VAT brief | Financial services

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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.

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 financial sector?

- Under the GCC framework, each GCC country can choose to exempt financial services.
- Based on the approach adopted in the UAE and Saudi Arabia, 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, option swaps, credit default swaps and futures are exempt from VAT.
- Fee-based services such as bank fees or commissions are subject to VAT at five percent.
- Financial institutions will be unable to recover VAT incurred in the course of making exempt supplies, increasing their 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, requiring them to carefully consider any purchases and how best to minimise input VAT they cannot claim.
- Financial institutions may decide to increase their charge to customers, but will need to be wary of regulatory constraints and any impact on their competitive advantage.
- VAT may create a significant commercial opportunity for banks as 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, non-recoverable input taxes and the effect of VAT on pricing.

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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