VAT implementation roadmap - Are you ready?
A brief introduction to VAT

The GCC states have worked together to develop a broad framework for the introduction of VAT. This framework agreement sets out the underlying principles of VAT laws for the six GCC countries. Member states retain some flexibility, such as how to treat healthcare, education and free zones for VAT purposes. The UAE was among the first GCC member states to publicly announce the introduction of VAT, with a proposed effective date of 1 January 2018.

VAT is likely to significantly affect nearly every UAE business in some way — and a 1 January 2018 start date leaves only a short window for businesses to prepare for VAT. Will you be ready?

How does VAT work?

While VAT is not intended to be a tax on business, collecting the tax and remitting it to the government will have significant compliance costs. There could also be cash flow implications. Supply chains need to be reviewed to understand the impact of VAT. VAT costs and accounting obligations will need to be identified so they can be addressed. There are also implications for IT systems. Adapting to VAT will mean updating or upgrading ERP and IT systems and interfaces to correctly capture input and output VAT. Governance frameworks will also need to be reviewed and updated to ensure policies, processes and controls comply - and continue to comply - with VAT legislation.

*The example is calculated using a VAT rate of 5% on a taxable supply.
WHAT SHOULD YOU BE DOING?

PHASE 2: ASSESS IMPACT
- Map supply chain processes and transaction flows to VAT requirements
- Review legislation and assess impact
- Model input tax credit allocations
- Assess IT impact
- Prepare an issues log to help governance key issues that need to be addressed during implementation
- Review sample contracts
- Debrief
- Help prepare an implementation plan

PHASE 3: IMPLEMENT (once legislation is published)
- Prepare and assist with implementation
- Assist with IT implementation support
- Assist with VAT registration
- Provide VAT technical training
- Test exceptions
- Prepare and file VAT returns
- Resolve any teasing issues
- Finalize VAT compliance procedures

HOW CAN KPMG HELP?
Project plans
- Identify key stakeholders
- Prepare and agree implementation plan for departments, suppliers and customers

VAT awareness
- Identify information requirements

Transaction maps
- Map all relevant processes, transaction flows and tax touch points

Contract reviews
- Review existing contracts to identify the material impact of VAT

Legislation review and impact assessments
- Determine tax drivers and functional design requirements
- Identify VAT decision flags
- Identify impact of VAT for senior management
- Prepare inputs on VAT’s IT impact

Work products
Project plans
- Resource plan
- Roles and responsibility matrix
- Communications strategy and materials

VAT awareness workshop
- Presentation to senior management
- Transaction maps
- Business process impact requirements and matrix
- VAT decision flags
- VAT process maps and manuals

VAT documentation
- VAT decision flags
- VAT process maps and manuals

VAT testing
- Develop user acceptance test scripts
- Support end user testing
- Review VAT compliance reports
- Training and VAT manual
- Prepare training calendars
- Provide and run training material
- Registration
- VAT registration completion report and review

VAT submission
- Support throughout submission
- Review and issue VAT returns prior to submission

WHAT BRYTHE BENEFITS OF BEING VAT READY?
- Maximize VAT recovery on business inputs
- Ensure market compliance on sales transactions
- Ensure compliance with VAT declarations and reporting
- Minimize risk of fines, penalties and reputational damage

Work products
VAT submission
- VAT registration completion report and review

VAT testing
- User acceptance test scripts
- VAT registration completion report and review

VAT documentation
- VAT documentation completion report and review

VAT submission
- VAT registration completion report and review

VAT testing
- User acceptance test scripts
- VAT registration completion report and review

WHAT SHOULD YOU BE PREPARED TO DO?

PHASE 1: PLAN AND ANALYZE
- Identify project resources
- Understand the tax law situation
- Assess the impact of VAT

As soon as possible
From 1 January 2018
April - December 2017
From 1 January 2016

Work products
Project plans
- Identify key stakeholders
- Finalize and agree communication plan for staff, suppliers and customers

VAT awareness
- Identify information requirements

Transaction maps
- Identify relevant processes, transaction flows and tax touch points

Contract reviews
- Review existing contracts to identify the material impact of VAT

Legislation review and impact assessments
- Determine tax drivers and functional design requirements
- Identify VAT decision flags
- Identify impact of VAT for senior management
- Prepare inputs on VAT’s IT impact

Work products
High level impact assessment
- Prepare high level impact plan and requirements
- Draft impact and high level functional plan
- Overview of impact of VAT changes

Legislation review
- Regulations and legal requirements
- VAT approach recommendations
- Identification of implementation decision points
- Tax credit allocation model
- Impact assessment model

VAT implementation plan
- Prepare VAT implementation plan
- Draft high level impact plan
- Draft impact and high level functional plan
- Draft impact and high level test plan
- Prepare VAT compliance reports
- Training and VAT manual
- Prepare training calendars
- Provide and run training material
- VAT registration completion report and review

Work products
Implementation plan
- User acceptance test scripts
- VAT registration completion report and review
- VAT testing
- VAT reporting and filing test
- Training and VAT manual
- VAT registration completion report and review
- VAT process maps and manuals

VAT submission
- Support throughout submission
- Review and issue VAT returns prior to submission

Work products
VAT submission
- VAT registration completion report and review
- VAT testing
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Whatever the benefits of being VAT ready:
- Minimize VAT recovery on business inputs
- Ensure market compliance on sales transactions
- Ensure compliance with VAT declarations and reporting
- Minimize risk of fines, penalties and reputational damage

How can KPMG help?
- Support throughout a submission
- Report on gaps and issues learned
Clare leads our indirect tax practice in the UAE and Oman, having previously led the Scottish indirect tax practice for KPMG in the UK. She has vast experience in international trade, oil and gas, real estate, financial services and manufacturing. With over 25 years’ experience in indirect taxes, Clare is a member of the Scottish VAT Practitioners Group and sits on the indirect tax committee for the Institute of Chartered Accountants for Scotland.

**Professional and industry experience**
Before joining KPMG, Clare spent 12 years with another big four firm, leaving as Head of Indirect Tax for Scotland and Northern Ireland, having trained initially with the UK tax authority where she conducted VAT inspections, investigations and implemented VAT legal and technical programs. She has led a number of international indirect tax projects, delivering proactive and reactive advice.

Clare has considerable breadth and depth of experience and understands the need for speedy, reliable and pragmatic advice in addition to proactive strategic solutions.

Clare recently worked alongside the UK tax authority to help develop policy and legislative change around VAT recovery on pensions. She also carried out a number of impact assessments for clients in respect of this new legislation in order to ensure that her clients could adopt early where doing so would deliver a financial benefit.

**Introducing VAT**

VAT will impact:

**Procurement and production**
- Supplier’s pricing
- A/P invoice processing time
- Purchases from non-registered VAT businesses
- Supplier education

**IT**
- System changes
- Documentation (tax invoices)
- Reports for VAT returns

**Sales and marketing**
- Samples/marketing
- Pricing strategies
- Returned goods
- Education of - and communication with - consumers
- Credit items

**Legal**
- Existing and new contracts
- Payments based on revenue or turnover (such as franchise or royalty arrangements)

**Finance**
- Bad debts
- Deposits/advanced payment
- Leases and hire purchase
- Loan of stock and equipment
- VAT return preparation
- Disposal of assets
- Sales of scrap

**Human resources**
- Fringe benefits
- Gifts to employees
- Employees allowance and claims

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