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**Value Added Tax**
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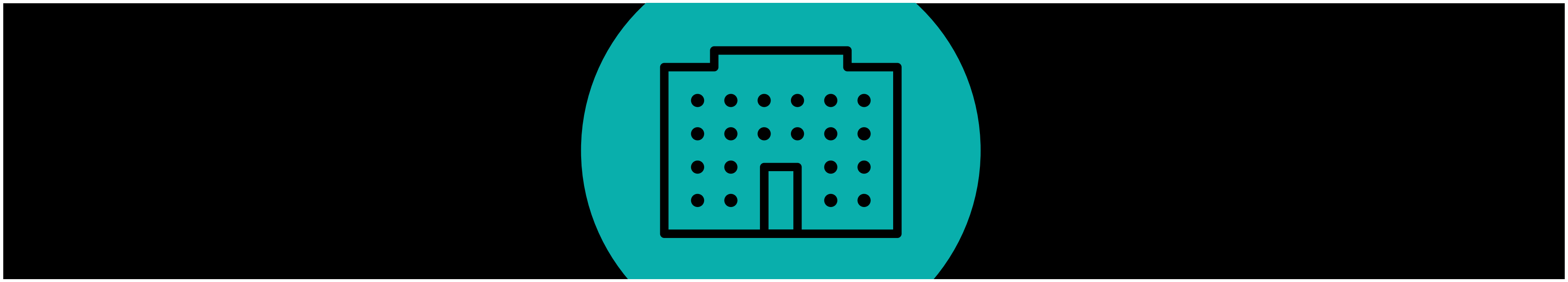

# **GCC VAT Fundamentals** in the Real Estate Sector

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

**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 relation to the real estate sector?

Article 29 of the Treaty states that each GCC State can choose whether to exempt or zero-rate real estate supplies:

- It is common for **exemption or zero-rating** to apply to the supply of **residential property** (e.g. apartments and villas) whereas supply of **commercial property is usually standard-rated**
- Exemption leads to a sticking VAT cost within the supply chain as VAT incurred on purchases is irrecoverable – so **increased cost for the developer or real-estate owner**
- **Construction services are likely to be standard-rated** though some reliefs may apply to certain types of buildings
- Real estate related services will be **taxed at the location where the real estate property is located** as per Article 18 of the GCC Treaty
- **Construction, leasing and agency** or any other services directly related to real estate property are typically **services related to real estate**
- Supplies in the **real estate sector** may be **treated differently in each GCC state**

## There will be issues...

- **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
- **Complications arising in claiming input tax credit** for businesses engaged in supply of residential as well as commercial property
- **Place of supply for ancillary services (brokers etc) becomes complex** and the interpretation may differ between GCC states leading to double or non-taxation

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