KSA: The Unified Agreement for Value Added Tax (VAT) for the GCC Region has been published in the official gazette

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In brief

The Unified Agreement for Value Added Tax (VAT) of the Cooperation Council for the Arab States of the Gulf was published by UM AL-QURA in its issue number 4667 dated 21 April 2017. This agreement is to set forth the unified legal framework to introduce VAT in the GCC states which will be imposed on the supply of goods & services and which has been ratified by the Kingdom of Saudi Arabia cabinet (decision number 257 dated 30 January 2017) and issued by royal decree (number m/51 dated 31 January 2017)

In detail

The Unified Agreement for VAT for the GCC Region includes the following key features:

- VAT will apply to goods and services at the **standard rate of five percent** (5%)
- **Input tax credit rights** will be granted to taxpayers who provide taxable supplies of goods and services
- **VAT refund** modalities and conditions would be determined by each member state and taxpayer could be allowed to refund the VAT amount or carry it forward for the next period
- **VAT registration** is mandatory for a resident person in any of the member states with an annual turnover of SAR 375,000. Nevertheless, businesses that generate 50% of this threshold annually can voluntarily register for VAT
- **Most compliance requirements and procedures** relating to VAT compliance are left to each member state discretion under its local legislation. For example, i) the modalities and conditions for each GCC member state to treat a group as one taxpayer for the purpose of VAT (VAT grouping) is left to the discretion of that member state, ii) the tax period should be determined by each GCC member state and should not be less than one month, iii) each member state would determine the content of the VAT invoice and the deadline for its issuance
- **The VAT treatment of some sectors** is left to the discretion of each member state (i.e. whether the following sectors are subject to tax at zero rate or exempt), namely, Education, healthcare, real estate and local transport
- **The VAT treatment of financial services** carried out by bank and other financial institutions VAT treatment is left to the discretion of each member state. The general rule however is to exempt these services from VAT with a right to reclaim the input tax credit according to specific rates determined by each member state
- **Food products** shall be subject to the basic rate of VAT, however each member state will have the right to levy zero rate on foods that are provided under the unified list of commodities (e.g. basic foods: bread, milk etc…)
- **Medical equipment and medicines** will attract the zero rate band for VAT
- **Oil and gas** including oil derivatives sector will be zero rated under conditions and modalities determined by each member state
- **The transport** of goods and passengers (intra-GCC and internationally) as well as associated ancillary services will be subject to VAT at a zero rate
- **Export** of goods to outside the territory (outside the GCC) is zero rated
- **The supply of goods placed under suspension arrangements** referred to in the GCC Common Customs Law (e.g. temporary import, re-export etc…) shall be subject to zero rate
- **The reverse charge** mechanism will apply to the supply of goods or services that takes place in any member state and is provided by a non-resident supplier. The taxable customer in the destination state shall be the person who is liable for the settlement of the tax due
- **Place of Supply**
  Tax due on import of goods shall be paid at the first check point of destination. This will be deposited in a bank account assigned for tax

The takeaway

Considering the date VAT will come into effect January 1, 2018, businesses operating across the GCC need to activate their VAT implementation plans if not already substantially underway. There is a relatively short time frame in which to consider the implications of the introduction of VAT and to make the necessary changes.

Businesses shall take into consideration the VAT impact on the their transactions now and starting to plan how to have the right VAT technical, systems, financial, tax governance and compliance, training and other areas in order to comply with the VAT requirements.

Therefore, 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 the exposure.

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