VAT brief | Real estate & construction

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keypoint

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 real estate & construction sector?

- Under the GCC framework, each GCC country has the right to either exempt or zero-rate real estate supplies.
- Saudi Arabia has exempted residential real estate leasing.
- In Saudi Arabia, all sales of residential properties are subject to VAT at 5%. For Saudi citizens, the government is bearing the VAT cost on the first home they buy up to a property value of SAR850,000. Real estate providers will need to capture citizenship details to apply the relief.
- The UAE zero-rates the first supply (which includes the first lease) of residential property, made within three years of construction being completed. Subsequent supplies are exempt from VAT.
- The sale and lease of commercial property is standard-rated in both the UAE and Saudi Arabia.
- Construction services are subject to VAT at standard rate.
- Exemptions add costs to supply chains as VAT incurred by registered businesses making exempt supplies is not recoverable. This affects residential real estate businesses.
- In the UAE and Saudi Arabia, transitional provisions for contracts that span VAT's implementation may alleviate the VAT burden for affected parties.

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- Land-related services, such as architects, consultants, constructors or property maintenance providers, supplied in connection with defined areas of real estate, are taxable where the underlying subject property is located, so the place of supply must be carefully determined.
- Constructors must understand the time of supply in respect of milestones and retention payments to ensure the right amount of VAT is paid at the right time.
- While the precise VAT treatments to be adopted by the rest of the GCC with regards to real estate and construction are not known, the approach is likely to be similar to the model adopted by the UAE and Saudi Arabia.
- What should real estate & construction businesses be doing now?
- Assess the VAT treatment of supplies and consider the impact making exempt supplies will have on VAT recovery – careful planning can avoid large, locked-in VAT costs but must be undertaken in advance of the relevant transaction.
- Long-term contracts (both construction and leasing) that span VAT's introduction will need to be reviewed to determine whether the supplier has the contractual right to charge the VAT amount on top of the contract price or to apply any concessionary transitional provisions.
- The timing of accounting for VAT could pose a significant cash flow issue, where supplies are made in advance of payment being received – for example, on retentions or other deferred payment arrangements.
- The amount of working capital needed should be considered as VAT may be payable to the tax authority before payments are collected from customers.
- Suppliers of land-related services should carefully consider the rules regarding place of supply and understand where they may trigger obligations to register for VAT in jurisdictions outside their place of establishment.

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.