

<b>Article Title:</b> <i>(this needs to capture the readers interest)</i>	A comparison of the VAT regimes in Saudi Arabia and the UAE	<b>Date Prepared:</b>	29 November 2017
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**Article:**

Value Added Tax ('VAT') will be effective in both the United Arab Emirates ('UAE') and the Kingdom of Saudi Arabia ('Saudi Arabia') on 1 January 2018. This article compares the key features of the future VAT regimes in these countries, including the treatment of different industry sectors based on what is currently known about the proposed VAT regimes.

**The GCC VAT Framework**

The Unified VAT Agreement for the GCC ('GCC VAT Treaty'), which is a country level agreement between all the GCC states, sets out the framework and broad principles that should be followed by all the GCC countries in their individual VAT laws. Each GCC country is expected to enact its own domestic VAT legislation based on the underlying principles in this GCC VAT Framework.

In Saudi Arabia, the VAT law has incorporated references to the GCC VAT Treaty into its domestic VAT law and these are supplemented by implementing regulations. Accordingly, in Saudi Arabia, there are three key documents which are required in order to understand the VAT rules.

In the UAE, the VAT legislation comprises the VAT law and supporting executive regulations. Although the concepts referred to in the GCC VAT treaty have been taken into account in drafting the UAE VAT legislation, there is no need to refer to the GCC VAT treaty in order to apply the UAE VAT rules.

**The Status of VAT in the UAE and Saudi Arabia**

In line with the recent trend where Saudi Arabia has been the first to publish tax laws, pursuant to tax related agreements at the GCC level, the country was the first in the GCC to issue its final VAT law and implementing regulations, doing so on July 28, 2017 and August 30, 2017 respectively.

The UAE issued its VAT law at the end of August and the related executive regulations were published by the UAE tax authority ("Federal Tax Authority or FTA") on 28 November 2017.

**Implementation Dates in the UAE and Saudi Arabia**

Both Saudi Arabia and the UAE will implement VAT with effect from 1 January 2018, as confirmed by their final VAT laws.

## **Scope of VAT in the UAE and Saudi Arabia**

The UAE and Saudi Arabia have adopted a broad tax base with limited exceptions. VAT will apply to the supply of goods and services in the UAE and Saudi Arabia, and to imports into the countries respectively. Certain goods and services may be exempt or subject to a zero rate of VAT. Unless the supply of goods and services falls within a category that is specifically exempt or is subject to the zero rate, VAT will apply at the standard rate. The standard VAT rate will be five per cent in both countries.

### **VAT Registration**

The Saudi Arabian tax authority (“General Authority of Zakat and Tax or GAZT”) had already automatically registered large businesses based on existing information held by it and opened its online VAT registration process on 28 August 2017 for other businesses. Saudi Arabia’s VAT implementing regulations require all persons liable to register for VAT to register by 20 December 2017.

In the UAE, the FTA has made available its online VAT registration portal on 29 September 2017 and announced the following timeline for VAT registration:

- All businesses with an annual turnover exceeding 150 million UAE dirham should register before 31 October 2017.
- All businesses with an annual turnover exceeding 10 million UAE dirham should register before 30 November 2017.
- All businesses that are required to be registered by 1 January 2018 should register before 4 December 2017 to minimise the risk of late registration.

The mandatory registration threshold is an annual taxable turnover of over 375,000 UAE dirhams in the UAE and over 375,000 Saudi riyals in Saudi Arabia; the voluntary registration threshold is an annual taxable turnover that is below the mandatory registration but above 187,500 UAE dirhams and above 187,500 Saudi riyals. Businesses must register for VAT if their annual turnover exceeds the mandatory registration threshold, while it is optional for them to register if the taxable supply and imports or taxable expenses are below the mandatory registration threshold but exceed the voluntary registration threshold. In Saudi Arabia, small businesses with turnover of less than one million Saudi riyals will be given the opportunity to delay registration until 20 December 2017. Group registration will be available in both countries for related parties, subject to certain conditions.

In Saudi Arabia, it is interesting to note that businesses that only supply goods or services that are zero rated are not required to be registered for VAT, whereas the UAE requires such businesses to request an exemption from registration. Clearly, it will be in the interest of businesses to register as only VAT registered businesses will be able to recover any VAT paid on their purchases.

### **VAT Treatment of Industry Sectors**

In the light of the flexibility provided by the GCC VAT Treaty, it is likely that industry sectors may be treated differently for VAT purposes in individual GCC countries. Even where the sector may have the same headline VAT treatment, the definitions may vary from country to country resulting in potentially different VAT outcomes for the same services.

The above can be seen in the case of the VAT treatment in the UAE and Saudi Arabia for the education and healthcare sectors. Based on Saudi Arabia's VAT implementing regulations, private education and

healthcare services will be subject to VAT at the standard rate whereas public education and healthcare providers will be outside the scope of VAT.

The UAE will subject most education and healthcare services, as well as related goods and services, to VAT at the zero rate. However, private universities will be subject to VAT at the standard rate.

Both the UAE and Saudi Arabia treat financial services and insurance in the same way from a VAT perspective. Margin-based financial services will be exempt from VAT, while fee-based products will be subject to the VAT at the standard rate. General insurance services will be subject to the standard rate of VAT, except life insurance, which will be exempt.

In terms of real estate, the UAE will exempt sales and leases of residential real estate, except the first sale of residential real estate which will be subject to VAT at a zero rate. In Saudi Arabia, only leases of residential real estate will be exempt with the sales subject to VAT at 5%. The UAE will also exempt the supply of bare land. The supply of commercial real estate will be subject to VAT at the standard rate in both countries.

Subject to certain conditions, the supply of medicine and medical equipment will be zero rated in accordance with the GCC VAT Treaty if they are included on a specified list. Although under the GCC VAT Treaty there was a list of 94 items of foods that could have been zero rated, both countries will subject these items to VAT at the standard rate.

Another example of the differences in VAT treatment is local passenger transport services. The UAE has announced that this will be exempt, whereas it will be subject to VAT at the standard rate in Saudi Arabia.

In both countries, government authorities that are performing a public or sovereign function will not be considered to be carrying on an economic or commercial activity, as such, supplies made by them will not be subject to VAT in either country. However, where government entities are involved in carrying on a commercial activity, VAT will apply in the normal way.

### **VAT Compliance**

In the UAE, VAT returns will generally be required to be submitted on a quarterly basis, with the returns and payments due within 28 days after the end of the period. In Saudi Arabia, companies with annual income in excess of 40 million Saudi riyals must file returns on a monthly basis, while companies under this threshold must file their returns on a quarterly basis, with payments required to be made within a month of the end of the relevant period.

### **Transitional Provisions**

Both nations will have special rules to protect businesses for contracts that straddle VAT implementation.

In the UAE, under normal circumstances, where the contract is silent on VAT, the price will be deemed to be inclusive of VAT. However, where the contract was concluded prior to the implementation date and a part of the supply is made after the implementation date, suppliers will be able to charge the tax to the customer, where the latter is registered for VAT and able to recover it.

In Saudi Arabia, for contracts that were entered into before May 31, 2017 and are silent on VAT, the supply can be treated as zero rated until the end of the contract or 31 December 2018 where the customer is entitled to deduct VAT incurred on its supplies.

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