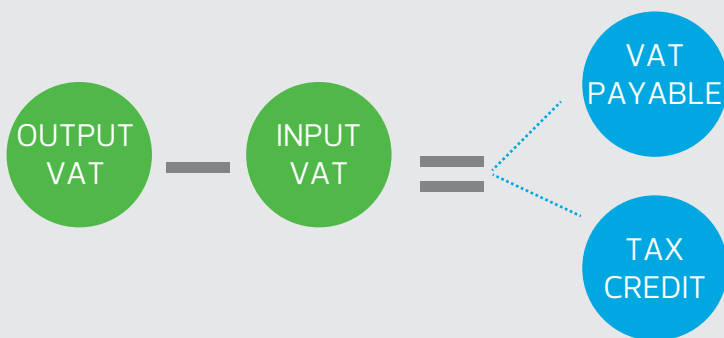
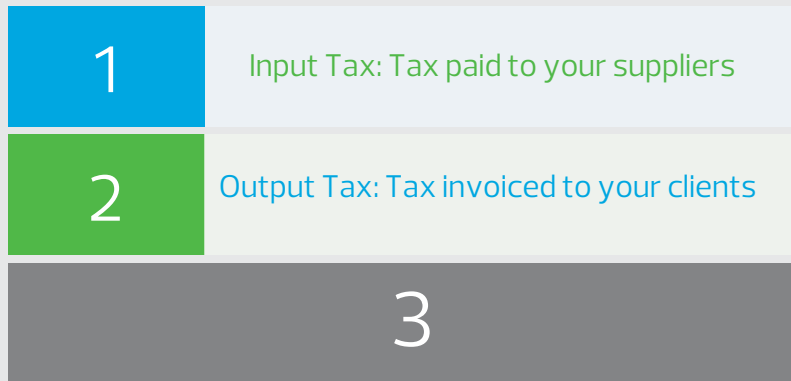




## VALUE ADDED TAX IN THE GCC THE TRANSFORMING TAX REGIME

## UNDERSTANDING VAT

As the Gulf Cooperation Council (GCC) embark on the most radical reform to date in the taxation arena in the form of VAT, a major milestone on the path to fiscal sustainability is set to be achieved. VAT is a comprehensive, multi-stage, consumption-based tax, which is levied on every value addition. In other words, VAT is levied on monetary worth added at each stage of product cycle from production to sale to end customer. The basic premise is that the final customer should bear the tax and not the business. This is achieved through a mechanism whereby businesses can recover the VAT incurred by them in the following manner:



VAT is relatively secure from serious fraud in a domestic market. The tax relies on a staged collection mechanism in which successive taxpayers are entitled to deduct input tax on purchases and have to account for output tax on sales. In the end, the tax collected by tax authorities should equal the VAT paid by the final consumer to the last vendor.

VAT is a preferred form of taxation in over 165 countries as it raises revenue in a neutral and transparent manner. The uniform rate under VAT in the GCC is 5% covering most of the goods and services (including imports) with some exemptions on basic food items, essential medicine, education and export of goods.

## THE GCC FRAMEWORK AGREEMENT

Pursuant to the announcement of VAT in the GCC in 2015, the first milestone was achieved in April 2017, with all the 6 nations under the GCC signing a unified agreement to implement VAT.

The Unified VAT Agreement provides more or less 80% of the applicable regulations in the implementing states. Each state will issue specific rules for few items such as exemptions, proportional deduction, transitional rules, VAT return templates, and other areas. As of now, Saudi Arabia and UAE have implemented VAT effective January 1, 2018. The other GCC states are expected to follow suit in the upcoming period. **Bahrain is due to implement VAT, effective 1 January 2019.**

“VAT is coming, don't stay at the harbour waiting for the storm.”

“





Come onboard with  
**Experienced VAT Skippers**  
and get your business  
armed for the storm



## WHAT DOES A ROBUST IMPLEMENTATION LOOK LIKE?

In order to fully realise the envisaged benefits, all stakeholders need to develop a holistic understanding of the underlying solution architecture, the change in processes and the nature of information exchange. A phased transformation with combined synergies between internal business experts and external specialist advisors will pave the way for a smooth transition process. We have designed the following high-level, well thought-out phases based on our expertise and from our experience in VAT implementing countries:

### **Phase I – Planning And Training**

- How VAT will affect commercial operations
- How VAT will be managed strategically and operationally
- The “as-is” operating environment in terms of people, processes and systems
- Arrange for awareness training
- Analyse resource availability

### **Phase II – Impact Assessment and Scoping**

- Detailed review of VAT liability and the main categories of income and expenditure
- VAT recovery position i.e. whether the business will generally be entitled to recover all of the VAT it incurs and whether there are any specific blocks
- Review impact on current and future contracts
- Prepare implementation strategy

### **Phase III – Re-engineering of Systems, Controls and Reporting**

- Determine whether existing systems can accommodate the potential changes
- Work with in-house and external IT consultants to implement the necessary script and codings
- Set up supplier/customer master-file
- Allocation of VAT flags
- Structure VAT compliance function
- Design system of VAT controls – manual/automatic/prevention/ detection
- Set up reports to prepare VAT returns

### **Phase IV – Implementation and Testing**

- Test, assess and refine systems
- Establish metrics to measure progress
- Set up reporting and communication processes
- VAT registration and final training

# THE POWER OF BEING UNDERSTOOD

## VAT Implementation

RSM's VAT advisory services focus on the understanding of our client's activities and needs.

This culture leads to developing a more strategic approach to VAT and creating opportunities to measure and improve efficiency of the processes of our clients.

Our VAT team, having a great experience of the best practices around the world in relation to VAT risk management, is able to provide an efficient strategic plan for VAT implementation.

Our methodology protects our clients from overstated tax liabilities, interest charges, and heavy penalties, and help them, on a long term view, to control VAT liabilities moving forward.

Through the comprehensive assessment and refinement of our clients' processes and IT systems, we provide a reliable VAT value chain.

We advise our clients to proceed to the assessment even before the issuing of the VAT regulations to be ready on time and avoid the last minute panic.

## Post Implementation

More likely that not, the CFO and accountants in charge of VAT booking, VAT returns and statistical internal flows returns will have hesitations and questions on a daily basis.

This is why we propose a formula of an annual fixed VAT subscription. We provide our clients with constantly available technical support in the frame of a pre-established budgetary framework.

## Flash VAT Audits

In addition to our advisory services and VAT implementation, we perform flash VAT audits on various specific items: validation of the invoicing rules and processes implemented – validation of one VAT process: procurement, sales, exempt supply – validation of reverse charge mechanism applied and regularisation if needed – review of the input VAT and deduction right – comprehensive review of the main flows based on computer files.

## VAT Record Keeping

The VAT record keeping process will become key for the VAT safety of companies. The archiving methodology refers to all the commercial documents, paper invoices, electronic invoices, contract, accounting ledgers, electronic accounting files, ERP modules and files. Non-compliance could lead to unfavourable consequences if the tax authorities reject the reliability of the invoices and the accounts of the company.

## Customised Training

We build specific VAT training sessions focused on the activity of the company and on the day to day concerns of the internal VAT stakeholders.

## Complete VAT Audit

We propose a full VAT audit assignment to anticipate tax audit drawbacks and regularise before the tax audit or to evaluate the accuracy of the VAT implementation done by the company itself.

Our methodology is to conduct a full IT VAT audit with data extract from the IT system of the client. Our report gives precise figures, lights the weaknesses of the processes and proposes remediation.

## VAT Audit Trail

The documentation of the VAT audit trail is the most reliable methodology to ensure the accuracy and the compliance of the VAT processes in order to avoid systemic risks in case of a VAT audit. Our team proposes two ways, either a review of the audit trail documentation with recommendations, or the establishment of the documentation for audit trail.

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