

# VAT in UAE: Implications for Supply chain and logistics industry

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## Introduction to Value Added Tax (VAT)

- **What is VAT?** It is a consumption tax that is charged at each step of the 'supply chain'. It is an indirect tax and over 150 countries have implemented VAT.
- **How VAT works?**

	Sales*	VAT[5%] on Sales*	VAT recovered on Purchases*	Net VAT payable*
Manufacturer	1000	50	0	50
Wholesaler	2000	100	50	50
Retailer	3000	150	100	50

\*Amount is in AED

Total VAT paid by the end customer: 150

## Test to determine if Supply is taxable



- **What** – The type of supply will determine the VAT. Is it a supply of taxable goods and services and made by taxable person?
- **Where** – Place of supply of goods and services. Is the supply taxable place in Taxable Territory?
- **When** – Time when the taxpayer should account for tax.
- **How** – Taxpayer should know how to value the supply in order to compute and collect the right amount of VAT.

## VAT in UAE

- VAT in UAE – UAE is set to be implemented 5% VAT on goods and services from 1<sup>st</sup> January 2018 as a part of Gulf Cooperation Council agreement
- Gulf countries ready for VAT – UAE and Saudi Arabia. Other Gulf countries have time till end of next year to implement the new tax system.
- Categories in VAT – Standard and Exempt category
- Standard Category Rate – 5% and Zero (0)%
- Exempt – Goods and services under this category will be exempt from VAT

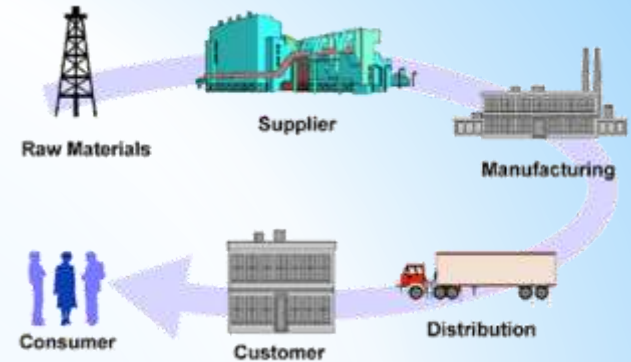
## Introduction to Value Added Tax (VAT)

- **VAT Registration**
- Businesses with an annual turnover exceeding AED 150 million should have applied for registration by 31 October 2017
- Businesses with an annual turnover exceeding AED 10 million must apply for registration by 30 November 2017
- Remaining businesses with an annual turnover exceed the mandatory registration threshold (AED 375,000) must apply for registration by 4 December 2017

# **Implication of VAT for Supply Chain Management and Logistics**

# Implication of VAT for Supply Chain Management

- What is Supply Chain Management?



Wikipedia Definition: A **supply chain** is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.

VAT will have the impact on every step involved in Supply Chain

## Questions needs to be answered to understand the impact of VAT on supply chain

- **Every business/activity involved in Supply Chain should answer the following questions:**

- What kind of tax VAT is?
- What are standard and exempt category?
- When VAT will be charged and paid?
- What are the compliance requirements for VAT reporting and Documentation?
- What is the impact of VAT on import and export?
- How VAT is going to affect the cash flow?
- Is your accounting software efficient and ready to calculate VAT and do real time reporting?





## Steps in Supply Chain and Impact of VAT

- Raw Material – Imported (Reverse charge mechanism) or local purchased (Supplier tax status, if VAT registered or not). Contracts terms for the ongoing contracts (Contract price inclusive or exclusive of VAT).
- Manufacturing – If the goods manufactured is chargeable at standard VAT rate or zero rate or exempt from VAT
- Customers – Credit days given to customer to recover the VAT charged. Agreement with the customer to charge VAT extra or inclusive of contract price for the ongoing contracts.



## **Scope and Impact of VAT on Logistics industry**

- **Logistics management is the part of supply chain management that plans, implements, and controls the efficient, effective forward, and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer's requirements.**
- **Activities related to logistics like local, inter-GCC and international transportation services, storage, movement of goods from the supplier to consumer, etc. are covered within the scope of VAT.**
- **Article 32 of Unified VAT Agreement for GCC states that international and inter-GCC transportation will be charged at Zero (0) rated.**

## Key Considerations for Logistics Industry

- **Import of goods – Reverse charge mechanism i.e. business do not have to physically pay VAT at the point of import. Only book entries are required**
- **Export of goods – Zero Rated**
- **Local transport of goods – Place and time of supply. As per Article (18) of Unified VAT agreement for GCC states, the place of supply of Services for the transportation of Goods and passengers and related Services shall be the place where transportation begins.**
- **Storage cost – Storage cost will attract VAT. Businesses has to consider the timeline required to recover input VAT credit and accordingly plan their cash flows.**

## How to get ready for VAT?

- Understanding VAT and how it works
- VAT impact analysis on the business (impact on cash flow)
- Creating VAT core team
- Modify and testing of current accounting software (invoices, debit & credit note, LPO, new GL codes, etc.) to check if its ready for VAT and its compliance requirements.
- Adding the relevant clause in the ongoing contracts with the end date after 31<sup>st</sup> December 2017.

# Questions

**Thank You**