VAT brief | Oil & gas

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Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Business leaders should now be more aware than ever that we are entering into a new tax era. Key decision makers in the UAE and Saudi Arabia need to ensure their processes and systems are - and remain - VAT-compliant, while their counterparts in the other GCC states need to start preparing now for the implementation of VAT.

What is VAT?

- VAT is a tax on consumption, not income or profits.
- The GCC countries have agreed a standard VAT rate of five percent.
- The supply of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- Registered businesses account for VAT on the price charged for the goods or services they supply and pay it to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard- or zero-rated or out of scope with recovery) be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may not be able to recover the VAT they have incurred on certain purchases that are deemed to have a private element.
- Registered businesses that make supplies that are predominantly zero-rated are likely to be in a VAT refund position.
- Businesses that make both exempt and taxable supplies can only recover a proportion of their input VAT.

How will VAT affect the oil & gas sector?

- The UAE has zero-rated the supply of crude oil and natural gas. Suppliers of these products are likely to almost always be in a VAT refund position, as their primary sources of revenue are zero-rated and they should be entitled to recovery of VAT incurred on their costs.
- As the Saudi rules are silent on relief for the oil & gas sector, supplies of crude oil and natural gas are taxable at 5%.
- Determination of place of supply can be complicated for the sector as activities take place - for VAT purposes - both onshore and offshore and imports and exports - sometimes on a temporary basis - often occur in supply chains.
- Long-term contracts that span the VAT implementation date should be reviewed to ensure the supplier has the contractual right to charge the VAT amount in addition to the contract price (rather than accounting for VAT within the price).
- Where the supply of oil and gas is taxable at 5%, the timing of VAT accounting could significantly impact cash-flow. Typically, VAT is accounted for at the earlier of the supply being made, payment being received, or invoice being issued. Depending on the payment terms and when the time of supply is triggered, output VAT may be payable to the tax authorities before payment is received from the customer.

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- Both the UAE and Saudi rules have special transitional relief provisions for contracts which span implementation. The other GCC states may enact similar provisions for long-term contracts. Businesses wishing to rely on such provisions will need to ensure they meet all of the criteria before doing so.
- Consistent with general VAT principles, exports to outside the GCC will be zero-rated.
- Cash-flow and the time-frames for obtaining VAT refunds is likely to be the single biggest issue for oil & gas businesses as they will incur VAT on most of their expenses, but a large proportion of their sales are likely to be zero-rated (either because sales are zero-rated (for UAE suppliers) or because they are zero-rated as exports).
- VAT incurred on capital expenditure will also significantly impact cash-flow. Large-scale capital expenditure is often incurred at the early stages of an oil & gas project while supplies (income flow) are likely to occur some years later. Depending on the turnaround time for tax authorities to process and approve VAT refunds, business may be left waiting for VAT refunds.

What should oil & gas businesses be doing now?

- Consider the impact of place of supply rules, particularly for any offshore drilling and production activities and imports and exports.
- Examine the impact of VAT incurred on cash-flow - particularly if you expect to be in a refund position.
- Examine any long-term supply contracts spanning the date of implementation and decide whether VAT can - or should - be charged to customers.

Important note

These briefs are based on a translation of the GCC VAT Treaty, UAE and Saudi Arabia's VAT legislation, the relevant regulations and general VAT principles and are provided for information purposes only.

Saudi Arabia and the UAE implemented VAT on 1 January 2018 and the other GCC countries continue – as of the date of release of this brief – to work towards implementation in 2019.

This brief is not a substitute for professional advice. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.