



Bahrain VAT - 48 Things you must know! CA Pritam Mahure

7th October 2018

1st Edition

Value Added Tax (VAT) in Bahrain

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About the Author



- CA Pritam Mahure works in the field of VAT /GST since more than a decade. Pritam has authored more than ten books on VAT / GST.
- Pritam has authored more than hundred articles for leading media houses such as Times of Oman, Zawya, Business Standard, Business Line, Economic Times etc.
- Pritam has addressed more than hundred conferences/ seminars in UAE, Bahrain, Oman, Kuwait and India.

Feedback

- Pritam Mahure is Partner, **MMJS Tax Consultancy**, Bahrain. Feedback for improvement of the book is welcome at vat@mmjs.co
- The book is prepared for generic guidance on VAT law and while, all efforts have been made to make the book error free, however, the author and contributors cannot be held responsible for any errors/omission.

Forewords



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“...But in this world, nothing can be said to be certain, except death and taxes.”

— Benjamin Franklin,

Earlier this year, on 1st January 2018, the first two GCC counties United Arab Emirates (UAE) and Kingdom of Saudi Arabia (KSA) witnessed introduction of VAT.

Now, as per recent news reports, Bahrain is expected to be the next country implementing VAT from 01 January 2019. Bahrain appears to have an advantage of leveraging on the insight gained during the VAT introduction in UAE and KSA.

Our experience of assisting more than 200 VAT clients from UAE and KSA, showcase that the introduction of VAT regime in Bahrain in short-span could be critical!

It's highly recommendable that the businesses should immediately initiate the process of being VAT ready by carrying out VAT Impact Analysis

I congratulate Pritam (Partner, MMJS Tax Consultancy) on publication of his yet another good, informative, exhaustive E-book on Bahrain VAT. I am sure Pritam's this book would be equally useful for you in decoding VAT. I wish him all the best and many more such contributions.

1. Basics of indirect taxation

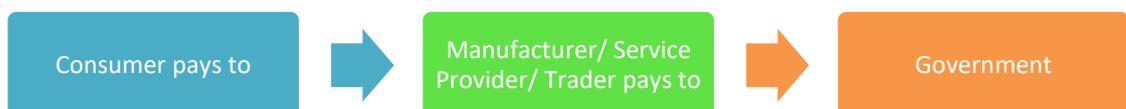
Taxes are typically key source of revenues for Governments across the world. Taxes can be 'direct' taxes or 'indirect' taxes.

Direct taxes are taxes which are levied and collected directly from the person, company, firm etc. Taxes such as Corporate Tax is example of Direct Tax.

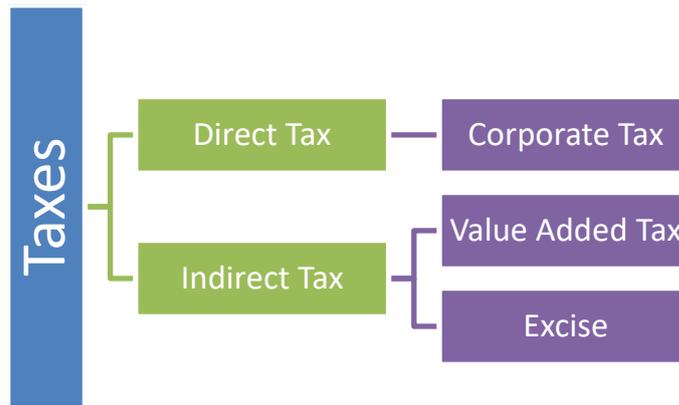
Indirect taxes are levied and collected from consumers **through** manufacturers, traders or service providers. Herein, the Government collects the taxes through manufacturers, service providers, traders than the person who bears it ultimately (i.e. consumer), and thus it is called as 'Indirect Tax'.

In legal sense, the responsibility to pay an indirect tax rests with the manufacture/ seller/ service providers though, finally, the tax is collected from the consumer.

The following picture depicts how money is collected by Government indirectly:



Pictorial depiction of Direct Tax and Indirect Tax:



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2. Primer on VAT

VAT is abbreviation for Value Added Tax. In few countries, VAT is also known as Goods and Service Tax (GST).

Value Added Tax is levied on activities such as **'supply'** of goods and services. VAT is a consumption-based tax wherein the basic principle is to tax the value addition at each business stage. To achieve this, tax paid on purchases is allowed as a set off/ credit against liability on output/income.

Each time goods/ services exchange hands, typically, they are subjected to VAT.

VAT is levied on all transaction of goods and services. Thus, in principle, VAT should not differentiate between 'goods' and 'services' (though VAT law may prescribe separate place of supply/ time of supply provisions for goods and services).

Internationally, VAT was first introduced in France and now more than 160 countries have introduced VAT. Most of the countries, depending on their own socio-economic formation, have introduced Single VAT (like UAE or KSA) or Dual VAT (like India).

Key aspects of VAT:

VAT

VAT is destination based consumption tax

VAT is applicable on supply of goods or services

VAT allows input tax credit/ set off of VAT paid on procurement

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3. VAT in GCC

Gulf Cooperation Council (GCC) comprises of six member States. Key facts about GCC are:



VAT Agreement

Six Member States have signed GCC Unified Agreement on VAT. This Agreement is expected to align the VAT laws in GCC, though, GCC States retain their flexibility in VAT laws.

In last one decade, question was being debated in GCC whether reliance should be shifted to non-oil i.e. tax revenues. This question attended prominence after it was being discovered that in years to come revenues from oil and gas may reduce whereas public spending may increase.

Thus, to ensure that there is no fiscal deficit, revenue from VAT was explored. Now, after deliberations in last few years, VAT (@ 5%) is introduced in UAE and KSA have introduced VAT from 1st January 2018.

A major reason for a reasonable rate of VAT (i.e. 5%) is the fact that till now, GCC countries had large revenue from oil and thus there was no tax in GCC!

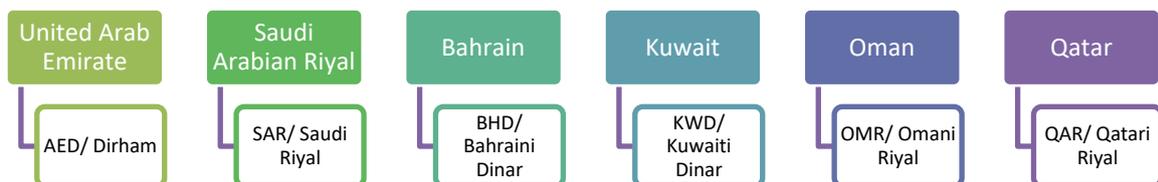
Other 4 Countries of GCC are likely to introduce from end of 2018 or early 2019:

1. Bahrain – Bahrain Parliament has approved VAT Agreement¹. As per new reports, the likely date appears to be 1st January 2019.
2. Oman
3. Kuwait
4. Qatar

Given this, it is indispensable to understand VAT if one wishes to take this opportunity to understand what the future landscape offers and how to make most of it.

Currencies in GCC

Currencies in GCC are as under:



¹ <https://gulfnews.com/news/gulf/bahrain/bahrain-parliament-approves-vat-agreement-1.2287327>

4. About Bahrain²

Since the 18th century, the head of the Al Khalifa, the country's ruling family, has assumed the title of **Amir**.

A constitution promulgated in 2002 established Bahrain as a constitutional hereditary **monarchy** whose head of state is now titled **King**.

The King of Bahrain, The Prime Minister and The Crown Prince

The King of Bahrain is His Majesty the King Shaikh Hamad bin Isa Al Khalifa. The Prime Minister is His Royal Highness Prince Khalifa bin Salman Al Khalifa. The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister is His Royal Highness Prince Salman bin Hamad Al Khalifa.

Islam is the official religion of the kingdom and embrace the vast majority, and there are places of worship for the followers of other religions.

Official language is Arabic, while **English** is used as an official language in the **business** sector.

² From Bahrain.bh

Bahrain's currency is Bahraini Dinar (BHD) and it is officially linked to the dollar³.

Bahrain is split into **four governorates** - the Capital, Muharraq, Northern and Southern.

Bahrain's **Capital** is **Manama**.

Bahrain's **population** is approx. **1.5 mn** (Nationals 48% and non-Nationals 52%).

Bahrain's **GDP** is approx. **USD 35 bn** (2017).

Bahrain's key sector are Oil and Gas, Banking, Tourism, Retail and Heavy Industry.

The country's natural resources include large quantities of oil and natural gas as well as fish in the offshore waters⁴.

Generally, the business hrs are 7 am to 14 pm (Sunday to Thursday) and weekend is Friday and Saturday.

³ 1 BHD = 2.65 USD

⁴ <https://en.wikipedia.org/wiki/Bahrain#Economy>

Banking

Banking and financial services are monitored by Central Bank of Bahrain (CBB). It is pertinent to note that Bahrain is considered as **international capital** of Islamic Banking and financial institution.

Constitution of business

Typically, businesses are formed as:

- a. With Limited Liability (WLL)
- b. Single Person Company (SPC)
- c. Branch of foreign Company
- d. Partnership firm etc

Accounting period is **Calendar** Year and Financials are prepared by the entities as per IFRS and there is requirement to file annual accounts.

Key links / websites

| Particulars | Link |
|--|---|
| Bahrain Government | www.bahrain.bh |
| Ministry of Finance | https://www.mof.gov.bh/ |
| Ministry of Industry, Trade and Tourism | http://www.moic.gov.bh/Ar/Pages/Home.aspx |

| | |
|----------------------------|---|
| Economic Development Board | http://bahrainedb.com/ |
|----------------------------|---|

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5. Taxes in Bahrain

| Taxes | Particulars |
|----------------------------------|---|
| Excise | W.e.f. 30.12.2017, Excise is levied (under Law 40 of 2017) on tobacco products, energy and carbonated drinks @ 100%, 100% and 50% respectively. |
| Corporate Tax | Bahrain levies Corporate Tax @ 46% on net profits of Companies engaged in Oil and Gas, Fossil Fuel and hydrocarbons. |
| Customs Duty | Customs Duty is typically applicable @ 5%, except on select goods (wherein rate could be 20%, 100%, 225% etc). |
| Municipal Taxes | Municipal Taxes @ 10% are applicable on rentals and Stamp duty is applicable approx. 2%. |
| Registration and Licence fees | Registration and Licence fees is typically in the range of BHD 25 to BHD 1,000. |
| Social Security Contribution | Social Security Contribution is 12% for Bahrain Nationals and 3% for others. |
| Withholding and Transfer pricing | Withholding taxes and Transfer Pricing are yet to be applicable in Bahrain. |

6. Things you must know about VAT

As VAT has pervasive impact on businesses, its critical for businesses to understand a broad framework of VAT. Thus, lets discuss things one must know about VAT.

6.1 VAT is payable on supply

VAT is imposable on every taxable supply and deemed supply made by a taxable person. Thus, in VAT regime, all 'supplies' be it sale, transfer, barter, lease, import of services etc. of goods or services are subject to VAT.

Typically, VAT is leviabale on supply made for consideration, however, the VAT law may levy VAT on specific supplies made **without consideration**, such as use of business assets for purposes other than business.

6.2 VAT payable as per time of supply

The liability to pay VAT will arise at the time of supply as determined for goods and services. In this regard, separate provisions, typically, prescribe what will be the time of supply for goods and services.

Further, the GCC VAT Agreement contemplates payment of VAT at the earliest of date of issuance of invoice or receipt of consideration.

Additionally, there could be special provisions for supplies of a repetitive nature or continuous supplies.

Given that there could be **multiple parameters** in determining 'time' of supply, maintaining reconciliation between revenue as per financials and as per VAT could be a major challenge to address for businesses.

6.3 Determining Place of Supply could be the key

In VAT law, determining place of supply, is critical as if it is determined that supply is made within a country's jurisdiction then in such case VAT becomes applicable.

In this regard, GCC VAT Agreement provides separate provisions which help an assessee determine the place of supply for goods and services.

Typically, for 'goods' the place of supply would be shall be in the State if the supply was made in the State, and does not include Export from or Import into the State. Whereas for 'services' the place of supply could be either the Place of Residence of supplier or recipient.

Further, VAT Law generally prescribes multiple scenarios wherein the aforesaid generic principles will not be applicable and specific provisions will determine the place of supply. Thus, in VAT regimes, businesses are

expected to scroll through all the place of supply provisions before determining the place of supply.

6.4 Valuation in VAT

VAT would be payable on the 'value' of supply. As per GCC VAT Agreement the value of a supply shall be the value of consideration less the tax and includes the value of the non-cash portion of the consideration determined according to the fair market value.

The value of the supply shall include all the expenses imposed by the taxable supplier on the customer, the fees due as a result of the Supply and all the Taxes including Excise Tax, but excluding VAT.

Typically, discounts given is permissible as deduction from value of supply subject to fulfilment of prescribed conditions.

6.5 Input tax credit in VAT

Value Added Tax scheme derives its name to the fact that it enshrines in its framework the concept of input tax. Input tax is the recoverable VAT paid on procurement of goods and services.

Lets take an example, goods worth 105 (inclusive of 5 as VAT), are sold for 210 (inclusive of 10 as VAT). In this case, 5 is referred as input VAT whereas 10 is referred as output VAT. In VAT regime, supplier is liable to

deposit net VAT with the Government. Thus, in the example supplier is liable to deposit VAT of 5 (Output VAT less input VAT) with Government.

This is tabulated in below:

| Particulars | Goods sold by A to B | Goods sold by B to C |
|------------------------------|-----------------------------|-----------------------------|
| Sale Price | 100 | 200 |
| VAT applicable @ 5% (I) | 5 | 10 |
| Input Tax Credit (II) | Nil | 5 |
| Net VAT payable (III = I-II) | 5 | 5 |

Though, at a prima-facie level, aforesaid appears simple, in VAT regime, the complications crop up due the fact that, typically, goods or services used for personal purposes or exempt supplies is denied. Herein, in VAT regime interpretation issues crop up such as business lunch with clients, is it personal expense or official expense or both!

Similarly, VAT laws restrict VAT credit in respect of employees related expenses or motor vehicles, catering etc. related expenses. Further, there could be restriction on availment of goods disposed of by way of gift or free samples.

Thus, businesses need to factor in availability, non-availability of credit. Further, businesses need to ensure that the conditions prescribed to availment of credit are fulfilled.

It is pertinent to note that incorrect VAT credit leads to penal consequences whereas non-availability of credit leads to tax cascading. Thus, business need to finding the right balance between these two to sail successfully in the VAT regime.

6.6 Rate of VAT

As per GCC VAT Agreement, the standard rate of VAT is **5%** unless exemption or zero-rate is applicable. The businesses need to be careful in determining whether the goods or services supplied by them are liable for standard rate, zero rate or exempted.

6.7 VAT framework comprises of Decree Law and Tax Regulations

In VAT regime, typically the substantive provisions (such as provisions governing levy of VAT, registration, place of supply, time of supply etc) is contained in VAT Law whereas procedures/ processes (such as process of registration, explanation for what qualifies as goods or services etc) are typically contained in executive/ implementing Regulations.

Additionally, in VAT regime, the Government may issue Decrees or Cabinet Decisions for specific aspects of VAT law. Further, the Tax Authorities issue Guides, flyers, clarifications on social media (Twitter etc).

During implementation of VAT in a country, typically, these pieces of VAT legislation are available at different points of time (such as Decree Law may be issued first followed by Regulations). Also, over period of time, based on feedback from taxpayers, the Authorities, clarify various aspects through seminars/ workshops.

Thus, it can be observed that in typically, the VAT law is contained in different pieces of law and thus, taxpayers need to ensure that they join all these pieces of VAT jigsaw puzzle to see the correct picture and take appropriate VAT position on the business transactions.

7. Commentary on VAT

7.1 VAT introduction also brings disruption!

All over the world, businesses are facing disruption due to either technology or rapid pace of change. While technological disruptions hog the limelight, disruption brought by VAT typically goes un-noticed.

Whilst technology disruptions can't be predicted, VAT is predictable (as likely dates are known). However, introduction of VAT, like any change, counters scientism and doubt about its likeliness of introduction.

Before introduction of VAT, most seminars / conferences on VAT, get embroiled about whether VAT will be introduced or spend time in crystal glazing likely dates. Thus, doubt over VAT introduction itself becomes one of the reason why businesses remain un-prepared.

To ensure business enjoys early mover advantage, top management/ owners/ CEO should rather use the aforesaid doubts about VAT introduction, as a fuel to initiate dialogue about impact of VAT and steer their organisations successfully to VAT-era.

Thus, to mitigate the disruption likely to be brought by VAT introduction, its essential for business leaders to proceed early for VAT impact analysis than ponder over likely dates!

7.2 VAT impacts businesses and their supply chain

VAT being all pervasive, impacts the country's economy as well as the industries therein.

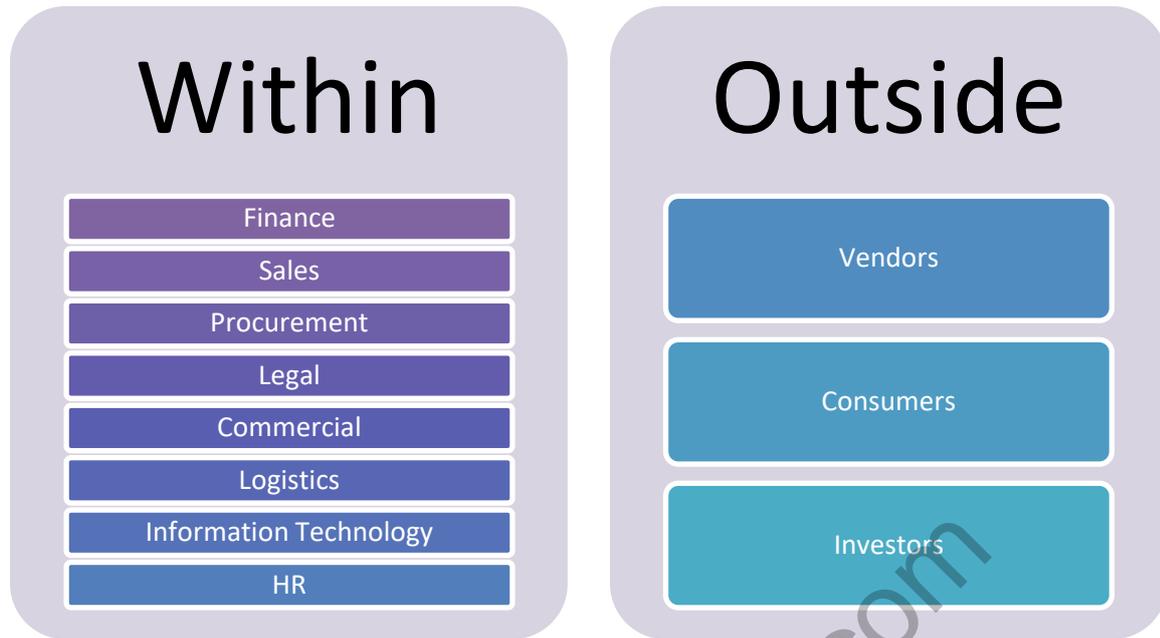
Within a business entity, VAT impacts each and every function such as finance, supply chain, product pricing, sales, procurement, legal, commercial, logistics, information technology, HR etc.

Further, VAT impacts also spills over to the eco-systems of business entities i.e. suppliers/ vendor, customers and investors (as profit margins could get impacted!).

Thus, if the business entity is not well prepared for VAT then it may shake the trust of the vendors and consumers, impact the bottom line and bring penal consequences (for VAT lapses, if any).

Given this, its critical for the business entity to initiate early dialogue on likely impact and step plan with each stakeholder.

Pictorial depiction: VAT Impacts inside and outside entity



7.3 Prepare step plan for each team!

VAT impacts each department in an organisation differently.

For example finance team will be required to finalise the VAT implications / positions on different income and expenses streams, the sales team will be required to talk to the customers about the VAT impact.

Similarly, the procurement team will be required to discuss with vendors the VAT implications.

Thus, as the steps vary department/ team-wise, its important for the organisation to prepared a department-wise step plan for VAT implementation.

This will ensure that each department/ team knows their respective steps/ role in the entire ambit of VAT implementation and risk of missing out key steps reduces drastically.

7.4 Top-down or bottom up approach for VAT!

On the face of it VAT introduction, appears to be just a tax change. The external noise about VAT coupled with internal debates on VAT, makes top management take steps towards VAT.

Generally, the steps taken by management involve sending few of the accounts/ finance members to attend initial VAT trainings and discussion on VAT.

While this gives the accounts/ finance team members an added advantage to decode VAT early. However, this also means that VAT transition is perceived as 'tax' change and lead by finance team.

Further, in management terminology, 'top to bottom' approach (i.e. strategy being formed at strategic level and then implemented across different verticals/ departments of the organisation) is better to handle the magnum opus change like VAT introduction. However, when VAT change is lead by only one team (i.e. accounts / finance team) then the possibility of missing the big picture and strategic implications increases substantially.

Thus, its essential that the CEO/ top management leads a hand-picked team from across all departments (finance, supply chain, product pricing,

sales, procurement, legal, commercial, logistics, information technology, HR etc) than leaving the same to finance/ accounts team.

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7.5 Co-ordination amongst team is critical for VAT implementation!

As VAT implementation involves multiple teams across multiple locations, external vendors and consultants, it becomes crucial to have co-ordination in place across such varied teams.

For example during VAT implementation finance team is required to co-ordinate with ERP/IT team to ensure that ERP/ IT systems are upgraded to handle VAT and generate VAT reports.

In such cases of co-ordination, its observed that the finance / accounts team waits for ERP/IT team to approach them while ERP/IT team waits for instruction from finance / accounts team. This has potential to delay the VAT implementation project.

Thus, lack of co-ordination could hamper the implementation severely.

Given this, appropriate time and efforts needs to be spent on visualising the steps in VAT implementation, likely steps which needs co-ordination amongst wither two teams or team members, possible challenges in co-ordination and addressing the challenges in advance.

7.6 VAT shapes technology!

VAT is known to have magnum opus impact on the Information Technology (IT)/ ERP system.

IT/ERP is a key area for business entity, as irrespective of the fact whether the organisation is ready or not, on the very first day when VAT is introduced, the IT/ERP system has to be ready to generate VAT invoices.

If the IT/ERP system is not geared up to generate VAT invoices appropriately then it can literally bring the entire business to standstill!

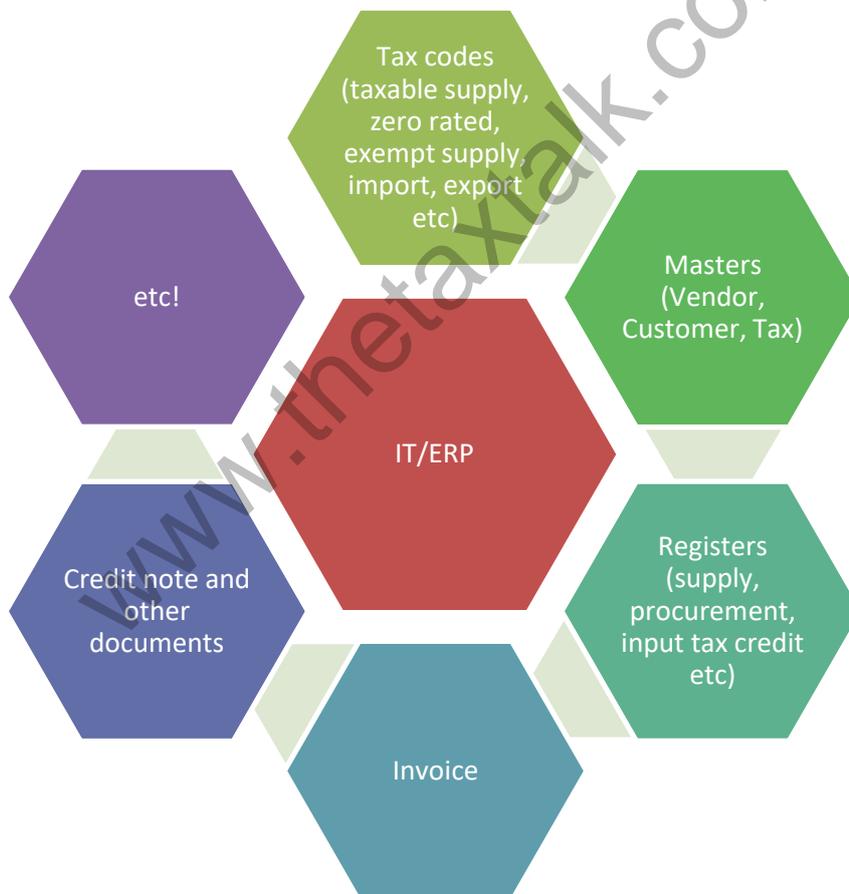
Additionally, aspects like design of VAT invoice and its contents become very critical during transition of IT/ERP system to VAT. Further, VAT also impacts various masters in IT/ERP like vendor master, customer master, tax master etc. Similarly, tax ledgers and entries are required to undergo a change.

Even further, the IT/ERP system needs to generate various registers like supply register, procurement register, input tax credit register, import register etc

Given the aforesaid, business entity need to visualise all the likely changes in ERP system and appropriately blueprint the same to ensure that nothing is missed out.

Thus, to avoid the threat of disruption of business, it is advisable that early ERP study should be carried out to understand how the system migration for VAT will be carried out.

Pictorial depiction: VAT shapes technology!



7.7 Review ERP systems

The data for preparing VAT returns are generated from the ERP or accounting system.

If the ERP system is able to generate the requisite details for VAT returns then the risk of incorrect VAT returns reduces.

However, though it's been observed that many times, either the ERP systems are either rigid or VAT laws are too complex to be configured in ERP system.

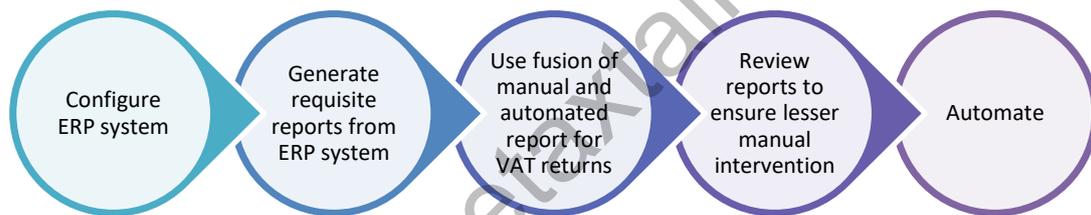
Thus, not only before introduction of VAT, but also after VAT is implemented, business entity need to review ERP or accounting systems and configure them to generate the requisite VAT reports or details.

Further, there are instances from VAT jurisdictions, wherein, the VAT payers, in-spite of having an ERP system, compile the details for VAT returns on manual basis (i.e. fusion of man and machine). However, the risk of missing crucial ledgers or numbers is high in case of manual preparation of details for VAT returns.

Therefore, it is crucial to assess the current ERP system to evaluate and ensure that the requisite reports, as required for preparation of VAT returns are generated from the ERP system itself.

Further, its critical for business entity to review, at regular intervals (say every six months) the reports generated from ERP system and whether they need to be improved (to reduce the manual intervention).

Pictorial depiction: Review ERP reports



7.8 Its about who blinks first!

Globally, many VAT jurisdiction could not give enough time for business entities to gear up for VAT.

In few jurisdictions, business entities got less than six weeks to prepare for VAT and few others even less than a week!

The reason for this paucity of time is that, typically, even the Authorities/ Government are occupied in review and making the last-minute changes to the draft law/ regulations as its cumbersome to make changes in it after introduction.

Thus, before actual date of introduction, VAT law alongwith its implementing or executive regulations/ rules, will remain evolving and fluid state.

Further, in most jurisdictions, before VAT introduction, Government was waiting for suggestions from business entities whereas business entities were waiting for final VAT law to provide suggestions!

Thus, business entities should carry out the VAT impact analysis at the earliest so that it can share the suggestions/ feedback with the Government.

Thus, effectively, its about who blinks first!

Pictorial depiction: Who blinks first!



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7.9 VAT Impact varies based on who the buyer is!

Typically, the business transactions can be classified as:

- a. Business to Business (B2B)
- b. Business to Consumers (B2C)
- c. Business to Government (B2G)

Based on who the buyer is, the impact may vary. Thus, business entity is required to analyse impact based on aforesaid classification.

For eg. in case of B2B transactions, the buyer may not be worried about VAT (unless credit is not available to the buyer)⁵.

In case of B2C cases, the buyer may not be willing to bear the additional impact of VAT (as the consumer cannot claim credit). This aspect becomes a real challenge (and cost!) for business entities, particularly in cases where the transaction spills over to VAT regime, say:

⁵ At a time when VAT is about to be introduced, its observed that seller and buyer get entangled in debate about VAT applicability say whether a particular transaction qualifies as a 'zero rated' supply. Similarly, there can be debate/ discussion about VAT applicability on supplies to/ from special economic zones (also referred as designated zones or export-oriented zones).

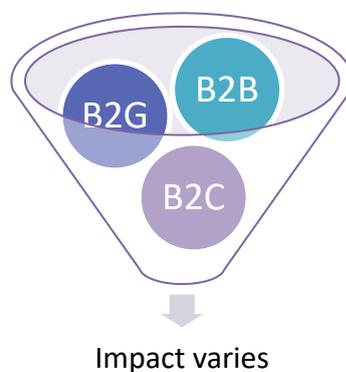
Additionally, debates revolve around applicability of VAT in case of tri-party agreements (say actual customer is in the VAT jurisdiction whereas agreement is with a customer who is located outside the VAT jurisdiction).

- a. Gym membership is taken in pre-VAT era, however, some tenure falls in VAT era
- b. Insurance is taken in pre-VAT era, however, some tenure falls in VAT era
- c. Property booked in pre-VAT era, however, property registration completed in VAT era
- d. Hotel accommodation booked in pre-VAT era, however, stay in hotel falls in VAT era
- e. Goods purchased online in pre-VAT era, however, goods delivered to buyer in VAT era

In case of B2G cases, the supplier needs to be careful to understand whether contract / tender with the Government specifically mentions about VAT to be paid extra or is inclusive.

Thus, its critical to analyse impact based on who the consumer is!

Pictorial depiction: Impact depends on who the buyer is!



7.10 Everything is bi-lateral in VAT!

Typically, after introduction of VAT, businesses discover that their entire business eco-system i.e. their vendors and customer are also part of their business.

Underlying reason for this tectonic shift is the fact that in VAT, businesses cannot take unilateral decisions and have to take decisions bi-laterally as buyer can claim credit only based on the supplier invoice.

Effectively, VAT stitches the entire supply chain with each other and makes the businesses realise that every supplier is just a cog in the wheel!

Dependency between the supply chain further intensifies, particularly, if the input tax credit is available on the principle of 'invoice matching'⁶ (i.e. buyer can claim credit of VAT only once the vendor uploads invoices).

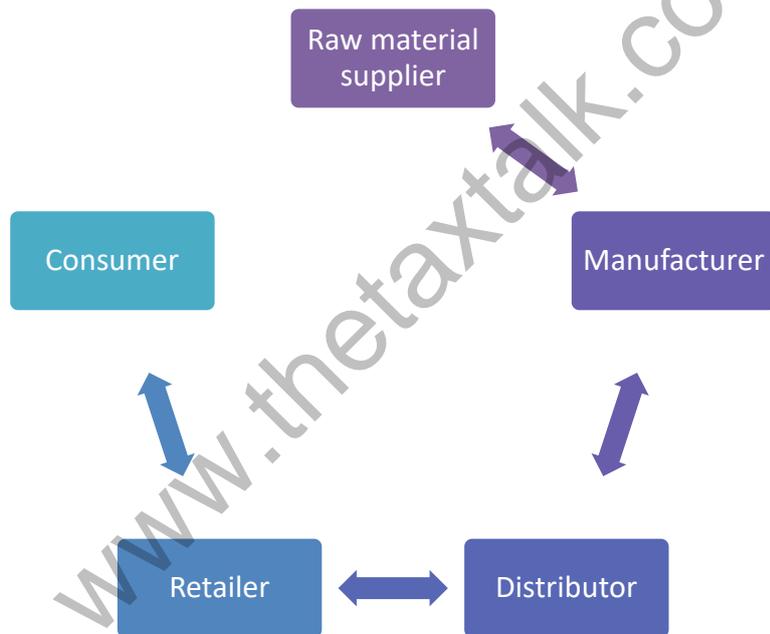
However, in few cases, in absence of specific clarification, the inter-dependency also leads to difference of opinion between supplier and buyer.

⁶ Concept of 'invoice matching' is introduced in Indian GST. Further, India is expected to move to real-time invoice matching from 2019.

For eg. how distributor should give extra incentive/ discount for higher sales, whether through credit note by supplier or on a tax invoice by distributor.

Thus, its essential that the Tax Authorities provide clarity on these aspects!

Pictorial depiction: Everything is bi-lateral in VAT!



7.11 Out of VAT means out of business!

Introduction of VAT moves the entire economy towards the culture of compliance.

One of the reason for change in culture is the fact that in VAT regime, 'out of VAT net' means out of business as many large business entities stop procuring goods / services from un-registered vendors!

Thus, numerous small businesses obtain voluntary registration (based on threshold applicable in the VAT jurisdiction).

Interestingly, these new taxpayers will not only pay VAT but also pay corporate tax (if any) and report their downstream and upstream of supply chain.

Thus, in case there are any business entities who, to evade VAT, are un-registered, then the VAT Authorities can still know about them through sale and purchase data submitted by registered VAT payers.

7.12 VAT evolution is continuous process!

VAT is known for its constant evolution.

At a time when VAT is in its nascent evolving stage, everyone is learning and there are no precedence for VAT applicability on most of the business transactions.

Further, in initial phase, with an endeavour to simplify VAT and address specific issues, VAT Authorities will typically, issue specific and generic VAT Guides, VAT awareness flyers, cabinet decisions/ clarifications etc.

These clarifications/ guides are quite detailed and thus, taxpayers need to peruse the same to decode whether the same are relevant for their business operations and if yes, then what are the appropriate steps to be taken.

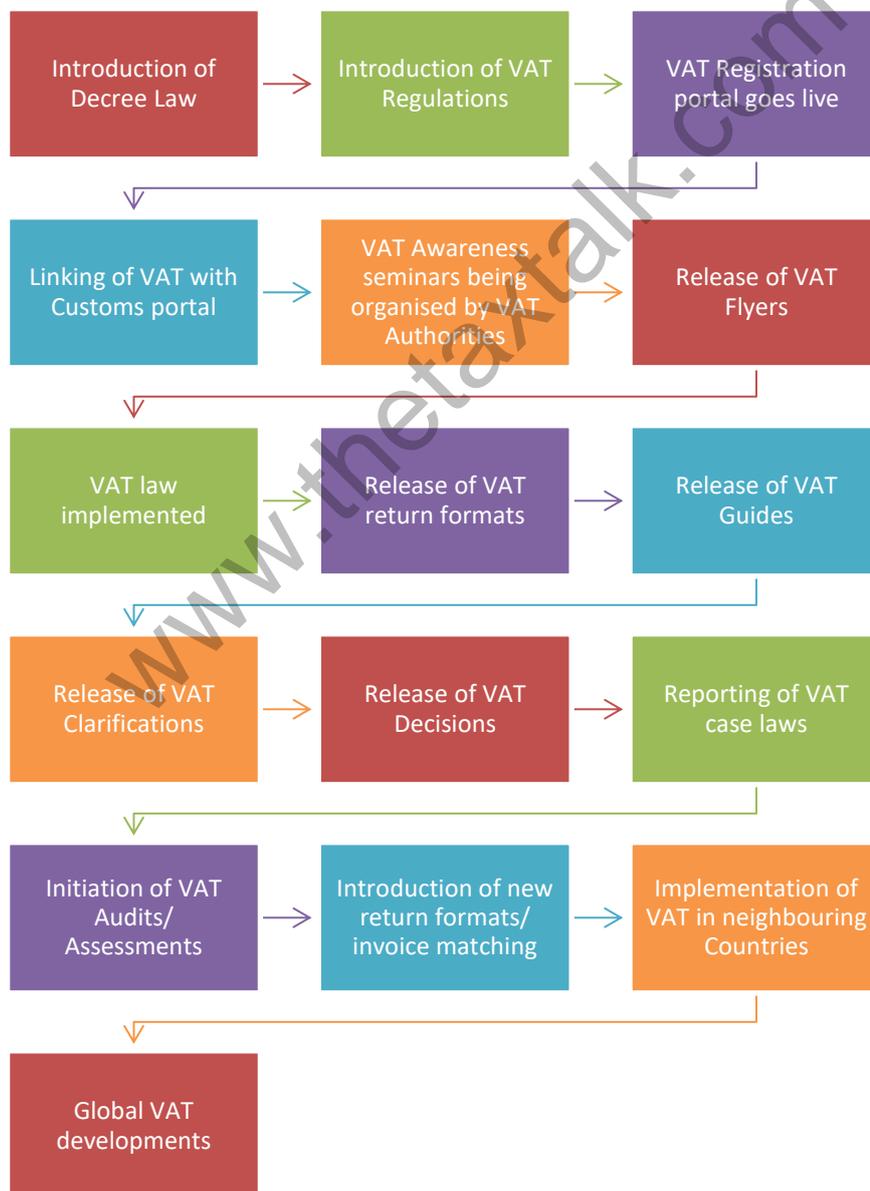
For instance, if a detailed guide on real estate related services is issued then, the taxpayers should ideally review/ revisit the position on real estate related services based on the guide.

As the time passes, the VAT law evolves and VAT payer is required to pro-actively track VAT developments, decode them and take requisite action.

Further, as change is constant for VAT, once VAT is introduced, there could be developments in VAT rates, invoice matching, credits or refunds being available across, changes in VAT threshold etc.

Given the aforesaid, VAT payer should not only track the development but also anticipate the likely change and gear-up for the same!

Pictorial depiction: VAT evolution!



7.13 VAT impacts working capital!

In VAT regime, business entities may get entangled in the web of working capital blockage which may severely hamper their businesses.

For instance, while VAT is payable on raising of invoice, many business entity receive payment only after a gap of after 6 months, year or even more than a year. Meanwhile, alongwith organisation's routine expenses (such as salary etc), business entity needs to pay VAT.

Herein, it may be noted that the cumulative impact of VAT is much more than 5%. For eg. ABC has turnover of say USD 1mn p.m. (VAT liability thereon USD 50,000) and debtor cycle is 6 months. Then, ABC will pay VAT of USD 300,000 ($50,000 * 6$ months) whereas customer will pay after 6 months. For business entity having turnover of USD 1 mn, paying VAT, on accrual basis, is practically challenging.

Thus, two factors, debtor cycle (i.e. time to receive money from buyers) and VAT payment cycle (i.e. time to deposit VAT liability) determine how severely VAT impacts working capital requirement of business entity.

However, preferably to minimize the VAT impact, VAT provisions could provide for some relief, atleast to small and medium enterprises to ease their working capital burden.

7.14 Optimise VAT credits!

VAT / Tax invoices are the documents based on which a buyer can to claim input tax credit.

Tax invoices are issued by vendors and thus, its not uncommon to observe in-complete tax invoices or tax invoices with incorrect details (such as missing name, incorrect address etc).

Input Tax Credit availability on invoices with incomplete contents is always disputable in VAT regime.

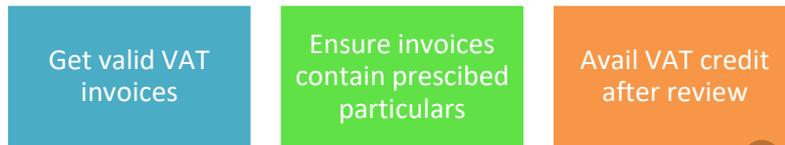
Additionally, credit availability on employee-related expenses such as car for employees, foreign trips, medical insurance could be subject matter of scrutiny by authorities.

Additionally, taxpayer may inadvertently sometime miss on claiming eligible VAT credit.

Claiming ineligible credits leads to risk of denial of credit alongwith imposition of penalty whereas not claiming eligible credit leads to unnecessary cost for the organization.

Thus, it is important for taxpayers to run a sanity check for VAT credit to ensure that in-eligible credits are not claimed and eligible credits are not missed.

Pictorial depiction: Optimise VAT Credits!



7.15 Input Tax credit – Online matching

One of key feature of VAT regime is that it allows input tax credit to the business entity and effectively, levies VAT only on the 'value addition'.

Whilst this feature (of input tax credit) is the biggest strength of VAT regime, this also is the weakest feature.

VAT laws across the world work on the principle of 'self-governance' as VAT regime allows input tax credit to the business entity based on VAT invoice issued by the seller/ supplier.

Herein, the basic assumption is that the seller will deposit applicable VAT amount with the Government. This trust-based feature in VAT laws allows buyer to claim input tax credit without any need to insist that the supplier/ seller should deposit the VAT amount and file VAT return. This VAT system may be referred as a 'trust-based' VAT system.

However, its pertinent to note that in many VAT jurisdictions (which follow trust-based system), are plagued with 'missing-trader' fraud. 'Missing-trader' is a kind of fraud wherein the buyer claims input tax credit, however, the supplier does not deposit the applicable VAT (and goes missing), eventually harming the Government exchequer.

To address the aforesaid frauds, many VAT jurisdictions have either introduced or intend to introduce in near future, 'system-based' credit system that allows input tax credit to the buyer once the seller/ supplier uploads the invoices online (in the prescribed VAT portal) and deposits applicable VAT.

It is pertinent to note that the 'system-based' credit mechanism, brings its own challenges as:

- a. Business entities are expected to request their respective vendors to upload invoices to enable them to check the same online
- b. Business entities have to continuously reconcile the procurements (which may run into thousands of line items for large business entities) as appearing on the Government VAT portal with their financial statements
- c. Business entities have to continuously identify missing invoices and follow up with vendors
- d. Its cumbersome to address and correct the human errors i.e. incorrect claim of credits due to wrong returns filed by supplier
- e. System may become un-responsive or encounter glitches

Given the aforesaid, the VAT jurisdictions need to do a cost benefit analysis, before embracing the system-based input tax credit mechanism to ensure that the 'ease of doing business' continues in VAT regime.

7.16 Reverse Charge mechanism

VAT is applicable on supply of goods or services. Further, the liability to pay VAT is on the supplier of goods or services.

However, in certain cases the liability to pay VAT is cast on 'recipient' instead of supplier of goods or services.

Reverse charge on services

VAT law, typically, provides that where services are availed from a non-resident service provider (who does not have any place of business or presence in the VAT jurisdiction), the liability to pay VAT is on the recipient of services.

This mechanism, which casts responsibility on recipient, is referred as 'Reverse Charge Mechanism'. The rationale of RCM is to ensure a level-playing field for domestic supplier (in-comparison with non-resident supplier).

Reverse charge on goods

In case of import of goods, the liability to pay VAT is cast on the 'importer' of goods. In such cases VAT is deposited by the importer of goods alongwith customs duty.

Further, to facilitate tracking of import transaction and the VAT liability thereon, the VAT registration numbers are 'linked' with customs code.

Whilst the purpose of the linking is to simplify the VAT compliances for the businesses, however, in certain cases challenges arise as 'importer on record' could be the person who clears goods from customs (such as logistics company) than the actual importer of goods.

Further, challenges arise in determining availability of exemption/ zero rating to certain goods (such as medical equipment) as end-use of the goods may not be determinable at the time of import itself.

Additionally, reconciling the auto-populated amount of import with imports as per financials could pose challenges for business entities.

What business entity need to do?

VAT laws prescribe that, if input tax credit, is available then the VAT liability need not be paid in cash. Thus, reverse charge mechanism remains to be a disclosure requirement for VAT return purposes unless input tax credit is not available.

Given the aforesaid, business entity needs to examine all their procurements from non-resident entities from the perspective applicability of reverse charge.

Further, in case reverse charge is applicable then the same needs to be disclosed in VAT returns and VAT liability thereon needs to be deposited (if law prescribes depositing VAT liability in cash).

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7.17 If VAT provides for option, seek clarification!

Any VAT regime, being self-assessment regimes, entails VAT payer to take tax positions on day to day business transactions such as:

- a. Whether VAT is applicable on supplies
- b. Whether the transaction will qualify for zero rating
- c. Whether VAT charged by vendor will be available as input tax credit
- d. Whether reverse charge mechanism is applicable etc.

Given numerous business transactions, taxpayers need to take tax positions at drop of the hat.

The matter gets complicated if taxpayer needs to discuss the tax position with their customer or vendor, as in such cases, the tax position could be adopted on commercial rational than legal rational.

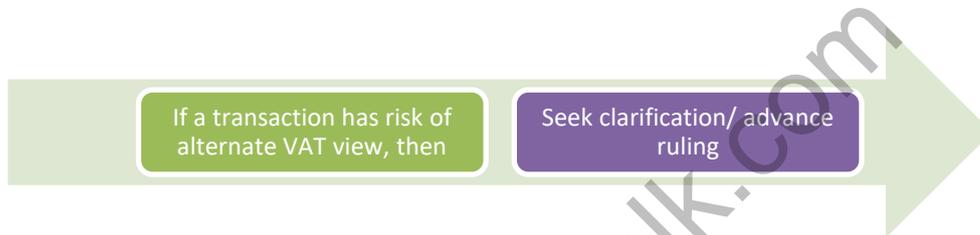
Over a period of time, such decisions gets accumulated and the cumulative risk of adopted tax positions may turn out to be substantial.

Fortunately, VAT jurisdictions provide for a mechanism, referred as 'Clarifications' or 'Advance Ruling', through which VAT payers can seek clarity on their VAT positions.

To minimize the risk exposure its advisable for taxpayers to identify the big-ticket items at the earliest and seek clarifications.

In the long run, this step of seeking clarifications will certainly prove to be a step in the right direction and save the organization from penal consequence.

Pictorial depiction: Seek Clarifications!



7.18 Periodic VAT Returns!

Once a business entity is registered for VAT purposes, the VAT laws prescribe that VAT payer should file periodic returns.

In the periodic returns, business entity submits details of their inward supply and outward supply.

The periodicity of the VAT returns, is prescribed based on parameters such as turnover, nature of industry etc. The periodicity of the VAT returns can be monthly, quarterly, half yearly or annually.

Typically, the periodicity for large business entities is monthly whereas for medium / small enterprises it can be quarterly, half yearly or annually.

Whilst, for uniformity, it's preferable to have common periodicity for all the business entities in a VAT jurisdiction, still staggered VAT filing could be prescribed due to various rational (such as to reduce compliance load on medium / small enterprises as well as VAT portal).

As regards, the details to be filed in VAT returns, VAT law may require the business entity to, either file invoice level details or lump-sum details (i.e. gross amount of sales/ purchase in a particular period). In case the VAT

law asks details at gross level (than invoice level details) then it certainly, some extent, it simplifies the VAT compliances.

VAT return compliance typically involves **five steps** such as:

- a. Compiling the details (such as outward supplies, inward supplies, amount of input tax credit available, reverse charge etc)
- b. Computing the VAT liability
- c. Depositing the VAT liability (if any)
- d. Preparing the VAT return
- e. Filing/submitting the VAT return

The business entities, meet the VAT return compliances either internally or with the help of external VAT consultants.

Its generally observed that given the risk of incorrect interpretation of VAT law or missing crucial numbers, most large and medium business entities prefer external VAT consultants. Additionally, involving external consultant is better as it means that the maker-checker principle (or four eye test) is followed which minimizes the errors.

Given that the VAT returns are periodical and missing the due date of VAT return can trigger penal consequences, it is crucial for business entities to set up appropriate process and timelines for preparing and filing VAT returns.

7.19 Periodic VAT Returns in VAT may become redundant!

Instead of prescribing periodic VAT returns, most of the VAT jurisdictions are either shifted or planning to introduce uploading of VAT invoices on real time basis.

This will mean there is no fixed due date for uploading VAT details with VAT Authorities and rather, VAT details are required to be uploaded on real time basis.

This shift to real-time, though expected to bring simplification in long-run, still in short-run, this means substantial daily compliances for business entities.

Typically, in real-time system, the business entity is required to upload the invoices continuously (anytime during the month).

Further, such uploaded invoices are continuously visible to the recipient. The real-time system ties the buyer and receiver and ensures their compliances.

Certain VAT regime even require that the unique invoice number be generated from the common Government VAT portal to enable tracking of input tax credit invoices.

In case VAT regime is proposing real-time system, it is crucial for business entities to set up appropriate process for preparing and uploading VAT details on real time basis.

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7.20 Gear up for VAT Audit!

After introduction of VAT and filing of few VAT returns, VAT payers typically move from Phase-I (pre-VAT) to Phase-II (VAT first return), to Phase-III i.e. regular VAT compliance and VAT return filing.

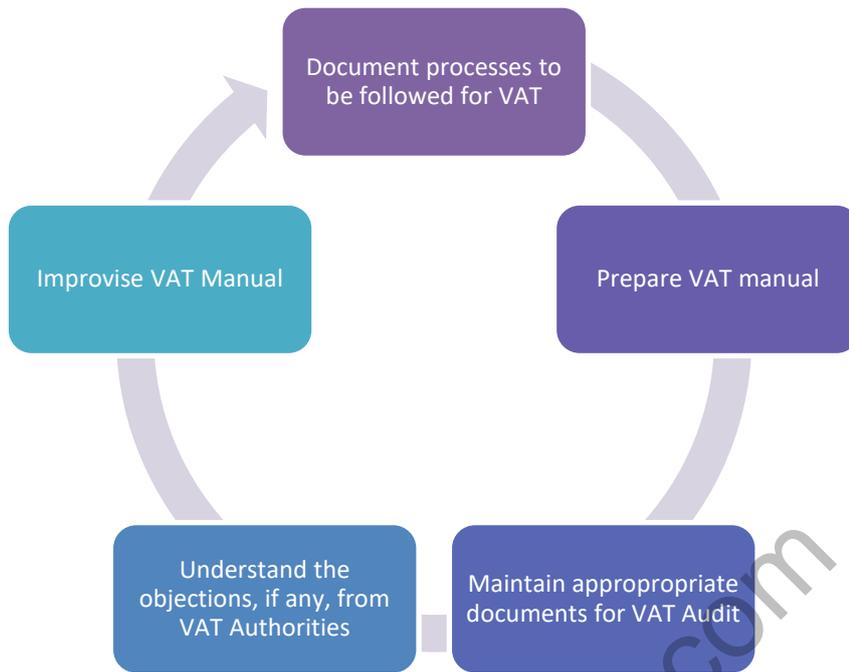
Its pertinent to note that the thrust of Phase-III should be on documentation and maintaining prescribed VAT records.

Documentation and maintaining prescribed VAT records is critical, as VAT settles down in any jurisdiction, VAT payers are required to face VAT audits initiated by VAT Authorities.

Thus, VAT payers not only should gear for VAT audits bit also, pro-actively, consider preparing customised 'VAT Manual' for their own business which should contain all the tax positions adopted, processes followed and the basis of preparation for VAT returns.

The VAT manual will be handy during audit and could also be used for VAT training for new employees in the organization.

Pictorial depiction: Gear up for VAT Audit!



7.21 Enabling VAT administrators is key!

Knowledge of VAT law and systems holds the key during and after VAT transition.

Particularly, VAT Authorities are bombarded with numerous VAT queries. Not only legal queries are asked to the VAT Authorities but also technical queries pertaining to VAT portal.

Business entities look upto the VAT Authorities for resolution of these queries.

Also, VAT Authorities could be required to educate the VAT payer on various aspects of VAT and in-turn become evangelists for VAT.

Given the aforesaid, its essential that the VAT administrators are well equipped about VAT.

7.22 Empowering consumers is important!

VAT impacts every consumer in the country.

Everything a consumer consumes gets impacted. Thus, if consumer is not well educated it is likely that the supplier may fleece the consumer in the name of VAT.

Thus, to ensure that VAT does not lead to confusion, inflation and evasion, dissemination of VAT knowledge to empower the end consumer.

VAT Administrators may explore various modes of knowledge dissemination like TV / radio, news prints and social media for dissemination of VAT knowledge to end consumer.

VAT Administrators may reach out to prominent consumer associations to communicate benefits of VAT and get valuable feedback from the key stakeholder who will actually bear the impact of VAT.

As VAT is magnum opus change, 'Educate, Enable and Empower' could be the mantra the to successfully sail over to VAT.

7.23 Educate VAT payers!

Based on the legal knowledge of VAT available in public domain (such as VAT law, various regulations etc.) the VAT Authorities may consider to hold sensitising seminars to educate the taxpayers community.

For these seminars the VAT Authorities may consider partnering with prominent trade chambers/ associations.

An early initiation of these training will give the taxpayers a sense of involvement. Initially, most of the taxpayers have concerns around key aspects such as place of supply, value of supply, time of supply, compliance provisions, transition provisions etc.

These concerns can be dispelled through the seminars. The seminars can ensure that the VAT Authorities reaches across length and breadth of the Country for a steady and reliable source of feedback.

7.24 Enable fintech!

After introduction of VAT, business entities need to gather numerous daily details of procurement, sales, payments etc.

Thus, for capturing these daily transactions business entities need to assess either the capability of their existing IT system or procure one (if they don't have any).

Better equipped software will also help not only in meeting VAT compliances but also maintaining internal control. Better software will put business entities at ease in the demanding situation of meeting VAT compliances.

Start-ups are known for their inventive method to solve problems with minimum pricing. This approach of start-up will help small and medium businesses in meeting their VAT compliances.

Thus, as the VAT Authorities put thrust on electronic filing / compliances, its equally important for VAT jurisdictions/ Authorities to ensure that opportunity and freedom should be given to start-ups and their eco-system. Therefore, VAT Authorities/ Government can invite app developers and Fintech entities, give them requirements and ask them to make apps specifically for VAT.

7.25 Make the law and portal multi-lingual!

VAT Law in GCC are made available in Arabic.

In UAE, un-official English translation of VAT law was made by Government.

However, as the translation is un-official, the English speaking readers may also need to refer the Arabic version (as there is possibility of translation changing the meaning of certain terms / phrases).

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7.26 VAT is a 'rarest of rare' policy of Government

VAT all along is perceived as a 'tax change' however it impacts the economy, industry, product /services, taxpayer and consumers.

VAT is one of the rarest Government policy reforms which impacts each and every resident of the country (and even tourists!).

Rarely any policy of the Government actually has this potential (i.e. potential to impact the entire country).

Given this magnum opus impact, introduction of VAT, which if not well planned, has potential to increase inflation.

Thus, it's critical for the Government to ensure that VAT is smoothly implemented and it does not lead to inflation.

7.27 Government needs to find right 'balance' between protecting buyer and seller interest!

The rising income levels as well as penetration of internet / social media is one of the reason for rising level of consumptions across world and making us a 'consuming' society!

Interestingly, VAT impacts everything a person consumes, whether its product or services! Thus, in view of introduction of VAT, while seller would like to increase the product/ service prices (sometimes even more than the actual VAT rate!), a consumer would want to see the prices remain stagnant.

Additionally, whenever VAT is to be introduced in the Country, its not uncommon to observe that sellers increase the product/ service prices (even before actual introduction of VAT!).

Thus, if appropriate measures are not taken and if the consumer is not well aware / educated about VAT, then the gullible consumer could be fleeced by the seller in the name of VAT.

Given the aforesaid, to protect the interest of the consumer, few of the VAT jurisdictions have deployed following methodologies:

- a. Specific instructions (particularly to banks, insurance entities) to not to increase prices
- b. Displayed prices should be inclusive of VAT
- c. Introducing 'anti-profiteering provisions'⁷

Given the aforesaid, its most critical for Government as well as VAT Authorities to not only take specific measures (such as specified above) but also to empower the end consumers through dissemination of VAT knowledge.

Pictorial depiction: Finding balance is critical!



⁷ Few of the VAT jurisdictions like Australia and India had introduced 'Anti-Profiteering' provisions during VAT introduction. Though there is not enough empirical evidence to support that the introduction of 'Anti-Profiteering' provisions actually helped the consumers.

7.28 Government Authorities need to extensively co-ordinate during VAT implementation!

VAT, *inter-alia*, impacts goods of daily consumption, real estate, imports etc.

Typically, any Country, intending to introduce VAT, will have separate Authorities which are managing/ responsible for prices of essential goods, transfer/ registration of real estate (such as Customs Authority), import of goods (such as Customs Authority).

These existing Authorities are responsible for specific functions (such as say collection of customs duty). However, introduction of VAT, has potential to impact their function (such as Customs Authorities could be required to monitor collection of VAT on import of goods⁸) or there could be overlap between their role and role of VAT Authorities.

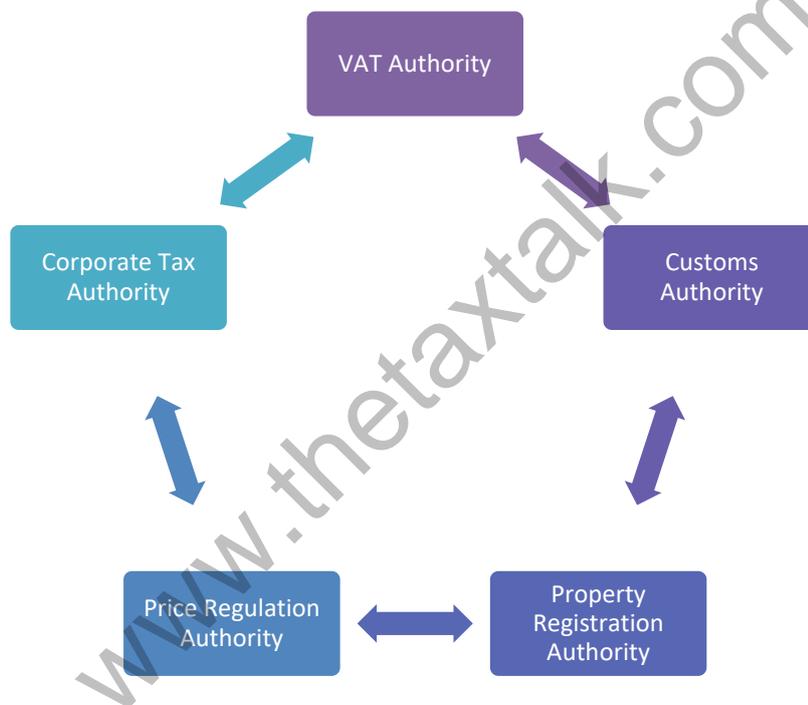
Given the aforesaid, before introduction of VAT it is important that there is apt co-ordination between such multiples VAT authorities and other Authorities such as customs authority, property registration authority (as VAT Law may insist that VAT be paid at or before the property is transferred), price regulation authority (as VAT Law may insist that

⁸ Typically, VAT is payable at the time of import of goods alongwith Customs Duty.

displayed prices to be inclusive of VAT), corporate tax authority, if any (as VAT Law may insist that the turnover, as shown in corporate tax returns, to be reconciled with VAT returns) etc.

Given the aforesaid discussion, early initiation of dialogue between various Authorities is must to ensure smooth transition to VAT.

Pictorial depiction: Co-ordination between various Authorities



7.29 Simpler user interface of VAT portal is helpful!

VAT portals are an interface between the VAT payers and VAT Authorities.

Across VAT jurisdictions, VAT portals are used for obtaining VAT registration, making VAT payment, filing of VAT returns, submission of VAT related documents and even for audit /assessments.

The first interaction of VAT payer takes place at a time when the VAT portal goes live for registration purposes.

For registration, VAT payers submit the information about the organization (alongwith requisite documents) on the VAT portal.

The registration process is initiated through generation of login id and password and completed after submission of documents. Subsequently, the VAT Authorities review the documents submitted and grant the VAT registration to the deserving cases.

It may be noted that the VAT Authorities should ensure that there is minimum time gap between application and granting of VAT registration.

In certain VAT jurisdictions, it was observed that due to technical glitches on VAT portal, though VAT payer had applied for registration before due date still the registration was granted late and penalty was levied! These kinds of errors could avoided.

Further, given than VAT portal is an interface, if the same is simpler then its easier to use/understand. Further, VAT portal should be responsive even in case of heavy traffic to the portal and glitch- free.

To improve the user interface, simple data validation controls should be placed (alongwith pop-ups to enable the VAT payer understand the error and how to correct it).

Also, before VAT portal goes live, it should be ensured that appropriate testing should be carried out. The VAT portal should also be designed for peak traffic to make it robust / crash-proof portal.

Pictorial depiction: VAT Portal!

VAT portal should be easy to use

VAT portal should support heavy traffic

VAT portal should be tested well before it goes live

8. Five steps to be VAT ready

In the following paras, the critical step plan for business to be VAT ready are discussed.

1. Decode VAT

It is an accepted fact that VAT is not merely a tax change but a business change as it will impact all functions of an organisation such as finance, product pricing, supply chain, information technology, contracts, commercials etc. Thus, it is imperative that all these functional teams should be aware about the VAT. But the underlying question is what should these team members read/ refer for VAT?

In this regard, its pertinent to note that most of the key aspects of the VAT regime are already in public domain through various books and background material on GCC VAT in public domain. Even the rates for goods and services (i.e. 5% as applicable in GCC) is available in public domain. Thus, based on this legal knowledge of VAT available in public domain the organisation may consider sensitising its employees.

The organisation can consider sensitising its entire business eco-system i.e. not only the employees but also vendors (such as Tier-1, Tier-2 vendors etc.) and key customers of the organisation. An early initiation of training will give the concerned employees, vendors and customers a sense of

involvement in discussion much before VAT legislation it is put in public domain.

2. Understand VAT impact

VAT may provide opportunities but at the same time it could bring threats. Given this, an organisation may consider carrying out an exercise to identify how its operations will get impacted because of VAT. For VAT Impact Analysis exercise, the respective department heads such as finance, supply chain, product pricing, human resource etc. should be involved to ensure that they provide their inputs and suggestions.

Going one step forward, organisations can also identify possible cost savings which key suppliers / vendors could be entitled to in the VAT regime. Based on the possible cost savings to suppliers / vendors, the organisations can have discussion with its vendors for passing of benefits by way of cost reduction in the coming years (i.e. after VAT is introduced). Early discussion and engaging with vendors will ensure maximum possible benefit to be passed on to the organisation.

Organisations will also have to take into consideration the increase (most likely!) or decrease (least likely!) in tax compliances. For most of the organisations, in VAT regime, compliances are expected to increase dramatically. Thus, in human resource department will have to be informed

about the VAT regime so that they can anticipate the increase (and decrease in certain cases) in the manpower.

3. Gear up for transition of IT systems

Information Technology (IT) is a key area for business organisations as irrespective of the fact whether the organisation is ready or not, on the very first day VAT is introduced, the information technology system of an organisation has to be ready and running else it will bring the entire business to standstill.

Thus, to avoid the threat of disruption of business, it is advisable that early study should be carried out to understand how the systems migration for VAT could be done.

4. Design Alternate Business Strategies

To gear up for VAT regime, the organisation may identify alternate efficient business strategies to ensure smooth transition to VAT. Even, supply chain strategies is expected to undergo a major change. An organisation will have to re-visit their pricing strategies as business competitors may well reduce prices of their product to pass on the VAT input tax credit benefits.

However, while forming alternate business strategies, it goes without saying that the organisation should take into consideration the commercial

feasibility of alternate business strategies before these strategies are recommended.

5. Make Representation

Introduction of VAT regime could affect negatively (than positively!) to few industries/ sectors. VAT can have a tagline 'VAT is a matter of solicitation. Please read all the law documents carefully!' Thus, efforts should be made by the organisation to identify the possible issues for which appropriate representation could be made before the appropriate forums through various trade chambers.

While current economic situation is characterised by volatile global economic conditions, introduction of VAT remains a new challenge, thus early initiation of aforesaid steps can surely help the organisations gain most of the VAT regime.

9. VAT in United Arab Emirates (UAE) – Experiential Intelligence (EI)

Value Added Tax (VAT) was introduced in United Arab Emirates (UAE) and Kingdom of Saudi Arabia (KSA) from 1st January 2018.

Now, the business organisations in UAE and KSA are moving from the pre-VAT era to now, towards post VAT-era wherein VAT is becoming a day-to-day part of each business function.

Till 31st December 2017, there was neither direct tax nor indirect tax in UAE. Thus, for a country (and rather for the Gulf region), bringing an indirect tax was a biggest socio-economic change! But did VAT in UAE fare well? Lets understand!

9.1 Single rate!

What has worked well with UAE is the fact that it brought VAT with single rate of 5%! No other rates! Even the exemptions in UAE VAT are restricted to a list of four items only (one of them is residential leasing). This has ensured lesser complications in the VAT law.

Additionally, though UAE is union of seven Emirates and Emirate-wise supply details are to be disclosed in VAT returns, still there is no need to

bifurcate transactions as 'intra-State' and 'inter-State' as all taxable supplies are liable for VAT of 5%.

Further, the reasonable rate of VAT i.e. 5% has ensured remarkably higher compliances.

9.2 Reverse Charge Mechanism (RCM) is only a disclosure!

In UAE, if credit is available, RCM is not required to be paid in cash. Thus, effectively, RCM only is a disclosure for VAT return purposes. This also has simplified the VAT compliances to some extent for the businesses.

9.3 One-page return!

In UAE only one VAT return is to be filed and its just a one page return. This may sound like a dream to be true for Indian VAT payers. UAE has stayed away from the concept of matching of invoices, rather, invoice level details are not required to be submitted at the time of filing of VAT return!

9.4 Staggered VAT return filing!

As per recent statistics, more than 2.81 lacs taxpayers registered for VAT in UAE. Given this, for VAT return filing, the Federal Tax Authorities (FTA) staggered VAT return period for taxpayers i.e. the system allotted quarterly filing for few taxpayers and for others monthly, four monthly etc is allotted.

This step of FTA has ensured that there is no overload on the VAT return filing common portal. This has resulted in more than 98.8% taxpayers filing their first VAT return. This compliance of 98.8% is one of the highest tax compliance rate in the world!

9.5 Prices inclusive of VAT!

For business to consumer (B2C) transactions, the UAE VAT law in UAE mandates that the displayed prices should be inclusive of VAT. This provision has ensured that the customer precisely knows how much he is paying for the goods or food etc he is buying.

Though few instances were noted, wherein the shopkeepers were fleecing the customers, however, thanks to the social media savvy consumers, these shopkeepers were penalized by FTA for their mis-adventures.

9.6 Substantive FTA initiatives!

During the transition as well as post-transition, the FTA have regularly addressed seminars and thrown light on key issues concerning businesses through various VAT guides and VAT flyers. This has also helped put many doubts on VAT applicability on to rests!

9.7 Few challenges!

It cannot be said that there were no challenges in the initial phases of VAT in UAE. Like any country introducing VAT, in UAE also witnessed and

continue to witness few challenges and confusion on free trade zone, imports, supplies to other GCC countries, determining place of supply etc.

9.8 GCC countries yet to become one common market!

Challenges are being faced by businesses in GCC as Kingdom of Saudi Arabia (KSA) and UAE are yet to recognize each other as VAT Implementing States. Additionally, other four signatories to GCC VAT framework i.e. Oman, Bahrain, Kuwait and Qatar are yet to provide clear dates for VAT introduction.

9.9 Way forward for VAT in GCC

It is pertinent to note that the successful introduction of VAT in UAE and KSA, will be considered as a positive development by the other four signatories to GCC VAT framework i.e. Bahrain, Oman, Kuwait and Qatar and these countries are likely to introduce VAT in 2019 or onward.

While current economic situation is characterised by volatile global economic conditions, introduction of VAT remains a new challenge for business to gear-up for businesses in Bahrain, Oman, Kuwait and Qatar.

10. Common VAT Agreement of the States of the Gulf Cooperation Council (GCC)

Common VAT Agreement of the States of the Gulf Cooperation Council (GCC)⁹

The Member States of the Gulf Cooperation Council (GCC), namely:

The United Arab Emirates,

The Kingdom of Bahrain,

The Kingdom of Saudi Arabia,

The Sultanate of Oman,

The State of Qatar, and

The State of Kuwait,

Pursuant to the objectives set out in the Statute of the Gulf Cooperation Council aimed at the importance of developing existing cooperation relations amongst them in various fields;

In line with the objectives of the GCC Economic Agreement of 2001, which seeks to reach advanced stages of economic integration, and develop similar economic and financial legislation and legal foundations amongst member states , and with a desire to promote the GCC economy and

⁹ Un-official translation as available on

<https://www.mof.gov.ae/En/lawsAndPolitics/govLaws/Documents/GCC%20VAT%20Agreement.pdf>

proceed with the measures that have been taken to establish economic unity amongst Member States; and

Pursuant to the Supreme Council decision at its 36th meeting (Riyadh – 9-10 December, 2015) with respect to the common imposition by the GCC States of **VAT at a rate of 5%**, and delegating to the Financial and Economic Cooperation Committee the completion of all the requirements necessary to pass the (Common VAT Agreement of the states of the Gulf Cooperation Council) and signing it. And whereas this Agreement aims to establish a **common legal framework** for the introduction of a general tax on consumption in the GCC known as (VAT) levied on the import and supply of Goods and Services at each stage of production and distribution.

have agreed to the following:

Chapter One - Definitions and General Provisions

Article 1 Definitions

In the application of the provisions of this Agreement, the following words and expressions shall bear the meanings set forth against each of them unless the context otherwise requires:

Council: Gulf Cooperation Council.

Agreement: The Common VAT Agreement of the States of the GCC.

Tax: Value Added Tax (VAT) imposed on the import and supply of Goods and Services at each stage of production and distribution, including “Deemed Supplies”.

Member State: Any country with full membership of the GCC in accordance with the Council's statute. .

GCC Territory: All territories of the GCC Member States.

Local Law: The VAT Law and any relevant legislation issued by each Member State.

Person: Any natural or legal person, public or private, or any other form of partnership.

Taxable Person: A Person conducting 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: An activity that is conducted in an ongoing and regular manner including commercial, industrial, agricultural or professional activities or Services or any use of material or immaterial property and any other similar activity.

Taxable Trader: A Taxable Person in any Member State whose main activity is the distribution of Oil, Gas, Water or Electricity.

Place of Business: The place where a business is legally established, or where its actual management center is located where key business decisions are made if different from the place of establishment.

Fixed Establishment: Any fixed location for a Business other than the Place of Business, in which the business is carried out and is distinguished by the permanent presence of human and technical resources in such a way as to enable the Person to supply or receive Goods or Services.

Place of Residence of a Person: The location of Place of Business or any other type of Fixed Establishment is. In the case of a natural person, if he does not have a Place of Business or Fixed Establishment, it will be his usual place of residence. If a Person has a Place of Residence in more than one State, the place of residence will be considered to be in the place most closely connected with the supply.

Resident Person: A person will be resident in a State if he has a place of residence therein.

Non-Resident Person: A person is not resident in a State if he has no Place of Residence therein.

Supplier: A Person who supplies Goods or Services.

Customer: A Person who receives Goods or Services.

Reverse Charge: A mechanism by which the Taxable Customer is obligated to pay the Tax due on behalf of the Supplier and is liable for all the obligations provided for in this Agreement and the Local Law.

Related Persons: Two or more Persons where one of them has supervisory or directive control over the others in such a way that he has administrative power that enables him to influence the business of the other Persons from a financial, economic or regulatory aspect. This includes Persons who are subject to the authority of a third Person that enables him to control their businesses from the financial, economic or regulatory aspect.

Supply: Any form of supply of Goods or Services for consideration in accordance with the cases provided for in Chapter Two of this Agreement.

Deemed Supply: Anything that is considered a Supply in accordance with the cases provided for in Article 8 of this Agreement.

Input Tax: Tax borne by a Taxable Person in relation to Goods or Services supplied to him or imported for the purpose of carrying on the Economic Activity.

Common Customs Law: The Common Customs Law of the States of the GCC.

First Point of Entry: First customs point of entry through which Goods enter the GCC Territory from abroad in accordance with the Common Customs Law.

Final Destination Point of Entry: Customs point of entry through which Goods enter the Final Destination State within the GCC Territory.

Consideration: Everything collected or to be collected by the Taxable Supplier from the Customer or a third party for the Supply of Goods or Services inclusive of the VAT.

Exempted Supplies: Supplies on which no Tax is charged and for which associated Input Tax is not deducted pursuant to the provisions of the Agreement and Local Law.

Taxable Supplies: Supplies on which Tax is charged in accordance with the provisions of the Agreement, whether at the standard rate or zero-rate, and for which associated Input Tax is deducted in accordance with the provisions of the Agreement.

Intra-GCC Supplies: Supplies of Goods or Services by a Supplier who resides in a Member State to a Customer who resides in another Member State.

Goods: All types of material property (material assets), including water and all forms of energy including electricity, gas, lighting, heating, cooling and air conditioning.

Import of Goods: The entry of Goods into any Member State from outside the GCC Territory in accordance with the provisions of the Common Customs Law.

Export of Goods: Supply of Goods from any Member State to the outside of the GCC Territory in accordance with the provisions of the Common Customs Law.

Competent Tax Administration: The relevant Government entity in each Member State responsible for the administration, collection and enforcement of the Tax.

Deductible Tax: Input Tax that may be deducted from Tax Due on supplies for each Tax Period in accordance with the Agreement and Local Law.

Capital Assets: Material and immaterial assets that form part of a business's assets allocated for long-term use as a business instrument or means of investment.

Tax Period: The period of time for which the Net Tax must be accounted.

Net Tax: Tax resulting from deducting the Deductible Tax in a Member State from the Tax due in that State within the same Tax Period. Net Tax may either be payable or refundable.

Mandatory Registration Threshold: The minimum limit of the value of actual supplies at which the Taxable Person becomes obligated to register for Tax purposes.

Voluntary Registration Threshold: The minimum limit of the value of actual supplies at which the Taxable Person may apply to register for Tax purposes.

Ministerial Committee: The Financial and Economic Cooperation Committee of the Council States

Article (2)

Scope of Tax

The Agreement shall come into effect in the GCC and Tax shall be imposed on the following transactions:

1. Taxable Supplies by a Taxable Person in the Member State Territory.

2. Receipt by a Taxable Customer of Goods or Services supplied to him by a Non-Resident and non-Taxable Person in the Member State in instances where Reverse Tax Mechanism applies.
3. Importation of Goods by any Person

Article (3)

Calculation of Dates

Dates and Timeframes stipulated in the Agreement shall be calculated according to the Gregorian Calendar.

Article (4)

VAT Group

Each Member State may treat the VAT Group as a single Taxable Person in accordance with the rules and conditions it puts in place for that purpose.

A VAT Group means two or more Corporate Persons who are Residents of the same Member State.

Chapter Two - Supplies within the Scope of the Tax

Article (5)

Supply of Goods

1. A Supply of Goods means the transfer of ownership of such Goods or the right to dispose of the same as an owner.

2. A Supply of Goods includes the following transactions:
 - a) disposal of Goods under an agreement that provides for the transfer of ownership of these Goods or the possibility of transferring the same at a date subsequent to the date of the agreement, which shall be no later than the date on which the Consideration is paid in full;
 - b) granting rights in rem deriving from ownership giving the right to use real estate;
 - c) compulsory transfer of ownership of the Goods for Consideration pursuant to a decision of the public authorities or by virtue of any applicable law.

Article (6)

Transporting Goods from One Member State to Another

1. A Taxable Person who transports Goods forming part of his assets for the purposes of his business from the place where they are in a Member State to another place in another Member State shall be deemed to have made a Supply of Goods.
2. A transportation of Goods as provided for in subsection 1 above shall not be considered a Supply of Goods if it was done for one of the following purposes:
 - a) to use the Goods in the other Member State temporarily within the conditions of temporary entry provided for in the Common Customs Law;

- b) where the transportation of goods is done as part of another Taxable Supply in the other Member State.

Article (7)

Supply of Services

Any Supply that does not constitute a Supply of Goods under this Agreement shall be considered a Supply of Services.

Article (8)

Deemed Supply

1. A Taxable Person shall be deemed to have made a Supply of Goods when disposing of Goods that form part of its assets in any of the following cases:
 - a) disposal of Goods, for purposes other than Economic Activity, with or without a Consideration;
 - b) changing the use of Goods to use for non-taxable Supplies;
 - c) retaining Goods after ceasing to carry on an Economic Activity; and
 - d) supplying Goods without Consideration, unless the Supply is in the course of business, such as samples and gifts of trivial value as determined by each Member State.
2. A Taxable Person shall be deemed to have made a Supply of Services in any one of the following cases:

- a) use by him of Goods that form part of his assets for purposes other than those of an Economic Activity; and
 - b) Supplying Services without Consideration.
3. The provisions of this article shall apply if the Taxable Person has already deducted Input Tax related to the Goods and Services mentioned in this Article.
 4. Each Member States may determine the conditions and rules for the implementation of this Article.

Article (9)

Receiving Goods and Services

1. If the Taxable Person in a Member State receives taxable Goods or Services from a Person who is a resident in another Member State, then he shall be deemed to have supplied these Goods or Services to himself and the Supply shall be taxable in accordance with the Reverse Charge Mechanism.
2. If a Taxable Person residing in a Member State receives Services from a person who is not resident in the GCC Territory, then that Person shall be deemed to have supplied these Services to himself and the Supply shall be taxable according to the Reverse Charge Mechanism.

Chapter Three - Place of Supply

Part One

Place of Supply of Goods

Article (10)

Supply of Goods without Transportation

The place of a Supply of Goods that occurs without transportation or dispatch thereof shall be the place where the Goods are located on the date they are placed at the Customer's disposal.

Article (11)

Supply of Goods with Transportation

The place of a Supply of Goods that occurs with transportation or dispatch thereof by the Supplier or to the account of Customer shall be the place where the Goods are located when the transportation or dispatch commences.

Article (12)

Special Case of Internal Supplies with Transportation

1. As an exception to the provisions of Article 11 of this Agreement, the place of supply for an Intra-GCC supply of Goods with transportation or dispatch thereof from one Member State to another shall be in the State in which the transportation or dispatch of the goods terminates in the following cases:
 - a) if the Customer is a Taxable Person.

- b) without prejudice to subsection 2 of this Article, if the Customer is not a Taxable Person and the Supplier is registered or is obligated to be registered in the country where the Customer resides.
2. The place of an Intra-GCC Supply of Goods with transportation or dispatch thereof but without installation or assembly by a Supplier who is registered for Tax purposes in a Member State in favor of a Customer who is not registered for Tax purposes in another Member State shall be the place where the Goods are located on the date the transportation or dispatch begins, provided that the total value of the Supplies of that Supplier during any 12 months period does not exceed an amount of SAR 375,000 or its equivalent in GCC currencies, in the State to which the Supply is provided. In the event that the total value of the supplies exceeds this amount, this shall result in the Supplier registering in that State.
3. If transportation of Goods from one Member State to another cannot be established through compliance with the obligations provided for in Article 6 of this Agreement and the Local Laws, the place of supply shall be where the Goods are located on the date the transportation or dispatch begins.
4. In the event of a Supply of Goods that occurs without transportation or dispatch, and it is later established that transportation or dispatch of such Goods to a Member State took place in the circumstances provided for in subsection 1 of this Article, the State in which the transport or dispatch ends has the right to recover the Tax from the

Member State where the transportation or dispatch started in accordance with the Automated Direct Transfer Mechanism in force with Customs or any other mechanism approved by the Ministerial Committee.

Article (13)

Intra-GCC Supplies to Non-Registered Persons

Each Member State has the right to claim from another Member State the tax paid if the value of the Supply exceeds the amount of SAR 10,000 or its equivalent in other currencies of the GCC to individuals and non-registered persons, and the settlement of Tax shall be according to the Customs Duties Automated Direct Transfer Mechanism applicable under the framework of the Customs Union of the GCC. The Ministerial Committee may propose any other mechanisms.

The Member State may also impose Tax on these supplies at its points of entry to such State if no evidence is presented that the Tax was paid in the other Member State.

Article (14)

Supply of Gas, Oil, Water and Electricity

As an exception to the provisions of Articles (10) and (11) of this Agreement:

1. The place of supply for gas, oil and water through the pipeline distribution system and Supply of electricity by a Taxable Person who is established in a Member State to a Taxable Trader established in

another Member State shall be the place where the Taxable Trader is established.

2. The place of supply for gas, oil and water through the pipeline distribution system and Supply of electricity to a person who is not a Taxable Trader shall be the place of actual consumption.

Part Two

Place of Supply of Services

Section One

General Principle

Article (15)

Place of Supply of Services

The place of supply for Services provided by a Taxable Supplier shall be the Place of Residence of the Supplier.

Article (16)

Place of Supply of Services between Taxable Persons

As an exception to the provisions of Article 15 of this Agreement, the place of supply for Services provided by a Taxable Supplier to a Taxable Customer shall be the Place of Residence of the Customer.

Section Two

Special Cases

Article (17)

Leasing Means of Transport

As an exception to the provisions of Article 15 of this Agreement, the place of supply for leasing means of transport by Taxable Supplier to a Non-Taxable Customer shall be the location where these means of transport were placed at the Customer's disposal.

Article (18)

Supply of Goods and Passenger Transportation Services

As an exception to the provisions of Article 15 of this Agreement, the place of supply of Services for the transportation of Goods and passengers and related Services shall be the place where transportation begins.

Article (19)

Supply of Real Estate Related Services

1. Real Estate Related Services shall mean those that are closely linked to real estate, including:
 - a) real estate experts and agent services;
 - b) granting the right to possess or use real estate;
 - c) services related to construction work;
2. As an exception to the provisions of Article 15 of this Agreement, the place of supply of Real Estate Related Services shall be where the real estate is located.

Article (20)

Supply of Wired and Wireless Telecommunication Services and Electronically Supplied Services

The place of supply for wired and wireless telecommunication Services and electronically supplied Services shall be the place of actual use of or enjoyment from these Services.

Article (21)

Supply of Other Services

The place of supply for the following Services shall be the place of actual performance:

- a) Restaurant, hotel and catering services.
- b) cultural, artistic, sport, educational and recreational Services.
- c) services linked to transported Goods supplied from a taxable Supplier residing in a Member State to a non-taxable Customer residing in another Member State.

Part Three

Place of Import

Article (22)

Place of Import

1. The place of import for Goods shall be the State of the First Point of Entry.
2. When Goods are placed under customs duty suspension under the Common Customs Law immediately upon entry into the GCC Territory,

then the place of import shall be in the Member State where these Goods were released from the duty suspension status.

Chapter Four - Tax Due Date

Article (23)

Date of Tax Due on Supplies of Goods and Services

1. Tax becomes due on the date of the supply of Goods or Services, the date of issuance of the tax invoice or upon partial or full receipt of the Consideration, whichever comes first, and to the extent of the received amount.
2. The date of supply provided for in subsection 1 of this Article shall be as follows:
 - a) the date on which the Goods were placed at the Customer's disposal in connection with supplies of Goods without transportation or dispatch;
 - b) the date on which transportation or dispatch of Goods began in connection with supplies of Goods with transportation or dispatch;
 - c) the date on which the assembly or installation of Goods was completed in connection with supplies of Goods with assembly or installation;
 - d) the date on which the performance of the service was completed;

- e) the date of occurrence of any of the events referred to in Article 8 of this Agreement.
3. As an exception to the provisions of subsections 1 and 2 of this Article, in connection with supplies of a repetitive nature leading to the repetitive issuance of invoices or payment of Consideration, the Tax is due on the payment date specified in the invoice or the date of actual payment, whichever comes first, and at least once in every period of 12 consecutive months.
4. Each Member State may determine the date on which Tax becomes due with regard to supplies not referred to in the foregoing subsections of this Article.

Article (24)

Tax Due Date on Import

Tax becomes due on the date of importing Goods into the Member State, subject to the provisions of Article 39 related to cases of Tax suspension upon import and Article 64 related to the mechanism for paying Tax Due in relation to the import.

Chapter Five - Calculation of Tax

Article (25)

Tax Rate

1. Tax shall be applied at the standard rate of 5% of the value of the Supply or the value of Imports, unless this Agreement provides for an exemption or the zero-rate on such supplies.
2. Without prejudice to the obligations provided for under this Agreement and the Local Laws, published prices in the local market for Goods and Services must include VAT.

Article (26)

Value of Supply of Goods and Services

1. The fair market value is the amount at which Goods or Services can be dealt in in an open market between two independent parties under competitive conditions determined by each Member State.
2. The value of a Supply shall be the value of Consideration less the Tax and includes the value of the non-cash portion of the Consideration determined according to the fair market value.
3. The value of the Supply shall include all the expenses imposed by the Taxable Supplier on the Customer, the fees due as a result of the Supply and all the Taxes including Excise Tax, but excluding VAT.
4. In the case of a Deemed Supply and transportation of Goods from one Member State to another, the value of the Supply shall be the purchase value or cost. If the purchase value or cost cannot be determined, then the fair market value shall apply.

5. Each Member State shall determine the conditions and provisions for adjusting the value of the Supply between Related Persons.
6. The value of the Supply is reduced by the following amounts:
 - a) discounts in prices and deductions granted to the Customer;
 - b) the value of subsidies granted by the Member State to the Supplier;
 - c) amounts paid by the Taxable Supplier in the name of and to the account of the Customer. In this case, the Taxable Supplier may not deduct Tax paid on these expenses.
7. If any of the components of the value of the Supply is expressed in a foreign currency, it shall be converted into the local currency based on the official exchange rate applied in the Member State on the Tax Due date.
8. Each Member State may determine the value of the Supply in certain cases not referred to in this Article.

Article (27)

Adjustment of Tax Value

A Taxable Person may adjust the value of the Tax imposed upon any of the following events taking place at a date later than the Supply date:

1. Total or partial cancellation or rejection of a Supply;
2. Reduction of the Supply value;
3. Total or partial non-collection of the Consideration in accordance with the conditions applicable to bad debts in each Member State.

Article (28)

Value of Imported Goods

1. The value of imported Goods will be the customs value determined in accordance with the Common Customs Law plus Excise Tax, Customs duty and any other imposts apart from VAT.
2. For Goods temporarily exported outside the GCC Territory for completion of manufacturing or repair thereof abroad, these Goods shall be taxed when reimported on the basis of value added to them as provided for in the Common Customs Law.

Chapter Six - Exceptions

Article (29)

Rights of States to Exempt Certain Sectors or Tax at the Zero-Rate

1. Each Member State may exempt or tax at zero-rate the following sectors in accordance with the conditions and provisions set by that Member State:
 - a) Education sector;
 - b) Health sector;
 - c) real estate sector; and
 - d) local transport sector.
2. Each of the Member States may subject its oil, oil derivatives and gas sector to Tax at zero-rate in accordance with the conditions and provisions set by each Member State.

Article (30)

Exceptions to Payment of Tax in Special Cases

Each Member State may exclude the following categories from paying Tax upon receipt of Goods and Services in that State, and each Member State may allow these Persons to reclaim Tax borne upon receipt of the Goods and Services in accordance with the conditions and rules determined by that Member State.

These categories include:

- Government bodies specified by each State;
- Charities and Public Benefit Establishments specified by each State;
- Exempted companies under international event hosting agreements;
- Citizens of the Member State when constructing their homes for private use;
- Farmers and fishermen who are not registered for Tax.

Article (31)

Supply of Foodstuffs, Medicines and Medical Equipment

I: Food Items:

All food items shall be subject to the standard Tax rate. Member States may apply the zero-rate on food items mentioned in a unified list of Goods approved by the Financial and Economic Cooperation Committee.

II: Medicines and Medical Equipment:

Medicines and medical equipment shall be subject to the zero-rate in accordance with unified provisions proposed by the Committee of Ministers of Health and approved by the Financial and Economic Cooperation Committee.

Article (32)

Intra-GCC and International Transportation

The following transportation transactions shall be subject to Tax at zero-rate:

1. Goods and passenger transport from one Member State to another and the supply of transport-related Services;
2. International Goods and passenger transport from and to the GCC Territory and the supply of transport-related Services.

Article (33)

Supply of Means of Transport

Each Member State may apply the zero-rate to the following supplies:

1. Supply of sea, land and air means of transport allocated to the transportation of Goods and passengers in return for a fee for commercial purposes;
2. Supply of Goods and Services related to the supply of the means of transport mentioned in subsection 1 of this Article allocated to the operation, repair, maintenance or conversion any of these means or

for the requirements of the means of transport or their cargo or passengers;

3. Supply of rescue airplanes, rescue boats and aid by land and sea and boats allocated to sea fishing.

Article (34)

Supplies to Outside the GCC Territory

1. The following supplies shall be subject to the zero-rate:
 - a) the export of Goods outside the GCC Territory;
 - b) supply of Goods to a customs duty suspension situation as provided for in the Common Customs Law and the supply of Goods within customs duty suspension situations;
 - c) re-export of moveable Goods that have been temporarily imported into the GCC Territory for repairs, refurbishment, conversion or processing as well as the Services added to these Goods.
 - d) supply of Services by a Taxable Supplier residing in a Member State for a Customer who does not reside in the GCC Territory who benefits from the service outside the GCC Territory in accordance with the criteria determined by each of the Member States, except for the cases provided for in Articles 17 to 21 of this Agreement that determine the place of supply as being in a Member State.
2. The supply of Goods and Services out of the GCC Territory shall be subject to the zero-rate when such supply is exempt from Tax inside the Member State.

Article (35)

Supply of Investment Gold, Silver and Platinum

1. For the purposes of this Article, Gold, Silver or Platinum shall be considered as an investment when the metal is at a purity level not less than 99% and tradable on the Global Bullion Exchange.
2. The supply of investment gold, silver and platinum shall be subject to the zero-rate.
3. The first supply after extraction of gold, silver and platinum shall be subject to the zero-rate.

Article (36)

Financial Services

1. Financial Services performed by banks and financial institutions licensed under the laws in force in each Member State shall be exempt from Tax. Banks and financial institutions may reclaim Input Tax on the basis of the refund rates determined by each State.
2. As an exception to subsection 1 of this Article, each State may apply any other tax treatment to financial Services.

Article (37)

Taxation of Supplies of Used Goods

Each Member State may determine the conditions and provisions for the imposition of Tax on the supply of used Goods by the Taxable Person based on the profit margin.

Chapter Seven - Exceptions on Import

Article (38) Exemptions on Import

The following shall be exempt from Tax:

1. Import of Goods if the supply of these Goods in the final destination country is exempted from Tax or subject to Tax at zero-rate.
2. Importation of the following Goods that are exempted from customs duty under the Common Customs Law:
 - a) diplomatic exemptions;
 - b) military exemptions;
 - c) Imports of used personal luggage and household appliances which are brought by citizens residing abroad and foreigners who are coming to reside in the country for the first time.
 - d) Imports of requisites for non-profit charity organizations if these are exempted from Tax under Article 30;
 - e) Imports of returned Goods.
3. Personal luggage and gifts accompanied by travelers as specified by each Member State.
4. Requisites for people with special needs as specified by each Member State.

Article (39)

Suspension of Tax

Tax shall be suspended on imports of Goods that are placed under a customs duty suspension situation in accordance with the conditions and provisions provided for in the Common Customs Law. Each Member State has the right to link the suspension of Tax to the provision of security for the value of the Tax.

Chapter Eight - Persons who are Obligated to Pay Tax

Article (40)

General Principle

1. The Taxable Person is obligated to pay Tax due on taxable supplies of Goods and Services to the Competent Tax administration in the Member State in which the place of supply is located.
2. Any Person that states a Tax amount on any invoices issued by him becomes obligated to pay this Tax amount to the Competent Tax Administration in the Member State in which the place of supply is located.

Article (41)

Customer Obligated to Pay Tax According to the Reverse Charge Mechanism

1. If the place of supply for Goods or Services is in a Member State where the Supplier is not a resident, then the Taxable Customer residing in that Member State shall be obligated to pay the Tax Due.
2. Tax Due under subsection 1 of this Article shall be paid pursuant to a tax return or independently as determined by each Member State.

Article (42)

Person Obligated to Pay Tax in respect of Import

The Person appointed or acknowledged as an importer pursuant to the Common Customs Law shall be obligated to pay Tax due on imports.

Article (43)

Joint Liability

1. A Person who willfully participates in violating any of the obligations provided for in this Agreement and the Local Law shall be jointly liable with the Person obliged to pay the Tax and any other amounts due as a result of the violation.
2. Each Member State may determine other instances of joint liability other than those provided for in this Article.

Chapter Nine - Deduction of Tax

Article (44)

Tax Deduction Principle

1. The Taxable Person may deduct from the Tax Due and Payable by him in a Member State the value of Deductible Tax borne in the same State in the course of making Taxable Supplies.
2. The right to make a deduction arises when a Deductible Tax is due pursuant to this Agreement.
3. A Customer who is obligated to pay Tax pursuant to the reverse charge mechanism may deduct Deductible Tax related thereto provided that he has declared the Tax Due under Article 41 (2) of this Agreement.
4. Each Member State shall determine the terms and provisions for Tax deduction.

Article (45)

Restrictions on Input Tax Deductions

Input Tax that has been borne cannot be deducted in either of the following cases:

1. If it is for purposes other than Economic Activities as determined by each Member State;
2. If it is paid on Goods that it is prohibited to deal in in the Member State according to applicable laws.

Article (46)

Proportional Deduction

1. If Input Tax is related to Goods and Services used to make Taxable Supplies and non-Taxable Supplies, then Input Tax cannot be deducted save within the limits of the proportion referable to the Taxable Supplies.
2. Each Member State may determine the methods of calculating the deduction rate and the conditions for treating the value of non-deductible Input Tax as zero.

Article (47)

Adjustment of Deductible Input Tax

1. A Taxable Person must adjust the value of Input Tax deducted by him when receiving Goods or Services supplied that are more or less than the value of the Input Tax deduction available to him, as a result of changes in the determining factors for Deductible Tax, including:
 - a) cancellation or rejection of a Supply;
 - b) reduction of the Supply Consideration after the date of the Supply;
 - c) non-payment of the Supply Consideration, whether in whole or in part according to Article 27(3) of this Agreement;
 - d) changing the use of Capital Assets.
2. The Taxable Person is not required to adjust the Input Tax in any of the following cases:

- a) where the Taxable Person establishes loss, damage or theft of the supplied Goods in accordance with the conditions and provisions applicable in each Member State.
- b) where the Taxable Person uses the supplied Goods as samples or gifts of insignificant value as specified in Article 8 (1)(d) of this Agreement.

Article (48)

Conditions for Exercising the Right of Deduction

1. For purposes of exercising the right of deduction, the Taxable Person must hold the following documents:
 - a) the Tax Invoice received pursuant to the provisions of this Agreement;
 - b) the customs documents proving that he imported the Goods in accordance with the Common Customs Law.
2. Each Member State may allow the Taxable Person to exercise the right of deduction in the event that a Tax Invoice is not available or does not meet the requirements provided for in this Agreement, provided that the value of Tax due can be established by any other means.

Article 49

The Right to Deduct Input Tax Paid Prior to the Date of Registration

1. A Taxable Person may deduct Input Tax paid on Goods and Services supplied to him prior to the date of his registration for Tax purposes after meeting the following requirements:
 - a) Goods and Services are received for the purpose of making Taxable Supplies;
 - b) Capital Assets were not fully depreciated before the date of registration;
 - c) Goods were not supplied prior to the registration date;
 - d) Services were received within a specific period of time prior to the date of registration as determined by each Member State;
 - e) the Goods and Services are not subject to any restriction related to the right to make a deduction stated in this Agreement.
2. For the purposes of applying this Article, Input Tax shall be deductible for Capital Assets in accordance with the net book value of the assets as on the date of registration as specified by each Member State.

Chapter Ten - Obligations

Part One

Registration

Article 50

Mandatory Registration

1. For the purposes of implementing this Agreement, a Taxable Person shall be obliged to register if :
 - a) he is resident in any Member State;
 - b) the value of his annual supplies in that Member State exceeds or is expected to exceed the Mandatory Registration Threshold.

2. The Mandatory Registration Threshold shall be SAR 375,000 (or its equivalent in the GCC State currencies). The Ministerial Committee has the right to amend The Mandatory Registration Threshold after it has been in force for three years.

3. A non-resident of a Member State shall be required to register in that State regardless of his business turnover if he is obliged to pay Tax in that State under this Agreement. Registration can be done directly or through the appointment of a tax representative with the consent of the Competent Tax administration. The tax representative shall take the place of the Non-Resident Person in all its rights and obligations provided for in this Agreement, subject to the provisions of Article 43(2) of this Agreement.

4. A Taxable Person who makes only zero-rated supplies may request to be excluded from the Mandatory Registration requirement for Tax purposes in accordance with the conditions and provisions determined by each Member State.

Article 51

Voluntary Registration

1. A Person who is not required to be registered under Article 50(1) of this Agreement who resides in any Member State may request to be registered therein, provided that the value of his annual supplies in that Member State is not less than voluntary registration threshold.
2. A Member State may allow the registration provided that the annual expenses of a person who is not obliged to register in that State exceed the Voluntary Registration Threshold in accordance with the conditions and rules determined by that State.
3. The Voluntary Registration Threshold is 50% of the Mandatory Registration Threshold.

Article 52

Calculating the Value of Supplies

1. For the purposes of applying the provisions of this Agreement, the value of annual supplies is calculated on the basis of any of the following:
 - a) total value of supplies – excluding exempted supplies – made by the Taxable Person at the end of any month plus the previous eleven months;
 - b) total value of supplies – excluding exempted supplies – expected to be made by the Taxable Person at the end of any month plus the

following eleven months or in accordance with the criteria and specified period determined by each Member State.

2. Total value of supplies consists of the following:
 - a) the value of Taxable supplies except for the value of Capital Assets Supply;
 - b) the value of Goods and Services supplied to the Taxable Person who is obliged to pay Tax pursuant to the provisions of this Agreement;
 - c) the value of Intra-GCC Supplies where the place of supply is in a Member State other than the State where the Taxable Supplier resides and these supplies would have been taxable in the State where the Supplier resides had the place of supply been located in that State.
3. Each Member State may determine the conditions and provisions for the aggregation of the business revenue of Related Persons who conduct similar or related activities and register each of them mandatorily on the basis of the total business revenue.

Article 53

Tax Identification Number (TIN)

When registering for Tax purposes in any of the Member States, each Member State shall allocate a TIN for the Taxable Person provided that The Ministerial Committee shall determine the provisions for issuing the TIN.

Article 54

Deregistration

1. A Taxable Person who is registered for Tax purposes must apply for deregistration in any of the following cases:
 - a) cessation of carrying on of the Economic Activity;
 - b) cessation of making Taxable Supplies;
 - c) if the value of the Taxable Person's supplies falls below the Voluntary Registration Threshold pursuant to the provisions of Article (51) of this Agreement.
2. The Taxable Person may apply for deregistration if the total annual revenue of its business falls below the Mandatory Registration Threshold but exceeds the Voluntary Registration Threshold.
3. For the purposes of applying items (b) and (c) of the first paragraph and the second paragraph of this Article, each Member State may determine a minimum period to keep the Taxable Person registered for Tax purposes as a condition of deregistration.
4. Each Member State may determine the conditions and provisions necessary to reject an application for the deregistration of a Taxable Person or to deregister him in cases other than those provided for in the first and second paragraphs of this Article.
5. The Tax Authority shall notify the Taxable Person of his deregistration and the effective date of the same.

Part Two

Tax Invoice

Article 55

Issuance of the Tax Invoice

1. The Taxable Person must issue a Tax Invoice or similar document in the following cases:
 - a) Supply of Goods or Services including a Deemed Supply as provided for in Article 8 of this agreement;
 - b) Full or partial receipt of Consideration prior to the supply date.
2. Each Member State may except the Taxable Person from issuing the invoices provided for in this Article for exempted supplies, provided these do not pertain to Intra-GCC Transactions between Member States.
3. Subject to the provisions of Article 56 of this Agreement, each Member State may allow the Taxable Person to issue summary tax invoices, each including all the supplies of Goods and service made in favour of a single Customer that were taxable over a period of one month.
4. For the purposes of applying this Agreement, the Member States must accept the invoices in form, whether issued on paper or electronically, in accordance with the conditions and procedures determined by each Member State.

Article 56

Contents of the Tax Invoice

1. Each Member State must determine the contents of the Tax Invoice and the period within which it must be issued, provided that The Ministerial Committee shall determine the minimum details required to be included in the tax invoice. Each Member State may allow for the issuance of simplified invoices in accordance with the conditions and rules determined by it.
2. Tax invoices can be issued in any currency, provided that the value of the Tax is written in the currency of the Member State where the place of supply is located based on the official currency exchange rate in force in that State as on the Tax due date.

Article 57

Amendment of Invoices (Credit Notes)

A Taxable Person who adjusts the Supply Consideration must include this adjustment in a document (credit or debit note "Tax Invoice") correcting the original Tax Invoice. This document shall be treated in the same way as the original Tax Invoice according to the procedures determined by each Member State.

Article 58

Special Provisions

1. A taxable Customer who receives Goods or Services supplied to him from a Taxable Supplier may issue Tax Invoices provided that the Supplier consents and the Tax Invoice is marked as a self-issued

invoice with the approval of the Competent Tax administration. In this event, a self-issued invoice shall be treated as an invoice issued by the Supplier.

2. A Taxable Person may engage the assistance of others to issue Tax Invoices on his behalf with the approval of the Competent Tax Administration and provided that all the obligations provided for in this Agreement and the Local Law are fulfilled.

Part Three

Retention of Tax Invoices, Records and Accounting Documents

Article 59

Retention Period for Tax Invoices, Records and Accounting Documents

Without prejudice to any longer period stipulated under the laws of the Member State, Tax Invoices, books, records and accounting documents shall be retained for a period not less than five years from the end of the year to which the invoices, books, records and accounting documents relate. This period shall be extended to fifteen years for the retention of Tax Invoices, books, records and documents pertaining to real estate.

Part Four

Tax Period and Tax Returns

Article 60

Tax Period

Each Member State must determine its own tax period or periods, and provided that no tax period shall be less than one month.

Article 61

Submission of Tax Returns

Each Member State shall determine the timeframes, conditions and rules for submission of Tax Returns by a Taxable Person for each tax period, provided that The Ministerial Committee shall determine the minimum data required to be included in the tax return.

Article 62

Amending the Tax Return

Each Member State shall determine the conditions and provisions that allow a Taxable Person to amend a Tax Return that has already been submitted.

Part Five

Payment and Refund of Tax

Article 63

Payment of Tax

Each Member State shall determine the timeframes, conditions and provisions for payment of Net Tax Due by the Taxable Person.

Article 64

Payment of Tax on Imports

1. Tax due on imported Goods shall be paid at the First Point of Entry and deposited in a special tax account, and transferred to the final Destination State according to the Customs Duties Automated Direct Transfer Mechanism in force within the framework of the GCC Customs Union; the Ministerial Committee may propose any other mechanisms.
2. Each Member State may, in accordance with the conditions and provisions determined by it, allow a Taxable Person to defer payment of Tax due on Goods imported for the purposes of the Economic Activity and to declare the same in his Tax Return. Tax due that has been deferred and declared shall be deductible according to the provisions of this Agreement.

Article 65

Tax Refunds

Each Member State shall determine the conditions and provisions for allowing a Taxable Person to request a refund of net deductible Tax or request to carry it forward to subsequent tax periods.

Chapter Eleven - Special Treatments of Tax Refunds

Article 66

Tax Refunds for Persons residing in the GCC Territory

Taxable Persons in any Member State may request the refund of Tax paid in another Member State in accordance with the conditions and rules determined by the Financial and Economic Cooperation Committee.

Article 67

Tax Refunds for Non-Residents in the GCC Territory

Each Member State may allow Persons who are not resident in the GCC Territory to request tax refunds for Taxes paid in it if all the following requirements are met:

1. The Non-Resident Person does not supply Goods or Services for which it is required to pay Tax in any Member State;
2. The Non-Resident Person is registered for Tax purposes in his country of residence, if such country applies a VAT system or a similar tax system;
3. The Tax is borne by a Person who is not resident in any Member State for the purposes of his Economic Activity.

Article 68

Tax Refunds for Tourists

1. Each Member State may apply a Tax Refund system for tourists pursuant to the conditions and provisions determined in its Local Law.

2. For the purpose of applying this Article, a tourist shall be defined as any natural person who meets all of the following requirements:
 - a) He is not a resident of the GCC Territory;
 - b) He is not a crew member on the flight or aircraft leaving a Member State.

Article 69

Tax Refunds for Foreign Governments, International Organizations and Diplomatic Bodies and Missions

1. Each Member State shall determine the conditions and provisions for granting foreign governments, international organizations and diplomatic, consular and military bodies and missions the right to reclaim Tax borne for Goods and Services in the Member State in application of international treaties or the condition of reciprocity.
2. Each Member State may apply the zero-rate to supplies of Goods and Services in favor of foreign governments, international organizations, and diplomatic, consular and military bodies and missions within the conditions and rules determined by each State.

Chapter Twelve - Exchange of Information among Member States

Article 70

Exchange of Information

1. The Tax Administration in the Member States shall exchange information relevant to the implementation of the provisions of this Agreement, or information related to the administration or enforcement of Local Laws related to VAT.
2. Without prejudice to the provisions of international agreements to which the Member State is a party, the information obtained by the Tax Administration shall be treated as confidential information in the same manner as the information obtained under the local laws of that administration, and shall be disclosed only to persons or entities (including the courts and administrative authorities) concerned with Tax assessment, collection, enforcement, or bringing judicial claims or determining appeals relating thereto or supervising the above. Such persons or authorities may not use the information obtained save for those purposes, and may disclose such information in judicial rulings in public courts or in judicial decisions. Regardless of the foregoing, the information obtained by the Tax Administration may be used for other purposes when the laws of both States permit its use for such other purposes, and the Tax Administration in the state that provides the information permits such use.
3. The provisions of paragraphs (1) and (2) of this article may not, under any circumstances, be interpreted in a manner that results in any Member State being obliged to.

- a) Implement administrative measures contrary to the regulations and administrative practices in that State or in another Member State
 - b) Provide information, which is not obtainable under normal administrative regulations or directives in that State or in another Member State
 - c) Provide information that would lead to the disclosure of any secret relating to trade, business or industry, or commercial or professional secrets, or trade processes or information the disclosure of which would violate public policy (public order).
4. If a Member State requests information under this Article, the other Member State shall employ its own procedures for collecting the required information, notwithstanding that the other State may not need this information for its own taxation purposes. The obligation set forth in the preceding sentence shall be subject to the restrictions contained in paragraph (3), but in no case may these restrictions be interpreted as permitting a Member State to decline to provide information on the sole ground that it has no local interest in it.
5. Under no circumstances shall the provisions of paragraph (3) be interpreted as allowing a Contracting State to decline to provide information on the sole ground that the information in question is held by a bank or any other financial institution or an authorized person,

or a person acting as a proxy or in a trustee capacity or on the grounds that the information is linked to interests pertaining to ownership by any person.

Article 71

Electronic Service Systems

1. Each Member State shall create an electronic Services system for the purposes of complying with requirements related to Tax. The GCC Secretariat General shall take the necessary measures to establish a tax information center, and to operate a central website or electronic system to follow up the information related to Internal Supplies and the exchange of this information between the concerned Tax authorities in the Member States; provided that the website or electronic system of the tax information center must include at least the following information:
 - a) the TIN for both the Supplier and the Customer;
 - b) the number and date of the Tax Invoice;
 - c) a description of the transaction;
 - d) the consideration for the transaction.
2. If the information recorded by each of the Supplier and the Customer corresponds, each of them shall be given a confirmation number that must be retained for Tax audits performed by the concerned Tax authority and for the purpose of ascertaining that this information corresponds with that provided in Tax returns and other relevant information provided pursuant to the provisions of this Agreement.

3. The system must be reliable and secure and must not allow the Supplier or the Customer access to any information other than that to which they are permitted to have access.
4. The concerned Tax authority in each Member State shall have a right of access to the information related to Internal Supplies between Taxable Persons registered for Tax purposes.
5. The System shall allow the follow-up of proof of transfer of Goods to the country of Final Destination.

Article 72

Cooperation between Member States

1. The Member States may, upon a proposal from the Secretary General of the Gulf Cooperation Council to the Ministerial Committee, take the necessary measures related to administrative cooperation among them, especially in the following areas:
 - a) exchange of information needed to determine Tax accuracy based on the request of each Member State; b)
 - c) b- agreeing to synchronized auditing procedures and participating in audits performed by any Member State pursuant to the approval of the concerned States.
 - d) c- assisting in the collecting of Tax and taking the necessary procedures related to collection.
2. Subject to the provisions of international agreements to which the Member State is party, each Member State shall obligate its

employees not to disclose or use information they receive in the course of their work from another Member State for any other purposes not related to their functions. Each Member State may determine the penalties that apply in the event of violation.

Chapter Thirteen - Transitional Provisions

Article 73

Each Member State must provide in its Local Law transitional provisions dealing with the following aspects at least:

1. Tax shall be due on supplies of Goods and Services and on imports of Goods as from the date the Local Law comes into effect in the Member State.
2. Each Member State shall determine timelines for registering Taxable Persons obliged to be registered on the date the Local Law comes into effect.
3. Notwithstanding any other provision in this Agreement, should an invoice be issued or Consideration paid before the date of application of the Local Law or prior to the registration date and the Supply occurred after such date, then each Member State may ignore the date of the invoice or payment and consider the Tax due date to be the date of the Supply.
4. The provisions of subsection 3 of this Article shall apply to Intra-GCC Supplies between a Taxable Supplier residing in a Member State and a Customer in another Member State.

5. With regard to continuing supplies that are partially performed before the date on which the Local Law comes into force or before the registration date and partially after such date, then Tax shall not be due on the part performed before the date of coming into force or of the registration.

Chapter Fourteen - Objections and Appeals

Article 74

Objections and Appeals

Each Member State shall determine the conditions and provisions for allowing objections to decisions of the Competent Tax Administration. This includes the right of recourse to the competent local courts in each Member State.

Chapter Fifteen - Closing Provisions

Article 75

Interpretation

The Ministerial Committee shall have jurisdiction to consider matters related to the application and interpretation of this Agreement and its decisions shall be binding on the Member States.

Article 76

Dispute Resolution

Member States shall strive to amicably resolve any disputes that may arise amongst them pertaining to this Agreement, and they may by agreement, if a settlement as aforesaid is not possible, refer the dispute to arbitration in accordance with rules of arbitration to be agreed.

Article 77

Amendments

This Agreement may be amended upon the approval of all Member States and upon the proposal of any of them, and the coming into force of such amendments shall be subject to the same procedures provided for in Article (79) of this Agreement.

Article 78

Coming Into Force

This Agreement shall be adopted by the GCC Supreme Council and shall be ratified by Member States in accordance with their constitutional procedures..

1. This Agreement shall be treated as coming into force from the deposit of the ratification document by the second Member State at the General Secretariat of the GCC.
2. Each Member State shall take the necessary internal procedures to issue a Local Law to implement the provisions of this Agreement, including setting the policies and procedures necessary for the

implementation of the Tax in a manner consistent with the provisions of this Agreement.

3. Each Member State that has not implemented its Local Law shall remain outside the scope of implementation of this Agreement until such Local Law becomes effective.

This Agreement is executed in Arabic on on 27/2/1438 Hijri, corresponding to 27/11/2016, in one original copy deposited at the General Secretariat of the GCC, and one copy of the original shall be delivered to each of the Member States that are party to this Agreement.

The United Arab Emirates

The Kingdom of Bahrain

The Kingdom of Saudi Arabia

The Sultanate of Oman

The State of Qatar

The State of Kuwait

11. GST - International Scenario

Internationally, VAT/ GST was first introduced in France and now more than 160 countries have introduced VAT/ GST. Most of the countries, depending on their own socio-economic formation, have introduced National level VAT/ GST or Dual VAT/ GST. We have discussed below key features of VAT prevalent in some of the countries.

United Kingdom¹⁰

| Particulars | Details |
|---------------------------|---|
| Name | Value Added Tax |
| Date of introduction | 01.04.1973 |
| Scope | <ul style="list-style-type: none"> ▪ Supply of goods or services made in UK ▪ Intra-community procurements from EU members ▪ Importation of goods and services |
| Standard Rate | 20 % |
| Reduced rate | 5 % and exempt and zero rated |
| Threshold exemption limit | £ 73,000 |

¹⁰ Source www.hmrc.gov.uk

Liability arises on **Accrual Basis:** On raising of invoice or receipt of consideration or supply (of goods or services), whichever is earlier.

Cash basis (if turnover is below £1.35 million): On receipt of consideration

Payment Usually quarterly returns. However, small business can opt for annual returns filing.

Export Exports are 'Zero' rated.

Exempt services

1. Medical and education
2. Finance, insurance, postal services

Innovative concept To ease the VAT administration, the assessee is informed at the time of registration itself as to which of the three quarterly cycle it should follow for filling the VAT returns.

Canada¹¹

| Particulars | Details |
|----------------------|--|
| Name | Federal Goods and Service Tax & Harmonized Sales Tax |
| Date of introduction | GST 01.01.1991 & HST 01.04.1997 |
| Scope | Taxable supplies of goods and services |
| Standard Rate | GST 5% and HST varies from 0% to 15% |
| Reduced rates | Exempt and Zero rated |

¹¹ Source cra-arc.gc.ca

| | |
|---------------------------|--|
| Threshold exemption limit | Canadian \$ 30,000 |
| Liability arises on | On accrual (date of invoice, date of issue of invoice) or receipt of consideration, whichever is earlier. |
| VAT returns and payments | Depending on the turnover, tax needs to be deposited either monthly, quarterly or annually. |
| Reverse charge mechanism | Reverse charge applies to importation of services and intangible properties. |
| Export | Exports are 'Zero' rated. |
| Exempt services | <ol style="list-style-type: none"> 1. Supply of real estate 2. Financial Services and residential renting 3. Supplies by charities 4. Health, education services |
| Innovative concept | A group concern can supply to another group concern at zero rate |

Australia¹²

| Particulars | Details |
|----------------------|-----------------------|
| Name | Goods and Service Tax |
| Date of introduction | 01.07.2000 |

¹² Source www.ato.gov.au

| | |
|---------------------------|---|
| Scope | <ul style="list-style-type: none"> ▪ Taxable supplies of goods and services made which are connected with Australia and made for a consideration by a registered (or required to be registered) person in the course of business enterprises ▪ Importation of goods |
| Standard Rate | 10 % |
| Reduced rate | 0 % |
| Threshold exemption limit | \$ 75,000 |
| Liability arises on | <p>Accrual basis: On raising of invoice or receipt of consideration, whichever is earlier.</p> <p>Cash basis [an option available to assessee having turnover below \$ 2 million]: On receipt of consideration.</p> |
| Payment | Depending on the turnover, the tax needs to be deposited either monthly, quarterly or annually. |
| Due date for payment | Tax needs to be deposited on 21 st day following the end of the month/quarter/year. |
| Reverse charge mechanism | Reverse charge applies to supplies made by non-residents |
| Export | Exports are 'Zero' rated. |
| Exempt services | 1. Government supplies such as water services, drainage services etc. |

2. Health, education, religious supplies Financial Services and residential renting

3. Vegetable, fruit, meat

Innovative concept 'Group registration' wherein a single consolidated return for the group can be filed.

Republic of China¹³

| Particulars | Details |
|------------------------------------|---|
| Name | Value Added Tax |
| Date of introduction ¹⁴ | of 01.01.1994 |
| Scope | <ul style="list-style-type: none"> ▪ Taxable supplies of goods and services for consideration in China by a taxable person in the course or furtherance of a business ▪ Importation of goods <p>The scope of VAT in China is particularly on 'goods'. At present, only two services (viz. Repair services & Service of supply of goods as per customers requirement) attract VAT.</p> |
| Standard Rate | 17 % or 16% (reduced rate for certain supplies) |
| Reduced rates | 11% or 10%, 6%, 4%, 3 % and 0% |

¹³ Source Chinatax.gov.cn

¹⁴ Recently, China introduced Shanghai VAT Pilot Project

Liability arises on On raising of invoice or receipt of consideration, whichever is earlier. However, in case of payments in installments, the relevant date when the installment is due.

Payment Depending on the turnover if it is monthly or quarterly then payment within 15 days from end of the month or quarter

Due date for VAT Within 15 days from end of the month/ quarterly return

Export Exports are 'zero' rated.

Exempt services

1. Agricultural products and fertilizers
2. Contraceptives, Second hand goods (by individuals)

Innovative concept Small businesses can pay VAT @ 3% (however input tax credit would not be available).

New Zealand¹⁵

| Particulars | Details |
|----------------------|--|
| Name | Goods and Service Tax |
| Date of introduction | 01.10.1986 |
| Scope | <ul style="list-style-type: none"> ▪ Supply of goods or services made in New Zealand by a registered person ▪ Importation of goods |
| Standard Rate | 15 % |

¹⁵ Source ird.govt.nz

| | |
|----------------------------------|---|
| Reduced rate | Zero rated and exempt |
| Threshold exemption limit | NZ\$ 60,000 |
| Liability arises on | On raising of invoice or receipt of consideration, whichever is earlier. |
| Returns | Depending on the turnover it is either monthly, bi-monthly or six-monthly |
| Due date for returns and payment | On 28 th day following the end of the month or bi-month or six-month. However, different date for the certain periods. |
| Reverse charge mechanism | Reverse charge applies to supply of services made by non-residents. |
| Export | Exports are 'zero' rated. |
| Exempt services | <ol style="list-style-type: none"> 1. Real estate 2. Financial services 3. Residential rental |
| Innovative concept | The headline price in advertisement and stores must be always GST-inclusive except when supplies are to whole-sale clients. |

Singapore¹⁶

| Particulars | Details |
|----------------------------------|--|
| Name | Goods and Service Tax |
| Date of introduction | 01.04.1994 |
| Scope | <ul style="list-style-type: none"> ▪ Supplies of goods and services in Singapore by a taxable person in the course or furtherance of a business ▪ Importation of goods |
| Standard Rate | 7 % |
| Reduced rate | Zero rated and exempt |
| Threshold exemption limit | Singapore \$ 1 million |
| Liability arises on | On raising of invoice or receipt of consideration or supply (of goods or services), whichever is earlier. |
| Returns | Usually quarterly returns. However, business can opt for monthly returns. |
| Due date for returns and payment | Last day of the month following the end of the month or and quarter. |
| Reverse charge mechanism | Reverse charge applies to supply of services |
| Export | Exports are 'zero' rated. |

¹⁶ Source iras.gov.sg

| | |
|-----------------|---|
| Exempt services | Real estate, Financial services, Residential rental |
|-----------------|---|

| | |
|--------------------|---|
| Innovative concept | Divisional registration wherein if an assessee has several divisions he may register the said divisions separately. Each such division should submit its own return. The supplies between the divisions are ignored for GST purposes. |
|--------------------|---|

European Union

| Particulars | Details |
|---------------|--|
| Name | Value Added Tax |
| Territory | Of the 27 states the prominent states are: United Kingdom ¹⁷ , France, Germany, Sweden, Spain, Italy, Ireland, Poland, Austria, Belgium, Denmark, Netherland, Portugal, Hungary. EU is a 'single market' meaning the goods and services can move freely in cross border trade between member states. |
| Scope | Supplies to Taxable persons: VAT is payable by the taxable person on acquisition (i.e. purchaser) at the rate applicable in his (acquirer's) country Supplies to non-taxable persons: VAT is payable by supplier (i.e. seller) |
| Standard Rate | Minimum 20% |
| Reduced rates | 5 % and 0 % |

¹⁷ Brexit is underway!

For threshold Refer specific country

exemption limit,

payment, etc

www.thetaxtalk.com