



# Qatar Development Bank

VAT Overview

14 November 2017

# Course outline

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Session topic	Duration
Introduction to VAT and GCC VAT Framework	18.00 – 18.15
VAT Mechanism	18.16 – 19.15
Impact of VAT for entrepreneurs	19.16 – 19.30
Compliance and Legal Obligations	19.31 – 19.45
Q & A Session	19.46 – 20.00

# Introduction to VAT and GCC VAT Framework



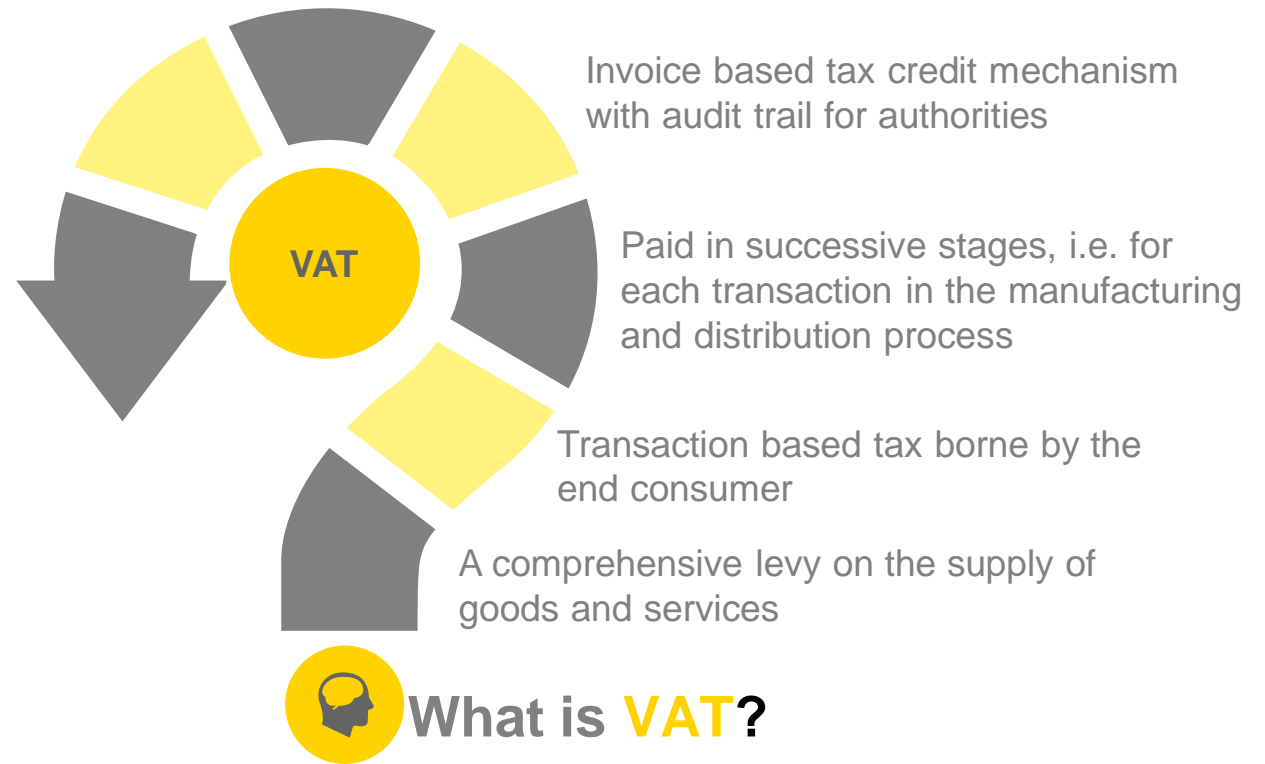
# Taxes in the GCC

## Indirect taxes

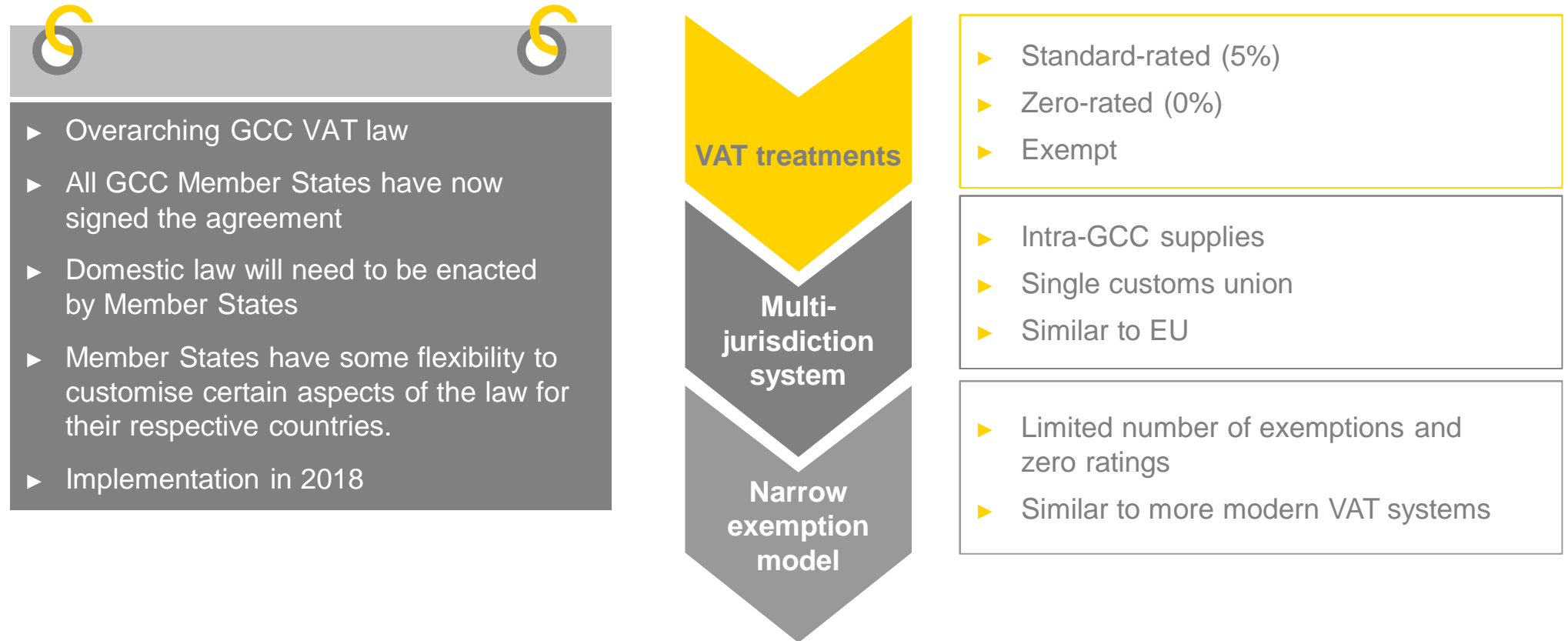
- ▶ Customs duty
- ▶ Excise duty
- ▶ Government levy (hotels and restaurants)
- ▶ Stamp taxes

## Direct taxes

- ▶ Zakat (KSA)
- ▶ Corporate income tax



# GCC VAT Framework Agreement



# Country updates

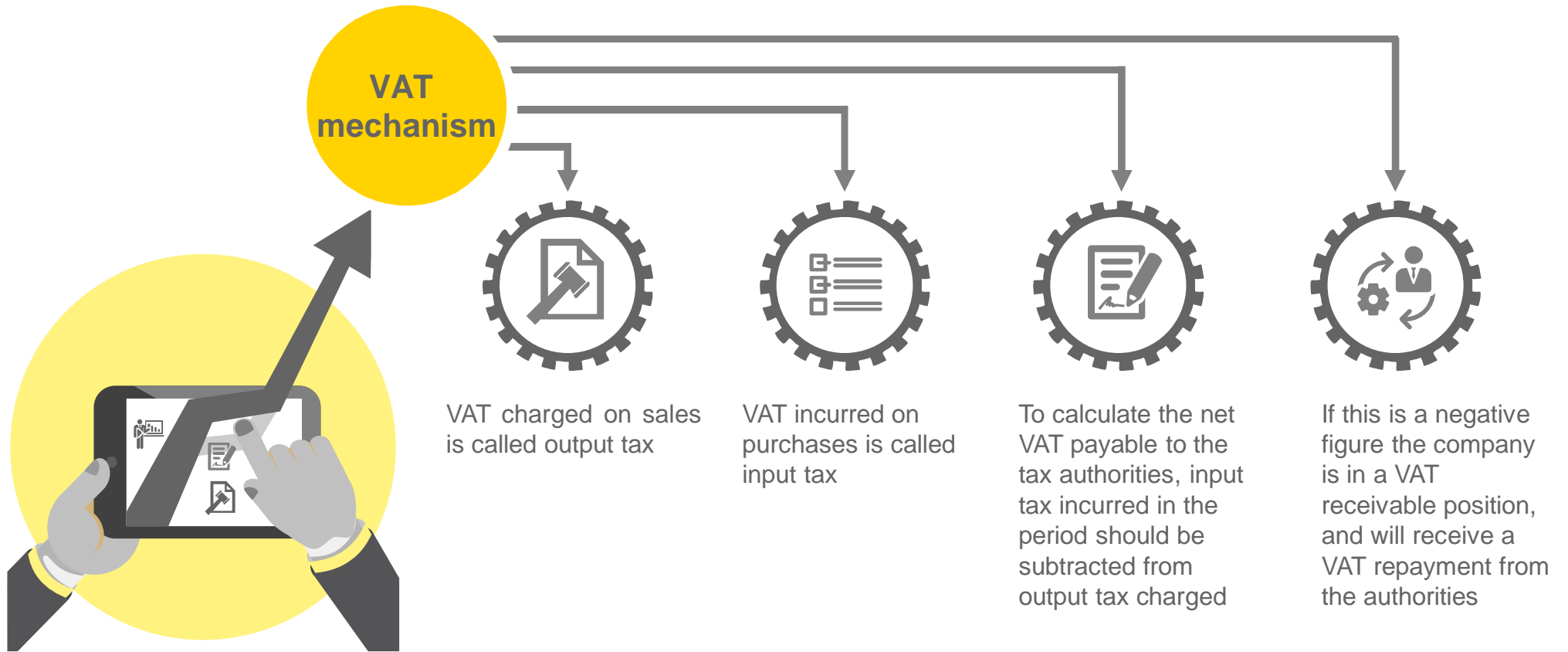
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<b>Bahrain</b>	<ul style="list-style-type: none"><li>▶ On 2 February 2017 the Bahrain Minister of Finance, Sheikh Ahmed bin Mohamed Al Khalifa, officially announced that Bahrain had signed up to the GCC VAT Framework Agreement</li></ul>
<b>Kuwait</b>	<ul style="list-style-type: none"><li>▶ The Kuwait Ministry of Finance is in the process of preparing the local VAT law which will be subject to the parliament approval</li></ul>
<b>Oman</b>	<ul style="list-style-type: none"><li>▶ Oman is in the process of finalising the draft VAT law, and intends to go live in the second half of 2018</li></ul>
<b>Qatar</b>	<ul style="list-style-type: none"><li>▶ On 3 May 2017, the Qatar Council of Ministers announced the approval of the Qatar VAT law</li></ul>
<b>Saudi Arabia</b>	<ul style="list-style-type: none"><li>▶ Has published the text of the GCC VAT Framework Agreement in the official gazette, and its final domestic law and implementing regulations on the GAZT website</li><li>▶ Plan to go live 1 January 2018</li></ul>
<b>United Arab Emirates</b>	<ul style="list-style-type: none"><li>▶ The Tax Procedures Law was recently published, as well as the VAT Law. The Implementing Regulations are expected shortly</li><li>▶ Plan to go live 1 January 2018</li></ul>

# VAT Mechanism

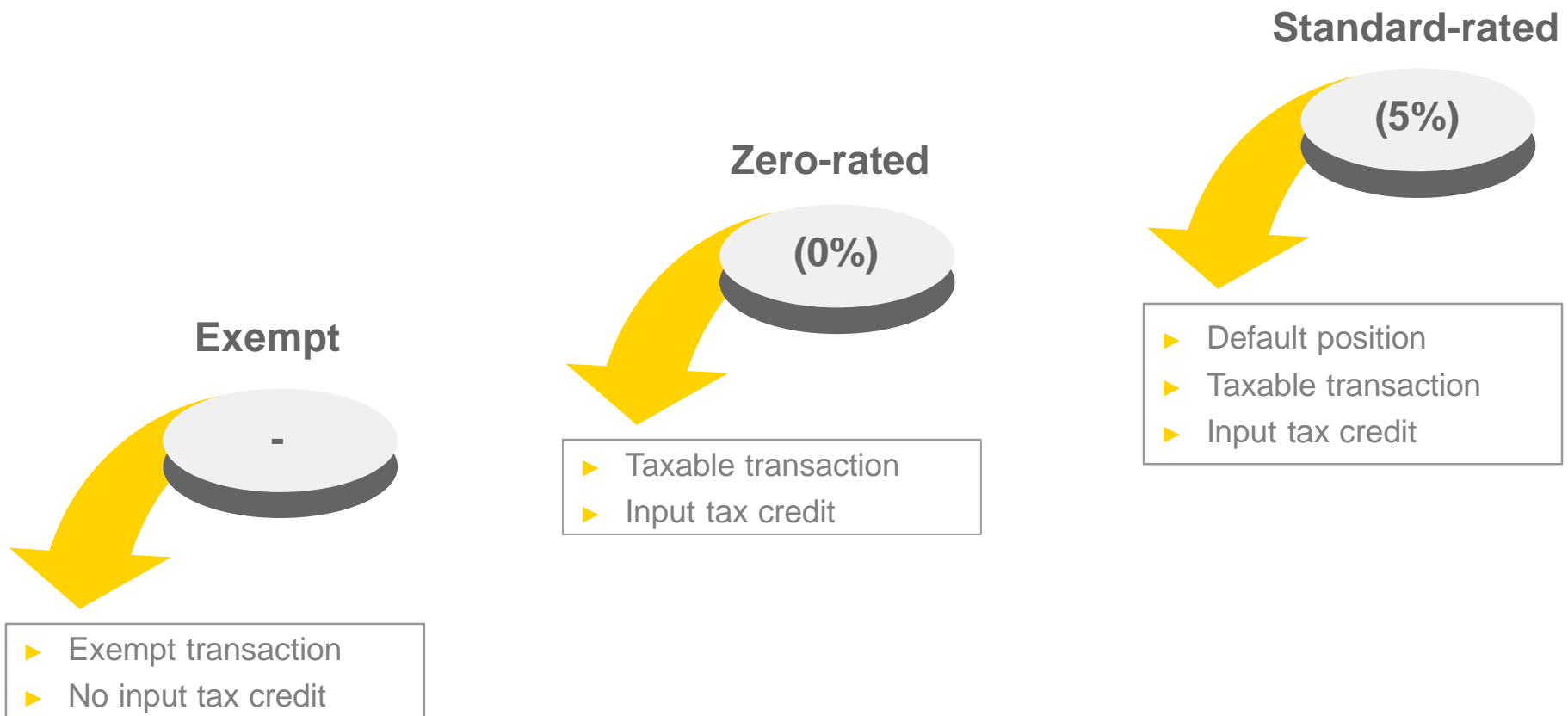


# VAT mechanism





# Rates of VAT



# Taxable person and economic activity

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- ▶ Supplies are subject to VAT only when carried out by a **taxable person**
- ▶ This ensures that transactions conducted **in the course or furtherance of business** fall within the scope of VAT
  - ▶ Whereas **private or non-business activities** are not subject to VAT
- ▶ In the GCC VAT Framework Agreement, a taxable person is known as ‘the person subject to the tax.’

# Taxable person

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- ▶ The following definitions are found in the GCC VAT Framework Agreement:
- ▶ **The person**
  - ▶ Any natural or legal person, either private or public, as well as any type of partnership
- ▶ **The person subject to the tax (taxable person)**
  - ▶ The person who conducts an economic activity independently for the purpose of generating income, who is registered or obligated to register for VAT in accordance with the provisions of this Agreement

# Economic activity

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- ▶ In order to be classed as a taxable person, a person must carry on an economic activity
- ▶ In the GCC VAT Framework Agreement, economic activity is defined as follows:
  - ▶ An activity which is done continuously and on a regular basis, it includes commercial, industrial, agricultural, professional, or service provision activities, in addition to the use of tangible or intangible property and similar activities
- ▶ The above definition is broad – the examples are not exhaustive

# Taxable person and economic activity

## Examples

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- ▶ **An individual sells their family home in order to move to a larger one**
  - ▶ This would not be classed as economic activity as it is not done continuously and on a regular basis. The individual would therefore not be classed as a taxable person.
- ▶ **A charity provides free healthcare services to disadvantaged children**
  - ▶ This may be classed as an economic activity, depending on the nature of the activities. However, to be classed as a taxable person, they must “conduct an economic activity independently for the purpose of generating income”. Generating income is not the purpose of the charity’s activities, so they would not be classed as a taxable person.
- ▶ **A tax consultant quits his job, and starts providing consultancy services to businesses as a sole trader**
  - ▶ This is likely to meet the definition of economic activity, and the consultant would also be classed as a taxable person. The VAT registration thresholds would need to be considered.

# Supply and consideration

## Definitions

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- ▶ **Supply**

Any form of supplying goods and services in return for consideration

- ▶ Supply of goods
- ▶ Transport of goods from one member state to another
- ▶ Supply of services
- ▶ Deemed supplies
- ▶ Receipt of goods and services (reverse charge)

- ▶ **Consideration**

Everything collected or to be collected by the supplier subject to the tax from the customer or a third party against the supply of goods or services inclusive of the VAT

- ▶ Includes monetary and non-monetary consideration
- ▶ It has a direct link with the goods or services supplied

# Consideration

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## ▶ What is not consideration?

Payments which do not represent consideration for a supply include:

- ▶ Grants, donations, legacies, etc
- ▶ Fines and penalty charges
- ▶ Gratuities and tips
- ▶ Compensation payments

# Supply

## Goods and services

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- ▶ VAT law distinguishes between a **supply of goods** and a **supply of services**
- ▶ **Goods:**
  - ▶ Transfer of ownership of such goods or the right to dispose of the same as an owner
- ▶ **Services:**
  - ▶ Any supply that does not constitute a supply of goods shall be considered a supply of services
- ▶ **The nature of the supply can affect the following:**
  - ▶ The place of supply (i.e. where VAT is due)
  - ▶ The VAT liability of the supply (i.e. the rate of VAT due)
  - ▶ The time of supply (i.e. when VAT is due)
  - ▶ The value of a supply (i.e. how much VAT is due)

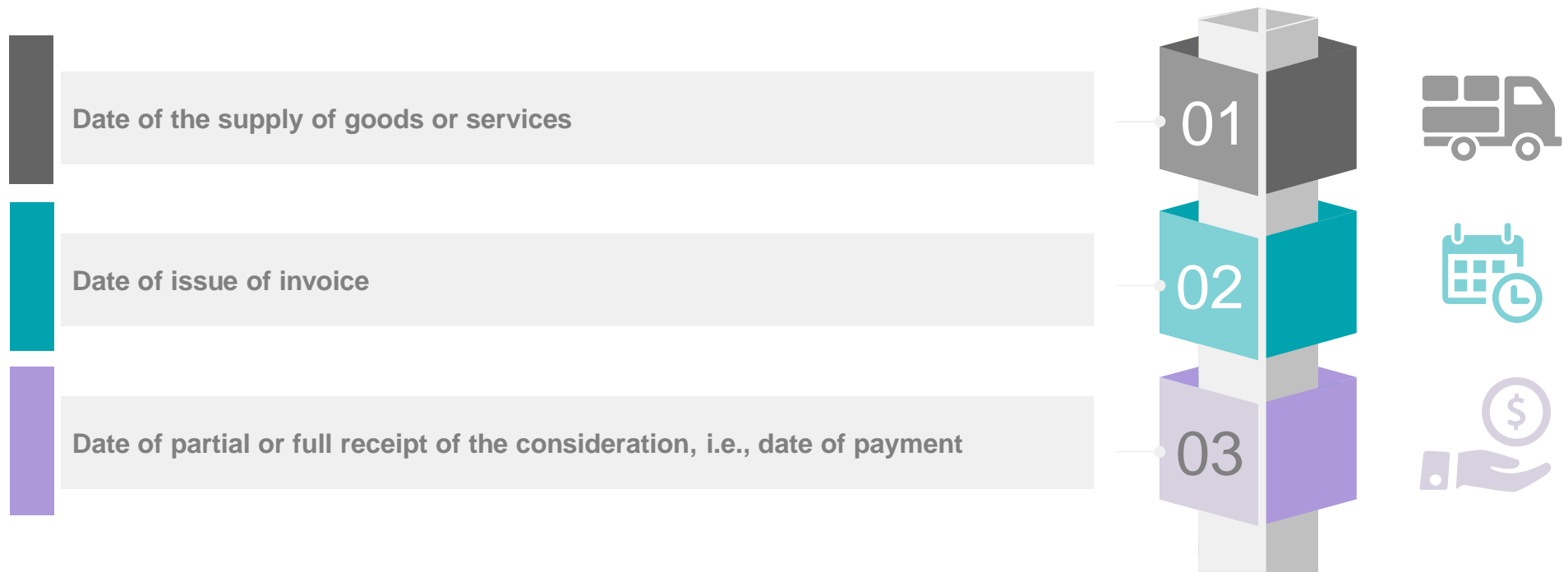


# Time of supply/tax point

## General principle

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VAT is due on a supply on the **earliest** of the following dates:



# Place of supply

## Basic principals

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- ▶ The place of supply is important, as it determines the country in which the supply should be taxed
- ▶ The general rule – goods:
  - ▶ Without transportation – where the goods are put at the disposal of the customer
  - ▶ With transportation
    - ▶ B2B – where the customer is located
    - ▶ B2C – where the supplier is located
- ▶ The general rule – services
  - ▶ B2B – where the customer is located
  - ▶ B2C – where the supplier is located
- ▶ There are a number of exceptions to these rules which include:

# Place of supply

## Special rules

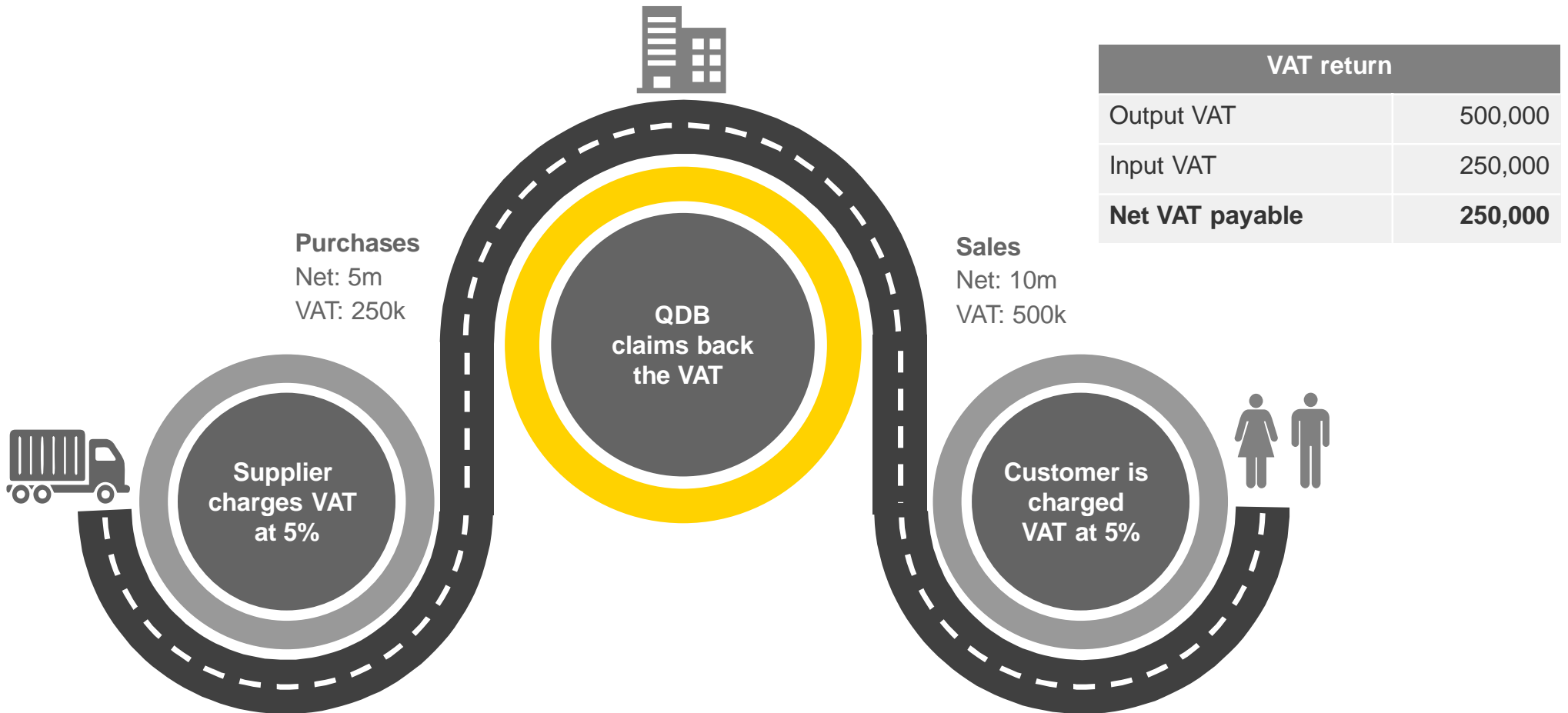
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- ▶ **Hire of transport**
  - ▶ Where the transport is put at the customer's disposal
- ▶ **Goods and passenger transportation**
  - ▶ Where the transport starts
- ▶ **Supply of real estate related services**
  - ▶ Where the real estate is located
- ▶ **Telecommunication and electronically supplied services**
  - ▶ Place of actual use or utilization of the service
- ▶ **Hotels, restaurant and catering services**
  - ▶ Where provided
- ▶ **Cultural, educational, recreational, art, and sports services**
  - ▶ Where provided

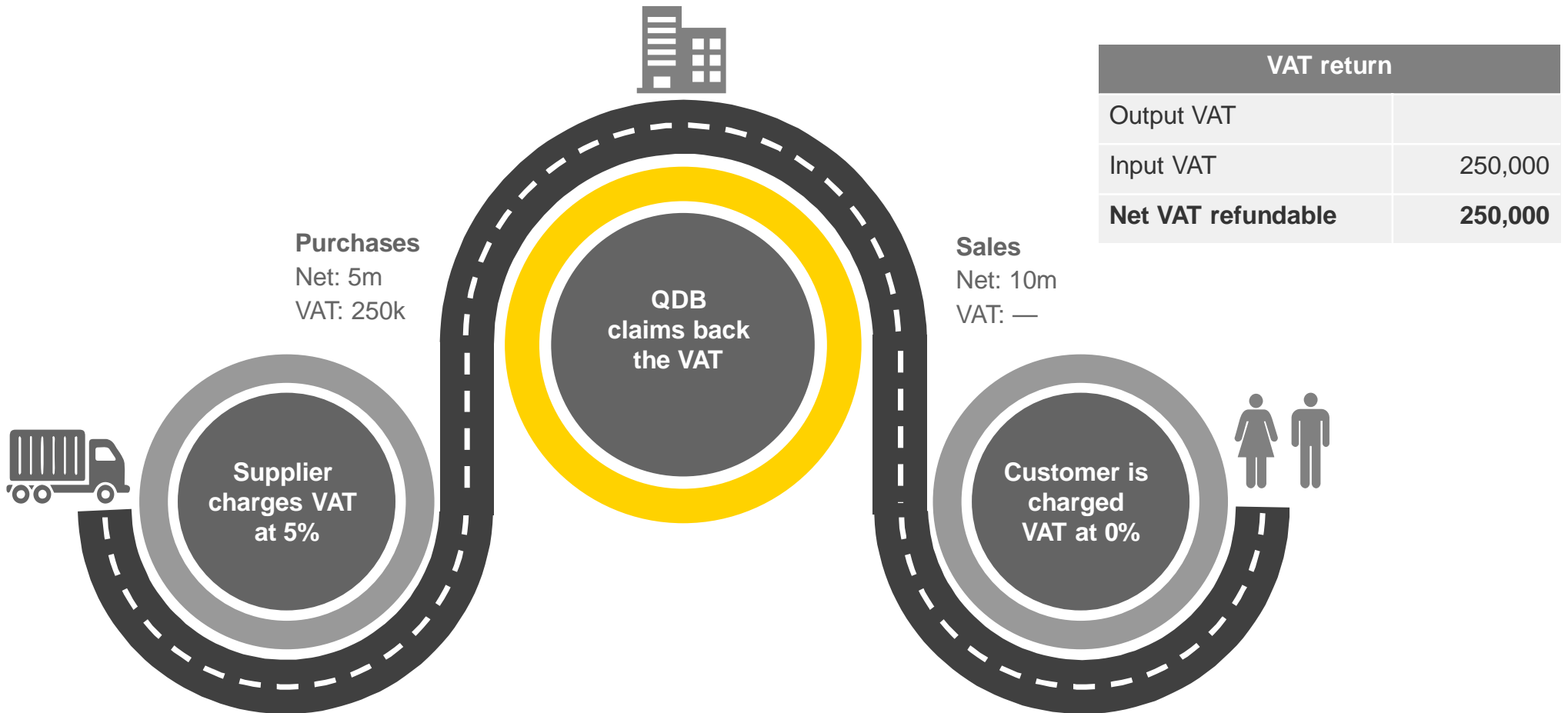
# Impact of VAT for entrepreneurs



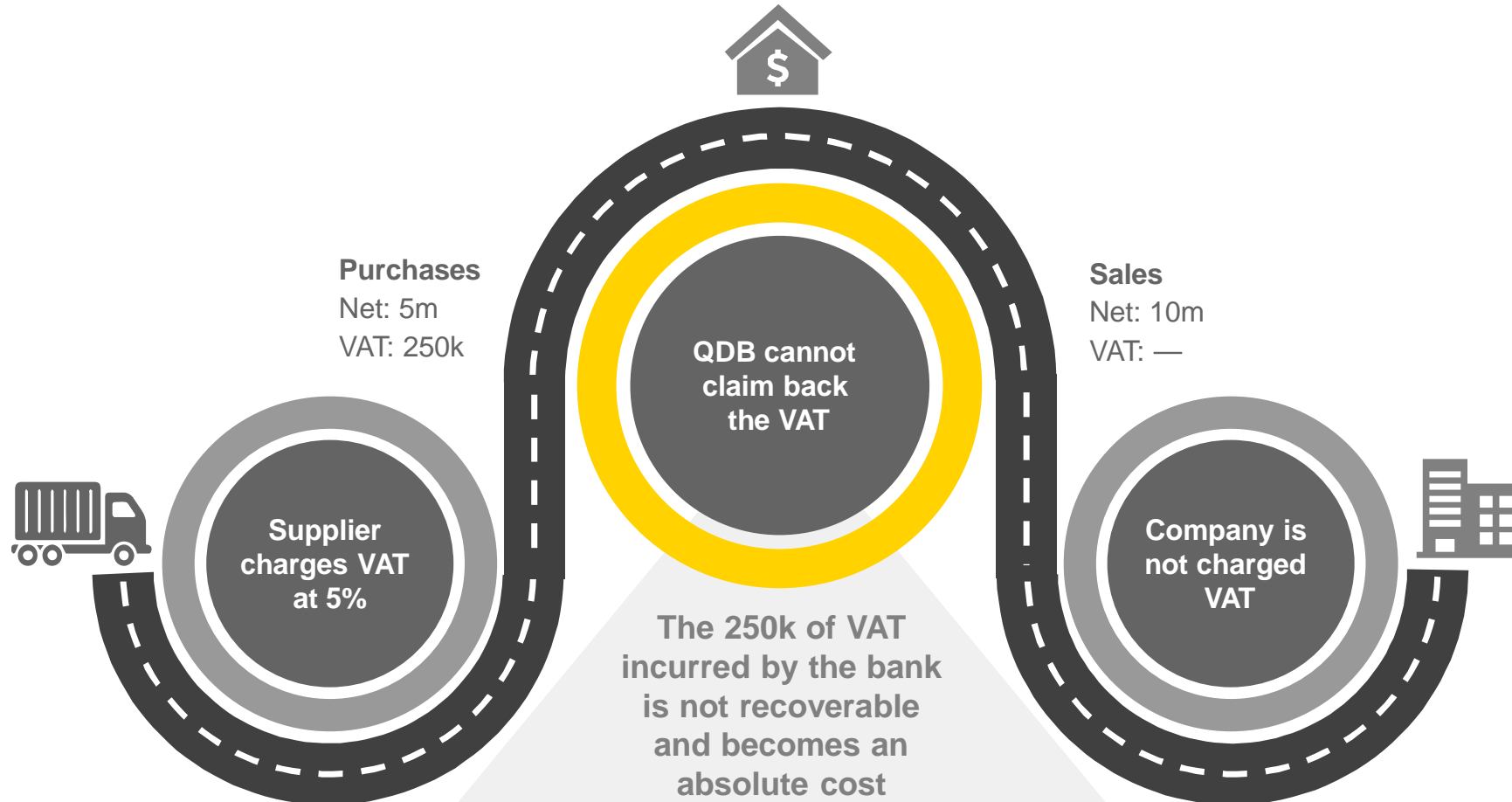
# An illustration of the standard rate of VAT



# An illustration of the zero rate of VAT



# An illustration of the VAT exemption



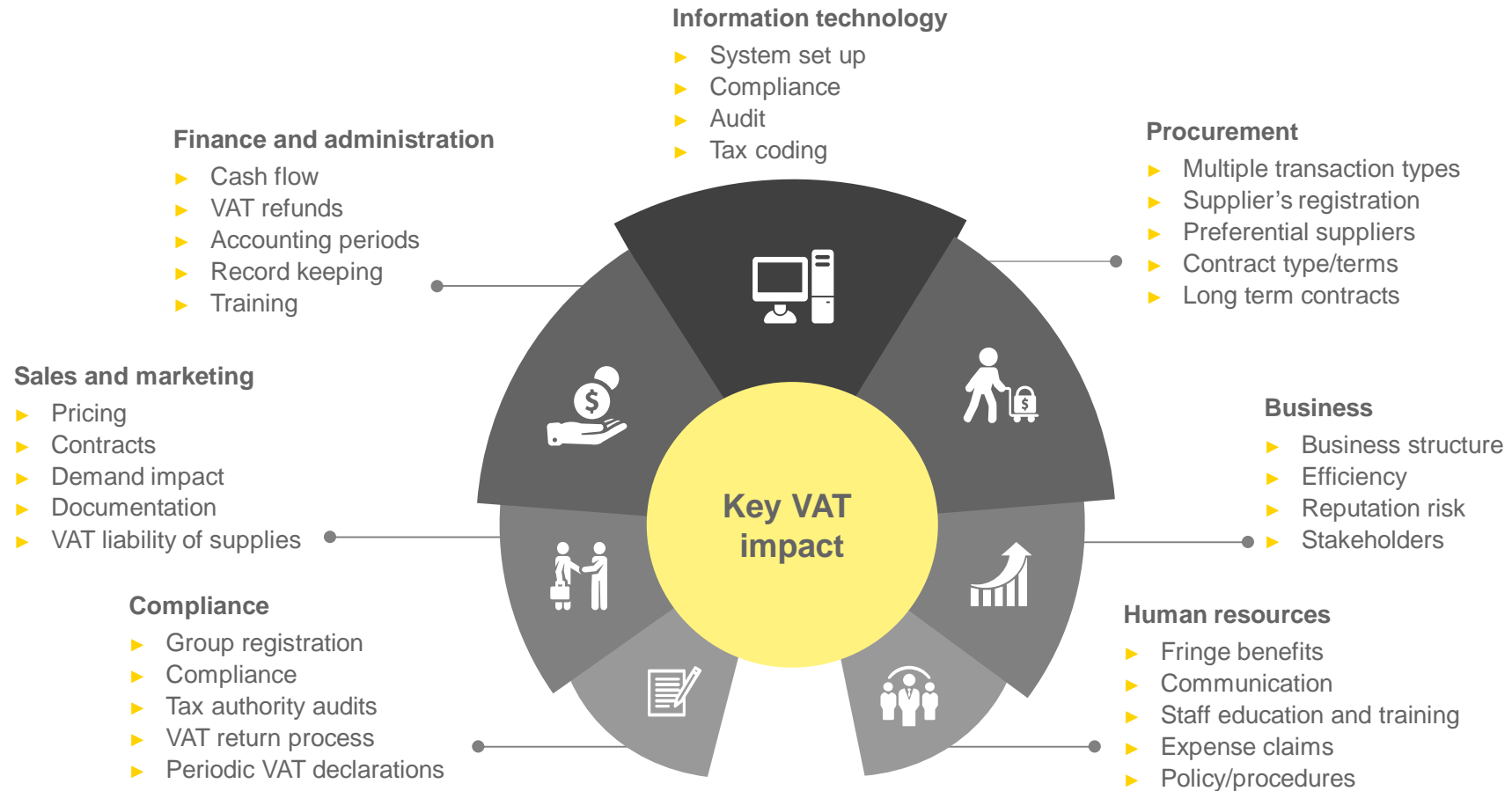
# Comparison of exempt to zero-rated

	Zero-rated supplier	Exempt supplier
Purchases (net)	500	500
VAT on purchases	25	25
Purchases (gross)	525	525
Sales (net)	1,000	1,000
VAT on sales	-	-
Sales (gross)	1,000	1,000
VAT recoverable	25	n/a
	Repayment from tax authority	Cannot recover input VAT



# Impact of VAT across the organization

## Overview



# Compliance and Legal Obligations



# Registration for VAT

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## Mandatory registration

- ▶ VAT registration threshold USD 100,000
- ▶ Based on taxable supplies in the previous 12 months, or expected taxable supplies in the next 12 months

## Voluntary registration

- ▶ Voluntary threshold of USD 50,000
- ▶ Businesses can also register voluntarily if their taxable expenses exceed the voluntary threshold

# Commencement of operations – new companies

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If new companies are set up, they need to consider whether they are required/entitled to register. A new company may incur a large amount of input tax (e.g. CAPEX) prior to commencement of operations. The below is based on KSA law:

## Register voluntarily

- ▶ Once established and registered in KSA, a business may apply to the GAZT to register for VAT when its taxable expenses exceed the voluntary threshold

## Pre-registration input tax recovery

- ▶ VAT incurred before registration can be treated as input tax and recovered subject to certain conditions
- ▶ Six month limit for services

# VAT registration

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- ▶ Can be done electronically
  - ▶ This is the case in KSA and UAE, and we expect other countries to follow
- ▶ A tax identification number (or VAT registration number) will be issued by the relevant authority
- ▶ VAT group registration can also be considered
  - ▶ Registering two or more entities as a single taxable person
  - ▶ Certain conditions must be met

# Administration and compliance

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- ▶ KSA is the only country to have issued its implementing regulations
- ▶ The implementing regulations provide detail on the administration and compliance requirements
- ▶ We have used the KSA example in the following slides
- ▶ The other country's positions will be confirmed on release of the relevant implementing regulations

# Records

## KSA position

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### Records to be maintained should typically include:

- ▶ Business and accounting records
- ▶ VAT account
- ▶ Copies of VAT invoices or credit notes issued
- ▶ VAT invoices or credit notes received
- ▶ Import or export documentation
- ▶ Documentation regarding supplies to or purchases from other member states



# Records (cont.)

## KSA position

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- ▶ All records must be kept in **Arabic**. All issued invoices must be printed in Arabic in addition to any other language.
- ▶ The invoices, books, records and accounting documents must be kept for a minimum period of **six years** from the end of the tax period to which they relate.
- ▶ For capital assets the records must be kept for an additional period of **five years**.





# Special record keeping requirements

## KSA position

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- ▶ Records must be kept in the kingdom either physically or through an access to the relevant server.
- ▶ In order to store the records electronically certain conditions are required to be met in accordance with the regulations.
- ▶ A third party can also be appointed to comply with the record storage requirements.
- ▶ A tax representative of non-resident person with no establishment in kingdom is required to maintain the records of the non-resident person.



# Tax invoices

## KSA position

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### Tax invoice content under KSA VAT law (all must also be in Arabic)

1	The date of issue
2	A sequential number which uniquely identifies the Invoice
3	The Tax Identification Number of the Supplier
4	In cases where the Customer is required to self-account for Tax on the supply, the Customer's Tax Identification Number and a statement that the Customer must account for the Tax
5	The name and the address of the Supplier and of the Customer
6	The quantity and nature of the Goods supplied or the extent and nature of the Services rendered
7	The date on which the supply took place, where this differs from the date of issue of the invoice
8	The taxable amount per rate or exemption, the unit price exclusive of VAT and any discounts or rebates if they are not included in the unit prices
9	The rate of Tax applied
10	The Tax amount payable, shown in riyals
11	In the case where Tax is not charged at the basic rate, a narration explaining the Tax treatment applied to the Supply
12	In cases where the margin scheme for used Goods is applied, reference to the fact that VAT is charged on the margin on those Goods

# Tax invoices

## KSA position

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- ▶ Tax invoices must be issued by the **15th day of the month** following the month of taxable event
- ▶ Tax invoices may be issued both in **paper format** and **electronically**
  - ▶ **Third-party tax invoices:** Invoices issued by a third party on behalf of the supplier. In this case, the supplier is responsible for the accuracy of the information shown on the invoice
- ▶ Tax invoices may be issued in any currency; however, VAT amount should be represented in the currency of the member country where the supply has been made



# Credit and debit notes

## KSA position

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- ▶ In case there is a change in the value of supply a credit or debit note must be issued
- ▶ A credit or debit note issued must contain reference to the sequential number of the original tax invoice
- ▶ Credit or debit note must contain all the information required for an electronic invoice



# VAT returns

## KSA position

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### Filing VAT return

- ▶ The return must be **filed** for each tax period by the last day of the month following the end of the period to which the tax return relates.
- ▶ Taxable turnover of more than SAR 40 million p.a. — monthly filing
- ▶ Taxable turnover of less than SAR 40 million p.a. — quarterly filing (with an option to elect for monthly)





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