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GCC Indirect Tax News Roundup

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Trends in indirect tax in the GCC

The evolution of VAT

Although VAT is relatively new in the GCC (the Kingdom of Saudi Arabia and the United Arab Emirates introduced VAT in 2018 followed by Bahrain and Oman in 2019 and 2021 respectively), the VAT regime has changed significantly since its introduction – such as the increase in the standard rate, amendment of key provisions in the regulations and administrative procedures, alongside developments such as electronic invoicing (e-invoicing) and the steady digital transformation of the tax authorities. It's clear that the VAT regime is not stagnant and will keep evolving.

As an example we look at the KSA where the VAT legislation has been amended several times – most notably in July 2020, when the government raised the standard VAT rate from 5% to 15% as part of tax measures taken as a response to the COVID-19 crisis. Another development is the implementation of a mandatory e-invoicing requirement of which the first phase came into effect from the 4th of December 2021. As part of the e-invoicing introduction, VAT registrant persons are required to generate and store e-invoices for taxable supplies. The second phase will require taxable persons to connect their e-invoicing system with the ZATCA and will be implemented in waves from the 1st of January 2023 onwards.

After the adoption of e-invoicing, GCC countries may continue to digitize other VAT processes, an example of this is VAT returns. Pre-population of VAT returns using the data collected through e-invoicing systems is another trend that the countries are moving towards.

Regardless of the shape and form of digitization, there will be many moving parts in terms of VAT and its execution. Businesses operating in the region should be prepared to invest in their VAT compliance processes to avoid fines and reputational risk as a result of non-compliance.





Indirect Taxes in the GCC

An overview of the current indirect taxes applicable in the GCC

UAE

VAT standard rate of 5% (reduced VAT rate 0%).

Excise Tax rates:

100% for tobacco, tobacco products, electronic smoking devices and energy drinks; and

50% on carbonated and sweetened drinks.

KSA

VAT standard rate of 15% (reduced VAT rate 0%).

Real Estate Transaction tax (**RETT**) applicable at 5% (effective 4 October 2020).

Excise Tax rates:

100% for tobacco products, electronic smoking devices and energy drinks; and

50% on soft drinks and sweetened drinks

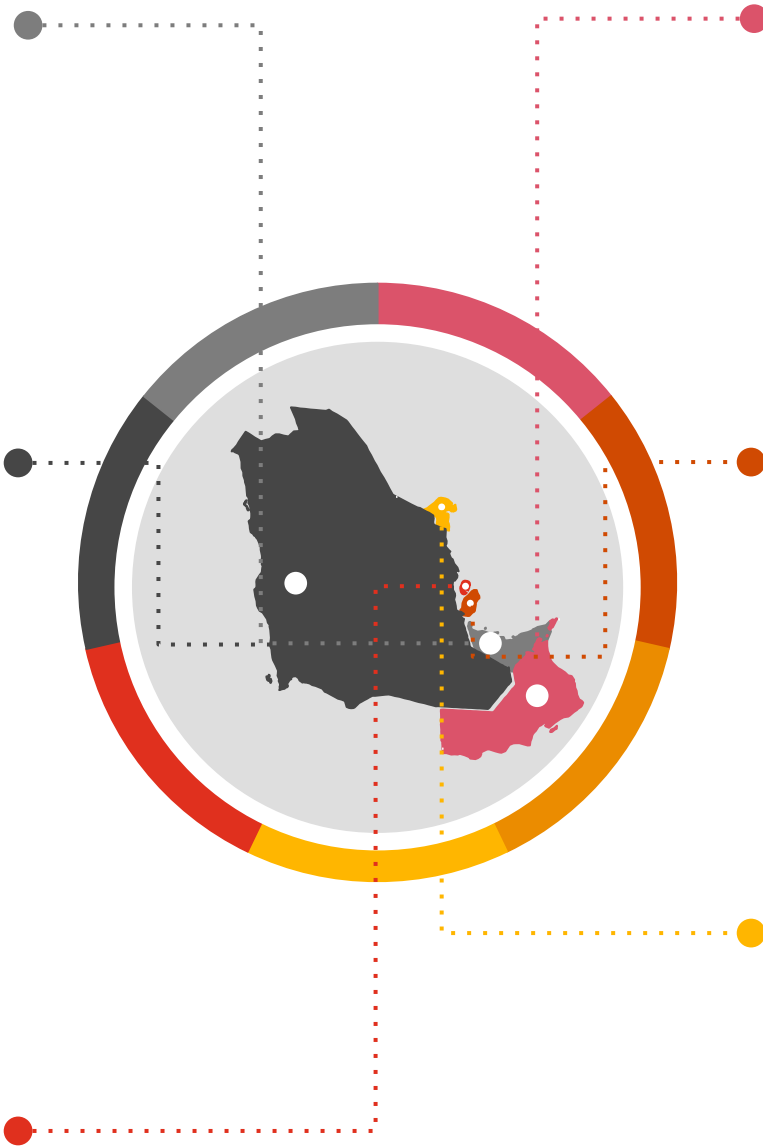
Bahrain

VAT standard rate of 10% (reduced VAT rate 0% and 5% transitional rate applicable till 31 December 2022)

Excise Tax rates:

100% for tobacco (and related) products and energy drinks; and

50% on soft drinks.



Oman

VAT standard rate of 5% (reduced VAT rate 0%).

Excise Tax rates:

100% on Tobacco and related products, energy drinks and special purpose goods (pork & alcohol products), 50% on carbonated drinks.

Qatar

VAT is not yet introduced in Qatar.

Excise Tax rates:






100% for tobacco products and energy drinks and special purpose goods (pork & alcohol products); and 50% on carbonated drinks

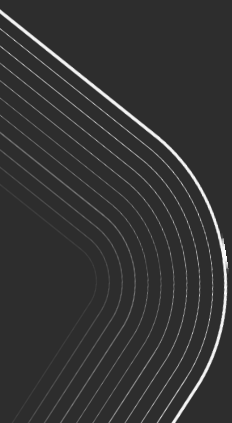
Kuwait

VAT and Excise Tax are not yet introduced in Kuwait.

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01

GCC

Indirect Tax Updates





GCC

Customs



The GCC AEO: Get ready to unlock customs and logistics benefits across the GCC

The Authorised Economic Operator (“AEO”) program provides traders with the opportunity to partner with the customs authorities and secure benefits within their supply chain.

All businesses operating in the United Arab Emirates (“UAE”), Kingdom of Saudi Arabia (“KSA”), Kingdom of Bahrain (“Bahrain”), Sultanate of Oman (“Oman”), State of Kuwait (“Kuwait”), and State of Qatar (“Qatar”) can apply and benefit from the AEO programs in those countries.

The Secretariat General of the Gulf Cooperation Council (“GCC”) has recently released ‘The Unified Guide for the Gulf Cooperation Council Authorized Economic Operator Program (GCC AEO)’ (“Unified Guide”), which provides a framework that underpins the AEO application process in the GCC region. In addition, the Unified Guide provides a baseline under which the AEO application process and monitoring of AEO compliance in each GCC country must broadly follow.

While the Unified Guide specifies that AEO status cannot be obtained for multiple entities / countries in one application, it does provide common framework amongst the GCC countries in terms of AEO to facilitate the certification of groups operating across the region.

It is worth mentioning that the GCC AEO is currently in its pilot phase from 1 August 2022 to 31 December 2022, and it will be officially effective from 1 January 2023.

Please refer to this [link](#) for further details on the newly issued public clarification.

An aerial view of the Dubai skyline, featuring numerous skyscrapers and a beach with turquoise water. The image is overlaid with text and decorative geometric patterns.

02

UAE

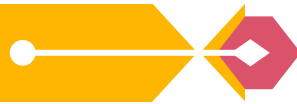
Indirect Tax Updates





United Arab Emirates

Customs



Dubai Customs Voluntary Disclosure Program “Self-Audit Finding Service”

In order to improve Dubai-based businesses customs compliance levels and reinforce trust, transparency and engagement, Dubai Customs has launched on 11 August 2022 a new voluntary disclosure program (“Self-Audit Finding Service”) that is aiming to encourage importers and exporters to voluntarily disclose errors and report irregularities that may have been committed while reporting import and export declarations.

One of the main benefits of using the Self-Audit Finding service is the possibility to avoid the penalties corresponding to the disclosed errors, in cases where the Self-Audit Finding has been initiated before notice or commencement of a customs audit process.

Please refer to this [link](#) for further details on the newly issued public clarification.

Value Added Tax



New VAT Public Clarification: Gold - Making Charge

According to Cabinet Decision No. 25 of 2018, if the conditions of on a special reverse charge mechanism are met, VAT registrants supplying gold are not required to impose VAT on the supply of gold or gold products. VAT in respect of the gold is accounted for by the registered recipient through the special reverse charge.

However, if the supplier charges separate considerations for the gold and related making service, or reflects the price of these components separately, the supplier is required to impose VAT on the service component.

Please refer to this [link](#) for further details on the newly issued public clarification.



03

KSA

Indirect Tax Updates





KSA

Value Added Tax



Saudi Arabia: Approved Rules and Procedures for VAT recovery by Licensed Real Estate Developers

The Board of Directors of Zakat, Tax and Customs Authority ('ZATCA') have approved the new Rules and Procedures ('Rules') related to input VAT recovery by qualified / licensed real estate developers on purchased goods and services in KSA in relation to their exempt supplies of real estate.

The Rules, available only in Arabic at the moment, are published in the official gazette and can be accessed here with an effective date of 29 July 2022.

In May 2022, a draft of the Rules was released by ZATCA for public consultation on the National Competitiveness Centre platform. The PwC Middle East news alert on this matter can be accessed [here](#).

On 29 July 2022, ZATCA approved the proposed Rules with slight changes by adopting Ministerial Decision No. 1754.

The approved Rules shall be considered an integral part of the provisions contained in Article 70 (14) of the KSA VAT Implementing Regulations. In the event of conflict with the aforementioned provisions, these provisions shall take precedence.

In summary, the approved Rules contain 18 rules and mainly cover:

- Process of submission of qualified real estate developer application;
- Review and verification of the application by ZATCA and approval by the Minister of Finance;
- Exceptions related to allowing real estate developers to refund input VAT incurred prior to obtaining eligible person status;
- Requirements to file a VAT refund application;
- VAT refund filing frequency;
- Records retention requirement by the qualified / licensed real estate developer;
- Examination of the status of compliance of the qualified real estate developer with the relevant provisions, etc.

Please refer to this [link](#) for further details on the newly issued public clarification.



KSA

Value Added Tax



Saudi Arabia: VAT guide on Electronic Contracts

The ZATCA published in September 2022, on its official website, a VAT guide explaining the concept of ‘Electronic Contracts’ along with VAT consequences under various scenarios.

The guide also provides definitions of terms such as contracts, Agents, Principal, etc which are neither defined nor available in the VAT Law and its Implementing Regulations.

What constitutes an electronic contract?

An electronic contract may be negotiated and executed electronically over the internet. The parties to the contract often interact with one and another exclusively in a digital format, without the requirement to meet in-person.

Validity and status of an electronic contract

The key requirements for the formation of a contract are ‘offer and acceptance’. For a contract to be valid, there must be an offer by one party and an acceptance of that offer by the other party.

Examples of electronic contracts and VAT implications

The guide provides certain examples of electronic contracts along with VAT consequences which have been tabulated hereunder:

The guide is available in both English and Arabic and should be accessed to obtain additional details.

Please refer to this [link](#) for further details on the newly issued public clarification.



KSA

Value Added Tax



Saudi Arabia: Proposed addition to VAT Implementing Regulations

The ZATCA has proposed to add a new article to the VAT Implementing Regulations related to applying a zero VAT rate on local supplies of “qualified military goods”.

The proposed addition was published on the Public Consultation Platform of the National Competitiveness Center on 13 September 2022.

Interested stakeholders and taxpayers are encouraged to express their opinion on this platform and share feedback on the proposed amendment no later than 15 October 2022.

A new Article (No. 36) under Chapter Six (VAT zero-rated supplies) to the KSA VAT Implementing Regulations has been proposed by ZATCA prescribing the application of a zero VAT rate on local supplies of qualified military goods to armed and security forces of the Government.

Qualified military goods, as defined in the proposed addition, includes:

- Locally manufactured goods; and
- Goods that are certified by the General Authority for Military Industries confirming that the supply fulfilled all the prescribed requirements and conditions.

Supplies of military goods that do not meet the prescribed requirement will be subject to standard 15% VAT rate.

The Governor of ZATCA, in coordination with the General Authority for Military Industries, may issue any additional conditions related to the application of the provisions of this article.

Please refer to this [link](#) for further details on the newly issued public clarification.



KSA

Real Estate Transaction Tax

Saudi Arabia: Proposed amendments to the RETT Implementing Regulations

The ZATCA has proposed amendments to certain Articles of the Real Estate Transaction Tax (“RETT”) Implementing Regulations.

Amendments have been proposed by ZATCA to Articles 3, 6 and 12 of the RETT Implementing Regulations with a focus on clarifying RETT treatment for certain transactions including for financial services sector.

The proposed amendments (available only in Arabic) were published on the Public Consultation Platform of the National Competitiveness Center on 27 June 2022 (for public consultation).

Please refer to this [link](#) for further details on the newly issued public clarification.



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Oman

Indirect Tax Updates





Oman

Value Added Tax



Sultanate of Oman: VAT Guide on E-Commerce

On 25 August 2022, the Oman Tax Authority ('OTA') has published a VAT Guide on E-Commerce to provide guidance on how VAT affects businesses which operate within the e-commerce sector. It contains guidance on the VAT treatment of supplies of goods and services through electronic means, supplies made through agents and indicators for electronic suppliers to determine the customers place of residence.

The guide discusses various general aspects of VAT applicable to most businesses, including to e-commerce business, such as VAT registration requirements, place of supply rules for goods and services, reverse charge mechanism ('RCM'), input tax recovery and record keeping requirements.

In addition to the general VAT provisions, specific e-commerce related VAT considerations are discussed in detail, such as indicators for determining the place of actual use and enjoyment and the supplies made through agents acting as disclosed or undisclosed agents.

The VAT guide on E-Commerce is currently available only in Arabic and is accessible on the OTA portal.

Please refer to this [link](#) for additional information about the guide.



Oman

Value Added Tax



Sultanate of Oman: VAT Guide on Commercial Agencies

On 28 September 2022, the OTA published a VAT Guide on Commercial Agencies to provide guidance on the VAT implications of agency relationships.

The guide contains guidance on the concept of agency from a VAT perspective whilst outlining practical features of such relationships. The guide subsequently clarifies the VAT compliance and reporting obligations arising from such relationships. The guide on Commercial Agencies is currently available only in Arabic and is accessible [here](#).

The guide entails that for an agency relationship to arise, an agreement, whether explicit (oral/written) or implied, should be present between the agent and the principal.

The guide further elaborates on the common features of an agency relationship which should be present upon deeming such a relationship for VAT purposes. These features include:

- The agent facilitates or arranges transactions to the principal;
- The agent does not retain title to the goods and does not benefit from the services the principal provides;
- The agent does not alter the nature or value of the supply made by the principal to the customer.

It is further explained that there are situations where a person is commercially referred to as an agent but does not act as such (and vice versa). The guide entails that contractual agreements and commercial substance will be taken into consideration when assessing the existence of an agency relationship.

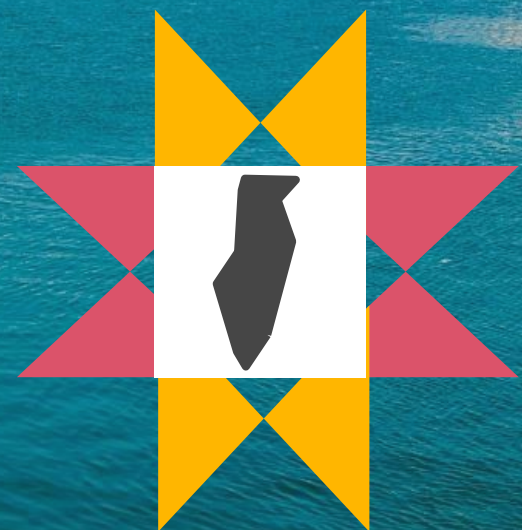
The guide lists the VAT compliance requirements in regards agents such as tax invoicing, VAT reporting and input tax recovery whilst differentiating between disclosed and undisclosed agents.

Please refer to this [link](#) for additional information about the guide.

05

Bahrain

Indirect Tax Updates





Bahrain

Excise Tax



Excise Goods List

The National Bureau of Revenue (“NBR”) in Bahrain released an updated version of the Excise Goods. For the full list please visit the link [here](#).

Digital Stamps Scheme Manual for Importers and Local Manufacturers

The NBR released a guide for importers and local manufacturers in Bahrain to provide an overview of the excise tax rules and procedures in regards to the Digital Stamps Scheme, including navigating the NBR’s portal when ordering and tracking digital stamps. Please see the full guide [here](#).

Local Markets Implementation Milestones on Cigarette Products

On 5 October 2020, the NBR issued a statement reassuring the last milestone for the digital stamps scheme for cigarette products, which entails that trading in products without a digital stamp will not be permitted in local markets starting from 16 October 2022.

For additional information on the digital stamp scheme visit the link [here](#).

The takeaway

Taxpayers are now, more than ever, required to keep up with the pace of indirect tax changes in the region and stay ahead of the curve.

For a deeper discussion on various aspects listed in the publication that are applicable to your businesses, please get in touch.

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Let's talk

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

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Thank you

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