VAT brief | Real estate & construction

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We have entered a new tax era. Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain implemented - for businesses with taxable turnovers above BD5m - on 1 January 2019 - with other businesses going live on 1 July 2019 or 1 January 2020. Other GCC countries are expected to follow. Key decision makers in the UAE, Saudi Arabia and Bahrain need to ensure their processes and systems are - and remain - VAT-compliant, while their peers in other GCC states need to start preparing now for VAT's implementation.

What is VAT?

- The GCC countries have agreed a standard VAT rate of five percent.
- Supplies of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- The mandatory registration threshold (MRT) is the equivalent of US$100,000. The voluntary registration threshold is the equivalent of US$50,000. Bahrain has staggered VAT's introduction.
- Registered businesses account for VAT - a consumption tax - on the price charged for the goods or services they supply and regularly pay the VAT to the tax authority.
- Where registered businesses make supplies that are standard- or zero-rated or out of scope with recovery, they should be able to recover the VAT they have incurred in making those supplies.
- Registered businesses making supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may be unable to recover VAT incurred on purchases that are deemed to have a private element.
- Registered businesses making 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 in 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%. The government is bearing the VAT cost on the first home Saudi citizens buy - up to a property value of SAR850,000. Real estate providers need to capture citizenship details to apply the relief.
- Bahrain has exempted the sale and lease of bare land and buildings for commercial, residential and industrial real estate.
- The Bahraini VAT law also stipulates a zero-rating for construction of new buildings, with no immediate limitation to types of property. The zero-rate extends to building materials and installation of some items (such as air conditioners) as part of a building's fabric - done as part of a construction service.
- Interior design and architectural services are standard-rated - as well as the supply of construction materials.
- 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.


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- The sale and lease of commercial property is standard-rated in both the UAE and Saudi Arabia. Construction services in the UAE and Saudi Arabia are subject to VAT at the 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 Bahrain, transitional provisions for contracts that span VAT's implementation allow zero-rating - but only in respect of supplies to government entities. There is no transitional relief on supplies to other parties.
- 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, Saudi Arabia and Bahrain.

What should businesses in the real estate & construction sector be doing now?

- Assess the VAT treatment of supplies and consider the impact making exempt supplies has 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 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 real estate and construction sector in Bahrain will need to carefully consider the complications of zero-rating as the conditions for it to apply are strict.
- 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

The information in this document is based on translations of the VAT legislation of the UAE, Bahrain and Saudi Arabia, the GCC VAT framework and general VAT principles. **It is provided for information purposes only.** 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.