



IMPACT OF VAT ON RETAIL INDUSTRY

INTRODUCTION

The member countries of the Gulf Cooperation Council (GCC) have signed a Unified Agreement on VAT containing the majority of the regulation for the operation of VAT. Each of the 6 countries under the GCC will complete the rules with their own VAT laws. As Kuwait is yet to issue its own VAT law, the content in this newsletter is based on guidelines given under the Unified Agreement or common practices followed by other countries.

VAT IN SIMPLE TERMS

- VAT is a consumption-based tax levied on every value addition made at each stage of the product cycle.
- The standard rate of VAT as per the Unified Agreement is 5%.
- Apart from the standard-rated goods there are a few exceptions for zero-rated and exempted goods. Each country will issue the list of such zero-rated and exempted supplies in its VAT legislation.
- Businesses only facilitate in the collection and payment of VAT to the government.
- $\text{Net VAT payable} = \text{Output VAT (due to be paid on sales@5\%)} - \text{Input VAT (already paid on purchases)}$
- In cases where the outcome of this formula is negative, then such net VAT is refundable from the government or can be carried forward in the next VAT return.

Retail industry in Kuwait

Industry Overview

The retail industry in Kuwait has been exponentially expanding despite the occasional decline. Specific growing retail segments include food, pharmaceuticals,

consumer goods and the supermarket and hypermarket segments. Supporting this retail success are the surges of entrepreneurship, availability of financial services, demographical changes seeing a large youth population, and the vast wealth that places Kuwait as the fourth richest country in the world per capita, according to the World Bank.

Key Considerations

- 1. Since VAT is a consumption tax** to be borne by the final customer, the Retailers have a crucial position in the VAT circle. Retailers will be among the biggest tax collectors for the Government. That is the reason why the tax Authorities should pay great attention to this business.
- 2. Article 31 of the GCC VAT agreement** provides the States with the possibility to apply the zero-rate to foodstuffs. This will bring complexity for retailers in the GCC countries applying this option. As of today neither KSA nor UAE have implemented the zero-rate for this kind of goods.
- 3. Invoicing requirements** in the GCC agreement, KSA and UAE regulations do not provide any exception for retail activity. So theoretically, an invoice should be issued for each sale. However, this is not manageable at all. The Tax Authorities should take into consideration the specificities of this activity and provide a manageable solution either by exempting retailers to issue invoices or to accept the cashier's tickets as invoice if it shows the price and the VAT.
- 4. The prices displayed** in the stores must include vat, this leads to the modifications of hundreds or thousands of prices. So the VAT must be calculated inside the price for each item sold. Depending on the cashiers system and the IT system there are different ways to implement this crucial calculation.
- 5. Various discounts** are available in the retail activity; vouchers, manufacturers discount attached to the product, loyalty card and programs, special days

discount...All those types of discounts could modify the calculation either of the output VAT or the input VAT. This must be carefully monitored,

6. Free Gifts and samples: Deductibility of input VAT on gifts and samples is restricted, as these supplies are not considered as economic activities. As it is very common in retail sector to provide gifts and samples, depending on a threshold provided by the law, the input VAT deducted on those items would have to be repaid to the Government in the VAT return.

8. Advance payments: In case of payment of advance, the customer must insist on issuance of invoice for such advance payments in order to be allowed to claim the input VAT. Non-issuance of invoice for advance payments could result in cash flow burden on customers.

The cashiers are the main step to measure the VAT liability of a retailer. Interfaces and IT processes must be implemented to gather the data of all the cashiers in a given rhythm. At the end, all the data must reach the sales accounts and the VAT accounts in the accounting ledgers.

All the cashier's data and the IT ledgers must be archived in a way to allow the Tax Administration to run a VAT audit and verify the turnover declared in the VAT returns.

Other issues: While implementing VAT, special consideration needs to be given to sales returns, and inventory damage or stolen as these items will add complexity to the normal input/output VAT process. Justifications of those events must be kept to avoid any future VAT reassessment.

General Considerations

11. Human resources: It is a common practice to provide various facilities to employees in lieu of the salaries such as accommodation, gifts, perks etc. The levy of VAT on such facilities is subject matter of concern for employers.

12. Contracts: Each business should consider revisiting their existing contracts to update or include the VAT related clauses.

WHY YOU NEED TO START PREPARING FOR VAT TODAY

A full-fledged, effective, robust and comprehensive VAT implementation takes ample time from planning to execution. Early preparation is recommended as a short time span to implement VAT may result in an enormous burden on the company and its resources.

Our service offerings

VAT IMPLEMENTATION

- VAT Awareness
- Assess Impact on Business
- Gap Assessment of IT systems
- VAT Implementation
- Ongoing Compliance Services
- Technical Consulting

Post implementation VAT subscription

In the frame of this subscription, we provide our clients with constantly available technical support in the frame of a pre-established budgetary framework.

Flash VAT audits

Post implementation, we also perform flash VAT audits on various specific items.

VAT Audit trail and VAT internal manual

The documentation of the VAT audit trail is the most reliable methodology to ensure VAT compliance to avoid systemic risks in case of VAT audit

Customized training

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

Tax/VAT archiving processes

The tax/VAT archiving processes will become key for the tax/VAT safety of the companies.

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