

# VAT brief – Real estate & construction

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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 predominantly zero-rated will usually be in a refund position.

## How will VAT affect the real estate & construction sector?

- Under the GCC framework, each GCC country has the right to either exempt or zero-rate real estate supplies.
- Based on the draft VAT implementing regulations which have been released by Saudi Arabia's GAZT, residential real estate leasing or licensing will be exempt from VAT.
- All sales of residential (including first sale) and commercial properties are subject to VAT at the standard rate.
- Construction services are subject to VAT at standard rate.
- The leasing of commercial property is standard-rated.

- Exemptions will add costs to supply chains as VAT paid by registered businesses that make exempt supplies will not be recoverable. This will affect residential real estate lessors.
- Subject to certain conditions, contracts supplies provided under contracts that span the VAT implementation date (1 January 2018 in Saudi Arabia and the UAE) can be zero-rated up to 31 December 2022.



## What should real estate businesses be doing now?

- Long-term contracts (both construction and leasing) that span the introduction date of VAT will need to be reviewed to ensure ascertain the eligibility to zero-rate such contracts or if VAT can be passed on to the customers.
- The timing of accounting for VAT could pose a significant cash flow issue. The amount of working capital needed should be considered as VAT may be payable to the tax authority before payments are collected from customers.

## 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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