VAT for GCC Countries - FAQs

SAP Globalization Services

SAP

Document History

Version	Date	Change
1.0	2017-04-04	Initial version
1.1	2017-04-05	Feedback from service owners
2.1	2017.05.03	Add the GCC VAT Framework Agreement

Contents

1 Generic Questions

1.1 What is VAT?

VAT is an indirect tax applied on the consumption of most goods and services. VAT is levied by VAT-registered businesses that supply goods and services in the course or furtherance of their business. VAT is also applicable on the import of goods.

VAT is levied at each stage in the supply chain and is collected by businesses on behalf of the government. VAT is ultimately incurred and paid by the end consumer.

1.2 What is the different between VAT and sales tax?

A sales tax is also a consumption tax, just like VAT. For the general public, there may be no observable difference between how the two types of taxes work, but there are some key differences. In many countries, sales tax is only imposed on transactions involving goods. In addition, sales tax is only imposed on the final sale to the consumer. This contrasts with VAT which is imposed on goods and services and is charged throughout the supply chain, including on the final sale. VAT is also imposed on imports of goods and services so as to ensure that a level playing field is maintained for domestic providers of those same goods and services.

Many countries prefer a VAT over sales tax for a range of reasons. Importantly, VAT is considered a more sophisticated approach to taxation as it makes businesses serve as tax collectors on behalf of the government and cuts down on misreporting and tax evasion.

1.3 How is VAT applied/calculated?

VAT-registered businesses charge and add VAT to the value of goods and services they supply. Such businesses can also reclaim VAT incurred on goods and services acquired for business purposes (subject to some restrictions), such as the purchase of raw materials and other consumables used for the purposes of business. For imports, VAT is charged at the first point of entry into home consumption (when customs duty may also apply).

Consider the example depicted in the figure below.

VAT calculations Examples
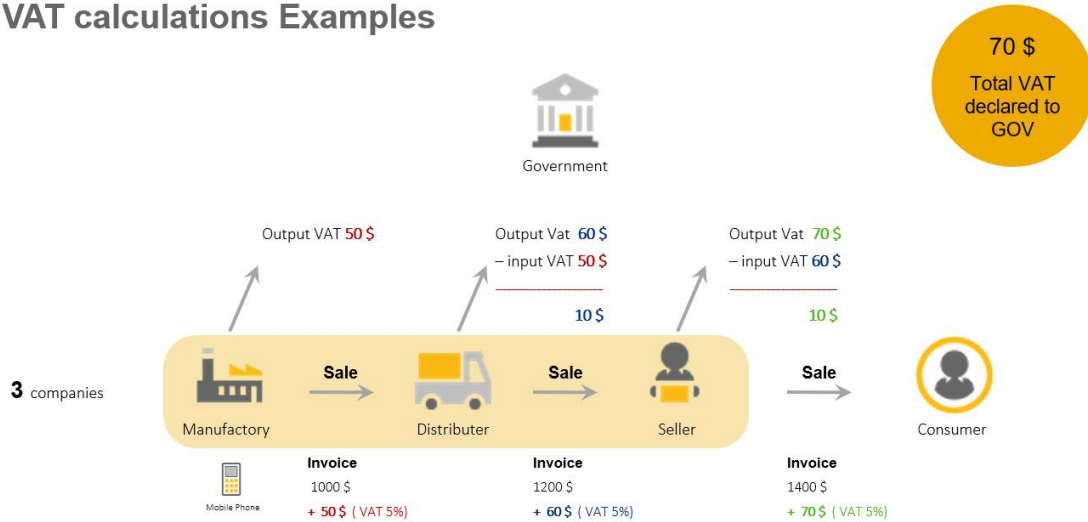
The following tables explain a simple scenario to explain how VAT is calculated by the three companies, the manufacturer, the distributor, and the seller.

Manufacturer		Before VAT	VAT Collected	VAT Credit	After VAT
	Sales	1000 $	50 $		1050 $
	Purchase	0 $		0 $	0
	VAT to revenue authority		50 $	0 $	50 $

Distributer		Before VAT	VAT Collected	VAT Credit	After VAT
	Sales	1200 $	60 $		1260 $
	Purchase	1000 $		(50) $	(1050) $
	VAT to revenue authority		60 $	(50) $	10 $

Seller		Before VAT	VAT Collected	VAT Credit	After VAT
	Sales	1400 $	70 $		1470 $
	Purchase	1200 $		(60) $	(1260) $
	VAT to revenue authority		70 $	(60) $	10 $

1.4 When will VAT be applied in GCC?

VAT is likely to be introduced across the GCC on January 1, 2018. The rate will be low and is likely to be 5%.

1.5 Which GCC member state has officially announced the adoption of unified GCC regime?

Saudi Arabia, United Arab Emirates and Qatar are the first members of the six-member GCC to officially announce the adoption of the unified GCC VAT regime.

The 3 countries official have indicated that the VAT regime will be applicable from 1 January 2018 and a 5% levy will apply to selected goods as set forth in the GCC agreement

1.6 When will GCC VAT regime be applied?

The 2 members state Saudi Arabia and United Arab Emirates have officially indicated that the VAT regime will be applicable from 1 January 2018 and a 5% levy will apply to selected goods as set forth in the GCC agreement

1.7 What are the key features of the Gulf Cooperation Council (GCC) Value Added Tax (VAT) Framework Agreement?

- The standard VAT rate will be 5% unless a zero rate or exemption applies.
- The Member States have the right to subject the following sectors to a zero rate or to exempt them from VAT:
  - o Education
  - o Health
  - o Real estate
  - o Local transport
- The Member States have the right to subject the oil sector, petroleum derivatives, and gas to a zero rate of VAT.
- Individual GCC countries have the right to subject certain food products to a zero rate of VAT.
- The Member States have the right to subject medical supplies to a zero rate of VAT.
- Intra-GCC and international transport will be subject to a zero rate of VAT.
- The export of goods to jurisdictions outside of the GCC Member States will be subject to a zero rate of VAT.
- The Member States have the right to exempt Financial Services from VAT. The term financial services is not defined but broadly the exemption will generally relate to dealings in money, securities, foreign exchange and the operation and management of loan accounts, deposits, trade credit facilities and related intermediary services. The exemption is not expected to extend to fee based services transacted by a financial institution. However, Member States may choose to apply different VAT treatments to financial services if they wish.
- Supplies of goods and services from a VAT registered person in one Member State to a VAT registered person in another Member State are subject to the reverse charge mechanism.

- VAT grouping appears to be permitted between two or more legal persons resident in the same Member State.
- The treatment of GCC free zones is not addressed and it is left to each Member State to determine its own VAT treatment for free zones.
- Businesses with an annual revenue of over SAR375,000 will be required to register for VAT purposes.
- Businesses with an annual revenue between SAR187,500 and SAR375,000 will have the option to register for VAT purposes.

1.8 What are the preparations required to comply with VAT law?

Given your business' complexity and volume of business transactions, it could take you a substantial amount of time to evaluate and map your business transactions. This is a critical step in your implementation project and is something that can be started prior to the legislation. Also, reviewing existing systems would help you anticipate the size of the changes and efforts required.

- System readiness and configurations (this is the focus of this document)
- Master data readiness
- Chart of account updates
- Organization change management

1.9 What is the expectation of the Tax Authority from businesses?

- Registration: Mandatory registration for VAT for all businesses exceeding a specific VAT registration threshold. In simple terms, only businesses that meet a certain minimum annual turnover requirement will have to register for VAT.
- Submission of Legal Reports:
  - o Filing of periodic VAT returns with the tax authorities (either monthly or quarterly)
  - o Remitting any VAT payable by a specified date.
- Record keeping: For all business transactions:
  - o Tax invoices
  - o Debit or credit notes
  - o Import and export records
  - o Records of goods/services provided for free or allocated for private use
  - o Zero rated or VAT exempt supplies and purchases
- e-Invoice: Copy of all customer invoices to be replicated at government system (expected to be future requirements)

2 Questions Related to VAT in SAP

## 2.1 Do SAP ECC and S/4HANA cover basic VAT scenarios?

SAP ECC and S/4HANA cover basic VAT scenarios and functionalities such as domestic transactions and simple, direct intracommunity supplies. These transactions comprise the majority of invoice flows.

2.2 How does SAP determine VAT?

At first sight, VAT derivation seems to be a financial process and should consequently take place in the SAP Finance (FI) module. This is partly true because VAT bookings are ultimately reported in the VAT book in the general ledger within SAP FI.


However, actual VAT determination from a sales perspective starts within the SAP Sales and Distribution module (SD). For example, after creating a sales order or a quotation, the pricing schemes are executed for the first time. The standard VAT derivation functionality is embedded in these overall pricing schemes. Based on the available transaction data (for example, combination of customer, sales organization), the system decides which pricing scheme to choose. The goods flow forms the leading principle for VAT. The SAP Materials Management (MM) module is the third module used to follow the goods flow within SAP during the VAT derivation process. Goods (and services) are sent from plants to customers. Information about materials and plants is maintained in the SAP MM module.

The customizing settings within these three modules combined form the basis for a correct embedding of VAT within SAP.
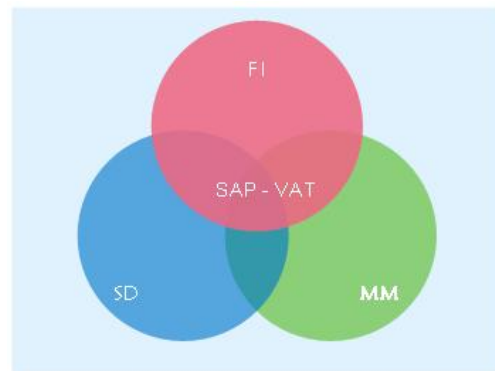
2.3 What is SAP VAT Product Offering?

SAP VAT Product Offering
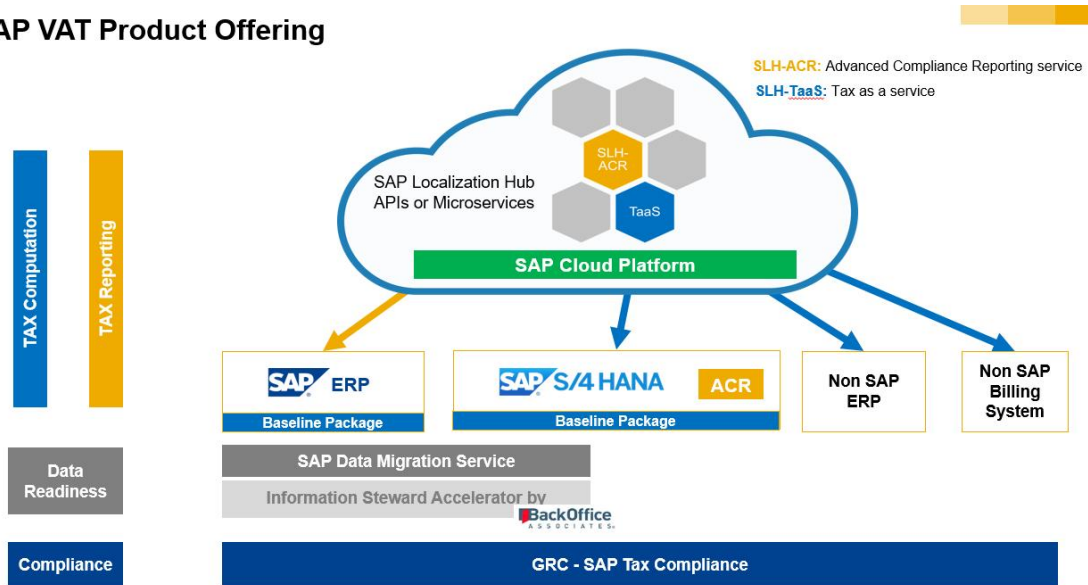
2.4 What is SAP localization plan for VAT computation?

There are two ways for VAT calculation:

- Using the backend configurations for SAP ECC or S/4HANA (SAP will support these using release of a country template for VAT in GCC)
- Using SAP Localization Hub, tax service (API available on SAP cloud platform)

2.5 What is the content of a country template? And is it must to use it?

As the VAT legal framework is not yet issued by governments, SAP plans* to deliver a country template including VAT configurations that could be used (or as a guide) to customize SAP system.

Here is an example of an Egypt VAT country template that was released last year (SAP note 2376143):

2.6 What is the Tax Service "TaaS"?

SAP Localization Hub, tax service offers a global tax calculation service which can be seamlessly integrated into customer and partner solutions. This service, in combination with other globalization capabilities offered by the SAP Localization Hub, enables customers to easily maintain their business landscapes while accelerating time-to-market & gaining scale. Currently it covers 120 countries (including Egypt from MENA), and SAP plans* to update the service for GCC countries when the laws are declared.

2.7 What are the prerequisites to implement TaaS?

- You need to obtain an SAP Cloud Platform, aka HCP license (example: bundle material code 8004744 the premium package)
- You need to integrate TaaS with all invoicing/billing transactions at customer different systems

2.8 What are the use cases for TaaS?

- Customer planning a global rollout of an in-house innovation or a web shop
- Multi-national companies planning to streamline localization and centralize tax computation for their system landscape as a single source of truth
- Customers using an ERP or Omni-channel (like S/4HANA or Hybris) looking for a tax provider

2.9 What is SAP localization plan for VAT legal reporting?

There are two ways for VAT legal reporting:
- For S/4HANA customers: SAP S/4HANA for Advanced Compliance Reporting "ACR"
- For other customers (ERP or none-SAP): SAP Localization Hub, Advanced Compliance Reporting service "SLH-ACR"

2.10 What is SAP S/4HANA for Advanced Compliance Reporting ACR?

SAP S/4HANA for Advanced Compliance Reporting offers:
- Single and uniform user interface for all statutory reporting.
- Supports multiple legal formats such as XML, XBRL, TXT, PDF forms.
- Lower costs by enabling easier adoption of legal changes
- Online communication with Government authorities

2.11 What are the prerequisites to implement SAP S/4HANA ACR?

You need to obtain an SAP S/4HANA OP license or S/4HANA Cloud License

2.12 What are the use cases for SAP S/4HANA ACR?

- Customers using S/4HANA OP
- Customer using S/4HANA Cloud

2.13 What is the SAP Localization Hub, Advanced Compliance Reporting Service "SLH-ACR"?

SAP Localization Hub-ACR offers:
- Single and uniform user interface for all statutory reporting.
- Supports multiple legal formats such as XML, XBRL, TXT, PDF forms.
- Lower costs by enabling easier adoption of legal changes
- Online communication with Government authorities

2.14 What are the prerequisites to implement SLH-ACR?

- You need to obtain an SAP Cloud Platform, aka HCP License. Same license can be used for both TaaS and SLH-ACR
- SAP Forms as a Service (priced per 100,000 forms – HCP Cloud solution) with material code 8003528 is required for legal reporting in PDF formats "ADS – Adobe Document services"

2.15 What are the use cases for SLH-ACR?

Planned* for all SAP and Non-SAP customers

2.16 How does SAP support VAT compliance?

SAP supports VAT compliance through SAP tax compliance product under GRC-Fraud management. The solution offers the following benefits to customers:
- Provides enterprise-wide repository of compliance checks that can be optimized with simulations
- Seamlessly captures information from multiple sources and checks high volumes of taxable transaction and posting data very fast

- Automatically triggers and documents corrections within current declaration period with the ability to navigate back to originating document in the source system.

The values of the solution:

- Enables an automated internal tax control/compliance framework.
- Provides reliable insight into your tax compliance status and remediation documentation
- Protects your enterprise from fines and your personal liability risks for non-compliance

2.17 Is it must to use SAP VAT deliverables/solutions together?

No, it is not a must

2.18 What is the expected delivery timeline for above localization for GCC?

At the moment we don't have enough information to share our delivery plan and we will keep you updated once we have more clarity.

2.19 How can SAP customers get the VAT release status?

Visit the site: Announcements of Legal Changes

3 References

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