



Value Added Tax

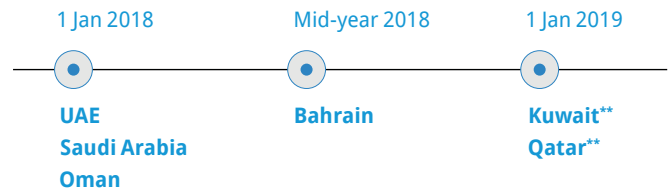
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Introduction

As a part of their diversification strategy and sustainable growth, Gulf Cooperation Council (GCC) countries (UAE, Oman, Saudi Arabia, Kuwait, Qatar and Bahrain) are looking to implement Value Added Tax (VAT) in the near future. This has been agreed to in the 'GCC VAT Agreement', the Arabic version of which was published in the official gazette of Saudi Arabia, to levy common indirect taxes in GCC countries. Moreover, Saudi Arabia has also published a regional Draft Law Consultation Web-Form. This embodies the inception of a landmark financial reform in the GCC region.

The advent of GCC VAT is likely to begin from 1 January 2018. This would cause a paradigm shift in the overall business dynamics of the Gulf region.

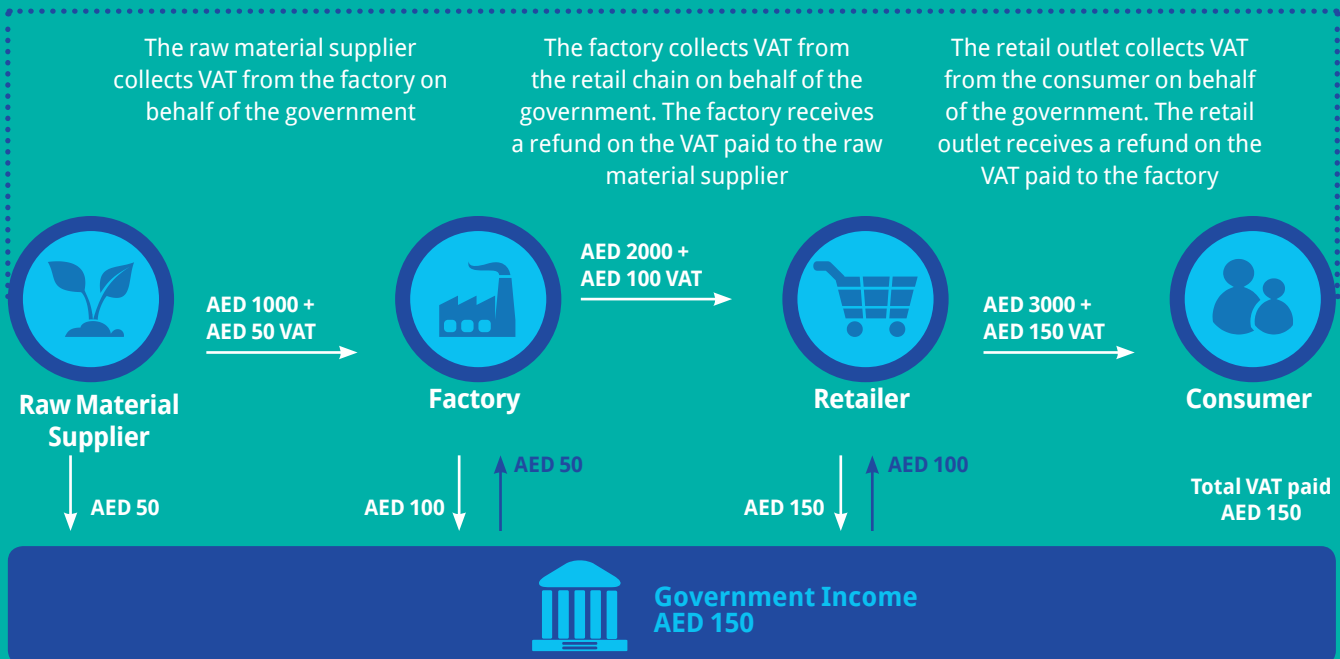


**Implementation may be delayed and the tentative date of implementation has not been ascertained

How does VAT work?

VAT is an indirect tax and is occasionally referred to as general consumption tax in other countries. VAT is imposed on most supplies of goods and services that are bought and sold. It is charged at each step of the 'supply chain'. The final consumers generally bear the

VAT cost while businesses collect and account for the tax, in a way, acting as a tax collector on behalf of the government.



VAT in GCC

Some of the salient features of VAT in the GCC region would include:

Rate

A single standard VAT rate of 5%.

Levy

It will apply to the import and taxable supply of goods and services at each stage of production and distribution, including deemed supplies by taxable supplies by individuals, partnerships or companies within the GCC countries. Certain goods and services such as healthcare, education, oil & gas, real estate, etc. will either be zero-rated or exempted.

Registration

Mandatory registration for turnover above AED 375,000 and optional registration for turnover above AED 187,500.

Compliance

Businesses will have to maintain books of accounts and file periodical VAT returns.

Value

Consideration with specified inclusions and exclusions and a different mechanism for deemed supply

Input tax deduction

Companies will be able to set off their tax payment against input credits for taxable supplies.

Penalty

There will be penal consequences for non-compliance.

Transitional provisions

Every GCC country is to provide domestic laws for transitional provisions as the implementation dates may differ from country to country.

The challenge for the business community in the Gulf will be to understand the dynamics of this new regime and plan ahead to adapt to this transitional business change.

VAT Impact on Businesses

Finance and Commercial

- Costing and Pricing
- Working Capital Management
- Budgeting
- Revenue and Procurement Management

Accounting

- Modification to existing Charts of Accounts
- Maintenance of Records required under new VAT Regulations
- Inventory Valuation

Information Technology

- Modifications to IT Systems to make them VAT Compliant
- Tax masters/customer master
- General Ledger (GL) creations and relevant mappings to GLs
- Compliance requirements – Registers and Records

Compliance

- Setting up a compliance framework
- Registrations
- Reconciliations
- Reporting and Submissions
- Documentation Management

Legal

- Contract Management
- Implications on Transactions
- Litigation Management
- Representation to Regulators
- Taking Positions / Forming Opinions

Human Resources

- VAT Training and Workshops
- Resourcing requirements and changes to the Organisation Chart

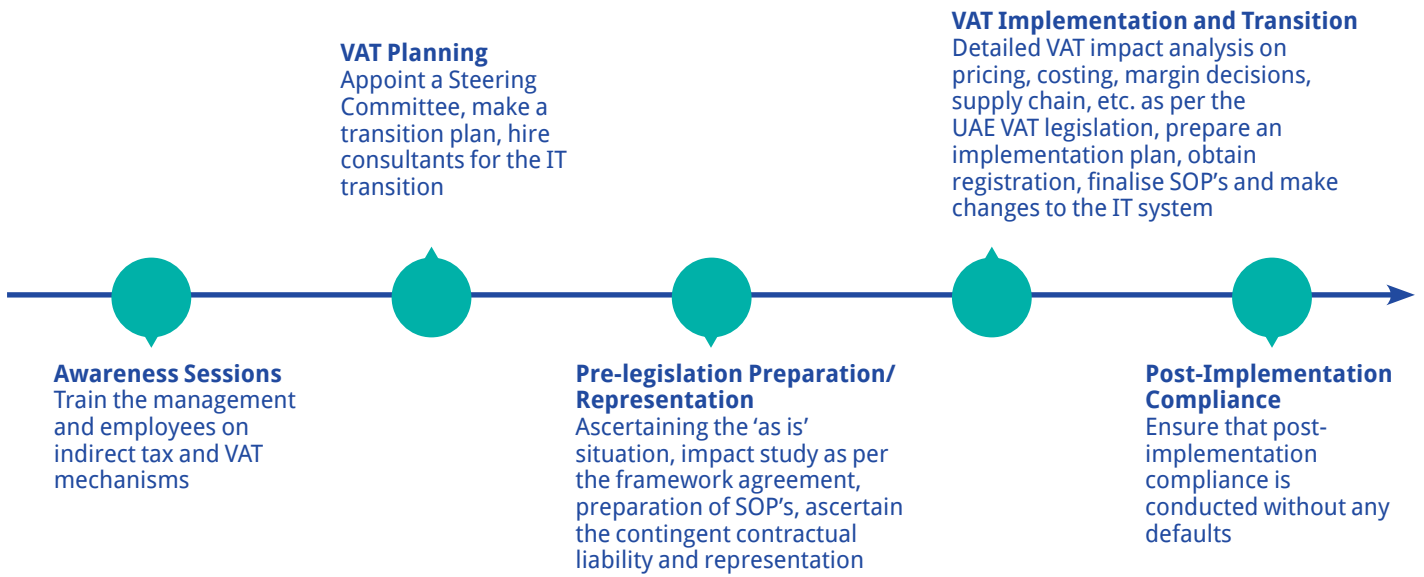
Supply-chain

- Business Model Realignment
- Sourcing and Distribution
- Margin Management

Strategy

- In-house vs Outsourcing
- Sales and Marketing

The way forward



Staying one step ahead

Organisations must start assessing the business impact of VAT across all functions. Given the time frame, the roadmap will include:

- Realigning business strategy
- Changes in existing functions, processes, invoicing, ERP changes
- Set-up a compliance framework and assess capital and resources required for VAT compliance
- Commercial contracts should be reviewed from a tax and commercial perspective

It is critical to act now to examine and renegotiate existing long-term contracts to reassess commercials and mitigate risks



How we can help

With the needs of our global and domestic clients in mind, we pursue a quality-centric approach for providing a one-stop indirect tax solution.

Our multidisciplinary experience in global VAT compliance for MNCs through our Knowledge Process Outsourcing (KPO) services has enabled us to build cost-effective solutions for global indirect tax structures. Leveraging our global and domestic indirect tax experience, we have formulated VAT Business Advisory and Compliance services to assist our clients plan ahead and effectively mitigate transitional risk.

At SKP, we plan to assist your company in bridging the gap over to VAT by offering an end-to-end VAT solution structured into four modules. Keeping in mind the unique and diverse requirements of each client, we give you the freedom to **select and customise the services most suitable for your business** from our list of services below.

Module 1		Module 2		Module 3		Module 4			
'As is' Evaluation		VAT and IT Impact Analysis and Action Plan		VAT Alignment Support		VAT Transition Support/Review		Compliance Management and Hypercare	
<ul style="list-style-type: none"> • In-depth study of business operations • List key business transactions from both revenue and expense side • Mapping processes to ERP, Accounting Compliances, etc. 		<ul style="list-style-type: none"> • On business transactions • On compliance • Transition aspects • Accounting • Process and Technology 		<ul style="list-style-type: none"> • Realigning the impact analysis based on final VAT legislation • Alternative tax efficient structures based on final VAT legislation • Representation with the government authorities • Conducting trainings • Preparation of ERP changes requirement charter/business requirement document 		<ul style="list-style-type: none"> • Obtaining registrations • New tax compliance manual • Perform User Acceptance Testing (UAT) 		<ul style="list-style-type: none"> • Ongoing compliance support • Assistance in filing returns • Handholding till stabilisation 	

Our Story



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