

# VAT brief – Automotive

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Following on from the release of the GCC VAT framework, Saudi Arabia's General Authority of Zakat and Tax (GAZT) has released a draft version of the law as well as a bilingual version of its VAT implementing regulations. All businesses must now be actively preparing for VAT - 1 January 2018 is less than 100 working days away.

## What is VAT?

- VAT is a tax on consumption, not income or profits.
- The GCC countries have agreed a standard VAT rate of five percent.
- Goods and services can be exempt, zero-rated or standard-rated.
- Registered suppliers will add VAT to the price of a good or service they supply, collect the tax and pay it to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard or zero-rated) be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are exempt from VAT will not be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are zero-rated will usually be in a refundable position.

## How will VAT affect the automotive sector?

- Most supplies made by auto dealers -such as the sale of cars and parts and repairs will be subject to the standard rate of VAT.
- However, the diversity of activities undertaken by auto dealers means that some supplies may have a different VAT treatment. For example, certain financial services in relation to auto loans and credit are likely to be exempt from VAT.
- When providing finance, the appropriate VAT treatment will need to be considered. This may depend on whether the financing is an operating lease or finance lease or whether the auto dealer is directly providing financing or is only acting as an intermediary.
- Auto dealers leasing cars will generally need to add VAT on lease payments. However, they will need to consider **when** to account for VAT.

- Subject to certain conditions, supplies of goods and services made under contracts that span the VAT implementation date (1 January 2018 for Saudi Arabia and the UAE) may qualify for zero rating until the earlier of the expiry of the contract or 31 December 2022.
- Special rules will apply for second-hand cars – in essence, VAT should only be paid on the margin.
- The VAT treatment of demonstrator cars, cars provided to employees and courtesy cars will need to be carefully considered.
- Dealers may sell more cars and parts in the run-up to the introduction of VAT, requiring them to increase stock levels in the months immediately beforehand.

## What should auto businesses do now?

- Consider pricing of vehicles and their impact on customer demand.
- Carefully evaluate stock levels to deal with fluctuations in demand both before and after the implementation of VAT.
- Examine sales and accounting processes to ensure the correct VAT treatment will be applied.
- Evaluate the impact of time of supply rules on deposits, warranties and service contracts.
- Review leasing contracts to confirm whether VAT can be charged following implementation - or whether transitional provisions will apply.

## Important note

These briefs are based on a translation of Saudi Arabia's draft VAT laws and general VAT principles and are provided for information purposes only. This document is not a substitute for professional advice. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.

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