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How VAT impacts you
Utilities sector

VAT in the GCC

The 'Gulf Cooperation Council' (GCC) states are gearing towards the introduction of a transaction tax, 'Value Added Tax' (VAT), in the region with a proposed commencement date of 1 January 2018. The proposed VAT system intends to tax most goods and services with a limited number of specifically exempt or zero rated supplies.

VAT registered businesses that supply goods/services subject to VAT at the standard rate (proposed at 5%) or zero-rate are usually entitled to claim a 'credit' (input VAT) for VAT incurred on their business' expenses. However, in the case of a supply of exempt goods/services, no input tax credit is usually available. Therefore the VAT cost will be borne by these businesses.

The initial VAT registration threshold is expected to be $1,000,000. Periodic VAT returns detailing the net and VAT value of certain transactions undertaken by the business will be required to be filed with the relevant GCC tax authorities on a timely basis. These VAT returns must reconcile with the business' books of account and be supported by specific documentation.

VAT impact on utility providers

It is expected that the supply of all types of energy by utility providers will be a supply of goods for VAT purposes. As a result, where the energy source is not transferred outside the GCC geographic boundaries, it will be liable to VAT within the GCC, regardless of the establishment of the utility provider/customer.

Most supplies of energy in the GCC are expected to be liable to VAT at the standard rate of 5%, with the oil and gas sector potentially attracting the zero rate of VAT. It is not expected that any supplies of energy will be exempt from VAT. Import VAT will similarly arise (at the applicable rate) on the importation of goods from outside of the GCC. Utility providers will be obliged to self-account for VAT on the acquisitions of services from non-GCC jurisdictions, together with inter-GCC transactions.

An analysis of individual income streams and activities will be required in order to identify other associated transactions which may be liable to VAT.

VAT impact on costs

For exempt business customers and private consumers, VAT will be a real cost. This is likely to have an impact on how efficient these customers use their energy and the supply/demand profile within the industry.

Foreign governments, international organisations, public bodies and diplomatic missions may be restricted in their deduction entitlement for VAT incurred on fuel, electricity, gas and water within the GCC which will also drive up costs for these customers.

Challenges

1. ***Accurate VAT classification of transactions –*** The correct VAT classification of your supplies will be crucial as it will (a) dictate if VAT has to be charged, and (b) establish the base for your claims of input tax on expenses. Therefore, appropriate VAT controls and processes will need to be established to ensure the correct VAT treatment applies on a transaction-by-transaction basis for all your business supplies.

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2. ***Collection of levies, duties, taxes –*** Utility providers are commonly involved in the collection of levies, duties, taxes, etc. on behalf of government bodies. It is important to look at the terms of charging and collecting this in order to understand the utility provider's obligations and the associated VAT treatment.
3. ***Discounts –*** Often, utility providers will allow bulk discounts to business customers or seasonal discounts to private customers. Discount schemes tend to present challenges for businesses in terms of EPOS systems, documentation and VAT adjustments.
4. ***Partners –*** Complexities arise where utility providers partner with companies in other industries in order to increase advertising and offer joint benefits to customers. These schemes tend to be challenging to analyse from a VAT perspective and differ significantly from one contract/ jurisdiction to the next.
5. ***VAT deduction entitlement –*** Utility providers are likely to have full input VAT deduction entitlement in respect of VAT incurred on costs directly associated with their business activities.
6. ***Suppliers and VAT –*** It is possible that certain suppliers will not be registered for VAT. Given that such suppliers will be incurring irrecoverable VAT on their costs they may commercially decide to increase prices. Suppliers may register for VAT once the $500,000 voluntary registration threshold is exceeded, which would ensure neutrality in the supply chain.

Systems, procedures and people

An assessment of the capabilities of existing IT systems and re-configurations necessary in order to generate VAT compliant outputs is crucial. In many cases, significant changes will be required to IT platforms and present workflows and processes.

Consideration needs to be given to the ability to obtain, retain and retrieve documentation supporting all transactions, specifically where a deduction of VAT has been taken so that there is a sufficient audit trail to support VAT compliance filings.

In summary

The above is just a sample of the many issues that will impact utility providers under the proposed VAT system. Addressing your concerns in advance of the VAT go-live date will be critical.

It is essential that your staff are fully cognizant of VAT. It will be difficult to 'systemize' the VAT rules for all supplies made by you and purchases acquired by you: nuances in the VAT law or slight changes in fact scenarios can lead to varying VAT outcomes.

At PwC, we have a strong indirect tax team with many years of experience in VAT matters impacting utility providers, both in the Middle East and abroad, and we are in an excellent position to help you during this transitional period.

How we can help – VAT implementation

1	Conduct VAT awareness briefings
2	Assist with classification of your business transactions
3	Review your long term contracts and propose VAT specific changes
4	Undertake a VAT cost financial analysis
5	Provide a VAT implementation plan
6	Advise and support on systems, compliance and training

Talk to us

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