



Value Added Tax

Transition provisions/change management

16 December 2017

Agenda

- Time of supply
- Transition provisions
 - Goods/services
 - Impact – commercial leases/construction contracts
 - Contract concluded prior to 1 January 2018
 - Intra-GCC supplies
 - Other general provisions
- Change management

Time of supply

Time of supply – when tax is due?

Time of supply of goods is earliest of the following

- a) Date of delivery of goods
- b) Date of invoice
- c) Date of payment

Illustration – sale of goods

Invoice date	Payment date	Delivery date	Time of supply
1 January 2018	1 February 2018	1 March 2018	1 January 2018
1 February 2018	31 January 2018	1 March 2018	31 January 2018
To be raised	31 January 2018	1 October 2018	31 January 2018
1 January 2018	2 February 2018	To be delivered	1 January 2018
1 February 2018	1 February 2018	5 January 2018	5 January 2018

Time of supply – Imports

- Time of supply for imports is the date the goods are brought into UAE i.e. the date of the customs declaration

Time of supply – when tax is due?

Time of supply of services is, earliest of the following

- a) Date on which services are provided
- b) Date of invoice
- c) Date of payment

Supplies involving periodic payment or invoicing - time of supply

The date of supply of goods or services for any contract that includes periodic payments or consecutive invoices is the earliest of any of the following dates, provided that it does not exceed one year from the date of the provision of such goods and services:

- a) The date of issuance of any Tax Invoice.
- b) The date payment is due as shown on the Tax Invoice.
- c) The date of receipt of payment.

Transition provisions

Transition provisions – Goods/Services

- If the supplier receives consideration or part thereof or issues an invoice for goods or services before 1 January 2018, the date of supply shall be 1 January 2018 in the following instances if they occur on or after 1 January 2018:
 - transfer of goods under the supervision of the supplier
 - placing the goods at the recipient's disposal
 - the completion of assembly or installation of the goods
 - the issuance of the customs declaration
 - the acceptance by the recipient of goods of the supply
- **The date of supply in case of goods will be 1 January 2108 and not the actual date of the above events.**
- **Date of supply in case of service is not clear, but following the prudent approach the same treatment may be followed as for goods. Hence the date of supply for services should be 1 January 2018.**

Illustration – transition provisions

Invoice date	Payment date	Delivery date	Time of supply
24 Dec 2017	24 Dec 2017	1 Jan 2018	1 Jan 2018
24 Dec 2017	24 Dec 2017	1 Feb 2018	1 Jan 2018
24 Dec 2017	1 Jan 2018	2 Jan 2018	1 Jan 2018
24 Dec 2017	2 Jan 2018	31 Dec 2017	No VAT
3 Jan 2018	3 Jan 2018	31 Dec 2017	No VAT
3 Jan 2018	31 Dec 2017	31 Dec 2017	No VAT

Impact – commercial property leasing

- In case of property leasing, a case could be where lease rent was received in advance say in September 2017 for the half year October 2017 to March 2018 and the invoice was also issued in September.
- In this case VAT would be applicable on the lease rent for the months of January 2018 – March 2018, since the supply would happen on or after 1 January 2018. Thus VAT would be payable.
- Consequently either the initial invoice be cancelled and two invoices be raised pre-VAT for Oct 2017-Dec 2017 without VAT and invoice with VAT for Jan 2018 – March 2018.
- Alternatively a supplementary invoice may be raised for the VAT amount giving reference to the September invoice.

Impact – construction contracts

- Where a construction is under progress and will span across 2018.
- Based on the percentage of the project completion, a certificate could be taken from a chartered engineer certifying the percent of work completed by 31 Dec 2017
- Based on the certificate the vendor could issue an invoice for the supplies happening before 31 Dec 2017. For instance if the chartered engineer certifies that 60% of the work is complete, the vendor could raise an invoice by 31 Dec 2017 for work completed without VAT.
- For the work started and completed on or after 1 January 2018 – the same would fall under the VAT regime and VAT would be applicable.

Contracts concluded before 1 January 2018 – no VAT clause

- If a contract has been concluded prior to 1 January 2018, regarding a supply to be wholly or partly made after the effective date of this Decree-Law, but such **contract does not contain clauses related to Tax** on the supply, it shall be treated as per the following:
 - The Consideration shall be considered inclusive of Tax if chargeable
 - Tax shall be calculated on the supply regardless of whether it has been taken into account when determining the consideration for the supply.

Contracts concluded before 1 January 2018 – exclusive of VAT

(1/2)

- Where a contract has been concluded prior to 1 January 2018 but the date of supply made under the contract is after 1 January 2018, **the consideration shall be treated as exclusive of tax** if all of the following conditions are met:
 - the recipient is a Registrant
 - the recipient may deduct Input Tax incurred on the supply either in full or in part
- The supplier needs to request the recipient of goods or services before 1 January 2018 to confirm
 - whether the recipient is or expects to be registered on 1 January 2018
 - the extent to which he expects to be able to recover tax incurred on the supply
- The recipient needs to reply in writing with within 20 business days of receiving an information request

Contracts concluded before 1 January 2018 – exclusive of VAT

(2/2)

- The supplier may rely on the information in determining the tax treatment of the supply.
- If the recipient knowingly provides incorrect information that results in the supplier having to treat the consideration as inclusive of tax, then the recipient shall not be entitled to reclaim the Input Tax on that supply.
- Where the recipient fails to provide the information, the supplier may treat consideration in respect of the supply as exclusive of tax, and request the recipient to pay Tax.
- The supplier and the recipient shall both retain the records of the request made
- Where the recipient ascertained that he can only recover Input Tax in part, the consideration for the supplies under the contract shall be treated as exclusive of Tax only to the extent of the Input Tax recovery that the recipient discloses to the Supplier, and the remaining portion of the consideration relating to the Supply should be treated as Tax inclusive.

Intra-GCC supplies

- UAE will treat movements of goods between UAE and the Kingdom of Saudi Arabia (“KSA”) as Non-GCC Exports (i.e. when goods are shipped from the UAE to KSA) and ‘non-GCC’ Imports (i.e. when goods are shipped to the UAE from KSA)
- Applicable for a transitional period until such time where an Electronic Service System is introduced and both UAE and KSA consider each other as VAT Implementing States.
- This transitional measure is aligned with the position taken by KSA vis a vis the movement of goods from and to the UAE

Impact - Intra-GCC supplies (goods)

- UAE VAT Taxable Persons will have to treat their supplies of goods from UAE to KSA as 0% Exports of goods - as opposed to “outside the UAE VAT scope” Intra-GCC supplies
- This will mainly impact the reporting position; with a report in a different box of the UAE VAT return.
- There should be no obligation to issue Tax Invoices for these 0% supplies provided sufficient records are available to establish the particulars of the supply.
- With regards to goods acquired from KSA into the UAE, UAE Taxable Persons should not experience a significant change as the UAE VAT Law and Implementing Regulations treat similarly "imports of goods" from GCC and imports of goods from outside GCC (i.e. subject to UAE VAT under the reverse-charge mechanism for registered taxable persons with a Customs Registration number).

Impact - Intra-GCC supplies (services)

- There is currently no specific communication from FTA on whether the transitional measure mentioned above applies to services as of 1st January 2018.
- The only general communication made covers transactions of goods.
- In KSA, the transitional measure do not seem to be applicable to cross-border services with the UAE, as the relevant provision specifically refers to transactions in goods.
- A confirmation from the FTA on the way to proceed in the UAE from 1 January 2018 would be welcome in order to give certainty and allow businesses to update and finalize their systems if need be.

Transitional provisions - others

- Where a Taxable Supply is treated as periodically or successively supplied, Tax shall not be charged on the portion of the consideration that relates to a supply made before 1 January 2018.
- A GCC State shall be treated as an Implementing State according to the Law provided the following conditions are met:
 - Where the GCC State treats the State similarly as an Implementing State in its published legislation.
 - Full compliance with the provisions of the Common VAT Agreement of the States of the Gulf Cooperation Council (GCC).

Change management

Change management

- VAT is not a change for the Finance team
- VAT is a business change
- It would impact the following stakeholders :
 - Customers
 - Suppliers
 - Company function/departments (Sales, Marketing and Communications, Procurement, IT, Human Resources, Legal, Strategy, Finance, Supply Chain, etc.)

Customers

- Registered and unregistered customers
- Change in price (if any)
- Price declaration (being inclusive or exclusive)
- Change in invoice formats
- Impact of price change on customers
- Return policy
- Contracts (for large contracts)

Suppliers

- Registered and unregistered suppliers
- Providing them with VAT information
- Adopt technological changes (if any)
- Seeking VAT information
- Pricing strategy
- Agreement falling under pre-VAT and post-VAT regime
- Understand readiness of the suppliers
- Communicate compliance requirements (invoicing, records, etc.)
- Contracts changes

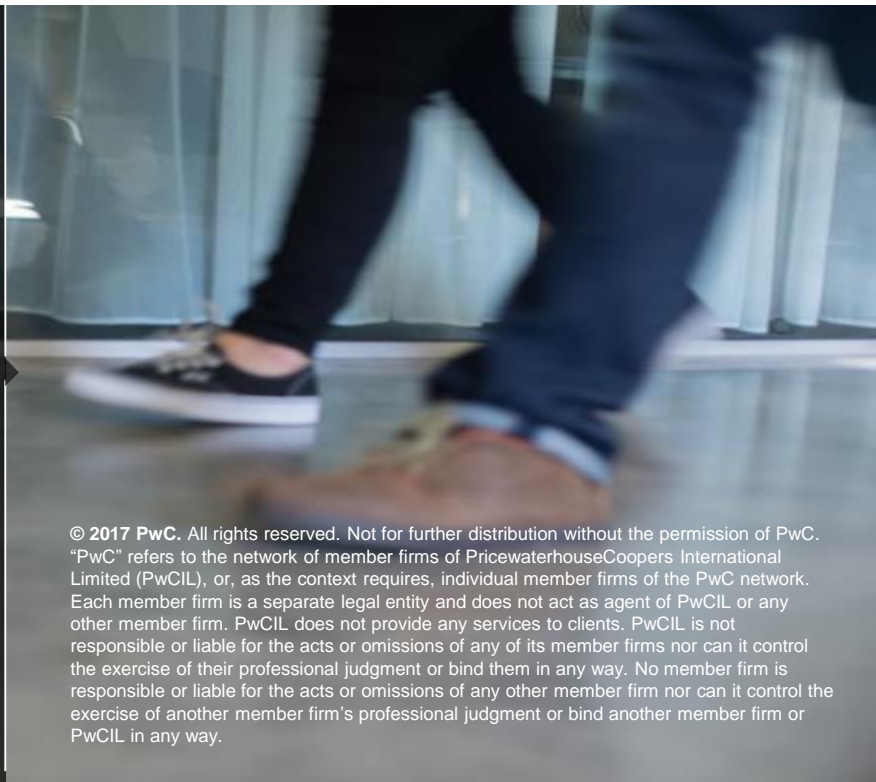
Company functions/departments and employees

VAT is not a change for the Finance team. VAT is a business change it would impact all the stakeholders including Sales, Marketing and Communications, Procurement, IT, Human Resources, Legal, Strategy, Finance, Supply Chain, etc.

Implementation of VAT would require the following:

- Communication
- Involvement
- Embracing change
- Standardization
- Consensus
- Training
- Roles and Responsibility

Thank You!



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