Saudi Arabia officially published the GCC VAT framework agreement in its official gazette

Saudi Arabia ratified the Gulf Cooperation Council (GCC) Value Added Tax Framework Agreement by Royal Decree No. M/51 dated on 03/05/1438H (corresponding to 31 January 2017). The text of the agreement has been published in the Official Gazette – “UM AL QURA” by way of Circular Number 4667 dated 24/07/1438 (corresponding to 20 April 2017).

Detailed discussion

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

- 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 government is determined to implement VAT in the Kingdom with effect from 1 January 2018 and has commenced active engagement with business groups on the need to be ready for VAT in 2018. We are now expecting that the Saudi government will issue the draft VAT law by the end of May 2017 and the VAT by-laws will be issued for comment in July 2017. The VAT registration process will be managed by the GAZT’s online electronic filing system – ERAD.

Businesses operating in the GCC region need to take immediate steps to become compliant with the respective GCC member states 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 by the go-live date of 1 January 2018.

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