Is the GCC ready to implement VAT?

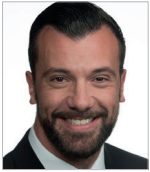**Thomson Reuters & ACCA VAT Readiness Survey**

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Introduction

Pierre Arman
Market Development Lead
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Value added Tax (VAT) is a subject of immediate relevance in the Gulf Cooperation Council (GCC) business community. VAT is planned to be introduced in 2018 in all 6 countries (Saudi Arabia, United Arab Emirates, Oman, Bahrain, Kuwait and Qatar) and the first step towards this direction is the publication of the GCC VAT Framework in May 2017. This gives companies less than seven months to prepare and become VAT compliant by the 1st of January 2018.

Every function will be impacted by VAT (it's not just a finance issue) and therefore it is essential for organizations in the region to begin analyzing how VAT will impact their operations through careful planning with their chosen tax adviser.

Each member state will issue its own VAT law and executive regulation which can potentially lead to different tax treatment between each country. Apart from Saudi Arabia who issued a draft VAT law for public consultation at the end of May 2017, we are still waiting for finalized VAT laws and executive regulations from each member state. Many companies are waiting for these publications to be available before starting their VAT preparations, which proposes a high level of risk given the time frame. Time is limited and a considerable amount of the VAT impact assessment analysis can be done without knowing the details of the final law, as most of the VAT treatment can be extrapolated from other jurisdictions around the world.

Not being sufficiently prepared to manage VAT by 2018 could see organizations exposing themselves to the risk of compliance failures, as any tax legislation always carries penalties and other enforcement measures.

The introduction of VAT is positive change for this region as it will create a new source of stable revenue for governments while having the least negative impact on regional economies. These new tax reforms will support this region's governments with economic diversification away from crude oil and encourage foreign investment to the region, actively reducing reliance on a commodity-centric model at a time of significant market volatility.

With these challenges and benefits in mind, the **Thomson Reuters & ACCA VAT Readiness Survey** has been conducted to provide insight into how organizations plan to manage the transition into the GCC's new VAT era. This report aims to share key highlights from the survey and provide insight and guidance for organizations seeking to get underway with their planning activities for VAT implementation.

Chas Roy-Chowdhury
ACCA
Head of Taxation

This is a highly informative and praiseworthy survey which seeks to lift the lid on the preparedness of businesses in relation to the upcoming introduction of VAT across the GCC.

It certainly helps to shine a light on the level of awareness of a brand new VAT regime and the impending fiscal reform. ACCA has been doing its part in seeking to raise the profile of VAT in the GCC, which will impact professional accountants, the financial landscape and companies which operate within the ecosystem. We have conducted events and will continue to engage to provide businesses with professional insights in to the legislative landscape which will come into place from 1st of January 2018.

With less than seven months to go before VAT is implemented in the GCC, the consensus alludes us to believe that only a minority of organisations have started preparing for such fiscal reform. It is important to use the pre-implementation period effectively in order to ensure the relevant technological tools, staff training, resource model and various other accounting facets are in place in order to comply with such reform.
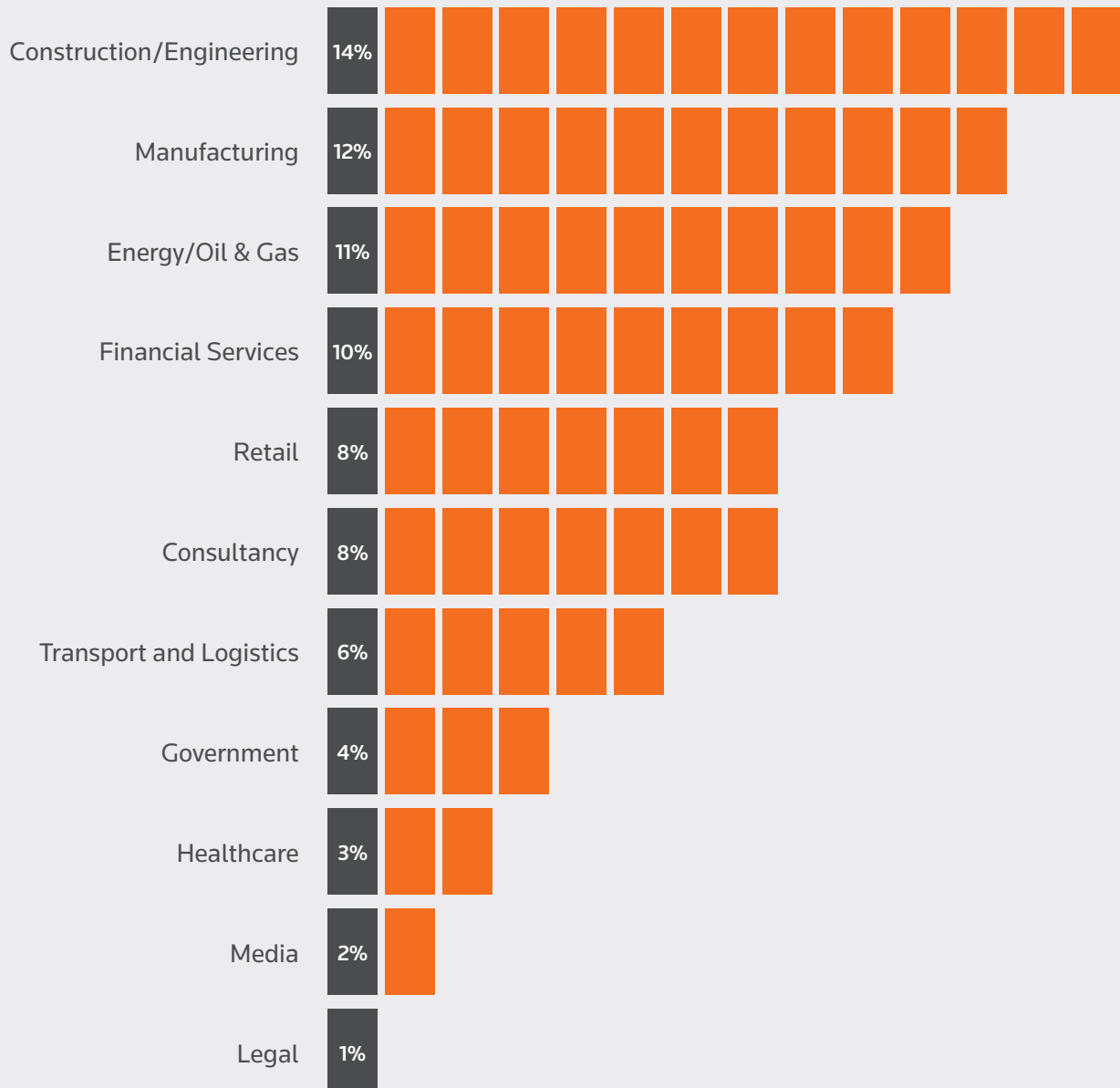
During the entire VAT lifecycle, professional accountants are paramount to ensuring new processes and tools are adopted within the organisation, which will enable VAT compliance and in turn produce a new source of government income to further aid economic growth.

The GCC is embarking upon a new commercial direction by introducing VAT and we as ACCA, together with our partners, are keen to help professional accountants, companies and the wider economy to make a success of this new chapter in its development and what will undoubtedly be a landmark reform.

Survey respondents

Our typical survey respondent is a Financial Manager, CFO, Head of Tax or similar – individuals who will be involved in VAT implementation. Overall, those surveyed represent a diverse range of industries in the GCC, including construction and engineering, manufacturing, oil and gas, financial services, retail, and consultancy.

Industries represented by respondents

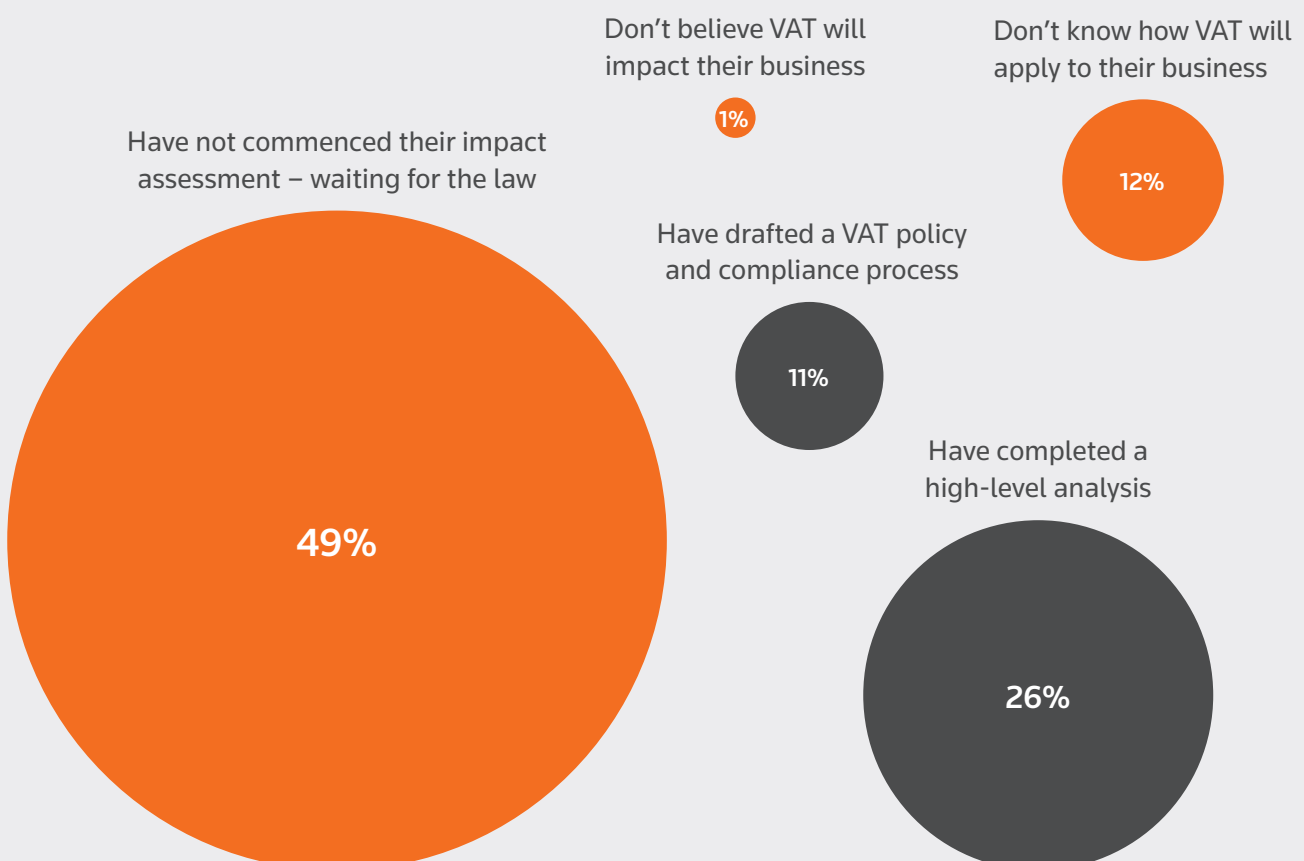| Industry	Percentage
Construction/Engineering	14%
Manufacturing	12%
Energy/Oil & Gas	11%
Financial Services	10%
Retail	8%
Consultancy	8%
Transport and Logistics	6%
Government	4%
Healthcare	3%
Media	2%
Legal	1%

Limited VAT expertise in-house

Ascertaining the impact VAT will have on a business and the changes required is an essential step in any VAT implementation process. Once understood, an effective VAT compliance and management plan can be developed and put into action.

Our research suggests that while there is awareness that VAT will have a broad impact, only 11% of respondents understand the impact that VAT implementation will have on their business – and have used this knowledge to draft a VAT policy, consider compliance models and identify IT system gaps. These organizations expect to finalize and implement their proposed measures upon issuance of the VAT law.

Close to half (49%) of respondents said they were waiting for the framework to be finalized before commencing their VAT impact assessments. A further 26% have completed a high-level analysis but are unsure of certain key elements which will become clearer once the GCC member states issue the individual country laws.

Awareness levels: VAT business impact

Don't believe VAT will
impact their business

1%

Don't know how VAT will
apply to their business

12%

Have not commenced their impact
assessment – waiting for the law

Have drafted a VAT policy
and compliance process

11%

49%

Have completed a
high-level analysis
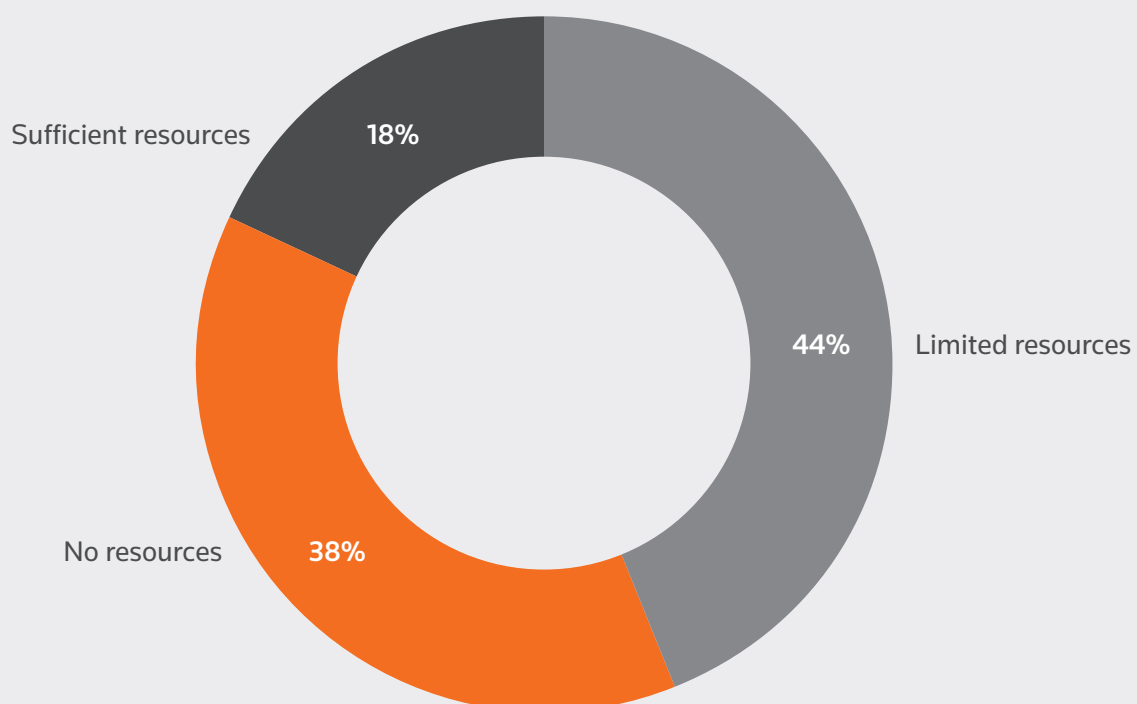
26%

Impact on available resources

In addition to understanding the potential business impact of VAT implementation, it's advisable for organizations to ascertain whether they have the capacity and resources to get the business VAT-ready and manage VAT requirements post implementation. This involves both VAT knowledgeable resources and IT resources working together to prepare and maintain systems which will be impacted by the introduction of VAT. Some of the of the regional complexities need further consideration such as the breakdown of VAT output in the United Arab Emirates (UAE) which was announced by the Ministry of Finance. These complexities will test an organization's ability to access accurate data from their IT systems.

Any VAT implementation project requires specialist skills from various departments in the organization, including, but not limited to, project managers, business analysts and ERP experts. It's important to take into consideration whether these resources are adequate and also whether they will be readily available (or required for other transformation projects in the organization).[1]

Our survey results highlight the lack of in-house VAT expertise. When asked about the availability of knowledgeable resources, 44% of respondents said that they have limited VAT resources in the finance department with some IT business systems experience to assist IT. More than one third (38%) have no in-house VAT knowledgeable resources to support this tax paradigm shift.

The availability of in-house VAT expertise

Sufficient resources — 18%

Limited resources — 44%

No resources — 38%

[1] https://pwc.com/m1/en/tax/documents/what-is-vat-faq-on-vat-in-the-gcc.pdf

Engaging a tax advisor and the different VAT compliance models

Engaging with a tax adviser is crucial in any VAT implementation project. They can help companies understand how VAT will impact their operations, cash-flow and IT landscape, as well as provide a roadmap of the changes that need to be made in order to ensure an organization is ready and VAT compliant by the implementation date.

At present, the survey reveals that 75% of the organizations surveyed have not yet engaged with their tax advisor on the subject of VAT.

Audit, accounting and consulting firms across the region have expanded their VAT expertise and resources in order to meet the demand for their services from the market. Apart from a VAT impact assessment, these firms will also provide VAT reporting outsourcing services, which enables organizations to explore three different options for managing VAT reporting:

- In-house: for those with the knowledge and skills to set up a VAT compliance function internally

- Outsource: for those who would be better placed to outsource all VAT management to a tax advisor

- Co-source: for those who have some knowledge and skills to set up a VAT function internally, but still require an external tax advisor to handle certain processes or functions

When asked how they planned to manage VAT, half of the organizations surveyed plan to handle this project in-house by establishing an internal tax function, developing VAT compliance processes and adopting tax technology software solutions. Thirty-six percent plan to co-source by establishing an internal tax function and using an external tax advisor for certain processes and functions, while 13% plan to outsource their entire VAT reporting obligations to a VAT advisor.

The value of identifying the most suitable VAT compliance model as early as possible, is that it will allow organizations to plan their budget, resources and operational changes, depending on which model they are planning to adopt for VAT.

Plans for managing VAT compliance

In-house	51%
Co-source	36%
Outsource	13%

Budgetary provision for VAT

Only 12% of organizations have budgeted for VAT in 2017. The clear majority (88%) of organizations have not made budgetary provision for VAT in 2017. Among these companies, 16% have not thought about their VAT plans yet, 7% believe that VAT would not impact them and 68% said they had not made budgetary provision for VAT because they were waiting for further clarity on the framework.

Planning for VAT from an IT perspective

Our research suggests that there are still many organizations in the GCC that need to address the VAT readiness of their technology platforms and tools.
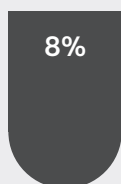
Less than one-third (29%) of the companies surveyed have an IT platform in place that is capable of supporting VAT implementation. Eighteen percent of respondents say that their platforms are only partially VAT ready and 8% are challenged by older legacy systems that do not support the ability to build VAT logic.

A significant proportion (35%) of organizations were not sure whether their existing IT platforms will be able to support VAT initiatives.

VAT readiness of IT platforms

Not possible to build in VAT logic	Partially VAT ready	VAT ready	Unsure
8%	28%	29%	33%

These findings highlight the need for IT impact assessments. Given the fast-approaching go-live deadline, organizations need to start evaluating potential IT system gaps and how to resolve them between now and 1st of January 2018.

There are end-to-end VAT automation solutions available on the market that can provide companies in the GCC with tools which automatically calculate the right amount of tax on every single invoice (commonly known as tax engines), through to preparing and filing your VAT return (commonly known as VAT Reporting or VAT Return Preparation).

Recommendations

Based on these results, there are a number of steps companies in the GCC need to undertake to ensure VAT readiness by 2018.

These include:

- Allocate budget for VAT (organizations should not underestimate the size of the project ahead and its associated costs).

- Engage with a tax advisor as soon as possible. The VAT impact assessment is a business-critical exercise, and it is the first step in becoming VAT compliant by 2018.

- Understand your VAT compliance, legal obligations and associated financial risks.

- Identify potential IT system gaps for VAT implementation. Specifically, when reviewing your existing billing systems, identify what VAT compliance data is available and not available for VAT calculation and reporting, so a roadmap can be produced on what needs to be changed or upgraded between now and the 1st of January 2018.

- Evaluate which VAT reporting model you would like to apply to your organization and plan for the appropriate operational decisions and its consequences.

Finally, it's advisable to view VAT compliance as an organization-wide challenge. This is not a transition that the IT or accounts department should be handling in isolation – because every business area, from human resources to information technology, will need to play a part in getting the company VAT ready.

About the survey

Over 330 people participated in the Thomson Reuters and ACCA VAT Readiness Survey from across the GCC region. The respondents were from a diverse range of industries including financial services, oil and gas, manufacturing and retail.

Contact us

For further guidance on VAT in the GCC region, please contact the following tax experts:
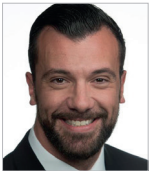
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Stewart is Head of Indirect Tax at Thomson Reuters, based in Dubai, and has 25 years experience in leading and executing tax technology services in Europe. Stewart has designed strategic tax determination software solutions, managed the implementation of tax-efficient supply chain management systems, developed targeting tools and led audit team training.

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Chas Roy-Chowdhury is Head of Taxation at ACCA. He has a degree in Applied Economics as well as being a fellow of ACCA. He worked in public practice before he joined ACCA and has worked in taxation for over 30 years. Chas is Chair of the Taxation Working Group of the small business organization UEAPME and has been a member of the Indirect and Direct Tax Working Parties at Accountancy Europe – the umbrella group for "first tier" European accountants.

He is a member of the two high level VAT expert groups set up by the European Commission.

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