

VAT in the Kingdom

One year on

January 2019

Since **1 January 2018**, VAT has become a normal part of our daily lives. Consumers are accustomed to the thought of paying an additional 5% on the majority of their purchases with few complaints. This is quite an achievement given the virtual absence of wider taxation in the Kingdom until the introduction of VAT.

The impact of the tax was, of course, softened by the comparatively low rate but also by Government intervention in terms of specific exemptions for some services and targeted relief for certain members of society. The relative efficiency with which the GAZT managed the implementation also played a major part in the fairly uneventful adoption.

The Kingdom can now boast 140,000 VAT taxpayers with an additional 150,000 plus likely to be registered from 1 January 2019 when the registration threshold reduces to SR375,000.



Some non-resident taxpayers have still not registered because of the requirement to appoint a tax representative to act on their behalf and to assume joint liability for VAT debts.

The GAZT is making strides towards improved policy, administrative and auditing capacity in all taxes. This effort has been given impetus by the introduction of VAT. There is still much to be achieved in terms of legislative certainty and practice consistency which business requires to grow the economy. However, to assist in this process, the GAZT has published 24 detailed guides on different topics such as financial services, healthcare, the digital economy, economic activity, and real estate. Rulings have also been issued to taxpayers that have applied for clarifications.

It is one year since VAT was introduced to the Kingdom.



In addition, VAT audits have commenced and assessments issued for contraventions of the Regulations such as late registration and filing of VAT returns as well as incorrect declarations. Increasingly, GAZT is challenging the legal interpretation of contractual terms where it disagrees with the VAT treatment applied to specific transactions. Inevitably, this will lead to an increased number of disputes between the taxpayer and GAZT. We can also look forward to further clarifications and updates as well as improved audit capability from GAZT.

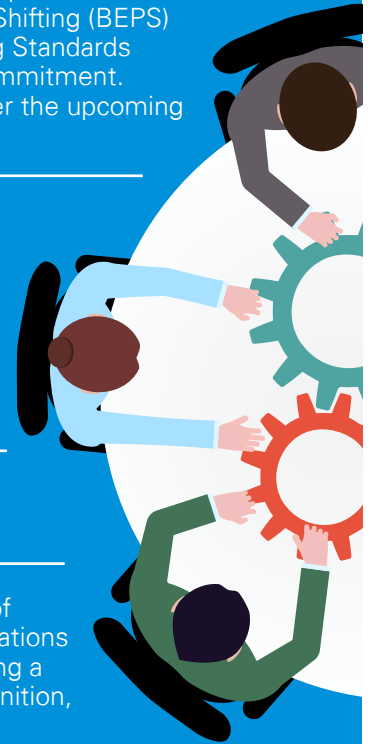
Whilst, in general, businesses have taken on the challenge of preparing for the new tax. It appears that its impact was underestimated, initially. As a transaction tax, VAT impacts all areas of the business. As has been stated often, functions such as accounts receivable and payable, human resources, legal, supply chain, procurement, information technology, customer relations, and so on, are all impacted.

However, certain additional consequences of operating in a VAT environment have emerged which require particular focus. For example, the completeness of the audit trail, document retention and retrieval, account mapping, data completeness, reporting, aligning statutory accounting with VAT accounting, aligning VAT accounting with IFRS, tax and zakat computations, monitoring and aligning the transactions of VAT group members, monitoring compliance across trading groups, and so on. The list is long.

Our experience in assisting clients with implementation and providing post-implementation support has revealed some key insights and trends that point towards a rapid evolution of the management of taxes going forward. This is the beginning of the journey.

A few takeaways to consider after one year of VAT.

- 1** Taxes are to stay! Due to the need to raise revenue and the commitment to regularise and harmonise business and tax environments amongst major trading economies. Compliance with global tax and reporting transparency agreements to limit Base Erosion and Profit Shifting (BEPS) through the adoption of Country by Country Reporting (CBCR), Common Reporting Standards (CRS) and Foreign Account Tax Compliance Act (FATCA) are all examples of this commitment. Indeed, the GAZT has recently released the By Laws that will be used to administer the upcoming transfer pricing regime which is due to be introduced to the Kingdom in 2019.
- 2** Neighbouring GCC countries are following Saudi and the UAE in introducing VAT. Bahrain implemented on 1 January 2019, whilst Qatar and Kuwait are expected to follow suit in 2020.
- 3** There is a pressing need to formalise tax functions, process and operations and to equip the tax team with the right tools for the job. New skills are required to meet new challenges.
- 4** Business should consider creating a tax strategy (including policies, procedures) to manage tax risk and interaction with stakeholders.
- 5** Managing large volumes of data presents financial risk. Therefore, the integration of technology (eg. tax specific, ERP, accounting, customer, etc) in optimising tax operations is critical. Solutions that enable automation, data analysis, or detailed reporting using a variety of technologies such as robotic process automation, optical character recognition, machine learning and so on, are increasing available.
- 6** There is a global trend towards tax authorities accessing taxpayer data directly and, in some territories, preparing the return for the taxpayer. KSA taxpayers need to be prepared. The KSA tax authorities are not standing still.



Increased VAT complexity is inevitable - it is driven by increased market complexity and segmentation which is, in turn, driven by competition and market need. There is a need for the taxpayer to remain vigilant. The tax authorities are increasing their expertise.

Each one of these issues requires separate, more detailed consideration. In the coming weeks and months, we shall explore each of these trends in more detail. We believe that Saudi taxpayers can leverage the lessons learned in other tax jurisdictions to accelerate their capacity to manage the financial risks and opportunities that will arise.

At KPMG, we are ready to support you embrace this new world of taxation.



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