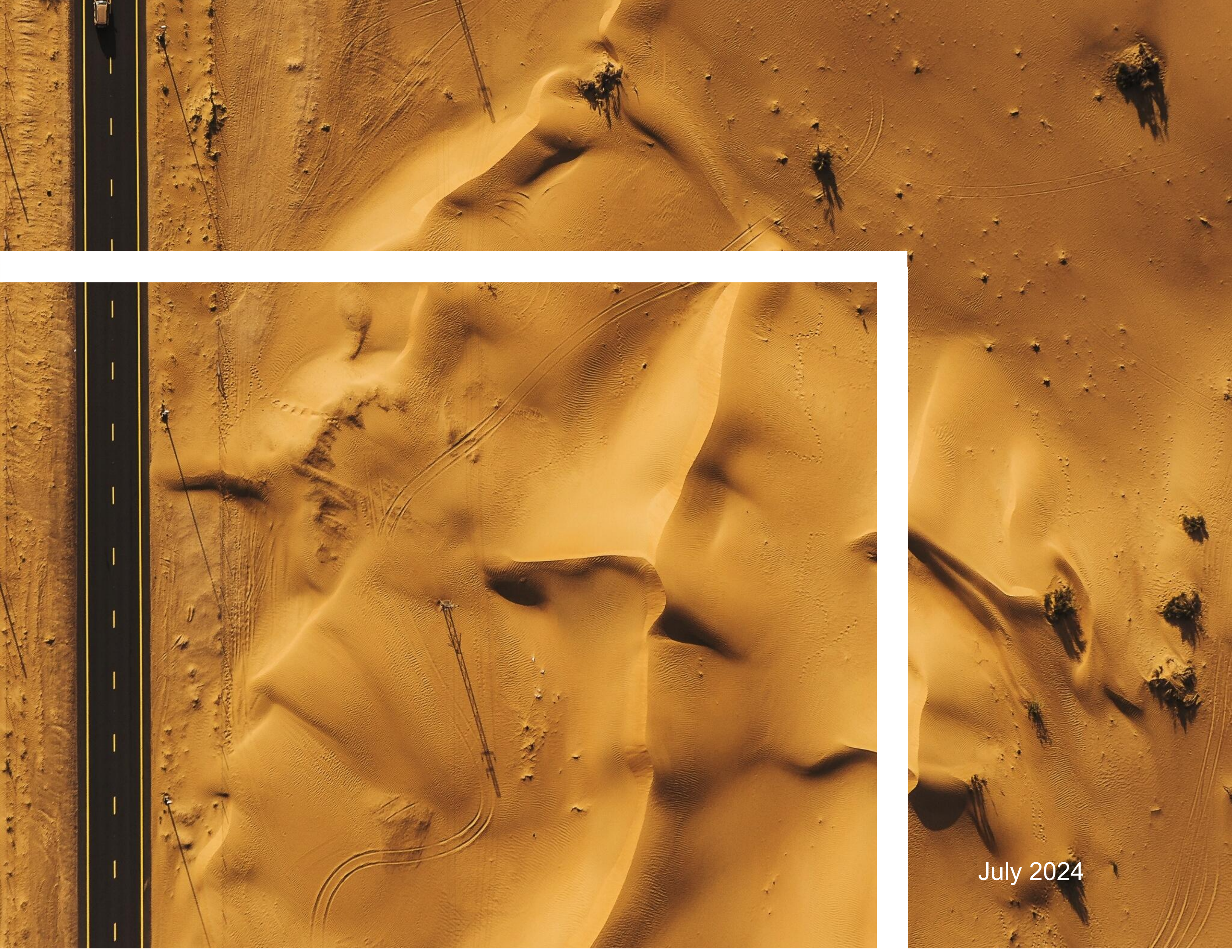

GCC Indirect Tax News Roundup

Quarter Two 2024

PwC Middle East
Tax & Legal Services

pwc

Anticipating VAT Implementation in the GCC: A Strategic Approach for Qatari Businesses

Though the exact timeline remains uncertain, it is inevitable that all GCC countries, including Qatar, will implement Value Added Tax (VAT). Businesses in Qatar that proactively prepare for VAT can minimize disruptions and seize growth opportunities in the country's evolving economic landscape.

Learning from the experience of other GCC nations, VAT has shown to significantly impact businesses both operationally and financially. Consequently, it is crucial for Qatari businesses to start assessing their procurement processes, operating models, IT systems, contracts, and legal structures in anticipation of VAT. Early preparation can help mitigate potential challenges and streamline the transition.

One of the key lessons from VAT implementation in other GCC countries is the importance of staff training on VAT regulations and compliance procedures. Ensuring that employees are educated and trained on VAT regulations is vital for maintaining compliance and operational efficiency. Additionally, many companies will need to upgrade their IT systems, which were not originally designed with taxation in mind. This disconnect between IT and finance/tax functions can pose significant challenges, as IT teams might lack the necessary data for accurate VAT returns.

Understanding and implementing VAT regulations requires substantial time and resources. Various sectors, such as oil and gas, financial services, real estate, healthcare, education, and transportation, may benefit from exemptions or special rules, which demand careful interpretation and compliance. VAT impacts supply chains by adding costs at each production and distribution stage, affecting cash flow, and imposing a compliance burden with invoicing, record-keeping, and reporting requirements.

In conclusion, adopting a strategic approach is essential for businesses. By understanding sector-specific nuances, investing in training, and upgrading systems, companies can ensure a smooth transition and capitalize on the opportunities presented by this significant regulatory change. Proactive preparation today will lead to a more resilient and adaptable business environment tomorrow.

Explore our dedicated webpage and how to effectively prepare and stay informed about VAT in Qatar here.

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

50% on carbonated drinks.

Kuwait

VAT and Excise Tax are not yet introduced in Kuwait.

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01

UAE

Indirect Tax Updates

United Arab Emirates

Value Added Tax

VAT Public Clarification - Services provided by a natural person as a director on a board of directors

The Federal Tax Authority ("FTA") has issued a Public Clarification (VATP037) on 13 May 2024, replacing the previously issued clarification by the FTA (VAT031), to provide clarity on the VAT treatment of services provided by a natural person as a director on a board of directors.

The Public Clarification has not made major changes in respect on the original contents of the replaced Public Clarification (VATP031), while confirming that the exclusion of director services from the qualification of "supply of services for UAE VAT purposes" can extend to services performed as a member of a committee derived from the same board on which the director serves.

The Public Clarification provided examples to emphasize that only the services performed in the formal capacity as director can be outside the scope of UAE VAT. Services rendered by a third-party natural person who is not a director during the meetings of a board of directors or any committee derived therefrom shall be considered as a supply of services for VAT purposes and will be taxable subject to meeting other conditions.

On the other hand, the same transitional and deregistration rules provided in the previous Public Clarification (VATP031) are applicable to the services performed as a member of a committee by a natural person in the formal capacity as director.

Further details are available in PwC's news alert that can be accessed via this link.

Value Added Tax

VAT Public Clarification - Manpower vs Visa Facilitation Services

The Federal Tax Authority (FTA) has issued a Public Clarification (VATP038) to clarify the distinctions between manpower services and visa facilitation services for VAT purposes. This Clarification aims to guide taxpayers in determining the nature of these supplies and applying the relevant VAT valuation rules.

- **Manpower Services** involve the identification, recruitment, and hiring of candidates, with the supplier being responsible for employment obligations such as payment of salaries, benefits, and supervision. These services are considered a taxable supply when made in the UAE, with VAT applied to the total consideration, including all related costs.
- **Visa Facilitation Services** refer to administrative services to facilitate the visa process for employees hired by another entity. Key conditions for a service to qualify as visa facilitation include:
  - The supplier and recipient must be part of the same corporate group but not necessarily the same tax group.
  - The supplier should not supply manpower services.
  - The supplier is not responsible for any employee obligations beyond visa-related costs.
  - Employees must work exclusively for the recipient of visa facilitation services.

  Visa facilitation services are also taxable when made in the UAE. In general, the consideration for visa facilitation services excludes employee salaries and other benefits, focusing only on administrative charges such as typing fees, medical tests, and Emirates ID issuance.

  Special valuation rules shall apply for supplies between related parties and those made without consideration, based on market value or total cost incurred.

The Public Clarification (VATP038) is accessible through this link.

02

Saudi Arabia

Indirect Tax Updates

Saudi Arabia

Tax Amnesty

Tax Amnesty Extension Announced

On 30 June 2024, the Zakat, Tax and Customs Authority (ZATCA) extends the initiative launched earlier during June 2022 exempting or abolishing fines and financial penalties imposed on taxpayers on account of lapse in fulfilling several procedural aspects related to taxes applicable in the Kingdom of Saudi Arabia.

The amnesty was extended for an additional period of 6 months until 31 December 2024.

The tax amnesty extension is applicable to penalties relating to Corporate Income Tax (CIT), Withholding Tax (WHT), Value-added Tax (VAT), Excise tax and Real Estate Transaction Tax (RETT). Taxpayers can benefit from exemptions on unpaid financial fines, including late registration fines, delayed payment fines, and tax returns correction penalties.

A simplified guide has also been issued by ZATCA explaining the types of fines / penalties that will be covered with illustrative examples and can be accessed through the following links:

- Arabic version
- English version

Saudi Arabia

Value Added Tax

Approved Amendments to Rules and Procedures related to Refund of VAT by Qualified Real Estate Developers

On 31 May 2024, ZATCA approved various amendments to the input VAT refund "Rules and Procedures" for recovery of VAT by qualified real estate developers.

The approved amendments were issued under Rule No.5 of the 'Rules and Procedures' for recovering the VAT by qualified real estate developers which were earlier issued by ZATCA under Article 70 of the VAT Implementing Regulations.

The amendments aim to ease tax burden on qualified real estate developers with respect to the process of claiming input VAT.

Please refer to the official announcement for further details.

RETT

Amendments to RETT Implementing Regulations

On 3 May 2024, ZATCA approved the amendments/additions to certain provisions of the RETT Implementing Regulations.

The approved amendments clarified/ extended the application of exceptions from RETT to certain real estate disposal transactions and are effective from 3 May 2024 (the date of publication in the official Gazette, as the announcement states).

Further details are available in PwC's news alert that can be accessed here.

Saudi Arabia

E-invoicing

Eleventh to Thirteenth wave in the Integration Phase of e-invoicing

During this quarter, ZATCA announced the criteria for the Electronic Invoicing (E-invoicing) Integration Phase Wave 11 to 13 participants.

As per the announcements, VAT-registered taxpayers that have an annual taxable revenue (taxable supplies) exceeding SAR 15 Million, SAR 10 Million and SAR 7 Million during the calendar year 2022 or 2023 are required to integrate their E-invoicing solutions with the FATOORA platform starting from 1 November 2024, 1 December 2024 and 1 January 2025 respectively.

Further details are available in the announcements published by ZATCA:

- Wave 11 announcement
- Wave 12 announcement
- Wave 13 announcement

Customs

Duty-Free Markets Requirements

On 14 May 2024, ZATCA has approved the requirements for duty-free markets in land, air and sea ports. ZATCA publication is accessible here.

The main aspects of these approvals include specifying the maximum purchase limit and the quantities allowed for travelers entering KSA. These requirements stipulated that the maximum purchase limit from duty-free markets upon arrival is 3,000 riyals per traveler, with the requirement that purchases must be for personal use. The requirements also include the maximum quantity allowed for purchasing cigarettes, which is 200 cigarettes per traveler.

ZATCA also announced that as an extension of the licenses granted to duty-free market operators in departure lounges, it has begun accepting license applications from operators in arrival lounges at customs ports.

Accepting ATA Carnets

On 2 June 2024, ZATCA has started accepting ATA Carnet (often referred to as the *passport for goods*) for temporary admission of goods for display in exhibitions, fairs, conferences or similar events, as well as professional equipment, and goods imported for educational, scientific or cultural purposes.

Based on the Istanbul Convention (incorporating 80+ countries) on temporary admission, the Carnet allows for the import of such goods under customs duty suspension, provided they are re-exported in the same condition.

The ATA Carnet is an international customs document that permits the ATA without providing a financial guarantee.

ZATCA publication is accessible here.

03

Bahrain

Indirect Tax Updates

Bahrain

Value Added Tax

NBR has published the updated VAT General Guide (version 1.10)

The National Bureau for Revenue (NBR) has issued new updates in the VAT General Guide, version 1.10. This update includes important changes to Section 10.10 regarding bad debt relief and, guidelines on how to claim VAT charged on expenses related to mobile phones and vehicles, detailed in Section 15 of the VAT General Guide.

Major changes to the Guide are as follows:

- **Bad debt relief** - The updated Guide clarifies the specific conditions under which businesses can claim bad debt relief, emphasizing the necessity for the debt to be more than six months overdue and written off in the company's accounts. It specifies the required documentation to support a claim, including evidence of the supply, invoices, and efforts made to collect the debt. Additionally, it outlines the step-by-step procedure for claiming bad debt relief, ensuring compliance with the VAT law.
- **Claiming VAT on expenses for mobile phones and vehicles** - For mobile phones, the updated Guide provides detailed guidance on the conditions under which businesses can reclaim VAT on expenses, stressing the need for phones to be used primarily for business purposes. The rules for claiming VAT on vehicle-related expenses have also been updated, including restrictions on private use and the necessity of maintaining detailed usage logs. The importance of maintaining proper records and invoices to substantiate claims is highlighted.

The updated Guide is accessible here.

Events

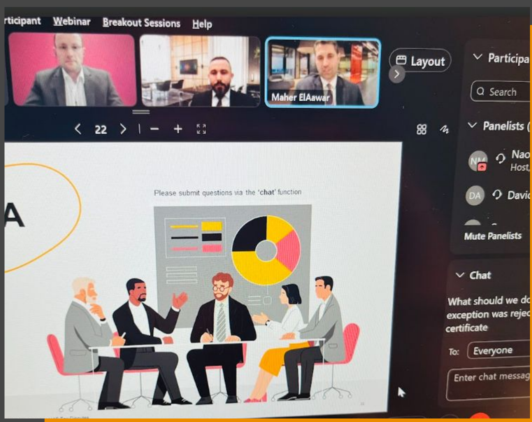
Inaugural Taxcom ME event held in Dubai
Jay Riche gave a keynote on the Digital Transformation Roadmap for Tax Departments and the right Software Solution implementation.

KSA Industry Day 2024
Rounding up our TLS roundtable series with three industries being represented on the day including Financial Services, EU&R and Consumer Markets.

The UAE Tax Community in partnership with the ACCA
Bringing together tax professionals from the UAE to talk about the latest trends and transformation across the region.

ESG Majlis with GEFI
The second ESG Majlis of our series with GEFI took place at our Dubai office on “The Built Environment and Decarbonising Real Estate”.

Events

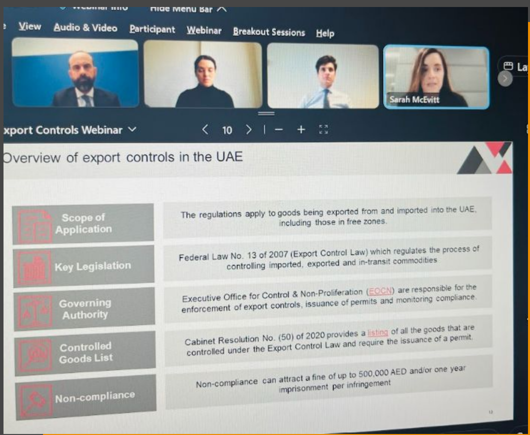


Webinar on navigating Tax Disputes in the UAE

Best practices for effectively navigating UAE tax audits and resolving disputes taking into account lessons learned from the EU.

Pillar Two Roadshow UAE

Kicking off our Pillar 2 Roadshow covering crucial topics like accounting, transfer pricing, data requirements, the tax function and compliance models.



Customs Exports Webinar

We delved into the most recent developments and updates in export controls and sanctions, including requirements for UAE businesses and the applicability of US and EU export control rules.

DIFC Collaboration Hub

DIFC and PwC Middle East under the joint ‘Collaboration Hub ’partnership hosted an in-depth event looking at the ongoing rise of Corporate Venture Capital in the region.

The takeaway

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

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

www.pwc.com/me

Let's talk

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Thank you