VAT brief | TMT

12 December 2017 | Manama | Kingdom of Bahrain

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 TMT services sector?

- The Saudi VAT law contains "use and enjoyment" rules which will impact the place of supply for the telecommunications, media and technology (TMT) sector.
- In essence, the "use and enjoyment" VAT rules affect businesses providing specified services across borders, with the place of supply determined by where the services are consumed, or effectively enjoyed. This means telecommunication and other electronically supplied services will be subject to VAT in the country where the actual use occurs.
- This could trigger the requirement for TMT businesses to register for VAT in more than one GCC state.
- As with the export of goods, the export of "general rule" TMT services will be zero-rated but a reverse charge (self-accounting for VAT) may apply in the other jurisdiction.
- Long-term contracts that span the introduction date of VAT will need to be reviewed to ensure VAT can be passed on to the customer.
- The timing of accounting for VAT — and its effect on cash flow –could pose a significant issue. Typically, VAT is accounted for at the earlier of the supply being made or payment invoice date — so VAT may be payable to the tax authority a long time before payments are collected from customers.

What should TMT businesses do now?

- Carefully consider the place of supply of their services.
- Establish their requirement to be registered in other GCC member states.
- Consider whether their terms and conditions will permit VAT to be charged to their customers or whether transitional rules will apply.

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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