Executive Summary

The United Arab Emirates (UAE) Minister of State for Financial Affairs Obaid Humaid Al Tayer confirmed that value-added tax (VAT) will be implemented in the Gulf Cooperation Council (GCC) region in 2018. The GCC states include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

This announcement was made at a press conference on 24 February 2016 in Dubai with Christine Lagarde, Managing Director of the International Monetary Fund (IMF). In recent years, the IMF has made recommendations to all GCC countries to reform existing tax systems and to introduce additional taxes to compensate for the sharp reductions in government revenues resulting from falling oil prices and to strengthen their financial systems.

The UAE Finance Minister’s declaration follows a recent statement by the Oman Minister of Finance Darwish Al Beloushi that the GCC countries had reached an agreement on a common VAT rate of 5%.

Detailed discussion

The GCC VAT framework is now expected to be finalized and formally announced by mid-2016. The provisions of the GCC Framework Agreement will be transposed into domestic tax law in each of the GCC States prior to the effective date.
The GCC States have agreed to implement their VAT regimes in 2018. Most countries will be working to implement by 1 January 2018 to avoid distortions arising from intra-GCC trade where one country has implemented VAT and another country does not have mechanisms to deal with charging VAT from business to business and onwards to the consumer. All GCC States will need to have implemented VAT by the end of 2018.

It has been confirmed that certain essential food items and industries such as healthcare, social services and education will be exempt from VAT. There are a limited number of policy decisions that still need to be agreed upon by GCC Finance Ministries prior to ratification of the framework agreement. The foremost being the VAT treatment of financial services, where agreement on the appropriate VAT application is still required. However, it is expected that a consensus will be reached on these areas prior to June 2016.

Next steps

With the ratification of the GCC VAT Framework Agreement by mid-year, the GCC countries will be on a tight timeline of 18 months to prepare for VAT readiness by 1 January 2018, the target date to be achieved. However a number of GCC countries have already made substantial progress on preparing their tax administration systems for VAT and from July 2016 onwards the focus will likely shift to preparing the business community for VAT.

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