

Tax tips | Areas of VAT complexity for GCC FSIs

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Since (some) GCC states implemented VAT, compliance has been top of mind for key decision makers in financial services institutions (FSIs). The complexity of FSI products, the number of systems used by FSIs and different lines of business - with stakeholders who must move in a single VAT direction - can make this difficult. At the same time, focusing on compliance - when there are still areas where different FSIs are treating transactions differently - can mean that other areas are overlooked.

VAT issues - and questions - for senior GCC bankers should include:

- **e-invoicing (Saudi Arabia):** How sure am I that my data - and my systems - are complete, accurate and transparent? Can I continue to use bank statements as tax invoices?
- **VAT optimisation:** Is there an alternative method I can use that will improve my VAT recovery?
- **Direct attribution:** Am I attributing my costs accurately? Am I paying the right amount of VAT - at the right time?
- **Local and international interchange:** Should incurred VAT be recoverable as a residual cost on local interchange? How can I reclaim incurred VAT without a tax invoice? Should charges to overseas payment network providers be standard- or zero-rated?
- **Asset-backed finance:** Should the value of all underlying assets be excluded (due to their distortive influence on VAT recoveries)?
- **Islamic finance:** How should the multiple transactions which combine into a single financing arrangement be treated? Should I consider each component of a transaction?

- **Fees or penalties:** Is something being done in return for a (taxable) fee or an (outside the scope of VAT) penalty? Are penalties being evaluated on a case-by-case basis?

How can Keypoint's VAT team help?

Even where VAT has been around for some time, VAT is highly complicated for FSIs - which is why many have substantial in-house VAT teams, in addition to regularly accessing the experience of highly-skilled external advisers. In the GCC, these difficulties are compounded by the fact that VAT is still relatively new, the pool of VAT expertise is small – FSI expertise smaller still – and leading practice is still developing. As a result, many questions remain, particularly in niche areas. For some issues, answers appear to be some way off.

Having worked with some of the region's largest FSIs as they implemented and now strive to comply with VAT regulations, Keypoint's market-leading VAT team has helped its clients to navigate an ever-changing VAT landscape. Our multi-national team also has experience of advising FSIs in mature VAT jurisdictions and draws on that experience to support FSIs across the GCC with VAT issues. Contact us to discuss any of the issues raised in this TaxTip - or any other FSI topic.

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Disclaimer: These tax tips are based on a LinkedIn post by George Campbell, our experience of working with leading IFIs in Saudi Arabia - and our understanding of Saudi Arabia's VAT legislation, the GCC framework agreement and general VAT principles. **It is for general information only.** Seek professional advice in relation to your particular circumstances.