

Are you VAT ready!

VAT Readiness Presentation

8 Jul 2017



GCC Unified Agreement VAT (UAVAT)

- 6 member state, GCC Framework available in public domain
- Minimum turnover \$100k, optional \$50k
- Uniform VAT rate 5% across GCC
- Choice of 1 Jan 2018 or 1 Jan 2019
- Exemption or Zero rate – Education, Health, Real Estate and Local Transport
- Each country to draft own law within framework

Source – UAE MOF Multiplier Event

GCC VAT update




GCC UAVAT published in Saudi Official Gazette – May 2017

KSA has circulated Draft VAT law for public consultation – May 2017

KSA GAZT has started the pre-registration of companies already on Ministry database – Jul 2017

News awaited from Oman, Bahrain and Kuwait

UAE VAT update



Federal Tax Authority (FTA) set up in UAE in Nov 2016

(Decision making, collection and compliance for taxes)

Draft Tax Procedures Law approved by UAE FNC

(Legal framework for regulation of taxes in UAE)

MOF VAT awareness session April onwards

VAT Laws expected within 2 months

(VAT Law and Executive Legislation)

What is VAT?



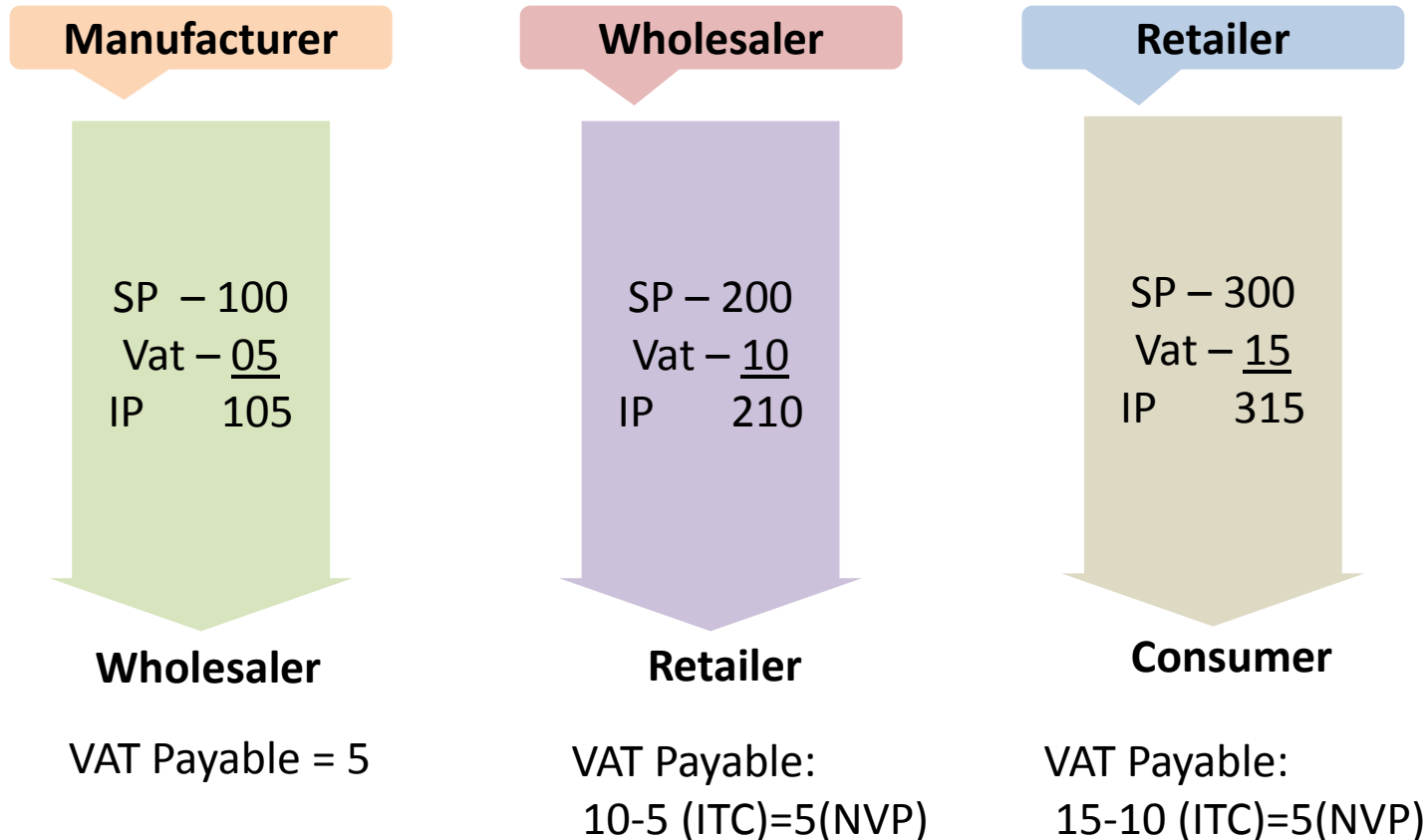
VAT (Value Added Tax) is a form of indirect taxation – seller vis-a vis buyer

VAT is a multipoint taxation

VAT is payable on the value addition component

VAT works on destination based taxation

How does VAT work?



VAT Concepts

Key Definitions

- Taxable person - any person conducting economic activity for purpose of generating income
- Includes businesses registered outside GCC territory
- Economic activity – continuous and regular supply, comm, indl, agr and prof
- Consideration is relevant, money or kind
- Taxable Supply – Supply of goods and services for a consideration

Input Tax Credit

General Concepts

- Credit for tax paid on taxable supplies
- Facilitates value addition and avoid cascading effect
- Allowed for taxable supplies
- Exceptions – Exempt categories, non taxable supplies, negative list (i.e ent, house for personal use)

GCC related

- Recipient - taxable person and registered
- Correctly charged, claimable and evidenced
- VAT has been paid or intended to be paid within 6 months
- Entitled for refund on verification

Date of Supply

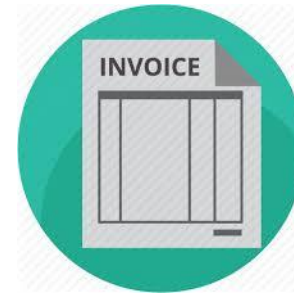
Date of Supply is Earlier of



OR



OR



Advance
Receipt

Delivery
of Goods

Raising of
Invoice

In case invoice is raised within 14 days of delivery of goods, invoice date can be considered for VAT purpose

Source – UAE MOF Multiplier Event

Place of Supply rules



Seller - Dxb



Buyer - Shj

Seller in Dubai will pay to
UAE Tax Authority



B2B Seller - Dxb



B2B Buyer
– Dammam

B2B buyer in Dammam will
pay on RCM basis to KSA
Tax Authority



B2C Seller - Dxb



B2C Buyer
– Dammam

B2C seller in Dubai will pay
to UAE Tax Authority subject
to conditions

Zero Rated Supplies

General Concepts

- Output tax is zero rated
- Input tax credit is allowed – no restrictions

GCC Related

- Exports outside GCC
- Food items as per GCC list
- Medicine and Medical Equipment as per GCC list
- Supply of sea, land and air means of transportation
- Intl and Intra GCC transport and services
- Charity organisations
- Gold, silver and platinum – 99% and more purity
- First supply after extraction of gold, silver and platinum

UAE Related

- Health and Education
- Residential real estate – first supply

UAE and GCC related Source – UAE MOF Multiplier Event

Exempt Supplies

General Concepts

- Supplies are exempt from tax
- Restricted to local jurisdictions only
- Defined sectors only
- Input tax credit not available for exempt supplies

GCC related

- Financial services – Member states can choose to charge certain financial services
- Imports of goods which are custom exempt
- Local passenger transport
- Bare Land

UAE Related

- Residential buildings other than zero rated
- Some specific financial services – margin based

Import Export

GCC import export

- Destination based taxation
- B2B supplies – Dubai sales to Bahrain, Bahrain dealer to pay tax
- B2C supplies – Supplier to pay tax in Dubai until turnover exceeds threshold limit in Bahrain
- In case of imports reexported within GCC, input tax credit to be reversed
- Applicable only to member country which have introduced VAT

Reverse Charge Mechanism (RCM)

- Receiver of goods and services pays the tax as supplier is not registered
 - Imports
 - Intra Community Supplies

Outside GCC

- GCC importer to reflect VAT and claim input tax credit
- Exports outside GCC is zero rated

Source – UAE MOF Multiplier Event

VAT Registration

Turnover threshold and dates

- Mandatory when taxable supplies turnover exceeds US\$ 100k, AED 375k
- Optional where turnover exceeds US\$ 50k, AED 187.5k
- Optional – 3rd Qtr 2017, Mandatory – 4th Qtr 2017

Taxable Supplies

- Includes Standard, zero rated, RCM based
- Excludes Exempt supplies

Tax Groups

- Related parties
- Restricted to place of establishment in Member state only
- Controls one or more business – 51% or more shareholding

Source – UAE MOF Multiplier Event

Pending Matters



Source – UAE MOF Multiplier Event

VAT Implementation

Why Bother Now!

“It is essential that businesses try to understand the implications of VAT now and once the legislation is issued make every effort to align their business model to government reporting and compliance requirements”.

Source: UAE Ministry of Finance VAT FAQ

Why Bother Now!

Zero tax regime culture

- No past experience
- Minimal documentation
- No Audit requirement

Business sustainability and profitability

- Large companies will insist on VAT compliant suppliers
- Pricing management
- Liability for tax payment
- Manage the cash flow timing difference
- Proper system of recording and documentation to be in place

Organisation wide impact

- Marketing and Sales
- Procurement and Contracts
- IT Systems
- Finance and Legal

Key Risks to Avoid

Not allow enough time to plan and implement

Inadequate understanding of legislations and requirements

System changes not reflecting organisational requirements

Documentation requirements not properly mapped

Control system not properly build for VAT accounting

About us

30+ Years

Established in the year 1984, MCA has a standing of 30+ years in the practice arena

Prime Global

International Network Partner with US headquartered International audit network

Research

Dedicated in-house Research and Training team

25 Partners

Specializing in the various fields of professional practice spread across 12 branches including Dubai.

500+

Well trained Staffs and Trainees

Clientele

Established Clientele and an array of services

Services

Transaction

- PE, M&A
- Due diligence
- Information Memorandum
- Business valuation
- Corporate Structuring
- Inland, Free zone and offshore incorporations
- VAT Consultancy and support

Assurance

- Statutory Audit
- Internal Audit
- Investigations
- Fixed Assets count
- Inventory count
- Impairment assessment

Manuals, Policy & SOP Design

- Accounting & Finance Manual
- Operations Manual
- Various SOPs
- Credit Policy
- Incentive/ Commission Schemes
- Corporate Governance

Corporate Finance

- Project & Trade Finance assistance
- Receivables management
- Payable management

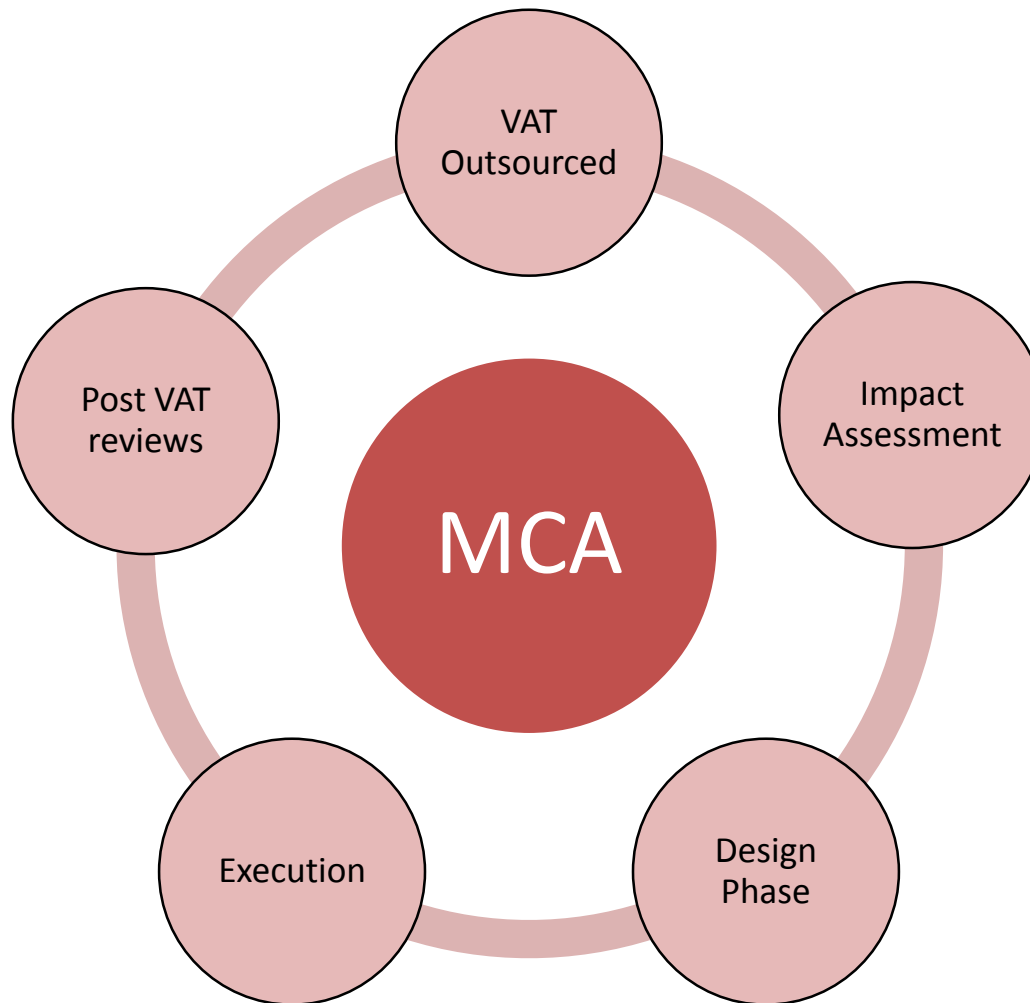
Fixed Asset Management

- Revamping FAR
- Customized FAM Software
- Mapping and value allocation
- Identification of idle, damaged and obsolete assets
- Tracking technology integration

Costing

- Activity based costing (ABC)
- Costing review of all processes
- Lean management support
- Benchmarking Study

How can MCA help



How can MCA help

Outsourced VAT

- Full support on VAT implementation
- VAT return filing

Impact Assessment

- Review of business transaction and VAT implications
- Assess system readiness and stakeholders readiness
- Staff awareness programs

Design Phase

- Transactions VAT planning and restructuring
- Customer Management – pricing, credit terms and cashflows
- Vendor coordination on VAT readiness
- Designing system and process change requirements and specifications

Execution

- System change testing
- VAT computation controls

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THANK YOU