

# THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

## VAT AND EMPLOYEES



## VAT INSIGHTS

### VAT and Employees

A taxable Person is defined as a Person carrying out independently and regularly an economic activity. An employee is carrying out an economic activity, but he is not acting independently because there is a relationship of subordination with his employer.

Therefore, employees are out of the scope of VAT; consequently, the wages are not subject to VAT.

However, there are several other types of compensation and benefits allocated to employees.

Depending of the nature of the expenses spend for the employees, the VAT consequences could be different and increase the costs for the employers.

Firstly, the regulations in KSA and UAE ban some specific expenses, "entertainment services" from the right to deduct the input VAT.

Any form of entertainment or recreational activity: sporting or cultural services; catering services in hotels, restaurants and similar venues are targeted by this exclusion of the right to deduct.

For those expenses, the amount inclusive of VAT has to be recorded as cost.

This consequence must be mitigated in UAE because the VAT borne on provision of accommodation, food and drinks, which are provided in a normal course of a meeting, remains deductible.

Under confirmation by the Federal Tax Authority, theoretically, this right of deduction should be applicable to social events expenses.

If the company sells goods or service to employees, the price must be the fair market value because employees and employers are considered as related parties.

In case of non-compliance, a VAT reassessment could be issued in case of tax audit.

If the company provides employees with vehicles, VAT on all expenses, purchase, oil, maintenance, rental etc., is only deductible if the vehicles are used 100% for business purposes.

For example, if the employees are allowed to keep the car during the weekend, the car is not used 100% for professional needs, therefore no VAT will be deductible.

However, complications arise when other employee provisions are done without consideration.

In principle, the input VAT on expenses is deductible if the costs are linked to taxable operations. Therefore, a supply without consideration calls into question the VAT deducted at the time of the purchases of the goods or services supplied for free.

Article 15 of the KSA VAT regulations puts the following limits: samples/gifts would not attract VAT, if the value is below 200 riyals per person per year, or below 50,000 total value of all gifts/samples per year.

Similarly, article 5 of the UAE VAT regulations put the following limits: 500 AED per person per year, and the total output VAT that would have been levied on the value of the gifts/samples does not exceed 2,000 AED per year. That is to say there is a value exclusive of tax of 40,000 AED.

The provisions below the limits are out of VAT scope, and above limits are taxable deemed supplies.

UAE VAT regulations are more favorable for certain employee expenses.

For example, contractually obligated health insurance to employees incurs 5% input VAT.

This VAT would be deductible in UAE but non-deductible in KSA.

It is useful to comprehend these intricacies, especially for assessing various VAT implications on HR decisions.

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