Tax alert

UAE

4 May 2017

GCC releases VAT framework

Background

The GCC's unified agreement for value added tax (VAT) has been published (in Arabic only) by the Saudi Ministry of Finance on their website.

What happens next?

This unified agreement sets out the framework under which VAT can be implemented in each of the GCC member states. The framework includes agreement on certain matters but allows member states discretion on how to treat others.

Once the agreement is ratified, each member state can issue its own local law and implement VAT. The UAE intends to implement VAT with effect from 1 January 2018. The framework paves the way for implementation, allowing for a basic rate of VAT of five percent with certain supplies of goods and services zero rated or VAT exempt.

Click here for our tax alert on the GCC framework.

What does this mean for the UAE?

We anticipate that the Ministry of Finance (MoF) will release the UAE's law on VAT towards the end of June. This will detail how the UAE will interpret the GCC framework and how it will deal with those matters where it has discretion. These will include whether to treat certain supplies as zero rated or VAT exempt. Among other things, the local law will detail conditions for VAT deductions, VAT grouping and the rules for recovering VAT in respect of financial services. A particular point of interest in the UAE will be free zones. The framework is silent on this point, suggesting the UAE's VAT law will deal with this issue.

The MoF has recently been holding a series of public awareness sessions, outlining how they propose to apply VAT to those areas where the GCC framework allows discretion. The UAE has also taken steps to set up its own Federal Tax Authority (FTA), which will be responsible for all VAT matters in the UAE.

The mandatory VAT registration threshold is expected to be AED375, 000. Any person, natural or otherwise, with a taxable turnover in the UAE above the threshold will be required to register for VAT with the FTA. There may be a voluntary threshold for entities with a taxable turnover above AED187, 500. Entities that make only zero rated supplies may request an exemption from VAT registration. The application process to register for VAT in the UAE is expected to open in October 2017.

The introduction of VAT in the UAE is widely expected to yield Dh12 billion in 2018, and up to Dh20 billion annually thereafter.

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What should businesses be doing now?

The framework provides more than enough information to begin planning for VAT – especially as the UAE law is likely to follow shortly. Businesses should be planning and preparing now.

VAT will impact all businesses in the UAE, either directly or indirectly. All businesses should carefully review their processes to understand the impact of VAT and to determine what needs to be done to be fully compliant with the new laws. Clear communication is essential to ensure effective compliance.

Functions such as finance, legal, IT, sales, marketing and even HR must understand the impact of VAT on their function and determine whether the introduction of VAT will result in additional costs, either actual, connected to cash flow, or compliance-related.

Businesses should consider any contracts going beyond 1 January 2018 to protect their position.

All businesses will be required to maintain extensive and proper books of account as complete documentation will be essential to support a VAT refund claim and avoid penalties for non-compliance. Accounting systems should be able to identify and record VAT – payable and receivable – across the entire supply chain. They must also be able to identify and record rebates, exemptions or other special VAT treatments on particular transactions.

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KPMG VAT top tips

Be prepared. Consult. Time is short and will pass quickly. Consider a budget and secure the resources required for practical implementation.

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