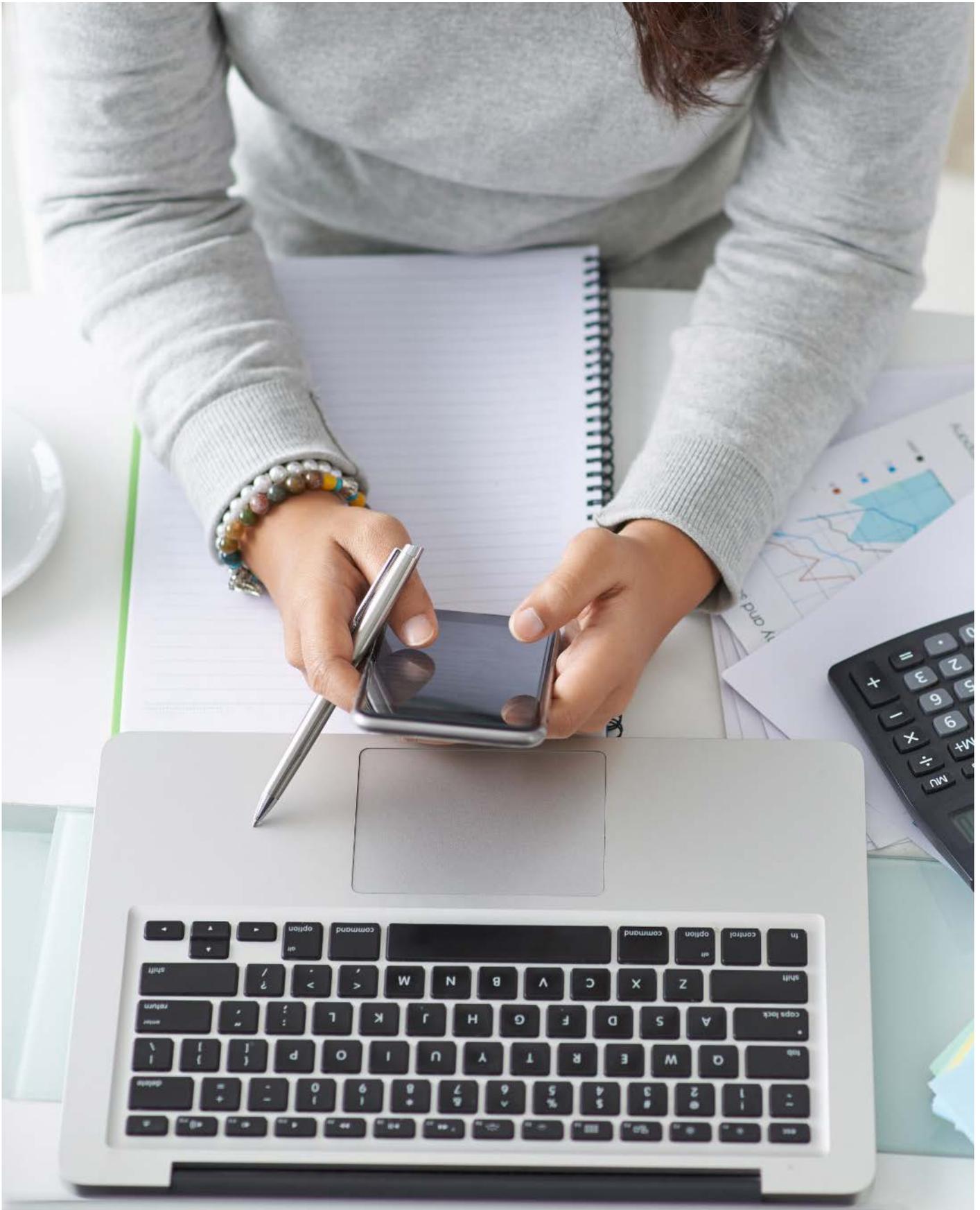


Getting Ready for Value-Added Tax (VAT)



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Introduction

The January 2018 deadline for the introduction of Value-Added Tax (VAT) is just around the corner, with Saudi Arabia and the United Arab Emirates (UAE) adopting the new VAT regime from January 1, 2018 at a standard rate of five percent.

VAT is a relatively straightforward tax that is simple to comply with, is generally free from economic distortions, and is neutral to changes in trading and distribution patterns. From a government perspective, the introduction of VAT has advantages. It is inflation-neutral, a reliable generator of income, and applies to a broad base consisting of goods, services, real property, and intangibles, as well as being a proven system adopted in many countries globally. For these reasons, VAT is a good option to ensure that there is sufficient funding for public spending should oil and gas revenue fall significantly without non-oil public revenue rising to cover the shortfall.

This all comes at little or no surprise to organizations in the region, and the big question that remains is whether you are operationally ready for the introduction of VAT in January 2018.

What is VAT and how is it applied?

VAT is an indirect tax applied when goods and services are supplied or sold by VAT registered businesses. The good news is that VAT in the Gulf Cooperation Council (GCC) will work in a similar way as most other jurisdictions around the world, and will be comprised of inputs and outputs. Levied at each stage in the supply chain, VAT is collected by businesses on behalf of the government. Ultimately, VAT is incurred and paid for by the end consumer—hence the commonly used term “consumption tax.” VAT will also apply on the importation of goods.

Although VAT across the GCC countries will apply to most goods and services, there will be some exceptions—likely including basic food items, the exports of goods and international services, and essential medicines, which are expected to be zero-rated supplies. Some supplies such as healthcare, education, sale or lease of residential property, and finance and insurance are anticipated to be exempt from VAT.

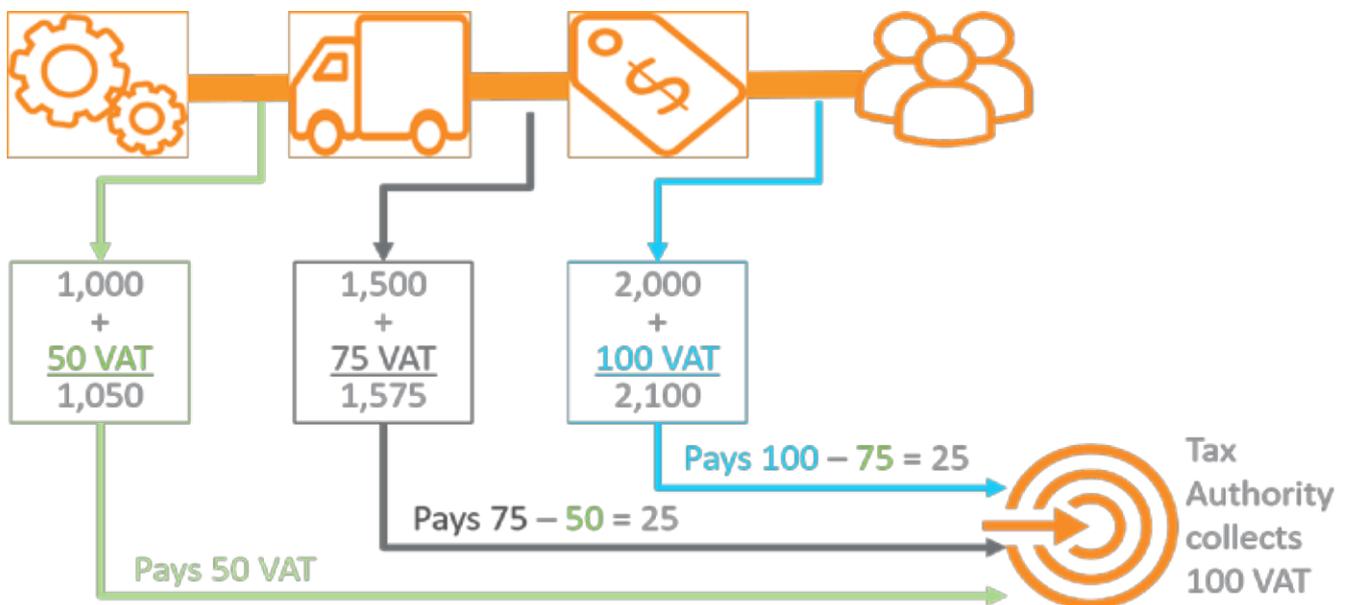
VAT in business

The introduction of VAT will have varying impact across different business sectors. This is largely tied to the three rates of VAT—Standard, Zero, and Exempt. If you

manufacture, distribute, or sell goods, you should understand the impact of VAT and have a working knowledge of input and output tax.

VAT registered businesses charge and add VAT to the value of goods and services they supply. A VAT registered business can also reclaim VAT incurred on tools and services that have been acquired for business purposes such as the purchase of raw materials and other consumables. For example a manufacturer sells tables to a distributor and charges five percent VAT (50) on the sales price as output tax (VAT) which is payable to the tax authority. The distributor has incurred an input tax of 50 on the purchase from the manufacturer, and charges five percent (75) on the selling price as output tax to the retailer. The Distributor has a net VAT payable of 25 (75 output tax – 50 input tax amounting to 25 payable to the tax authority). The retailer has incurred input tax of 75 on the purchase from the distributor, and charges five percent (100) on the selling price as output tax to the final consumer. The retailer has net VAT payable of 25 (100 output VAT – 75 input VAT amounting to 25 payable to the tax authority).

Although the consumer ultimately bears the VAT cost, businesses will be responsible for collecting and paying VAT that is due along the supply chain. This does come at a



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cost and may incur fines and penalties if not administered correctly. You also need to be aware of the costs and time associated with the business changes required to successfully incorporate VAT into all your processes and make sure sufficient funding is budgeted for this purpose. Well-planned and effective change management will be critical to successfully implementing VAT. You also need to be aware of the readiness of you suppliers and other external organizations—VAT is collected along the supply chain, and a failure at any point in the chain will impact others.

Getting ready for VAT

Your business systems, whether a fully integrated enterprise resource planning (ERP) system or stand-alone finance packages will often include standard VAT functionality. However, this is likely to require modifications to meet your country-specific VAT regulations. For larger organizations, configuring VAT in

your ERP and finance systems may be resource intensive, complex, and expensive.

Epicor solutions deliver extensible functionality and flexible options that help you minimize your organization's exposure to regulatory changes and mandates. Without regular updates to company-specific functionality, your business can be subjected to financial penalties that adversely affect corporate credibility and compromise brand reputation. With a series of interlocking global engines from Epicor solutions, you can easily configure the rules that determine how transactions are posted, where they are posted, how tax is calculated, how currency is handled, and how data is stored. These global engines include tax, currency, rounding, legal, posting, and book engines.

With a flexible and configurable engine approach alongside modules such as asset management, petty cash management, and promissory notes, Epicor solutions support functionality that may have significant international variations but follow fundamentally the same process. With

adaptable business process management (BPM) capabilities and integral report writing features, Epicor solutions support your governance, risk, and compliance (GRC) needs.

In addition, the most recent Epicor solutions deliver electronic compliance capabilities to provide you with a comprehensive compliance and structured reporting framework designed to support the creation and delivery of electronic reports—including VAT submissions in a wide variety of formats.

The robust and flexible capabilities delivered with Epicor software can help you meet both regional and industry needs. You can quickly tune and enhance Epicor solutions to meet your business requirements by configuring the global engines that manage the needs of distributed business with multiple legislative environments.

This can be further enhanced with last-mile functionality and best practices delivered and supported through Epicor professional services and our local partner ecosystem.

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