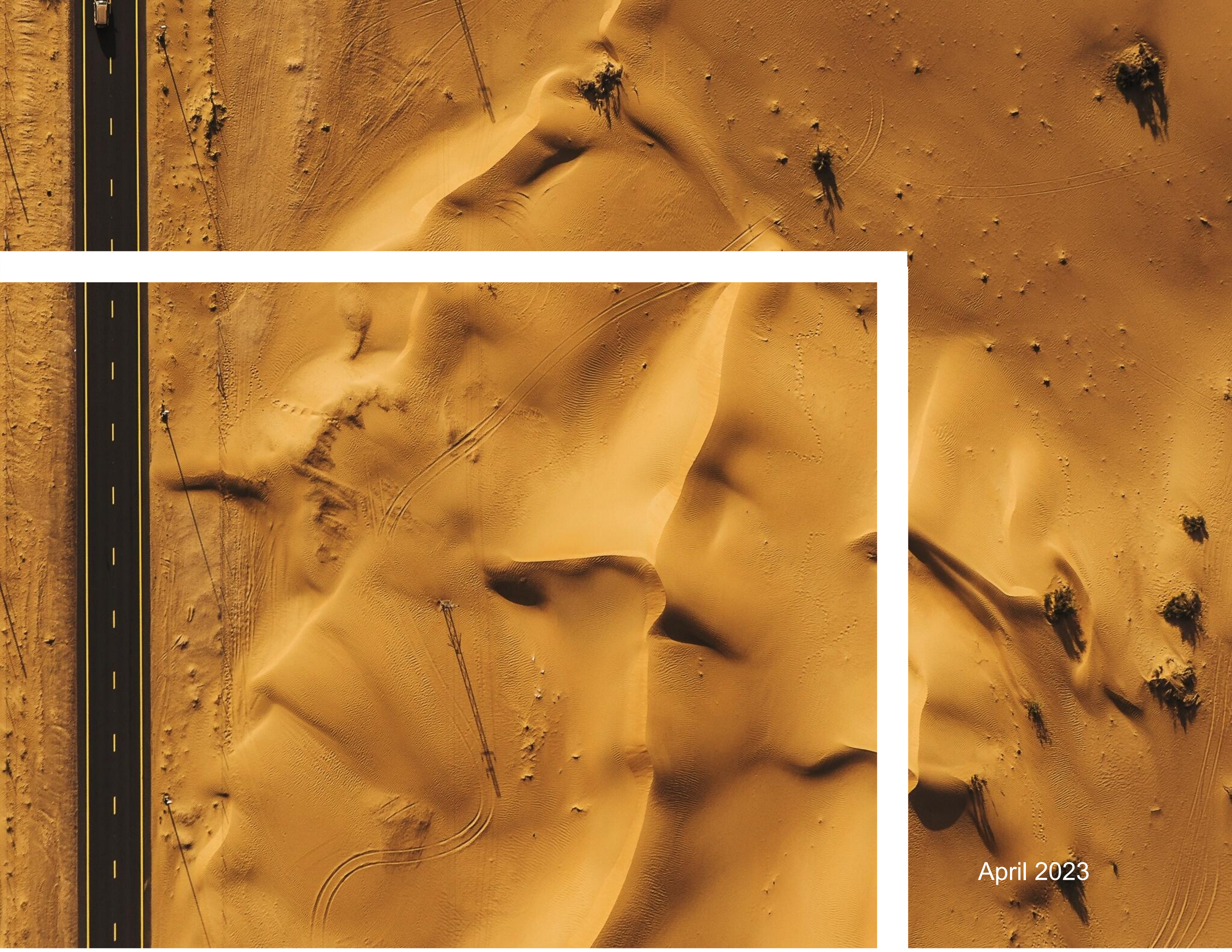

April 2023

GCC Indirect Tax News Roundup

Quarter One 2023

PwC Middle East
Tax & Legal Services

Trade Agreements in the GCC

Trade agreements are economic agreements that aim to reduce or eliminate tariffs, quotas, and other trade barriers. These agreements are typically negotiated by governments to promote international trade and economic growth by allowing businesses in participating countries to access new markets.

There are different types of trade agreements and arrangements such as Free Trade Agreements (FTAs) and Comprehensive Economic Partnership Agreements (CEPAs). Both agreement types aim to lower customs duties, promote trade in goods and services, and eliminate non-tariff barriers.

The GCC countries are part of a customs union which allows duty free movement of goods between GCC countries. The GCC (as a bloc) is party to several FTAs including with Singapore and the EFTA countries (Switzerland, Liechtenstein, Norway, Iceland). In addition, each GCC country is a member of the Greater Arab Free Trade Area (GAFTA) which provides duty-free access to the wider Arab region (19 markets). The GCC is also currently negotiating agreements with other key trading partners such as the UK, South Korea and China.

The GCC countries have also negotiated their own trade agreements. Bahrain and Oman both have their own trade agreements with the United States. The UAE also has CEPAs with India.

Trade agreements are gathering focus in the region. The UAE has recently concluded negotiations with Indonesia and Turkey with a view to ratifying these later this year. The UAE government has also announced the commencement of negotiations with other key trading partners such as Kenya, Ukraine and Colombia. Negotiations with Georgia were finalised in March 2023. The UAE has committed to signing 20+ additional CEPAs before 2031.

Indirect Taxes in the GCC

An overview of the current indirect taxes applicable in the GCC

UAE

VAT standard rate of 5% (reduced VAT rate 0%).

Excise Tax rates:

100% for tobacco, tobacco products, electronic smoking devices and energy drinks; and

50% on carbonated and sweetened drinks.

KSA

VAT standard rate of 15% (reduced VAT rate 0%).

Real Estate Transaction tax (**RETT**) applicable at 5% (effective 4 October 2020).

Excise Tax rates:

100% for tobacco products, electronic smoking devices and energy drinks; and

50% on soft drinks and sweetened drinks.

Bahrain

VAT standard rate of 10% (reduced VAT rate 0%).

Excise Tax rates:

100% for tobacco (and related) products and energy drinks; and

50% on soft drinks.

Oman

VAT standard rate of 5% (reduced VAT rate 0%).

Excise Tax rates:

100% on tobacco and related products, energy drinks and special purpose goods (pork & alcohol products), 50% on carbonated drinks.

Qatar

VAT is not yet introduced in Qatar.

Excise Tax rates:

100% for tobacco products and energy drinks and special purpose goods (pork & alcohol products); and

50% on carbonated drinks.

Kuwait

VAT and Excise Tax are not yet introduced in Kuwait.

Table of contents

01

UAE

Indirect Tax Updates

Value Added Tax

Criteria and conditions for Electronic Commerce for the purpose of the amendment to Emirates' reporting of VAT

The Minister of State for Financial Affairs issued Ministerial Decision No. 26 of 2023 on the Criteria and Conditions for Electronic Commerce for Purposes of Keeping Records of the Supplies Made ("the Decision").

In addition, the UAE Federal Tax Authority ("FTA") published Public Clarification VATP033 clarifying the amendment to Emirates' reporting of VAT.

The Decision sets out that the supply of goods and services shall be considered to be an electronic commerce supply via an Electronic Commerce Medium where all of the following criteria are conditions are met:

- The goods and services are listed and advertised on an Electronic Commerce Medium.
- The goods and services are ordered through the Electronic Commerce Medium, regardless of whether the payment is made online or not.
- In case of a supply of goods, the goods are delivered to a location specified by the customer whereby this location is not owned by the supplier nor operated by that supplier.
- In case of a supply of services, the services are provided, or the right to receive the services is granted to the customer with minimal or no human intervention.

Further information on the Decision and Public Clarification are accessible through this link.

United Arab Emirates

Value Added Tax

FTA published an updated version of the Input Tax Apportionment Special Methods Guide (VATGIT1)

The updated version of the guide is user friendly and includes extensive examples on how to apply each of the input tax apportionment special methods.

Taxpayers should note the following points which are reiterated in the guide:

<u>Variance in result is more than 10%</u>

- Taxpayers are required to notify the FTA in case the result produced over the full tax year by applying an approved special method differs by more than 10% from the result the same method generated at the time of application.
- Upon receiving the notification, the FTA would consider if the approved method is still suitable and can be used by the business, or the FTA may require the business to submit a new request for a special method application to continue using the same or an alternative method.

<u>Expiry of the approved period</u>

- Usually, the FTA approves a method for 2 or 4 years, depending on the method. Where a business wants to continue using the same method after the expiry of the approval period, the FTA recommends that a new application be submitted at least 40 business days before the expiry of the approval period.
- Similar information and calculations as were submitted in the original application are also required to be submitted in the new application, based on the data of the preceding 12 months.
- Any major changes should be highlighted, e.g. changes in the business, the nature of the supplies and / or expense allocation principles etc.
- Further, the new application should contain a comparative overview, between the original and new applications, of the major fluctuations (if any) in the recovery rates and sectors (where applicable), along with the reasons.

02

KSA

Indirect Tax Updates

KSA

Value Added Tax

Circular on loyalty programs and VAT implications

The Zakat, Tax and Customs Authority (‘ZATCA’) published a Circular on its official website explaining the VAT implications (along with illustrative examples) associated with various types of ‘Loyalty programs’ offered by financial institutions operating in KSA.

The Circular, issued in Arabic at the moment, also contains some important definitions such as what constitutes an eligible voucher, ineligible voucher, consideration etc, and can be accessed here.

Further information on the Circular are accessible through this link.

KSA

Value Added Tax

Circular on the VAT treatment of certain supplies in the Financial Services Industry

ZATCA published a Circular on its official website to provide guidance on the application of VAT law and its Implementing Regulations on the following transactions:

- Supply of services by KSA based financial institutions to customers located outside KSA.
- Incentives provided by international credit card issuers and payment network operators to KSA based financial institutions.
- Interchange services and associated fees.

The Circular also includes some important definitions such as interchange fee, issuer bank, acquirer bank etc in the context of interchange services which are not available in the VAT law and its Implementing Regulations.

The Circular, issued in Arabic as well as English languages, also includes illustrative examples and guidance material to facilitate the taxpayers in assessing and applying the correct VAT treatment on the aforementioned transactions.

PwC issued a detailed newsalert on this development which is accessible through this link.

KSA

Value Added Tax

Proposed criteria for used cars: Eligible goods under profit margin method for VAT purposes

ZATCA published a proposed criteria for ‘used cars’ to be classified as ‘eligible goods’ for applying profit margin method under Article 48 of the KSA VAT Implementing Regulations.

The proposed classification criteria was published on the Public Consultation Platform of the National Competitiveness Center on 4 January 2023 - for public consultation.

Further information is accessible through this link.

KSA

Value Added Tax

Circular on Real estate VAT exemption and the impact on proportional deduction calculation

ZATCA published a Circular on its official website explaining the impact of real estate VAT exemption on proportional deduction calculation.

The Circular, issued in Arabic at the moment, also highlights areas such as the alternate mechanism for calculating the proportional deduction ratio in real estate financing cases, and can be accessed here.

Effective 4 October 2020, the VAT treatment on the supply of real estate made by a taxable person in KSA was changed from a standard rated taxable supply to a VAT exempt supply pursuant to Royal Decree No. (A/84) issued on Safar 14, 1442 H (the disposal of real estate became subject to a real estate disposal tax at 5% of the total disposal value of the property).

The above change resulted in an increase in the value of exempt supplies that a taxpayer has to use to calculate its proportional deduction ratio for computing residual input VAT. Residual input VAT represents input taxes which relates to both taxable and exempt supplies made by a taxpayer.

PwC issued a detailed newsalert on this development which is accessible through this link.

KSA

Value Added Tax

Input VAT refund for Eligible Persons

In accordance with the provisions of Articles 70 and 72 of the VAT Implementing Regulations, eligible persons not carrying out economic activities in the KSA and who have incurred VAT during the calendar year 2022, are allowed to apply for a VAT refund by 30 June 2023.

For details such as eligibility criteria, procedural aspects as well as timelines etc, please refer to the detailed newsalert issued by PwC which is accessible through this link.

KSA

Value Added Tax

Proposed amendments to the provisions of Chapter Sixteen of VAT Law - Tax evasion and penalties

ZATCA proposed amendments to the provisions of Chapter Sixteen of the KSA VAT Law related to Tax Evasion and Penalties and also suggested the addition of a new article under the same chapter.

The proposed amendments were published on the Public Consultation Platform of the National Competitiveness Center on 12 February 2023 - for public consultation.

Further information on the amendments of the VAT Law are accessible through this link.

KSA

RETT

Guide issued by GSZTCC on RETT regulations and appeal process

The General Secretariat of Zakat, Tax and Customs Committees (‘GSZTCC’) published a guideline on its official website explaining the Committees interpretation of the Real Estate Transaction Tax (‘RETT’) regulations and related appeal procedures.

The guideline, issued in Arabic at the moment, also contains guidance on the interpretation of the applicability of RETT, exemptions from RETT, application of penalties, tax evasions and appeal process on ZATCA decisions etc, and can be accessed here.

Further information is accessible through this link.

KSA

E-invoicing

Electronic Invoicing - Integration Phase - Third Group (Wave 3) Updates

On 24 March 2023, the ZATCA announced the criteria for the Electronic invoicing (E-invoicing) integration phase Wave 3 participants.

As per the announcement, VAT registered taxpayers that have an annual taxable revenue (taxable supplies) exceeding SAR 250 million during the calendar year 2022 or 2021, are required to integrate their E-invoicing solutions with the FATOORA platform starting from 1 October 2023.

The official announcement can be accessed through this link.

Further information is accessible through this link.

03

Oman

Indirect Tax Updates

Oman

Excise Tax

Expansion of the Digital Tax Stamp system to Carbonated Drinks, Energy Drinks and Sweetened Drinks

The Oman Tax Authority ('OTA') stipulated the rules, terms and conditions for implementation of the Digital Tax Stamp scheme for Excise goods in Oman through Ministerial Decision No. 21/2022.

As part of the initial phase, the scheme focused on cigarettes and was later expanded to include shisha and other tobacco products. The OTA required affixing digital tax stamps on these Excise products to enhance the control and compliance of these specific products in Oman.

The OTA now intends to further expand the requirement to implement Digital Tax Stamps to include carbonated drinks, energy drinks and sweetened drinks, in accordance with the timelines and requirements prescribed.

The digital tax stamp on specific excise goods is a tax managing scheme introduced in the Sultanate of Oman to strengthen tax administration and compliance in line with international best practice. Digital tax stamps allow to monitor, track and trace the movement of excise goods throughout the supply chain.

The main objectives of introducing digital tax stamps are to protect government revenues, combat illicit trade, promote fair competition in the market and provide real time statistical data for both tax policy and better analysis and audit of the supply chain.

As a result, manufacturers and importers of excise goods are mandated to affix seals with special security features on the selected Excise goods whereby only goods bearing these special marks are allowed to be imported into the Sultanate of Oman or be produced and sold in the local market.

Further information is accessible through this link.

04

Bahrain

Indirect Tax Updates

Bahrain

Value Added Tax

NBR issued a VAT Return Filing Manual applicable for VAT periods in 2023

On 9 February 2023, the National Bureau for Revenue (“NBR”) released the VAT Return Filing Manual Applicable for VAT Periods in 2023.

This manual provides taxpayers with the necessary guidance to submit their VAT returns for the year 2023 onwards.

The manual is available in English and can be accessed here.

VAT general Guide Update

On 24 January 2023, the NBR updated the voluntary VAT registration section of the VAT General guide on their website, specifically on the criteria of voluntary registration.

The updated VAT General Guide is available in English and can be accessed here

VAT Registration Guide Update

On 19 February 2023, the NBR updated the Registration Process section of the VAT Registration guide on their website.

The update provides guidance on the required documents when submitting a VAT registration application on the NBR portal.

The updated VAT Registration Guide is available in both Arabic and English and can be accessed here.

Bahrain

Excise Tax

Updated Excise Goods List

On 31 January 2023, the NBR expanded its Excise Goods List to include 282 additional items.

The full list is available on the NBR website and can be accessed here.

Expansion of Digital Stamps Scheme

In accordance with NBR Chief Executive Decision No. (3) for the year 2023, the NBR announced the expansion of the Digital Stamps Scheme for some Excise goods of Tobacco products to include electronically heated tobacco products (EHTP), jirak, chopped or pressed tobacco for pipes, chopped or pressed tobacco for dokha and chopped or pressed tobacco for cigarettes.

The NBR also included FAQs on Digital Stamps Schemes, including the implementation milestone dates, which can be accessed here.

The takeaway

Taxpayers are now, more than ever, required to keep up with the pace of indirect tax changes in the region and stay ahead of the curve.

For a deeper discussion on various aspects listed in the publication that are applicable to your businesses, please get in touch.

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Let's talk

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Thank you