

VAT brief

Automotive



The release of the draft Saudi VAT law on 29 May 2017 is an important development in the introduction of VAT in the GCC. Following on from the release of the unified agreement on VAT, which sets out a basic framework for VAT across the GCC but leaves GCC states with discretion in certain areas, key decision makers should now be more aware than ever that VAT is going to be implemented – and that preparation time is short.

What is VAT?

- VAT is designed to be a tax on consumption, not income or profits.
- The GCC countries have agreed a VAT rate of five percent.
- Goods and services can be exempt, zero-rated or standard-rated.
- Registered suppliers will add VAT to the price of a good or service they supply, collect the tax and pay it to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard- or zero-rated) be able to recover the VAT they have paid as an input tax credit.
- Registered businesses that make supplies that are exempt from VAT will not be able to recover the VAT they have paid.
- Registered businesses that make supplies that are zero-rated will usually be in a refundable position.

How will VAT affect the automotive sector?

- Most supplies made by auto dealers - such as the sale of cars (new and used) and parts and repairs will be subject to the standard rate of VAT (five percent).
- However, the diversity of activities undertaken by auto dealers means that some supplies may have a different VAT treatment. For example, certain financial services are likely to be exempt from VAT.
- When providing finance, the appropriate VAT treatment will need to be considered. This may depend on whether the financing is an operating lease or finance lease or whether the auto dealer is directly providing financing or is only acting as an intermediary.

- Auto dealers leasing cars will generally need to add VAT on lease payments. However, they will need to consider **when** to account for VAT.
- Special rules will apply for second-hand cars – in essence, VAT should only be paid on the margin.
- The VAT treatment of demonstrator cars, cars provided to employees and courtesy cars provided to customers while their cars are in for repairs will need to be considered carefully.
- The use of freezones and bonded warehouses will need to be considered as auto dealers could use them to delay VAT payments to the tax authority.
- VAT on warranty repairs will need to be considered.
- Exports are zero-rated for VAT purposes so obtaining refunds on import VAT will be an issue. Special rules will apply to the cross-border movement of cars – new and used – within the GCC.
- Car hire companies will need to reflect on **where** a rental car is being as this may trigger a requirement to register for VAT in other GCC states. This could be an issue for car hire companies in Bahrain where the customer uses the car in both Bahrain and the Eastern Province of Saudi Arabia.
- We may see increased consumer spending in the run-up to the introduction of VAT, requiring dealers to increase stock levels in the months immediately beforehand.
- There is also likely to be a drop in sales in the period immediately after the introduction of VAT. This will affect margins and may impact how dealers deal with price increases in the lead up to the introduction of VAT.

Contact us
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Please visit our website
[keypoint.me](http://www.keypoint.me) to read more about how VAT may affect the automotive industry in Bahrain and the wider GCC.

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What other issues will the automotive sector need to consider

- Will VAT apply on cars purchased by people with a disability?
- Will VAT apply to costs such as insurance, registration, delivery charges and transfer fees?
- Will the payment of a deposit that is subject to forfeiture trigger a VAT liability?
- How will input tax credits apply on trade-ins from individuals as opposed to registered businesses?
- How will VAT apply to contracts for cars sold before the introduction of VAT but delivered after VAT is introduced?
- How will cars provided by car dealers as part of a sponsorship arrangement be treated?
- How will third party rebates (such as manufacturer rebates) be accounted for?
- How will VAT apply on cars sold on consignment or at auction (including by governments)?
- How will VAT apply on motor vehicles purchased by the diplomatic community?
- Will there be a different treatment for 'luxury' cars as the GCC is reportedly considering imposing a luxury tax on certain goods?
- How will restrictions on the input tax credits a business may claim affect sales?



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