

VAT

overview and explanation

Topics:

- VAT explained
- VAT rules
- Returns and payments
- How will impact your business
- Cash flow impact
- VAT roadmap
- What to do now

VAT – Explained:

- VAT is adopted by around 150 Countries in the World and is the main consumption tax system worldwide
- USA is the only developed nation without a Federal VAT
- VAT is an indirect tax, imposed on most supplies of goods and services that are bought and sold.
- The Economic Agreement between GCC States and the GCC Customs Union have agreed for the implementation of VAT. In UAE it will start on January 1, 2018.

VAT – Regional countries

| Country | Start Date | VAT/GST | Standard Rate |
|---------|------------|---------|---------------|
| Algeria | 1992 | VAT | 17 |
| Egypt | 1991 | VAT | 13 |
| Jordan | 1994 | GST | 16 |
| Lebanon | 2002 | VAT | 10 |
| Tunisia | 1988 | VAT | 18 |

VAT Rules

- VAT applies generally to transactions related to goods and services.
- VAT is charged at each step of the supply chain. A Company pays VAT that it collects from customers and may receive refund from the Government on VAT paid to the suppliers.
- The Vendor may deduct the VAT paid during the preceding stages on goods and services acquired
- There is a limited range of goods and services which are exempt or ZERO rated (ex: exports are taxed at 0% under certain circumstances)
- Supplies (sales and leases) of commercial properties will be taxable at the standard rate of 5%.
- Supplies (sales and leases) of residential properties will be generally exempt from VAT.
- The first supply of residential properties within 3 years from their completion will be ZERO-Rated.

If

ZERO rated, you can claim input credits, but not when supplies are exempt

VAT charged on supplies (OUTPUT VAT) less VAT paid to the supplier (INPUT VAT) = VAT PAYABLE/REFUNDABLE

ZERO – RATED:

- Export of goods and services outside the GCC
- International transportation and related supplies
- Supplies of certain sea, air and land means of transportation (aircrafts, ships)
- Precious metal (gold, silver)
- Newly constructed residential properties (for the first 3 years from their construction)
- Education services and supply of related goods and services
- Healthcare services and supply of related goods and services

EXEMPTED:

- Supply of financial services (see VAT legislation for more details)
- Residential properties
- Bare land
- Local passengers transport

PARTIAL EXEMPTION:

Where a VAT registered Company incurs input tax on its business expenses, this input tax can be recovered in full if it relates to a taxable supply made by the registered Company. In contrast, where the expense relates to a non-taxable supply the registered Company may not recover the input tax paid.

VAT can be deducted in the following circumstances:

- Shall be a taxable business (not the end consumer)
- VAT shall be charged correctly
- The business must hold the documentation showing the VAT paid
- Goods and services acquired are used for making taxable supplies

| | VAT % | Pre VAT | Post VAT Unregistered | Post VAT Registered |
|---|-------|---------------|--------------------------|------------------------|
| Purchase item | | 100,00 | 100,00 | 100,00 |
| Add Input VAT | 5% | - | 5,00 | 5,00 |
| Total VAT included | | 100,00 | 105,00 | 105,00 |
| Less Input VAT Credit | | - | - | -5,00 |
| NET COST of goods | | 100,00 | 105,00 | 100,00 |
| Add 50% mark up | | 50,00 | 52,50 | 50,00 |
| Selling price ex VAT | | 150,00 | 157,50 | 150,00 |
| Add Output VAT | 5% | - | - | 7,50 |
| Price end consumer pays | | 150,00 | 157,50 | 157,50 |
| VAT RECEIVED BY FISCUS | | - | 5,00 | 7,50 |
| VAT on Value Added (AED50x5%) | | - | - | 2,50 |
| Additional amount paid by consumer | AED | - | 7,50 | 7,50 |
| Additional % paid by consumer | % | 0% | 5% | 5% |

Rules

- VAT in the UAE will be implemented on 1st Jan 2018;
- **Introductory rate will be 5%;**
- Mandatory Registration: 370,000AED annual turnover;
- Voluntary Registration: 135,000AED annual turnover;
- Start-ups can register prior to receiving income if expenses exceed 135,000AED;
- Voluntary Registration will commence on July 1st 2017 and Mandatory Registration during 3rd quarter of 2017 (reg. will be done online);
- Group Registration is allowed if group companies are in same ownership and same Country;
- Offshore Companies are considered “TAXABLE Enterprises”;
- Healthcare, Education, Oil&Gas, certain food items, the first supply of residential buildings, international transports will be “ZERO-RATED”;
- Residential property letting will be exempt;
- Financial services “MAY” be exempt;
- Life Assurance will be exempt but insurance will be a standard rate;
- Supplies to Government will be at standard rate;
- There will be specific exceptions for charitable organizations, governmental bodies and international participants in Expo 2020;
- Special rules will apply for water and energy supply;

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- Tourist refunds will not due;
- Intra-GCC trans-shipments will be ZERO Rated: exporting country will have to pay VAT collected at port to receiving country. If goods are then transported to GCC country after VAT is claimed, third party is to adjust and exporting country must pay VAT over to receiving country.
- Rental contracts entered into force before the implementation date will not apply VAT (post dated cheques are excluded)
- Penalties will be applied when failing to register when required to do so; failing to submit a tax return or make a payment within the required period; failing to keep the records required under the issued tax legislation; tax evasion offences.

SPECIAL RULES:

Where a payment is received in respect of a supply of goods before the introduction of VAT but the goods are actually delivered after the introduction of VAT, this means that VAT will have to be charged on such supply. Special rules will apply with regard to supplies of services spanning the introduction of VAT.

Where a contract is concluded prior to the introduction of VAT in respect of a supply which is wholly or partly made after the introduction of VAT, and the contract does not contain clauses relating to VAT treatment of the supply, then consideration for the supply will be treated as inclusive of VAT. There will, however, be special provisions to allow suppliers to charge VAT in situations where their recipient is able to recover their VAT but where there is no VAT clause.

A scheme will be introduced to allow UAE National who is not registered for VAT to reclaim VAT paid on goods and services relating to constructing a new residence which will be privately used by the person and his family. This will allow to recovery VAT on such expenses as contractor's service and building materials.

Returns and Payments

- **TAX PERIOD:** quarterly;
- **RETURN** submission: must be done online only (E-Filing);
- **SUBMISSION:** must be done in Arabic but E-Filing portal will have English capability;
- Supporting docs may be in English;
- **CORRECTIONS to VAT** Returns: 30 days period;
- **AUDIT:** No Audit of VAT Return (vouchers) required but the Company must maintain reliable and accessible records and reports in case of Inspection by TAX Authority;
- VAT will be payable on “**DEEMED SUPPLIES**” (gifts, provision of foreign services, etc) and reflected in returns;
- **PAYMENTS:** must be made ONLINE and within a specified period
- **LATE PAYMENT:** penalties will be imposed;
- Additional Reporting requirement by EMIRATE – Revenue Only;
- **PENALTIES** for non-compliance up to 500% and company closure for 72 hours;

- **TIME of SUPPLY** (Tax Point) deemed to be date of delivery of goods or completion of provision of service
- Invoice must be issued within 14 days of tax point
- **Place and Supply** will determine jurisdiction of VAT Liability, return and payment obligations. For the supply of goods, the place of supply will be the location of goods when the supply takes place. For the supply of services, the place of supply will be where the supplier is established.
- **5 YEARS RECORD** retention requirement
- VAT-Registered Companies shall report to the Government the amount of VAT charged and the amount of VAT paid. The report shall be done online.
- If you have charged more VAT than you've paid, you have to pay the difference to the Government. If you've paid more VAT than you've charged, you can reclaim the difference.
- VAT will not be deductible in respect of expenses incurred for making non-taxable supplies. So, input tax cannot be deducted if it is incurred in respect of specific expenses such as entertainment expenses, etc.

IMPACT

BUSINESS:

- Cash flow
- VAT transactions and rules
- Imp/Exp
- Group Structure
- Admin fees

COMPLIANCE:

- Registration
- Governance, processes and procedures
- Invoices
- Returns
- VAT Payments
- Audit
- Record keeping

IMPACT

Technology and systems:

- Systems upgrades, accounting, POS
- Data and record storage

Sales and marketing:

- Effects on demand and pricing
- Customer communication
- Current contracts

Suppliers:

- VAT Status of suppliers
- Supplier compliance
- Current supply contracts

Staff:

- Capability assessment
- Responsible officer
- Training

Cash Flow IMPACT

- VAT will impact on cash flow and in some cases significantly;
- Construction and contracting businesses may be more affected;
- Expenditure precedes revenue;
- Input credit may not be refunded monthly or at all if offset against output VAT;
- Output VAT may be payable prior to receipt of funds;

Cash Flow IMPACT

| POST VAT | JAN | FEB | MAR | APR | MAY | JUNE | JULY |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Sales | AED | AED | AED | AED | AED | AED | AED |
| Cash | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Credit (90days) | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| ADD Output VAT 5% | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| TOTAL SALES (VAT Inc) | 2.100 | 2.100 | 2.100 | 2.100 | 2.100 | 2.100 | 2.100 |
| | | | | | | | |
| Rec. from Customers | 1.050 | 1.050 | 1.050 | 2.100 | 2.100 | 2.100 | 2.100 |
| Cost @70% of sales | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 |
| Add Input VAT 5% | -70 | -70 | -70 | -70 | -70 | -70 | -70 |
| Paid to supplier (COD) | -1.470 | -1.470 | -1.470 | -1.470 | -1.470 | -1.470 | -1.470 |
| VAT payments/receipts | | | | | | | |
| Input tax from Authority | - | - | - | 210 | - | - | - |
| Output tax due to Authority | - | - | - | -300 | - | - | - |
| NET CASHFLOW monthly | -420 | -420 | -420 | 540 | 630 | 630 | 630 |
| CUMULATIVE CASH FLOW | -420 | -840 | -1.260 | -720 | -90 | 540 | 1.170 |

Cash Flow IMPACT

| PRE VAT | JAN | FEB | MAR | APR | MAY | JUNE | JULY |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Sales | AED | AED | AED | AED | AED | AED | AED |
| Cash | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Credit (90days) | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| ADD Output VAT 0% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SALES | 2.000 | 2.000 | 2.000 | 2.000 | 2.000 | 2.000 | 2.000 |
| Rec. from Customers | 1.000 | 1.000 | 1.000 | 2.000 | 2.000 | 2.000 | 2.000 |
| Cost @70% of sales | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 |
| Add Input VAT 0% | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Paid to supplier (COD) | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 | -1.400 |
| NET CASHFLOW monthly | -400 | -400 | -400 | 600 | 600 | 600 | 600 |
| CUMULATIVE CASH FLOW | -400 | -800 | -1.200 | -600 | 0 | 600 | 1.200 |
| DIFFERENCE IN NET CASH | (20) | (40) | (60) | (120) | (90) | (60) | (30) |

VAT Roadmap

PHASE 1

VAT impact assessment, VAT project plan and strategy

1. Carry out VAT readiness assessment

2. Conduct stakeholder workshop

3. Review business as a whole and examine the impact on:

Sales, pricing, marketing

Finance and Admin

Tax management

Cashflow impact

Compliance and IT System

Legal and HR

4. Develop appropriate project plan to comply with the new rules

VAT Roadmap

PHASE 2

Detailed design and set up phase

1. Review transactions / mapping transaction
2. Mapping of VAT in compliance with the legislation
3. Develop Input and Output tax allocation matrix
4. Complete technology assessment and plan
5. Review of contracts and action plan

PHASE 3

Implementation, testing

1. ERP/IT system detailed design and solution implementation
2. Train staff
3. Ensure that company is VAT ready
4. Review sample VAT of returns prior to submission
5. VAT reconciliation

What to do NOW

- Impact assessment, project plan, resource requirements and budget
- IT strategy (review ERP system)
- Record keeping, data storage and back up
- Review Group structure
- Policies and manuals required
- Process mapping
- General ledger, receivables, payables, amendments and accounting entries
- Invoice re-design
- Staff training
- Contract amendments – procedures must be embedded now
- Supplier assessment
- Assess cash flow impact
- Change management plan: IT, testing and training
- Keep a range of business records which will allow the Government to check at any time it will be needed
- The electronic registration will be active starting with the 3rd quarter of 2017

What to do NOW

- Taxpayers must file VAT returns with the FTA on a quarterly basis, within 28 days from the end of the tax period in accordance with the procedures. The TAX returns shall be filed online using e-services.

Further updates will be provided soon.

