

BrandView

VAT to introduce transparency, industry leaders say



Construction News



Related Headlines

CONSTRUCTION NEWS

Oman's \$4.4bn new Muscat International Airport welcomes first flight

Bentley Systems infra conference to be held in October 2018

Shurooq, Diamond Developers to launch mixed-use project in Sharjah

Energy project investment to fall short of \$1trn

Cat-owned Mak Middle East opens workshop in Dubai Maritime City

UNITED ARAB EMIRATES NEWS

Emirates cancels flights from New York due to severe weather conditions

Spanish hospitality Barcelo Hotel Group to launch eight new hotels in

Published: 8 January 2018 - 1 a.m.

By: Rajiv Ravindran Pillai

MEP Middle East spoke to several industry leaders over the course of a few months last year to find out what they thought about VAT and how prepared the industry is.

At the recent Big 5 tradeshow in Dubai, Abdulrahman A Khansaheb, the MD of Khansaheb Industries and director of Khansaheb Investment, said that there still remains some scope for clarity in the implementation of VAT.

Khansaheb said: "Not everything is crystal clear when it comes to the implementation of VAT. There are still some questions."

He continued: "But I think it will need a few months for the authorities to clarify everything. We are updating our systems and procedures in order to incorporate the requirements of VAT. We also had our team attend workshops [on VAT]. We are internally keeping everybody up to speed on this."

Khansaheb did admit though that VAT will be positive in the long run for the GCC. He said: "I think VAT will be good for the market as it will introduce transparency. Everything will be formalised and properly documented. It will be good in the long term."

A survey of the Gulf's finance professionals found that real estate investments would become costlier following the implementation of VAT.

Results of the GCC CFA Societies survey, which covered Chartered Financial Analyst (CFA) professionals in the UAE, Bahrain, and Kuwait, revealed that 87% of the surveyed respondents believe that some – or all – of the additional expenses incurred by real estate firms due to VAT would be passed on to investors.

VAT will be applied on the first sale of properties.

Additionally, 54% of CFA Society members from all three Gulf countries said that retail investors would be more impacted by VAT than institutional investors, with 4% stating that institutional investors would be more affected.

The majority of the surveyed professionals said that "their international business partners are not deterred by the introduction of VAT".

However, 18% of the respondents stated that VAT is "creating a negative reaction" within the international business community.

Commenting on these findings, Amer Khansaheb, the president of CFA Society Emirates, said: "The concerns regarding VAT in the region are largely [to do with] perception rather than policy.

"While it is true that certain areas of the economy will witness marginally higher costs being incurred, this should not deter regional and international investors in a significant way.

"Additionally, with the government revenue this will generate, liquidity levels in the market are expected to improve, which should increase investor confidence and appetite."

He said that VAT would lead to the creation of a more regulated financial environment that promotes greater transparency.

"Given that taxation at higher rates is a norm around the world, the GCC will continue to be attractive as average tax rates are lower than almost all other major markets," he said.

In an earlier interview, Rahul Duragkar, managing director, Emitech, voiced similar views. He said: "VAT will bring in a lot of transparency because in a tax-free era, people tend to put in random figures. With VAT, everybody will be liable to report the names and financials in a more tangible manner because there will be more focus and more onus on the auditors and the financial managers to report the correct figures. It will bring a lot of corrections in the market and I hope the banking sector will be happy with that.

In an earlier interview, Rahul Duragkar, managing director, Emitech, voiced similar views. He said: "VAT will bring in a lot of transparency because in a tax-free era, people tend to put in random figures. With VAT, everybody will be liable to report the names and financials in a more tangible manner because there will be more focus and more onus on the auditors and the financial managers to report the correct figures. It will bring a lot of corrections in the market and I hope the banking sector will be happy with that."

"So it is a good thing. It should bring some kind of a positive impact for companies like us who are growing, and we want to get support from financial institutions."

Implications



Talking about the specifics of VAT implications on the different sectors, Sam Emery, finance director at UAE-based facilities management company Emrill, said: "The implications are expected to be the same for the majority of sectors with some differences within certain specialist industries such as the real estate and financial services sectors."

Essentially an additional 5% VAT charge (with specific rules subject to announcement by the Ministry of Finance) will be applied by businesses on all goods and services sold (except where zero-rated or exempt).

“General implications for businesses may include an additional administrative burden on staff, stress on working capital as a result of little or no prior cash flow planning, and lack of understanding as a result of no training or investment in education. This could lead to incomplete VAT returns ultimately resulting in fines and penalties.”

All companies will have an initial period of adapting to the new requirements, Emery said. “Some companies will find it easier than others depending on the complexity and volume of transactions, and the competency levels of existing accounting staff. In the short term, problems may arise from the lack of understanding of applicable transactions, additional administrative requirements, and the introduction of new modules within the finance system. In addition, some companies could experience cash flow issues, as VAT payments need to be made on time in order to avoid fines and penalties.

“On the other hand, if companies spend time in the planning phase, then over the long term they can benefit from overall process efficiencies including effective documentation control and a more effective approach to cash-flow planning, albeit forced on them by the new tax regulations.”

However, contrary to the belief that VAT will introduce transparency, according to John Voyez of accountancy firm Smith and Williamson, fraud will be one of the big issues tax authorities in the UAE will have to deal with.

Voyez said: “I would unfortunately suggest that there is maybe going to be a lot of fraud about, because you’ll find that a lot of people will make up a VAT number, issue an invoice with an extra 5% attached and not account for the VAT to the tax authorities.”

Voyez was speaking at the Excellence in Construction summit at The Big 5 tradeshow. He said that there will be compliance issues in the year 2018.

Fabio Sbacches, MEP manager and project manager at LC & Partners Engineering Consultants, however said that VAT won't affect anything in this region. He added: "Only the client will be affected. Because all the companies will take the 5% and pass it on to the subcontractor. In Europe and US, VAT has been there and it is not causing any problems to companies."

The long term

Jayant Balan, senior vice president and director of international operations business group at Voltas Limited, said VAT would generate a lot of revenue for the region. He said: "The introduction of VAT is an expected and logical step to generating and increasing non-oil revenues for the governments in the region.

"This will allow them to fund required infrastructure and other developments – which is clearly a good thing. As businesses, we have to follow both process and regulations, and ensure that we comply with requirements," said Balan.

"We are increasingly receiving more detail and clarity on rules and regulations, and are in constant and ongoing discussions with our advisors, to prepare ourselves as best as we can. No doubt, there will be some uncertainty and some teething issues we will have to deal with – which is normal. There will also be some cost impact, definitely for compliance and for associated people and systems resources."

In a mid-2017 interview, Balagopal Nair, marketing & business development manager at Faisal Jassim Group, said that it's always best to have a positive frame of mind in this whole VAT situation.

Nair summed up VAT in the Middle East with these words. He stated: "The introduction of VAT in GCC will definitely bring inflation in the market. The cost of construction would go high which will be affecting everyone in the industry. This would be difficult for the industry to accept in the beginning.

“But we believe if we can stay positive in a negative situation, we will win. So, we need to look at VAT with a positive frame of mind as this would stimulate the economy and subsequently encourage further economic growth in the region as well more job opportunities, as we expect the government would fund more on infrastructure and on other developments which will reap more revenues for the entities like us.”

Just to give some perspective. VAT in countries like Denmark and Sweden go beyond 20%. So, the 5% is at the low end of the spectrum. For now.