



keypoint

VAT Benchmark report

March 2021

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keypoint

Introduction



Value-added tax (VAT) has been 'business as usual' in the GCC since 1 January 2018 – with three of the six **GCC countries** having implemented VAT so far and one (Oman) in the process of doing so.

Whilst the VAT laws are guided by the same GCC framework agreement, there have been significant differences in implementation practices and divergence in the application of the VAT rules.

Keypoint has developed a VAT benchmark survey to measure how VAT is impacting businesses operating in the GCC. The aim of the survey is to identify common challenges faced by taxpayers in VAT implementation and compliance.

VAT implementation dates



16 April 2021
Oman



1 January 2019
Bahrain



1 January 2018
United Arab
Emirates



1 January 2018
Kingdom of
Saudi Arabia

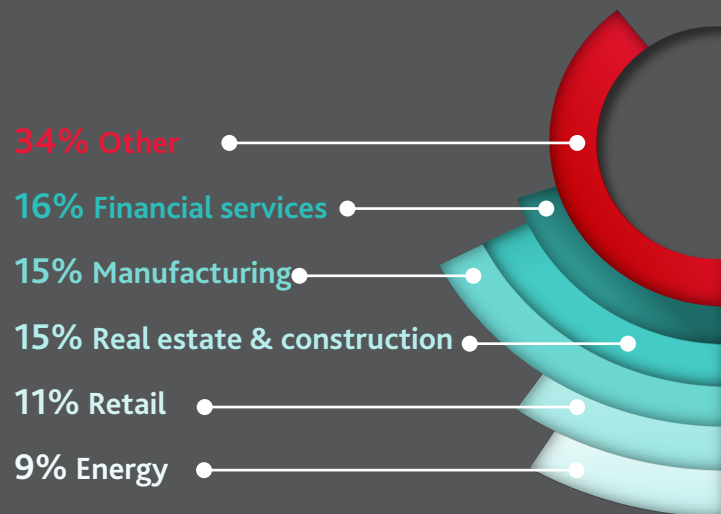
Profile of respondents



15% of respondents worked across multiple jurisdictions, and of these 85% had a dedicated VAT resource, suggesting that where a taxpayer operates across multiple jurisdictions, they're more likely to invest in an in-house VAT specialist.

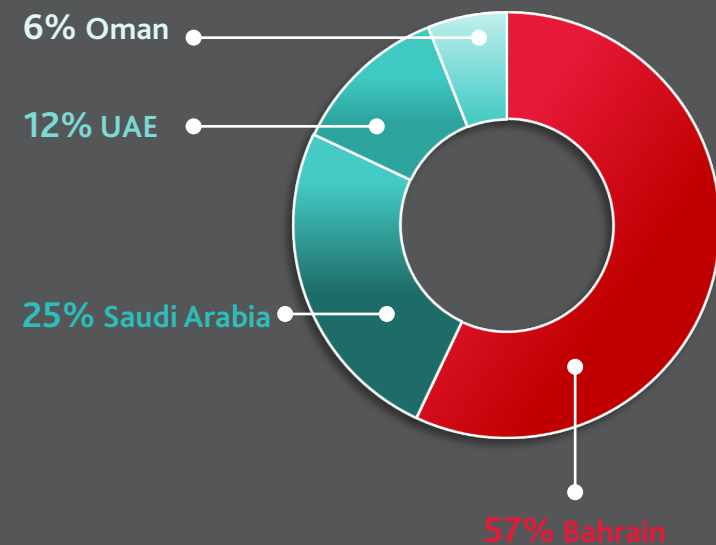
Industry response

Respondents work across a range of industry sectors, including financial services, manufacturing, family businesses, real estate and construction, retail and healthcare.



Geographic response

Respondents were asked which GCC VAT jurisdiction they had worked in, with the ability to select multiple jurisdictions.



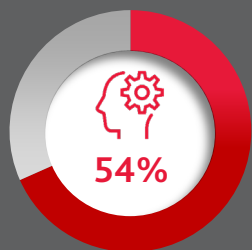
Business impact of VAT



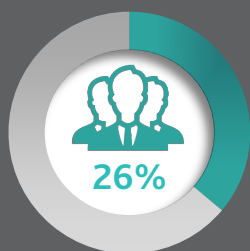
VAT is the first transactional indirect tax to be introduced in the GCC so it was always going to significantly impact businesses.

While Saudi Arabian and Omani businesses are likely to have established teams to deal with direct taxes, taxpayers operating in the UAE and Bahrain would be less experienced.

VAT team



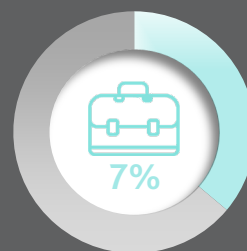
No dedicated VAT resource – managed by our finance team



One or more VAT specialist resources

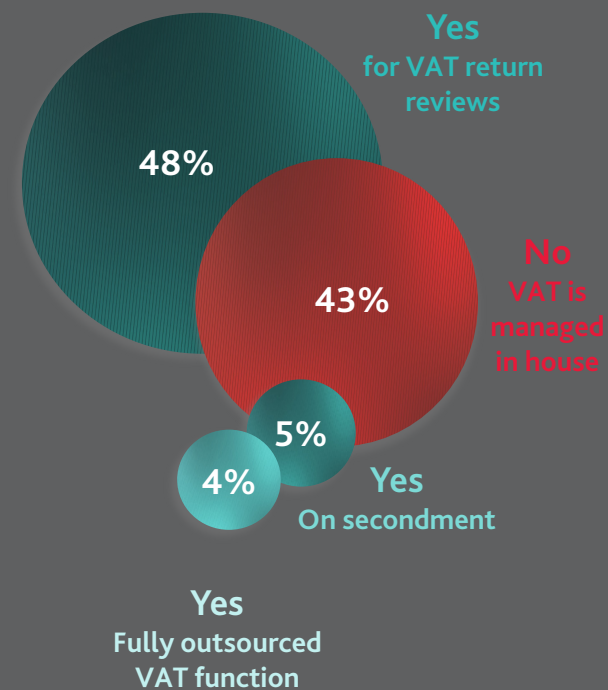


Outsourced to an adviser



Managed centrally by group head office

Have you engaged a VAT adviser?



Business impact of VAT



Almost half of respondents stated they use a VAT adviser to review their VAT returns. Given the immaturity of VAT compliance in the region, this response is slightly surprising as we would have expected more taxpayers to engage an external adviser to review returns.

Of the respondents that manage VAT in-house, 63% were from companies that did not have a dedicated VAT resource or specialist. The number of VAT returns prepared and submitted without any technical review is therefore likely to be significant – and would seem to be a considerable risk when tax authorities are stepping up reviews and tax audits.

What has been the single most challenging aspect of VAT



7
Educating stakeholders within organisations of the importance of VAT compliance



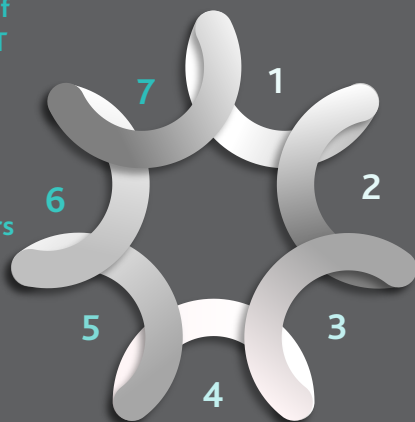
6
Liaising with uninformed customers



5
Accounting system changes required to comply with VAT



4
Staying on top of updates to rules



1
Determining the VAT treatment of industry-specific activities



2
Collecting and maintaining the correct documentation – such as import bayans & tax invoices



3
General uncertainty with regards to the application of VAT laws and regulations

What one change would make it easier for businesses to comply with VAT regulations



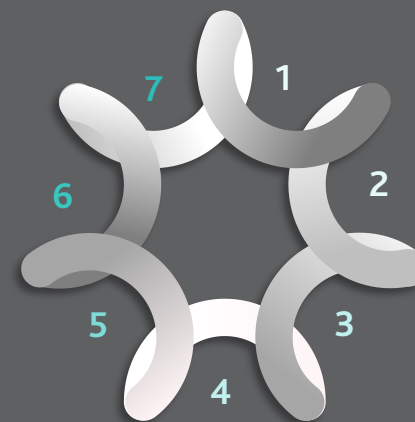
7
Easier access to tax authorities & quicker, clearer responses



6
Increasing VAT return correction thresholds



5
In-depth industry-specific guidance



1
Simplified VAT returns



2
Using simple, easy to understand language in VAT guidance



3
More guidance for non-residents



4
Deferring import VAT

VAT compliance



VAT returns are submitted on a monthly, quarterly or annual basis in the GCC with reporting cycles determined by annual turnover:

VAT return thresholds



Saudi Arabia

Monthly

More than SAR 40m

Quarterly

Less than SAR 40m

Annual

N/A



Bahrain

Monthly

More than BHD 3m

Quarterly

Less than BHD 3m

Annual

Less than BHD 100k



UAE

Monthly

At FTA discretion

Quarterly

Standard filing period

Annual

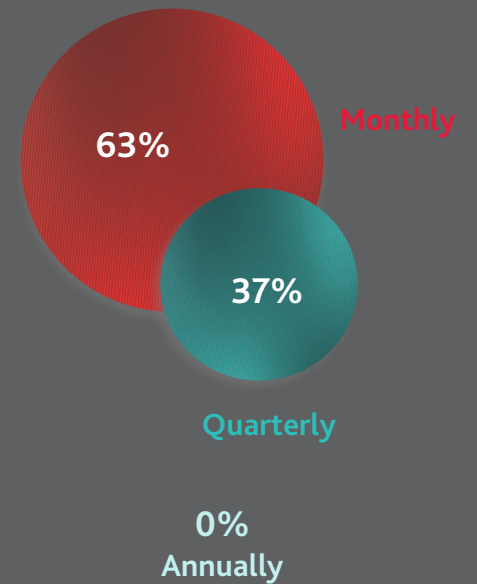
N/A



Oman

TBC by Oman Tax Authority (OTA)

VAT return frequency

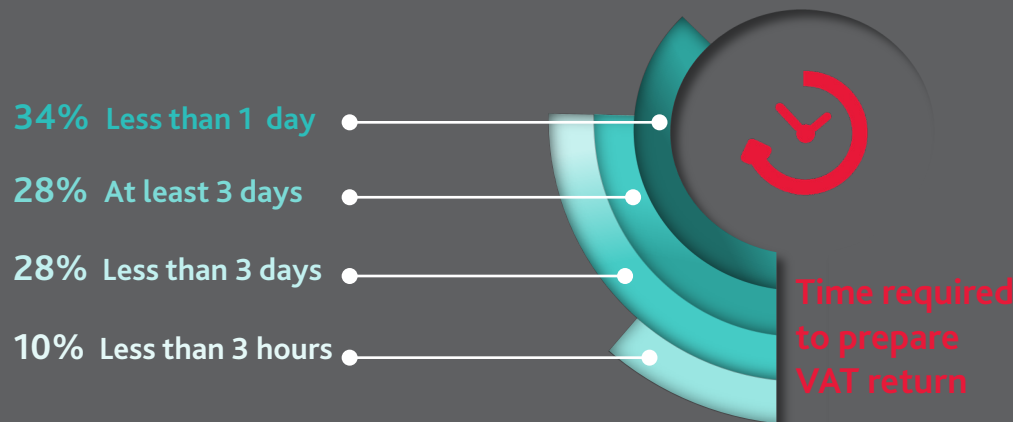
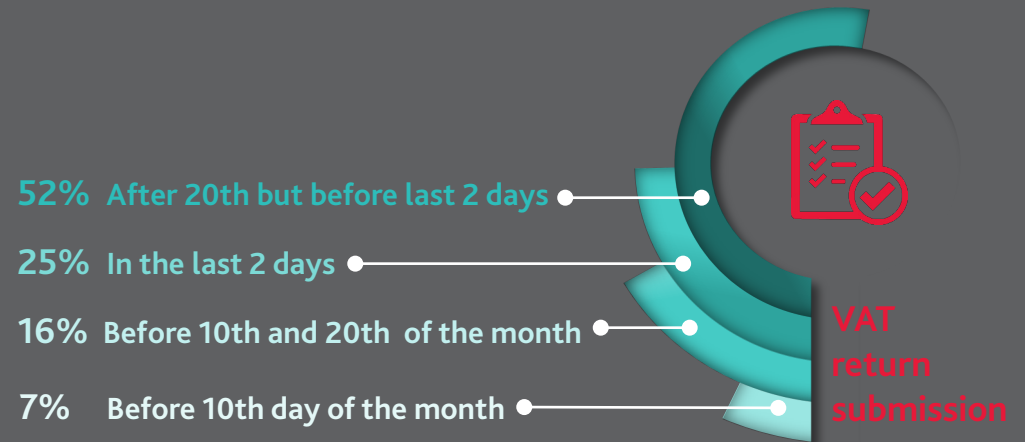


VAT compliance



Over 75% of respondents stated that they submitted the VAT return in the last 10 days of the month, with 25% submitting in the last two days.

Delaying submission can be evidence of inefficient preparation processes or time-poor preparers – both can result in errors (and therefore penalties). Submitting earlier in the month also allows for refunds to be processed more quickly.



A businesses' complexity guides the time it takes to prepare a VAT return, but generally anything under half a day or over three days suggests inefficient processes.

Taxpayers should ensure their accounting systems can generate the data required to prepare returns and implement an effective review process to ensure that that data is accurate.

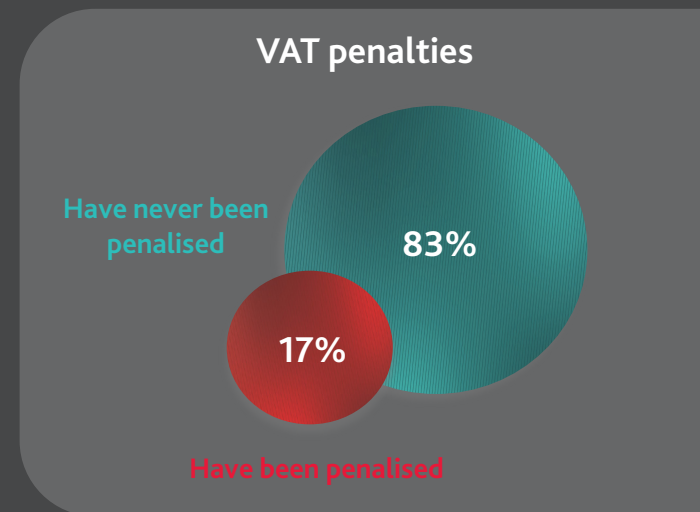
Dealing with the tax authority



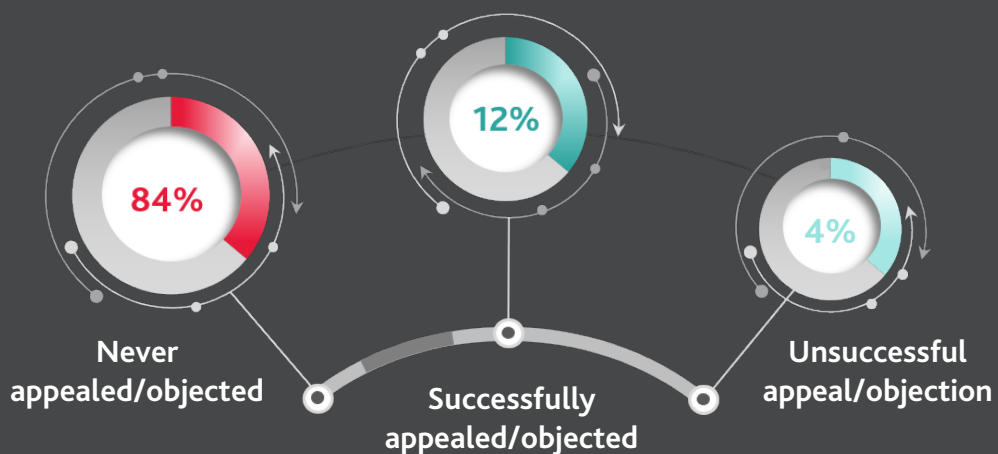
Tax authorities across the GCC are actively auditing and reviewing VAT returns – over half of respondents have undergone an audit.

In what could be interpreted as a sign of an immature market, less than a fifth of respondents said that they would approach the tax authorities in case of VAT uncertainty - and only 7% of respondents had actually submitted a ruling request.

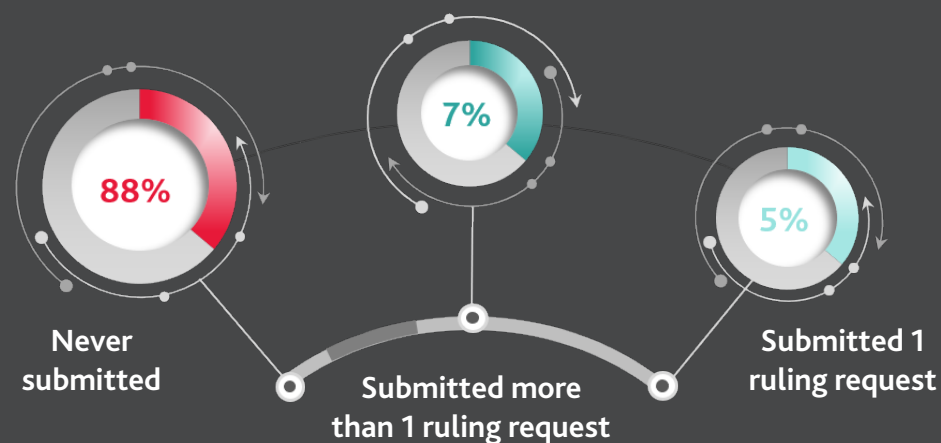
Almost two-thirds (61.64%) respondents said that they would rely on their tax advisors instead of approaching the tax authority.



Objections & appeals



Private rulings

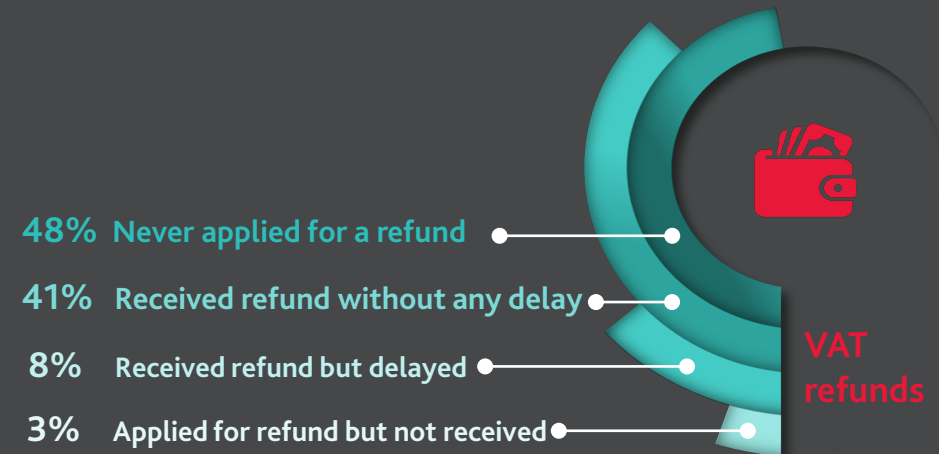
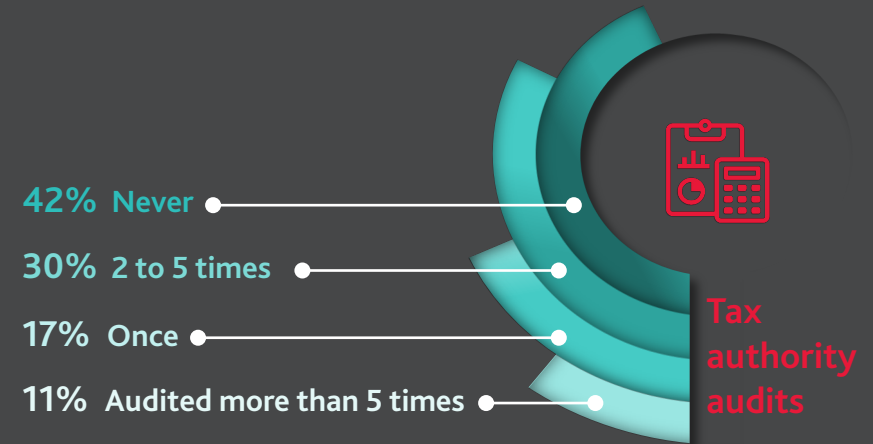
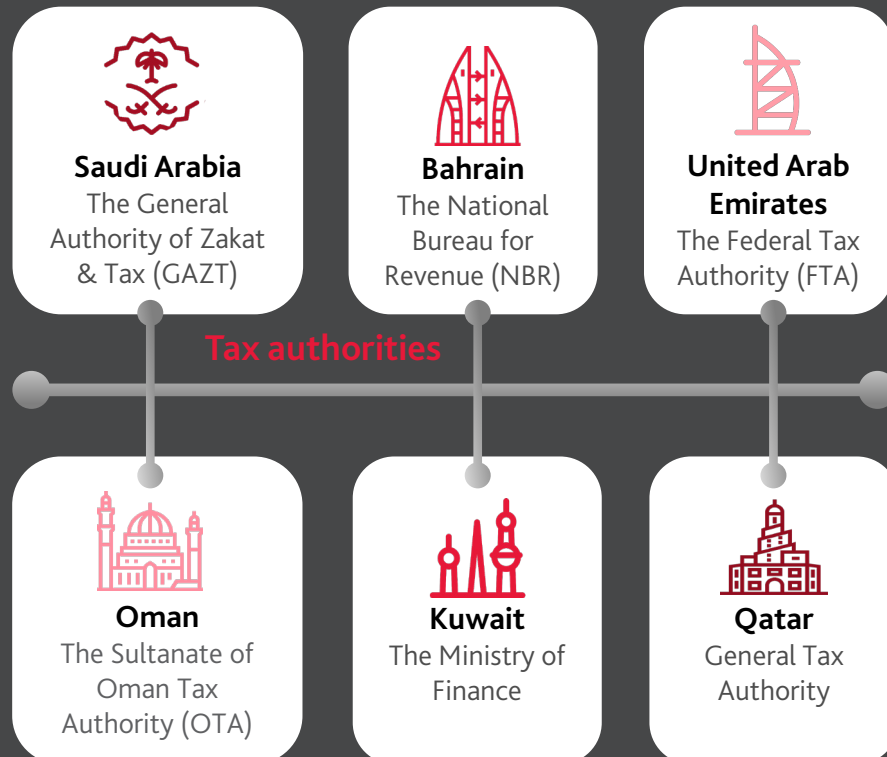




Dealing with the tax authority

Keypoint prediction

We would expect the number of audits across the GCC to increase over the next 12 months – becoming more complex and data-driven. Recent experience in Saudi Arabia has seen heavy regulator activity and we expect both the NBR and FTA to follow suit.



Staying current



Because tax authorities generally do not actively publicise updates to guidelines, it can be difficult to stay on top of all the changes to and clarifications of VAT guidance across the GCC.

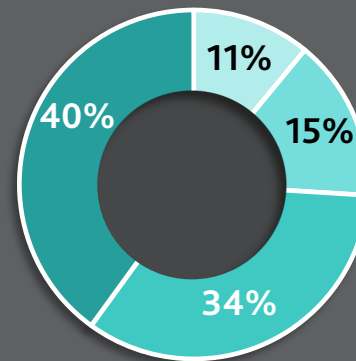
As time moves on, we are also seeing significant differences between both regulations and their enforcement in the different GCC countries, adding to the complexity.

Respondents are most reliant on emails from tax advisers for updates and when they're unsure of a VAT treatment.

Most common ways to stay updated on VAT

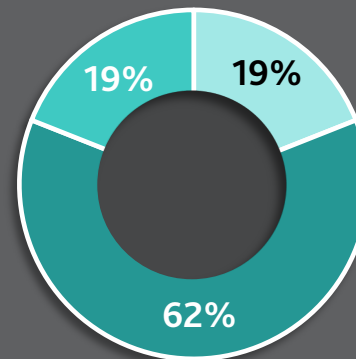


How seriously do your suppliers & customers take VAT?



- 40% It's just a normal part of business now
- 34% Quite seriously (we often we receive questions & comments on VAT)
- 15% Very seriously (always a topic of discussion)
- 11% Not very seriously (many still issue non-compliant documents)

What do you do if you are unsure of a VAT treatment?



- 62% Research the answer myself
- 19% Ask our tax adviser
- 19% Ask the tax authority

Keypoint's tax leadership team



Our tax leaders are widely recognised as subject matter experts. Other members of the team include a number of emerging national (Bahraini and Saudi) subject matter experts with a range of interests and focus areas.



A direct tax expert with 'Big 4' and top tier tax experience in the UK & GCC. **Raman** leads our direct tax team.
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A qualified Australian lawyer with indirect tax experience with professional services firms in Australia and the UK. **Mark** leads our indirect tax team.
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Adil Fawzi

A multi-lingual member of the Institute of Chartered Accountants of Sri Lanka (ACA) and the Institute of Certified Management Accountants of Sri Lanka (ACMA), Adil has more than thirteen years of accounting, external and internal auditing and taxation experience.
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Tariq Haq

Tariq has worked with a 'Big 4' professional services firm as well as the HMRC has audited and tested financial systems in large companies for weaknesses in controls and processes across sectors including manufacturers, distributors, importers, technology companies, retailers and banks.
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Dinesh Ravi

Dinesh has worked in industry and with a 'Big 4' professional services firm, has worked on tax assessments for various clients issued by the General Authority for Zakat and Tax (GAZT) and has significant US corporation, partnership and tax strategy and planning expertise.
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Abdulrahman Bucheeri

Recognised as a Bahraini subject matter expert on VAT, Abdulrahman has worked in a number of different GCC countries with 'Big 4' firms and has a deep understanding of VAT touch-points within businesses and the implications of VAT for different corporate functions.
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Clint Schutters

Clint has worked with professional services firms across the GCC as well as in South Africa, has deep technical VAT expertise and has advised clients across the GCC - including in the hospitality, medical, education, retail and construction & real estate sectors – on a range of VAT issues.
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