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*innovative mind. assured solutions.*

**ACCELERATED  
VAT »»**  
**YOUR PARTNER NEXT DOOR**

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## WHAT IS VAT?

The VAT in the GCC will – most likely – be based on the European system and will be charged at each step of the 'supply chain'. Ultimate consumers generally bear the VAT cost while businesses collect and account for the tax, in a way acting as a tax collector on behalf of the government. A business pays the government the tax that it collects from the customers while it may also receive a refund from the government on tax that it has paid to its suppliers. The net result is that tax receipts to the government reflect the 'value add' throughout the supply chain.

If a business doesn't collect the VAT from its customers where it should, it is actually the business that becomes liable for the VAT. It is therefore very important for any businesses to ensure their VAT compliance process is functioning perfectly. As VAT is a turnover tax, it also means the liabilities, or missed opportunities on the recovery side, can build up fast.

Value-added tax is taking shape across the GCC.

The Gulf Cooperation Council (GCC) – of which the UAE and Qatar are member states along with Saudi Arabia, Kuwait, Bahrain, and Oman – will start implementing the Value Added Tax (VAT) at a rate of 5% from 1 January 2018.

Currently the GCC is in the process of approving a common legal framework for the introduction of a VAT system. This VAT framework is expected to be finalized at the next meeting of the GCC Financial and Economic Cooperation Committee, now in October 2016.

## NEED TO GET VAT READY

### Registering for VAT

Not all GCC businesses will need to register for VAT. In simple terms, only businesses that meet a minimum of AED 3.75m of annual turnover will have to register for VAT. Between AED 1.78m and AED 3.75m the registration for VAT is voluntary.

Also, businesses may not need to register with the government if they only provide goods and services which are not subject to VAT.

VAT is expected to be applicable from 1st Jan 2018.

While the VAT framework only sets out key VAT principles, it clears the way - once ratified - for each GCC member to release their national VAT laws based on those principles. The UAE has indicated its intention to implement VAT with effect from 1 January 2018. The framework paves the way for implementation, allowing for a basic rate of VAT of five percent while certain supplies of goods and services can be zero rated or VAT exempt. All businesses should carefully review their processes to understand the impact of VAT and to determine what needs to be done to be fully compliant with the new laws. Clear communication is essential to ensure effective compliance.

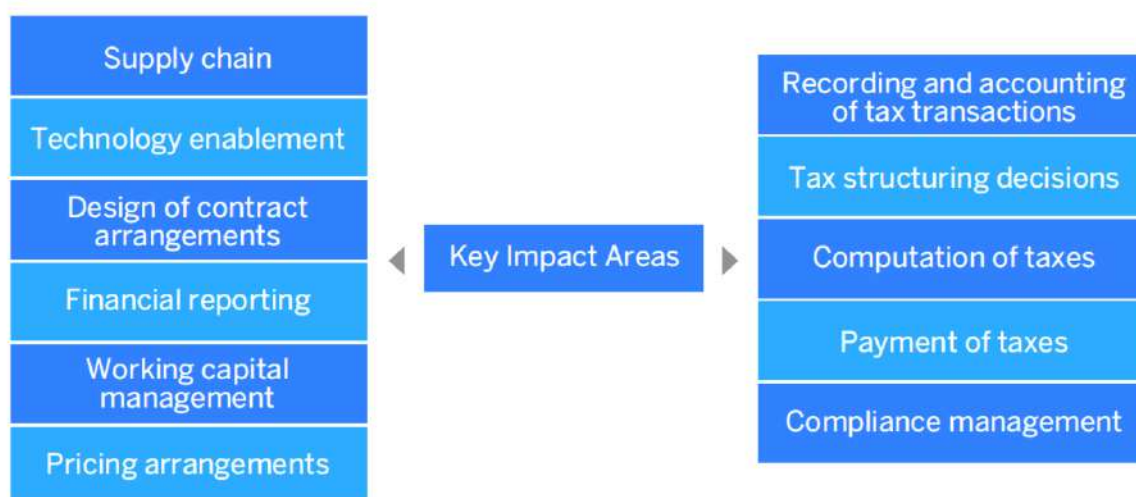
VAT will impact all businesses in the GCC, either directly or indirectly and, as a transaction-based tax, will impact across your business. Finance, legal, IT, sales, marketing and even HR must understand the impact of VAT on their function and determine whether the introduction of VAT will result in additional costs, which could be actual or cash

flow or compliance-related. Businesses should consider any contracts going beyond 1 January 2018 to protect their position.

## KEY BENEFITS OF VAT

*Key considerations when embarking upon a VAT implementation project are:*

- Competition for resources within the business, as the VAT implementation project may coincide with other transformation projects planned for the business.
- The availability of internal resources such as project managers, business analysts, IT and others needs to be evaluated early.
- An early assessment of the requirement and availability to leverage external resources (such as VAT specialists, IT systems and business analysts as well as project management consultants); upon which the necessary resources should be procured early.
- An early assessment of any impact the introduction of VAT may have on your cross border transactions and GCC trade as well as any impact on pricing, customers, vendors, intermediaries, capital expenditure planning and your supply chain.



## **VAT-registered businesses**

These businesses generally:

Must charge VAT on taxable goods or services they supply

May reclaim any VAT they've paid on business-related goods or services

Need to keep a range of business records which will allow the government to check that they are compliant.

A VAT-registered business must report the amount of VAT it has charged and the amount of VAT it has paid to the government on a regular basis. This will be a formal submission. If a business has charged more VAT than it has paid, it must pay the difference to the government. If a business has paid more VAT than it has charged, it can reclaim the difference. SAP S/4HANA qualifies the businesses in smooth transition in high level compliance oriented GST environment and is capable of administration of complex tax configurations and high volumes of vendor compliance level management.

## **Invoices**

The process of charging VAT on supplies of goods and services requires businesses to issue VAT invoices. A VAT Invoice is a document that must be produced and issued by VAT registered businesses to provide documentary evidence of the sale of goods and services in compliance with the VAT law.

A VAT Invoice is also required by the business as documentary evidence to support VAT credit claims, i.e. VAT incurred on the acquisition of goods and services for the purposes of the business can only be claimed if the business holds a valid VAT Invoice from the vendor

## **Key considerations**

It is important that the business license obtained accurately reflects the intended and actual business activities. This is different when compared to approaches in other jurisdictions where 'shelf companies' and companies able to undertake more general business activities are widely used. The costs for establishing an entity can be greater than in other jurisdictions, because, for example, ancillary costs such as the need to have documents notarized, legalized and translated and with regards to premises form a key part of the registration process.

Most operations in the UAE should commonly not be subject to taxation, so taxes are unlikely to be a key consideration. However, it should be taken into account that a VAT or Federal corporate income tax may be implemented in the foreseeable future. With regard to customs it should be considered whether any preferential treatment, suspension arrangement or exemption is available to mitigate cash outflows.

Consider the ownership structure required for the corporate vehicle (i.e. onshore or free zone) by evaluating the business plan and, where applicable, relationships with UAE partners. • Consider the need for and consequences of services to be provided by distributors, commercial agents or sales representatives. Depending on the types of agreements, some might impose more onerous obligations on the foreign company principal.

## SAP S/4HANA – YOUR TRUSTED PARTNER IN THE JOURNEY

All of the above needs are part of the inbuilt capabilities of SAP S/4HANA to accelerate the journey of VAT Implementation by businesses. As a cutting edge technology pioneer SAP S/4HANA can provide a comprehensive business solution through –

- Establishment of common infrastructure as per the requirements of VAT
- Development of efficient and effective interfaces with the business and tax administration ensuring smooth flow of business data for tax reporting purpose
- Facilitating, implementing and setting the best standards across industries and business segments
- Development of a business aligned ecosystem for seamless transition from the Current indirect tax system too much awaited VAT regime
- Ensuring transition to new VAT regime through nil or minimal disruption to existing Business process, workflow and data management system
- Efficient management of the dual structure across different states, product segments and verticals
- Aggregation of data for management reporting, evaluation and scenario analysis for facilitating quick decision making
- Identification of overlaps between the existing indirect tax system and the VAT regime and adequately incorporating insights into the transition plan for timely migration to VAT

SAP S/4HANA accelerates your journey through flexible data acquisition tools, integrating the data from wide variety of sources, making available the up-to-date insights, facilitating a predictive analytics capability that makes the implementation process faster, and better.

SAP S/4HANA is well equipped to ensure smooth sailing through the VAT for GCC. The technology solution will enable organizations through transition across various stages.

With SAP S/4HANA the businesses now will be able to perform tax impact analysis from various management decision making perspective which may include:

- Re-looking at product positioning and pricing arrangements
- Identification of opportunities for consolidation of locations across business verticals
- Analyze patterns of procurement and evolve completely new procurement strategy
- Assess and re-define the customer segments
- Explore impact on various key metrics in simulated post VAT business environment

### **Tax Rates**

Rates may vary as the respective Countries will be able to set the rates within the bands recommended by the VAT council above the floor rates. Though in a narrow range, the composite VAT rate is expected to vary from state to state.

Corporate thus needs to ensure readiness to work amongst the state wise difference in the tax rates.

SAP S/4HANA has the ability to support business through such complex tax administration regime, and it is one stop solution to sail through the journey to VAT.

### **Product pricing strategies**

Post VAT environment, number of companies are expected to witness increased levels of price competition. The companies will have to work on product pricing strategy which will be driven by margin concerns.

### **Scenario Analysis**

Companies need to evaluate the allocation of capital resources on the basis of criteria like economies of scale, access to market, adequacy of infrastructure, centralization of production and other key facilities in various states inter alia instead of decisions made on the basis of taxation laws.

SAP S/4HANA enables the business to review capital allocation decisions through analysis of high volume of business data and facilitation of review through scenario evaluation.

Companies will also need to review the procurement strategies and needs to have access to robust information for cost effective purchasing.

### **Managing tax compliances**

Companies will need to ensure robust preparation and be ready for increased level of tax compliances under the VAT regime. The key areas include-

- Registration of VAT
- Reporting of the inputs tax credit balance
- Change in the format of purchase & sales documentation like invoice, waybills, packing list, challans etc.
- Implementation of the changes in rates in the tax masters
- Ensuring right classification of goods and services
- Framing the manner of computation of value and assessment of VAT Timely submission of returns

## ACCELERATED VAT OFFERINGS

Smooth transition to the VAT is one the top 3 agenda items on the Board and Management's.

Strategy and execution list. With VAT, the past no longer holds good and future is laden with Number of implementation challenges. VAT is also expected to significantly impact all key Business processes, be it Procurement to Pay (P2P), Record to Report (R2R), Order to Cash (O2C) and Budgeting, Planning and Forecasting inter alia. To ensure smooth transition of all key Business processes through the wave of VAT, it is critical for all organizations to be ready with a Cutting edge technology solution.

Selection of right technology enabling and facilitating the smooth transition to VAT as well as creating a competitive advantage is going to be the key differentiator for all businesses to succeed through and post VAT.

## IMPLEMENTATION PLAN

### Prepare

- Asses impact areas in SAP
- Make sandbox system ready
- Check system pre-requisites for VAT Implementation

### Explore

- Configuration changes in sandbox  
Process testing on sandbox

### Realize

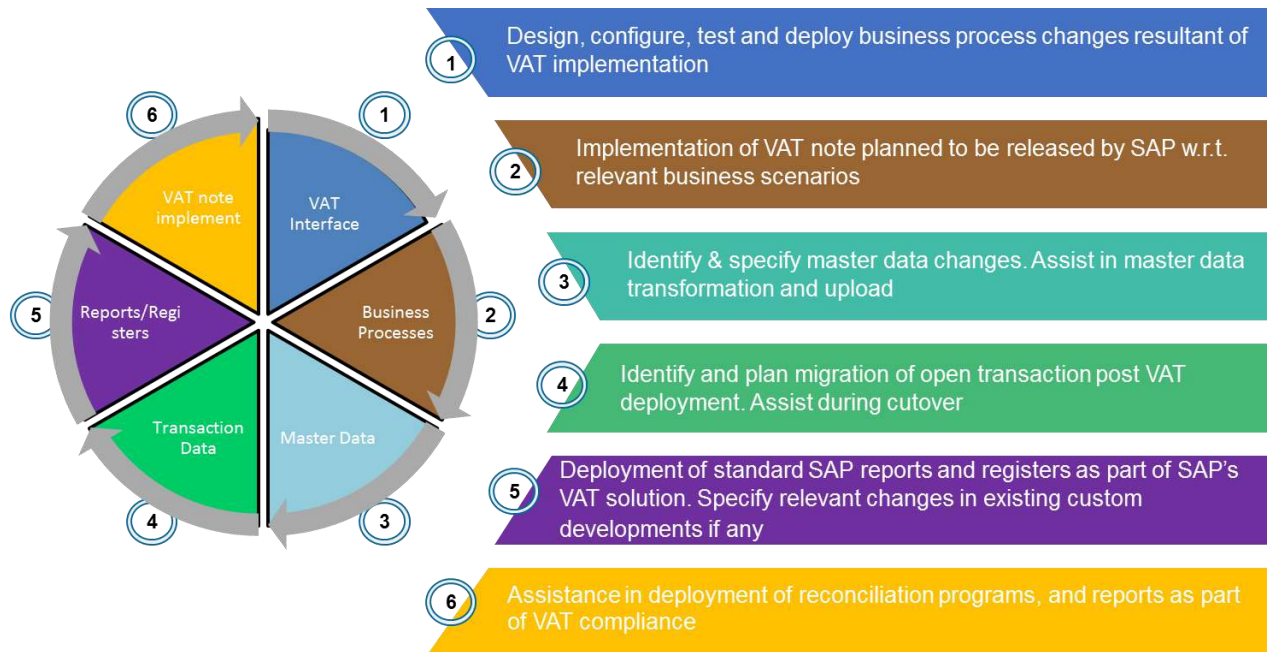
- Configuration and testing in Dev
- Impact/regression testing
- Open item conversion testing

### Deploy

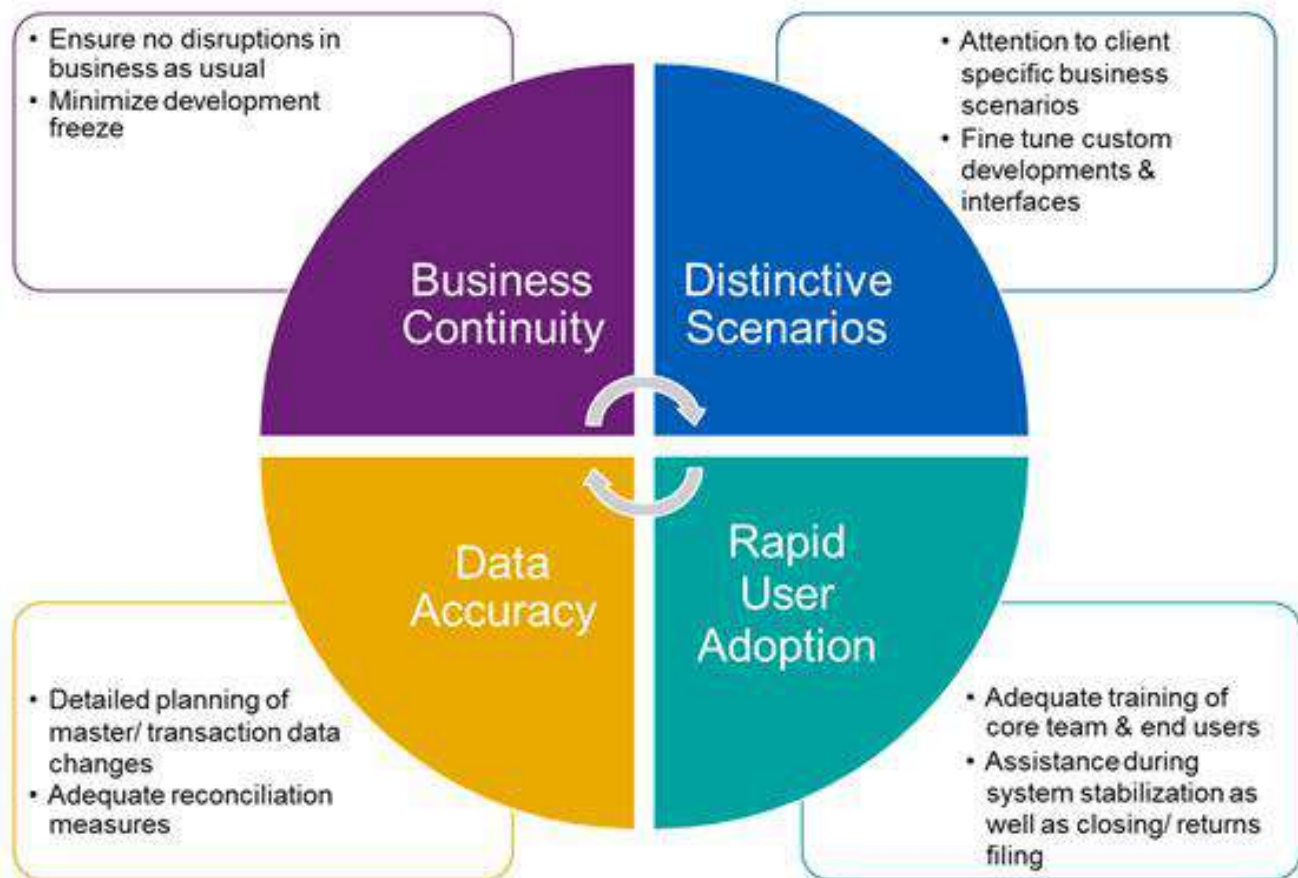
- Go live & support



## VAT IMPLEMENTATION IN SAP – KEY ELEMENTS



## APPROACH FOR VAT IMPLEMENTATION – KEY CONSIDERATIONS



### ABOUT US

As an SAP Gold Partner we provide end-to-end solutions for our customers who are purchasing, Implementing, monitoring and maintaining medium to large SAP environments Dedicated to providing expert advice and unrivaled service and support Accely is a leading industry expert in providing SAP services.

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