VAT brief | Imports and exports | Goods

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We have entered a new tax era. Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain implemented - for businesses with taxable turnovers above BD5m - on 1 January 2019 - with other businesses going live on 1 July 2019 or 1 January 2020. Other GCC countries are expected to follow. Key decision makers in the UAE, Saudi Arabia and Bahrain need to ensure their processes and systems are - and remain - VAT-compliant, while their peers in other GCC states need to start preparing now for VAT's implementation.

What is VAT?

- The GCC countries have agreed a standard VAT rate of five percent.
- Supplies of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- The mandatory registration threshold (MRT) is the equivalent of US$100,000. The voluntary registration threshold is the equivalent of US$50,000. Bahrain has staggered VAT's introduction.
- Registered businesses account for VAT - a consumption tax - on the price charged for the goods or services they supply and regularly pay the VAT to the tax authority.
- Where registered businesses make supplies that are standard- or zero-rated or out of scope with recovery, they should be able to recover the VAT they have incurred in making those supplies.
- Registered businesses making supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may be unable to recover VAT incurred on purchases that are deemed to have a private element.
- Registered businesses making supplies that are predominantly zero-rated are likely to be in a VAT refund position.
- Businesses that make both exempt and taxable supplies can only recover a proportion of their input VAT.

How does VAT affect businesses exporting goods?

- Until the electronic services system (ESS) is in place, supplies of goods which involve their removal from their GCC jurisdiction of origin will be treated as exports - and so zero-rated.
- Once the ESS is in place, supplies of goods from a registered business in one member state to a registered customer in another member state will be out of scope. Supplies of goods from a registered business in one member state to a non-registered customer in another member state will be standard-rated.
- When a registered business in a member state supplies goods to non-registered customers in another member state, the supplier must charge local VAT until the registration threshold in the destination member state is exceeded, at which point it needs to register in the other member state and account for VAT in the other member state.
- Exporters must have evidence goods have been removed to support zero-rating – the tax authority will ask to see this.
- Customers may collect goods from producers ex-works and export indirectly. This complicates matters - although zero-rating is still permissible subject to meeting the relevant conditions.

- Where customers are exporting indirectly, evidence of removal must be obtained and retained as if you exported the goods.
- Suppliers may wish to hold an amount equal to the VAT in escrow until the customer provides documentation evidencing removal within the required time-frame.
- Although supplies to other GCC countries will be treated as outside the scope of VAT once the ESS is introduced, strict time-frames for removal and retention of proof of export remain in place.
- In Bahrain, taxpayers whose intra-GCC supplies and exports exceed 50% of their total supplies can apply to the National Bureau for Revenue (NBR) to be approved under the domestic reverse charge scheme. Subject to meeting certain conditions, this scheme permits taxpayers to reverse charge the VAT on local purchases, providing a cash flow benefit.
- A tourist refund scheme is available in Bahrain and the UAE through a VAT refund desk at airports, allowing tourists to recover VAT paid on certain purchases.

How does VAT affect businesses importing goods?

- Import VAT is charged at the standard rate (5%) on almost all imported goods - buying goods from abroad offers no VAT benefit.
- Bahrain exempts import VAT on goods that are exempt or zero-rated if supplied in Bahrain and other fact-specific circumstances.
- Importers want to ensure this import VAT does not become a stuck cost – this can occur when another party imports and is named on the relevant customs documentation as the importer of record, but is neither supplier nor recipient in the supply chain.
- Importers must ensure their documentation is correct to facilitate input tax recovery – in the UAE, Saudi Arabia and Bahrain, import VAT is recoverable as input tax, subject to the normal conditions and to holding a valid customs bayan in the name of the party seeking to recover the VAT.
- VAT on imports is accounted for by way of reverse charge in the UAE and charged at the point of importation in Saudi Arabia and Bahrain. The VAT laws of both Saudi Arabia and Bahraini allow the application of the reverse charge to imports – once permission has been granted. In Saudi Arabia, a taxpayer must have been fully compliant for the previous 12 months for permission.

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- When using a freight forwarder to clear goods, ensure that the recipient of the goods is named as the importer of record on the import documentation or input tax recovery may be blocked.
- After the ESS is implemented, imports from other GCC countries will be subject to a reverse charge by the importer of record – similar complications will occur with regard to the recovery of input tax.

What should businesses exporting goods be doing now?

Examine supply chains to:

- Understand where zero-rating may be required
- Predict where conflicts may occur with customers
- Assess where financial security may be required
- Identify other processes required to avoid assessment and penalties
- Check the value of supplies to non-registered customers in other member states

What should businesses importing goods be doing now?

Review import arrangements to:

- Evaluate import VAT recovery positions
- Ensure that VAT does not become a sticking cost to the business
- Consider the use of the import VAT deferral scheme
- Consider applying a reverse charge and, where not automatic, consider benefits of seeking permission (Saudi Arabia and Bahrain)

Both exporters and importers must:

- Retain required documentation
- Consider how the introduction of the ESS will impact supply chains
- Get ready for the change-over to the ESS