

# TIME FOR TAXES

## Frequently Asked Questions

### What is VAT?

**V**alue Added Tax (VAT) is an indirect tax on consumption and it applies to most goods and services. VAT is levied on business transactions, i.e. on goods and services supplied in the course of business.

Although VAT applies to most goods and services, in countries where VAT operates there are normally some exceptions. The Gulf Cooperation Council (GCC) States are expected to adopt a standard VAT system with a single rate applying to most goods and services and potentially some limited exceptions such as basic food items, healthcare and education.

Currently five countries in the Middle East region (Egypt, Jordan, Yemen, Lebanon, Palestinian Territories) have adopted VAT or similar broad based consumption tax system (General Sales Tax (GST)). In detail VAT is levied at each stage in the chain of production and distribution and is collected by businesses on behalf of the VAT authorities. VAT is ultimately paid by the end consumer.

### Why is VAT being considered by the GCC?

Governments have been considering the need to diversify income sources. VAT is seen as an effective tool in raising revenue to achieve government objectives whilst preserving the neutrality for businesses. If designed and operated correctly and efficiently it can provide significant revenues with limited administrative costs and impact on business.

### When will VAT be introduced by the GCC?

The exact date is not yet known though it is expected that GCC States will most likely introduce VAT on 1 Jan 2018 or by 1 Jan 2019 at the latest. Until further official announcements are made and national legislation issued, the exact date for each GCC country is yet to be confirmed.

### What is the anticipated rate of VAT?

It is expected that the standard rate of VAT will be 5%.

### Will VAT apply to everything?

Some exceptions may apply mainly driven by socio economic policy considerations. For example, some items may be subject to VAT at 0% (zero-rated), such as basic food – where no VAT applies but the related VAT incurred on purchases can be deducted.

Other areas such as healthcare and education may be exempt from VAT – where VAT will not apply and

the related VAT incurred on purchases cannot be deducted.

### What about imports / exports of goods?

Based on general VAT principles, VAT will apply to goods imported into the GCC and this will be payable at the time and place of import. Exports (of goods to countries outside the GCC territory) will not be subject to VAT (generally zero-rated).

### Will it affect prices / margins?

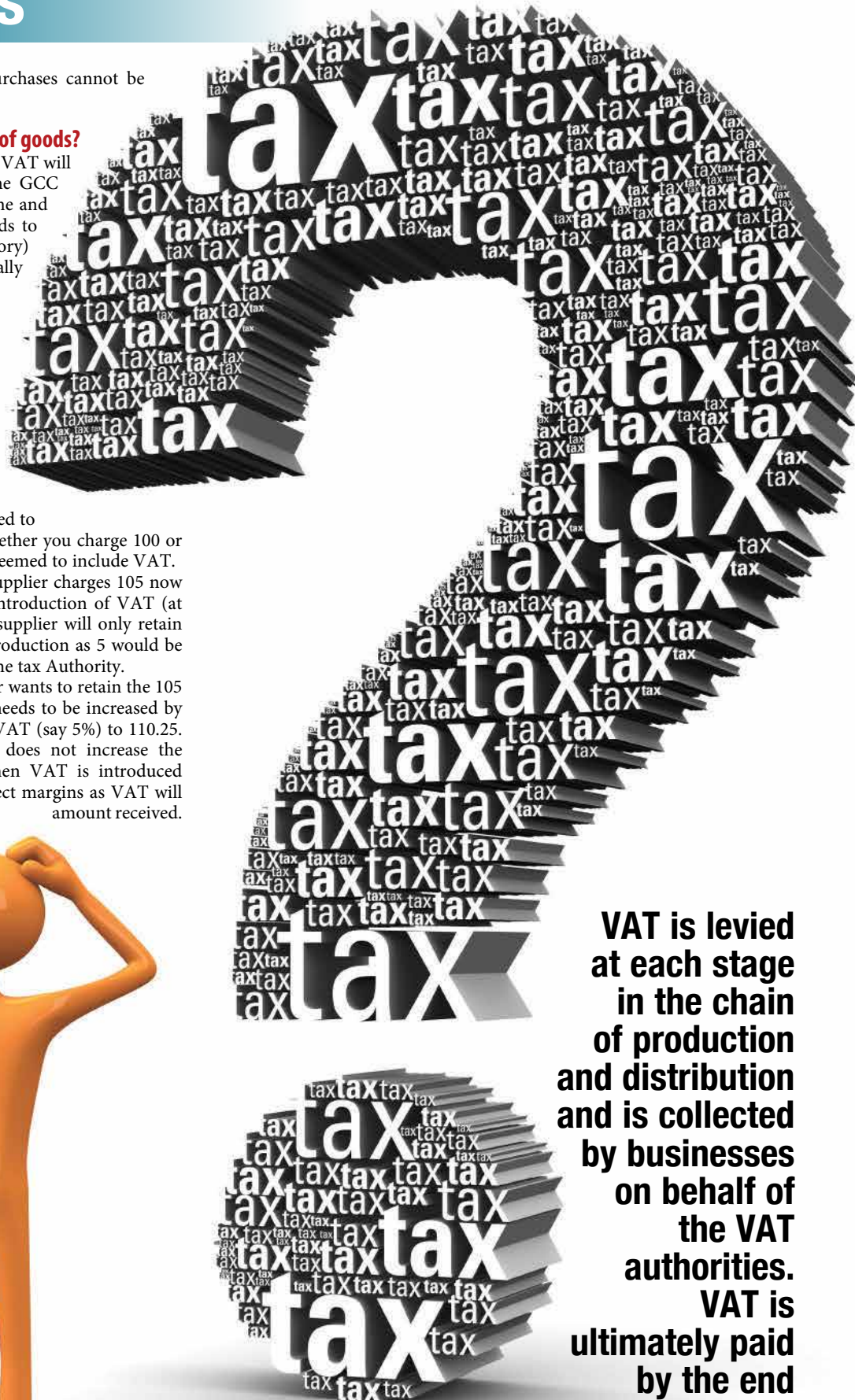
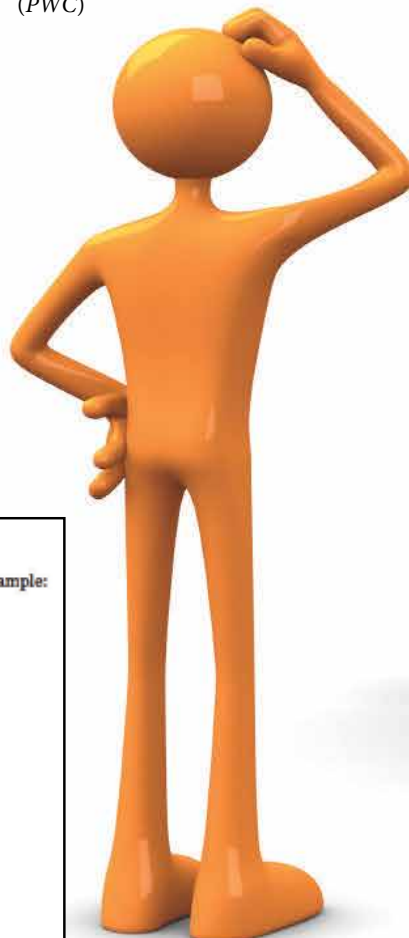
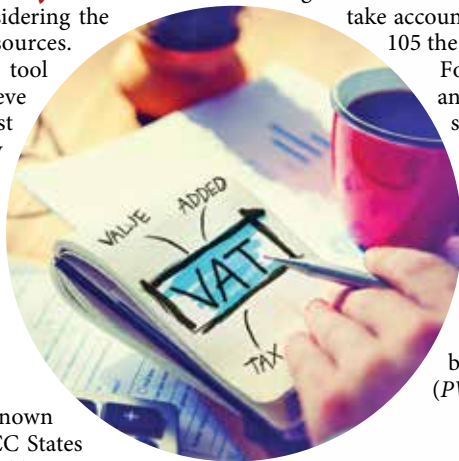
VAT is a tax on consumption and is levied on the price charged to the customer. Therefore it is expected that prices will increase by the amount of VAT.

However, it is ultimately a matter for suppliers to determine the price of their goods / services. The price will need to

take account of VAT, i.e. whether you charge 100 or 105 the amount will be deemed to include VAT.

For example, if a supplier charges 105 now and 105 after the introduction of VAT (at say 5%) then the supplier will only retain 100 after the introduction as 5 would be due as VAT to the tax Authority.

If the supplier wants to retain the 105 then the price needs to be increased by the amount of VAT (say 5%) to 110.25. If the supplier does not increase the selling price when VAT is introduced then this will effect margins as VAT will be due on the amount received. (PWC)



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### How does VAT work?

VAT paid on purchases/ expenses is credited against VAT charged on supplies made. For example:

10,000	Business charges VAT on sales (Output VAT)	7,000
(6,000)	Business pays VAT on purchase (Input VAT)	(9,000)
4,000	NET VAT (Output VAT – Input VAT)	(2,000)
Positive		
Payable to VAT Administration		
Negative		
Refundable from the VAT Administration		