VAT brief

Oil & Gas

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 oil & gas sector?

- Under the GCC framework, each GCC country has the right to choose to zero-rate the oil & gas sector but the exact conditions will be determined by each GCC state.
- Articles 15 and 16 of the Saudi VAT law state that the VAT regulations will specify the goods and services that will be exempt and those that will be zero-rated. The Saudi VAT implementing regulations have not yet been released.
- In other VAT jurisdictions, oil & gas activities are standard-rated. While the GCC framework allows for zero-rating, most industry observers, bearing in mind the importance of the sector, expect oil & gas activities to be standard-rated.
- VAT recovery on employee benefits may be an issue.
- The timing of accounting for VAT could cause a significant cash flow 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.
- Long-term contracts that span the introduction of VAT will need to be reviewed to ensure VAT can be passed on to the customer.
- According to the agreed VAT framework and consistent with general VAT principles, exports will be zero-rated which means VAT is not charged on exported supplies but VAT is recoverable on purchases. However, this will still affect cash flow. VAT refunds are likely to be the single biggest issue for oil & gas businesses as a large proportion of their sales are likely to be exports
- VAT incurred on capital expenditure will also significantly impact cash flow. Large-scale capital expenditure is often incurred at the early stages of an oil & gas project while supplies - and so income flow - are likely to occur some years later. Business may be left waiting for VAT refunds.

What still needs to be clarified?

- Will specific relief apply to the oil & gas sector?
- Will refunds be available for businesses that are net exporters?
- Will any relief be provided where VAT incurred on large-scale capital expenditures affects cash flow?
- How will offshore exploration and production activities be treated?
- Will there be specific rules on warehousing and temporary movements?

Contact us
vat@keypoint.me

Please visit our website keypoint.me to read more about how VAT may affect the oil & gas industry in Bahrain and the wider GCC.