VAT brief | Automotive

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Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Key decision makers should now be more aware than ever that we are entering into a new tax era. Key decision makers at businesses in the UAE and Saudi Arabia need to ensure their processes and systems are VAT-compliant, while their counterparts in the other GCC states need to start preparing now for the implementation of VAT.

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 (five percent), or out of scope.
- Registered suppliers will need to account for VAT out of the price charged for the goods or services they supply, 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 or out of scope) 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 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 relating to auto loans and credit are exempt from VAT.
- When providing finance, consider the appropriate VAT treatment:
  - Is the financing an operating or finance lease?
  - Is the dealer acting as an intermediary or directly providing financing?
- Auto dealers leasing cars will generally need to account for VAT on lease payments. However, they will need to consider **when** to account for VAT.
- Supplies made under contracts that span VAT implementation (such as lease-to-own or instalment payments) are subject to special rules.
- Special rules apply to the sales of 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 before implementation.

What should auto businesses do now?

- Consider pricing and its impact on demand.
- Evaluate stock levels to deal with demand fluctuations.
- Examine sales and accounting processes to ensure the correct VAT treatment is 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 the UAE and Saudi Arabia's VAT legislation, the relevant regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE implemented VAT on 1 January 2018 and the other GCC countries continue – as of the date of release of this brief – to work towards implementation in the next 12 months. 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.

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