VAT brief | Utilities

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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 utilities sector?

- The UAE, Saudi Arabia and Bahrain have applied VAT on utilities. Supplies of utilities in other GCC states are likely to be standard-rated (5%), meaning suppliers will have to charge VAT to customers.
- Utility companies should evaluate pricing strategies to take VAT into account, choosing between passing on VAT costs by increasing the price by the VAT amount, maintaining their prices (effectively absorbing the VAT impact), or something in between. Any pricing decision will have to balance profit margins, sales volumes and market share.
- Utility companies that decide to pass VAT to customers will need to be wary of regulatory constraints and the impact pricing may have on their competitiveness.
- Utility providers typically make continuous supplies to customers where VAT is charged and collected on a periodic basis. Affected suppliers will need to be aware of how time of supply rules affect them, ensuring VAT is accounted for at the correct time - which may differ from the standard time of supply rules for discrete, one-off supplies.

keypoint

Mubeen Khadir
Head of Tax
mubeen.khadir@keypoint.com
+973 1720 6879
+973 3222 6811

Mark Gamble
Senior Manager
mark.gamble@keypoint.com
+973 1720 6872
+973 3833 8641

Raman Ohri
Senior Manager
raman.ohri@keypoint.com
+973 1720 6845
+973 3833 8634

Omar Hisham
Manager
omar.hisham@keypoint.com
+973 1720 6877
+973 3833 8640

Willem Bam
Manager
willem.bam@keypoint.com
+973 1720 6875
+973 3833 8649

Tariq Haq
Manager
tariq.haq@keypoint.com
+973 1720 6840
+973 3628 3351

Tushar Kashikar
Manager
tushar.kashikar@keypoint.com
+973 1710 3470
+973 3628 3359

- Utility suppliers that import oil and gas will want to ensure any import VAT is recoverable and does not become a sticking cost – which can occur when another party imports and is named on the relevant customs documentation as the importer of record, but is neither supplier nor recipient in the supply chain.
- Importers must ensure their documentation is correct to facilitate input tax recovery. In Saudi Arabia and Bahrain, import VAT is recoverable as input tax, subject to the normal conditions and as long as a valid customs bayan is held in the name of the party seeking to recover the VAT.
- The GCC treaty allows states some discretion on the treatment of oil & gas:
  - The UAE has zero-rated the supply of crude oil and natural gas
  - Supplies of crude oil and natural gas are taxable at 5% in Saudi Arabia
  - Bahrain has zero-rated oil, oil derivatives and gas
- Special rules apply to the cross-border supplies of goods and services between businesses within the GCC. In essence, a reverse charge may apply.
- Utility providers may be required to perform complex VAT accounting and must understand the impact of operating within international supply chains.

What should businesses in the utilities sector be doing now?

- Consider the impact of VAT on pricing – should the cost of VAT be passed on to consumers?
- Assess whether price capping or competition will hamper price increases.
- Understand the impact of VAT on purchases - particularly imports - and when VAT can be recovered.
- Review customer contracts to understand whether prices can be changed - and how quickly.

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.