VAT IMPACT ON SCRAP TRADE

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Are we ready yet? Time is ticking before the introduction of VAT in the GCC region. As a bid to diversify the region's source of revenue and reduce over reliance on oil revenue, the six countries of the Gulf Cooperation Council (GCC) committed to the introduction Value-added tax (VAT) starting 2018. GCC leaders agreed to introduce VAT at the standard rate of 5 percent on goods and services. The law is not particularly the same for all GCC countries, however each countries approach on VAT law could not go against the GCC framework. As of now, only Saudi Arabia and UAE has issued VAT laws and set to begin on 1st Jan 2018, while others are to follow within the same year. Below comparison is arranged by Deloitte to show difference in regulations published by UAE and Saudi Arabia

WHAT IS VAT?

Value added tax [VAT], or called GST in some countries, is an Indirect tax on the domestic consumption of goods and services, except those that are zero-rated or are otherwise exempt. VAT is one of the most common types of consumption tax found around the world, over 150 countries have implemented with average rate of 19%. VAT is charged at each step of the supply chain, ultimately making end-users bear the VAT cost while Businesses act as tax collector on behalf of the government. To simplify how VAT works we have given below illustrative example, based on 5% VAT rate

Businesses in UAE and Saudi Arabia are mandated to register for VAT prior to its inception if their business inputs exceed the mandatory registration threshold of

SECTOR	SAUDI ARABIA	UNITED ARAB EMIRATES
Financial Services	Fee based services: taxable Margin based services: exempt	Fee based services: taxable Margin based services: exempt
Insurance	All non-life insurance: taxable Life insurance: exempt	All non-life insurance: taxable Life insurance: exempt
Food Items	All taxable	All taxable
Health*	Taxable	Specific services: zero - rated
Real Estate	Residential rental: exempt All other real estate: taxable	Residential rental: exempt Bare land: exempt New housing: zero - rated All other real estate: taxable
Local Transport	Taxable	Exempt
Oil and Gas	All taxable	Specific products zero-rated

**Services provided by public education and health providers in KSA are not expected to be subject to VAT, as Government entities will in many cases not be carrying on a business for VAT Purpose*

AED/SAR 375,000. A business may choose to register for VAT voluntarily if their supplies and imports are less than the mandatory registration threshold, but exceed the voluntary registration threshold of AED/ SAR 187,500. An online registration for businesses is open from September 2017 in UAE and KSA, however in Saudi Arabia small businesses with turnover below 1m SAR will be given an additional year to register until 1 January 2019. This will also enable smaller businesses to prepare and be VAT-ready.

The idea of VAT is often thought as the most burdensome business taxes, however eligible businesses need to declare how much they are spending and receiving through a VAT return. This can be time consuming but there are some tax benefits. A VAT-registered business can get credits on taxable inputs rather than absorbing the VAT completely.

TAX ON SCRAP TRADE

VAT will also impact businesses in GCC countries who deals in scrap metal and who receive supplies of scrap metal.

- Recipient companies who receive supply of scrap metal from persons not registered for VAT will most likely be liable for VAT, rather than the supplier. However dealer must keep full record of supplies for possible input credit claims.
- Although export outside GCC represent 0%, it is essential to note that businesses must record zero-rated transactions within their financial reports. To be eligible for the export of goods at zero-rate, companies has to comply to certain conditions such as maintaining a good practice of record keeping of evidences to prove the transaction is entitled for zero rating, such as Bill of Lading and Invoices mentioning destination and 0% VAT rate applied.
- Businesses belonging to GCC cannot zero-rate an export where goods has to be delivered to Buyer's address within the GCC Countries, when if goods are to be collected from seller's premises by or on behalf of Buyer even if it is intended for immediate export upon collection of goods, VAT must still be applied. Rules governing exports varies from countries to countries so it is worth being aware of those for your target destination, export documentation will accordingly need to also be accurate and duly completed.

Taking into account that the gulf is a focal point in recycling industry, where huge volume of scrap and waste are generated and introduction of VAT will most likely strain the industry. There is a shrinking window in which to prepare for the changes required, which includes human resource, technology, financial management, book-keeping and contracts has to be reviewed as well. VAT being on the introductory stage, procedures are yet to be emphasized and we are to wait for further executive regulations. It is however, the duty of businesses to be fully aware of the regulations.

VAT COLLECTION SAMPLE

This example shows a 5% VAT is applied to production and sale of goods	Raw Material Supplier	Manufacturer	Retailer	End-User
	STEP 1: Raw Material supplier sells to Manufacturer	STEP 2: Manufacturer sells to Retailer	STEP 3: Retailer sells to End-User	End-User
Sale Price	AED 1.00	AED 5.00	AED 10.00	When the End-User buys the product, the $0.5 VAT is added to the final sale price [AED 10.50], effectively making the end-user pay the full cost of the 5%
	AED 1.00	AED 5.00	AED 10.00	
Vat collected by Seller	AED 0.05	AED 0.25	AED 0.50	
Credit from Previous Stage	- AED 0.00	- AED 0.05	- AED 0.25	
Vat paid to Government	AED 0.05	AED 0.20	AED 0.25	AED 0.50