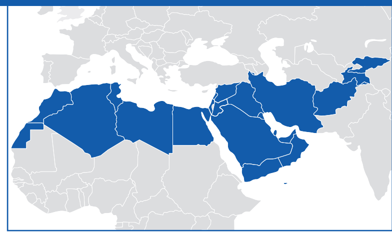


MGI Worldwide Insights:

GCC Tax Reforms Ahead: What our Clients need to know and how we can assist

In brief

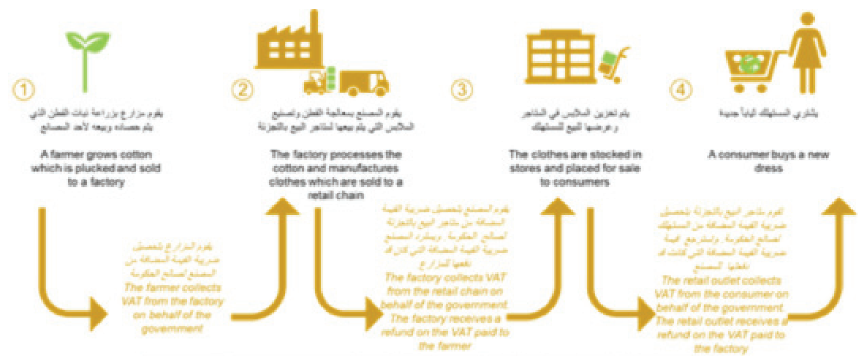
The Gulf Co-operation Council (GCC) countries are have been mulling over the idea of introducing an indirect tax system to reduce their dependence on oil revenues. This process has been accelerated due to recent slump in oil price and resultant slow down in all countries. The GCC Finance Ministers held an extraordinary meeting on Thursday 16 June 2016 in Jeddah – KSA to discuss the Value Added Tax (VAT) and Excise Tax treaties. These treaties have been approved in principle, with implementation scheduled from the 1st of January 2018 for most member countries.

The envisaged system is a standard full-fledged VAT system that will apply the tax on most goods and services at 5% across the GCC. The system will be based on a destination principle according to which VAT is charged at import and on local supplies of goods and services, and exports are subject to 0% (zero-rated).

With the expected start date for VAT in a number of GCC countries expected to be January 2018, businesses should now start adopting VAT and Excise Tax compliantstrategies to ensure a smooth transition at a later stage.

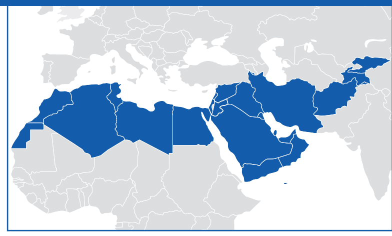
About VAT

VAT is a tax on consumption. It is a transaction based tax levied at each stage in the chain of production and distribution. VAT is charged on supplies and is deducted on purchases, exception when exemptions apply. It is collected by business on behalf of the VAT authority, and businesses submit a periodic VAT return to the Tax Authority in which they calculate the net VAT amount to be paid or refunded. A pictorial depiction is shown right:



	Sales	5% VAT charged on Sales	VAT recovered on purchases	Net VAT payable
Farmer	AED 1,000	AED 50	AED 0	AED 50
Factory	AED 3,000	AED 150	AED 50	AED 100
Retailer	AED 5,000	AED 250	AED 150	AED 100
			Total VAT paid by final consumer:	AED 250

Net result = VAT is collected through the chain and the end-consumer bears the cost



VAT is a broad based tax and is charged on most supplies of goods and services. Traditionally, few sectors or supplies would be exempt, zero-rated or subject to special schemes, e.g. education, basic food, medical services, financial services, real estate sector. The VAT treaty should provide clarity around the treatment of these sectors by the GCC Member States and this will depend on several factors, including the local socio - economic context and government objectives in each country.

A registration threshold may be considered, based on which businesses exceeding a certain annual turnover threshold will be required to register for VAT purposes, whereas an option to register will allow businesses achieving a lower annual turnover to voluntary register for VAT. For example, the threshold for registration in the UAE is AED 3.75 million, i.e. all businesses generating above this amount in revenue have to register for VAT, while businesses generating less are exempt from registration in the 1st Phase of implementation.

Accordingly, registered businesses will be required to charge VAT on their supplies, and will be entitled to deduct VAT incurred on their purchases, including capital assets and imports. Some countries will introduce VAT Grouping provisions, allowing separate legal persons to act and be treated as a single taxable person for VAT purposes, subject to certain conditions being met. VAT Grouping may be seen beneficial for businesses (and authorities), mainly through reducing administrative burden as well as disregarding intra-group supplies for VAT purposes.

VAT Compliance Requirements

VAT registered businesses will be required to comply with a number of VAT obligations, including:

- To keep VAT books and records for a specific period of time, on paper or electronically, that must be accurate, complete and readable
- To issue VAT invoices for their supplies and keep VAT invoices obtained from their suppliers as a requirement for deducting VAT
- To compute their VAT liability and submit a VAT return on a periodical basis (monthly or quarterly)
- To report all VAT on sales and purchases made in the period, including intra-GCC transactions, and calculate the net VAT amount to be paid or refunded

About Excise Tax

Excise Tax is a tax on consumption levied on specific goods. It is a single-phased tax, levied once at import or at production stage within the country, and is collected by businesses on behalf of the Tax Authority. Businesses submit Excise Tax returns periodically to the Tax Authority.

Standard Excise Tax systems features:

- Different rates applicable on each category of excisable goods
- Excise Tax is levied on the excisable goods, both imported and locally manufactured
- Excise Tax is not effectively levied on exports
- Typically, certain transactions are exempt from Excise Tax, e.g. supplies to diplomatic missions
- Additionally, Excise Tax may be refunded in certain cases, e.g. exports of excisable goods
- Excise Tax is normally suspended when excisable goods are located in tax warehouse. In such cases the Excise Tax shall be levied upon release of the excisable goods for consumption
- Tax Authorities will need to create an efficient inventory and movement control system to monitor the physical movement of excisable goods and tackle potential illicit trade. Best practices usually seek to implement electronic based systems supported by tax stamping policies to ensure compliance from the taxpayers
- Similarly to VAT, the Excise Tax treaty will determine the treatment of intra-GCC movement of excisable goods, which should be taxed in the place of consumption. There would be a need for common GCC mechanisms to collect and monitor the Excise Tax due in the appropriate jurisdiction

Excise Tax compliance requirements

Businesses engaged in the import and/or local manufacture of excisable goods will be required to comply with a number of Excise Tax obligations:

- To register with the Tax Authority. There is no threshold expected
- Keep Excise Tax records for a specific duration, on paper or electronically; records must be accurate, complete and readable
- Submit periodical tax returns, informative returns and specific Excise Tax reporting
- Comply with the inventory and movement control system, which may entail keeping and/or submitting additional documents related to the physical movement of excisable goods, particularly in the case of movements under Excise Tax suspension
- Keep customs and transport documents as relevant to the movement of excisable goods, especially with respect to transactions subject to refunds and/or exemptions, or performed under Excise Tax suspension

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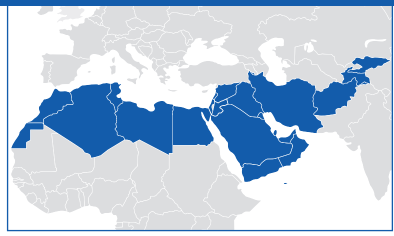

How MGI Worldwide can help?

Clients will have to assess the impact of these taxes on their businesses and make necessary changes to adopt these changes into their system. We, at MGI, have tax advisory personnel who have requisite knowledge and experience to assist clients with timely preparation for the tax reforms so that the impact does not disrupt your business.

We can assist our clients with following;

- VAT health check up;
  - Assessing the impact of VAT on your business;
  - How to deal with VAT and effectively communicate to your clients and suppliers;
  - How to integrate this cost into your existing long term contracts;
  - A variety of other advice and solutions.
- Accounting System and software:
  - Automate bookkeeping, in order to make it more systematic;
  - Make necessary changes in software and test the same for VAT compliance;
  - Documentation and filing with the tax authorities;
- Understanding VAT rules and regulations & providing training to the accounting team;
- Cash flow management;
  - VAT obligations to the government have to be paid on time – we can assist in ensuring that the VAT portion of sales collection is not utilised for working capital requirements, etc.
  - We can assist with creating a system to ensure that company always have sufficient cash to meet this obligation.

Your Next Step

To learn more about this VAT and Excise tax and how it will impact your business, you can contact MGI Middle East & North Africa Area members operating in the Gulf Co-operation Council (GCC) Countries who will be happy to assist you.

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