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Introduction

With the progressive implementation of Value Added Tax (VAT) throughout the GCC from January 1, 2018, the time does appear to be upon us all to start looking in detail at the potential impacts it will have on businesses, whether from an organizational, operational, commercial or financial perspective. VAT is often described as being cost-less for businesses. While as a general statement this may have an element of truth, in many (though not all) cases it is not cost-less from the perspective of a business preparing for change and managing their new obligations.

To help businesses in the GCC understand the potential impacts of the implementation of, and operation under, VAT, Deloitte Middle East has been issuing short papers in a number of volumes designed to provide a greater understanding of the impacts of the tax on specific industry types. We try, where possible, to outline the scenarios which are most likely together with possible responses to them, in order to give a fuller flavor of the changes to be expected.

This second volume contains insight into the impacts of VAT on the real estate and construction, tourism, and oil and gas industries, and provides key considerations for the appropriate structure of a VAT function based on a European benchmark developed in collaboration with the specialist global indirect tax recruiters Beament Leslie Thomas (BLT). In addition, this volume discusses technology considerations with the aim to reduce the uncertainty for businesses and to highlight the key areas that organizations should focus on as they embark on their journey to VAT readiness.

The first volume provided an overview of how businesses should go about shifting from thinking to implementing, and putting themselves in a position to submit accurate, on-time VAT returns. Moreover, it looked at the retail, automotive, MICE (meetings, incentives, conferences and events) and financial services industries. The third volume will contain insight into the impacts of VAT on telecommunications and internet businesses, exporters, family offices, and finally the outcome of our VAT survey.

Contacts
Should you have any questions about these papers or just want to speak to us, please feel free to contact anyone in our VAT team. If you want us to consider your particular industry as part of our series, we would be pleased to take your suggestion.

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VAT is often described as being cost-less for businesses. While as a general statement this may have an element of truth, in many (though not all) cases it is not cost-less from the perspective of a business preparing for change and managing their new obligations.
Chapter 1: Real estate and construction industry

The property development and construction industry – building with VAT in mind
A quick look at court cases concerning VAT matters around the world would confirm that amongst some of the most regularly heard issues are those that concern the application of VAT to the property development and construction industry.

Why, you might wonder, is this the case? The industry has been around for a long time, so surely this is one aspect of VAT that must be well and truly settled by now? Unfortunately that is not the case. Simply put, the range of transactions underpinning the planning, construction and sale of commercial or residential real estate are varied and often highly complex which, necessarily, creates the need for an extensive suite of bespoke VAT rules to cope with these challenges.

The development and construction sector is of huge importance to the GCC as a whole. It supports large numbers of livelihoods as well as delivering the necessary infrastructure, commercial and residential spaces that are so important to the continued development of the region. The introduction of VAT by the GCC member states is not an attempt to harm those future prospects; indeed, governments want the sector to thrive and make a positive tax contribution, bearing in mind the sums involved.

Equally, however, the scale of many businesses operating in the sector, and the cost and revenue throughput that they manage, by nature creates an environment of risk associated with poorly understood or managed VAT obligations.

1. Construction sector challenges

   **Lead times on major projects**

   Lead times are common in most demand-led industries, but in the case of major construction projects they can be extremely long. It is almost certain that a large number of the major projects due to be delivered over the next few years will not have had VAT factored into them, either on the cost or revenue side. To some extent this was inevitable; the gestation of the VAT project in the region has been somewhat erratic to a number of observers and some businesses have planned for that status quo to remain for some time. Clearly that is no longer the case.

   The issue associated with the duration of contracts drawn up in the sector is that many will not, at the time of drafting, have included any of the normal terms and conditions relating to VAT which one would ordinarily expect in jurisdictions where the tax has been implemented.

   For the contractor in such instances, will they be in a position to charge VAT in addition to their normal contract price? On the face of it this appears to be a simple question, but in reality, it is often not.

   Payment for VAT purposes is generally considered to be inclusive of VAT. That means that in our case the contractor will need to agree with their customer that they can charge VAT in addition to the price previously agreed in order to avoid the charge becoming a cost they have to bear themselves.

   Bearing in mind that contracts in the region are generally struck on a tax-inclusive basis, making this change may not be as straightforward as one would hope, regardless of the position of the customer vis a vis VAT recovery.

   Furthermore from a pricing standpoint, it is unlikely that the market (after the introduction of VAT) would simply reprice itself to cover the VAT charge in full. Indeed, customers may well look to their suppliers to cover some of the VAT charge themselves anyway.

   There may well be some sort of a transitional regime granting suppliers the right to “grandfather” existing tax-inclusive contracts into the new VAT environment. However whilst such approaches have...
been seen elsewhere, it remains to be seen whether that would be the case in the GCC. This is, therefore, a major area of potential risk for any contracts agreed before the implementation of VAT but which will be executed or delivered after, the purchaser and vendors are unlikely to simply concede their respective positions easily given the cost of VAT must fall on one of them.

Registration of subcontractors
Another commercial issue that contractors will need to confront is the fact that many smaller subcontractors will either not be registered, or not required to be registered for VAT for the simple reason that they fall below the registration threshold. As a result of not being registered those businesses will be unable to recover VAT incurred on costs.

This being the case, it might cause the industry to seek to restructure to some degree, in order to prevent the blockage stemming from businesses unable to claim VAT refunds from unregistered sub-contractors; any such blockage would result in an element of VAT being included in the costs of construction. For subcontractors that fall below the mandatory registration threshold, but are entitled to register voluntarily, they may well need to consider that option, as failing to do so could make them uncompetitive compared to registered subcontractors that will charge VAT that the contractor can recover.

Treatment of residential versus commercial property
In the normal course of the application of VAT, the construction and supply of commercial, industrial and retail properties, in addition to the construction of infrastructure, is treated as subject to VAT at standard rate. An issue arises when one addresses the construction and supply of residential properties. Many governments attempt to create a level playing field between the supplies related to new residential premises and those of ‘second hand’ residences (which are normally supplied by unregistered persons, and are therefore not subject to VAT). Driving this process are other factors such as the perceived requirement of giving some preferential treatment to costs of basic living necessities likely to affect the lower income households. In order to achieve this outcome, some countries will treat the first supply of residential properties as being exempt or zero-rated rather than standard rated.

It must be said that this relief is by no means a given – and each GCC country may well end up with different rules. Certainly in Europe there are countries that charge VAT on homes and this is often, but not always, a substitute for transfer/stamp taxes. It is hoped that in the GCC, given the pressure on new housing and in particular on prices, that this will not be the case.

So if there is a relief, what relief?

There are two ways to give a relief – one is to allow a refund of VAT by the developer – this obviates the need to give a relief at the contractor level on the grounds the developer can recover the VAT charged by the contractor. The second is to relieve the actual supply of construction services, so that those services themselves are not subject to VAT. Both approaches are used around the world to differing degrees though the latter approach achieves little without supplementary reliefs for the developers.

In the normal course of the application of VAT, the construction and supply of commercial, industrial and retail properties, in addition to the construction of infrastructure, is treated as subject to VAT at standard rate.
As a result there is not a need to relieve the construction work itself as the VAT is a pass through (deductible by the developer).

If, however, the first supply of residential property is treated as exempt, this will mean that the developer will not be able to recover any VAT incurred during the construction of residential property, but will generally seek to recover that additional cost as well as its normal margin if it can when the property is either sold, or leased out. This in turn means that a relief at the contractor level is much more effective (as the developer avoids paying VAT that would otherwise be a cost).

As a result of the above, the ability for a construction company to pass on the full impact of VAT to property developers will very much depend on whether those developers will be eligible to claim a full input VAT credit. A developer’s VAT recovery position will be determined by reference to the VAT treatment of the real estate transactions that the developer enters into.

Industry practices
Other operational issues will arise through existing industry practices and the manner in which they tend to interact with the VAT law.

Examples of this would include dealing with the time of supply where work done on construction is subject to certification. Typically a pro-forma invoice is issued, but this is in reality just the start of a process of negotiation as to what work is ultimately agreed as having been done. However, if not documented carefully, and not dealt with contractually, this could have the effect of bringing forward the recognition of supplies that could well be in dispute, with the result that the VAT payable could be substantially different from the amounts that are reflected on the pro forma invoice.

Another area that could cause some differences in treatment would be the manner in which retention payments are ultimately dealt with. Once again, differences between what is stated in the contracts as compared to the industry practice could result in the incorrect amount of VAT being accounted for, or the treatment of the VAT occurring in the incorrect tax period.

2. Property development sector challenges
It is possible that the supply of commercial real estate either by way of sale or letting of real estate will be treated as taxable at the standard rate of VAT in most, if not all of the GCC. Charging VAT on the supply of commercial buildings should only create an additional cost to taxable persons and other bodies which are not able to recover VAT in full, for example, because those persons perform exempt or non-business activities. Consequently, vendors should be sensitive to this during price negotiations. In the context of commercial leases, landlords may wish to consider undertaking fit-out works on behalf of exempt tenants to incentivize them to occupy properties. That said, many larger institutions that are treated as exempt might incorporate taxable supplier entities to act as the landlord in respect of property used by the exempt supplier. While this does not have the effect of ridding them of the VAT burden, it can have the effect of delaying the timing of the negative effects of VAT on businesses that are not able to recover the VAT as an input tax credit.

Supplies of bare land are often treated as VAT exempt (regardless of whether the land is intended for commercial or residential use or development), in order to control the potentially inflationary
impact of taxing such transactions (which are in essence often a form of investment, and so charging VAT serves to tax investment by private individuals). This also reflects the fact that any value that may be added on the supply of bare land is often merely an indication of the inflation of the value rather than any process by which the value may have been enhanced. It also removes the possible need for private investors to register for VAT purely as a consequence of their involvement in such transactions.

Finally, as discussed briefly above, transactions in residential real estate tend to require special treatment. Residential property development is a capital intensive business and allowing refunds is often desirable, on the other hand, charging VAT on residential property is not always sensible given the impact on pricing. As a result it is not uncommon for residential developers to be entitled to claim zero-rating on the sale of properties – in order to recover VAT on costs whilst simultaneously not impacting prices due to the absence of VAT on the sale. Often this zero-rating is limited such that other residential property sectors, such as the secondhand or leasing market, are exempt from VAT (thus suffering a VAT cost on expenses). These are complex policy options and it remains to be seen what choices the GCC governments will make.

Notwithstanding these broader challenges, a range of other considerations now face the sector:

**Cash flow**

One of the biggest areas of concern for the property development sector will be planning for its cash flows. The sector, which can operate on thin margins, could be under pressure in terms of meeting the additional requirement of paying 5% VAT on the purchase of goods or services each month or quarter on an accrual basis. Therefore, it is critical for the business to perform a comprehensive impact assessment and determine the additional cash flow requirement, as this will have an impact on its working capital requirements.

**Barter transactions**

Property transactions often involve consideration other than, or in addition to, money, which can cause complex VAT problems. By way of example, an exchange of property interests, such as a surrender of an old lease in exchange for the grant of a new lease, or a sale and leaseback transaction, may take place without any exchange of money. These are barter transactions and it is important to analyze the VAT implications for each party and to ensure that there are no unexpected VAT costs by appropriately documenting the transactions. Failure to recognize these transactions could result in penalties.

**Lease incentives**

It is relatively common for property developers, particularly in the retail, office and industrial markets, to offer rent-free periods and other lease incentives to prospective tenants. This could trigger a VAT liability for both the tenant and landlord if it is determined that something has been supplied in return for the inducement (e.g. building works). Further, some jurisdictions deem a market value for rental during a rent-free period requiring the landlord to account for VAT, even though this may not apply to leases between arm’s-length parties where the rent-free period is effectively subsidized by the higher rental received during the remaining term of the lease.

**Mixed-use properties**

For companies engaged in the supply of both exempt (e.g. residential) and taxable (e.g. commercial) units, often referred to as mixed-use properties, the impact could be significant as there will typically be complicated calculations for recovery of proportionate input tax credit for each accounting period. Any lapses in such calculations will make VAT an additional cost for the business, impact its competitiveness and may give rise to penalties.

**Construction work**

The provision of construction services (including materials) is normally subject to VAT at the standard rate. Subcontractors are also likely to be impacted. This is because many subcontractors are likely to fall below the registration threshold and therefore they will seek to pass on the cost of their irrecoverable VAT. This could then lead to a change from contracts for the supply of goods together with a service, to that of a service alone, in order to ensure that materials are purchased by the head contractor, which is then able to recover the VAT.

There will also be pressure for registered subcontractors to provide VAT invoices to head contractors on a timely basis to enable swift VAT recovery. To this end, some countries have sought to introduce special regimes for subcontractors, such as reverse charge rules, or self-billing arrangements, to facilitate higher levels of compliance.

It is clear from the selection of issues explored above that this is a complex area, and while the VAT itself is still under construction, those involved in the area would do well to review what it is that they currently do, and consider undertaking risk mitigation steps in order to protect themselves.
Chapter 2 – Tourism industry

VAT and the tourism industry – a complex formula
Those involved in the tourism industry will know that it is not an industry that can be packaged together easily from a VAT perspective. There are many very distinct functions that are loosely categorized as part of the tourism industry, including airlines, travel agents, tour operators, accommodation and other local service providers. Each of these will be affected in one way or another by the application of VAT within the GCC.

Given the complexities inherent across these businesses and the Gulf region, the broader tourism industry in the GCC could well prove to be one of the more challenging areas in terms of addressing the impact of VAT.

A complex industry with many facets
The reason for this complexity is that VAT is, in many respects, both a tax on transactions as well as a tax that applies within a geographical area.

The impact of the former is that not only is it necessary to identify the various types of transactions that may be undertaken within the industry, but also the relationships that arise as a result of the transactions, i.e. are the parties acting as ‘agent’ or ‘principal’? Many tourism businesses describe themselves as an ‘agent’, but these businesses must consider if they are acting as a principal in reality, while referring to themselves an ‘agent’. This will be an important distinction as it will have a huge impact on the manner in which VAT needs to be accounted for.

The impact of the geographical aspect, is that the tourism industry will be dealing with both domestic tourism activities as well as international tourism – both inbound and outbound. This results in complexities over the ‘place of supply’ – which country VAT is due in – and the applicable rate. As an example, domestic tourism will typically be subject to VAT at the standard rate. Inbound tourism will most likely also be subject to VAT in the respective GCC state at standard rate.

Outbound tourism, may, on the other hand, be partially subject to VAT in the GCC at standard rate, and partially subject to VAT at zero-rate (or completely outside the scope of GCC VAT). Indeed, outbound tourism can in some respects be likened to an export of services, in that the supply of the tourism-related activity will occur offshore and probably be subject to VAT in the country in which the tourism actually occurs. To an extent, this will also depend on which functions are conducted in the GCC state and the capacity in which that function occurs.

Agent versus principal
By way of example, if a domestic tourist enters into a transaction with a travel ‘agent’ for an overseas travel package, and in accordance with which that ‘agent’ arranges the overseas flight, the accommodation, tours and transport overseas, the services would likely be treated as zero-rated from a GCC perspective as the underlying supply will actually occur offshore (typically by businesses that are based offshore and would not be registered for VAT purposes in the GCC). The treatment of the charges made by the ‘agent’ for his services, might, however, depend on whether the ‘agent’ is acting in the capacity as agent or as a principal in its own right.

In this case, it is the movement of the tourist that in many ways determines whether a supply will be zero-rated or subject to VAT at standard rate, rather than the travel agent’s VAT status. In this respect, it could be seen as counter-intuitive that although the agent’s services may occur in the relevant GCC country, and indeed payment may occur here, the services (being the air transport, accommodation, tours etc.) will occur offshore, and are likely to be subject to VAT there. Agents will be required to carefully review each travel package to determine the correct VAT treatment.

As for the agent’s own services, while they physically occur in the GCC, the normal legal or contractual relationship will be between the ‘agent’ and the offshore service provider – i.e. the hotel, car hire company etc. The agent is normally paid by them (rather than by the traveler), and as such it is the agent’s services to those providers that could be subject to VAT at zero-rate, as it is those services that are being ‘exported’. Of course, if the ‘agent is contracted to the onshore ‘tourist’ (possibly a company that is operating onshore and arranging to send employees overseas for work purposes) then those

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services may well be subject to VAT, but this would depend upon a number of other factors that need to be considered.

**Operations of an accommodation provider (hotel, motel etc.)**
The organizational structure of hotels varies according to the size of the hotel and the services offered, and the sources of revenue and expenses in the operations are likely to vary according to the range of activities provided.

It will generally be common to most hotels for their revenue streams to include accommodation (room revenue), food and beverage or F&B revenue, telecommunication (both telephones, TV/movies, and internet revenue), recreation revenue (weddings and other functions) and other rentals (conferences, exhibitions, etc). The VAT implications of each revenue stream will need to be considered and separately itemized for invoicing and accounting purposes.

One of the interesting issues for hotels will be the recognition of the time of supply for VAT purposes. Traditionally, hotel operators tend to recognize income from room revenue at the date of the guest’s arrival at earliest, although many also recognize it at date of departure, based on the premise that prior to that time, the booking may have uncertainties associated with it (the guest may depart earlier or later than their booking may initially indicate).

This can cause issues from the perspective of establishing when the ‘time of supply’ occurs for VAT purposes, particularly based on the fact that many hotels will take a ‘swipe’ of the guest’s credit card on arrival. Time of supply in relation to the supply of services is usually based on the earliest among payment, invoice, or completion of the supply by the service supplier. The question then becomes whether the terms and conditions of the hotel have the potential to render either one of those instances to have triggered the ‘time of supply’ for VAT purposes prior to the date on which the supply is considered by the hotel operator to have occurred. Indeed, it is possible that hotel providers will be required to account for VAT to the authorities before full payment is received or before revenue is recognized.

Other issues that may need to be considered include those identified in our earlier article on the MICE industry in Volume 1 of the whitepaper, particularly relating to the booking of events, conferences and exhibitions that may have long lead times, and contracts that may pre-date the implementation date of VAT.

**Tour operators**
The treatment of VAT for tourism operators can vary from being relatively simple to being a lot more complex than operators may be able to feasibly handle. This complexity may drive some operators to make changes to the way in which they do business.

In its simplest form, tourism operators will generally find that, assuming they breach the threshold for being required to register for VAT, they will need to charge VAT on their fees. This will be despite the fact that a significant percentage of their client base will be tourists from offshore, and also that many of the tours may in fact be booked while the tourist is physically situated outside the country. The reality is that the authorities are likely to take the view that the service is supplied in the respective GCC state, and that it should therefore be subject to VAT there.

At a more complex level, a tour operator may find that the tours that it currently offers will take tourists between two, or more of the GCC states. This may then
The issues and complexities that arise typically do so as a result of the various ‘non-airfare’ charges made to customers, and other fringe operations that airlines often engage in outside of their core operations of transporting people and goods around. The VAT treatment for a large portion of sales would appear simple, given that there are few, if any, domestic flights undertaken with the GCC (with those within Saudi Arabia and Oman being the obvious exception). As a result, most flights would be expected to be zero-rated on the basis that they are international flights.

Airlines
This is an area potentially deserving of its own article due to the possible complexities. The VAT treatment for a large portion of sales would appear simple, given that there are few, if any, domestic flights undertaken with the GCC (with those within Saudi Arabia and Oman being the obvious exception). As a result, most flights would be expected to be zero-rated on the basis that they are international flights.

The issues and complexities that arise typically do so as a result of the various ‘non-airfare’ charges made to customers, and other fringe operations that airlines often engage in outside of their core operations of transporting people and goods around. On the revenue side, one of the more obvious examples would be the participation in frequent flier programs.

While the treatment of these in relation to points accruing to fliers is generally relatively uncontroversial, the issues that arise will occur when it becomes one of the treatment of the supply of the various rewards that may be provided, and also the treatment of the possible supply of participation ‘points’ to banks, financial institutions etc. that use them as incentives for customers to spend money using branded credit cards etc.

An interesting area for airlines will be around the ‘time of supply’, particularly in relation to the sale of airline tickets. The normal rules for a service of this nature would require the VAT recognition date to be the earlier among payment for the service, the issuing of an invoice, or the actual completion of the supply of the service.

The issue here is that the supply of the airline booking is typically only completed on payment (whether actual payment, or the ability to charge an amount to the traveler/the traveler’s employer for the flight). However, this needs to be considered in the context of the fact that the underlying supply (the travel from A to B) will only occur if, and when the traveler arrives at the airport, gets on the plane, and then eventually arrives at the destination.

Matters have the ability to become confused where the traveler either does not arrive at the airport (and therefore does not actually travel), or arrives at the airport to find that the flight is overbooked - and therefore is not able to fly, or is offered either an alternative flight or some other arrangement, including ‘compensation’ in some form.

Clearly, in the former situation, the service of the flight has not been delivered, so a potential issue to consider is whether there is some other form of service that has been delivered – and if so what that
service is. If a separate service has in fact been delivered, could this be viewed as inextricably linked with the zero-rated flight that it also should be zero-rated? In the second case, where the traveler is wait-listed, has the service been delivered? This question has a significant VAT reporting effect if wait-listing occurs at the end of the tax period, and if the actual replacement flight occurs during the next month.

This is one small example of the complexities that will be faced by the airline industry.

Another area where airlines will have issues is in the recovery of VAT incurred locally on fuel, services and capital assets. This has the potential to impact significantly on their cash flow, and hence working capital depending upon the precise treatment afforded claims for refunds. Ignoring the prevalence of leasing of capital assets for one moment, if one considers the value of a new aircraft when first imported, the VAT on importation, and the consequent potential for an outflow of VAT, followed by the delay in any refunds, this cost could at best be considered as daunting.

**Conclusion**

The tourism industry contributes significantly to the Gulf economies and offers immense opportunity for individual operators throughout much of the GCC, but all such operators will face major complexities in the manner in which they will need to address the implementation of VAT.

It is clear from the subjects discussed in this article, that we have merely scratched the surface as to the potential complexities. To give sufficient time to resolve complexities and be ready for a successful introduction of VAT, the players within the industry would do well to begin their implementation processes earlier rather than later.
Chapter 3 – Oil and gas industry

Extracting VAT from the oil and gas supply chain – who will bear the burden?
Many in the sector anticipate that there may be a VAT relief applying to the oil and gas sector in some form – but even if this is the case, VAT is still anticipated to have an impact on all businesses.

The oil and gas sector remains an important and significant part of each of the Gulf states. Businesses in the sector include large national oil companies and their associated entities, international oil companies with local operations (or trading in the area) – both in ‘upstream’ exploration and production activities and ‘downstream’ marketing activities, and service companies providing specialist resources and expertise to the sector. The introduction of VAT will have differing impacts for each type of industry participant.

Many in the sector anticipate that there may be a VAT relief applying to the oil and gas sector in some form – but even if this is the case, VAT is still anticipated to have an impact on all businesses. We explain below some common avenues for VAT relief applied on oil and gas activities internationally, and how these affect businesses across the supply chain. We explore the effect of VAT on cash flow – which looks to be an important issue across the sector – and look at some complexities of international operations. Finally, we explore two practical issues for companies in the upstream sector.

Potential avenues for VAT relief in the sector

Whilst the fall of oil prices has had a significant effect on the sector, oil and gas remains an important industry in each of the GCC states. Many expect that governments will not apply VAT across the entire sector, but will instead provide some form of relief (such as an exemption or zero-rate, for example) to lessen the burden of companies working in the sector.

Even if a VAT relief of some form does apply, this is unlikely to mean that VAT will have no effect on industry participants. Industry participants should be careful to understand any special rules that may apply; there are varying potential forms of relief which may have significantly different financial and operational implications. Based on international models, some of the potential treatments and their implications are explored below.

a. The standard position – VAT is charged on all transactions (taking place within the territory)

Many jurisdictions do not apply any special VAT treatment to upstream or downstream activities: VAT is in theory charged at the standard rate on sales of products and on services provided to oil companies. Despite this, in practice the international nature of the industry – both for extraction activities and sales of crude/product - often result in VAT not being applied under standard VAT rules. For example, a zero rate generally applies for products exported outside of a country, and exploration activities outside of a country’s VAT territory.

Applying VAT in this way is conceptually straightforward – but businesses must deal with international complexities of their operations (discussed further below), and additional cash flow requirements where VAT does arise in the supply chain. Most European jurisdictions follow this model.

b. A zero-rate applies to sales of certain extracted products, or more widely across the sector

Some countries apply a specific zero percent rate to sales of certain products in the sector (such as South Africa). For the supplier of zero-rated goods, this preserves their eligibility to claim an input tax credit for VAT incurred on their purchases, whilst no VAT needs be charged on sales. For this reason a zero rate is often viewed as a favorable position for these suppliers. Businesses making predominantly zero-rated supplies must however anticipate cash flow effects of
paying VAT to suppliers – values of which can often be significant for capital and operational expenditure used in the sector – and seeking VAT refunds from authorities.

The cash flow implications of VAT need to be considered and planned upfront by all businesses working in the sector. Businesses making predominantly zero-rated supplies or supplies not subject to VAT can expect to be in a regular VAT refund position, as credits for VAT on purchases will exceed VAT collected on sales.

The scope of any zero rate must be carefully considered. It is uncommon for a specific VAT relief to apply to domestic consumption of oil and gas. A distinction may therefore exist to restrict the zero rate to certain products or certain upstream activities. Businesses must carefully examine to what extent they are covered by any such relief.

c. A sector-wide exemption applies to specified oil and gas companies
A different type of VAT relief involves providing full exemption from VAT for companies operating in the oil and gas sector. Unlike the standard VAT exemption, which results in a restriction to VAT recovery, a full sector exemption as applied in some countries – particularly in Africa – allows oil and gas companies to not have VAT charged on their purchases. Often, this requires oil and gas companies to provide certificates to eligible suppliers to allow purchases without VAT. The certification process introduces additional administrative process and tax authority scrutiny to the supply chain. Improper certification can result in VAT being suffered in the supply chain, despite a sector exemption applying in theory.

Cash flow effects will be a key consideration in the sector
Whether one of the forms of sector relief described above applies or not, the cash flow implications of VAT need to be considered and planned upfront by all businesses working in the sector. Businesses making predominantly zero-rated or non-VAT liable supplies (e.g. under a VAT relief sector, or making sales for export) can expect to be in a regular VAT refund position, as credits for VAT on purchases will exceed VAT collected on sales. Even at a 5% rate, the impact of VAT will be significant for large commodity transactions and on capital expenditure. The timeframes for monetizing VAT receivable balances will depend on individual tax authority practices; will a taxpayer need to file a refund claim with supporting documentation, or will there be a standard timeframe allowed for authorities to verify or audit a VAT repayable position?

International supply chains bring complexity
Oil and gas companies have traditionally faced challenges in understanding and managing VAT obligations across international supply chains. The sale and purchase of crude and refined products gives a technical VAT obligation in the country where each transaction takes place. This can often result in unexpected VAT registration requirements or obligations to charge VAT where products are purchased and sold in overseas jurisdictions. Businesses must ensure they understand the VAT landscape and their obligations in any country where they have operations, and also in any countries where they transact.
Whilst the concept of a zero rate for exported products in international practice generally reduces VAT costs for international movements of products or equipment, exporters must take care to collect and maintain commercial documentation to support zero-rating in the case of tax authority scrutiny. This process should be sufficiently robust to be able to have timely access to documents, even where another party (such as a freight agent or a customer) is responsible for carrying out the export formalities.

The VAT treatment of cost-sharing arrangements can often be unclear where a charge is made for a share in a bundle of costs

**Exploration phase – recovery and registration**
The oil and gas lifecycle may involve a long period of exploration and upfront investment until the asset (e.g. the oil or gas field) is in production phase - and first oil or gas is extracted. Until this time, the business is unlikely to make any supplies from that asset which would give a corresponding right to VAT registration or recovery of VAT on costs. Internationally, many jurisdictions allow businesses to be VAT registered, and to recover VAT incurred during these preliminary phases – otherwise, VAT incurred could form an additional irrecoverable cost and discourage investment in future projects. Ultimately, the VAT recovery position during this phase is likely to be a matter dependent on the specific rules in each country. If an upfront registration is not possible in a particular country (and this was certainly an issue in Malaysia when they introduced VAT), then businesses should explore what steps may be possible to ensure exploration and development costs are incurred by a company (or group) that is able to recover the VAT. In any case, forecasts for projects may need to include contingencies for irrecoverable VAT.

**Cost sharing in joint venture arrangements**
Many exploration projects are carried out as joint venture agreements, with multiple entities holding interests in the eventual production, and contributing their share in the development and operating costs of the projects. The sharing of costs between entities in this way (whether within a group or between third parties) is likely to be viewed as a set of separate transactions on which VAT should be charged, unless an exemption applies. The VAT treatment of cost-sharing arrangements can often be unclear where a charge is made for a share in a bundle of costs; even when a majority of costs might not be liable for VAT in nature (e.g. work carried out on an offshore rig outside the VAT territory), the VAT treatment for the bundle of services may revert to the default ‘taxable’ position. Upstream companies involved in joint venture agreements should review their contractual position and ensure that the agreements in place remain fit for purpose upon the introduction of VAT.

**Conclusions**
The oil and gas sector has a number of complexities – and the introduction of VAT across the GCC will doubtless add extra considerations for businesses across the supply chain. Whilst VAT is not intended to be an overall cost to businesses, it is almost certain that industry participants will feel a cash flow effect and will be required to comply with additional administrative obligations. Practically, VAT inefficiencies may result in a cost being borne at some part in the supply chain. Upstream and downstream businesses should examine their operations and existing arrangements to determine how VAT may affect them, and to ensure they are ready for the new world of VAT.
Changes and challenges of building the needed Indirect Tax department – a European benchmark to guide GCC businesses
As a transactional tax, VAT will have significant impact across a business’s entire operations – including the VAT function itself. Businesses in the GCC must ensure relevant employees have the appropriate VAT skills and knowledge for their roles, and this process may identify a need for a specialist in-house VAT resource. This will influence tax recruitment in a region where there has traditionally been little or no need to have tax specialists as dedicated resources in-house. Businesses in the GCC are already planning dedicated resources to oversee VAT advisory and compliance activities. This requires consideration of the appropriate size and make-up of a VAT function.

In order to determine the size of the team that businesses in the Gulf might need, the European market provides a useful benchmark. The Deloitte Tax practice in the Middle East has collaborated with Guy Barrand at the specialist global indirect tax recruiters Beamnt Leslie Thomas, (BLT) (www.blt.co.uk), to provide those benchmarks by looking at the data and trends from the United Kingdom (UK). The UK is now into its fifth decade of administering a VAT system, and is therefore a great example of a mature VAT system.

Using the UK and European market practice as an example, we will outline the different elements of a VAT function and what a VAT function typically looks like – focusing on in-house teams and touching on alternative models such as co-sourcing and outsourcing.

**Accessing the VAT population**

Based on the research conducted by BLT, there are currently approximately 1,800 VAT specialists employed outside of the government in the UK. Of these specialists, 44% are employed by companies/organizations as internal VAT experts, with the remaining 56% as professional advisers. Further, separate benchmarking looking at the broader tax advisory market suggests that it is common for businesses to have a dedicated tax team in-house. Therefore, businesses in the GCC may wish to consider establishing dedicated resources to oversee VAT advisory and compliance activities with the introduction of the new VAT scheme, and continuing on an ongoing basis.

The number of in-house VAT specialists typically varies in size depending on the industry and size of the business. In a recent survey we found that the size of the tax function varied by industry, but followed the general trend of increasing with company turnover. We expect the same to apply in the Gulf region.

There is a trend toward greater focus on indirect tax expertise in the market; our research indicated that the total volume of VAT specialists has increased, matching the developing complexity of indirect tax over the years. Similarly, the proportion of the VAT population working in-house has also dramatically increased since the mid-1990s.

**Dedicated indirect tax staff**

![Chart showing the percentage of VAT specialists by in-house vs. professional adviser roles.](chart)

**Average Tax Full Time Employees (FTEs) by industry**

<table>
<thead>
<tr>
<th>Industry</th>
<th>FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>Business and professional services</td>
<td>6%</td>
</tr>
<tr>
<td>Construction</td>
<td>10%</td>
</tr>
<tr>
<td>Technology, Media and Telecoms</td>
<td>6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>51%</td>
</tr>
<tr>
<td>Consumer business</td>
<td>51%</td>
</tr>
<tr>
<td>Public sector</td>
<td>51%</td>
</tr>
<tr>
<td>Financial services</td>
<td>51%</td>
</tr>
<tr>
<td>Energy and resources</td>
<td>51%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>51%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax Functions FTEs (Globally)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>
The bulk of the VAT specialists working outside of the professional services firms in Europe operate in advisory or strategic capacities. In the very largest (and/or most complex) global businesses based in the UK, the increasingly regulated environment of the last decade has led to greater scrutiny on how best to manage the VAT compliance burden. In fact, most respondents in the Deloitte indirect tax survey named compliance as the number one priority of their indirect dedicated resource.

According to BLT, this increased scrutiny on the compliance burden has resulted in global VAT compliance activities migrating away from the traditional provenance of localized accounting departments, and the establishment of internal teams with the sole purpose of effectively managing the global VAT compliance burden. A related trend is greater awareness of how the use of cutting-edge technology can assist in the compliance process. Indeed, in recent years we have observed a noticeable increase in requests for specialist indirect tax technology expertise.

The approach to VAT compliance has changed significantly with time – and businesses in the GCC are in a good place to follow these global developments and to implement ‘best in class’ compliance from the outset. This may include centralized and specialized delivery, an effective internal framework and management oversight, and maximizing efficiencies through automation and technology.
**Common operating models**

We have observed that tax operating models of large organizations are increasingly focused on indirect tax risks and obligations. Many businesses have moved further to introduce specific VAT or indirect tax operating models, defining and controlling how VAT is managed within the business.

Unsurprisingly, most VAT operating models are compliance-centric. Compliance work in a business is usually performed:

- By an in-house dedicated VAT team;
- As a co-sourced solution between an in-house team and an external provider; or
- Externally in full – where it is completely outsourced to a third party provider.

We expect that businesses operating in the GCC jurisdictions will follow this trend and prioritize compliance above strategic VAT management in the short term. Where there are no other senior tax staff, such as a head of tax, for example, we would expect the senior VAT manager to take more of a strategic role.

**In-house VAT functions**

As mentioned in the “Preparing for Change” article in Volume 1 of the whitepaper, a VAT transformation project needs to be approached in a structured way, taking into account the need to keep the wider business appraised of the developments and changes relevant to them, and for the business to engage in the process. This requires comprehensive planning, design, implementation and post-implementation monitoring of the VAT process within the relevant business. In considering the introduction of an in-house VAT function, considerable thought should be given to issues such as:

- Resourcing constraints within the organization;
- Availability of specialist knowledge and technical expertise;
- Complexity of the business;
- Process design and integration into the core business activities;
- Governance and risk management procedures to be implemented and monitored;
- Potential technology support required;
- Data gathering, validation and processing requirements;
- Compliance monitoring.

Typically, most in-house VAT functions have a specialist dedicated resource with a focus on compliance as well as supporting the wider business with technical advice. Leading class functions will be fully integrated into the wider business areas such as procurement, finance and IT to ensure both proactive and reactive approaches to transactions.

The diagram below illustrates a comprehensive leading class approach to indirect tax function in a business and the types of activities that we would expect the function to perform globally and in the GCC.
**Level 1** – Strategic Direction – senior members of the tax and finance teams, including head of VAT/ head of tax or, where applicable, senior finance members will own the strategic direction of the function. This will include ownership over the governance activities and roles and responsibilities.

**Level 2** – Key Indirect Tax and Reporting Activities – the majority of the tax team or finance team members will undertake the core activities listed. A shared service center (SSC) is a common vehicle to assist in compliance activities.

**Level 3** – Supporting Infrastructure - underpinning the operation of an in-house VAT function are the people, technology, processes and risk management frameworks developed to support the activities above. Each of these in turn will be impacted by the introduction of VAT and potentially will require improvements to provide the appropriate support. As noted, this is a comprehensive approach to in-house VAT. In most cases we expect some of this activity to be co-sourced or outsourced to third party providers who are able to provide the requisite specialist knowledge and support such as VAT advisory or planning.

We expect that the strategy and other governance activities will be developed in most cases where a tax strategy has previously not been required. The UK recently required large businesses to publish their tax strategy statements on the internet for the purposes of promoting greater transparency in tax reporting. While we do not expect the GCC to progress to such a requirement as an immediate priority, a tax strategy is likely to be a new addition for most boards to consider as part of their governance activities.

Typical roles we would expect to see in-house include:
- Head of indirect tax / VAT director – primarily responsible for managing and providing support to the business’s key stakeholders, setting strategic direction and managing the relationship with tax authorities.
- VAT manager – managing day-to-day VAT risk, overseeing the operational day-to-day activities including the compliance process, implementing the VAT strategy, and supporting and training the business.
- VAT analyst or accountant – preparing and calculating the compliance, working alongside finance / the shared service center, and understanding the end-to-end system flow.

Shared service centers are increasingly becoming the preferred option for tax and financial reporting within indirect tax, as evidenced by recent responses from businesses below.

A tax strategy is likely to be a new addition for most boards to consider as part of their governance activities.
Outsourcing is common for many businesses: larger organizations choose to outsource compliance and advisory matters to utilize specialist knowledge and expertise in a cost-effective way. Smaller organizations often choose outsourcing because there is no business need for having a full-time tax role.

**Co-sourcing**
Co-sourcing tends to suit most businesses that are able to have some tax resource in-house but lack the specialists skills required for some activities (for example, compliance in other jurisdictions, planning, technology support). Co-sourcing usually means the business will outsource some activities to a third party provider for completion. This typically means that the business still maintains the final review and sign-off activities without investing time and resources to more consuming activities such as data gathering and processing.

The compliance process can be summarized in most jurisdictions to include the activities below. Varying levels of judgement and skill are required in each stage of the process, and this will determine how the steps are split among the resources within the organization and with external providers. Whilst the right solution will depend on each business’s individual needs, we expect co-sourcing to be a popular approach for large businesses managing VAT compliance across the Gulf region.

**Outsourcing**
Outsourcing is common for many businesses: larger organizations choose to outsource compliance and advisory matters to utilize specialist knowledge and expertise in a cost-effective way. Smaller organizations often choose outsourcing because there is no business need for having a full-time tax role. We do not expect a large number of businesses in the GCC to fully outsource all VAT obligations from the introduction date. However, we expect that some – especially those global businesses with an effective outsourced compliance model – could look to implement a full outsourcing in the GCC in the medium term, once VAT is implemented.

Companies with the best indirect tax compliance usually have a designated owner of the indirect compliance process – their role is to have ultimate responsibility for the end-to-end compliance process, to regularly review and update the process and, most importantly, ensure that all the various teams in their organization (AP, AR, local finance, group tax) know their roles in the
process and carry these out effectively (be this an in-house model, a co-sourcing model or a fully outsourced model).

**Dealing with global indirect tax**

Indirect taxes in their different forms have been around for decades in many jurisdictions around the world, and this trend is continuing with more countries introducing new VAT systems. More often than not, multinational businesses choose to have decentralized compliance of indirect tax due to the availability of local expertise and nexus to the transactional activity. It is not uncommon, however, to see centralized management of indirect taxes in some organizations. This may be common where the business has few, simple indirect tax filing obligations or where local expertise is not available. Some businesses will prefer a combination of the two in a co-ordinated approach.

**Common challenges of less mature VAT functions**

The potential impact of implementation and operation of a VAT system is expected to be significant for all large businesses operating in the region. As the tax is indirectly levied on a transactional basis, the effects of VAT – and the ongoing obligations for effective compliance – will touch on a very broad section of a business's activities and support functions. It is important to keep stakeholders and management across the business in mind when completing the rollout.

In established VAT markets Deloitte has performed varying reviews of tax functions and identified a number of similar trends and common issues among the less mature VAT functions.

Common issues for developing VAT functions can include:
- Unclear roles and responsibilities;
- Inadequate resources and limited access to training;
- Little understanding of the data used in the process;
- A number of manual processes including calculation and reporting of returns;
- Inadequate technology support;
- No controls in relation to VAT on sales and purchases;
- No system controls relating to VAT liability determination;
- Little input into the business process;
- No formal risk identification procedure in place;
- Missing filing deadlines with no overall plan on how to manage filings.

Whilst the implementation of a brand new regime in the GCC region will bring unique challenges in its own right, with the appropriate support and expertise it is possible to plan a smooth transition and minimize the day-to-day running of organizations.

**Preparing for success**

VAT implementation is likely to be a significant challenge for most businesses in the GCC, and a sensible first step is to quantify the impacts and communicate these across the business. Deloitte has worked to perform many impact assessments in this area, and to then recommend processes and frameworks which support compliance requirements and business objectives.

We are working within the Gulf region to support businesses to respond to the impacts and challenges of VAT, and to prepare for the upcoming changes in the most effective way. Our full VAT implementation process addresses many of the considerations discussed in this article – and includes VAT function operating model design, solution implementation, compliance readiness and more.

The foundations of a VAT function - whether designed on an in-house, co-sourcing or outsourcing basis - will provide the basis of a successful transition to the VAT system. We would encourage organizations to start planning their approach and desired outcomes early to ensure the necessary projects can be deployed in time to meet compliance deadlines. We expect the process for full implementation will typically span at least two to three years to be fully effective - and businesses that fail to prepare in adequate time will inevitably be under pressure to comply during the transition period.

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**Global operating models - the 3 methods**

Method 1
Decentralized

Delivered and managed locally

Method 2
Co-ordinated

Delivered locally, managed centrally

Method 3
Centralized

Delivered and managed centrally
Chapter 5 – VAT technology

Technology considerations – using technology to automate VAT compliance
Deloitte’s VAT readiness in the GCC survey shows that 61% of organizations feel that they need more than six months to prepare for the introduction of VAT. VAT is characteristically embedded throughout a business’s entire supply chain. The strength of a business’ VAT compliance function is highly dependent on the processes in place, the capacity of the technology system, and the knowledge of VAT within the finance and tax departments. The right approach to VAT will ensure control over compliance while reducing error, risk and cost.

With the formal announcement of VAT in the GCC, businesses need to focus on the practical implications of updating their systems to manage this tax. Deloitte’s VAT readiness in the GCC survey shows that 61% of organizations feel that they need more than six months to prepare for the introduction of VAT. As such, there is an immediate need for executive teams to work closely with their technology partners to agree and implement the right VAT technology architecture.

Further, nearly half of the surveyed organizations indicated that the top two stumbling blocks to a successful introduction are technology and a lack of knowledge regarding the VAT rules. This highlights an issue between the need to begin preparing now and a lack of certainty as to what businesses are preparing for.

In this chapter, we aim to reduce the uncertainty and highlight the key areas that organizations should focus on as they embark on their journey to VAT readiness.

**Revenue**

Businesses above a minimum taxable supply threshold (this is normally sales income – but for VAT purposes may include other activities) must register for VAT. Thus, before making any decisions in regards to change, it is crucial to check the applicability of VAT to your business in a particular jurisdiction.

**Nature of business**

The complexity of a specific VAT solution will depend on the nature of the business. The kind of purchases and sales a business makes could fall into three categories for VAT purposes:

1. Standard rate (predicted to be 5% in the GCC) – the majority of goods and services are expected to fall within this category for most retailers and law firms.
2. Zero rate (0% but still a taxable supply for VAT purposes) – this will apply to the export of goods, for example.
3. Exempt from VAT (i.e. no VAT charged but no VAT recovery on purchases) – this is typically applied to many services offered by banks and other financial institutions.

Furthermore, the location of the supply plays an important part in determining within which jurisdiction the VAT needs to be accounted for and by whom. Under normal rules the place of supply in a business-to-business supply of services transaction is where the customer is located.

For example, when a consultant in Dubai provides processional advice to a business customer in Oman, the place of supply is likely to be treated as Oman and as such the Dubai-based consultant would not...
charge VAT. Instead, the business in Oman would self-account for Oman VAT under the reverse-charge mechanism.

**Extent of integration of current business processes**
GCC organizations, especially the small- and medium-sized businesses, have often managed many of their wider financial processes such as employee expenses, inter-company invoices and petty cash transactions outside their core transactional finance system. The introduction of VAT is very likely to encompass these types of transaction and so you may have more than just your main accounting system to think about.

**Existing IT architecture**
The complexity of your existing IT architecture is going to have a large influence on how straightforward it is to update for the introduction of VAT. Below are typical scenarios:

- **Simple architecture** – One mainstream ERP (e.g. a recent implementation of Oracle/SAP with existing VAT capability from another jurisdiction) with minimum customization being used for all the processes impacted by VAT introduction. Updates will be focused on enabling or customizing the existing tax determination and reporting functionality.

- **Medium complexity architecture** – Two or three systems are being used for all the processes impacted by VAT introduction, or the VAT capability (calculation and reporting) of the existing systems is limited. More system configuration time and effort is required where there is more than one system in use. Care must also be taken to ensure that the VAT configuration of each existing system is consistent.

- **High Complexity architecture** – Multiple systems are being used, including older linked finance systems, and the systems have multiple interfaces with the financial management and accounting systems. Additionally, the VAT capability (calculation and reporting) is non-standard across the systems and may be limited. Older finance systems may not offer the automated VAT determination functionality required and therefore may need to be updated as part of a systems upgrade project. The use of many ERP systems multiplies the configuration and effort required when establishing the VAT system logic. Furthermore the work required around process flows and the points of data integration will be similarly increased.

**Ongoing or planned IT projects**
Any ongoing or planned IT projects that could potentially impact the VAT processes should be re-assessed in the context of the timing of the introduction of VAT, as implementation plans may need to be adjusted. There are different ways that VAT could be implemented in view of existing and planned projects with the most common scenarios being:

- **Pause and implement VAT** – The IT project interferes with the VAT implementation (e.g. updating a new billing system). In this case, a business may choose to pause the effort and resume only after VAT is implemented.

- **Complete and implement VAT** – The project is near completion and so it may be most efficient to complete the project and then subsequently implement the changes required to enable or build VAT capabilities.

**IT knowledge**
The extent of knowledge of existing IT systems within the organization can make a big difference when implementing the functionality critical for VAT. Organizations which have highly customized finance solutions are often very dependent on the ‘in-house’ knowledge or long-term service partner relationships. Therefore, it is important to include the right stakeholders when planning to implement major VAT changes that will impact many business processes at the same time.

**Automation of VAT processes**
It is important to determine the extent of VAT process automation that an organization wants to achieve immediately (at the beginning of the VAT mandate) and the level of automation desired over the long term.
The complexity of an organization may mean that some configuration of the finance system is required, but it is important to recognize that customization will increase the maintenance burden compared to a more standard approach.

**Demand increased resources until current processes have been fully established.**

**Options for technology enablement**

**Invest in existing systems**

The majority of current ERP systems offer automated VAT determination and reporting functionality and we expect that using this native functionality will be the most common approach for companies in the GCC to enable their finance systems to deal effectively with the new VAT system.

When enabling VAT functionality in existing systems, it is preferable to use the standard, ‘out of the box’ functionality where possible. The complexity of an organization may mean that some configuration of the finance system is required, but it is important to recognize that customization will increase the maintenance burden compared to a more standard approach.

Older finance systems may offer less inbuilt functionality for automated indirect tax determination and this should be factored into preparations for change.

**Balance automated and manual effort**

Successful VAT implementations will appropriately balance the automated and manual effort in end-to-end processes. When automating a process, businesses should weigh up the cost of automation against the perceived benefit. In many cases where there are one-off or complex transactions, manual processes may be more beneficial and cost effective than attempting to automate.

**Make use of tax specific third party solutions**

Third-party providers are preparing to offer ‘bolt-on’ solutions that integrate with native finance systems to support tax determination and calculation. Solutions are also available which assist with tax compliance and reporting obligations. These solutions can provide automation capability beyond that available within typical finance systems.

Third-party solutions offer an interesting alternative to investing in existing systems but careful consideration is recommended to determine whether a ‘bolt-on’ solution is suitable and necessary before implementing.

**Consider leveraging adviser relationships**

Outsource providers typically have standard methodologies and technologies for consolidation, processing and reporting of VAT information. Businesses can choose to leverage this approach as an alternative to investing internally in a compliance and reporting solution.
Businesses will still need to provide the source transactional data to an outsource provider and ensure that sensible tax decisions have been made, so it is still likely that GCC businesses will need to invest in existing systems.

Don’t underestimate the overall VAT reporting process, i.e. the time taken to consolidate, test and get comfortable with the figures extracted from finance systems that will be submitted to tax authorities.

Managing an effective VAT implementation
An effective implementation for VAT in the GCC relies on a number of factors. The relative importance of these will vary depending on how far the implementation has progressed but, in our experience, all consistently feature in a successful implementation.

Before implementation
- Ensure that you fully understand the requirements and these have been communicated to all relevant stakeholders.
- Understand whether the finance system will be customized in any way.
- Business should have a clear view on the processes needed to support the systems implementation.

During implementation
- It is important to ensure that the right skills and knowledge are available at all stages of implementation.
- Ownership of the various stages of an implementation should be agreed upfront (e.g. design, build, and testing).
- Communicate clearly and regularly with the process owners and any other stakeholders that will be impacted at different stages of the implementation.

After implementation
- Training and support has to be provided so this should be planned for in advance.
- Business should strive for continuous improvement of the system, whether through improved automation processes or better supporting processes.
- The ownership for system and data maintenance should be communicated and managed within tax, finance and IT departments.

It is important to ensure that the right skills and knowledge are available at all stages of implementation
Businesses in the GCC should think about what success looks like for them before they proceed with any system implementation for VAT.

### Hallmarks of an effective implementation

- **The right skills to consolidate and test data, submit returns, adapt systems and handle relationships with wider business, professional advisers and the local tax authorities.**

- **Strong technical and systems knowledge needs to be embedded into the business. Ongoing training is essential to keep teams’ knowledge current and this typically falls to the ‘tax team.’**

- **Clearly communicated process underpins the success of finance systems, if the systems are not utilized correctly, their full potential will not be realized.**

- **Technology solutions can provide greater efficiency and accuracy where automation of tax decision is enabled. Tax reporting and compliance solutions can provide further assistance.**

### Lessons learned from our experience

- **Always consider the ‘end-to-end’ process and solution**

- **Don’t underestimate the timescales and skillsets required**

- **Balance of automation and end user flexibility**

- **Communication, training and change management are key**

### Conclusion

Businesses in the GCC should think about what success looks like for them before they proceed with any system implementation for VAT. There is likely to be a subtle distinction between the view of success immediately after a system goes live on day one of VAT being set up and the view of success after the new VAT processes have been embedded within the business and you’re looking for further efficiencies; both of these should be given weight when decisions regarding the implementation are taken. The development of strong processes and controls alongside a new finance system will help businesses in the region, ensuring both views of success are achieved.
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