

## **VAT- UAE- Area of Service Opportunities**

### **Background:**

The implementation of excise tax from 1<sup>st</sup> October in a small measure and VAT in an all pervasive manner in the GCC countries with UAE & Saudi taking the lead is a major change in the economy of the middle east. Manufacturers/ processors, traders, importers and service providers would be covered under this law who have a commercial intent..

### **The CA Advantage**

The knowledge of accounts, costing, and now excise tax and VAT would makes a CA's quite complete service provider whether he is in employment or practice. This coupled with the experience from understanding businesses through conduct or audit, providing opinions, preparation/ certifying of financial statements, etc would make the CA the natural choice for most businesses.

The total number of CAs in this region as we understand is about 11,000. By the end of December 2017 it is expected that at least 2000 would have knowledge at awareness levels and 500 would have a good grasp of the subject after undergoing certificate courses.

The CAs in India already practicing in GST now had previous experience in VAT, Service Tax and Excise / Customs would be able to support their counterparts and clients in GCC countries. The VAT law as it is appears to be simple and clear and regulations are also expected to be the same. [ Saudi Regulations are in public domain] Industries / Businesses who have not had to pay any taxes till date may choose to get support of professions to ensure compliances and also ensure the following:

- Continue their business post 1<sup>st</sup> January 2018,
- Safeguard their margins by amending contracts prior to implementation,
- Configure their ERP/ A/cing systems to be compliant with the law and
- Avail of the input tax as available.

All in all be ready for VAT.

### **Service Opportunity under VAT**

The distinction can be made between the pre / post VAT period openings / service streams.

### **Role - Pre-VAT period**

This is a one - time opportunities focused on VAT preparedness of clients. Specific contribution by the professional could be:

- Analyse the industry impact considering the global and UAE situation of the product / service. This study may also have to be done for the major vendors and customers;
- In case of unintended hardship to some sectors- representation to the Government through the appropriate routes available;
- CA could be part of the core team of client for transiting into VAT smoothly without business disruption and safeguarding of the margins as a knowledge advisor;
- Understanding legacy tax systems at client workplaces so as to provide appropriate advise on migrating to better systems/ ERP or suggest modification to make the existing systems VAT compliant;
- Assisting in preparation of a strategic plan for procurement and marketing systems of clients needed under VAT. Illustration: registration decisions; in house/ outsourcing the distribution function to logistic companies; sourcing inputs ; linking to the ERP of the customer etc.;
- Changes in accounting software and internal control systems to suit VAT. Test and confirm the robustness;
- VAT awareness at initial stages and training for management, staff, customers, vendors of clients on ongoing basis especially the operational team consisting of the marketing and purchase.
- Vetting and suggestion to modify agreements/ contracts/ major purchase orders overlapping or supplies to be made in VAT regime;
- The reconciliation of the credit as per books to the returns before VAT is implemented can be a value added activity. This would include validating the accounts as on 31<sup>st</sup> December 2017.

Reviewing the various business transactions to examine whether closing out the transaction in the pre VAT or post VAT period is advantageous;

The students of CA- the future CAs would also require to be taught the new law to enable them also to actually do the verification. Review and audit in VAT and confirm that the transition mistakes are not material;

Many CAs have specialisation in information technology and some even hand on consulting skills in ERP environment. These skills could ensure that the client would get his IT integrated and able to comply with the complex needs of VAT compliance;

### **Role - Post-VAT**

The implementation of VAT would bring many challenges and for us opportunities to serve:

- In the initial stages of VAT implementation, there would be many doubts which are not covered in the new law. There may also be gaps in knowledge of VAT at various levels in the organisation. These are likely to result in denial of registration, interruption to do business, loss of eligible deduction, and inadvertent non-compliance in VAT. There would a period of uncertainty and need for someone to confirm the issues arising. The internet (Google) at such times may not be effective as too much of inaccurate/ incorrect suggestions in the initial stages are expected. The proactive professional handholding and quick response may not only ensure continuation of the clients business but enable them to take advantage of the changes in the business structures;
- Regular online service to the functional head of clients business;
- Assisting in the filing of the 1<sup>st</sup> return;
- Review the compliances in transition;
- A one time comprehensive review post January 2018 to ensure VAT compliance;
- Regular review and reconciliation of tax payment and deductions;
- Once VAT stabilises, the focus would be more on compliance which means a regular internal audit of VAT;

- The VAT audit by CAs in the year 2018 would be a challenging year for the professionals in UAE to demonstrate that we as CAs are competent and knowledgeable;
- Routine tax assignments for payment and filing of returns would see a spike at least in the initial stages of uncertainty;
- It is true that if one can avoid a dispute in tax it is better. Therefore, a preventive exercise of early correction/ disclosure could avoid or mitigating the disputes allowing clients to concentrate on their core activities;

### **Conclusion**

This new excise/ VAT levy is bound to come up with obvious challenges due to the law being new. There could also be many different interpretations which necessarily should always be in favour of law. The extent of making use of the opportunities would largely depend on understanding the law and preparedness for what is not covered in the law. In the words of Abraham Lincoln – *“Give me six hours to chop down a tree and I will spend the first four sharpening the axe”*.

The implementation of VAT by January 2018 is not clear as on date. We the CAs can be ready to serve now in this period of uncertainty and later when the law is passed. We can by getting the axe forged and keep sharpening it, deliver beyond the expectation. For activities of the ICAI- Please visit the website <http://idtc.icai.org/> or e-mail at [idtc@icai.in](mailto:idtc@icai.in).