

Prepare for the taxman

A well-planned and executed VAT implementation will result in benefits for business, says Jeanine Daou, PwC Middle East Indirect Tax Leader



The introduction of value-added tax (VAT) in the GCC is expected to take effect from 1 January 2018, with other GCC countries to follow by January 2019.

Until then, these countries will be treated as being outside the GCC with regards to the VAT system. The expected VAT standard rate applicable across the GCC is 5 per cent.

There is a short time frame in which to consider the implications of the introduction of VAT on businesses and to make the necessary changes. Therefore, firms operating across the GCC should initiate their VAT implementation readiness projects immediately, if they are not already under way.

Saudi Arabia released the GCC VAT framework in the local Umm al-Qura newspaper on 21 April. The unified agreement provides for the general VAT principles to be applicable across the GCC. Each member state is expected to issue their national VAT legislation to address certain policy and administrative areas.

Saudi VAT

The draft VAT, the latest milestone in the preparation towards the implementation of VAT, was published by the General Authority of Zakat & Tax in Saudi Arabia on 29 May, in order to conduct a public

consultation and seek feedback on the draft VAT law. Most of the details of the application of VAT, including specific VAT requirements, are left to the implementing regulations, which are expected to be issued shortly.

In the UAE, the Federal Tax Authority launched the first phase of its VAT awareness sessions during April and May. The sessions addressed the general rules and application of the intended VAT system.

The proposed introduction of VAT will present a number of challenges for companies operating in the region as the tax will affect all areas of the business, such as finance, procurement, human resources, information technology (IT) and legal.

Experience from implementation in various jurisdictions has shown that firms need significant lead time to prepare their people, policies, processes and systems for the introduction of VAT. Such a transformation will require the involvement and support of senior management to ensure the entire company is engaged in the implementation project.

A well-planned and executed VAT implementation will result in benefits for the business with respect to ongoing compliance and management of risks, as well as cash flow management.

This VAT implementation plan should cover various aspects across the business such as:

- Determination of the VAT treatment of business transactions;
- Estimation of the financial impact of VAT, including irrecoverable costs and working capital management;
- Impact of VAT on business functions and processes;

■ Update and implementation of systems, such as enterprise resource planning (ERP) to cater for VAT;

■ Engagement of and communication to key stakeholders;

■ Assessment of resourcing and training needs.

Most businesses across the GCC, especially in the UAE and Saudi Arabia, have started preparing for the introduction of VAT in January 2018.

For those who have not initiated the preparation of their operations for VAT, they still have time to get themselves ready before the go-live date. But the sooner they commence, the more optimal the outcome they will be able to achieve.

Lack of preparation would expose the business to tax audits and penalties in the case of non-compliance with the new VAT legislation as they would not be able to submit an accurate VAT return.

New opportunities

It is both a challenging and exciting time for the region – VAT implementation presents a number of opportunities and will strengthen the economy. It is vital that businesses make the necessary changes to their ERP and IT systems, resources and processes prior to 1 January 2018, but it is also an opportunity to review and optimise their business structure and value chain.

The introduction of VAT in the GCC is now impending. It is not a matter of if but when it will be introduced and how much firms are prepared for its implementation. It is, therefore, critical to understand its impact on businesses and industry, and to know and initiate the steps for a successful implementation.

This article first appeared in MEED on July 2017.

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