



# All About VAT

Chapter 1 - A quick guide

Answering your  
VAT questions



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## The GCC VAT Agreement sets out the framework of a VAT system between the six Gulf Cooperation Council countries – Bahrain, Kuwait, Oman, Qatar, KSA and the UAE.

### VAT timing

“When will VAT be introduced?”, “When will the GCC VAT Agreement be available?”, and “When will final versions of local VAT laws be available?” are all commonly asked questions Deloitte receives on a frequent basis. The final answers are not clear yet and we can only speculate using information available to us. Although UAE and KSA have both publicly committed to introduce VAT on 1 January 2018, the dates are not clear for the rest of the Gulf countries. It is important to remember that they do not all have to implement VAT at the same time. Deloitte hopes that implementation across the GCC will happen soon as it will provide a much needed certainty and will help people plan ahead.

not a law in itself. It is therefore not a document that taxpayers can rely on per se – one must look to local implementing laws to work out the precise mechanics of the VAT in each country. As of today, VAT laws are only available in the UAE and KSA, but these give some insights as to how a domestic framework will look in a GCC context, and how other GCC countries might outline their domestic rules.

The Agreement sets out what one might call a “normal” VAT system, as it contains all the usual provisions one might find in a common international VAT system, including the input tax credit system, place of supply and time of supply provisions.

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### What is the GCC VAT Agreement?

The GCC VAT Agreement, published in KSA, is a landmark document for the Gulf region. It sets out the framework of a VAT system between the six GCC countries – Bahrain, Kuwait, Oman, Qatar, KSA and the UAE.

The Agreement is also sometimes called the Framework Agreement, and it sets out the “wire frame” for a collaborative VAT system between the GCC countries. However, it is worth remembering that it is an agreement among the countries, and

Therefore, anybody who is familiar with other VAT systems should have a reasonable working understanding of the core mechanics of how VAT will apply in the GCC.

### Is the GCC VAT system based on the EU model?

People have inquired whether the GCC VAT system is based on the European Union (EU) model or the more modern systems found in the newer VAT implementing countries (e.g. Singapore or New Zealand). As a comparison, the

only multi-country VAT system within a Customs union is the EU. So, for that reason, it has many similarities to the EU system. These include the intra-GCC movement of goods (and some services) between businesses (B2B) as well as to private consumers. Distance selling provisions apply so that someone supplying goods valued over the annual VAT registration threshold to another country must register there. If you are familiar with the EU VAT system, then the ability to make B2B supplies to VAT registered customers in other GCC countries without charging a local VAT element will be very familiar.

However, the GCC VAT system has also adopted many strong policy attributes from more modern VAT systems. Firstly, taxation applies at a low rate but across a broad base: there are a relatively limited number of exemptions and zero-rates, and a very low standard rate of 5%. Possible exemptions and zero-rates are generally limited to a few specific categories of goods and services, and the system is therefore relatively simple and broad based. As a result, it is likely the GCC countries will be able to sustain low rates of VAT for the foreseeable future. There are some unusual rules concerning the collection and distribution of import VAT for goods which are transited throughout the GCC; these are intended to accrue VAT revenues to the place of final consumption.

#### What might be VAT exempt or zero-rated?

Zero-rating for international transport of passengers and goods (including between two GCC countries) is a mandatory requirement of the Agreement. This is not optional. However, countries have the choice between exemption, standard rating and zero-rating for domestic passenger transport.

Similar choices are available for real estate, education, and healthcare. In these cases, the countries may choose between taxation, exemption, and zero-rating. In the healthcare field the Agreement requires countries to zero-rate certain pharmaceutical and medical devices, but this is based on a list that remains to be agreed on and is, therefore, unavailable at this time.

The food and oil and gas sectors are also areas where the countries are given a choice, albeit more limited – they may either zero-rate or standard rate the products. In the case of food, there is a “list” of just under 100 items, composed primarily of commodity foods and not prepared foods, but which has not been made public. Even if a country opts for this treatment they may only zero-rate the specific food items included on the list.

Other provisions in the Agreement allow for the zero-rating of means of transport (e.g. airplanes for passengers) and the compulsory zero-rating of exports of goods and services. These are expected reliefs in a normal VAT system.

#### What are the UAE and KSA doing?

Following the Agreement framework, the UAE and KSA have specified how they will treat international and local transport, and means of transport; real estate, education and healthcare; food, and oil and gas; and export of goods and services. There are some similarities in how the UAE and KSA will treat these industries. The table on the next page indicates the rates at which the UAE and KSA will apply VAT to these industries.

#### VAT flexibility

The Agreement illustrates that countries may have different domestic priorities and policy, and will not always agree on the same rules. Tax is ultimately a domestic

matter, and the Agreement allows for quite a lot of flexibility for countries to vary the local rules. There is also some considerable flexibility given to countries on the treatment of some other important sectors – government entities, event hosting companies (under international agreements) and farmers and fishermen who are unregistered for VAT, as well as citizens building their homes.

For these groups the countries have flexibility over how they apply VAT to them – they may either refund the VAT to them or they may exclude them from paying tax on the supplies made to them. It is not clear what most GCC countries will do, but there is a possibility of differential treatment of supplies to these entities based entirely on the status of the recipient – this is potentially quite complex.

The UAE has confirmed it will only allow refunds in the case of specified government bodies, qualifying event hosting companies and citizens building their own homes.

#### Financial services

The countries will have flexibility on determining whether financial services may be exempt or treated in another way, and defining what exact offerings may be considered as financial services for VAT purposes. ➔



**VAT treatment by industry**

Sector	KSA	UAE
International transport of passengers and goods, and related goods, including intra-GCC transport	Zero-rate	Zero-rate
Local transport	Standard rate	Exempt
Food items	All standard rate	All standard rate
Real estate	Residential rental: exempt All other real estate: standard rate	Residential rental: exempt Bare land: exempt New housing: zero-rate All other real estate: standard rate
Education	Standard rate Public education: not expected to be subject to VAT	Specified services: zero-rate
Health	Qualifying medicines and medical goods: zero-rate Public health: not expected to be subject to VAT	Specified services: zero-rate
Oil and gas	Standard rate	Zero-rate
Means of transport (e.g. airplanes for passengers)	Zero-rate	Zero-rate
Export of goods and services	Zero-rate	Zero-rate

**VAT rules for other important sectors and unregistered entities**

Sector	KSA	UAE
Government entities	Supplies to these entities will be taxed under the normal rules and VAT will be due.	Only allow refunds and only in the case of qualifying companies.
	Refunds may be granted on VAT paid on supplies if not conducting a commercial business.	Supplies to these entities will be taxed under the normal VAT rules and VAT will be due.
Event hosting companies (under international agreements)	Supplies to these entities will be taxed under the normal rules and VAT will be due.	Only allow refunds and only in the case of qualifying companies.
		Supplies to these entities will be taxed under the normal VAT rules and VAT will be due.
Unregistered entities	Supplies to these entities will be taxed under the normal rules and VAT will be due.	Only allow refunds and only in the case of citizens building their own homes.
	Refunds may be granted to selected entities (e.g. foreign governments and international organizations), taxable persons in another GCC member state and taxable persons outside the GCC.	Supplies to these entities will be taxed under the normal VAT rules and VAT will be due.
Financial services	Fee-based services: standard rate Margin-based services: exempt	Fee-based services: standard rate Margin-based services: exempt.
Investment metals	Gold, silver and platinum at purity level no less than 99%: zero-rate	Gold, silver and platinum at purity level no less than 99%: zero-rate.

**VAT grouping**

There are some other choices available to GCC countries surrounding important administrative aspects of the VAT system. Each country may choose to allow VAT grouping (fiscal consolidation of related companies) as well as margin schemes for second-hand goods. The Agreement also provides for transitional provisions on the introduction of VAT, but does not particularly concern itself with grandfathering rules in respect of pre-existing contracts – so each country has flexibility in this area.

**Is the VAT rate here to stay?**

One of the issues that comes up from time to time is that the VAT rate is low. But how long can it stay low? The answer is probably quite a while. There are two main reasons for this, practicality and economics.

Although there is uncertainty, it is important to remember that VAT is VAT, and we expect the Agreement to set out a relatively “normal” VAT system and the core underlying processes will be the same.

The first main reason is practicality. The GCC VAT system has achieved something the EU has not – a unified VAT rate. Set at 5% it is one of the lowest in the world, and the fact that the six GCC countries managed to agree on this is somewhat of a political achievement. The EU VAT system does not have this level of harmonization: individual countries like

## It takes a long time to make sure your electronic point of sale system (EPOS) has the functionality.

to control their own economies and one of the levers to do this is tax rates. However, for any one of the GCC countries to move the VAT rate, they would now have to achieve a unified agreement to move the rate; this is because the VAT rate is hard coded into the Agreement. So the only way to change it is to either breach the Agreement or to agree to change it, which requires all six countries to agree.

The second main reason the VAT rate will not necessarily go up any time soon is there is likely to be a lack of economic pressure to do so. This lack of pressure is caused by the broad base of the VAT system, which is notably lacking in reliefs and special rules. Whilst there is room for differences between the countries, in the main, each country will end up with very few things not subject to VAT. For this reason, the broad base will allow VAT revenues raised to be relatively high despite the low rate. This gives the GCC a massive design advantage over EU systems, as the many special rates and reliefs typically found in an EU system require a higher headline rate to sustain the revenues required by the government.

### How long will it take my business to get ready?

This is one extremely important question that you must ask yourself. If the deadline is 1 January 2018 (as we know it is for the UAE and KSA), would my business be ready?

If the answer is no, would your business be ready by 1 February 2018, or 1 March? Do a few months really make a difference? What if you needed to be ready by 1 June 2018? Or is the reality that you are hoping

the deadline gets extended? This may well happen, as governments recognize businesses need to be prepared. On the other hand, they understandably have little patience with those that don't do anything. It is important to note that in Malaysia, when the Goods and Services Tax (GST), which is the same as VAT, was introduced, it was about eight or nine months in advance that the law was first exposed. Likewise, look at Egypt, where VAT is in place, but the executive regulations have not been made available. We do not expect any GCC country to do this, but it illustrates the benefit of being prepared for the worst and also shows there is still time for 1 January 2018 to be a reality in some countries.

Do you actually know how long it would take to get ready? If you have not spent any time thinking about this, what is stopping you?

### What are you waiting for?

Many businesses have, in the past, advised us they are waiting for the Agreement or the local law to be released before getting ready (remember the Agreement which sets out a broad framework and then local VAT laws with the detail). The release of final laws in the UAE and KSA have now provided this clarity: and for other countries – the Agreement in itself provides sufficient clarity on the workings of the VAT system to start preparations. Although there may be uncertainty in specific sectors, remember that VAT is VAT, and the Agreement sets out a relatively “normal” VAT system and the core underlying processes are the same: collect invoices, claim VAT back, issue invoices, pay VAT.

The parts that will be different are important, but not always that complex. For example the VAT rates or reliefs applying to specific products and services may be different; albeit the system changes required to accommodate both are straightforward to make.

Firstly, not every business is exposed to these reliefs and secondly it does not take that long to take advice and work out the VAT liability of a food product. It does, however, take a long time to make sure your electronic point of sale system (EPOS) has the functionality to distinguish between them and report it, and rectify this if it does not. Likewise, it does not take long to work out the VAT liability of financial services (mostly), but it does take time to tell six enterprise resource planning (ERP) systems to apply that liability and collate them to file a VAT return consistently. Deloitte's experience is that we know the answers to most questions, from the law released to date and from basic principles. Waiting for something which may not give you the clarity you desire (and may come too late to give you sufficient time) is risky – what is the harm in understanding what you need to do now? ●

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