INDIRECT TAX

VAT IN THE UAE

Key insights

BDO

VAT will be implemented in the UAE on 1 January 2018. The rate is 5% - healthcare, education and some basic food items are exempt.

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UAE Minister of State for Financial Affairs

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THE UAE VAT REGIME IS CURRENTLY BEING FINALISED BUT YOU CAN TAKE STEPS NOW TO PREPARE.

2019

VAT will be implemented throughout the GCC by 1 January 2019 with the possibility of some member states joining the UAE for the earlier date of 1 January 2018

How VAT works

VAT is an indirect government tax borne by the end consumer of goods and services.

When a business charges VAT on a sale they are collecting that money on behalf of government. A business can reclaim VAT they have paid on purchases. The difference between what they have charged on sales and paid on purchases is sent to government.

A helpful way of looking at VAT is as a tax on consumption.

A key feature of VAT is that it is charged on the valued added at each stage of the supply chain. This is best shown in a simple example.

A date farmer sells his produce at AED 20.00 to a supermarket. The VAT at 5% would be AED 1. The supermarket pays the farmer AED 21.00 and the date farmer sends AED 1.00 in VAT to the government.

The supermarket then sells the dates to a customer for AED 50. The VAT would be AED 2.50 and the customer pays the supermarket AED 52.50. The supermarket sends AED 1.50 to the government – the supermarket pays AED 2.50 in VAT but receives a credit of AED 1 from the government on the purchase of the dates from the farmer. The total value consumed is AED 50 and thus total VAT the government should collect is AED 2.50. The government has collected AED 2.50 in total – AED 1 from the farmer and AED 1.50 from the supermarket.

How BDO can help you now

BDO can help now by performing an impact review on your business now to identify what needs to be addressed – in particular a review of business processes and accounting systems to assess how these need to change.

An important feature of VAT is the exemption of certain goods and services. If all services or goods that a business sells are exempt then the entire business is exempt from VAT. In most VAT regimes internationally an exempt business cannot claim VAT on its purchases. From the announcement we are aware that education, health and some basic foods will be exempt from VAT in the UAE. Based upon our experience of other VAT regimes, if only some of the goods and services are exempt then a partial exemption claim is made. We would need to see the exact details of the VAT regime in the UAE once available to determine how partial exemption may be applied – for example the sale of books and uniforms may subject to VAT at schools which are exempt.

INSIGHT

ON 1 APRIL 2015, GST WAS IMPLEMENTED IN MALAYSIA. BDO ADVISED CLIENTS ON IMPLEMENTING INDIRECT TAXES, HERE ARE OUR KEY LEARNINGS

It is critical to ensure the effective design of systems to capture and report indirect taxes for compliance purposes. There were many streams of transactions which fell within the scope of indirect taxes. The streams that need to be captured include petty cash through to import and export transactions. For compliance purposes, ensure that the report parameters and the data required are designed effectively with IT. This includes deemed supplies such as gifts, private use of business assets and free services to connected persons.

Not all suppliers were prepared for the implementation of indirect taxes and a basic level of education was required to be given by our clients to ensure that our clients were able to claim the input indirect taxes on purchases. It is worth engaging with your suppliers prior to 1 January 2018 to ensure that they are sufficiently prepared – a simple checklist can guide your finance team on how to ensure that invoices from suppliers comply with the indirect tax legislation.

We found that many organisations needed additional support during the initial period as existing team members did not have sufficient indirect tax experience.

For the service industry in particular we found that clients needed to tailor their HR systems for staff reimbursements to ensure indirect tax compliance.

For the retail and hospitality industry price tags, menus, websites and apps were redesigned and reprinted incorporating the indirect tax.

Our clients involved in e-Commerce and outsourced services required a significant amount of development work in terms of the design of portals and interfaces.

Many businesses started their indirect tax strategy very late (Malaysia announced the indirect tax implementation date about 18 months in advance). These businesses suffered penalties for late registration and further penalties for errors in compliance in the early months which could have been avoided.

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Whilst more than 150 countries have implemented VAT or Sales Tax, BDO has found that many businesses fail to take account of VAT in some business arrangements – for example in real estate transactions. BDO can help you identify business transactions where VAT has an impact.

Key actions to consider

From our experience of the implementation of VAT over the last few decades in other countries, there are some key actions to consider now:

- Identifying someone in your organization to develop and lead the VAT implementation strategy. This lead person should be senior enough to coordinate with all departments as VAT impacts on procurement, sales, IT, HR and legal.

- Sales and customer facing staff need effective training in understanding VAT and how it impacts in sales negotiations to ensure margins are not impacted in error and your customer doesn't value your product or service any less.

- Most business contracts would have provisions for future taxes within the pricing structure to ensure that there is clarity over whether the pricing is VAT inclusive or VAT exclusive. However it is worth reviewing all contracts to ensure that any contracts that require clearer provisions regarding indirect taxes are addressed before 1 January 2018.

- In many countries, VAT is based on the invoice date, not when the invoice is settled, for remittances to government collection agencies. If this approach is adopted in the UAE, carefully consider long term contracts to ensure that VAT on invoices received from suppliers are in step in terms of timing with VAT on your invoices to customers to help support cash flow management.

- In particular for the retail industry, consider how your Point of Sale systems are capable of dealing with VAT. Best practice is to run test simulations in advance of the implementation date. For businesses not involved in retail, it is still important to assess existing systems.

There may be changes in consumer behaviour – especially in retail, hospitality and entertainment immediately prior and post VAT implementation. This disruption in consumer behaviour present opportunities for businesses in these sectors to protect and acquire customers so it is worthwhile to plan business strategies accordingly for maximum impact on 1 January 2018.

BDO can help you

Our experience in Malaysia can help you. Please contact Priyesh Kapadia at priyesh.kapadia@bdo.ae on what we can do now and what we can do as the VAT implementation date gets closer.

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