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Indirect Tax Alert

Saudi Arabia officially announces adoption of GCC VAT

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Executive summary

On 30 January 2017, the Shura Council in Saudi Arabia announced the approval of the Gulf Cooperation Council (GCC) Value Added Tax (VAT) Framework Agreement. Saudi Arabia is the first member of the six-member GCC to officially announce the adoption of the unified GCC VAT regime. Officials at the Saudi Arabian Ministry of Finance (MoF) have indicated that the VAT regime will be applicable from 1 January 2018 and a 5% levy will apply to selected goods as set forth in the GCC agreement.

Finance Ministry officials in the region have begun to share the text of the VAT framework agreement with key business sector leaders.

The GCC countries have also agreed to implement selective excise taxes on tobacco as well as sugar sweetened beverages including soft drinks and energy drinks. These excise taxes are expected to be introduced in the second quarter of 2017. The excise levies will be 50% on soft drinks and a 100% tax on cigarettes and energy drinks.

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Detailed discussion

Key features of the GCC VAT framework as adopted by Saudi Arabia[1]

- The standard VAT rate will be 5% unless a zero rate or exemption applies.
- The Member States have the right to subject the following sectors to a zero rate or to exempt them from VAT:
  - Education
  - Health
  - Real estate
  - Local transport
- The Member States have the right to subject the oil sector, petroleum derivatives, and gas to a zero rate of VAT.
- Individual GCC countries have the right to subject certain food products to a zero rate of VAT.
- The Member States have the right to subject medical supplies to a zero rate of VAT.
- Intra-GCC and international transport will be subject to a zero rate of VAT.
- The export of goods to jurisdictions outside of the GCC Member States will be subject to a zero rate of VAT.
- The Member States have the right to exempt Financial Services from VAT. The term financial services is not defined but broadly the exemption will generally relate to dealings in money, securities, foreign exchange and the operation and management of loan accounts, deposits, trade credit facilities and related intermediary services. The exemption is not expected to extend to fee based services transacted by a financial institution. However, Member States may choose to apply different VAT treatments to financial services if they wish.
- Supplies of goods and services from a VAT registered person in one Member State to a VAT registered person in another Member State are subject to the reverse charge mechanism.
- VAT grouping appears to be permitted between two or more legal persons resident in the same Member State.
- The treatment of GCC free zones is not addressed and it is left to each Member State to determine its own VAT treatment for free zones.
- Businesses with an annual revenue of over SAR375,000 will be required to register for VAT purposes.
- Businesses with an annual revenue between SAR187,500 and SAR375,000 will have the option to register for VAT purposes.

Next Steps

The announcement by the GCC of the VAT Framework Agreement confirms the implementation of VAT in the GCC Member States from 1 January 2018. This means that businesses operating in the GCC only have 11 months to prepare for the VAT implementation and to become compliant with the respective GCC VAT laws.

It follows that, GCC businesses should initiate a VAT impact assessment immediately in order to determine the impact that VAT will have across their operations. This assessment should consider the impact of VAT on the following key areas:

- Finance and Accounting
- IT and systems
- Tax and compliance
- Supply chain – goods and services
- Contracts
- Sales and marketing
- Legal structure
- Human resources

The impact assessment should be used to develop a clear plan as to the steps that must be taken to be ready for VAT from 1 January 2018.

Endnote

1. These features will apply to the adoption of the GCC VAT framework by all Member States.

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