

VAT brief | Real estate & construction

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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.
- Exemptions will add costs to supply chains as VAT paid by registered businesses that make exempt supplies will not be recoverable. This will affect residential real estate lessors.
- Subject to certain conditions, contracts supplies provided under contracts that span the VAT implementation date (1 January 2018 in Saudi Arabia and the UAE) can be zero-rated up to 31 December 2022.

What should real estate & construction businesses be doing now?

- Long-term contracts (both construction and leasing) that span the introduction date of VAT will need to be reviewed to ensure ascertain the eligibility to zero-rate such contracts or if VAT can be passed on to customers.
- The timing of accounting for VAT could pose a significant cash flow issue. The amount of working capital needed should be considered as VAT may be payable to the tax authority before payments are collected from customers.

How will VAT affect the real estate & construction sector?

- Under the GCC framework, each GCC country has the right to either exempt or zero-rate real estate supplies.
- Saudi Arabia's VAT implementing regulations state that residential real estate leasing or licensing will be exempt from VAT.
- All sales of residential (including first sale) and commercial properties are subject to VAT at the standard rate.
- Construction services are subject to VAT at standard rate.
- The leasing of commercial property is standard-rated.

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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