

# ***GCC: The Unified Agreement for Value Added Tax (VAT) across the GCC Region has been published in the official gazette of KSA***

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## ***In brief***

In another milestone towards the implementation of VAT across the Gulf Cooperation Council, the Unified Agreement for VAT was published in the official gazette of one of the member states, Saudi Arabia.

The Unified Agreement provides the framework for the operation of VAT across the GCC. Each GCC member state will implement the framework through legislation and other instruments.

This milestone is another reason for companies operating in the Middle East to put in place or further their VAT implementation plans.

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## ***In detail***

The Unified Agreement for VAT for the GCC Region includes the following key features:

- VAT will apply to goods and services at the **standard rate of five percent** (5%).
- **VAT registration** is mandatory for businesses with an annual turnover of SAR 375,000 (or its equivalent from any other GCC member state currency). Nevertheless, businesses that generate 50% of this threshold annually can voluntarily register for VAT.
- **Most VAT compliance requirements and procedures** are left to the discretion of each member state under its local legislation. For example, i) the modalities and conditions to treat a group as one taxpayer (VAT grouping) ii) the tax period (but should not be less than one month), iii) the content of the VAT invoice and the deadline for its issuance.
- Taxable persons will be allowed to deduct **input VAT** that is incurred for making taxable supplies of goods and services.

- **Input tax credit** at the end of each tax period may be allowed as a refund or carried forward, depending on each member state's modalities.
- **The VAT treatment of some sectors**, namely, education, healthcare, real estate and local transport is left to the discretion of each member state (i.e. whether these sectors are subject to tax at standard rate, zero rate or exempt).
- **The VAT treatment of financial services:** The standard rule stipulated in the Treaty is to exempt these services from VAT with a right to reclaim the input tax credit according to specific rates determined by each member state. However, each member state may opt for a different VAT treatment for financial services.
- **Food products** shall be subject to the standard rate of VAT, however each member state will have the right to apply zero rate on food as per the unified list of commodities (e.g. basic foods: bread, milk etc.).
- **Medical equipment and medicines** will be subject to zero rate.
- **Oil and gas** including oil derivatives sector may be subject to VAT at a standard rate or zero rate, at the discretion of each member state and in accordance with the modalities and conditions they each set out.
- **The transport** of goods and passengers (intra-GCC and international) and associated ancillary services will be subject to VAT at a zero rate.
- **Export** of goods to outside the territory (outside the GCC Region) will be zero rated.
- **The supply of goods placed under suspension arrangements** referred to in the GCC Common Customs Law (e.g. temporary import, re-export etc...) shall be subject to a zero rate.
- **A reverse charge** mechanism will apply to the acquisition of services from abroad. The taxable customer in the destination state shall be the person liable for the tax due.
- **Specific place of supply** rules apply for intra-GCC transactions to ensure VAT is levied at place of consumption and avoid double or no taxation.
- **VAT due on import of goods** shall be paid at the first point of entry in the GCC Region.

# VAT Insights from Indirect Tax Services Middle East

## ***The takeaway***

Considering the date VAT will come into effect, expected as early as January 1, 2018 in certain member states, businesses operating across the GCC need to activate their VAT implementation plans if not already substantially underway. There is a relatively short time frame in which to consider the implications of the introduction of VAT and to make the necessary changes.

Businesses shall take into consideration the VAT impact on their transactions now and starting to plan how to have the right VAT technical, systems, financial, tax governance and compliance, training and other areas in order to comply with the VAT requirements.

Therefore, we can expect that there will be a penalty regime applicable in cases of errors made, and this is why it will be key to have the right systems and procedures in place to limit the exposure.

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