VAT Return and Payment of VAT on each month end
- Business with revenue less than 40 Million can also apply for monthly scheme and get it approved by GAZT.
- VAT Return **must be electronically** via GAZT E-portal. There is no Manual System.
- If there is a Error in VAT return which is **less than SAR 5,000** can be corrected in the next VAT Return.
- Public Registry : List of All VAT Registered Business will be issued by GAZT

When does VAT apply?

When you make a **“Supply”**

- Generally, all forms of **supply (goods and services)**, including imported services, **for a consideration**
- When a supply is subject to VAT:
 - When it is a **taxable supply** of goods or services made by a **taxable person** conducting any economic activity in the territory of a Member State
 - An **importation** of goods by any person
 - A **deemed** supply of goods or services

What is a Good?

- **Goods** include all types of tangible goods. Including:

- Moveable or immovable property
- Fixed assets (whether or not capitalized) or current assets
- New or used (second hand) goods



- **A supply of goods** is the **transfer of ownership of the goods** or disposal of the rights over them

What is a Service?

Anything which is **not a supply of goods** but is done for a **consideration** is a **supply of services**

Anything done or to be done including the **granting, assignment or surrender of any right** or the **making available of any facility or benefit** (excluding the supply of goods or money)



Economic activity

Activities carried out directly in the ordinary trading of the business

Activities incidental to the trade of the ordinary business (e.g. sale of obsolete transportation vessels, recovery of expenses from related company or sale of office equipment, etc.)

Types of supplies – Taxable

Standard rated supplies:

- VAT charged at 5%
- Input tax is **deductible**

Common Examples:

Domestic
transportation
of goods

Motor vehicles

Management
services

Most goods
and services

Zero rated supplies:

- VAT charged at 0%
- Input tax is **deductible**

Common Examples:

International
transportation
of goods

Medicine and
Medical
Equipment

Investment
Metals

Exports

Types of supplies – Exempt

Exempt supplies:

- *VAT is not charged*
- *Input tax is **not deductible***

Common Examples:

Lease of
residential
property

Interest or
margin based
income for
FIs

Life insurance

Types of supplies – Deemed supplies

Deemed supplies:

- *Deemed for VAT purposes to be a supply*
- *Obligation to self account for VAT at standard rate*

Common Examples:

Goods
provided free
of charge
(gifts)

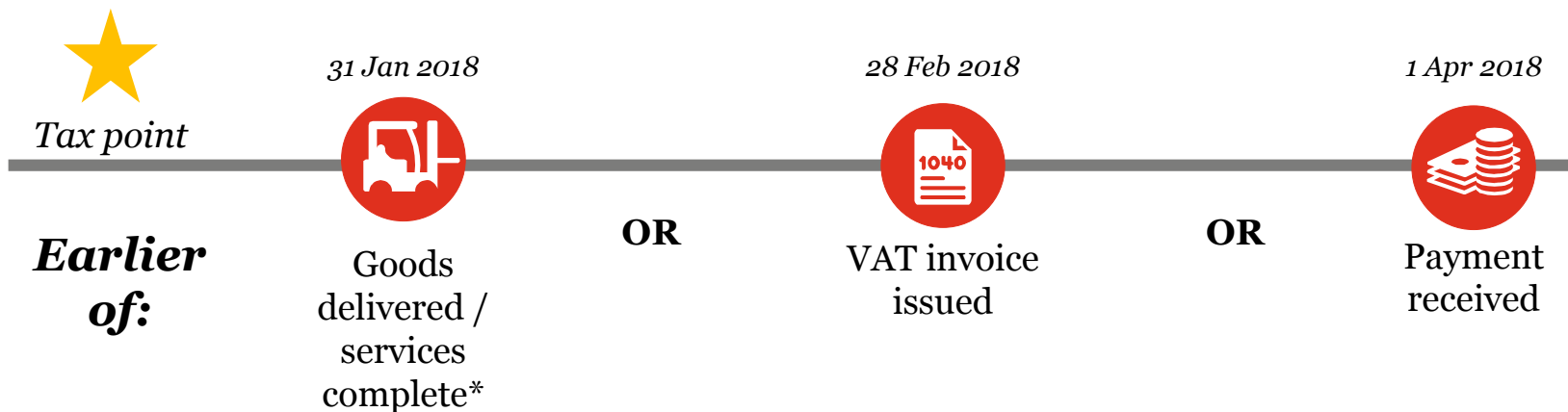
Free services
provided to
related
persons

Change of use
of assets

Transactions outside the scope of VAT

- Accounting adjustments – depreciation, amortization, unrealised gains or losses
- Wages and salaries, allowances, bonuses, zakat
- Goods – ownership transferred outside of the GCC
- Payments of statutory fees, charges to Federal / State Government or Local Authority
- Charitable donations

How VAT works – Time of supply – When to account for VAT?



- VAT to be accounted for in the VAT return in which the earlier of the above occurs.
- In the example, the VAT liability must be reported on **31 Jan 2018** which will fall in the VAT return for the period 1 January 2018 – 31 March 2018.
- The VAT return and payment of VAT will likely be due to be **submitted by 28 April 2018**.

**Special rules may apply in the case of continuous supplies of services*

How VAT works – Reverse charge mechanism

Usually the “Supplier” in a transaction accounts for VAT on the Supply

In some scenarios the business recipient becomes accountable for VAT

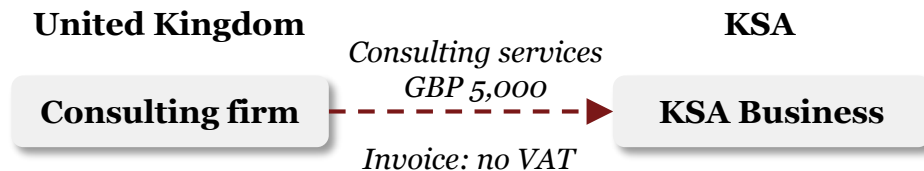
May apply to services:

- ✓ Procured from overseas (GCC or outside GCC);
 - ✓ Services that are used for business purposes; and
 - ✓ The usage, enjoyment or consumption is in the country (KSA).
- *Examples:*
 - *Use of law firm established in the UK for legal advice in the KSA*
 - *Subscriptions paid to SAP for use of software in the KSA*

May apply to goods:

- ✓ Imported from businesses outside of the GCC; and
- ✓ They are for consumption in the KSA.

How VAT works – Reverse charge mechanism - Illustration



Invoice	Value
Consulting services (1 June 2018 – 31 December 2018)	GBP 5,000*
Reverse charge mechanism	
Deemed output tax (SAR 22,500 x 5%)	SAR 1,125
Deemed input tax credit (if fully claimable)	(SAR 1,125)
Net impact	Nil

*GBP 1= SAR 4.50

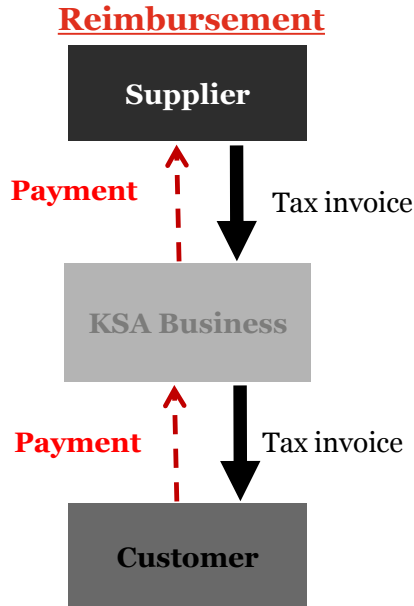
5% VAT on what amount? “Value of the supply”

- The standard rate of 5% is calculated on the value of the supply
- The value of the supply includes all amounts payable including
 - Other taxes, duties and levies etc.



Reimbursement (VAT) vs Disbursements (No VAT)

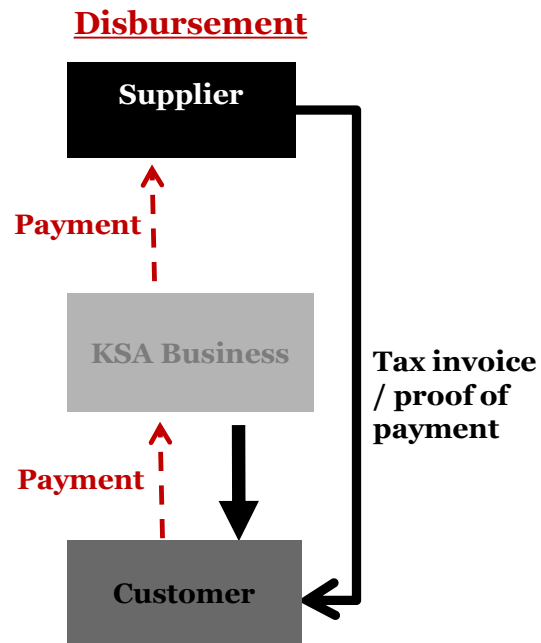
- Recovery of expenses may be treated as disbursement or reimbursement.
- VAT treatment for the recovery of expenses will depend on whether the recovery is reimbursement or disbursement in nature.



For example:

- Supplier issues a tax invoice to KSA Business for goods or services supplied
- KSA Business is legally obliged to pay the supplier for the goods and services
- KSA Business then invoices the Customer for the goods and services acquired from the supplier
- Provision of goods / services by KSA Business to the Customer is considered a separate supply
- VAT would have to be accounted for on the amount invoiced by KSA Business to the Customer.

Reimbursement (VAT) vs Disbursements (No VAT) – cont'd



- For example:
 - Supplier issues a tax invoice to the entity procuring goods or services (customer)
 - Customer is **legally obliged** to pay the supplier for the goods and services
 - KSA Business pays to the supplier on behalf of the Customer
 - KSA Business then claims from the Customer to recover the amount paid to the supplier
- Under this scenario, **NO VAT is chargeable on the recovery of the amount paid by the Customer to KSA Business.**
- The recovery of the expenses is treated as a **disbursement and no input tax can be claimed** by KSA Business for the supply, as in the first place, the supply was not made by supplier to KSA Business.

VAT compliance requirements – Record keeping

- VAT records expected to be retained for **minimum period** (expected for 6 years)
- Retention of records may be in **hard copy or electronic form**
- Records must be able to be **reproduced** upon request during a VAT audit or verification
- Retention specifically important for **0% or exempt transactions**



- **Records** may include:
 - Tax invoices issued and received
 - Adjustment notes issued and received (e.g. debit / credit notes)
 - Accounting records
 - Import or export declaration documents
 - Copies of VAT returns
 - Documents relating to the transfer or disposal of land and buildings

VAT Invoices – Normal requirements

- VAT-registered businesses **must issue VAT invoices**.
- Valid invoices should be retained for all transactions.
- VAT invoices are a requirement for deducting input tax- *Invalid invoice, pro-forma invoice, statement or delivery note* are not acceptable documentation for VAT recovery.

VAT INVOICE						
Invoice Serial Number					Date	
Name of Taxable Person					Name of Customer	
VAT Registration Number					VAT Registration Number	
Address and Contact Details					Address and Contact Details	
Ref Number	Description	Quantity	Unit Price exclusive of VAT	Unit Price inclusive of VAT	Total exclusive of VAT	Total inclusive of VAT
					Total	
					Applicable VAT rate	
					VAT amount	
					Subtotal	

Intercompany transactions

- All intercompany transactions are subject to VAT
- Each entity must issue a tax invoice for each transaction made
- Each entity will be required to lodge their own VAT return
- IT systems must be able to collate data for each legal entity in a group of companies

VAT Grouping

- Facility may be allowed upon approval
- Allows entities to **elect** to form a single group for VAT purposes
- Inter VAT group supplies may then be **disregarded** for VAT purposes
- Common conditions to be met:
 - Legally independent entities
 - Closely bound by financial, economic or organisational links
 - Each entity can only be a member of one VAT group



3

VAT implementation considerations

Potential challenges

- Determining VAT treatment and any special concessions for free zones
- Time of supply – advanced payments or deposits received for shipment to be made at a later date
- VAT treatment for penalties, cancellation charges – does this give rise to a supply for VAT purposes? If there is a supply, would this be taxable or exempt?
- Compliance requirements – VAT ready billing and accounting systems, documentation requirements, record keeping
- Foreign currency transactions – VAT invoices may require local currency equivalent (SAR) to be shown
- Cash flow impact – funding of timing difference between payment of VAT and collection

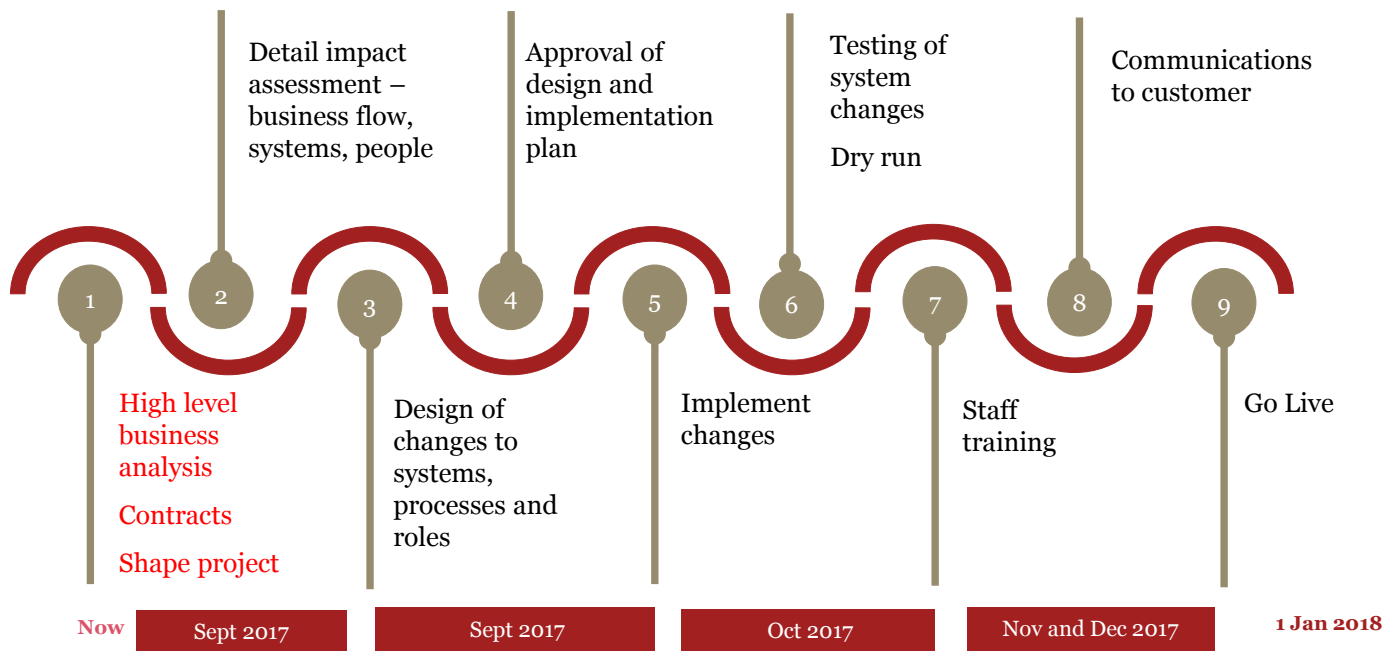
Potential challenges (c'td)

- Expenses:
 - Change in reimbursement policy – tax invoices to be issued in the company's name
 - Sponsorships / donations – will these give rise to a barter trade?
 - Identifying blocked input tax items
 - VAT incurred overseas
- Long term agreements – contracts entered into now for services to be rendered on or after 1 January 2018

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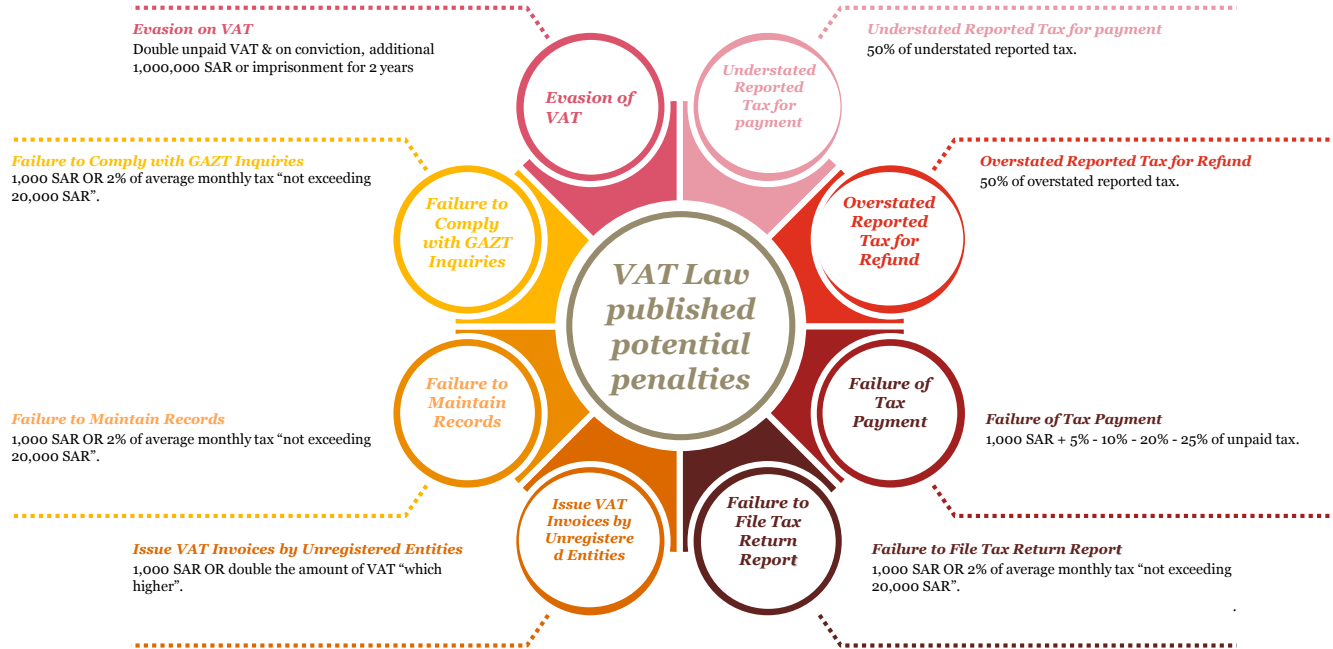
How we can help

Working backwards – how much time is required?



5 *Penalties*

VAT law published potential penalties



Questions?

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