



Taxing duty

The growing
importance of
customs in the GCC

The importance of government revenue collected from customs duties is increasingly important for most, if not all, markets within the GCC. Unsurprising, since the International Monetary Fund (IMF) estimated a loss of US\$270 billion in revenues for GCC countries due to the sharp decline in oil prices exacerbated by demand loss from the Covid-19 outbreak. Governments across the region have introduced a range of measures to address the revenue deficit, including increasing customs duty rates in Saudi Arabia, or even increasing the VAT rate or expediting it (e.g. in Saudi Arabia and Oman respectively).

For businesses operating in the GCC (like most other parts of the world), being compliant means access to faster customs processes, allowing the maximum use of trade facilities. Not being compliant means delays and unnecessary blocks. Therefore, it is of utmost importance that businesses understand their customs and trade processes, know their duty and tax burdens, set up and control the right data to ensure compliance. It is also imperative that businesses ride the wave of the initiatives promoted by customs to facilitate and enhance trade in the region.

Customs authorities not only engage in fiscal duties but also in a range of non-fiscal tasks. Where customs on the one hand need to control the flow of goods, on the other, their role is to facilitate global trade offering all kind of simplified procedures on arrival and dispatch of goods. Customs authorities are an important stakeholder in the global supply chain involving the physical movement of goods. Customs duties,

Value Added Tax (VAT), excises and other taxes due on importation are either collected and/or controlled by customs authorities at the point of entry. As such, a critical role for customs is to act as gatekeeper for funds collected on imports and their reallocation across the relevant authorities.

In the Gulf region, we are witnessing a progressive development of a customer-centric approach from tax authorities, whereby they have rolled out formal advanced ruling programs to engage in better dialogues with taxpayers and businesses. For instance, Saudi Customs have recently launched an advanced ruling regime that allows companies to obtain clarity on various technical matters including, origin, classification and valuation matters.

Looking at the GCC trade statistics over the last few years, the volume of international and intra-GCC trade has increased manifold, further enhancing

the role of the GCC customs authorities and their need to ensure adequate trade reporting and movement control infrastructure to manage this traffic.

Across the region, we notice several automation platforms and digital initiatives that have been launched or enhanced. This ranges from the UAE's Mirsal 2 platform to Saudi Arabia's FASAH platform to name just a couple of the successful digital solutions, which have been working successfully at the customs borders.

The launch and use of new disruptive technologies, such as Artificial Intelligence (AI), Machine Learning, Robotics and Blockchain allow efficient management of processes. Several GCC Customs authorities have embraced these technologies and are investing a lot in embedding them in their day-to-day processes, significantly increasing effectiveness of controls, allowing for better and faster controls.

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GCC customs authorities continue to play a pivotal role in the wider economy, to support economic operators and drive growth. The World Bank's bi-annual Logistics Performance Indicator (LPI), which ranks countries and their customs administrations notes that most GCC customs authorities are aligned with their national Vision for Future statements and are enhancing their country's LPI ranking. These rankings are important for businesses when choosing how and where to trade their goods. One of the key determinants of getting through the LPI ranking is by fostering better and efficient global trade infrastructure. Trade facilitations like Free Zones, Bonded warehouses, accreditation programs like Authorized Economic Operator, (industrial) exemption and suspension schemes are crucial instruments to facilitate trade. In order to benefit from such facilitations, companies need to be aware of the requirements and instructions/guidelines defined by the law and the customs authorities.

Another area of focus is the GCC customs authorities' role as a powerhouse of global trade data in the region. Customs import records are a holistic source of trade and supply chain data with information about importers, exporters, clearing agents, import values/prices, and nature of goods imported. Given the existence of customs duty in the region for a much longer timeframe compared to the newer tax regimes like VAT, we witness significant levels of data exchange between customs authorities and the relevant tax authority. This is evident

in the nature of tax audits initiated and that often refer to data retrieved from customs import statements, which can often be obtained for several years. In the recent past, there appears to be a significant focus on multidisciplinary tax audits, whereby single point tax audits are being initiated to look into the customs, VAT, transfer pricing and direct tax position of businesses in a holistic way, whereby tax authorities in the region are requesting reconciliation of figures across tax filings (e.g. Zakat returns, VAT and customs bayan filings). Furthermore, in Saudi Arabia, the integration of the General Authority of Zakat and Tax (GAZT) and Saudi Customs to form the ZATCA (Zakat, Tax and Customs Authority) confirms the consolidated approach authorities are adopting in the region. Looping back to the resurgence of digital technologies, this kind of information exchange between authorities would also imply better transparency and crossover of best practices.

Reflecting on the various roles customs authorities play in the Middle East that range from trade facilitation, to revenue collection, social protection (in the context of movement controls) and overall promoting economic competitiveness, one can compare the role of customs to that of a referee on the soccer field, allowing players to play and to stop the match and correct when needed. ●

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