



# AURIFER

## VAT UPDATE SEMINAR **SURVEY**

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Nearing the completion of the third quarter post VAT implementation, Aurifer hosted a VAT Update Seminar on 10 September, 2018. As a part of this seminar, attendees were surveyed to take stock of the implications of VAT as perceived by them.

# overview

# 55

Survey Participants

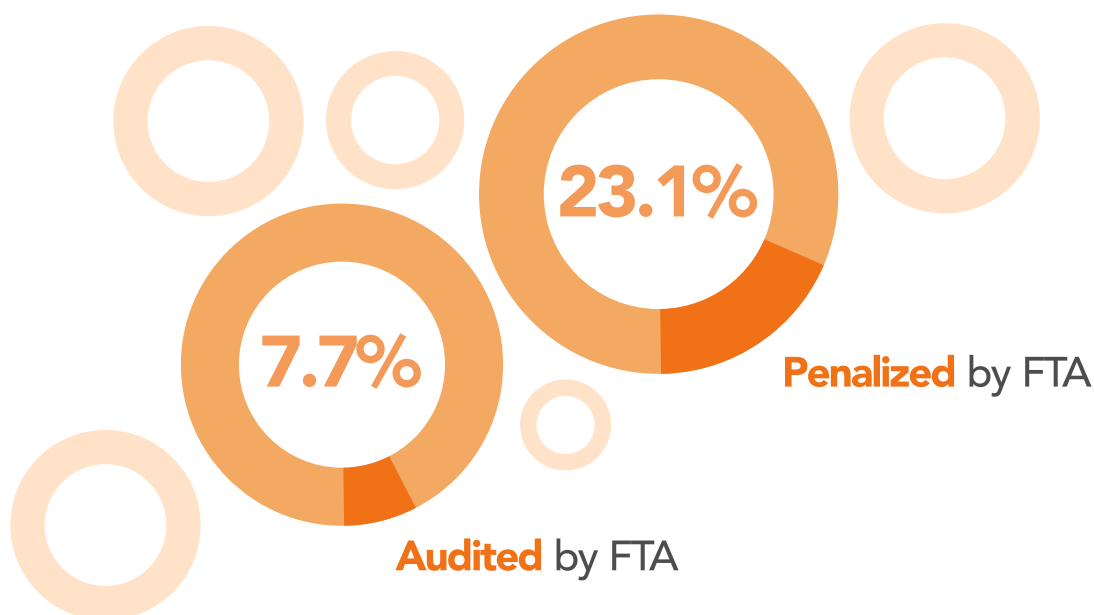
## Have you been **audited** by the tax authorities?

The tax authorities need to be able to verify whether the information provided is complete and accurate. As per the survey, only 7.7% of the participants have so far been audited by the FTA. This number may seem relatively low, but is in fact comparatively high and in line with other jurisdictions. Anyone thinking that the UAE's FTA or KSA's GAZT would sit back, or have insufficient resources to audit, is confronted with a relatively large number of (informal) audits.

## Have you been subject to any **penalties** by the tax authorities?

The survey results show that 23.1% of the respondents have been penalized by the tax authorities. This relatively high number is mainly due to fixed penalties for late payment, incorrect filing and for voluntary disclosures filed with the tax authorities.

The results indicate that it may take some more time for the companies to get further accustomed to the compliance requirements and provisions in order to prevent themselves from getting penalized.



Value Added Tax (VAT) is the most common form of consumption tax around the world. VAT was introduced in the Kingdom of Saudi Arabia and the United Arab Emirates with effect from 1 January 2018 and will be introduced in the other GCC countries soon.

VAT has proven to be the single most significant fiscal reform in the history of the GCC to date. VAT provides an alternative and stable source of revenue.

Nearing the completion of the third quarter post VAT implementation, Aurifer hosted a VAT Update Seminar on 10 September 2018. As a part of this seminar, attendees were surveyed to take stock of the implications of VAT as perceived by them.

The survey was intended to assess the experience of businesses in switching over to the VAT regime and the associated challenges. It also touched upon Base Erosion and Profit Shifting awareness and its impact on GCC operations.

The attendees included business representatives from diverse sectors, operating in the UAE and KSA. This helped the survey to deliver broader and more representative results.

# survey results

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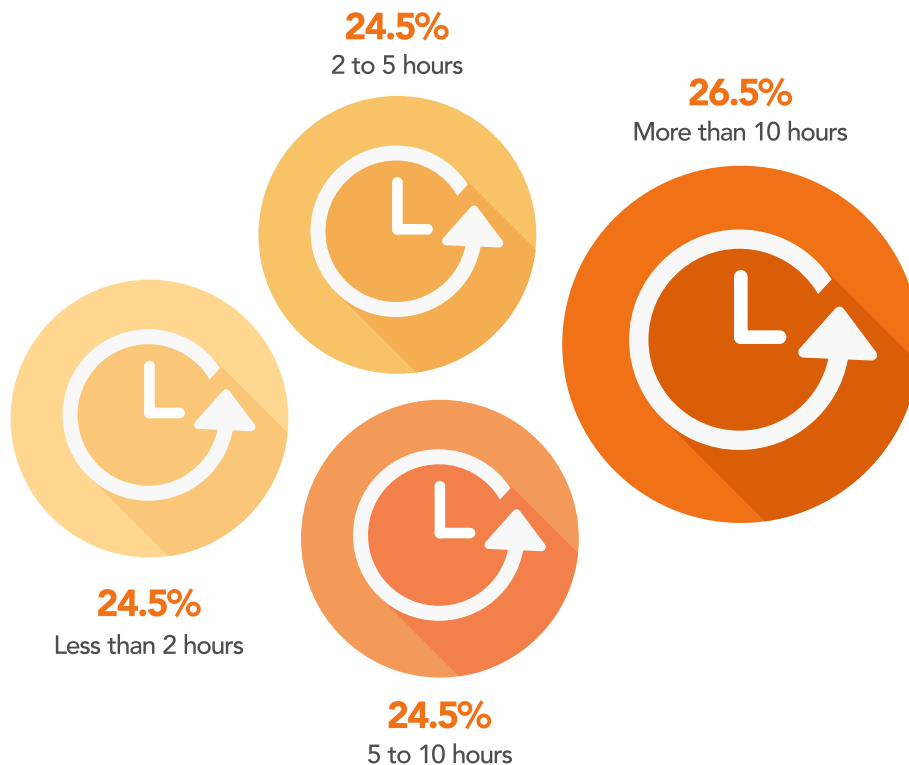
Slightly over a quarter of the people surveyed found it necessary to devote more than 10 hours for preparing and filing their last VAT return. The remaining respondents were equally distributed over the time scale needed by them.

As per the survey, it can be assessed that the overall time needed to prepare and fill out the VAT return is dependent on a variety of factors, therefore not standard for businesses.

Factors governing the time scale may include the complexity of compliance, adequate awareness of the Law and Regulations and the nature and size of businesses. The number and frequency of filing the returns also impacts the time taken to comply.

As might be expected, the learning curve could also be a crucial factor here.

## Time taken to Prepare and File last VAT Return

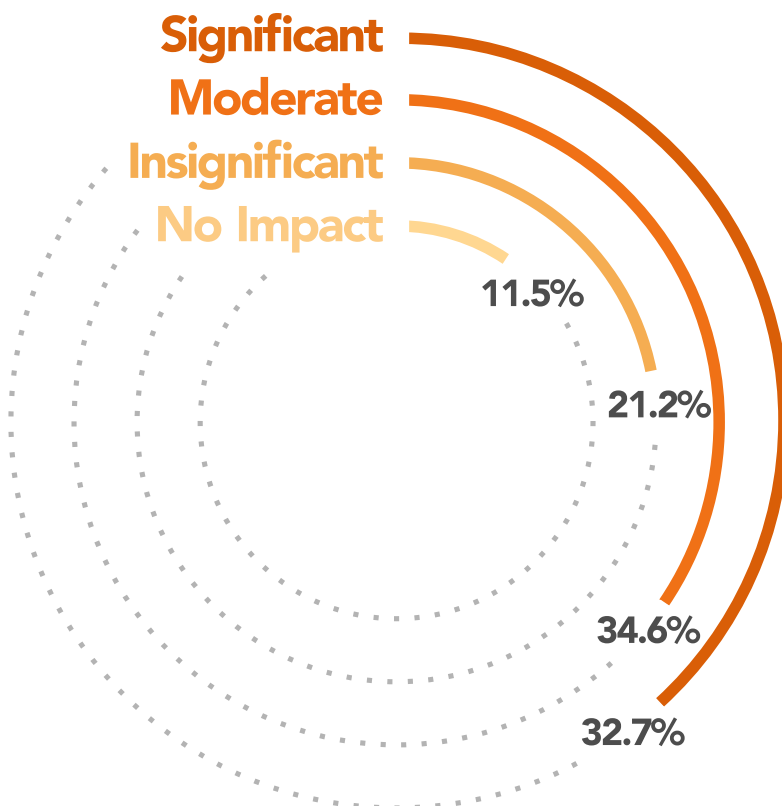


# survey results

Among the people surveyed, 32,7% felt that VAT has had a significant impact on their business model. Only 11,5% of respondents recorded no impact on their business model due to the introduction of VAT.

It can be observed from the results that due to the implementation of VAT, businesses have had to reassess their existing arrangements within the supply chain, product pricing, etc. as can be seen from the results of Q.4 of this survey.

## Impact of VAT on Business Model



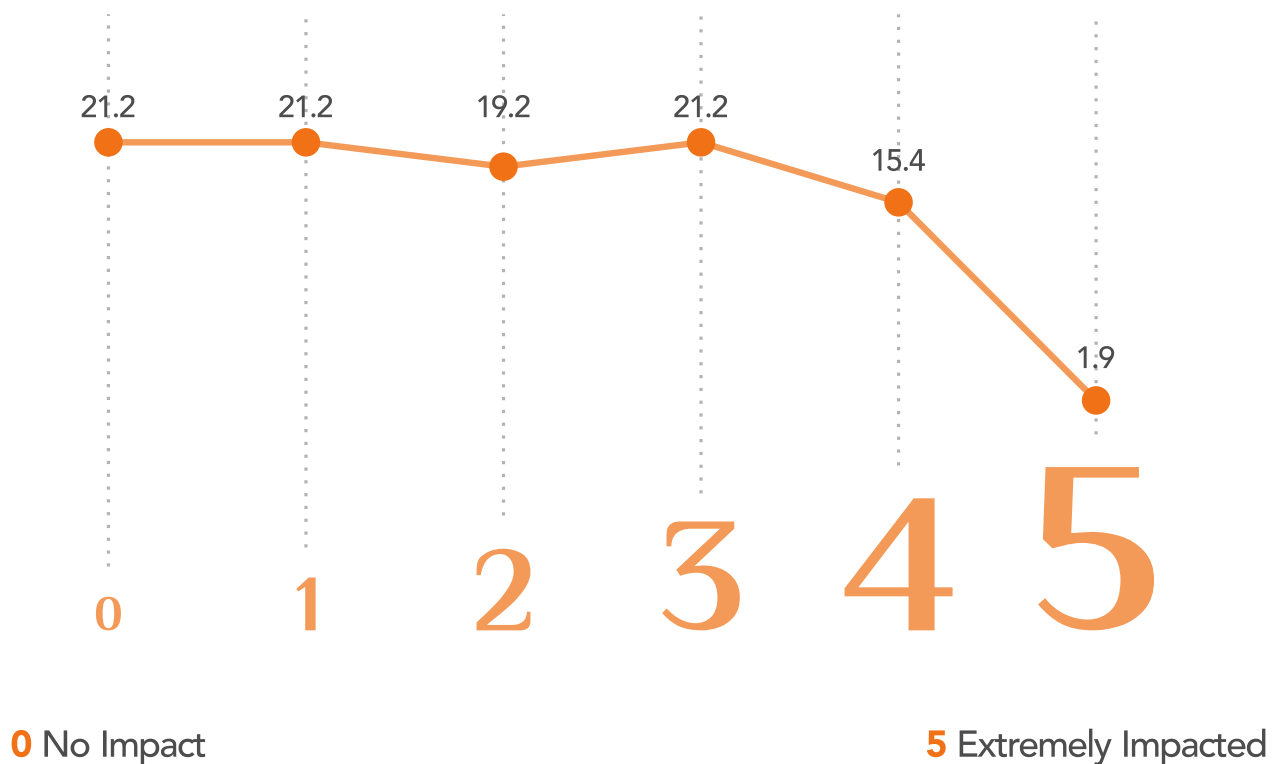
# survey results

The survey indicates that 21.2% of the respondents did not feel the impact of VAT on their revenues. However, 38.5% of the respondents indicated an increasing impact of revenues.

This can be traced to the fact that VAT is not a business expense but a cost that is ultimately passed on to the end consumer when they buy a product. However, depending on the industries and the price elasticity, consumer demands may have initially dipped especially for certain luxury items considering the steep increase in their retail prices.

It would therefore be reasonable to conclude that the introduction of VAT has had an overall relatively low impact on revenues on the basis of this survey.

## Impact of VAT on Business Revenue



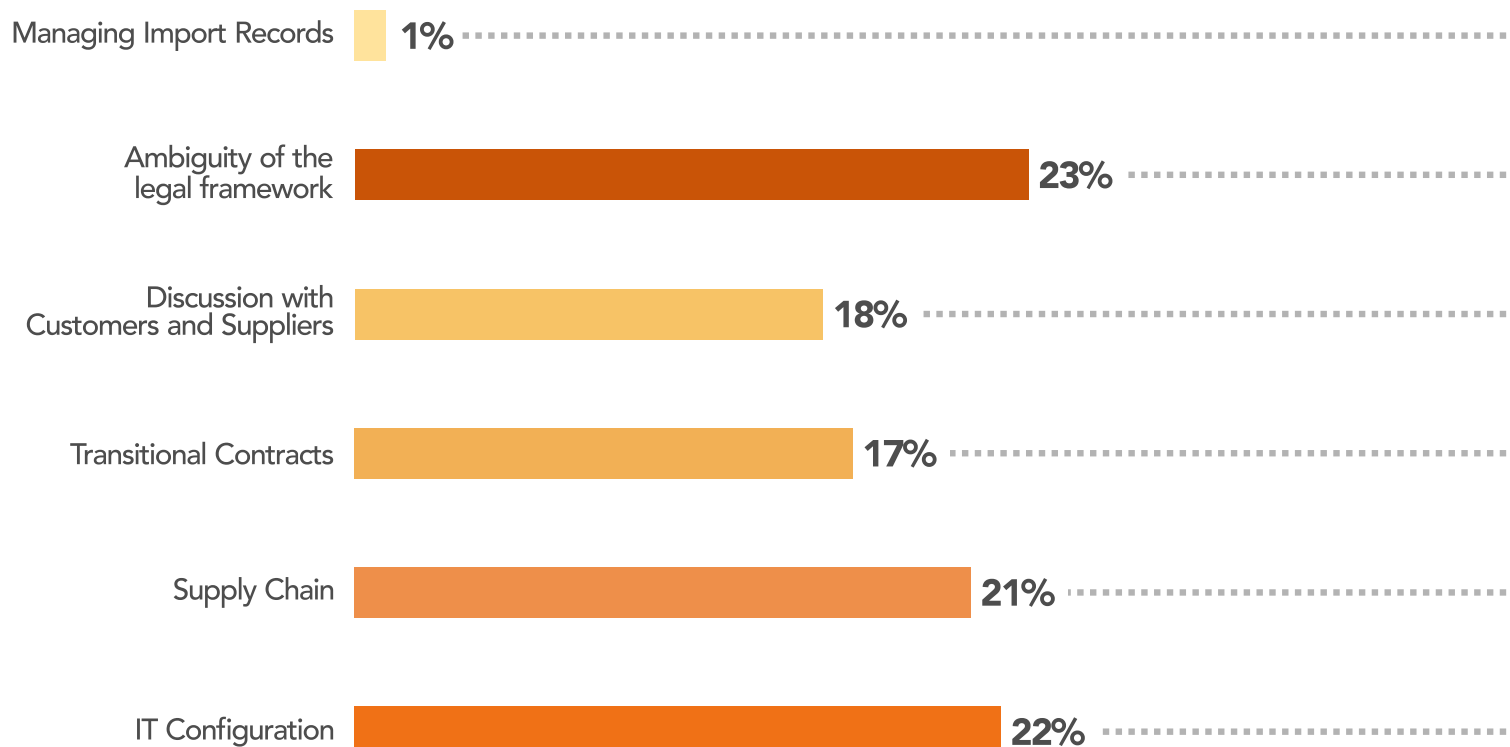
# survey results

During the survey respondents were asked to choose the most challenging VAT aspects for their companies along with any additional hiccup faced.

At the moment, the IT configurations, supply chain management and interpreting the legal framework have been perceived as the most challenging.

These may compound the challenges to businesses as they are required to reassess their processes and business models.

## Most Challenging VAT Aspect for Companies



# survey results

The survey results highlight half of the participants employed in-house expertise for VAT compliance. Almost a quarter of respondents made use of external service providers.

Slightly over a quarter opted for co-sourcing, managing tax compliance both in-house and with external service providers.

## Resources used in VAT Compliance

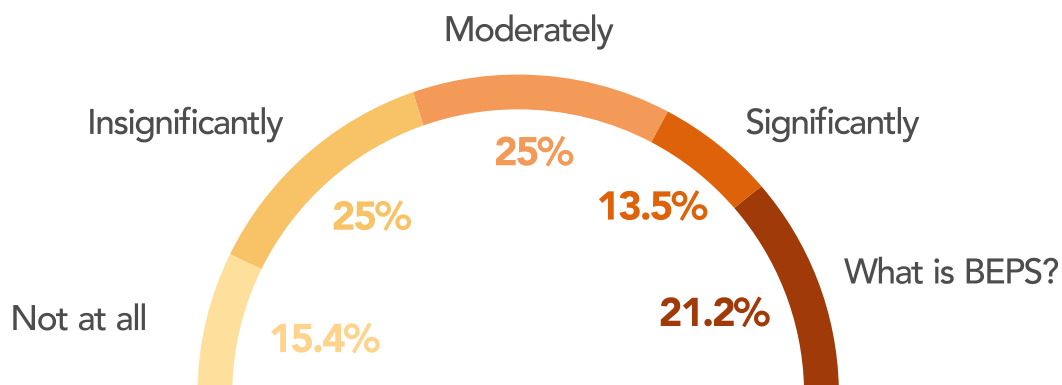




# survey results

When asked about the impact of BEPS on the respondents' business, around 20% were unaware of BEPS. However, over a third of those surveyed expect an increased impact on their business. Around almost 40% estimates the impact will be moderate to significant.

## Transparency, Transfer pricing reporting and BEPS **impact on company**



# Summary and Recommendations

With further developments being continuously made in the electronic filing and payment system, the average time taken to comply with VAT can be expected to reduce prospectively.

Additionally, the tax authorities are actively publishing clarifications and these should further aid in reducing ambiguity and compliance time.

As the economy reinvents itself, businesses could benefit from this opportunity and stake out new ways to operate and to implement fresh strategies.

Identifying the most suitable VAT compliant business model as early as possible will allow organizations to plan their budget, resources and operational changes.

Further, analyzing and employing appropriate resources for VAT compliance may prove beneficial for businesses in the long run.

Engaging with a tax adviser and external tax service providers can be seen as a crucial step in any (post) VAT implementation project. Along with helping companies understand how VAT will impact their operations, they may provide further aid on challenging VAT aspects currently being faced by companies including the IT landscape, interpretation of the legal framework as well as provide a roadmap of the changes that need to be made in order to ensure an organization is ready and VAT compliant by the implementation date.

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