VAT introduction in the UAE/GCC

Impact on DMCC companies

December 2017

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Agenda

Key objectives of this session

Why it is important to understand VAT

Decoding VAT concepts

VAT impact and issues for DMCC member companies
Key objectives of this session
Key objectives

To raise VAT awareness

To understand the potential impacts of VAT on your business

To understand the VAT considerations/ issues related to DMCC companies

To guide you to get VAT ready
Why understanding VAT is important
Why understanding VAT is important?

VAT is a transaction tax - must be considered for *every* purchase and *every* sale.

What are the risks?

- Failure to identify the impact of VAT
- Underpaid VAT
- VAT costs
- Penalties
- Reputation
- Damage to commercial relationships

This is to help you:

- Understand how VAT works
- Make informed decisions on how VAT might affect your business
- Plan and Manage the business’s VAT position

Decisions relating to VAT are present in every aspect of business

- *everyone can get involved!*
What is VAT?
**What is VAT?**

- **Value Added Tax** is a consumption tax and is collected on business transactions and imports.

- VAT charged at each stage in the supply of goods and services.

- VAT registered business that makes business use of the supply will receive a VAT credit unless making exempt supplies.

- VAT is ultimately borne by the final consumer; therefore, **VAT is not a cost to the business**.

- There are many exceptions and complexities!

- VAT (or GST) now applies in over 167 countries at varying rates.
What is a supply?

VAT will be due where a taxable supply is being made by a taxable person

- A supply of goods and services
- In the UAE
- For a consideration
- By any person
- In the course of conducting business
- VAT will be due where a taxable supply is being made by a taxable person
### Type of supply

<table>
<thead>
<tr>
<th>Taxable supply</th>
<th>Non-taxable supply</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard-rated supply</strong>&lt;br&gt;Proposed VAT rate 5%&lt;br&gt;Zero-rated supply&lt;br&gt;VAT rate 0%</td>
<td>Exempt supply under the VAT law&lt;br&gt;Outside the scope of VAT&lt;br&gt;Not a supply or disregarded supply</td>
</tr>
</tbody>
</table>

**Cannot charge VAT on a non-taxable supply**
Types of supply

Zero rated
- Exports of goods and services (outside GCC)
- International transportation and ancillary services
- Supplies of identified sea, air and land means of transportation
- Identified investment grade precious metals
- Specified education services
- Specified Healthcare, medicines and certain medical equipment
- Newly constructed residential properties that are supplied for the first time (and within 3 years of their construction)
- First lease of new residential
- First supply of charitable buildings and buildings converted from non-residential to residential
- Supplies of crude oil and natural gas

Exempt
- Financial services (margin based)
- Sale of Bare land
- Local passenger transport
- Lease or purchase of existing residential properties

Standard rated
- Everything else (incl. basic foodstuffs, commercial property, water, commercial leasing, property management fees, engineering services, imported goods and services)
Decoding VAT concepts
VAT technical areas

- **Registration threshold**
- **Time of supply**
- **Place of supply**
- **Compliance** (VAT accounting/collection)
- **VAT recovery** (Tax invoices)
- **Scope** (Goods & services)
- **Types of supplies** (VAT rates)

**GCC regulations**

**Taxable person**
Place of supply rules will determine whether a supply is made in the UAE or outside the UAE for VAT purposes:

- If the supply is treated as made outside the UAE: no UAE VAT will be charged
- If the supply is treated as made in the UAE: VAT may be charged

**Goods**

- **Basic rule**: the place of supply is the location of goods when the supply takes place
- Special rules, for example –
  - Cross-border supplies – that is supplies which involve parties in different countries
  - Water and energy
  - Real estate

**Services**

- **Basic rule**: the place of supply is where the supplier has the place of residence
- Special rules, for example –
  - Cross-border supplies of services between businesses
  - Electronically supplies services – where services are used or enjoyed
Examples of supply of goods

**Domestic Supplies**
- Abu Dhabi
- UAE VAT
- Goods delivered or collected
- Dubai

- No movement of goods outside the UAE
- Subject to the applicable VAT rate in the UAE – standard or zero-rated

**Exports to outside the GCC**
- UAE
- Zero-rating
- Goods delivered
- EUROPE

- Export of goods: place of supply is still UAE

**B2B Import into UAE from outside GCC**
- EUROPE
- UAE VAT – Reverse Charge Mechanism
- Goods delivered
- UAE

- Import of goods: place of supply is the UAE
- The recipient accounts for VAT under the reverse charge mechanism except where goods will be re-exported to another GCC State
Time of supply

Determines when your liability to pay the VAT arises

 Liability for VAT arises at the earlier of:

- when goods are removed/made available/services are performed;
- when tax invoice is issued; or
- when payment is received (in part or full)

For a contract with periodic payments or consecutive invoices, liability for VAT arises at the earlier of the following:

- Issuance date of the tax Invoice
- Payment date shown on tax Invoice
- Date of Payment

Provided the above take place within one year of the supply
## VAT treatment on imported goods

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods</td>
<td>$10,000</td>
</tr>
<tr>
<td>Insurance and freight</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>CIF Value</strong></td>
<td><strong>$12,000</strong></td>
</tr>
<tr>
<td><strong>Customs Duty @ 5%</strong></td>
<td><strong>$600</strong></td>
</tr>
<tr>
<td><strong>Value of import</strong></td>
<td><strong>$12,600</strong></td>
</tr>
<tr>
<td><strong>Excise Tax</strong> (if applicable) @ 100% (on RSP, assumed $20,000 for this example)</td>
<td><strong>$20,000</strong></td>
</tr>
<tr>
<td><strong>Value of good (incl. customs and excise tax)</strong></td>
<td><strong>$32,600</strong></td>
</tr>
<tr>
<td><strong>VAT @ 5%</strong></td>
<td><strong>$1,630</strong></td>
</tr>
<tr>
<td><strong>Selling price</strong></td>
<td><strong>$34,230</strong></td>
</tr>
</tbody>
</table>

VAT is charged on imported goods at the same rate as goods supplied from UAE.

**The value on which VAT is charged:**

- Full Landed cost of goods (incl. freight, insurance, or any other charges); **plus**
- Customs Duty as determined according to customs rules for valuation; **plus**
- Excise Tax as determined by local rules.
Reverse charge mechanism - what is it and why?

- **Purpose is to avoid distortion of competition**
- **It is a mechanism to self account for VAT**
- **Shifts the place of supply and responsibility to account for VAT from the seller to the buyer**
- **Reverse charge on imported services is required (e.g. importation from third parties etc.) where business is registered for VAT**
- **Should not be a cost to a business that makes taxable (5% or 0%) supplies as VAT is reported and recovered on same VAT return; no actual payment made**
- **Cost result for a business making exempt supplies (VAT to be reported but not recoverable)**
- **Difficult compliance requirements – need to capture, report and recover**

Diagram:
- **UAE Company**
- **Import of services**
- **Overseas Company**
Registration and Compliance
Registration requirements - Based on legal entity

To be a taxable person you must be, or required to be, registered for VAT

Below AED 187,500  AED 187,500– 375,000  AED 375,000 and Above

Cannot register  Voluntary registration  Mandatory registration
VAT compliance

— Valid invoicing
— Maintain books of account
— Typically Monthly/quarterly filing - VAT returns
— Minimum 5 years - VAT records maintained
— Penalties have been defined

Quarterly/monthly returns due by say, 28th of the following month
Transitional provisions
Taxable event under VAT regime

1 Jan 2018

1. 12 Feb 2018
   - Company orders goods/services

2. 18 March 2018
   - Goods delivered/services performed but no payment received

3. 2 June 2018
   - Tax invoice issued by Vendor

4. 15 Sept 2018
   - Payment in full

Special rules for retentions/advance payments/continuous supply of services

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Transitional provisions

1 Jan 2018

No VAT

With VAT

1 Nov 2017

Company orders goods/services

18 Dec 2017

Tax invoice issued by Vendor

1 Jan 2018

Goods delivered/services performed but no payment received

15 Feb 2018

Payment in full

Special rules for retentions/advance payments/continuous supply of services
Transitional provisions

1 Jan 2018

No VAT

1 Nov 2017

Company orders goods/services

1 Jan 2018

Goods delivered/services performed but no payment received

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Tax invoice issued by Vendor

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Payment in full

Special rules for retentions/advance payments/continuous supply of services

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Transitional provisions

1 Jan 2018

No VAT  With VAT

1 Nov 2017

12 Dec 2017

2 Jan 2018

15 Feb 2018

Company orders goods/services

Goods delivered/services performed but no payment received

Invoice issued by Vendor

Payment in full

Special rules for retentions/advance payments/continuous supply of services
VAT impact on DMCC member companies
Possible VAT impact on service companies

Supply of services to overseas – likely to be treated as an export
- Zero-rated

Supply of services to DMCC customers
- Standard rated

Supply of services to mainland UAE customers
- Taxable – Standard Rated
Possible VAT impact on service companies (contd)

Customers (GCC countries which have NOT implemented VAT Law)

Supply of services to GCC countries which have not implemented VAT Law

Zero-rated

Supply of services to GCC countries which have implemented VAT Law

Taxable in the receiving country – RCM

DMCC service company

Reverse charge mechanism (RCM)

Customers (GCC countries which have implemented VAT Law)

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Possible VAT impact on trading companies

Manufacturers/Suppliers (Overseas) → Distribution centre (Overseas) → Buyer (Overseas)

- PURCHASE ORDER2 → INVOICE 1
- PURCHASE ORDER1 → INVOICE 2

Out of scope supply

Supply of goods by way of drop shipment (re-invoicing)

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Possible VAT impact on trading companies (contd)

- **Customers (Overseas)**
  - Zero-rated
  - Supply of goods to overseas countries

- **DMCC service company**
  - Standard rated
  - Supply of services to DMCC Customers

- **Customers (DMCC)**
  - Taxable – Standard Rated
Possible VAT impact on trading companies (contd)

Supply of goods by way of drop shipment (re-invoicing)

Supply of services to mainland UAE customers

Out of scope supply

Taxable – Standard Rated

Manufacturers/Suppliers (Overseas)

DMCC Trading company

UAE Distributor

Distribution centre (China)

Customers (Mainland UAE)

INVOICE 1

PURCHASE ORDER1

INVOICE 2

PURCHASE ORDER2

Out of scope supply

Customers (Mainland UAE)

INVOICE 3

Standard rated

Physical flow

Physical flow

Physical flow
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