VAT brief

Telecommunications, media & technology (TMT)

keypoint

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 TMT sector?

- Supplies of goods and services by businesses in the TMT sector will be standard rated (five percent).
- The GCC VAT laws will contain "use and enjoyment" rules which will impact the TMT sector.
- In essence, the "use and enjoyment" VAT rules affect any business providing services across borders, where there is a need to define where a supply is made and where it is actually consumed – this means telecommunication services and electronically supplied services will be subject to VAT in the country where the actual use occurs.
- This could trigger the requirement for TMT businesses to register for VAT in more than one GCC state.
- As with the export of goods, the export of services will be zero-rated but a reverse charge (self accounting for VAT) may apply in the other jurisdiction.
- Long-term contracts that span the introduction date of VAT will need to be reviewed to ensure VAT can be passed on to the customer.
- The timing of accounting for VAT - and its effect on cash flow – could pose a significant issue. Typically, VAT is accounted for at the earlier of the supply being made or invoice date – so VAT may be payable to the tax authority a long time before payments are collected from customers.

What still needs to be clarified?

- Will TMT businesses based in one GCC state have to register for VAT in other GCC states?
- What will happen when customers benefiting from services are outside the GCC?
- Will penalty payments or late payment fees – which are generally exempt in other VAT jurisdictions – be subject to VAT?.

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Please visit our website keypoint.me to read more about how VAT may affect the telecommunications, media & technology (TMT) industry in Bahrain and the wider GCC.