VAT brief | Real estate & construction

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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 (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 does 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.
- Residential real estate leasing or licensing is exempt from VAT in Saudi Arabia and the UAE, although the UAE has zero-rated the first lease or sale of a residential property.
- All other sales of residential and commercial properties are standard-rated (subject to VAT at 5%).
- Construction services and the leasing of commercial property are standard-rated.
- VAT incurred by registered businesses making exempt supplies is not recoverable, affecting residential real estate lessors.
- Transitional provisions apply – with certain conditions – to contracts that span the VAT implementation date in the UAE and Saudi Arabia.

What should real estate & construction businesses be doing now?

- Review long-term contracts (both construction and leasing) that span the introduction date of VAT to assess the applicability of the transitional provisions.
- The timing of accounting for VAT could pose a substantial cash flow issue. VAT may be payable to the tax authority before payments are collected from customers – significantly impacting working capital.

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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