

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

VAT AND CASH



VAT INSIGHTS

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With the implementation of the GCC VAT agreement, all businesses will become tax collector for the Government.

One of the main principle of a VAT system is that the VAT must be neutral for all the companies carrying taxable activities. However depending of the accuracy the internal VAT implementation and of the quality of the VAT management processes in each company there are some cases where the VAT is not neutral and leads to actual direct or indirect costs. It is the case of the cash management within the VAT flows.

There are several ways to make cash savings in an efficient VAT management process, but there are even more ways to lose cash.

The compliance can be an actual way to save cash. A great attention should have been paid during the VAT implementation project to several main VAT concepts like the definition of a supply, the date of supply, invoicing, VAT due date, payment processes...each of this concept could have huge effects on a cash standpoint.

For example, the timing of the issuing of the client invoices and the date of reception of supplier's invoices could have a significant cash impact.

Another very common finding during VAT/cash audits relates to wrong accounting postings leading to record large amounts of input VAT as a cost and not in a VAT account.

This situation creates a double tax risk. First, input VAT is not a deductible cost on a corporate income tax standpoint, so a corporate tax reassessment can be done. Secondly, the input VAT is not deducted and could be definitively lost.

The design of the international flows of goods, import, export, internal supplies and all the supply chain and transport processes could also lead to cash leakage.

For example, when a company imports good in GCC as far as it is possible a direct flow is preferable on a cash standpoint. Effectively, if the first point of entry in GCC of the good is another implementing state followed by a transfer to the final destination, the import VAT paid in the first state is not deductible.

A special refund procedure must be launched in the state of the importer. This process could take a very long time. If the flow of the import is direct, the import VAT is immediately deductible.

Due to the short time given to the companies for the VAT implementation the cash issue and the effective indirect tax management were not integrated in the implementation process. Furthermore, VAT lack of visibility in company's accounts to make a quick and accurate assessment of the cash impacts.

Among other method, it could be contemplated to run an IT VAT audit. The first step is to extract relevant data from the ERP in A given format. Then keeping in mind the VAT rules to be applied to the business at stake and the way the VAT implementation had been done, a deep analysis of the data should be conducted with a data analytics software.

If the cash issues have not been assessed and properly integrated in the internal VAT implementation then there is no magical solution to be applied with a magic stick.

Each company has its own business model, business rules and needs.

Therefore, to address the cash issue the very first step is an analysis of the flows to determine where the cash leakages could be.

Then with this clear picture and keeping in mind the mandatory processes of the company, it is possible to bring safe, reliable and long-term cash savings.

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