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Value Added Tax
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GCC VAT Fundamentals in the Technology, Media and Telecommunication 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

- No VAT charged to customers but can recover input tax
- Zero-rated traders usually in a repayment position – need to manage cash flow effects of VAT and refunds from tax authorities

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 VAT liability for supplies in the TMT sector?

Most of the activities undertaken in the TMT sector, are likely to have similar VAT treatment:

- **Core activities will be subject to VAT at the standard rate of 5%** e.g. supply of lease line, telecommunication services, development of software, broadcasting, advertisement services etc.
- **Wireless telecommunication services and electronically supplied services** shall be subject to VAT in the country where the **actual use or benefit of these services is accrued** as per Article 20 of the Treaty – could trigger a requirement to register for VAT in other GCC states
- **Export of technology related services** like development of software or multimedia applications to benefit customers outside GCC states will be **zero rated** under Article 34 of the Treaty – might be difficult to establish the benefit to customers outside GCC if the rules are not clear
- Careful attention would need to be paid to the VAT treatment for **maintenance services provided remotely** for IT products located outside GCC

There will be issues...

- Determining the use or benefit of services could be challenging especially in case where services are provided to customers outside GCC
- **Long term contracts** may create issues around when to account for VAT and whether VAT can be added to the price and collected from buyers
- **Cash flow considerations** for long term projects as payments may get delayed

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