



VAT – The first 100 days

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The 1 January 2018 represents a historic date for the UAE as it introduces Value Added Tax (VAT). In 1974, Sir Anthony Barber was responsible for introducing VAT into the UK and famously called it a 'simple tax'. It is doubtful that many would agree with his statement today!

This guide can become your advance thinking and strategic plan for the first 100 days of VAT in the UAE. Consider where you want to be on day 100. Ideally, sitting comfortably with a robust VAT-compliance process, suitable controls and commercial framework.

In order to introduce VAT, the UAE has established the Federal Tax Authority, introduced new Tax Procedures and VAT Laws and corresponding Executive Regulations.

Many will have spent time during 2017 suitably preparing for the introduction of VAT; others will have completed a swift, essential-only exercise to try and catch up with the new laws by the end of the year. Whichever category you fall into, what will the first 100 days of VAT mean for you: excitement, trepidation or worry?

Worry affects everyone differently but Winston Churchill once said,

“Let our advance worrying become advance thinking and planning.”

To have a good head start, it is assumed that the impact of VAT has been assessed and systems changes implemented, VAT registration has been applied for where necessary and a Tax Registration Number (TRN) has been issued. If this is not the case, please contact KPMG for support.



Day 1, Week 1: VAT go-live



Start

VAT is effective from the earlier of your business opening for trade or 7am on 1 January 2018.



Customer communication/ Systems /Signage

Inevitably, hospitality and retail will be the first sectors to feel the effects of VAT, so staff training and communication will have been essential to help deal with any consumer enquires on pricing and/or receipts. Point-of-sale systems should include VAT where appropriate. Signage informing customers ought to help.



Contingency plan

Consider a contingency plan for systems failure and ensure there is a manual back-up to ensure business continuity and compliance.



VAT Helpline

Consider having systems support and communications and finance representatives on standby to deal with urgent issues, as and when they arise. KPMG is on hand to provide the support you may require.



Stakeholder communication plan

Establish a stakeholder communication plan where regular updates will be essential to avoid anxiety and tension. We recommend you develop a comprehensive communications plan comprising updates at the end of weeks with key activities/operational milestones.



Goods returned / Pricing strategy

Consider the scenario for returned goods. It is perhaps unlikely that goods will be returned on 1 January 2018, but it is a matter of fact that some goods purchased in 2017 may be returned in 2018. No VAT was paid in 2017, so VAT should not be refunded. It is essential that the system identifies the product and VAT code and applies appropriate treatment. Consider the sale of a shirt for 100 dirhams in 2017; the customer returns the shirt for replacement in 2018 where that same shirt is now priced at 105 dirhams. Is it treated as a like-for-like replacement? Is it a refund and new sale with an extra 5 dirhams payable or is a 5 dirhams discount given? This is ultimately a commercial decision, but the sales assistant will require guidance and a process to follow for the correct treatment.



Tax credit note

Where goods are returned and/or there was a change in price or error, a tax credit can be issued to amend the situation. A tax credit note includes similar information to the tax invoice, but must refer to it. There is also a requirement to show the original value, new value, the difference between these values and the VAT charged that relates to the difference in AED. Is your system able to cope?



Areas for clarification/ gap analysis

At the end of week one, an assessment of what is working and what is not should be done. Any areas of clarification or gaps should be highlighted and actioned.

Week 2



Tax invoice

By the end of Week 2, the first batch of tax invoices will be received. It is essential to know what constitutes a valid tax invoice, not least because without one, there is no ability to recover VAT on the cost. Corporate strategies range with regard to tax invoices, for example, strict compliance with a tax invoice or payment will not be made, to making a part payment excluding VAT, or no strategy whatsoever!



Import VAT

Import VAT can be subject to reverse charge, provided that your customs number is linked with the TRN. If this is not the case, import VAT may have to be paid in order to clear the goods through customs. This import VAT is then recoverable on the VAT return, but the process may result in negative cash flow.



Tax Technology

Check you are getting adequate system support for your transactional/reporting needs. Over-reliance on manual workarounds may cost you precious time and effort in data reconciliation. Automation in VAT compliance can be achieved through appropriate enhancements to existing systems or implementation of bolt-on tax-compliance software.

February 2018



Employee expenses

Consider the employee expenses policy. Is it clear regarding the invoice and VAT requirements to permit VAT recovery? Does it allow for business entertainment, and does it ensure that such VAT is blocked from recovery?



VAT-compliance calendar

Establish a VAT-compliance calendar with key dates depending on the frequency of return submission. Build time to draft, test, review and amend the return and to obtain sign-off. Consider the submission and payment.



Draft first VAT Return

Once there is live data in the system, run reports sufficient to complete a draft VAT return. Test the process and controls.



eDirham account

VAT payments are required to be made via a credit card with a 2% supplement or via the eDirham system. Obtaining an eDirham account is similar to opening a bank account and therefore can take around five business days. Plan to ensure that you have the account and/or contingency to buy sufficient prepaid eDirham cards by mid-February (if you have been given monthly tax periods by the FTA), to help ensure you comply with the payment terms.



The VAT team

Who in the organization is responsible for VAT? Is it the in-house VAT manager; the CFO, finance director or manager; the operations or logistics personnel; the accountant? It is essential that whoever is responsible for VAT is suitably qualified and experienced. In the majority of cases, the VAT team will comprise individuals within and outside the business. Even in-house and experienced VAT managers will require external support as they grapple with the new laws and procedures.



Review/ Submit first VAT return

Ensure data is complete and accurate and that the responsible person is available to sign off in accordance with your internal governance.

March 2018



When things may go wrong

VAT is a transaction tax and so the potential for error can be significant. The best way to avoid a penalty is to ensure complete, accurate and timely reporting. However, mistakes can happen; invoices can be received late; liabilities misunderstood. Getting VAT wrong may be a costly exercise considering the extensive penalty regime. One way to help mitigate a penalty is to make a voluntary disclosure of the error to the FTA. Small errors up to AED10,000 may be adjusted in the next VAT return; others will require disclosure in the manner decided by the FTA.

How KPMG can help

We have an experienced VAT team, part of a global network of KPMG VAT professionals, who have been advising clients on implementation strategies, helping them comply with VAT obligations and explaining their VAT liabilities. They can guide you through each stage of the process, which may include any of the following:

- VAT advisory: the VAT law, once implemented, is not set in stone: it is subject to ongoing change and interpretation. KPMG can provide you with updates.
- Compliance VAT: KPMG can perform a pre-submission review to reduce risk of non-compliance
- Wider communication strategy: KPMG can deliver internal training on VAT, as well as assist with educating suppliers and customers.

- Internal controls: VAT compliance is an ongoing requirement. We can assist you in establishing strong controls and procedures.
- Technology – VAT compliance automation
- Completing and submitting your VAT return – [Business Academy course](#)



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