

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

VAT AND KUWAITI COMPANIES AS OF
JANUARY 1, 2018



VAT INSIGHTS

VAT and Kuwaiti Companies as of January 1, 2018

On January 1st 2018, the VAT was launched in KSA and UAE. Therefore, for several months or years, we will have a special relationship between Implementing states and non-implementing states.

Depending of the situation, Kuwaiti companies could face competitive disadvantages. Furthermore, it seems that some suppliers located in KSA or UAE are asking for non-relevant changes in their contracts with Kuwaiti companies.

Article 78 clause 3 of the GCC VAT agreement states that: *"Each Member State that has not implemented its Local Law shall be treated as being outwith the scope of this Agreement until such time as its Local Law comes into force."*

This provision makes Kuwait a foreign country in the frame of the GCC VAT regulations and within the relations with companies located in implementation states.

The companies located in KSA and UAE will be in a good position to target clients located in Kuwait because the sales will qualify as exports with no VAT impact.

While Kuwaiti companies will be prevented to do the same with KSA or UAE clients, since the sales will be analyzed as import in KSA or UAE, and the import VAT will be due.

However, it can be said that for individuals from KSA and UAE travelling to Kuwait, it would be less expensive to shop in Kuwait.

For example, a watch bought in Kuwait without 5% VAT will be obviously cheaper than the same watch in KSA or UAE.

A lot of suppliers in KSA and UAE are asking Kuwaiti companies for changes in their contract in order to raise invoices with VAT for goods as of January 1st 2018.

This is not an accurate application of the VAT regulations and the Kuwaiti companies should not accept those changes and pay VAT on such invoices.

In fact, as regards the VAT regulations, the supply of a good by a company located in KSA or UAE to a company located in Kuwait is an export of good, which is a zero-rated supply.

Concerning the services, the VAT regime is linked to the exact nature of the service supplied. For instance are taxable in KSA or UAE any rental of premises in those countries, it is the same thing for hospitality, catering, recreational services...

As a consequence each invoice received with VAT by a Kuwaiti company must be carefully analyzed on a VAT standpoint before the payment.

The situation will be different when VAT arrives in Kuwait.

Contact

Jean-Paul Ouaksel

Partner – Tax Services

RSM KUWAIT

E: jeanpaul.ouaksel@rsm.com.kw

Arraya Tower 2, Floors 41 & 42 , Abdulaziz Hamad Alsaqar St.,
Sharq, P.O. Box 2115, Safat 13022, State Of Kuwait

T: +965 22961000 | **F:** +965 22412761 | **M:** +965 66334467

RSM Kuwait is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU. RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM International Association, 2017.