
GCC EXCISE AND VAT

Dubai Duty Free
January 2018



Agenda:

Implementation of excise tax and VAT in the GCC

1. What happened - Introduction & Background
2. Scope of tax
3. Specific Airport considerations

Why are
taxes being
implemented
in GCC?

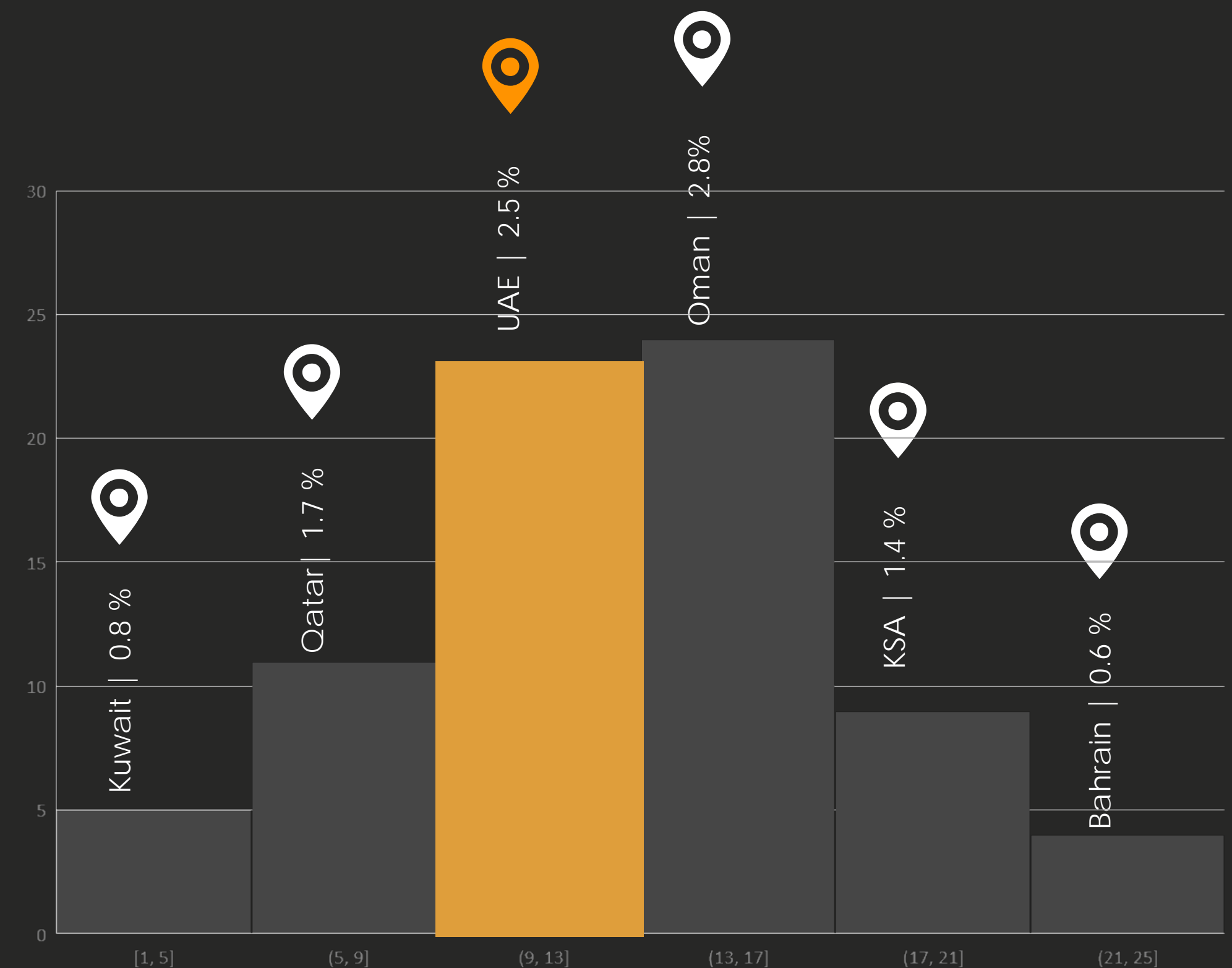




Why are taxes being implemented in GCC?

Oil revenues accounted for between 70 and 95 percent of total government revenues during 2011–14 across the six countries. The large decline in oil prices has led to deteriorating fiscal balances and fiscal adjustment is needed. Under current policies, the fiscal deficit for GCC countries is projected at almost 6.5 percent of GDP in 2020. The introduction of efficient taxes that do not distort economic incentives or adversely affect investment and growth is part of the needed fiscal reform strategy.

Breakdown of Tax Revenue



Source: IMF estimates

Note: Latest data is for 2014 where available; Qatar total revenue is for 2013; Kuwait trade tax data is for 2012; Bahrain and Kuwait property tax data are for 2004 and 2012

The GCC Excise agreement (Overview)

Kuwait

The draft of the legislation was released on April 2017. It still under debate

KSA

Introduced Excise tax in June 2017

Bahrain

Introduced Excise tax in December 2017

Qatar

The draft decision was approved on May 2017. It still under debate.

UAE

Introduced Excise tax in October 2017

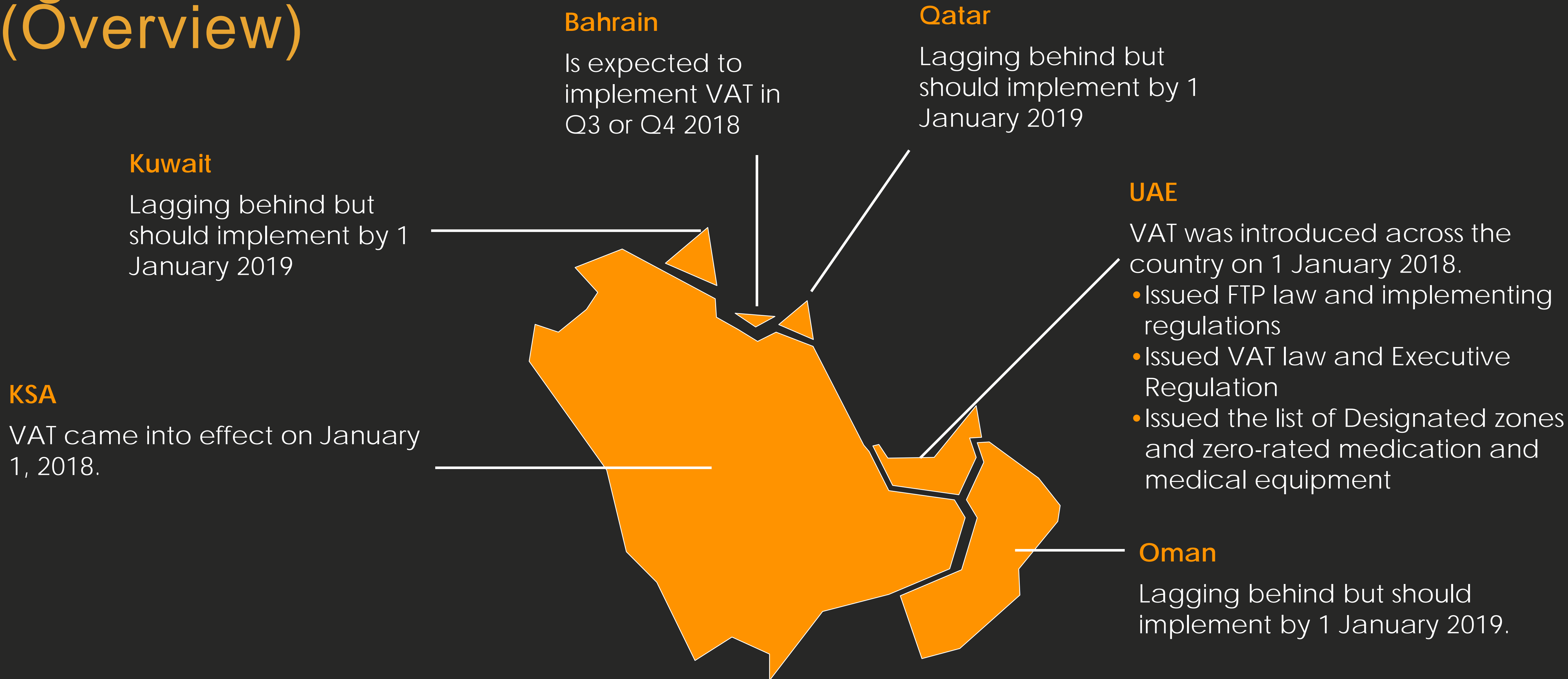
Oman

Lagging behind





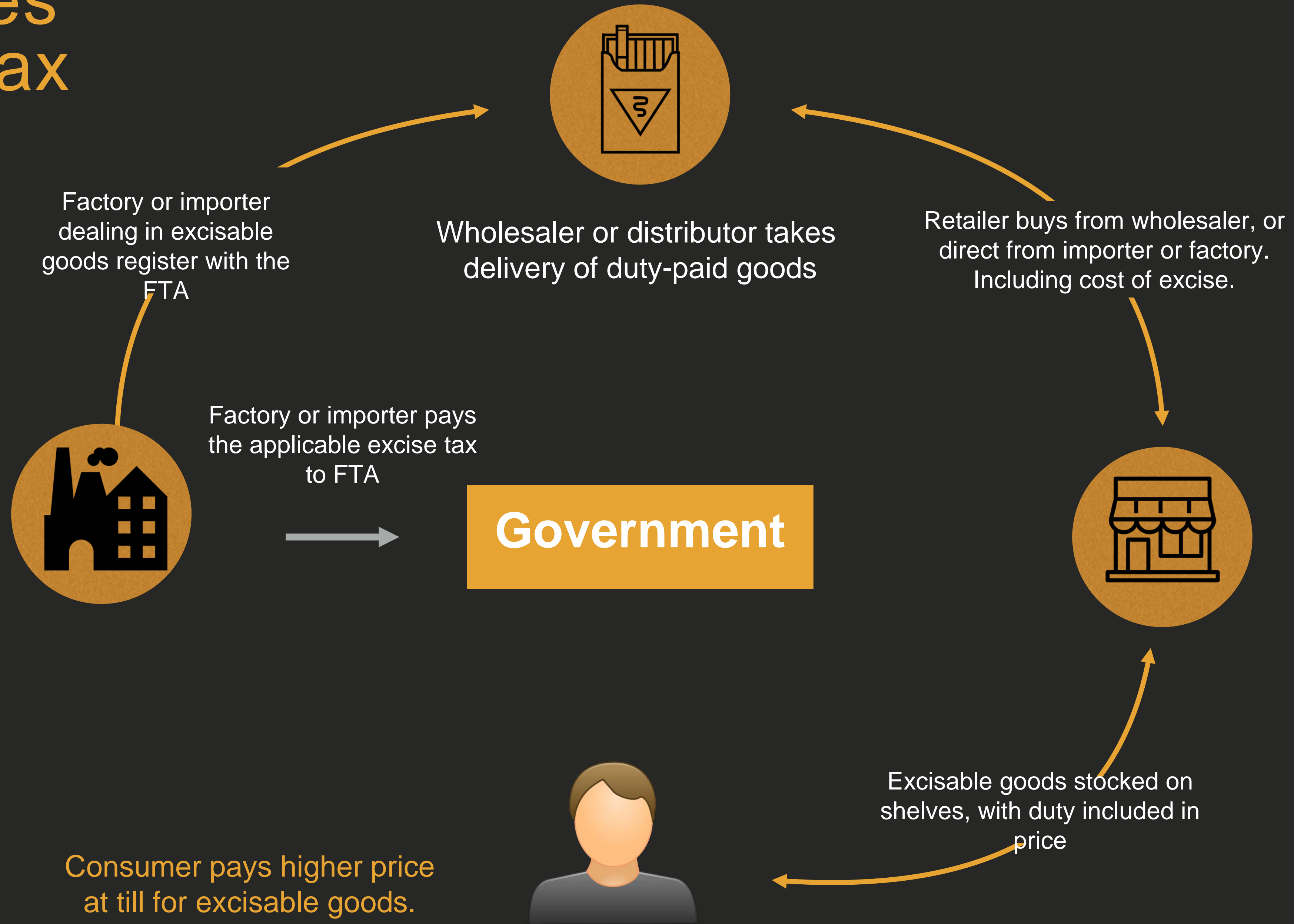
The GCC VAT agreement (Overview)





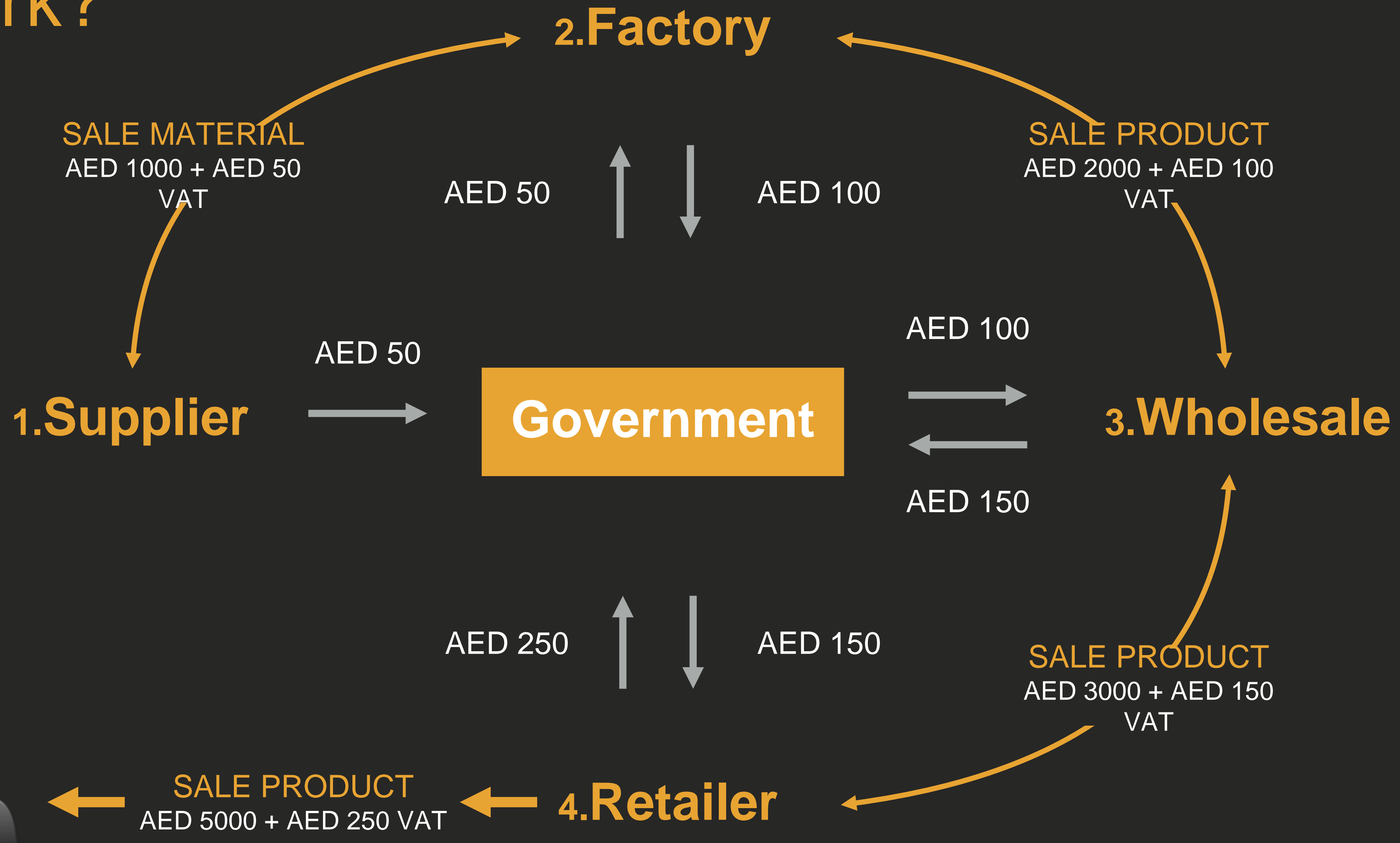
How do Excise tax and VAT work?

How does Excise tax work?



SCOPE OF TAX

How does VAT work?



SCOPE OF TAX



Which products
are subject to
Excise tax?

Which transactions are subject to Excise tax?



Tobacco & tobacco products:

- All items listed within schedule 24 of the GCC Common Customs Tariff



Carbonated drinks:

- Any aerated beverage except for unflavored aerated water
- Any concentrate, powder, gel or extract to be made into an aerated beverage



Energy drinks:

- Any beverage which is marketed or sold as an energy drink, containing stimulant substances that provide mental and physical stimulation e.g. caffeine, taurine ginseng and guarana.
- Any concentrate, powder, gel or extract Intended to be made into an energy enhancing drink

Which transactions are subject to VAT?

Which transactions are subject to VAT?



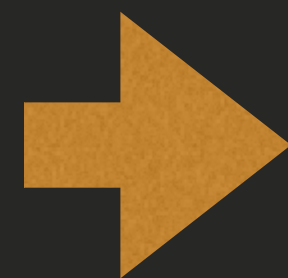
- Goods:
 - Physical property that can be supplied including real estate, water, and all forms of energy



- Services:
 - Anything which is not a good



- Imports



The scope of VAT is **as wide as possible**

Tax rate



The standard **VAT rate** is **5%** and it is up to the business to prove that the standard rate does not apply.

Excise tax rates are:

- all tobacco products and all energy drinks will be taxed at **100%**
- all carbonated drinks, except for sparkling water, will be taxed at **50%**

A wide-angle photograph of an airport tarmac at sunset. The sky is a warm orange and yellow. In the foreground, a worker in a red shirt and dark pants stands near a low-profile service vehicle. To the left, another service vehicle is visible. In the middle ground, a large passenger aircraft is parked, with its tail fin prominent. The background shows other aircraft and airport infrastructure under the soft light of the setting sun.

SPECIFIC AIRPORT CONSIDERATIONS

Link between customs, VAT and Excise tax

- Whenever customs duties are due VAT and Excise tax will be due
 - ▶ Customs duty suspension (bonded warehouse) also suspends VAT and Excise tax
 - ▶ Payment VAT to the customs authorities (except for the UAE)
- Customs documentation used for VAT purposes
 - ▶ Compliant import document necessary for recovery import VAT
 - ▶ Compliant export document necessary for proof zero rating (exemption with input VAT recovery)



Airline industry: VAT impact of common activities*



Service	VAT treatment
Lounge access - included within flight ticket	0%
Lounge access - extra charge	5%
Excess baggage	0%
Cancelation fee	Outside the scope
Food & beverage on board	0%
Sales of visa to customers	5% (subject to disbursement rules)
Charges for military or presidential flights	Domestic - exempt International - 0%

*FTA Awareness Sessions Aviation

Airline industry: VAT impact of common activities*



Service	VAT treatment
Duty free goods sold on board	0%
Duty free goods sold at arrivals	5%
Duty free goods sold at departures	0%

*FTA Awareness Sessions Aviation

WHAT WE DID...

- POSITION PAPER
- INDUSTRY ADVISORY BOARD
- IMPLEMENTATION TEAM

MAP ALL SYSTEM MOVEMENTS

SOFTWARE RECONFIGURATION

FRONT OFFICE TRAINING

BACK OFFICE IMPLEMENTATION

■ Procure to Pay (P2P)

■ Modules Impacted

- Procurement (PO), Inventory, Payables, Projects & Service Procurement (if applicable), Expense management, heavily producing Financial events for Tax , which is mostly Input in Nature.

■ Taxable Events

- Purchase Requisition
- Purchase Order
- GRN (Inventory Receipt)
- Payables Invoice (Standalone)
- Payables Credit/Debit Memo
- Purchase Prepayment

■ Order to Cash (O2C)

■ Modules Impacted

- Main applications like Order Management (OM), Shipping (INV), AR, Service Contracts using and producing Financial events for Tax with these transactions

■ Taxable Events

- Sales Order
- Shipment
- Receivables Invoice
- Sales Credit/Debit Memo
- AR Advance

A wide-angle photograph of an airport tarmac at sunset. The sky is a warm orange and yellow. Several aircraft are parked at gates, with their tails visible. Ground support equipment, including a belt loader and a tug, is on the tarmac. A person in a red shirt is walking in the foreground. The text 'LESSONS LEARNED & ADVICE TO FUTURE IMPLEMENTING STATES' is overlaid in white, bold, sans-serif font.

LESSONS LEARNED & ADVICE TO FUTURE IMPLEMENTING STATES

1. START EARLY
 2. HIRE A TAX EXPERT
 3. SET UP AN IMPLEMENTATION TEAM
 4. ORGANIZE AN ADVISORY BOARD FOR YOUR INDUSTRY
 5. REMEMBER IT'S THE LAW
- PENALTIES ARE COSTLY*
- YOUR BUSINESS IS SUBJECT TO AUDIT*
- ENSURE YOUR SUPPLY CHAIN-COMPLIANCE*
- OF YOUR SUPPLIERS*

IMPACT WHEN STATES IMPLEMENT

RISKS TO THE INDUSTRY

WHAT IS DDF DOING?

THANK YOU