

“ *LET'S GET*  
**VAT READY** ”



# Introduction

Value Added Tax (VAT) is an indirect tax applied upon the consumption of goods and services. VAT is not intended to be a tax on business, it is a general tax that applies, in principle, to all commercial activities ranging from production to distribution of goods and provision of services. It is charged as a percentage of price of goods or services.

Introduction of VAT will be a strong measure to strengthen the indirect tax structure in the GCC regime.



## Readiness for VAT Implementation - *The Need of Hour*

Implementation of VAT in KSA from 1st January, 2018 requires companies of every size, in every non-exempt sector, to be as adequately prepared as possible for introduction of the new tax. All businesses subject to VAT must understand exactly how it will affect their ongoing operations and what adjustments will be required. Early awareness and preparation for the potential implications and opportunities is paramount to ensure smooth transition and optimization of the costs.

Being unprepared for VAT is not an option and companies must take control to ensure that a proper strategic plan is devised to minimise VAT impacts. As both legal and non-compliance implications could be costly, the system and operational changes have to be effective and reliable.

**VAT introduction will have significant impact on the entire value chain. A structured implementation plan will have to be defined to ensure readiness and mitigation of risks and business disruptions.**

**The timelines for businesses to build out the VAT capability is challenging as it requires careful planning and a structured programme to ensure that the business is 'VAT ready' including people, processes, controls and technology.**



# Overview of VAT and GCC VAT Regime

## What is subject to VAT

VAT is a multi point tax with set off available for tax paid on purchases. It is basically a tax on the value addition on the product.

In principle, every supply of goods and services provided by a business is subject to VAT, unless:



Taxable Supplies

Exempt Supplies



- Government
- Health Care
- Education
- Certain Financial Services



# VAT Terminology

## VAT Terminology

### Output VAT :

Amount received by a seller as a percentage of the gross sale price of goods or services

### Zero Rated :

Transactions in which the seller collects no output tax and the corresponding input tax is fully refundable.

### Input VAT :

Amount paid by a buyer as a percentage of the gross purchase price for goods or services used in production.

### Exempt :

Transactions in which the seller collects no output tax but the corresponding input tax is non-refundable and absorbed by the seller.

## How does VAT Works :

Businesses will effectively perform the role of tax-collecting agencies. They will impose and collect VAT on their sales (output VAT) and to pay it on their purchases (input VAT).

The VAT travels up the value chain until the end customer receives the final product or service and ultimately pays the entire amount of the VAT. VAT will be applicable to most supplies of goods and services and this may be at a standard rate (5%) or at a zero rate (0%).

## Illustrative example – VAT taxable supplies at the standard rate (5%)

	Step 1	Step 2	Step 3
	Supplier sells goods and services to the Company	Company sells to Traders	Traders sells to End Customers
Regular Sale Price	100	200	1000
Sale Price + 5% VAT	105	210	1050
VAT Collected by Seller	5	10	50
Credit from Pervious Stage	0	(5)	(10)
Net VAT Payable to Govt.	5	5	40 = 50

When the final consumer buys the product, the 5% VAT is added to the final sale price (SAR 1,050) effectively making the end consumer pay the amount of the VAT. The difference between output tax in sales price and input tax in purchase price is net VAT payable.

## Insights VAT Solution

Our combined team of VAT specialists will identify specific business issues, anticipate any concerns and tailor solutions to fit client specific context and business. We understand that some of key challenges in VAT implementation will be managing momentum and commitment, timely completion, ensuring knowledge transfer and dealing with evolving regulations and standards. In order to address these challenges, we have customized our approach to client specific needs and hand-picked a team that has significant hands-on experience of applying VAT.

Following three-phased approach to VAT implementation ensures an efficient, focused and structured methodology to assure your business is ready for and compliant with the new VAT system.



# Insights VAT Solution

## Our Implementation Strategic Directions

### 1

#### Key Tasks

### VAT Impact Assessment and Planning



- Develop a course of plan to suit client's taxation and finance teams
- Identify project resources
- Review legislation, identify compliance requirements and assess impact
- Map supply chain processes and transaction flows to VAT requirements
- Re-pricing and drafting new contract terms with vendors if required
- Assess and incorporate VAT impact on IT system
- Communication of implementation plan to all stakeholders
- Prepare an issues log to help prioritize key issues that need to be addressed during implementation

### 2

#### Key Tasks

### VAT Ready



- Quantitative impact of VAT will be calculated and presented to key stakeholders
- Estimation of additional working capital requirements due to VAT
- Developing understanding of key stakeholders for VAT
- Review design of IT changes

### 3

#### Key Tasks

### Implementation & Output Testing



- Provide management with a "Next Step" summary of the implementation plan identified in Phase 1.
- Help prepare an implementation plan
- Tax coding and transactional classification/resolution
- Assist in incorporation of VAT impact in Accounting System
- Assist with IT VAT solution design e.g. new/modified ERP/Tax engines
- Specific training sessions regarding VAT manual and procedures

### 4

#### Key Tasks

### Post Implementation Assistance



- To ensure that the IT system is ready for taking credit and all credits (available under GST) have been entered
- Assistance in drafting, reviewing and filing of initial returns
- Review of Input and Output VAT reconciliations
- Test exceptions
- Resolve any teething troubles
- Ongoing compliance and advisory
- Updating any amendment / clarification

# Insights VAT Solution

## Core values proposition for successful implementation

Introduction of VAT will not only have an impact on pricing, customers, vendors, intermediaries, capital expenditure planning and supply chain of all businesses, which are subject to VAT, but may also affect cross border transactions and GCC trade.

Keeping in view the business impact of VAT, our tax experts at Insights ensure an appropriate sequencing and prudent management of the implementation process.

**Best practices are followed to create or augment an existing tax control framework which amongst other things ensure that :**



## Key features of Insights implementation methodology



# Principal Contacts

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