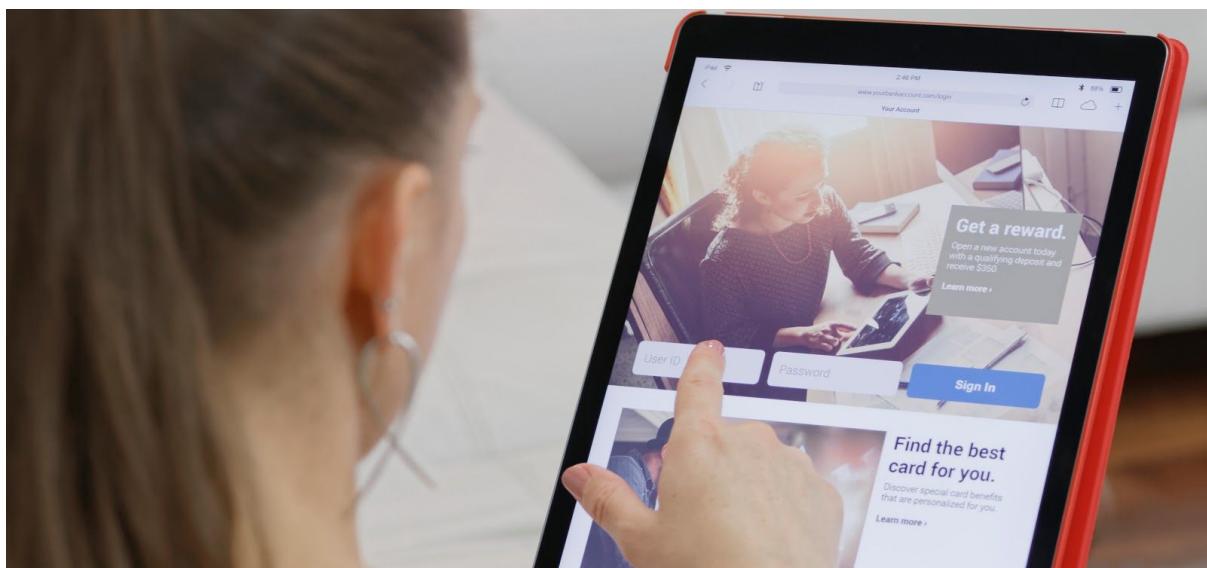


# GCC VAT Newsletter - March 2018 Edition

March 2018

**We are pleased to share with you our first edition of the PwC GCC VAT Newsletter. We intend to make this a regular publication aimed at keeping our readers informed on the latest VAT developments in the GCC Region. We hope you find this useful and also welcome your comments and feedback.**



## United Arab Emirates (UAE)

### Practical update - Guides published in March 2018 by the Federal Tax Authority ("FTA")

The FTA has published a certain number of guides throughout the month of March. These guides intend to help the Taxpayers in getting a better understanding of the UAE VAT system. Such documents are easily accessible online through the FTA portal. It is to be noted that the contents of these guides are not legally binding but give an overview of the FTA's interpretation and practical application of the UAE VAT legislation. Guides can be subject to change by the FTA anytime (as applicable).

Other than the guides, FTA has launched its E-Learning modules which are designed to assist businesses in learning and understanding the UAE VAT system.

### **UAE: GIBAN Payment User Guide (March 2018)**

The FTA has released a summary guide on the use of using GIBAN for the payment of any tax that may be due to the FTA. GIBAN is a unique IBAN number that is given to Taxpayers. Taxpayers can

make payment through fund transfers using approved UAE financial institutions which recognise GIBAN. GIBAN transfer is a payment alternative to e-Dirham.

Fund transfer through GIBAN can be used for the settlement of any outstanding VAT and Excise Tax payable, including penalties imposed by the FTA. Such facility will not only expedite the payment process, but also reduce the administrative burden for businesses.

<https://www.tax.gov.ae/pdf/giban-payment.pdf>

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#### ***UAE Taxable Person Guide for Value Added Tax (March 2018)***

The FTA has released a Taxable Person Guide for Value Added Tax in UAE.

This guide provides an overview of the VAT rules and procedures to follow so as to be compliant with all the UAE VAT requirements.

The guide explains various key aspects of VAT including VAT registration, types of supplies, place and date of supply, reverse charge mechanism, import of goods, recoverability of input VAT, VAT compliance requirements (i.e. VAT returns, payments, documentations and records keeping) and VAT audit.

<https://www.tax.gov.ae/pdf/Taxable-Person-Guide-Issue-1-March-2018.pdf>

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#### ***UAE Real Estate VAT Guide (VATGRE1) (March 2018)***

The FTA has released a VAT guide for the real estate sector in the UAE. This guide includes the common transactions which may happen within the industry and provides further guidance with various practical examples. Such guidance is useful for Taxpayers who operate in the real estate industry including developers, landlords, owners associations and providers of construction services.

Further guidance on various VAT implications have been explained including notably the definition of “bare land”, the qualification of labour camps for VAT purposes, the VAT treatment of retention payments and the application of the VAT transitional rules to transactions spanning over 2018.

The recoverability of input tax incurred on costs used for mixed developments (e.g. a building with both commercial and residential units) has also been elaborated further in this guide. In addition, the eligibility of VAT registration for Owners Associations (“OAs”) and its VAT implications have been explained further.

<https://tax.gov.ae/pdf/real-estate-guide-vargre1.pdf>

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#### ***FTA update on Transitional Rules (March 2018)***

The FTA has released a guidance by way of decision tree on the UAE VAT transitional provisions for supplies of goods and services which spanned over the transitional period. (i.e. before and after 1<sup>st</sup> January 2018). This Quick reference document also covers the principles applicable where contracts state that prices are ‘VAT inclusive’ or ‘VAT exclusive’ and the impact on the agreed price.

<https://www.tax.gov.ae/pdf/transitional-info-eng.pdf>

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### **Legal Update – New Decisions issued**

#### ***FTA Decision on Tax Invoices issued by financial institutions (March 2018)***

On 20<sup>th</sup> March 2018 the FTA issued the Decision No.(2) of 2018 on Tax Invoices. This decision specifically covers the issuance of tax invoices by financial institutions holding a banking license issued by a competent UAE authority.

This decision includes the following concessions in respect of the issuance of tax invoices:

- Supplies made to recipients who are not registered for VAT in the UAE : no tax invoices and no tax credit notes are required to be issued unless they are requested by the recipient. This is subject to the financial institution retaining sufficient records of the transactions – this measure is effective until 31st December 2018 (unless amended by a subsequent decision)
- Supplies made to recipients who are registered for VAT in the UAE: no requirement to include the recipient's tax registration number on the tax invoices or tax credit note issued. This is subject to the financial institution retaining sufficient records of the transactions – this measure is effective until 30<sup>th</sup> June 2018.

As mentioned above these concessions are solely applicable to financial institutions holding a banking license issued by a competent UAE authority.

This decision is effective from 1<sup>st</sup> January 2018.

#### ***Cabinet Decision No. (55) of 2017 on Charities that may recover input tax (March 2018)***

The Cabinet Decision No. (55) of 2017 on Charities That May Recover Input Tax has been published on FTA portal.

The charities listed in annex to the Cabinet Decision may recover input tax paid on their expenses with the exception of the following:

1. Input tax that is excluded from recovery according to the Cabinet Decision No. (52) of 2017 on the Executive Regulations of the Federal Decree-Law No (8) of 2017 on Value Added Tax, e.g. input tax on entertainment expenses; and
2. Input tax paid for goods and services used for the making of exempt supplies.

The recovery procedure is to be set by the FTA.

This Cabinet Decision is effective from 1<sup>st</sup> January 2018. The executive decisions to implement this Cabinet Decision shall be issued by the Minister of Finance.

<https://www.tax.gov.ae/pdf/cabinet-decision-no-55.pdf>

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## **Kingdom of Saudi Arabia (KSA)**

**Practical update - Guides published in March 2018 by the General Authority of Zakat and Tax (“GAZT”)**

### **GAZT VAT Guide on Employee Benefits**

The GAZT has released a new guide on Employee Benefits in KSA. This guide is intended for all establishments and their employees or persons acting in a manner similar to employees and business owners. The importance of this guide is to provide further clarification with regard to the tax treatment of staff entitlements and benefits.

This guide covers the following areas:

- Introduction;
- Definitions on key terms;
- Economic activity and VAT registration;
- Cash payment to employees;
- Deemed Supply;
- Providing goods or services at a reduced value;
- Legal Benefits (Compulsory by Employer);
- Specific types of staff benefits;
  - Vehicles
  - Food Supply
- Residential and staff accommodation
- Input VAT Deduction;
- Taxable person obligations;
- Penalties;
- Applying for the issue of rulings (interpretative decisions);
- Contacting us; and
- Frequently Asked Questions.

Currently, the guide is only available in Arabic:

<https://vat.gov.sa/sites/default/files/2018-03/VAT%20%20Employee%20Engagement%20Guideline.pdf>

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### **VAT Exemption on the sales of residential property to KSA Nationals**

A Royal decree has been issued earlier this year whereby an exemption was granted to the Saudi Nationals in respect of VAT on the first purchase of residential home. It was unclear whether the VAT exemption threshold of SAR 850,000 was applicable to the principal amount (i.e. purchase value) or to the VAT amount at stake.

GAZT has clarified on its website that the VAT exemption threshold of SAR 850,000 is applicable to the principal value of the residential property. The update is as follows:

“Residential rent is exempt; Residential sale is standard rated unless not considered economic activity (it is out of scope if sold by someone who was using it for personal dwelling by himself or a relative). However, residential sales amounting to no more than SAR 850,000 of first dwellings to Saudi citizens are exempt from VAT.”

Please refer to the below link to access the Royal Decree:

<http://www.spa.gov.sa/viewfullstory.php?lang=en&newsid=1705832>

### ***Required Attachment for Eligible Person to register for VAT in KSA***

The GAZT have published a list of required attachments/ documents for eligible persons to use when registering for VAT in KSA.. The required attachments/ documents have been listed into the following categories:

- Government entities (e.g. ministries, regional & local government authorities, etc.)
- Charities and Non-Governmental Organisations
- Public services administration and other public bodies (e.g. Public schools, Public Hospitals, etc.)
- Companies exempted from VAT
- Diplomatic and Consular Bodies and Missions

The release of the required attachments/ documents, provides the eligible persons who intends to register for VAT with better guidance on the various type of documentations required for VAT registration purposes. Nonetheless, the eligible person would still be required to prepare for additional supporting documents in order to substantiate its taxable supplies upon request by the GAZT.

<https://www.vat.gov.sa/en/eligible-registration>

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### **Legal Update – New Decisions issued**

#### ***Circular issued by KSA Ministry of Finance - VAT treatment of contracts signed with government bodies.***

On 22<sup>nd</sup> March, the Ministry of Finance in Saudi Arabia issues a Circular that clarifies the treatment of VAT on contracts concluded between VAT registered suppliers and government bodies before, on or after 1<sup>st</sup> January 2018. The circular emphasizes that the VAT treatment depends on the terms of the signed contract/proposal and provides guidance for government bodies and public institutions on how to account for VAT under the KSA budget requirement.

### **Compliance update**

#### ***Update post submission of the first VAT return***

Following the submission of the first batch of KSA VAT returns, some Taxpayers have received inquiries from GAZT requesting supporting documentation and evidence to support VAT return information that had been submitted, such as the following:

- *Supplier & customer details:* GAZT have requested to provide details regarding suppliers and customers (including information on sales / purchases on values of last 12 months (2017)).
- *January VAT return:* GAZT have requested to provide details on transactions in the month of January 2018 for applicants stating that they were in a VAT refund position.
- *0% VAT for export of services:* GAZT have requested for details of services to decide on application of 0% VAT for export of services (article 33 of the KSA VAT Regulations).
- *0% VAT for export of goods:* GAZT have requested to provide required evidence for application of the 0% VAT for export of goods.

On the basis that the responsibility to account for VAT rests with the suppliers, it is advisable that all the VAT-registered businesses should record and retain sufficient supporting documents to substantiate the supplies that they make in the event of VAT inquiries from GAZT, particularly for transactions which are zero-rated.

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