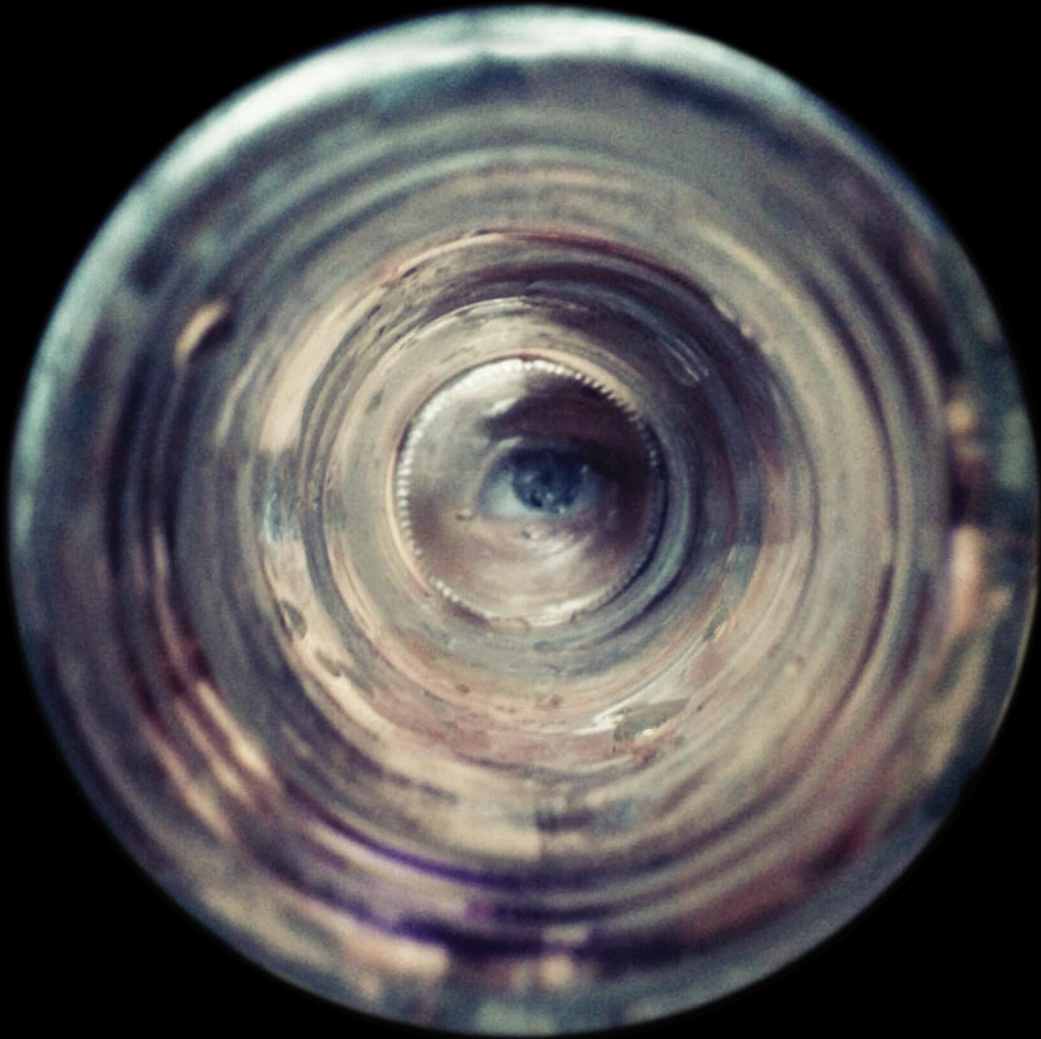


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Value Added Tax in the GCC
Insights by industry | Volume 2

1926 Ninety years in
the Middle East

Ch. 4 – Structure of a VAT function

Changes and challenges
of building the needed
Indirect Tax department –
a European benchmark to
guide GCC businesses



As a transactional tax, VAT will have significant impact across a business's entire operations – including the VAT function itself. Businesses in the GCC must ensure relevant employees have the appropriate VAT skills and knowledge for their roles, and this process may identify a need for a specialist in-house VAT resource. This will influence tax recruitment in a region where there has traditionally been little or no need to have tax specialists as dedicated resources in-house. Businesses in the GCC are already planning dedicated resources to oversee VAT advisory and compliance activities. This requires consideration of the appropriate size and make-up of a VAT function.

In order to determine the size of the team that businesses in the Gulf might need, the European market provides a useful benchmark. The Deloitte Tax practice in the Middle East has collaborated with Guy Barrand at the specialist global indirect tax recruiters Beament Leslie Thomas, (BLT) (www.bltd.co.uk), to provide those benchmarks by looking at the data and trends from the United Kingdom (UK). The UK is now into its fifth decade of administering a VAT system, and is therefore a great example of a mature VAT system.

Using the UK and European market practice as an example, we will outline the different elements of a VAT function and what a VAT function typically looks like – focusing on in-house teams and touching on alternative models such as co-sourcing and outsourcing.

Accessing the VAT population

Based on the research conducted by BLT, there are currently approximately 1,800 VAT specialists employed outside of the government in the UK. Of these specialists, 44% are employed by

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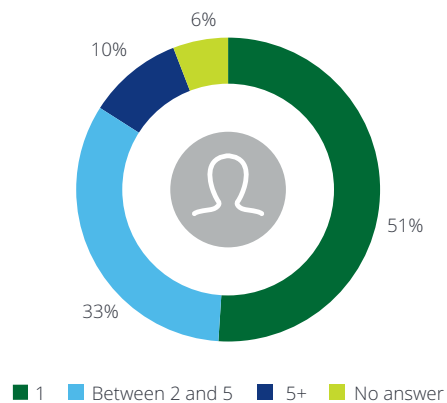
companies/organizations as internal VAT experts, with the remaining 56% as professional advisers. Further, separate benchmarking looking at the broader tax advisory market suggests that it is common for businesses to have a dedicated tax team in-house. Therefore, businesses in the GCC may wish to consider establishing dedicated resources to oversee VAT advisory and compliance activities with the introduction of the new VAT scheme, and continuing on an ongoing basis.

The number of in-house VAT specialists typically varies in size depending on the industry and size of the business. In a

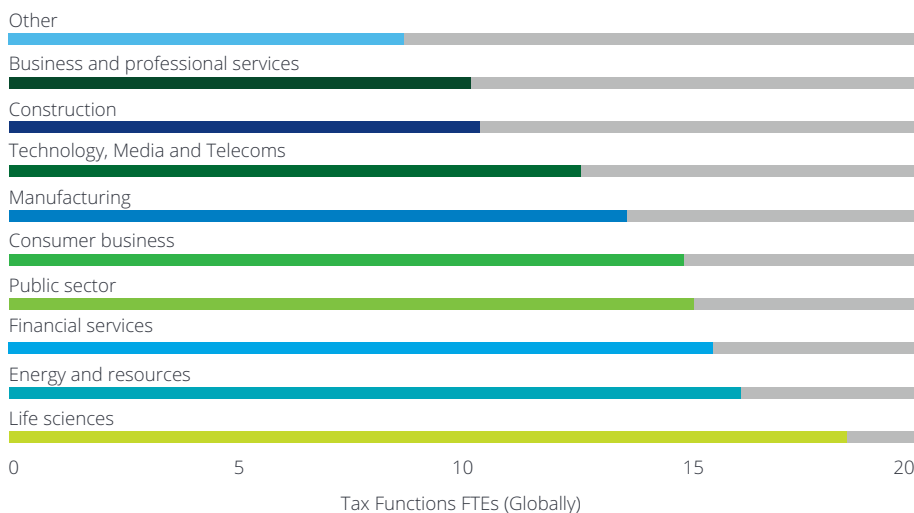
recent survey we found that the size of the tax function varied by industry, but followed the general trend of increasing with company turnover. We expect the same to apply in the Gulf region.

There is a trend toward greater focus on indirect tax expertise in the market: our research indicated that the total volume of VAT specialists has increased, matching the developing complexity of indirect tax over the years. Similarly, the proportion of the VAT population working in-house has also dramatically increased since the mid 1990s.

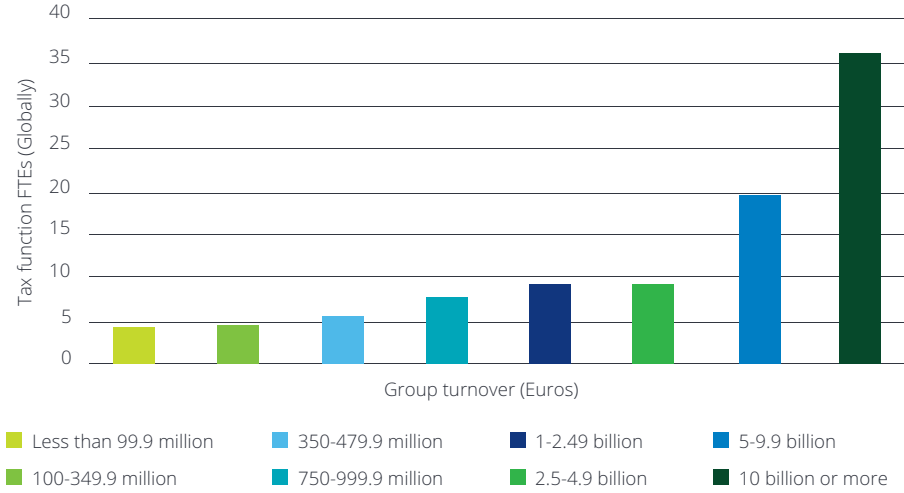
Dedicated indirect tax staff



Average Tax Full Time Employees (FTEs) by industry



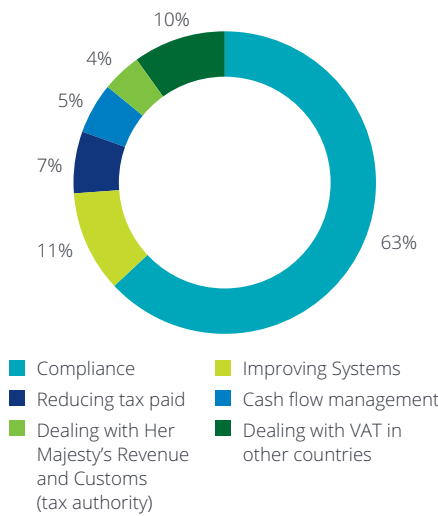
Average tax FTEs by turnover



The bulk of the VAT specialists working outside of the professional services firms in Europe operate in advisory or strategic capacities. In the very largest (and/or most complex) global businesses based in the UK, the increasingly regulated environment of the last decade has led to greater scrutiny on how best to manage the VAT compliance burden. In fact, most respondents in the Deloitte indirect tax survey named compliance as the number one priority of their indirect dedicated resource.

According to BLT, this increased scrutiny on the compliance burden has resulted in global VAT compliance activities migrating away from the traditional provenance of localized accounting departments, and the establishment of internal teams with the sole purpose of effectively managing the global VAT compliance burden. A related trend is greater awareness of how the use of cutting-edge technology can assist in the compliance process. Indeed, in recent years we have observed a noticeable increase in requests for specialist indirect tax technology expertise.

Number one priority for indirect tax function



The approach to VAT compliance has changed significantly with time – and businesses in the GCC are in a good place to follow these global developments and to implement ‘best in class’ compliance from the outset. This may include centralized and specialized delivery, an effective internal framework and management oversight, and maximizing efficiencies through automation and technology. ➔

Common operating models

We have observed that tax operating models of large organizations are increasingly focused on indirect tax risks and obligations. Many businesses have moved further to introduce specific VAT or indirect tax operating models, defining and controlling how VAT is managed within the business.

Unsurprisingly, most VAT operating models are compliance-centric.

Compliance work in a business is usually performed:

- By an in-house dedicated VAT team;
- As a co-sourced solution between an in-house team and an external provider; or
- Externally in full – where it is completely outsourced to a third party provider.

We expect that businesses operating in the GCC jurisdictions will follow this trend and prioritize compliance above strategic VAT management in the short term. Where there are no other senior tax staff, such as a head of tax, for example, we would expect the senior VAT manager to take more of a strategic role.

In-house VAT functions

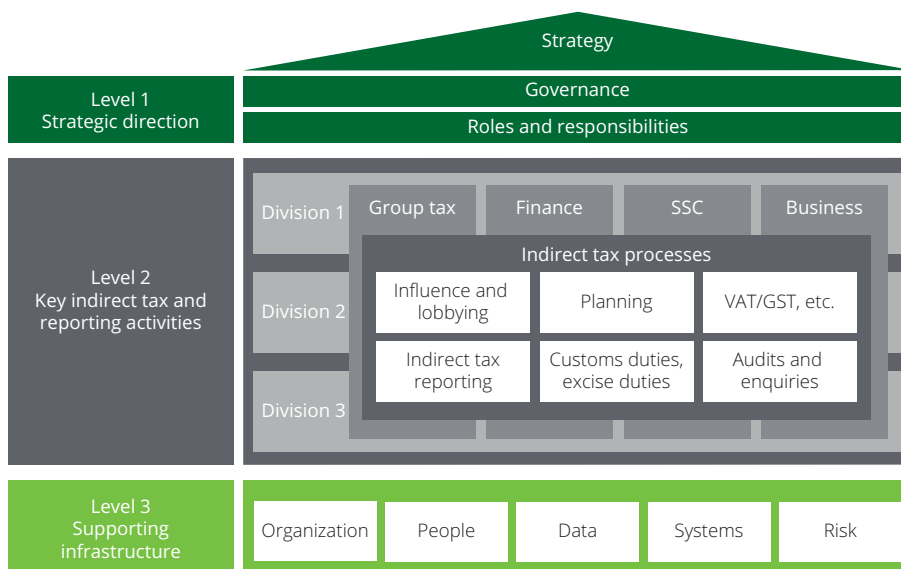
As mentioned in the “Preparing for Change” article in Volume 1 of the whitepaper, a VAT transformation project needs to be approached in a structured way, taking into account the need to keep the wider business apprised of the developments and changes relevant to them, and for the business to engage in the process. This requires comprehensive planning, design, implementation and post implementation monitoring of the VAT process within the relevant business. In considering the introduction of an in-house VAT function, considerable thought should be given to issues such as:

- Resourcing constraints within the organization;

- Availability of specialist knowledge and technical expertise;
- Complexity of the business;
- Process design and integration into the core business activities;
- Governance and risk management procedures to be implemented and monitored;
- Potential technology support required;
- Data gathering, validation and processing requirements;
- Compliance monitoring.

Typically, most in-house VAT functions have a specialist dedicated resource with a focus on compliance as well as supporting the wider business with technical advice. Leading class functions will be fully integrated into the wider business areas such as procurement, finance and IT to ensure both proactive and reactive approaches to transactions.

The diagram below illustrates a comprehensive leading class approach to indirect tax function in a business and the types of activities that we would expect the function to perform globally and in the GCC.



Level 1 – Strategic Direction – senior members of the tax and finance teams, including head of VAT/ head of tax or, where applicable, senior finance members will own the strategic direction of the function. This will include ownership over the governance activities and roles and responsibilities.

Level 2 – Key Indirect Tax and Reporting Activities – the majority of the tax team or finance team members will undertake the core activities listed. A shared service center (SSC) is a common vehicle to assist in compliance activities.

Level 3 – Supporting Infrastructure - underpinning the operation of an in-house VAT function are the people, technology, processes and risk management frameworks developed to support the activities above. Each of these in turn will be impacted by the introduction of VAT and potentially will require improvements to provide the appropriate support. As noted, this is a comprehensive approach to in-house VAT. In most cases we expect some of this activity to be co-sourced or outsourced to third party providers who are able to provide the requisite specialist knowledge and support such as VAT advisory or planning.

We expect that the strategy and other governance activities will be developed in most cases where a tax strategy has previously not been required. The UK recently required large businesses to publish their tax strategy statements on the internet for the purposes of promoting greater transparency in tax reporting. While we do not expect the GCC to progress to such a requirement as an immediate priority, a tax strategy is likely to be a new addition for most boards to consider as part of their governance activities.

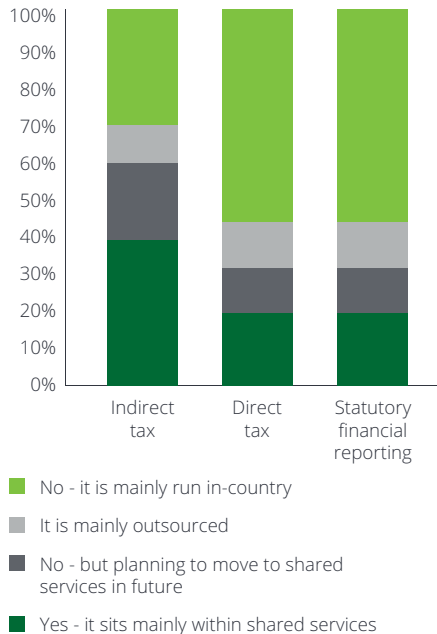
Typical roles we would expect to see in-house include:

- Head of indirect tax / VAT director – primarily responsible for managing and providing support to the business’s key stakeholders, setting strategic direction and managing the relationship with tax authorities.
- VAT manager – managing day-to-day VAT risk, overseeing the operational day-to-day activities including the compliance process, implementing the VAT strategy, and supporting and training the business
- VAT analyst or accountant – preparing and calculating the compliance, working alongside finance / the shared service center, and understanding the end-to-end system flow

Shared service centers are increasingly becoming the preferred option for tax and financial reporting within indirect tax, as evidenced by recent responses from businesses below. ➔

A tax strategy is likely to be a new addition for most boards to consider as part of their governance activities

Do elements of your tax or financial reporting function sit within shared services



Outsourcing is common for many businesses: larger organizations choose to outsource compliance and advisory matters to utilize specialist knowledge and expertise in a cost-effective way. Smaller organizations often choose outsourcing because there is no business need for having a full-time tax role.

Co-sourcing

Co-sourcing tends to suit most businesses that are able to have some tax resource in-house but lack the specialist skills required for some activities (for example, compliance in other jurisdictions, planning, technology support). Co-sourcing usually means the business will outsource some activities to a third party provider for completion. This typically means that the business still maintains the final review and sign-off activities without investing time and resources to more consuming activities such as data gathering and processing.

The compliance process can be summarized in most jurisdictions to include the activities below. Varying levels of judgement and skill are required in each stage of the process, and this will determine how the steps are split among the resources within the organization and with external providers. Whilst the right solution will depend on each business's individual needs, we expect co-sourcing to be a popular approach for large businesses managing VAT compliance across the Gulf region.

Outsourcing

Outsourcing is common for many businesses: larger organizations choose to outsource compliance and advisory matters to utilize specialist knowledge and expertise in a cost-effective way. Smaller organizations often choose outsourcing because there is no business need for having a full-time tax role. We do not expect a large number of businesses in the GCC to fully outsource all VAT obligations from the introduction date. However, we expect that some – especially those global businesses with an effective outsourced compliance model – could look to implement a full outsourcing in the GCC in the medium term, once VAT is implemented.

Companies with the best indirect tax compliance usually have a designated owner of the indirect compliance process – their role is to have ultimate responsibility for the end-to-end compliance process, to regularly review and update the process and, most importantly, ensure that all the various teams in their organization (AP, AR, local finance, group tax) know their roles in the



process and carry these out effectively (be this an in-house model, a co-sourcing model or a fully outsourced model).

Dealing with global indirect tax

Indirect taxes in their different forms have been around for decades in many jurisdictions around the world, and this trend is continuing with more countries introducing new VAT systems. More often than not, multinational businesses choose to have decentralized compliance of indirect tax due to the availability of local expertise and nexus to the transactional activity. It is not uncommon, however, to see centralized management of indirect taxes in some organizations. This may be common where the business has few, simple indirect tax filing obligations or where local expertise is not available. Some businesses will prefer a combination of the two in a co-ordinated approach.

business’s activities and support functions. It is important to keep stakeholders and management across the business in mind when completing the rollout.

In established VAT markets Deloitte has performed varying reviews of tax functions and identified a number of similar trends and common issues among the less mature VAT functions.

Common issues for developing VAT functions can include:

- Unclear roles and responsibilities;
- Inadequate resources and limited access to training;
- Little understanding of the data used in the process;
- A number of manual processes including calculation and reporting of returns;
- Inadequate technology support;
- No controls in relation to VAT on sales and purchases;

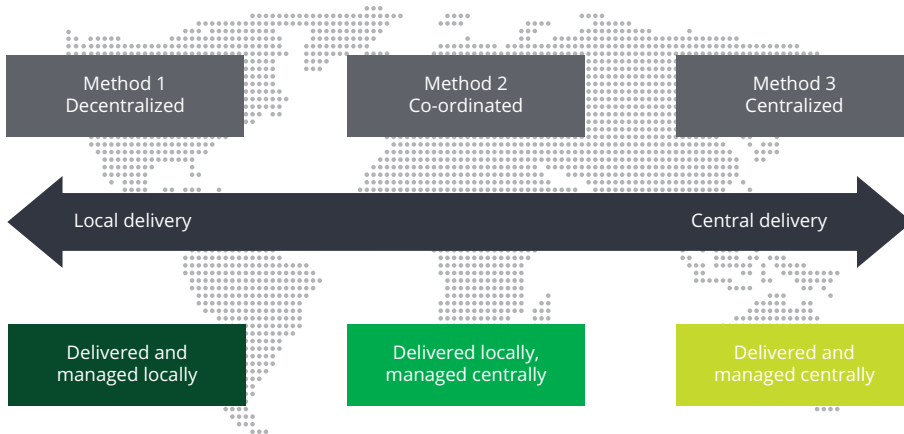
challenges in its own right, with the appropriate support and expertise it is possible to plan a smooth transition and minimize the day-to-day running of organizations.

Preparing for success

VAT implementation is likely to be a significant challenge for most businesses in the GCC, and a sensible first step is to quantify the impacts and communicate these across the business. Deloitte has worked to perform many impact assessments in this area, and to then recommend processes and frameworks which support compliance requirements and business objectives.

We are working within the Gulf region to support businesses to respond to the impacts and challenges of VAT, and to prepare for the upcoming changes in the most effective way. Our full VAT implementation process addresses many of the considerations discussed in this article – and includes VAT function operating model design, solution implementation, compliance readiness and more.

Global operating models - the 3 methods



Common challenges of less mature VAT functions

The potential impact of implementation and operation of a VAT system is expected to be significant for all large businesses operating in the region. As the tax is indirectly levied on a transactional basis, the effects of VAT – and the ongoing obligations for effective compliance – will touch on a very broad section of a

- No system controls relating to VAT liability determination;
- Little input into the business process;
- No formal risk identification procedure in place;
- Missing filing deadlines with no overall plan on how to manage filings.

Whilst the implementation of a brand new regime in the GCC region will bring unique

The foundations of a VAT function - whether designed on an in-house, co-sourcing or outsourcing basis - will provide the basis of a successful transition to the VAT system. We would encourage organizations to start planning their approach and desired outcomes early to ensure the necessary projects can be deployed in time to meet compliance deadlines. We expect the process for full implementation will typically span at least two to three years to be fully effective - and businesses that fail to prepare in adequate time will inevitably be under pressure to comply during the transition period. ●



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