# VAT brief | Oil & gas

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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 (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 oil & gas sector?

- The UAE has zero-rated the supply of crude oil and natural gas. Suppliers of these products are likely to almost always be in a VAT refund position, as their primary sources of revenue will be zero-rated and they are entitled to full recovery on their costs.
- In comparison, the Saudi IRs are silent on relief for the oil & gas sector, meaning supplies will be taxable and input taxes should be fully recoverable.
- Long-term contracts that span VAT's introduction will need to be reviewed to ensure VAT can be passed on to the customer.
- Timing of VAT accounting could significantly impact cash flow. Typically, VAT is accounted for at the earlier of the supply being made or invoice date – so VAT may be payable a long time before payments are collected.
- Both the UAE and Saudi rules have special transitional relief provisions for contracts which span implementation (1 January 2018 for UAE and Saudi Arabia). However, the operation of these rules and the criteria which must be met before they can be applied are different. In the UAE, suppliers who meet the criteria are entitled to add the VAT amount on top of the agreed contract price. In Saudi Arabia, suppliers can zero-rate until the earlier of the expiry of the contract or 31 December 2018.
- Consistent with general VAT principles, exports will be zero-rated which means that VAT is recoverable on purchases although it is not charged on exported supplies. However, cash flow will still be significantly affected. VAT refunds are likely to be the single biggest issue for oil & gas businesses as a large proportion of their sales are likely to be exports.
- VAT incurred on capital expenditure will also significantly impact cash flow. Large-scale capital expenditure is often incurred at the early stages of an oil & gas project while supplies – and so income flow – are likely to occur some years later. Business may be left waiting for VAT refunds.


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## What should oil & gas businesses be doing now?

- Review long-term supply contracts.
- Consider the impact of place of supply rules on offshore drilling and production activities.
- Examine the impact of VAT incurred on imports on cash-flow - particularly if you expect to be in a refund position.

*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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