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Top 10 lessons during the Implementation of VAT

With Oman and its businesses left with a little less than five months to Conduct. Impact assessments and implement VAT, we have listed the top 10 lessons learned during the implementation of VAT in the three GCC member states - UAE, KSA, and Bahrain, in efforts to bring awareness to the commonly faced issues that arise post-go-live.

1

One size does not fit all

VAT is a complex tax, and if you are a busy business you may be tempted to apply a ‘one size fits all’ rule on all your turnover.

However, the VAT treatment can vary between 5%, 0%, Exempt, or out of scope. Therefore, it is essential to get this right the first time as such errors can be costly. Remember Tax authorities have the right to impose penalties as they deem appropriate and this can go back up to 5-10 years.

2

Understanding Laws and Regulations

The concept of VAT is new to the region, as such this created hurdles in the past where a large amount of the Laws and Regulations and other guidance material were subject to individual interpretation and debate.

The positive aspect of this is that there is one Common VAT Agreement between all GCC members, and three states of the GCC have already implemented VAT.

Using their interpretations and published clarifications or guidelines will give businesses that vital assurance.

3

Sector-wise guidance

Another beneficial measure by the tax authorities is
the release of sector-wise guidance on unclear
elements
of the VAT Law and Regulations.

This helped in minimizing the possibility of misinterpretation.
Although the timing of these releases is key. Since these guidance
materials are mere interpretations of the Law or Regulations,
they are effective from the date of implementation.

If businesses have taken stances contrary to the
Authority's interpretations – corrections would result in
complex adjustments in the returns and any subsequent calculations.

4

Record keeping

Poorly maintained records can lead to incorrect reporting.
In the past period's businesses guilty of this have suffered from:

- Duplication of invoices
- Late reporting in the VAT return
- Treating the net amount as gross or vice versa
- Wrong effective registration dates
- Incorrectly claiming the input tax credit

Therefore, it is essential to ensure all records are kept up-to-date to
minimize the risk of incorrect registering and subsequent filing.

5

Miscellaneous business transactions

Errors have occurred for transactions other than normal sales and purchase activities. Such transactions can include:

- Related party re-charges
- Employee benefits and expenses
- Free supplies
- Barter transactions
- Asset disposals

Such transactions have different rules for VAT purposes and therefore, it is important to analyze all transactions your business may have to ensure the correct VAT treatment has been applied.

6

Monthly or Quarterly VAT periods

The misconception that a lot of businesses had was that monthly VAT returns are easier to manage than quarterly VAT returns.

The fact is monthly returns mean monthly deadlines which can put a strain on the business as compliance is every so often.

Further, unless the business is in a refund position, this will also have an impact on the cash flow of the business as the VAT liability will be paid to the Tax authorities every month.

7

Access to VAT expertise for SME's

Unfortunately, during previous implementations, SME's that lacked access to VAT expertise were the most vulnerable to getting the VAT concepts wrong.

Adding onto that, helplines and call centers were initially understaffed and undertrained.

We would recommend that all businesses seek advice from VAT professionals
at the earliest, irrespective of the size of the business.

8

Start early and get it right

The major misconception for a wide range of businesses was that the VAT percentage of 5% is so small, that it will not make a difference to their business.

Although the VAT rate at this point is not as high as other countries, nonetheless, all businesses are required to report their income correctly as stipulated by the Law, and failure to do so would result in hefty penalties being imposed.

Further, as witnessed, there were a considerable amount of wrong registrations, incorrect tax grouping, and wrong reporting. All of which could have been avoided, had businesses started the impact assessment and implementation process early.

9

Complex VAT concepts

It is safe to say that VAT is complicated.

Therefore, the implementation of completely new concepts such as Deemed supply or the eligibility to recover input tax credit was challenging to say the least.

Businesses need to analyze their transactions into taxable and exempt supplies, to ensure that VAT is being charged correctly and recovered accordingly.

10

A robust ERP system is key

One of the main common errors businesses were making during the implementation period and to date, is the lack of good quality IT resources.

The ERP systems used should be equipped to be up-to-date with the latest requirements of VAT Laws. This would include the correct tax codes being used, the compliance with the requirement of Tax invoices, and the ability of these systems to provide reporting that would aid in the process of return filing and remove to as much extent as the possible – manual intervention.

Besides, it is also just as important to invest in training staff on how to deal with the ERP systems and VAT requirements in particular. As this is key for future VAT compliance.

Contact us to discuss how we can help you with the implementation of VAT in Oman

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