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VAT GROUPING
PROS & CONS



VAT INSIGHTS

VAT GROUPING : PROS & CONS

What is VAT grouping?

- A VAT group is a group of companies treated as a single taxable entity for VAT purposes.
- As a result, the transactions between grouped companies are not chargeable to VAT.
- The group representative files one VAT return per tax period on behalf of all the companies.
- Then, the representative makes payments to and receives refunds from the government on behalf of the group.
- All the group members share the liabilities, jointly and severally.
- The KSA and UAE regulations regarding eligibility for joining a VAT group are quite similar. The type of entity eligible for a group is very wide since it is defined as Legal Person conducting businesses.
- The conditions relate to 50% shares ownership and power of management of group members but the VAT status of the Legal Person is not relevant for Tax Grouping.

Advantages of VAT grouping

Mitigating blocked VAT: This is most useful for exempt or partially exempt businesses as there is loss of input VAT in cases of exempt activities. With a VAT group, this drawback disappears within the group by eliminating intra-group VAT.

All the operations between group members are not taxable any more.

Cash flow benefits: Companies often face cash flow problems due to VAT, as there is a time-gap between paying input VAT and offsetting it with the output VAT. VAT grouping eliminates the input VAT related to transactions within the group.

Less compliance: Procedures end up being simpler: there is only one VAT return instead of several, VAT procedures are eliminated for intra-group activities (no VAT invoices), third-party transactions are made to and by the group as a whole, and one single registration number is used.

Disadvantages of VAT grouping

Joint & several liability: Because the companies are treated as one taxable entity, liability applies to all of them. Liability can be joint (shared by all), or several (placed onto specific company/companies)—no matter who actually incurred the liability.

Internal organisation: The management of a VAT group demands a very efficient organization. The information and documents workflows must be very precise and fully respected. In the best situation IT interfaces should be created between the IT system of all the group members.

Timing risks: The group return must be submitted on time; the risk is that late returns would impact the whole group, incurring surcharges based on VAT liability. Returns of a grouped entity are often exposed to the risk of late filing due to the additional time taken by the representative to coordinate and compile the VAT relevant information from the whole group.

Cash organization: The Group Representative is supposed to pay the VAT for all the members and to receive VAT refund if any. So a VAT Group contract must be drafted to address all the cash, financial issues, and the transfer of VAT credit or liability. Among other things, the contract must anticipate for instance all the consequences of a VAT audit and the rules to be applied if a member leave the Tax Group.

Limits apply to the group, not the company: Another disadvantage of such anti-avoidance provisions is that certain limits specified under the provisions often apply to the group as a whole rather than the specific companies. This generally increases a company's exposure towards the limitations because the limits apply to the entire group rather than a particular company.

Pervasive application to post- grouping periods: VAT group regulations not only impact companies during the grouping period, but also consider periods after grouping. For example, even if a company is no longer a member of that group, it could still be liable to the group's VAT due during the time it was a member.

Summary

As evident from the various pros and cons, deciding to join a VAT group is not always a clear, straightforward choice. This is a major, wide-reaching decision that has the potential to either incur vast cost savings, or expose the company to needless risks and costs. The decision should be tailored to the company's specific situation and circumstances; therefore, it is recommended to consult with the company's consulting, tax, experts to assess the situation thoroughly and make the appropriate decision

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