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Introduction to VAT in the GCC

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VAT – What We Know Now

Value Added Tax (or VAT) is an indirect tax. VAT is a tax on consumption collected incrementally throughout the supply chain. It is based on the value that has been added to the price of work at each stage of production. Over 150 countries have implemented VAT (or its equivalent, Goods and Services Tax), including all 29 European Union (EU) members, Canada, New Zealand, Australia, Singapore and Malaysia. Among most jurisdictions around the world VAT is calculated on an invoice-based method. Sales transactions (outputs) are taxed; invoices are issued with the tax identified upon them. Offsetting this, businesses receive 'tax credit' for VAT they themselves pay on goods, materials and services (inputs).

Implementation of VAT in the GCC



Upon adhering to the recommendations of the International Monetary Fund (IMF), the Gulf Co-operation Council (GCC) countries have agreed 'in principle' to the GCC VAT Agreement to levy common indirect taxes in the GCC region. Most recently KSA has published its final VAT law on Friday 28th of July.



The UAE Government has issued the Federal Decree-Law no. 8 of 2017 for Value-Added Tax in preparation for the introduction of VAT from January 01, 2018. The issuance of the final tax law recently has set the stage for implementation of VAT and meeting the implementation timeline. The FTA has already chalked out plans to start online registration of companies for value added tax from mid-September.



The UAE VAT at 5% has a low rate but a broader base compared to Global standards. The rate is the lowest in the region compared to as high as 14% in Egypt and 18% in Turkey. Introduction of VAT in UAE forms a significant shift in the UAE's fiscal policy.

How does VAT works



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Farmer

Sells to Factory, collects VAT on behalf of government

Manufacturer

Sells to trader,
Collects VAT on behalf of government,
Deducts the VAT already paid to farmer
Remits the remaining to government

Trader

Sells to retailer,
Collects VAT on behalf of government,
Deducts VAT already paid to manufacturer,
Remits the remaining to government

Customer

Consumes the product
Bears the VAT paid to trader

Here is an example



Purchase From Vendor A Laptop For AED 1,050

(Price – AED 1,000 VAT – AED 50)



Sell to customer for AED 1,575

(Price – AED 1,500 VAT – AED 75)



Pay to Government AED 25

(AED 75 – AED 50)

What You Must Do



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Introduction

Every business which is VAT registered must record, assess and report its VAT obligations and entitlements, in accordance with the law, to the Federal Tax Authorities.



Registration Process

A VAT system requires companies to be 'registered' for tax purposes. These registrants may be natural persons or legal entities. The UAE, for example, has announced the following registration thresholds for businesses:

- Annual revenues of AED 375,000 or more – required to register.
- Annual revenues below AED 375,000 but above AED 187,500 – may choose to register.
- Businesses that satisfy certain requirements covered under the Legislation (such as being resident in the UAE and being related/associated parties) will be able to register as a VAT group. For some businesses, VAT grouping will be a useful tool that would simplify accounting for VAT
- Businesses will have to start optional registration from the beginning of September (2017).



VAT Calculation & Reporting

VAT registered business is required to charge and remit VAT collected to the Federal tax Authority on a periodic and regular basis. The total amount that must be remitted is determined by the amount of VAT charged on the total supplies of

goods and services less the amount of VAT credits incurred on purchases, for the respective reporting period. VAT registered businesses are required to file the VAT Return usually by the end of the calendar month following the end of the reporting period, which may be monthly or quarterly. The remitting of VAT either on a monthly or quarterly is a serious business consideration in view of the potential cash flow implications for the business.



VAT Invoices

In order to charge VAT on supplies of goods and services businesses have to issue VAT invoices. A VAT Invoice is a documentary evidence of the sale of goods and services in compliance with the VAT law. A VAT Invoice is also required by the business as documentary evidence to support VAT credit claims, i.e. VAT incurred on the acquisition of goods and services for the purposes of the business can only be claimed if the business holds a valid VAT Invoice from the vendor.

VAT impact on Business



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01

There will be an initial increase in costs due to upgradation of system, software, training of employees, hiring of consultants etc.

02

Prices of essential supplies and services will increase by 5%. However, the Govt has already exempted around 100 basic food items, house rent, life insurance and some health care services from the new levy. Education and public transport services are also expected to be zero-rated VAT to keep the inflation in control.

03

If businesses do not charge VAT separately, the total price is considered to be inclusive of VAT

04

Hefty fines/penalties for non-compliance or late filing of VAT returns

05

There are Risk of losses arising from lack of proper internal controls, preparedness etc.

06

Working capital management may become tougher

07

VAT is high on the business agenda, with most of the Board of Directors focusing on tax strategy as a key part of future governance activities.

08

There will be prescribed requirements pertaining to the use of electronic records, preparation of VAT audit files, time and format of records to be accessible for a VAT audit, amongst others.

09

Businesses often struggle to address questions raised during a VAT audit by the Federal Tax Authorities due to the inability to produce the complete audit trail of documentation to substantiate liabilities and entitlements reported within the VAT return.

10

The transition to a VAT will likely require large resources and businesses may face additional employee costs to implement and manage VAT.



How Can We Help



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At Ethics Plus, we provide end-to-end VAT solutions including the following list of services

Impact Analysis

- Understand the business transaction & establish the applicability of VAT
- Flag the potential impact of VAT compliance on business
- Ascertain the cash flows & working capital impact analysis

Transitional Compliance/Support

- Provide support for VAT registration
- Develop SOPs and new compliance manuals
- IT diagnostics/modification to adapt to current IT system or migration to new system
- Designing new corporate and business documentation for compliance
- Testing and adaption of the new IT system

Training & Workshops

- Management & staff training
- Vendor training
- Training on new IT systems, if required

Deliverables For Our Services

- Impact assessment report with the functional procedural document based on best practices
- Updated impact assessment report based on draft VAT legislation and a brief summary on the VAT legislation
- SOP's if the Client chooses for consulting on business process improvements.
- Implementation (design and configuration) of VAT in the client's system
- Post implementation review report addressing any issues or improvement related to the VAT compliance at the client's place

VAT Accounting & CFO Services

- Review and analyze the existing chart of accounts of the business
- Routine accounting help including VAT accounting
- Maintain supporting documentation
- Support services for statutory compliance
- Update VAT master data of vendors
- Vendor reconciliation for VAT credits
- Perform contract reviews
- MIS preparation and reporting

Post VAT Implementation Support

- Computation of eligibility for input credit
- Compute the final VAT liability
- Assist in filing VAT returns on a timely manner
- Support any changes as and when required due to changes in the legislation.

Why Choose Ethics Plus

Founded during the year 1995, Ethics Plus is one of the leading firms in the U.A.E., providing quality accounting, auditing, consulting and advisory services to businesses and individuals in a timely and cost-effective fashion. We have a dynamic and qualified team of professionals with solid experience in VAT environments.

We have strong international affiliations that help us share expertise and resources and we at Ethics Plus pursue a quality-centric approach for providing one-stop indirect tax solutions.

Leveraging our global and domestic indirect tax experience, we have formulated VAT Business Advisory and Compliance services to assist our clients plan well ahead and effectively mitigate transitional risk.

Get in touch with our experts today at 04-3451522 or email us at tax@ethicsplusuae.com

This presentation does not represent the legal rule or its interpretation. It is purely intended to create a general awareness of the VAT regime supposed to be implemented from January 01, 2018. It should not be considered legal advice, nor a substitute for legal counsel, nor advertising or solicitation. The contents of this document is not to be copied or published anywhere without written approval.



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