

UAE VAT – Final update on transitional measures for Intra-GCC supplies

December 2017

In brief

Further to our recent communication, we informed you that the UAE would treat movements of goods between UAE and Kingdom of Saudi Arabia (“KSA”) as “Non-GCC” Exports (i.e. when goods are shipped from the UAE to KSA) and “non-GCC” Imports (i.e. when goods are shipped to the UAE from KSA) for a transitional period. We refer you to our previous Tax Alert for further details on the impacts of such a measure.

We were also mentioning the uncertainty as to whether this position would extend to supplies of services between the UAE and KSA.

The Federal Tax Authority (“FTA”) has now confirmed that this transitional position adopted for movement of goods will also apply to cross-border services between UAE and KSA.

We have summarised below the impacts of such position on UAE-KSA cross-border services.

Services not impacted

Services following special place of supply rules covered under articles 30.3 to 30.8 and 31 of the UAE VAT Law (e.g. telecom services, services related to goods, services related to real estate, etc.) should not be impacted by this transitional measure.

“General services” from a supplier in the UAE to a customer in KSA

UAE resident suppliers providing “general” services to KSA resident customers will have to treat their services as falling within the scope of UAE VAT – irrespective of the VAT status of their customers in KSA.

Given that KSA is considered as a “Non-GCC State” for the purposes of this transitional measure, these services will qualify as services “exported” to non-GCC recipients – taxed at 0% UAE VAT rate (subject to the specific conditions listed under article 31 of the UAE VAT Implementing Regulations being met).

For UAE service providers mainly dealing with customers registered for VAT in KSA, the main impact will be on compliance and reporting:

- These services will have to be reported as “zero-rated supplies” as opposed to “Intra-GCC supplies” in their UAE VAT returns; and
- There will be no obligation to issue an invoice document compliant with the requirements of article 66 of the UAE VAT Law and article 59 of the UAE VAT obligation (provided enough details to evidence the specifics of the supplies are available).

For UAE service providers mainly dealing with customers NOT registered for VAT in KSA, the main impact will be on the VAT treatment applicable to their services:

- Taxable services will be subject to 0% UAE VAT rate instead of 5% UAE VAT (e.g. legal services);
- Some exempt services will benefit from a 0% UAE VAT rate, allowing input VAT recovery (e.g. financing services);
- No requirement to issue (Simplified) Tax Invoice for their supplies (provided enough details to evidence the specifics of the supplies are available).

For these service providers the transitional measure will have a rather positive impact.

“General services” from a supplier in KSA to a customer in UAE

For customers registered for VAT in the UAE, this transitional measure should have no impact. These VAT registered persons will still be considered as acquiring “Concerned Services” from KSA and will still be required to account for UAE VAT (where applicable) under the reverse-charge mechanism.

For customers not registered for VAT in the UAE, whether the “general” services they acquire from a supplier residing in KSA will be subject to 5% KSA VAT or 0% KSA VAT, will depend on whether KSA decides to apply a reciprocal transitional measure for services.

The takeaway

UAE businesses should now consider the impact of the transitional measure announced by FTA on their pricing, their system update and invoicing requirements for their transactions involving services supplied to / received from KSA.

Let’s talk

For a deeper discussion of how this issue might affect your business, please contact:

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