

Value Added Tax (VAT) in the Gulf Cooperation Countries (GCC)

All GCC countries have finally signed the VAT Framework Agreement. VAT is now a certainty and the tax will be introduced in each of the 6 countries between January 1, 2018 and January 1, 2019.

VAT is a tax ultimately borne by the final consumer but collected throughout the commercial supply chain. All sales (supplies) of goods and services by a business are subject to VAT, regardless of whether the buyer is a business (B) or a private individual (C). Both B2B and B2C sales are taxed. As a result, businesses collect VAT on their outputs and incur VAT on their inputs (procurement). However, businesses are allowed to deduct the VAT paid on their inputs from the VAT collected on their outputs, and remit the difference to the tax authority. Thus, by proxy, the value added created at each stage of the production and distribution chain is taxed. Through the credit system, businesses are essentially relieved from the tax. The final consumer, of course, cannot deduct the tax and is, therefore, the one who carries the VAT burden.

That sounds simple enough, but VAT's presumed simplicity is quite treacherous in reality. Many companies in countries where VAT was introduced learned the hard way that underestimating VAT could be a costly affair.

Businesses act as the unpaid tax collectors of VAT and they are held responsible for the correct collection. The VAT rate in the GCC will be set at 5%, but each of the

countries has a certain freedom to elect goods and services that will be exempt from VAT or subject to a zero-rate. Exports and cross-border sales within the GCC will be subject to special rules. And then there likely will follow special regulations for specific industries, such as travel, dealers in antiques and used goods, car and boat dealers, the building and construction sector, etc. The financial sector can also expect specific rules for determining their eligibility to recover VAT incurred on inputs.

In case of under collection of VAT, a business is responsible for payment of the difference and will also be made to pay interest and severe penalties. Mistakes with VAT on the input side are also common. Sometimes the input-VAT is not captured accurately and remains unclaimed due to administrative errors. In that case, the VAT will be a bottom-line cost for the business. Over reporting of input-VAT occurs as well and may lead to correction when audited, again with interest and penalty charges.

Are You Prepared?

There are 3 categories of actions to be taken when readying for VAT.



Tax Determination

Analyze all sales and purchase transactions to determine whether and how VAT will apply.

Accounting & Records

Ensure that your accounting system is able to:

- Calculate VAT correctly
- Capture all VAT collected and VAT paid
- Make the data easily accessible for the preparation of the VAT return

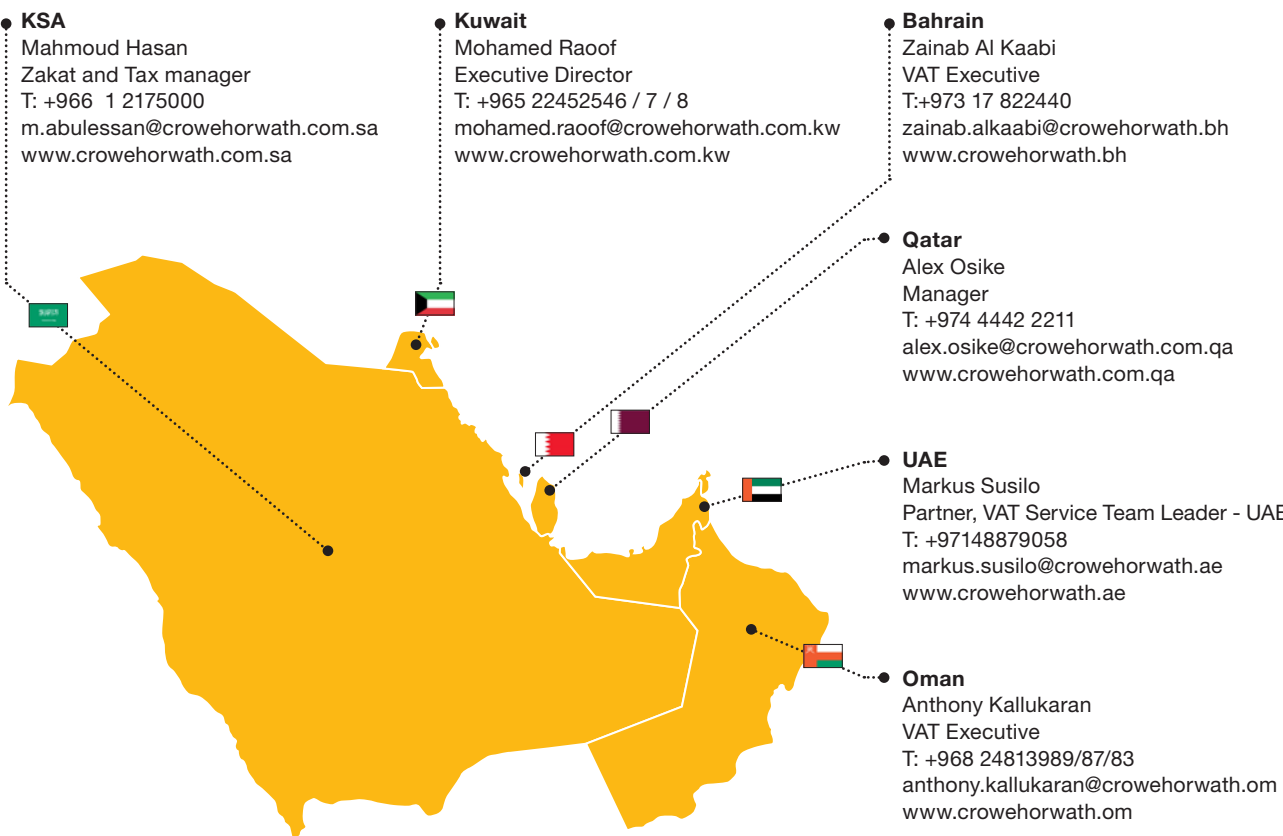
VAT Management

- Develop a strategy for VAT
- Identify all business functions and stakeholders in your organization that are involved in VAT
- Determine objectives for the VAT function
- Allocate responsibilities for VAT to individuals within these functions
- Identify risk areas for VAT and plan how these will be managed
- Develop communication, review and escalation processes
- **Create awareness of VAT and touch points across the organization**
- **Develop controls to ensure accurate and timely VAT return submissions and on-time payments**
- **Controls to identify relevant changes in the business (new products, change of the supply chain)**
- **Process to capture non-routine transactions**
- **Process for tracking in-country legislative developments**
- **Training of staff**
- **Use of technology**
- **Use of external advisers**

We at Crowe Horwath Can Help

- *Traditional* Indirect Tax Consulting, including tax determination
- Contract Review (Tax language)
- Guidance to Companies entering New Markets
- Due Diligence
- M&A Support
- VAT compliance services
- Improvement of Effectiveness of Indirect Tax Function
- Supply Chain Indirect Tax Optimization
- Training of Tax department, A/P department, etc.
- VAT Risk management
- Tax Performance improvement of the supply chain (planning)
- Customs duties

Crowe Horwath in The GCC



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