

What is VAT?

Value Added Tax (VAT) is a tax on consumption and it applies to the sale of most goods and the provision of most services. VAT is levied at each stage of production from the raw products, through the manufacturing process until the sale to the consumer, i.e. on goods and services “supplied” in the course of business.

When will VAT be introduced?

The UAE has announced an implementation date on 1 January 2018 and it was resolved that the other GCC countries will have until 1 January 2019 follow suit.

Which goods and services will attract VAT?

VAT applies to most goods and services but there are some exceptions, as will be determined by the relevant authorities from time to time, on which VAT will not be levied and which include a number of basic foodstuffs as well as certain health and social services as well as education.

What rate will be charged?

A uniform rate has been agreed throughout the GCC which will be set at 5%, a low rate compared to most countries with similar systems.

How does VAT work?

In simple terms it can be explained by following the manufacture of a product. In each stage goods are purchased and each supplier will charge VAT on the sale price of such goods and costs will be incurred upon which VAT will be paid until the item is finally ready for sale to the ultimate consumer who will then also pay VAT on the final product. All the VAT paid by each supplier during the manufacturing or production process can be set off against the VAT charged and collected and the net VAT amount is then paid over to the relevant government authority.

Who has to register for VAT?

Other than exempt entities all businesses with an annual turnover of AED3.75m or more have a mandatory obligation to register for VAT. Businesses with annual turnovers of between AED1.87m and AED3.75m will be able to voluntarily register for VAT.

Who pays the VAT?

Ultimately the end user or consumer, however VAT is paid at various stages and VAT paid (input VAT) is set off against VAT collected (output VAT) and the net of these is paid to the relevant authorities.

What is a VAT input credit?

It is the tax that a manufacturer or service provider pays to his suppliers. This is offset against the VAT collected from the end user and the balance paid to the relevant government authority.

What are VAT Invoices?

VAT invoices are invoices generated on the sale of goods and services reflecting the sale price of the goods or the cost of the services and also reflects the amount of VAT levied on the value of the sale or services. In order to prove the amounts payable to the relevant authorities, VAT invoices, both paid and collected, need to be issued by both your suppliers and your business.

What is the difference between exempt and zero rated supplies?

Exempt goods or services, as are declared as such by the relevant government authority will not be subject to VAT being charged thereon and suppliers of such goods or services will not be allowed to charge VAT thereon.

Zero rated goods or services are subject to VAT, but at a rate of zero rate ie. 0%. There is a very important distinction as suppliers of zero rated goods or services may claim any VAT paid while exempt suppliers may not.

What about imports and exports?

VAT is expected to be charged on imports and is payable at the time of import, while exports are usually zero rated.

How will VAT impact my business?

Usually most costs are carried by the consumer, however if your turnover is below the annual threshold or you are supplying exempt goods or services you will carry the cost. This cost may or may not be passed on depending on market conditions. Even if you are recovering the input VAT there will be a cash flow impact.

Do I need to have audited financial statements?

Yes, all VAT registered vendors will have to prepare audited financials.

What if I don't register for VAT?

Tax authorities worldwide are very strict on this and consequences are usually severe. If your annual turnover is above the threshold you should prepare your business and register accordingly to avoid penalties.

What should I be doing now to prepare for VAT?

There is a multitude of aspects within a business that will be affected on the VAT implementation date.

A few are listed here:

- Set up a project team to analyze the impact VAT will have on your business or employ a suitable consultancy to attend thereto
- Conduct a due diligence to assess the impact of VAT on systems, staff, cash flow, procedures, suppliers, customers and all aspects of your business
- Implement the systems, processes and procedures required to minimize and optimize your VAT administration proficiencies
- Train your staff and management
- Ensure your suppliers will be issuing compliant VAT invoices and that your business has an efficient accounting system to do the same
- Be ready for the transition date by correctly processing all outstanding accounts, ensuring that your sale prices are adjusted and making sure that your business financial statements are up to date, amongst others
- Ensure that your supplier agreements, sales agreements, license agreements and franchise agreements (to name but a few) are updated to provide for VAT related issues
- Introduce VAT policies and manuals to ensure compliance by staff and management
- Re-evaluate your current corporate set up and corporate accounting practices to ensure they are Vat effective.

How can The VAT Services Group help?

Our team have vast experience in VAT issues and have been through the hardship of previous VAT implementations and are specialists in all aspects VAT management procedures and can provide the necessary expertise to ensure a successful implementation project for your business enterprise.

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