VAT brief | Retail

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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.

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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 retail sector?

- Supplies of most goods and services are standard-rated.
- Saudi Arabia and the UAE have zero-rated certain medicines and medical equipment, as in many other VAT jurisdictions.
- Food products are standard-rated in the UAE and Saudi Arabia. GCC governments may choose to provide direct subsidies to citizens in lower socio-economic groups to ease increased costs, and also have the option of zero-rating basic food items.
- The time of supply for vouchers is when the voucher is redeemed. Subject to certain conditions, the supply of vouchers is non-VAT-able.
- A tourist refund scheme is planned for tourists who purchase goods directly from approved retailers. However, GCC residents will not be eligible for VAT refunds.
- The GCC VAT rules contain deeming rules which require businesses to self-account for VAT when they provide goods or services for free. However, there are exceptions to these deeming rules if no input VAT is claimed on the initial acquisition, or if the total value of those free goods or services given per person per year falls below a minimum threshold.
- Retailers need to consider the 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 – so for goods being sold across borders, the place of supply is the other jurisdiction. Exports to outside the GCC are zero-rated – so no local VAT is chargeable.
- For sales to other GCC countries, retailers 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 does not charge Saudi VAT but may be required – once Bahrain implements VAT – to register in Bahrain and charge Bahraini VAT.
- Special rules apply to the cross-border supplies of goods and services between businesses within the GCC. In essence, a reverse charge applies.
- Retailers should display prices inclusive of VAT to ensure that consumers are not left to work out the final price they pay.
- VAT is generally 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.

Your business is our priority

- However, retailers who provide finance or installment plans should consider any impact on their cash-flow as they may need to account for VAT before they receive payment.
- Retailers need to consider whether to increase their price in light of the VAT, or to maintain their prices (effectively absorbing the VAT impact) to maintain similar sales volumes and retain market share.
- Retailers should start the planning process early and look at marketing strategies to minimize any impact on profits.
- In the UAE and Saudi Arabia, consumers buying high-value goods accelerated purchases leading up to the VAT implementation date. Retailers in other GCC countries should consider stock levels in the months leading up to the implementation of VAT. A corresponding drop in sales of non-essential items following implementation is also likely.
- Saudi retailers may issue simplified tax invoices for supplies less than SR1,000 (US$265). In the UAE, the limit is AED10,000 (US$2,650). Other GCC countries are likely to set their own limits for simplified tax invoices.
- 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 supplies (goods and services) and assign the correct VAT treatment
- Consider the impact of VAT on pricing – should the cost of VAT be passed on to consumers?
- Review business promotions and agreements with customers and suppliers, particularly in relation to volume discounts, incentive payments, loyalty schemes and other adjustments.

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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