



VAT in the Gulf



VAT partner Daphne Hemingway outlines the VAT considerations businesses need to consider if they are trading in the United Arab Emirates (“UAE”).

What do I need to know?

If your business is trading in the United Arab Emirates (“UAE”) (or the Kingdom of Saudi Arabia), you need to consider whether your business is now required to register for VAT purposes. New VAT rules will be implemented on 1 January 2018 and 5% VAT will be chargeable on most commercial transactions.

Qatar, Bahrain, Oman and Kuwait will also be introducing VAT at 5% and the relevant regulations are due to be published shortly. If your business is trading in any of these Gulf states, you will need to be aware of the changes necessary to account for VAT correctly.

What do I need to do now?

The introduction of VAT will represent a cost to your business so it is important that you understand the implications now in order to take steps to mitigate the cost of VAT implementation.

We set out below a number of immediate considerations for businesses in the UAE:

- identify which VAT rate is applicable to your sales and adjust your prices accordingly;
- if you have not already applied for your Tax Registration Number (“TRN”) from the Federal Tax Authority (“FTA”) in the UAE, you will need to act quickly as you may incur VAT penalties for late registration;
- there are simplifications if your business operates with associated companies in the UAE whereby a tax group registration may be applied for;
- it will be necessary to re-design your purchasing, budgets and sales processes;
- you will need to understand your current contractual obligations and consider whether your customer and supplier agreements need to be reviewed and amended;
- you will need to agree with your customers and suppliers how VAT will be applied to contracts which span the implementation date of 1 January 2018;
- you will need to ensure your accounting system is able to record VAT on sales and purchases correctly and create specific VAT codes prior to the implementation date;
- tax invoices will need to be created once you have been issued with your TRN;
- you will need to introduce checks and controls to ensure suppliers’ tax invoices comply with the requirement for input tax recovery; and
- you will need to arrange to have your purchasing, legal and accounting staff trained adequately to understand the impact of the new VAT rules and prepare relevant VAT guidance or procedures manuals.

Considerations

- Monitor cash flow carefully, as output VAT invoiced to customers that is uncollected at the time the VAT return is due will still need to be paid to the FTA.
- VAT returns will need to be filed online in Arabic.
- Accounting records can be maintained in English.
- VAT returns to be filed electronically on a quarterly basis within 28 days of the quarter end.
- Administrative and evasion penalties will be applied for errors and fraud.
- Cash based accounting will be available under certain circumstances.

How we can help

Blick Rothenberg provides accounting and taxation services for numerous subsidiaries of overseas headquartered entities, many of which are based in the UAE.

We are currently advising a number of UK businesses operating in the UAE in partnership with our local BKR International member firm, Kanaan & Associates. Therefore we are in a perfect position to be able to effectively support you in dealing with the challenges your business will face in light of the new VAT changes.

Our services

VAT compliance

- Assistance with the application for a TRN for VAT registration with the FTA.
- Review and support for the completion of the first tax return.
- Confirmation on the basis of input tax recovery.

VAT advisory

- Advice on the place of supply of your business for VAT purposes.
- Advice on the application of the Gulf Corporation Council ("GCC") VAT rules for your sales to customers based in the UAE, GCC and outside the GCC.
- Assistance with the creation of qualifying tax invoices for sales to customers based in the UAE, GCC and outside the GCC.

System adjustments and finance staff training

- Specific support for GCC VAT accounting in the propriety accounting system, including introducing VAT coding for sales and purchase invoices and the creation of VAT reports.

- Support and training for accounting staff to understand the wider tax return processes, for example, to recognise supplier tax invoices to qualify for input tax relief.
- Assistance with the creation of qualifying tax invoices for sales to customers based in the UAE, GCC and outside the GCC.

General

- Consideration of any transitional arrangements for services supplied over the 1 January 2018 implementation period, i.e. apportionment of sales value.
- Review of supplier and customer contracts.
- We can review your current accounting system to ensure it can comply with the additional tracking of taxable versus non-taxable supplies, payments, and credits under the VAT regime, including a geographic breakdown of income on an Emirate-by-Emirate basis.
- We can also provide practical training workshops for accounting staff to ensure daily transactions are accurately recorded and documented. Your business will need to maintain VAT information in case of an audit from the FTA.



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