

VAT brief | Imports and exports | Services

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Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain has confirmed implementation on 1 January 2019, with the other GCC countries expected to follow over the next 12 months. Business leaders should now be more aware than ever that we have entered a new tax era. Key decision makers in the UAE, Saudi Arabia and Bahrain 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.
- 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.
- The mandatory registration threshold is the equivalent of US\$100,000 - as set out in the GCC VAT treaty. The voluntary registration threshold is the equivalent of US\$50,000.
- 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 does VAT affect businesses that provide services to overseas customers?

- Working out the appropriate VAT treatment for cross-border services can be complex, as there are multiple rules for services which determine the appropriate VAT treatment.
- VAT treatments can (amongst other things) depend on:
 - The nature of the service
 - The location and VAT registration status of the customer
 - Where the service is performed
 - Where the service is used or enjoyed
- To complicate matters, transitional rules apply for intra-GCC services until all GCC states have implemented VAT.
- Businesses that provide cross-border services need to apply place of supply rules to determine which jurisdiction has taxing rights before determining the appropriate VAT treatment.

Place of supply for services – general principles

- Where a service is provided within the GCC, the place of supply depends on whether the supply is made to a taxable person.
- Where the recipient is a taxable person, the place of supply shifts to where the recipient has established its business and the recipient must account for VAT on receipt of the service through a reverse charge. Suppliers treat the supply as outside the scope of VAT in their home jurisdiction.



- Where a service is to a non-taxable person, the place of supply is where the supplier is established and subject to local VAT.
- Services exported to non-GCC resident customers are zero-rated if specific conditions are met. The Saudi VAT law says services supplied to VAT-registered UAE businesses are out of scope - but GAZT is currently treating any supplies to customers outside the country as exports from the GCC. The UAE and Bahrain treat supplies made to persons outside their borders as exports from the GCC (for transitional purposes).

Place of supply for services – special rules

- Services with special place of supply rules include:
 - Leasing of a means of transport
 - Transportation services
 - Real estate-related services
 - Telecommunication services and electronically supplied services
 - Restaurant, hotel and catering services
 - Cultural, artistic, educational, recreational services
 - Services linked to transported goods
 - In the UAE only: services related to goods (such as installation services)
- For some specified supplies, the place of supply is the place of performance (catering), the place of use and enjoyment (electronic services) or where land is located (real estate-related services). This may require registering for VAT in GCC states where a supplier has no presence.
- For example, an Oman-based architect designing a house to be built in the UAE may be subject to UAE VAT – even if Oman has not yet implemented VAT. Unless the customer is VAT-registered in the UAE, the Oman architect may need to register - and account - for UAE VAT.

How does VAT affect those who receive services from non-residents?

- VAT-registered businesses may procure services from non-resident businesses. A reverse charge calculation will normally be required to self-account for VAT on these imported services if:
 - Services are received from a supplier outside the country (including other GCC states)
 - The services would have been taxable if supplied locally
 - The place of supply for those services is where you are located
- If a software provider in the UK is paid by a UAE business, the place of supply rule for electronically supplied services applies – the place of supply is where the licence is used. A reverse charge should be applied to the license fee if used where the business is situated.
- Staying in a hotel in Paris does not require reverse charge because the place of supply for hotel services is where the services are performed (Paris).
- While the output tax on these imported services must be self-accounted for, businesses are entitled to a corresponding input tax deduction (to the extent that the imported services are used to make taxable supplies).

What should exporters of services be doing now?

- Have accurate information about customers – where they are located and their VAT registration status if they are in the GCC – as this will often determine the appropriate VAT treatment.
- Determine whether registering for VAT in another jurisdiction is necessary – particularly if providing services to non-registered customers in the GCC.



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- Where the place of supply is in your own territory, apply the relevant zero-rating criteria after ensuring all requirements are met.
- Be prepared to re-configure VAT treatments for services once the GCC transitional rules are phased out.

What should importers of services be doing now?

- Only reverse charge when required to do so.
- If making taxable and exempt supplies, go through an attribution process to determine input tax recovery.
- Where payments are made in foreign currencies, use the rates issued by the relevant financial authority (the Saudi Arabian Monetary Authority for Saudi Arabia, the Central Bank of the UAE for the UAE and Central Bank of Bahrain for Bahrain) to determine the local currency equivalent to be reported.

Important note

The information in this document is based on translations of the draft Bahrain VAT law, the VAT laws and regulations of the UAE and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. As the draft Bahrain VAT law has been recently released and is still being reviewed in detail, any comments on this law are preliminary in nature and are likely to change. Any omissions or errors are inadvertent. This document should not be relied upon in making any decisions. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.