

GCC VAT Newsletter - December 2018 Edition

December 2018

Our best wishes for the year 2019!

We are pleased to share with you our December edition of the PwC GCC VAT Newsletter on the latest VAT developments in the GCC Region.



Kingdom of Bahrain (Bahrain)

Legal updates – Executive Regulations of VAT Law and list of zero-rated basic food items published by the Ministry of Finance and National Economy (“MoF”)

1. The Ministry of Finance and National Economy Decision No. (12) for the year 2018

On 13 December 2018, following the publication of the Value Added Tax Law (“VAT Law”) in October 2018, the Bahrain Ministry of Finance and National Economy has released its Decision No. 12 of 2018, the Executive Regulations of VAT Law. Responsibility for implementing and administering VAT in Bahrain will rest with the National Bureau for Taxation (“NBT”). The Regulations provide further details on the application of the VAT Law that will take effect from 1 January 2019 including compliance matters, and the scope of the zero rating and exemption. Official Arabic version and unofficial English translation are available on NBT’s website.

The link:

https://www.nbt.gov.bh/pdf/20181219_bah_bilingual.pdf

PwC has issued a guide on the Executive Regulations with analysis on the key areas of the Regulations and issues for businesses to consider.

The link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2018/bahrain-vat-executive-regulation-s-what-you-need-to-know.html>

2. List of zero rated basic food items

In December 2018, NBT has published the list of zero-rated basic food items under the VAT Law on its website. The list contains 94 basic food items including meat, vegetables and fruits, coffee and tea, cereal, bread, sugar and other food items. The list is only available in Arabic.

The link:

<https://www.nbt.gov.bh/storage/media/fg8phkO5twUOAYFlNS68Hx1OXH8sZUoQj1vCI8h4.pdf>

Practical updates – Phased transitional mandatory registration for VAT, VAT registration portal, FAQs and VAT Guides

1. Phased transitional mandatory registration, filing and other matters

In December 2018, MoF has announced a phased introduction of VAT through transitional mandatory registration thresholds for 2019. Also, on a transitional basis, VAT filing will be on a quarterly basis for certain large taxpayers, while the first return for all other taxpayers will be for the first six months, followed by two quarterly returns. Monthly and quarterly filing will apply from 2020, depending on turnover.

The Ministry has also provided some information on other matters including tax representatives and agents, tax invoices, a taxpayer readiness assessment and taxpayer engagement.

Link to PwC VAT alert on these matters

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2018/bahrain-announces-information-on-introduction-vat.html>

2. VAT registration portal

From 9 December, NBT launched its official portal for the VAT Registration and other VAT matters.

The link to the portal:

<https://www.nbt.gov.bh/>

3. NBT published a list of Frequently Asked Questions (FAQs)

On 26 December, in addition to the previously published general FAQs on VAT in its website, NBT has released a more detailed technical FAQs to increase the VAT awareness and to facilitate the implementation of the new tax system.

The link:

https://www.nbt.gov.bh/pdf/20181225_BAH_VAT_Technical_FAQs%20_English.pdf

PwC has prepared a news alert on the technical FAQs, which can be retrieved by the following link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2018/bahrain-national-bureau-for-taxation-issues-vat-technical-faqs.html>

4. NBT issued a VAT General Guide

On 31 December 2018, NBT has published a VAT General Guide. The Guide is extensive and covers general topics useful for taxable persons ranging from technical guidance, compliance related matters to administrative procedures.

The Guide can be found link at:

<https://www.nbt.gov.bh/pdf/20190106%20-%20VAT%20General%20Guide%20v1.1.pdf>

5. NBT issued the VAT Registration Guide

The Bahrain VAT Registration Guide has been published by the NBT. The Guide aims to provide guidance on eligibility, timeline, information required for VAT registration.

The Guide can be found link at:

<https://www.nbt.gov.bh/pdf/20190106%20-%20VAT%20Registration%20Guide%20v1.1.pdf>

Kingdom of Saudi Arabia (KSA)

Practical updates – Guides published by the General Authority of Zakat and Taxation (“GAZT”) and process for filing a ruling request

1. VAT Guide on Capital asset

In December 2018, GAZT issued a Guide explaining the VAT implications associated with the sale and purchase of capital assets.

The Guide defines capital assets revenue and also elaborate VAT mechanics around their sale. Further, GAZT also confirm in the Guide that disposal of any capital assets should not be considered for estimating the annual taxable supplies limit to be considered for VAT registration purposes.

The Guide provides examples of capital assets as well as assets that should not be considered as capital. On the cost of assets side, the guide explains that any cost incurred to bring the capital asset in use may be considered as its cost and any input VAT incurred would be claimable keeping in view the general business activities guidelines provided for in the VAT legislation.

The Guide also clarifies the VAT implications associated with purchase/ sale of restricted vehicles.

This Guide is available in Arabic only and can be accessed through the following link:

https://www.vat.gov.sa/sites/default/files/2018-12/VAT_Capital_Assets_Guideline.pdf

2. VAT Guide on Professional Services

In December 2018, GAZT issued a Guide on professional services. This Guide explains the term professional services as consulting services or similar services characterized by application of skills and knowledge in a particular area, including as such as consulting, design, architecture, accounting, law, information technology and relationships, Technical testing, research and development, veterinary medicine and management consulting etc.

The Guide further explains the VAT implications associated with professional services in line with the guidance provided in earlier guides as well as the KSA VAT legislation.

This Guide is available in Arabic only and can be accessed through the following link:

https://www.vat.gov.sa/sites/default/files/2018-12/VAT_Professional_Services_Guideline.pdf

3. VAT Guide on Telecommunications

In December 2018, GAZT issued a Guide explaining the VAT implications associated with Telecommunication services.

In this Guide, GAZT explains the types of services that can be classified as telecommunication services; e.g. provision of access to global information networks, broadcast and live transmission via the internet, supply of music, movies, games and software upon request etc.

The Guide then explains the place of supply implications associated with telecommunication services. In the later part of the guide, GAZT explains the VAT implications associated with multiple supplies, which is quite common in the telecommunication sector.

The Guide provides the VAT treatment related to vouchers/ coupons etc., and also explain the term eligible vouchers.

Input VAT associated with telecommunication services along with other compliance requirement is also covered in this Guide.

This Guide is available in Arabic only and can be accessed through the following link:

<https://www.vat.gov.sa/sites/default/files/201812/Telecommunications%D9%80brochure%D9%80V2.pdf>

4. VAT Guide on Recreation and Entertainment

This Guide is also issued in December 2018 and it explains the VAT implications associated with recreation and entertainment expenses.

As a general principle, VAT incurred on any expenses in the form of entertainment etc., has been specifically blocked by the VAT Implementing Regulations. The Guide also provides scenarios for a better understanding of location/ place of supply rules for certain services (hotels, events etc.,) and the recoverability of the VAT incurred on such services.

This Guide is available in Arabic only and can be accessed through the following link:

https://www.vat.gov.sa/sites/default/files/2018-12/VAT_Recreation_and_Entertainment.pdf

5. Filing for a ruling request

GAZT has released a communication on the process for the filing of ruling requests with its legal department. Taxpayers are now required to fill in a prescribed form and send the it to the designated email address stated in the form.

Advance ruling applications are now required to be sent to Policy-Ruling@gazt.gov.sa

United Arab Emirates (UAE)

Legal update – Federal Tax Authority (“FTA”) Decision: No.4 of 2018 on Tax Invoice (for vending machine)

(FTA) Decision: No.4 of 2018 on Tax Invoice (for vending machine)

FTA has published its Decision No.4 of 2018 on Tax invoices for vending machines.

Where a VAT registered person makes a supply of goods or services through vending machines, there is be no requirement to issue a Tax Invoice in respect of that supply.

In order to apply this decision, the VAT registered person must keep sufficient records available to establish the particulars of the supply made, which must contain, as a minimum:

- a. A description of the goods or services supplied;
- b. The total consideration and the tax amount charged;
- c. The date of supply, in accordance with Clause 2 of Article 26 of the Federal Decree-Law No. 8 of 2017 on Value Added Tax.

The link:

<https://www.tax.gov.ae/pdf/Decision%204%20-%20Vending%20Machines.pdf>

Practical update – Guide on Input Tax Apportionment and Public Clarification on Date of Supply for Independent Directors published by the FTA

1. FTA VAT Guide on Input Tax Apportionment: Special Methods (VATGIT 1)

FTA has published a new VAT Guide (VATGIT1) on input tax apportionment. The main purpose of the Guide is to help VAT registrants submit their Input Tax Apportionment Request to the FTA in order to be able to use a special method of input tax apportionment.

The Guide provides the users with:

- an overview of the general input tax apportionment rules and the special methods of input tax apportionment;
- an overview of the process for applying for a special method of input tax apportionment; and
- the information that taxable person will need to complete the form.

The Guide explains the steps for apportioning the residual input tax required by Articles 55(6)-(10) of the VAT Executive Regulations with special highlights on the performance of a wash-up calculation for the whole tax year. Specifically, if the difference between the recoverable input tax as calculated in accordance with the standard apportionment method and the input tax which would have been recoverable if the calculation was made on the actual use of the goods or services is more than AED 250,000, the taxable person should make an adjustment to the input tax in respect of the difference.

The Guide proposes that one of the following special apportionment methods should be applied by taxable persons when calculating the input tax apportionment under “actual use”:

1. **Output-based method:** this method takes into account the value of taxable supplies as a portion of all supplies made by the business during the year. It is available for banking, insurance and local transport provider companies.
2. **Transaction count method:** this method uses the volume of taxable transactions as a portion of total transactions made by the business during the year. It is available for banks operating in wholesale and investment trading activities.
3. **Floor space method:** this method is used to apportion input tax based on floor space used for taxable activity as a portion of all available floor space. It is available for companies involved in real estate commercial and residential activities.
4. **Sectoral method:** this method is for large and complex businesses where various businesses are conducted through discreet divisions of the same business. It allocates the residual input taxes between different sectors based on headcount or output.

Taxable persons may apply to FTA for approval of a special apportionment method other than the ones listed above, provided the conditions for the application of a special method are all met and the persons can demonstrate that they will be able to comply with all these conditions. Once the FTA approves the use of a special apportionment method, the taxable person will be required to consistently apply the approved method for at least 2 years.

The Guide can be found on the link below:

<https://www.tax.gov.ae/pdf/Input%20Tax%20Apportionment%20Guide%20EN%20December%202018.pdf>

The Application Form for Input Tax Apportionment can be found on the link below:

https://www.tax.gov.ae/pdf/Input%20Tax%20Apportionment%20Form_EN.pdf

2. FTA VAT Public Clarification on Date of Supply for Independent Directors (VATPo09)

In December 2018, FTA has published a new Public Clarification on the date of supply for directorship services (VATPo09). The Clarification has provided the guidance on how to determine the date of supply for the board fees paid to independent directors under two scenarios:

- Where the board fees for the independent directors are not known at the outset and are determined only upon the conclusion of the Annual General Meeting, the date of supply would be triggered when such fees are known (provided no invoice was issued and no payment was received prior to such date).
- In other cases, where the board fees are known at the outset, the date of supply would be determined as per Article 26 of VAT Law where there are periodic payments or consecutive invoices. However, where there are no periodic payments or consecutive invoices, the date of supply would be determined as per Article 25 of the VAT Law.

The Public Clarification can be found in the link:

<https://www.tax.gov.ae/pdf/VATPo09%20-%20Date%20of%20Supply%20of%20Director's%20Fees.pdf>

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