Tax alert | **Optimising VAT**

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At its core, value-added tax (VAT) is a consumption tax, borne by the final consumer – typically ordinary people purchasing goods and services for personal use. Businesses, acting as unpaid tax collectors, collect VAT from customers on sales, set off VAT paid on costs, and pay net amounts to (or claim refunds from) the tax authority.

VAT is often not a (direct) cost to businesses but when VAT is incurred in relation to making exempt supplies or for non-business purposes, it cannot be recovered and impacts the bottom line. Even where VAT is recoverable, delays in AP processing or approval of tax refunds may impact working capital. There are, however, steps that businesses can take to optimise their VAT positions and minimise their VAT costs. There is seldom a 'one size fits all' approach to VAT, as different businesses suffer different VAT pressures and what works for one may not be appropriate for another, so always consult a VAT specialist before exploring these VAT optimisation initiatives:

Alternative methods of VAT recovery:

Businesses making both taxable and exempt supplies can fully recover VAT on costs directly related to taxable supplies while a proportion of VAT on 'residual' overheads is recoverable. The standard method of apportioning overhead costs may not give the fairest result, so agreeing an alternative recovery method with the tax authority could save you a lot of money.

Deferral of import VAT:

Taxpayers – where certain conditions are met – may be able to defer paying VAT on imports, offering large importers substantial cashflow advantages.

Optimisation of AP processes:

Delays in processing invoices can negatively impact cashflow. Sometimes, non-compliant invoices from suppliers delay – or prevent – VAT recovery. Reviewing AP VAT processes – and responding to identified gaps – can accelerate refunds.

VAT grouping:

Supplies between members of a VAT group are disregarded for VAT purposes, which can help ease working capital pressures. However, aside from having to satisfy strict criteria before forming a VAT group, businesses must consider the possible impact on overall VAT recovery and other associated risks.

Bad debts and discounts:

When times are hard, customers may delay paying (or not pay at all) for goods and services or ask for discounts. The VAT due (or previously paid) to the tax authority can be adjusted, subject to certain conditions.

Under-recovery of input tax:

Businesses are sometimes over-cautious with VAT recovery, especially where they fear the tax authority might take a different view and impose penalties. This is particularly prevalent with complex technical issues. However, a review by a VAT specialist may justify recovery, reducing absolute VAT costs.

Time of supply management:

Engaging a VAT specialist can help optimise when VAT is due, by helping to make the most of VAT's complicated time of supply rules.

Transaction planning:

Businesses can create large exposures by failing to consider VAT (as well as other taxes) before undertaking transactions, entering contracts or starting new lines of business. Involving a tax specialist at an early stage can help identify - and mitigate - potential risks.

Keypoint's specialist VAT team has worked with some of the largest businesses in the GCC and globally to mitigate VAT risks and optimise VAT positions. To discuss VAT with our highly-qualified, multi-lingual team, contact us:

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