VAT brief | TMT

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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 TMT services sector?

- The GCC VAT guidelines contain “use and enjoyment” rules for wired and wireless telecommunications services, as well as electronically supplied services, which impacts 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 ‘enjoyed’. This means telecommunication and other electronically supplied services are subject to VAT in the country where the actual use occurs.
- This could require TMT businesses to register for VAT in more than one GCC state.
- Long-term contracts that span VAT’s introduction should be reviewed to ensure that the supplier has the contractual right to charge the VAT in addition to the contract price.
- 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 the 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 their services’ place of supply.
- Establish their requirement to be registered in other GCC member states.
- Assess whether standard terms and conditions permit VAT to be charged to customers and whether transitional rules apply.
- Consider how they will determine where the use or enjoyment takes place for VAT purposes.

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.