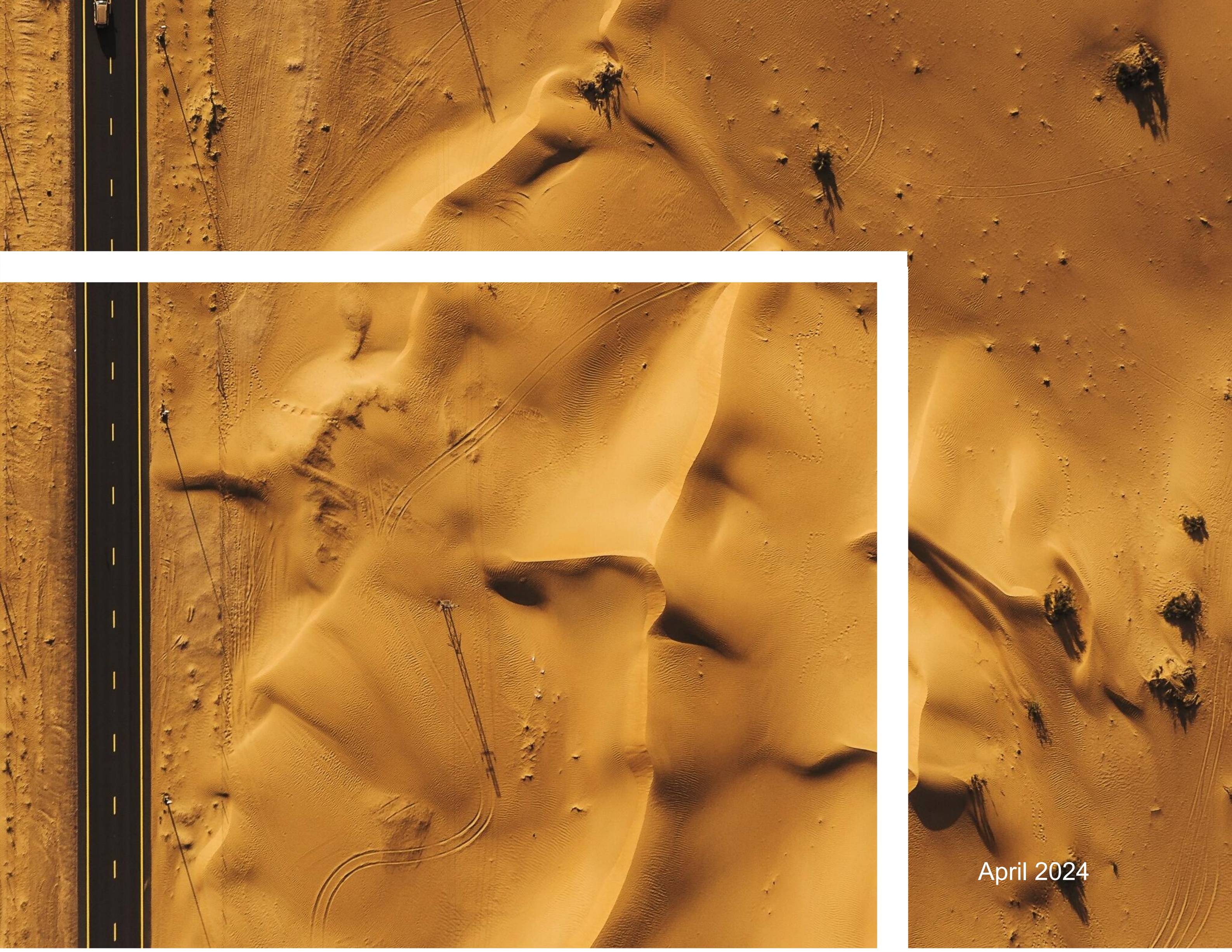

April 2024

GCC Indirect Tax News Roundup

Quarter One 2024

PwC Middle East
Tax & Legal Services

Navigating the tax landscape: The Impact of Transfer Pricing on Indirect Taxes

In an evolving tax landscape, it is critical to stay up to date with the latest developments to ensure compliance. Further to the introduction of the UAE Corporate Tax regime, partnered with international developments such as Pillar 1 and Pillar 2, Transfer Pricing is a rapidly evolving subject across the region.

Many businesses have initiated their impact assessments on Corporate Tax and Transfer Pricing on intra-group transactions. They are now advancing into the detailed design and implementation stages.

Due to the close interaction, an integrated tax approach between Transfer Pricing, VAT and Customs is critical to ensure full compliance and create sustainable best practices for the future. We have addressed some of these critical topics below:

- **A shift toward a more centralized business model:** Although the physical movement of goods in the supply chain would remain unchanged, the indirect tax implications resulting from an IP migration or a change in the invoicing flows should be assessed to prevent any VAT leakage and its advised to anticipate additional VAT compliance burden.

- **VAT and customs impacts from Transfer Pricing adjustments:** Transfer pricing adjustments can result in non-recoverability of input VAT for true-down, non-refund of overpaid import customs duties for true-up, VAT re-assessment for non compliant VAT invoices and reporting, challenges on the taxpayer’s eligibility to use the customs transactional value method or additional compliance costs. Anticipating the indirect tax implications resulting from the Transfer Pricing methodology is therefore critical.

- **Customs implications from intercompany royalty payments:** Import customs duties constitute a final cost to the supply chain. To assess whether intercompany royalty payments should be included in the customs value for imported goods, a detailed assessment is required to evaluate whether this is linked to marketing or manufacturing intangible or pre or post importation activities.

Integrating VAT and Customs into a holistic tax strategy will ensure delivering sustained outcomes and achieve efficiencies.

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%).

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

50% on carbonated drinks.

Kuwait

VAT and Excise Tax are not yet introduced in Kuwait.

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UAE

Indirect Tax Updates

United Arab Emirates

Customs

Updates to the Unified Customs Tariff of the GCC States

Dubai Customs has released Customs Notice No. 1 of 2024, approving the 2024 revisions to the unified customs tariff table of GCC States based on the 2022 edition and subsequent updates.

These changes, agreed upon at the GCC level, are expected to be implemented by other GCC customs authorities soon with updated tariffs.

In the UAE, the amendments to the unified customs tariff table entered into force on 1 January 2024. The impacted HS codes primarily relate to sectors like chemicals, pharmaceuticals, machinery, transport equipment, food and beverages, and computers.

Customs Notice No. 1 of 2024 is accessible through this link.

Further details are available in PwC's news alert that can be accessed via this link.

United Arab Emirates

Value Added Tax

VAT Public Clarification - SWIFT messages

The UAE Federal Tax Authority ("FTA") has issued a Public Clarification (VATP036, dated 2 February 2024) to provide its position on the acceptability of SWIFT messages for the purposes of documentation requirements and to support input VAT recovery.

The Public Clarification explains that:

- Financial institutions are regarded as making supplies to themselves in respect of interbank services and are required to issue tax invoices to themselves in respect of these supplies.
- Financial institutions may only recover the related input VAT to the extent the cost is incurred to make taxable supplies and provided that the required supporting tax invoices are obtained and retained.
- Considering the volumes of SWIFT messages UAE financial institutions receive on a daily basis, it would be impractical to require financial institutions to issue a tax invoice to themselves for each SWIFT transaction.
- Provided the SWIFT message contains sufficient information to establish the particulars of the supply, UAE financial institutions are not required to issue a tax invoice to themselves in respect of interbank services received from a non-resident bank and for which such SWIFT communication has been received.

Public Clarification (VATP036) is accessible through this link.

United Arab Emirates

E-invoicing

E-invoicing updates

The UAE Ministry of Finance has revealed, at the ‘E-invoicing Exchange Summit’ held on 12-13 February 2024 in Dubai, some details about the upcoming E-Billing System:

- E-invoicing will operate on the basis of the Peppol 5 corner model, with the Tax Authority in corner 5 to collect e-invoices transmitted by taxpayers.
- E-invoices must be transmitted via Peppol network in UAE PINT format.
- As part of the initial mandate, B2B and B2G transactions will be covered with plans to expand the scope to B2C transactions in the future.
- Phase 1 go-live for reporting invoices to the Tax Authority will start in July 2026.

02

Saudi Arabia

Indirect Tax Updates

Saudi Arabia

Regional Headquarters

Tax Rules for Regional Headquarters

The Zakat, Tax and Customs Authority ("ZATCA") published the Tax Rules for the Regional Headquarters (RHQs) on 16 February 2024 with immediate effect from the date of publishing.

The Tax Rules confirmed that RHQs meeting the qualification criteria shall be eligible to enjoy the following tax incentives:

- Zero percent (0%) income tax on the qualifying income.
- Zero percent (0%) Withholding Tax on the payment made by the RHQ to non-residents, meeting any of the following criteria:
  - Payments of dividends.
  - Payments to related parties.
  - Payments to third parties for services necessary for the RHQ's activities.

The tax incentives are applicable to the qualifying activities for renewable thirty (30) years, starting from the date of obtaining the RHQ license to carry out the qualifying activities.

The RHQ Tax Rules cover several aspects and the takeaway of each aspect has been explained in detail in PwC alert accessible through this link.

Saudi Arabia

Value Added Tax

Circular on private educational services provided to Saudi citizens and VAT treatment

ZATCA published a new circular on its official website explaining the VAT treatment of private educational services provided to Saudi citizens.

The circular covers:

- Eligible persons who can avail of the benefit and not being charged VAT.
- Qualified private educational services suppliers.
- Private educational services in scope.
- Suppliers obligations.

Taxpayers engaged in providing private education services are encouraged to assess their current VAT practice in the light of clarification provided by ZATCA through this circular and take corrective action(s) where required within the extended amnesty initiative period to avoid imposition of penalties in the event of any non-compliance.

Further details are available in PwC's news alert that can be accessed via this link.

Saudi Arabia

Value Added Tax

Proposed amendments to the VAT recovery rules by Licensed Real Estate Developers

ZATCA published on 10 January 2024 proposed amendments relating to VAT recovery by qualified licensed real estate developers, on goods and services purchased by them in relation to their exempt supplies of real estate, for public consultation. This is summarized as follows:

- All eligible real estate developers will be allowed to retroactively claim a refund of VAT paid on their purchases related to qualified real estate supplies effective from 4 October 2020.
- The refund requests need to be submitted to ZATCA maximum by the last period in the calendar year following the issuance of a decision by the governor.
- This period will be subject to extension by a decision from the governor, taking into consideration certain conditions.
- Eligible real estate developers, whose properties were under suspension by the relevant authority, are permitted to refund VAT on goods or services related to qualified real estate transactions when the suspension is lifted.
- This applies to supplies eligible for a refund and is proportionate to the extent linked to qualified real estate.
- A key condition is including the VAT in the refund application submitted during the period when the suspension is lifted, with a maximum limit extending to the recent period of the calendar year in which the suspension was lifted.

Further details are available in PwC's news alert that can be accessed via this link.

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Bahrain

Indirect Tax Updates

Bahrain

Tax procedures

Extension of retention period of record and accounting books

The National Bureau for Revenue (“NBR”) has informed a number of taxpayers through an email notification that the retention period of records and accounting books has been extended for an additional five years, in accordance with paragraph (D) of Article (103) of the Executive Regulations of the VAT Law.

Taxpayers must take the necessary measures to ensure that they retain their records and accounting books for an additional period of five years from the end of the tax period to which it relates to.

Regional events in Q1 2024

TLS Seminar Series
Our TLS Seminar Series continued in January 2024 with seminars in the UAE, Egypt, Kuwait, Qatar and Lebanon.

2024 TLS Alumni Event
Ending January on a high note, we welcomed over 20 PwC Alumni to our Alumni event in Dubai.

Fiscal Policy & Economic Development Conference
PwC Qatar participated in the tax conference “Fiscal Policy & Economic Development” held on 8 February 2024 in Doha.

E-invoicing Seminar
Held in Dubai on 15 February, the event covered a Global E-invoicing overview and developments in addition to key learnings from E-Invoicing setups.

Events

PwC Academy 2024 Annual VAT Conference in Dubai
Addressing questions on VAT challenges and the latest developments around taxes in the UAE.

LEAP 2024
PwC participated in Saudi Arabia's "Digital Davos" and the world's most-attended tech event, that took place from 4-7 March 2024.

TLS Roundtable series
We held the 8th edition of our TLS roundtable series on the impact of recent tax developments for consumer markets retail industries

Retail Leaders Circle MENA
This annual event which is held in Riyadh included discussions on taxation relating to VAT, customs, transfer pricing, and corporate tax matters within the region with a large focus on KSA.

The takeaway

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

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

www.pwc.com/me

Let's talk

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

Jochem Rossel
Tax Partner
Middle East Tax & Legal Services Leader
+971 50 225 6909
jochem.rossel@pwc.com

Chadi Abou-Chakra
Tax Partner
Middle East Indirect Tax Network Leader
+966 56 068 0291
chadi.abou-chakra@pwc.com

Guido Lubbers
Tax Partner
Middle East Consumer Markets Leader
+966 54 110 0432
guido.lubbers@pwc.com

Maher ElAawar
Tax Partner
Indirect Taxes
+971 56 216 1109
maher.elaawar@pwc.com

Gaurav Kapoor
Tax Partner
Oman Tax Leader
+968 9 389 1546
gaurav.x.kapoor@pwc.com

Antoni Turczynowicz
Tax Partner
Managed Services Leader
+971 54 791 5259
antoni.a.turczynowicz@pwc.com

Carlos Garcia
Tax Partner
Middle East Customs and International Trade Leader
+971 56 682 0642
c.garcia@pwc.com

Mohamed Al Mahroos
Tax Partner
Bahrain Country Senior Partner
+973 66 743 746
mohamed.almahroos@pwc.com

Ken Healy
Tax Partner
Indirect Taxes
+973 3840 0897
ken.a.healy@pwc.com

Hafez Yamin
Tax Partner
Tax Digital Solutions
+966 54 033 7096
hafez.y.yamin@pwc.com

Marc Collenette
Tax Partner
UAE Consumer Markets Leader
+971 50 407 2831
marc.collenette@pwc.com

Dima Maruf
Tax Partner
Indirect Taxes
+974 5 115 9041
dima.i.maruf@pwc.com

Thank you

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