withersworldwide

VAT introduction in the Gulf

03 MAY 2017

CATEGORY:
ARTICLE

If you have operations in any of the Gulf Cooperative Council (GCC) member states or if you conduct business with customers there you may already be aware of the introduction of Value Added Tax in those countries in 2018. For some of the GCC countries, this will be a shift away from a so far tax free environment.

The GCC member states include: Saudi Arabia, United Arab Emirates (UAE), Kuwait, Qatar, Bahrain and Oman. In the adopted VAT Framework Agreement, the GCC states confirmed the introduction of VAT in their respective territories in 2018. Similar to European Union (EU) Directives the member states now must implement the new VAT rules in their own domestic legislation. Although the Framework Agreement includes the basic rules and perimeters for the VAT system, it does leave adequate room for the GCC countries to potentially deviate from the standards and to take specific positions on certain matters. Saudi Arabia and the UAE already confirmed they are determined to implement VAT in their respective countries as of 1 January 2018. Although some comments have been made regarding a potential "grace period", no concrete statements or concessions were made by any of the countries.

So far, Saudi Arabia and the UAE have been the most active GCC states in informing businesses of the upcoming tax. Despite the fact that the domestic VAT law proposals have not been made public yet, public announcements and workshops by the UAE Ministry of Finance have shed some light of what businesses may expect as from next year.

WHAT DO WE KNOW OF THE NEW VAT IN THE GCC?

- The standard VAT rate will be 5%, unless a zero rate or exemption applies;
- As for example in the European Union (EU) VAT system, businesses imposing VAT on their goods or services are able to recover any input VAT, to the extent incurred in connection with non-VAT-exempt activities;
- Member states have the discretion to apply a zero rate or exemption for specific sectors (such as education, health care, real estate and oil sector) or services (such as financial services);
- The threshold for mandatory VAT registration is going to be extremely low – as a consequence the greatest majority of businesses established in the GCC area will be required to comply with the new rules;
- The VAT treatment of (businesses operating in) free zones is left to the discretion of the member states.

WHAT INTERNATIONAL ENTERPRISES WITH GCC BUSINESS DEALINGS SHOULD CONSIDER

- For the import of goods into GCC countries the so-called 'reverse charge' mechanism will in principle apply;
- As it is likely that services will be subject to VAT in the country where they are 'consumed', non-GCC businesses may ultimately need to register and report for VAT purposes if their customers are in the GCC;
- Foreign businesses with long term contracts with GCC based customers should review contractual arrangements in light of the VAT coming into force next year;
- It is still unclear to which extent foreign-owned companies established in one of the UAE Free Zones will be affected by the VAT, although a complete exclusion from the new VAT systems seems very unlikely.

More details will come out shortly once the GCC countries publish their respective VAT law proposals. The time frame between now and the anticipated VAT entry into force date is quite short. So, international enterprises with business dealings in the Gulf would be well advised to consider these upcoming changes.