VAT brief

Financial Services

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 financial services sector?

- Under the GCC framework, each GCC country has the right to exempt financial services. Neither the draft Saudi VAT law nor the VAT framework define financial services or financial supplies.
- Articles 15 and 16 of the draft Saudi VAT law state that the VAT implementing regulations will specify the goods and services that will be exempt and those that will be zero-rated.
- Margin-based products – such as interest on loans and foreign exchange transactions – are likely to be exempt from VAT.
- Exemptions increase costs as financial institutions will not be able to recover VAT paid on exempt supplies.
- On some 'business as usual' practices such as property leases or the acquisition of services (such as IT or professional advisers) or office supplies and equipment, financial institutions will be end users and so face additional costs of up to five percent.
- Financial institutions will want to maximise the recovery of input tax credits, requiring them to carefully consider all the purchases of goods and services they make and determine how best to minimise input VAT they cannot claim.

- Financial institutions may ultimately decide to increase the costs they charge their customers – but will need to be wary of regulatory constraints and the impact on their competitive advantage.
- VAT may be a significant commercial opportunity for banks as their clients are likely to have substantial new working capital requirements.
- We may see increased consumer spending in the run-up to the implementation of VAT, increasing demand for lending products.

What still needs to be clarified?

- What are financial services?
- What are financial supplies?

Contact us
vat@keypoint.me

Please visit our website keypoint.me to read more about how VAT may affect the financial services and insurance industry in Bahrain and the wider GCC.