
Excise Tax - Frequently Asked Questions (FAQs)

What is Excise Tax

Excise Tax is an indirect tax that is imposed on a limited range of goods, rarely on services. The Gulf Cooperation Council (“GCC”) States are expected to adopt an Excise Tax common framework with different tax rates applying to different groups of products, which will form the legal basis of an Excise Tax system in each of the GCC States.

Why is Excise Tax being considered by the GCC?

Governments have been considering the need to diversify revenue streams away from hydrocarbon. Excise Tax is typically seen as an effective tool in raising revenue while achieving broader government objectives.

When will Excise Tax be introduced by the GCC?

The exact date is not yet known; however, the GCC States are considering the introduction of Excise Tax during 2017. Until further official announcements are made and national legislation issued, the exact date for each GCC State is yet to be confirmed.

Which goods are subject to Excise Tax?

The list of goods subject to Excise Tax in the GCC has not been officially announced. Generally, the following goods are expected to be excisable:

- Tobacco products
- Carbonated soft drinks and energy drinks
- Special purpose goods

What is the anticipated rate of Excise tax?

It is expected that the Excise Tax rates will range between 50% and 100%.

What are the main features of Excise Tax?

- Excise Tax is a tax on consumption.
- Excise Tax is levied on specific goods only.
- It is a single-phased tax, levied once at import or at production stage within the country.
- It is collected by businesses on behalf of the Tax Authority.
- Excise tax is reported on a self-assessment basis, i.e. businesses submit Excise Tax returns periodically to the Tax Authority.

As a consumption tax, Excise Tax is ultimately borne by the final consumers, but collected earlier in the supply chain. Importers, manufacturers and in certain cases other agents in the supply chain are liable to

register for Excise Tax, submit periodical returns, pay the Excise Tax due to the local authorities and maintain specific Excise Tax records.

How will the system work?

Excise Tax systems' features traditionally cover the following:

- Excise Tax is normally suspended when excisable goods are located in a tax warehouse or transported between tax warehouses. In such cases the Excise Tax shall be levied upon release of the excisable goods for consumption from the tax warehouse.
- Excise Tax may be refunded in certain cases, e.g. exports of excisable goods.
- Certain transactions are typically exempt from Excise Tax, e.g. supplies to diplomatic missions, travelers' allowance.
- Tax Authorities will need to create an efficient inventory and movement control system to monitor the physical movement of excisable goods and tackle potential illicit trade. Best practices usually seek to implement electronic based systems supported by tax stamping policies to ensure compliance from the taxpayers.
- The Excise Tax treaty will determine the treatment of intra-GCC movement of excisable goods, which should be taxed in the place of consumption. There would be a need for common GCC mechanisms to collect and monitor the Excise Tax due in the appropriate GCC State.

Will Excise Tax affect prices / margins?

Excise Tax is levied at the production stage or at import and is not deductible; businesses will therefore need to make commercial decisions as to how they will adjust their pricing structures to account for it.

How will Excise Tax impact my business and what are the expected Excise Tax compliance requirements?

If you are engaged in importing, exporting, manufacturing, trading, storing or transporting excisable goods such as the ones listed above, then the new GCC Excise Tax system will have a significant impact on your business. The main compliance requirements are expected to include:

- Registering with the Tax Authority, there is no threshold expected.
- Ensuring the appropriate resources and systems are in place to effectively managing Excise Tax to reduce the risk of non-compliance.
- Keeping Excise Tax records for a specific duration, on paper or electronically; records must be accurate, complete and readable.
- Submitting periodical Excise Tax returns.
- Complying with the inventory and movement control system, which may entail keeping and/or submitting additional documents related to the physical movement of excisable goods, particularly in the case of movements under Excise Tax suspension.
- Keeping customs and transport documents as relevant to the movement of excisable goods, especially with respect to transactions subject to refunds and/or exemptions, or performed under Excise Tax suspension.

Do I need to start preparing for Excise Tax? What should I be doing now?

There is a relatively short time to consider the implications of the introduction of Excise Tax and to make the necessary changes. The amount of work required will depend on the size and complexity of your business and it is essential that you consider the impact now and determine how best to deal with it.

What if I get it wrong?

We can expect that there will be a penalty regime applicable in cases of errors made, and this is why it will be key to have the right systems and procedures in place to limit your exposure.

Errors that affect the amount of Excise Tax that you pay may be subject to penalty. Examples of errors include: late submission and payment of Excise Tax due, not charging Excise Tax correctly, and failure to obtain / retain valid documentation to support your activities.

How can PwC help?

PwC's Middle East Customs & Excise team has dedicated resources and Arabic speakers, with extensive experience in working with tax authorities and advising clients in other jurisdictions where Excise Tax is applied.

We have the expertise and experience in order to assist you in understanding how Excise Tax will impact your business and to assist with the implementation and compliance process.