VAT brief | Retail

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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 retail sector?

- Supplies of goods and services by retailers will be standard-rated.
- Saudi Arabia's VAT implementing regulations specify that certain medicines and medical equipment will be zero-rated, consistent with many other VAT jurisdictions and the GCC unified framework.
- All food products are to be subject to VAT at the standard rate. GCC governments may provide direct subsidies to citizens in lower socio-economic groups to ease these increased costs.
- The time of supply for vouchers is when the voucher is redeemed. Subject to certain conditions, the supply of vouchers is non-VAT-able.
- Where tourists purchase goods directly from approved retailers, a tourist refund scheme will be available for VAT refunds. However, residents of GCC member states will not be eligible for VAT refunds.
- Businesses do not have to deem samples or gifts given out for free as a supply, provided that the value of any gifts or samples doesn't exceed SR200 per person per year.
- Retailers will need to consider place of supply rules for sales to customers in other countries.
- For goods, the general rule is that the place of supply is where the goods are located when the supply takes place –in other words, for goods being sold across borders, the place of supply is the other jurisdiction. Exports are zero rated –so no local VAT will be chargeable. However, the retailer may be required to register and charge VAT in the other jurisdiction. For example, a retailer in Saudi Arabia selling goods to a consumer in Bahrain will not charge Saudi VAT but may be required to register in Bahrain and charge Bahraini VAT.
- Special rules will apply to the cross-border supplies of goods and services between businesses within the GCC. In essence, there will be no import VAT and a reverse charge will apply.

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- Retailers are expected to display prices inclusive of VAT to ensure that consumers are not left to work out the price they pay. VAT will generally be need to be accounted for at the earlier of the goods being supplied, the invoice date and the consideration being received. Retailers, therefore, should generally be in a cash-flow positive position (if they are supplying standard-rated goods) as they generally collect money upfront. However, retailers who provide finance or installment plans may need to consider cash-flow impacts as they may need to account for VAT before they receive payment.
- Retailers will need to consider whether they can simply pass on VAT or whether they may need to squeeze their margins to maintain similar sales volumes to retain market share.
- Retailers should start the planning process early and look at marketing strategies to minimize any impact on profits.
- Consumers buying high-value goods may accelerate purchases so retailers may need to consider stock levels in the months leading up to the implementation of VAT. There is also likely to be a corresponding drop in sales following the implementation of VAT.
- Retailers will be able to issue simplified tax invoices for supplies less than SR1,000.
- The VAT treatment of business promotions offered by retailers is a complex VAT area and must be carefully considered.

What should retail businesses be doing now?

- Examine all goods and services supplied and assign the correct VAT treatment
- Consider the impact of VAT on pricing - can the VAT charge be passed on to consumers?
- Review business promotions and agreements with customers and suppliers, particularly in relation to volume discounts and other adjustments.

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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