



VAT in the UAE

What are impacts for yachting businesses in the UAE?

Rob Dalla Costa

Director | VAT
KPMG Lower Gulf

27 February 2017



Agenda

To provide you with an understanding of



VAT

Current developments | What is VAT?



Its impact on the boating industry –
weathering the VAT storm



Answer your questions

Value Added Tax (V.A.T) - Current developments

Breaking News

5% value added tax in UAE from 2018

The UAE will start implementing a value added tax (VAT) rate of five per cent from January 1 2018, but the introduction of other alternate revenue measures including corporate and income taxes are not under consideration for the time being, according to Minister of State for Financial Affairs Obaid Humaid Al Tayer..... [Continued]

Source: Khaleej Times Business

Date: February 25, 2016



1 An estimated **Dh12 billion** would be generated by the VAT tax in the first year

2 A **GCC-wide implementation** – to be based on a common ‘Unified’ framework

3 **Establishment of Tax Authority in the UAE** announced on 24 October to manage VAT and other taxes, effective from January 2017

Planning / Advisory phase
Today – May 2017



Implementation/ Compliance
phase
May 2017 onwards

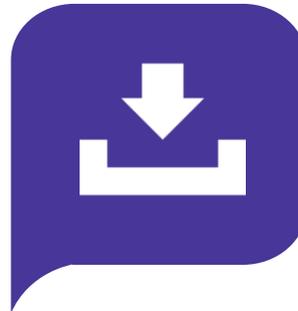
What is VAT?

Multi-stage broad-based consumption tax



Also known as Goods and Services Tax (GST) in many other countries

All supplies of goods and services in the course or furtherance of business in UAE are taxable (proposed 5% or 0%) unless exempt by law



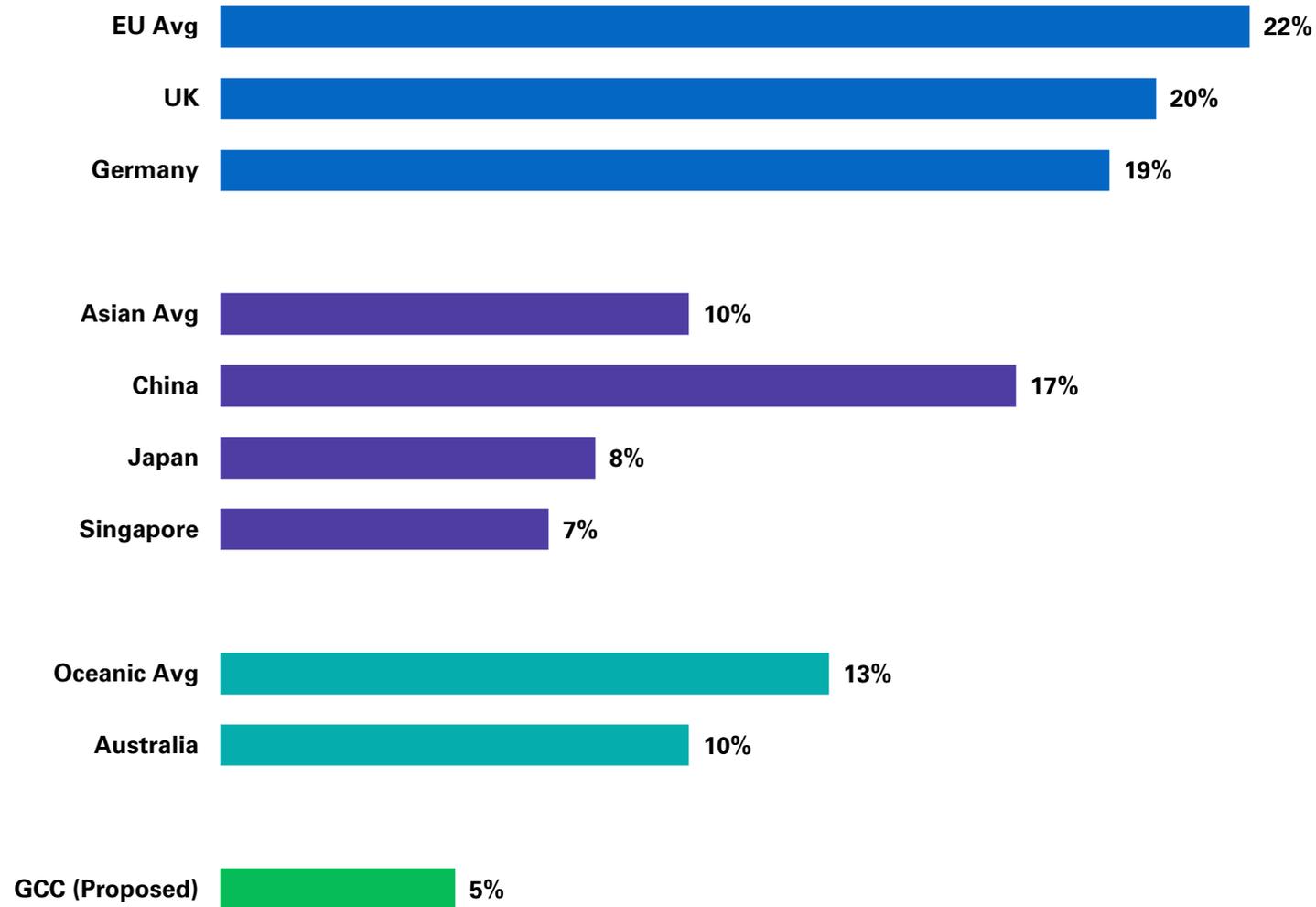
Importation of goods and services from outside UAE are subject to VAT

VAT should not be a cost of doing business, unless providing exempt supplies



Tax generally borne by final consumer and not businesses

Proposed VAT in the UAE compared to rest of world



Type of Supplies

| | | |
|--------------------|---|---|
| Taxable Supply | Standard-rated supply (most goods and services) Proposed VAT rate 5% | Recovery of VAT on business inputs allowed |
| | Zero-rated supply (exports, some basic foods and medicines. International transport) VAT rate 0% | Recovery of VAT on business inputs allowed |
| Non-taxable Supply | Exempt supply under the VAT law (some financial services, residential leasing, possibly health and education) | Recovery of VAT on business inputs denied |
| | Out-of-scope Not a supply or disregarded supply | Generally VAT is recoverable |
| | Cannot charge VAT on a non-taxable supply | |



Weathering the VAT storm

-

VAT's impact on the yachting industry



Assess the impact on your business systems, processes and pricing

Key to understanding the VAT's impact is whether you exceed the annual VAT registration threshold*

Mandatory threshold expected to be \$US1m (may actually be much lower, \$US100,000)

*Thresholds based on reported comments by UAE Government last June



The good

Can recover the VAT back on your business inputs provided not making exempt supplies (e.g. medical, educational, residential leasing supplies are likely to be exempt)

This means VAT will not be a direct cost and you can maintain existing prices (subject to competition etc.)

Supplies you make are more attractive to business customers also registered for VAT – not so for private buyers

Where you are required to be VAT registered



The bad

- **In the VAT regime and need to invest in systems and process changes**
 - Need to maintain adequate records
 - Employee training, particularly accounts payable/receivable staff
- **Required to collect VAT on taxable supplies – cost of supplies will rise where VAT passed through to non-VAT registered customers (private buyers)**
 - Need to assess if VAT can be passed on in full or part
- **Need to file VAT returns on at least a quarterly basis, possibly monthly**
- **On-going compliance obligations**
 - Need to keep abreast of law changes/interpretations
 - Compliance for SME is relatively more costly than for larger businesses

Scenario 1: Import yachts/equipment/parts for sale locally

VAT will apply upon importation in addition to, and on top of, Customs duty payable

- VAT will be recoverable if imported by registered business provided yacht for business use/sale but there will be adverse cash flow impacts
 - Expect special scheme to be introduced to provide for deferral of VAT on importation until next VAT return
- If non-VAT registered customer does the importation they will pay VAT in addition to Customs duty but no recovery of VAT possible

Local sale will be subject to VAT

- If intra-GCC sale to a non-business customer you may be required to register for VAT in that other GCC member state and account for VAT in that state (e.g boat in UAE and sold to a private buyer located in Oman)
- If sale to a VAT registered business then customer will need to 'self-account' for the VAT

Acquisition of services from overseas (e.g. purchase design services from a boat designer in the Netherlands)

- As a VAT registered business you will need to 'self-account' or reverse charge the VAT on the invoiced amount
- You can then recover the VAT in the same VAT return you report the VAT on the supply – no net VAT impact

Scenario 2: Buy/sell yachts

Example 1: Customer orders yacht from UAE business, UAE business buys yacht from Germany for sale to customer and yacht stays in Germany

- Not subject to VAT as no supply being made in the UAE, not reported on VAT return

Example 2: Overseas customer buys a yacht from a UAE business where yacht is located in the UAE and delivered overseas

- Exports are treated as zero rated but require proof of export
- Unclear what time period there is for boat to be exported (e.g what if sold but subject to undertaking successful ocean testing or buyer wishes to cruise around UAE for a period of time before sailing away)

VAT liability triggered at earlier of: supply of good, issue of invoice, or receipt of any payment

- Expect special rule for taking a 'refundable' deposit but any part payment likely to trigger VAT liability for whole contract value

Other issues to watch out for

Leasing of yacht likely to be subject to VAT

- This may give rise to requirement for private boat owner to be registered for VAT if annual income exceeds VAT registration threshold
 - This is the case even if leasing through a boating agent
 - Owner will need to apportion costs between leasing use and private use

Orders taken pre-VAT

- In the absence of any transitional provisions VAT will be payable on delivery of the yacht, even if fully paid for in advance, if delivery occurs after VAT's implementation

Trade-ins

- Cannot offset values in a single invoice – if customer registered they will charge you VAT on their sale to you and you will issue tax invoice for full value of the new yacht

Recovery of VAT incurred in displaying at trade show

- Locally registered business will be able to recover VAT on costs of participating in trade show
- Non-resident participants may be able to utilize a special VAT refund mechanism which is expected to be provided for under the VAT law

VAT Impacts Across All Your Business



Procurement & Production

- Supplier's pricing
- A/P invoice processing time
- Purchases from non-registered VAT businesses
- Education of suppliers



Sales & Marketing

- Samples/marketing
- Pricing strategies
- Returned goods
- Education and communication to consumers
- Billing



Finance

- Bad debts
- Deposits/ advanced payment
- Loan of stock and equipment
- VAT return preparation
- Disposal of assets
- Sales of scrap



Human Resources

- Fringe benefits
- Gifts to employees
- Employees allowance and claims



Legal

- Existing and new contracts
- Are any payments based on revenue or turnover (franchise or royalty arrangements)



IT

- System changes
- Documentation (Tax Invoices)
- Reports for VAT return

Getting ready for VAT

Issues



Awareness and training - Understand the new VAT law and assess its impact on your business



Supply chains – Review supply chains to understand VAT impact and accounting obligations and identify any VAT costs



IT systems - Modify or upgrade IT systems and interfaces to capture incurred and charged VAT



Contracts – Review - and revise where necessary - existing contracts to incorporate adequate tax clauses



Governance and compliance – Review and update governance frameworks and incorporate policies, processes and controls

Our VAT specialists can:



Conduct VAT training tailored to your business



Analyze the new law's technical provisions and advise on key impact to your business



Map and validate supply chain transactions to identify the relevant VAT accounting treatment



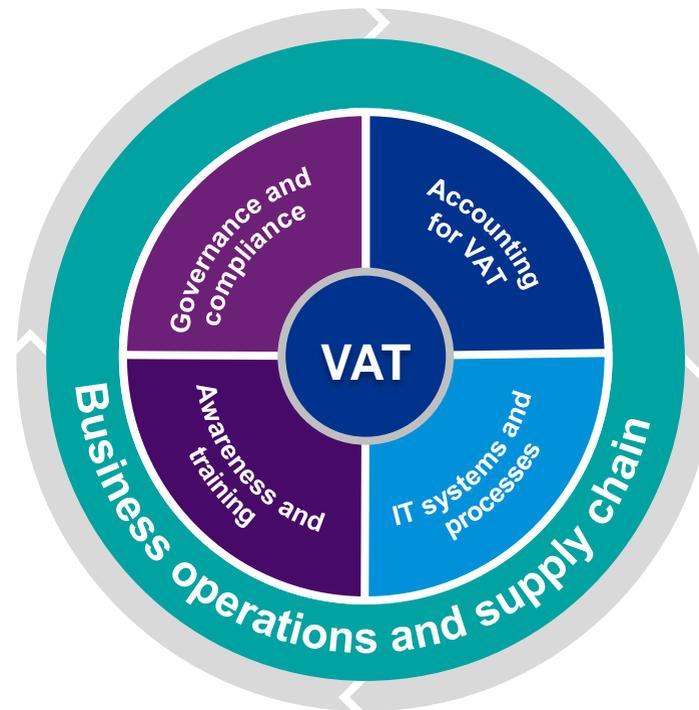
Work with your IT team to review VAT reports and applied automated VAT codes to ensure these are appropriate



Review contracts and recommend changes to protect your interests



Review your governance framework and advise on VAT-related processes and controls aligned with leading practice



Questions and answers





Thank you

Robert Dalla Costa

Director | VAT
KPMG Lower Gulf Ltd

T: +971 4 424 8932
E: rcosta1@kpmg.com

kpmg.com/socialmedia



kpmg.com/app



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG Lower Gulf Limited and KPMG LLP, operating in the UAE and member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.