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VAT implementation in Saudi Arabia and UAE has teething problems

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Businesses should expect disruption and cashflow issues as the tax authorities in Saudi Arabia and the United Arab Emirates (UAE) come to terms with the long-awaited implementation of VAT.

Teething problems are common when tax systems are first introduced, but a number of factors have made matters more difficult in the Middle East. The tax authorities are struggling to answer all of the questions they are being asked, the legislation is imperfect and has already been tweaked in Saudi Arabia, not all companies are registered and a lack of low-denomination coins is proving problematic.

Reggie Mezu, special counsel at Baker McKenzie Habib Al Mulla in Dubai, acknowledges that the situation has been difficult, but said that it "has got to be seen within the context of reality". He added: "It's not surprising that there are lots of teething problems at this time, but you've got to say the authorities have actually done quite a lot within a short amount of time."

"They had a very short time to introduce something as radical - radical in the sense that there's never been tax at this level in the UAE - and extensive," he told *International Tax Review*. "The administrative machinery has never been involved with something such as this. VAT involves a lot of detailed regulations, guidelines, practice notes and those sorts of things, which necessarily need to be there."

As recognised in last month's [Global Tax 50](#), it has been an incredible achievement to implement VAT in two countries in the Gulf Cooperation Council (GCC) – particularly given that the tax authority in the UAE essentially had to be built from the ground up.

David Stevens, a partner at EY in Dubai who has worked in VAT implementation in countries such as Australia, China, Malaysia and India, feels that this is the most dramatic shift in tax culture he has experienced.

But the preparation for VAT has been lacking in several areas, and the tax authorities are insufficiently prepared to deal with the volume of questions coming from taxpayers, the majority of whom just want to fulfil the obligations of the new tax.

But, inspectors uncovered 247 violations in more than 6,000 businesses in two days at the start of the implementation period, reported the Daily Express.

"In my experience, most companies want to be compliant, because ultimately the VAT liability is not a burden on them," said Mezu. "In both the UAE and Saudi Arabia, many companies have registered, or have attempted to register. I don't think registering has been a big issue for them. It's more like what they need to do having registered, and secondly, what are going to be the consequences of various transactions."

Working within the VAT system is a new challenge for many companies in the region, particularly – but not exclusively – local companies that do not operate in countries that have VAT or GST regimes.

The legislation in Saudi Arabia gives companies with a turnover of less than SAR 1 million (\$270,000) until December 28 2018 to

register for VAT. Although this is intended to soften the impact of implementation, it has meant such companies have ended up having to pay VAT on supplies from larger, VAT-registered companies and are unable to pass this on to consumers.

"The first thing is to check to find out if they are VAT registered or not vat VAT registered. If they're not VAT registered you have to charge vat VAT on your supply," said Mezu. "What then matters, for those who are not registered, is how they want to recover that VAT. Probably, they'll want to then register for VAT too."

Even larger companies, which have known all along they would have to register for VAT and have successfully done so, have been struggling.

"Many of them have been used to transacting without necessarily issuing invoices in the way that is [now] required," said Mezu. "Having registered, the critical issue on their laps now is how to deal with this? Should this be VATable? Shouldn't it? How do we treat this issue? Really, they need the authorities to be able to explain these things to them."

How are authorities and companies coping?

Understandably, the authorities in both the UAE and Saudi Arabia are struggling to cope with the number of queries coming their way. Guidance is crucial at this stage, and until the authorities can address the questions of businesses there is no end in sight to the chaos.

"What's needed is for the authorities to be there, and answer these questions. Companies are collecting tax on behalf of the authorities, after all," said Mezu.

"I think the authorities, from what I can gather, want to grapple with it," said Mezu. "I'd give it another six months for things to become a bit calmer."

While clarification is required in some areas, there has already been some tinkering with the legislation that may lead to more confusion.

On January 6, less than a week after VAT was introduced, Saudi Arabia added private health services, private education and the purchases of citizens' first homes, within certain financial limits, to the list of VAT exemptions.

"The state shall pay the value added tax (VAT) not exceeding SAR 850,000 as a portion of the purchase price of the citizen's first home," said a [royal order issued by the Custodian of the Two Holy Mosques](#).

Advisory community trouble

When companies are unable to get the advice they need from the authorities, they often turn to tax advisers. *International Tax Review* understands that some firms are struggling more than others to cope with the demand.

Matthew Dwyer, a tax recruitment specialist at Cain Dwyer, says that even though tax advisers have been brought to the GCC from all over Europe as well as Malaysia in particular in an effort to 'front load' talent before the implementation date, many firms have still ended up simply hiring from their competitors.

"For many of those questions, you [as a tax adviser] can answer them," remarked Mezu. "But for questions where there's no real answer, there's only so much you can do. For many [advisory firms] it's a lot of business, but in other ways it's a lot of work. In other ways, it's a bit of exposure. You're advising on things that are not very clear."

When will it end?

It will take time for businesses, individuals and the tax authorities to adjust to VAT. This is inevitable.

"I think the authorities, from what I can gather, want to grapple with it," said Mezu. "I'd give it another six months for things to become a bit calmer."