VAT brief | Financial services

12 December 2017 | Manama | Kingdom of Bahrain

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.

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 financial services sector?

- Under the GCC framework, each GCC country has the right to exempt certain financial services.
- The issue, transfer or receipt of, or any dealing with, money, any security for money, or any note or order for the payment of money; the provision of any credit or credit guarantee; the operation of any current, deposit or savings account; and financial instruments such as derivatives, options swaps, credit default swaps and futures are exempt from VAT.
- Fee-based services such as bank fees or commissions are subject to VAT at the standard rate (five percent).
- Financial institutions will be unable to recover VAT incurred in the course of producing exempt supplies, increasing their input costs.
- Restrictions on the recovery of input tax will affect the cost of some 'business as usual' practices such as property leases or the acquisition of services or office supplies and equipment. Financial institutions will face additional costs of up to five percent.
- Financial institutions will want to maximise the recovery of input tax credits, requiring them to carefully consider any purchases and how best to minimise input VAT they cannot claim.
- Financial institutions may ultimately decide to increase their charge to customers, but will need to be wary of regulatory constraints and the impact on their competitive advantage.
- VAT may create a significant commercial opportunity for banks as their clients are likely to have substantial new working capital requirements.

What should banks and other financial service providers be doing now?

- Review all supply activities to determine VAT treatments and the scope of any exemptions.
- Consider the impact of exemptions and non-recoverable input taxes and the effect of VAT on pricing.

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.

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