# VAT brief | Automotive

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With less than a month to go before VAT is implemented in both the Kingdom of Saudi Arabia and the United Arab Emirates, legislation and regulations have been finalised. As business across the GCC move into a new tax era, key decision makers must ensure that their people, their systems and their technologies are sufficiently prepared – and sufficiently agile – to deal with a new business paradigm.


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## 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 (5%).
- Supplies of goods and services are generally standard-rated but can also be zero-rated, exempt or out of scope.
- Registered suppliers will account for VAT on the price of a good or service they supply and pay VAT to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard- or zero-rated or out of scope) be able to recover most of the VAT they incur in 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 VAT refund position.

## How will VAT affect the automotive sector?

- Most auto dealers' supplies – such as the sale of cars and parts and repairs – are standard rated.
- However, the diversity of auto dealers' activities means 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 – is the financing an operating or finance lease and is the dealer acting as an intermediary or directly providing financing?
- Auto dealers leasing cars will generally need to add VAT on lease payments. However, they will need to consider when to account for VAT 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 apply for second-hand cars – in essence, VAT should only be paid on the margin.
- The VAT treatment of demonstrator, employee and courtesy cars must 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 and its impact on demand.
- Evaluate stock levels to deal with fluctuations before and after VAT's implementation.
- 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*

*Keypoint's VAT briefs are based on a translation of the Unified VAT Agreement for the Cooperation Council for the Arab States of the Gulf (the GCC VAT treaty), Saudi Arabia's VAT legislation, the UAE federal law, the Saudi implementing regulations, the UAE's executive regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE continue – as of the date of release of this brief – to work towards an implementation date of 1 January 2018. This brief 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.*