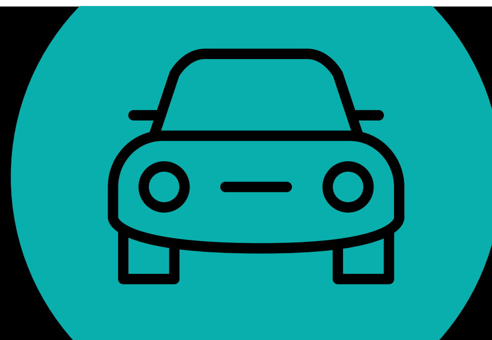
Deloitte.

Value Added Tax
April 2017



GCC VAT Fundamentals in the Automotive Sector

The introduction of VAT is a landmark event for the region and marks the true beginning of VAT implementation across the GCC. The VAT Treaty signed by the GCC states establishes the common principles of the VAT system which is to apply in each GCC State and provides a structure on which domestic VAT legislation will be developed. We are gradually getting clarity over the principles which every State will be required to enact and can start to confirm our understanding of how businesses will be impacted by the introduction of VAT within the region. The Treaty however leaves certain decisions to the discretion of the individual GCC States, so whilst we now have a greater understanding of how the VAT system will operate there remain many 'grey' areas which can only be resolved once each of the countries have released their VAT laws.

VAT will be relatively straightforward conceptually

- Registered suppliers charge VAT (output tax) in most instances (i.e. typically added to current prices)
- Registered business customers recover the VAT (input tax) in most instances
- End consumer suffers the total VAT cost; flows through businesses to a great extent
- Standard VAT rate will be 5% across the GCC

Zero-rated

- Exports of goods and services will be treated as zero-rated
- No VAT charged to customers but **can** recover input tax
- Zero-rated traders usually in a repayment position

Exempt

- No VAT charged but **no** input tax recovery
- Exempt traders have a higher cost base and often increase prices as a result

What will be the key VAT issues in the automotive sector?

The diversity of activities undertaken in the automotive sector means that businesses are likely to make supplies with differing VAT treatments:

- **Core activities will be subject to VAT at the standard rate of 5%** e.g. sale of motor vehicles, parts, repair services etc.
- **Financial services may be exempt from VAT** as per Article 36 of the Treaty e.g. supplies of finance products to customers *BUT* it may be difficult to define what qualifies as an exempt financial service
- Car hire provided to unregistered customers will be subject to VAT in the country **where the car is made available to the customer** as per Article 17 of the Treaty – could trigger a requirement to register for VAT in other GCC States
- There are optional special rules for determining the **VAT due on second hand goods** under Article 37 of the Treaty i.e. second hand vehicles – VAT becomes due on the margin made on the sale of the vehicle
- **Courtesy cars, stock in trade vehicles and demonstrator vehicles** will all need to be recognized and careful attention paid to the VAT treatment of their purchase and ultimate sale
- **Export of goods** to a place outside the State will be **zero-rated** under Article 34 of the Treaty – important that documentation is retained to prove the goods have left the country
- VAT will be due on the **import of goods when they enter the territory of the State** – use of Free Zones may delay payment of the VAT
- **Repair of goods under warranty** will need to be carefully considered

There will be issues…

- Where exemption applies, VAT will become a cost on expenditure directly related to those supplies
- If zero-rating applies, VAT refunds and cash-flow will be an issue if the business pays more VAT on purchases than it is due to account for on its supplies – this could affect working capital
- Many businesses in the sector could be partly exempt as a result of making a mixture of exempt and taxable (zero rated and standard rated) supplies – VAT recovery of overhead costs will be restricted as a result and determining a fair method for this restriction will be key

Justin Whitehouse
Indirect Tax Leader
jmwhitehouse@deloitte.com
+971 (0) 4 376 8823

© 2017 Deloitte & Touche (M.E.)
Please note that this slide is for information purposes only and should not be construed as advice.