Value Added Tax (VAT) Readiness

Lessons learned from the implementation of VAT in the GCC

Introduction

In November 2016, the Gulf Cooperation Council ('GCC') States agreed on a common legal framework to introduce Value Added Tax ('VAT') in the region ('GCC VAT Framework Agreement'). Further to this, the Kingdom of Saudi Arabia and the United Arab Emirates have implemented VAT effective 1 January 2018, followed by The Kingdom of Bahrain on 1 January 2019 and Sultanate of Oman on 16 April 2021. At present, the State of Qatar and the State of Kuwait are the two remaining States to implement VAT in line with the GCC VAT Framework Agreement.

Status of VAT implementation in the GCC

Qatar

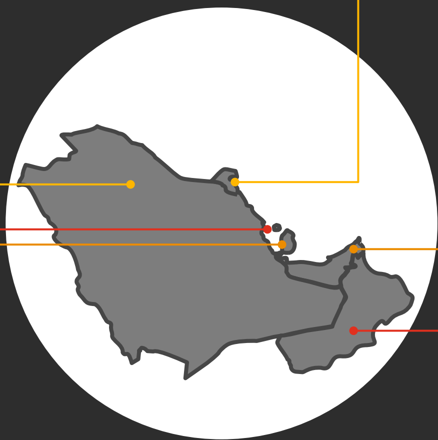
VAT is not yet introduced in Qatar

KSA

VAT standard rate of 15% effective from 1 July 2020 (reduced VAT rate 0%). VAT at 5% was introduced from 1 January 2018

Bahrain

VAT standard rate of 10% effective from 1 January 2022 (reduced VAT rate 0%). VAT at 5% was introduced from 1 January 2019



Kuwait

VAT is not yet introduced in Kuwait

UAE

VAT standard rate of 5% introduced from 1 January 2018 (reduced VAT rate 0%)

Oman

VAT standard rate of 5% introduced from 16 April 2021 (reduced VAT rate 0%)

Following the implementation of VAT in the GCC, businesses of various sizes and across all sectors encountered numerous challenges, spanning operational, financial, and other areas. This report explores how VAT affects businesses, the common obstacles they encounter, lessons learned from VAT implementation in other GCC countries, and provides strategies for efficiently addressing these challenges and readying businesses for VAT in Qatar. Navigating the challenges of VAT implementation in the GCC requires businesses to not only address specific obstacles but also draw essential lessons from the experiences of other countries that have undergone similar VAT transitions.

As part of our ongoing aim to enhance our clients awareness, we hosted our annual Tax and Legal Seminar in Qatar in February 2024 to discuss regional and local tax advancements, with a key focus on the implications of Qatar's VAT introduction on businesses and the necessary preparations for VAT compliance.

VAT impact on your business and sectors that will be most affected by its introduction

VAT will affect all businesses in Qatar, either directly or indirectly. In theory, it should not create a net cost for businesses, except for certain exceptions like financial services. However, looking at previous VAT introductions in other GCC countries, it is apparent that the implementation of VAT has had a notable impact on businesses both operationally and financially. This is why we advise that businesses need to assess their procurement processes, operating models, IT systems, contracts, and legal structures promptly to prepare for VAT implementation and minimise the potential impact of this change.

A comprehensive grasp of the nuances within all sectors and industries within the country is vital for businesses to effectively navigate the VAT environment, given that each one may be impacted differently by VAT regulations. These variations arise from the unique characteristics of each sector and the specific VAT regulations stipulated by the law.

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What are some of the main challenges faced by companies in the GCC as they prepare for VAT, and which areas should you focus on to ensure a smooth transition?

01

Complexity of regulations: VAT will require significant time and resources to understand and implement correctly given the complexity of regulations. Furthermore, sectors such as financial services, real estate, healthcare, education, oil and gas, transportation, telecommunication, food & beverage, leisure, cultural and sporting events may have exemptions or special rules under VAT law that require careful interpretation and compliance.

02

System upgrades/changes: Many companies will need to upgrade their systems as they may have become outdated, given they may have not been designed with taxation in consideration. These systems often lack the capability to handle the necessary VAT related processes required to accurately determine tax treatment for each transaction.

The absence of proficient resources results in the presumption that the design of VAT systems falls solely under the role of IT. It is therefore imperative for the IT function to collaborate closely with the finance/tax function to guarantee that systems are adequately equipped at a data level. This disconnect between IT and finance/tax functions presents numerous challenges as without guidance from both, the IT team will remain unaware of the specific data requirements for generating a VAT return.

03

Supply chain impacts: VAT can have significant impacts on supply chains, affecting various stakeholders from manufacturers to consumers. Here are some key ways VAT can influence the supply chain:

- **Costs and pricing:** VAT adds an additional cost to goods and services at each stage of production and distribution
- **Cash flow:** VAT payments and refunds can affect cash flow for businesses
- **Compliance burden:** Businesses must ensure compliance with VAT regulations, including proper invoicing, record-keeping, and reporting. This compliance burden can add administrative costs and complexity to supply chain operations
- **International trade:** VAT rules can vary between countries, impacting cross-border transactions
- **Risk management:** Non-compliance with VAT regulations can lead to penalties and legal consequences. Businesses must manage the risk of VAT-related errors and ensure compliance throughout their supply chains

04

Training and education: Staff members need to be educated and trained on VAT regulations and compliance procedures to ensure that they understand their roles and responsibilities. Investing in training and education regarding VAT is essential for promoting compliance and efficiency within an organisation.

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What can be learned from the VAT experiences in other GCC countries that implemented VAT?

As we reflect on previous VAT implementations, key lessons have emerged, providing valuable insights for businesses navigating this complex landscape.

Short time frame for implementation:

Typically, tax authorities in the GCC offer a limited window for VAT implementation, presenting notable hurdles. It is important to factor in the potential risks linked with delayed government announcements, as observed in other GCC nations, where a 2 to 6 month timeframe led to businesses grappling with unpreparedness for the VAT launch date.

Lack of investment in VAT learning and development:

Most businesses primarily focus on the financial and tax implications when implementing changes, overlooking the broader impacts on operations, procurement, sales, administration, human resources, and information technology. It's crucial for businesses to provide training for their staff regarding VAT implications and to onboard internal or external VAT specialists to help in implementation and ongoing compliance. This proactive approach helps minimise errors and mitigate the risk of fines.

Gaps in IT implementation strategy:

As mentioned above, the problem is that businesses have tight deadlines for putting VAT into action, which makes it hard for them to plan their IT strategy well. They struggle to figure out how much they need to upgrade and change their systems in the short time they have, so they might end up choosing the wrong vendors or solutions.

Internal documentation for ambiguous VAT areas:

Businesses might face a challenge due to their failure to establish internal documentation for ambiguous VAT areas. This situation highlights their susceptibility to potential challenges from tax authorities, due to the lack of internal documentation necessary to support their VAT positions in these uncertain areas.

Businesses getting ready for VAT in the GCC need to handle some tough problems and learn from past experiences. Past VAT rollouts showed that overlooking important parts of the process can cause big problems. Tax authorities have noticed these mistakes, showing how crucial it is for businesses to deal with VAT properly to avoid getting fined. Businesses can learn from past mistakes and be smart about VAT in the future.

The key activities that businesses should undertake to prepare for VAT implementation and how PwC Qatar can assist?

At PwC Qatar, our dedication lies in providing comprehensive solutions that help your business in effectively and efficiently managing the implementation of VAT.

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What businesses need to do | **How PwC can help**

Now

Phase 1: Plan and Analyse

- identify project resources
- understand the “as is” situation
- assess the impact of VAT

Phase 1: Scope/Deliverables

- identify key stakeholders
- communication/resource plan
- project governance structure
- identify information requirements and VAT awareness workshop

As soon as possible, needs 1-2 months

Phase 2:Assess Impact

- map supply chain process and transactions to VAT requirements
- review legislation and assess impact
- prepare issue log
- review sample contracts
- prepare implementation plan

Phase 2: Scope/Deliverables

- transaction mapping
- contracts review
- legislation review and impact assessment
- IT impact assessment report

Needs around 4-6 months

Phase 3: Implement (legislation is published)

- prepare and assist with implementation
- assistance with IT VAT solution design
- assist with IT implementation
- assistance with VAT registration

Phase 3: Scope/Deliverables

- VAT implementation plan
- IT testing
- training and VAT manual
- registration

Phase 4:Go Live

- ongoing VAT compliance
- preparation/review of VAT returns
- assistance with VAT audit
- ongoing VAT training

Phase 4:Scope/Deliverables

- assist with/review of VAT returns and submission
- report on gaps and lessons learned

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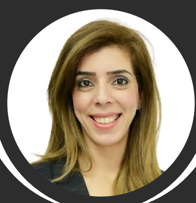

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