Finance ministers of the Gulf Cooperation Council (GCC) approved the introduction of formal VAT systems across the entire Gulf region over the coming years. VAT will impact most industries, but in particular:

- Financial services
- Consumer and industrial products
- Technology, media and telecommunications

Facing the demographic pressures of an education-hungry, aging population and over-reliance on unstable revenues from hydrocarbons that are declining in value and demand, GCC members Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) are looking to generate a higher proportion of revenue internally in order to maintain current levels of economic growth. The GCC is a regional intergovernmental political and customs union.

We expect a GCC wide VAT Framework Treaty will be signed, with some procedural points potentially released in the fourth quarter of 2016. At this point, all GCC members show signs of aiming to implement local VAT systems from January 1, 2018. Whilst multilateral action would combat disadvantages for first-movers, at this point it appears Oman, the UAE and Saudi Arabia are most likely to meet this timeframe. We expect that draft local laws may be released before the end of 2016.

The UAE and Qatar have publicly committed to a 5% VAT rate, and we expect that other countries will introduce a similar rate. This is significantly lower than the OECD average VAT rate of approximately 19%. According to IMF estimates, even this modest rate is expected to realize VAT revenues in GCC countries of between 0.8% and 1.6% of GDP.

Thus far, there have been no definite announcements regarding what VAT will, or perhaps more interestingly, will not, apply to. However, it is likely that exclusions may include certain food items, education, healthcare and potentially financial services. Whilst details of exceptions remain to be seen and one set of rules is unlikely to be appropriate for all countries, consistencies across the GCC should be expected. The UAE announced that, at least initially, only companies with annual revenue over AED 3.75m (approx. USD 1m) will be required to register for VAT. Optional registration may be possible for other companies for a short period, but it will ultimately be mandatory for all companies to register for VAT.

<table>
<thead>
<tr>
<th>Country</th>
<th>Predicted VAT as % of GDP at 5% VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>1.6%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1.4%</td>
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<tr>
<td>Oman</td>
<td>1.4%</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.8%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1.6%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>1.5%</td>
</tr>
</tbody>
</table>
There are a number of actions businesses can take long before VAT is implemented to determine their systems, processes and contractual arrangements are ‘ready to go’:

Immediate actions:
- Assess VAT readiness with GCC VAT Review Smart (VRS). Deloitte’s online assessment tool, which considers everything from the financial impact of VAT, through to staffing and accounting process
- Develop roadmaps through to January 1, 2018 and develop a resourcing plan to identify the work necessary to be ready to submit VAT returns in 2018
- Business and industry groups often begin lobbying authorities long before draft legislation is released
- Mapping your transaction footprint to determine all future VAT liabilities and compliance obligations are easily overlaid
- Reviewing and updating contractual arrangements with vendors and customers to determine each party is aware of its responsibilities for paying and accounting for VAT
- Include appropriate caveats in contracts and implement changes to contractual terms, where necessary, e.g. to manage VAT costs in vendor contracts or future pricing/revenue in customer contracts
- Utilizing GCC tax practitioners to identify any specific requirements under GCC VAT
- Assessing the impact of GCC VAT on existing and planned systems and processes
- Developing and implementing transition plans

Each country in the GCC is unique. Local VAT law can be expected to mirror local conditions in a variety of ways, including:
- The scope of exemptions and relief
- Application of VAT in Free Trade Zones (FTZs), including whether all FTZs treated equally and how VAT applies to supplies going in, out, within and between FTZs
- Whether special rules will be developed to address Islamic finance
- Treatment of employees on temporary assignment, including VAT implications for employee benefits
- Given likely low starting rate, potential for managing VAT implications for employee benefits
- Treatment of employee hardship payments
- The nature of local resolved disputes
- The approach to treatment of capital assets
- The extent to which non-taxable supplies are expected to mirror local conditions in a variety of ways

Longer term actions:
- Reviewing whether systems capabilities meet standards required by local tax authorities, particularly regarding reporting and invoicing
- Introducing and documenting VAT policies, procedures and controls—especially for accounts payable and accounts receivable functions
- Planning for transition periods can often involve determining systems are capable of recognizing more than the standard number of tax rates
- Supply chain enhancement aimed at reducing adverse VAT cash flow impacts
- Restructuring where necessary to determine minimal VAT ‘leakage’ occurs
- Understanding the impact of VAT on pricing and working capital requirements
- Securing budget through a business case and your place in line with IT to manage systems changes

Middle East VAT Services
Specialized VAT knowledge, coupled with a local team that have been involved in the GCC VAT proposals, allows us to provide you with specific insight relevant to the GCC VAT implementation.

Contacts

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