

The Kingdom of Saudi Arabia to implement VAT on 1 January 2018

May 2016

The Minister of Finance, Ibrahim Al-Assaf, has stated that the Kingdom of Saudi Arabia is to introduce VAT on 1 January 2018.

The Minister stated, on 4 May 2016, that the decision to introduce VAT had been agreed at the 102nd meeting of GCC finance ministers in Riyadh. The decision was based on an agreement taken by the Supreme GCC Council earlier this year to introduce VAT in the six GCC countries. The Kingdom of Saudi Arabia has agreed that VAT would be introduced by 2018.

In January, Deputy Crown Prince Mohammed Bin Salman, second Deputy Premier and Defense Minister, had indicated that VAT would be introduced but no income, or wealth taxes.

VAT is expected to be introduced at a rate of 5% with some limited exceptions including basic food items, healthcare and education.

Background

The GCC Member States are in the process of approving the long anticipated common framework for the introduction of a Value Added Tax (VAT) system in the GCC. The common VAT framework will form the basis for the introduction of a national VAT system by each Member State.

While there are a number of challenges that still need to be addressed before it is introduced, VAT will help governments to deliver on long-standing plans for economic diversification away from oil, while still being able to deliver social and economic programmes. The exact details of the VAT regime which will need to be set out in the common framework and national legislation are yet to be made available.

Takeaway

From our experience in other markets, the establishment of clear regulations and efficient administrative processes is vital for VAT introduction to be a success. Businesses in the KSA (and GCC) should start planning now how the changes could impact their business, to ensure a smooth transition.

Businesses will have to adapt to the changes by identifying the impact of VAT on their business, and key immediate considerations are to:

- Assess capability of existing systems
- Identify VAT implementation strategy
- Identify contracts that need a VAT action
- Identify intercompany transactions
- Undertake training / awareness

A potential VAT implementation will also have immediate effects on consumer behaviour which gives opportunities for companies to assess their business direction and to plan strategically.

If you would like to discuss further please do not hesitate to contact your PwC VAT advisor

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