Professional Opportunities in UAE VAT- Part 4: Technology Perspective

VAT is at the forefront of tax reforms and will become a reality for many businesses in the UAE.

The strength of a business VAT compliance function is highly dependent on

(i)   the knowledge of VAT within the finance, tax and law departments,
(ii)   business considerations
(iii)   processes adopted before implementation (pre-go-live phase) and followed after implementation (post-go-live phase),
(iv)   the capacity of the technology systems engaged,
(v)   attention given to other important considerations and
(vi)   the security systems installed.

Chartered Accountants ("CAs") possess requisite knowledge and expertise to adopt right approach to VAT implementation, ensuring control over compliance and reduced errors, risks & costs. The same is discussed below.

Suitability of Chartered Accountants ("CAs"):

The basic theory behind operation of VAT is conceptually simple, but in practice the rules can often be quite complex. This complexity is required to either limit or prevent instances of avoidance/evasion of tax or is associated with the existence of exceptions from the normal operation of tax designed to achieve certain social or economic ends or can also arise from varied interpretations of letter of the law. Hence, getting clear and reliable advice becomes critically important for law to be understood and followed in spirit.

CAs being specialists of finance and law are most suitable in achieving this. Being masters of tax, they strategize transactions in the most optimal way considering business and revenue interests. Being commanders of law, they have eye to gaze the spirit behind letter of the law and accordingly interpret intent of the law. They are also referred to as "professional magicians". They are nurtured to practice in the most ethical manner to ensure proper compliance and fair cost management.

Business considerations:

CAs should pay consideration to all functions of business in adoption of new tax regime.

FUNCTIONS

Operations	Compliance†	Technology	Finance
• Pricing conundrum	• Invoice compliance management (issuance and verification)	• Business operating systems	• Revenue

FUNCTIONS

Operations	Compliance†	Technology	Finance
• Product design	• VAT filing compliance management	• Accounting system	• Costing
• Business model	• Internal control management	• Related interfaces	• Cash Flow
• Contracts and other business documents	• Policies, guidelines, manuals	• Internal control system	• Forecast/Budgeting
• Customer and vendor renegotiation	• Group VAT registration	• Tax management system	• Accounting
• Training			• Reporting
			• Intra GCC transactions

†Professionals can follow standard Compliance flow structure as shown below:

LEVEL 1: STRATEGIC ROLE

CFO, CIO, VAT Director/Tax Head

Set a strategic direction, provide support, and manage relationships with tax authorities

LEVEL 2: REPORTING ACTIVITIES

VAT Manager

Oversee operational activities, implement strategies, undertake training activities & ensure VAT compliance

LEVEL 3: SUPPORT FUNCTIONS

VAT Analysts/Accountants

Work closely with the finance team to ensure compliance and help formulate strategies

Services by CA's in VAT Implementation

Chartered Accountants will play a very critical role in facilitating not only the transition to VAT but also in ensuring continuous compliance for their clients. Some of the key services which can be provided by Chartered Accountants in the area of VAT are as follows: (These are only illustrative).

Implementation Services

1. Understanding and knowledge transfer of the UAE VAT Laws to Business
2. Understanding Taxpayer Business and mapping relevant provisions of the Act especially Exemptions, Return Filings, and Refund claim related procedures
3. System Master Configuration
    a. Creation / reclassification / re-grouping of Chart of accounts in ERP
    b. Creation of Masters & Templates for capturing data including developing Standard Operating Procedures (SOP)
    c. Creation, validation & enabling capturing of data for Goods / Services; Place of Supply; Taxable & Exempt;
4. Identification & reporting additional transactions which fall within the meaning of Supply as per VAT laws and understand Inter Unit and Inter company Stock Transfers etc.
5. Creation and design of various types of Reports relating to Purchases, sales and VAT
6. Migration Services
    a. Many Business migrate from one accounting platform to a better for better compliances
    b. Transition from existing to new systems
    c. Data Migration Audit
    d. Application System testing for the new System
    e. Business process definitions in the new System
7. Other Services
    a. configuring systems as per VAT requirements,

b. MIS for VAT for ensuring pro-active compliance,
c. facilitating auto-reconciliations, data integration between Head office and branches,
d. automation of filing of returns,
e. services of VAT compliance and related accounting and compliance services

Advisory Services

1. Training Services & Retainer for periodical Query resolution
2. Relating to interpretation and implementation of law as applicable, eligibility of input credit, etc.
3. Relating to the pricing of the products / services for ensuring prices are competitive.
4. Helping the taxpayers in resolving tax related issues.

Compliance Services

1. Acting as a mediator and help the taxpayers in registration, payment, submission of returns, etc.
2. Facilitate filing of returns and ensuring matching of appropriate tax credits
3. Reconciliation of books with VAT transactions

Assurance Services

1. For testing of application software including ERP configurations.
2. At pre-implementation, implementation and post-implementation stage including re-modelling business structure.
3. Testing of application software at different stages such as pre-implementation implementation and post-implementation.
4. VAT Audit on annual basis or as part of internal audit.

Implementation considerations:

CAs should methodically undertake ideation of tax implementation and its adoption in business process. Given the impact of VAT on complete business, appropriate sequencing and project management of the implementation is clearly important. This should be done in consultation with the client and in a phase wise manner.

IMPLEMENTATION PROJECT

Pre-go-live phase			Post-go-live phase
Impact assessment	**Design**	**Implement**	**Operate**
<u>Project Management</u> • Project setup • VAT impact study <u>VAT Technical</u> • Mapping of transactions • Identify compliance requirements <u>Business Processes</u>	• Review legislation • VAT decision flag • Business impact modelling • VAT process design • I.T. design	• I.T. testing • User training • VAT manual and procedures • Resourcing	• Registration • Review — is it working? • Post filing VAT return review • VAT compliance • Ongoing processes, operations and compliance monitoring

IMPLEMENTATION PROJECT

	Pre-go-live phase			Post-go-live phase
Impact assessment		**Design**	**Implement**	**Operate**
• Review business functions	• Communication plan	• VAT compliance function		• Audit support and voluntary disclosures
<u>Technology</u>		• Rulings/Opinions		• Engagement with FTAs
• Review system changes	• Review software changes			• Record keeping
<u>People & Organization</u>				• VAT audit
• VAT awareness training	• Implementation plan			
OUTCOME				
• Mobilization/VAT readiness assessment		• VAT blueprint	• Re-configured systems, process and people	• Ongoing compliance and continuous improvement

Technology considerations:

The role of information technology is vital as the introduction of VAT would be a business reform and not only a tax introduction. This requires an assessment of the capabilities of existing IT systems and re-configurations necessary in order to generate VAT compliant outputs is crucial. In many cases, significant changes will be required to IT platforms and present workflows and processes.

The extent of integration of current business processes will expand since VAT is very likely to encompass daily transactions and hence, business' may have more than just their main accounting system to think about. Business's enterprise systems will need to be enhanced and modified to incorporate all aspects of VAT implementation. From point of sale terminals, invoice and accounting systems, information technology systems and management reporting systems, VAT will have an impact on complete business systems. These adjustments must be considered in the context of minimizing interruption to existing business requirements, while testing them to verify they have the capability to meet compliance requirements.

Against this background, focusing on important things to be prepared for VAT and ongoing compliance can be considered through these elements:

• VAT mapping of business processes and transactions to identify which systems and how they are impacted.

• Ensuring underlying Enterprise Resource Planning ("ERP") changes are made to reflect all relevant VAT processes.

• Determine the need and beneficial use of VAT specific tools (transaction integrity checking, cash flow monitoring, automated VAT filing/reporting).

• Appropriate governance and controls to ensure VAT regulations and commercial drivers change systems are kept up to date.

An important feature of VAT is its accruals nature, which means that all related systems impacted by VAT need to reflect this and do so in the context of the VAT rules on the correct timing of the taxing point.

As a transaction based tax, VAT must be verified and accounted for, producing compliant documentation for each individual transaction. The enterprise systems must be able to guarantee accuracy and the ability to generate all necessary information as required, in the event of a request or audit by the FTAs or management. Hence, there is an

immediate need for business' to work closely with their technology partners to agree and implement the right VAT technology architecture.

An effective adoption of technology relies on following factors:

Before implementation (pre-go-live)	During implementation	After implementation (post-go-live)
• Understanding the requirements and communicating the same to all relevant stakeholders.	• Ensuring that right skills and knowledge are available at all stages of implementation.	• Advance planning for training and support to be provided.
• Understanding the need & method to integrate technology into the finance system.	• Ownership of various stages of an implementation should be agreed upfront (e.g. design, build, report and testing).	• Efforts for continuous improvement of the system.
• Clarity on the processes needed to support the systems & technology implementation.	• Communicating with process owners & any other stakeholders likely to be impacted at different stages of the implementation.	• Communicating the ownership for system and data maintenance between tax, finance and IT departments.

Other considerations:

VAT and Transfer Pricing ("TP"):

The primary focus for most GCC business' is on the operational impacts of VAT such as, the system, personnel, vendors, interaction with customers/vendors. However, there are also other tax implications including TP issues what need consideration. CAs practicing in the domain of TP need to be actively involved in VAT implementation with MNEs having transactions with related parties. This is so because of the need to re-align VAT and TP policy.

To understand this, the first thing is to realize that VAT and TP interactions typically arrive where related party transactions constitute Taxable Supply (as known in VAT) on which VAT is levied. Hence, the absolute amount of VAT due depends on the value of such Taxable Supply. The similar value also determines the level of taxable profits generated between entities involved in an intra-group context. So, both the amounts of VAT and Corporate-tax due obviously then depends on the transaction value. To curb tax avoidance, FTAs may allow market value to be substituted for transaction value to compute VAT liability in a related party context. Such anti-avoidance rules will often find its way into the VAT legislation which is yet to be published. Hence, the need for TP adjustments can arrive when actual price charged for transactions during a financial year may not result in arm's length requirement according to tax authorities and such TP adjustments can have a big impact on the amount of VAT computed in an inter-company transaction.

This can happen for a number of reasons. For example, when a transfer pricing policy for a selling entity within a group is targeting a particular profit margin as being arm's length for particular entity within the group. The target profit margin has to be achieved by setting prices of goods purchased from related party supplier based on forecast of revenues/ operating costs or both. If actual revenue and/or operating costs differ significantly from this forecast, it may be necessary to adjust the transfer prices in order to achieve the target profit margin set by the TP policy. Any changes to the transaction value could then have VAT consequences since value of supply for VAT purposes generally depends on the transaction value. Hence, need to align VAT and TP policy and the subject of TP is absolutely key to that.

Professionals will further need TP considerations at critical points of VAT implementation strategies for business'. For example, the foremost step to VAT implementation strategy is review and analysis of business transactions. The relevant questions in this context are –

1. Whether related party inter-company transactions are priced at arm's length?
2. Will any changes to pricing policy be necessary to comply with TP rules?
3. Are intercompany transactions likely to give arise to TP adjustments?
4. Where policy and procedures are being designed in relation to VAT implementation, a key question from TP perspective is that whether there any processes in place to ensure that VAT consequences to TP adjustments are identified and dealt with?
5. Whether TP policy design has to be improved so as to avoid any likelihood of TP adjustments?

The critical path of VAT implementation is also VAT governance and compliance and important question to this context is –

6. Whether necessary lines of communication exist between personnel responsible for TP adjustment and personnel responsible for VAT returns?
7. Whether technology and systems have been configured to assist this?

Another important area is Procurement and Supply Chain and important question to this context is –

8. Whether supply chain or procurement being optimized as part of VAT implementation and if so, are there any direct or TP considerations that need to be addressed?

Hence, there are many inter-relations in VAT implementation process and TP professionals need to be actively involved in VAT implementation.

Security systems:

CAs practicing as Information Systems Auditor (ISA) should ensure that client's adopt technology which helps in automating key activities thereby ensuring compliance. This includes:

• Building in integrity checks at the point of capture of accounts receivable and payable.

• Data and analytics tools to monitor the accuracy of VAT treatments across transactions – this is not just a compliance issue but may help identify transactions where input VAT is not being captured.

• Integrity checking VAT accuracy between different systems (e.g. from subsidiary general ledger to group general ledger for VAT return and financial statement disclosure consistency).

• Forecasting and monitoring of cash flows.

• Easily compiling and storing the complete audit trail of transactions supporting a VAT return for access at a later time under a VAT audit.

• Fraud and forensic checks.

Enterprise Resource Planning (ERP):

CAs should reflect changes in business structure, supply-chains, tax legislation and policy in the ERP system in a phased manner.

1. Phase 1: Mapping business flows

Understand client's business, method of contracting with customers and mechanism for defining customers for VAT purposes.

- Understand business structure, supply-chain and how VAT is currently applied in relation to supplies.
- Identify areas of VAT compliance risk.
- Formulate VAT model and recommend changes.

2. Phase 2: VAT determination risk analysis
Test whether the ERP system calculates the VAT correctly on sales transactions and presents this on billing documents. Identify systemic risk related to purchase invoices.

- Identify where current VAT configuration and logic are either incorrect or are insufficient to cope with the required supply-chain scenarios and VAT legislation in force.
- Consider recent changes to VAT legislation and consider whether the system has been correctly amended to comply with the new legislation.
- Review ERP system customization and consider whether this is consistent with best practice and achieves desired results.
- Consider risks of any manual intervention which over-rides tax logic.
- Identify risk associated with input VAT codes depending on input VAT restrictions in each country.

3. Phase 3: VAT reporting risk analysis
Review the ERP interaction in the reporting process and identify risks and inefficiencies.

- Review how data is extracted and summarized from the ERP system highlighting areas of weakness and consider where functionality can be used to enhance efficiency and accuracy.
- GCC Sales List and supply within GCC states declarations and how these are reconciled to the VAT returns.
- Consider how VAT codes are mapped to the boxes in the VAT return.

4. Phase 4: Practical recommendations
Recommend changes to reduce VAT risk and improve compliance.

- Benchmark VAT configuration against best practice.
- Produce a set of clear and practical recommendations to remove errors and/or create the functionality necessary to achieve accurate application of VAT to the business flows.

5. Phase 5: Implement and embed
Support with the implementation, testing, documenting and training.

- Produce detailed user and functional specifications (for internal IT team).
- Formulate test scripts and coordinate user-acceptance testing of changes.
- Prepare documentation and deliver training in multiple languages in order to introduce, explain and reinforce the key concepts and process changes.

Implementation Methodology of VAT in ERP

The ERP system should be implemented in such manner that following targets are achieved-
1. Quick, easy to setup and use.
2. Pre-defined VAT/Tax Classifications for Purchase and Sale of goods.
3. Facility to create separate VAT ledgers with VAT/Tax Classifications for input as well as output VAT.
4. Facility to print tax invoice.
5. Complete tracking of each transaction till generation of returns.
6. Better VAT-returns management.
7. Generating of VAT Computation report with details pertaining to
   a. The value of transactions recorded using the classifications available for VAT

b. Increase/decrease in input/output VAT on account of adjustment entries made using the VAT Adjustments available on using the voucher class created for journal voucher.

c. VAT Payable or refundable.

8. Generating of "VAT Classification Vouchers" report for each of the VAT/Tax classifications.

9. Facility to Drill-down the various VAT classifications from VAT Computation report till the last level of voucher entry.

10. Generating VAT Returns and Annexure, and

11. Greater tax compliance.

Functionalities	Activities	Description
Enabling VAT in ERP	• Creating company • Enabling VAT	It consists of company setup to select the State, Type of Dealer and other preliminary information.
Processing Purchases & Sales Entries	• Record Purchase and Sales transactions at different VAT rates • Record transactions with additional expenses • Record transactions using Credit Note and Debit Note • Generate Tax Invoice	A VAT registered dealer, while purchasing goods within the state pays Input VAT and charges Output VAT at the time of sales on the assessable value of taxable goods. At the end of each month they are required to compute Input VAT paid on purchases made during the month and Output VAT payable on sales during the month. If the VAT payable is more than the Input VAT paid on purchases, the difference is payable to the government or in case where the Input VAT paid on purchases is in excess of Output VAT payable during the month, the excess VAT paid is carried forward to the next month.
Reversal of Input Tax Credit	• Purchase of capital goods • Purchase of automobiles and air conditioners from non-dealers of auto- mobiles and air conditioners • Consignment/branch transfer of goods • Purchase of Industrial Inputs • Reversal of Input Tax Credit in journal voucher using VAT Adjustments	The Input Tax Credit is reversed, which is already claimed and availed in the previous month/ period: • Capital goods • Goods used for the purpose of providing facility to the proprietor or partner or director or employees • Purchase of Air-conditioner if the dealers are not the regular dealers of Air-conditioners • Purchase of all automobiles including all vehicles, if the dealers are not dealing in automobile goods • Purchase of goods for free samples or gifts • Goods stolen, or lost • Inputs destroyed due to fire accident or lost in storage • Goods damaged in transit • Goods destroyed at the intermediary stage in the process of manufacture • Sale of Goods in the course of inter-GCC trade and commerce • Purchases Returns • Purchases for production of Exempted Goods (Finished) • Input Tax Credit availed for finished goods subsequently exempt
Payment of VAT Liability	• Arriving at the tax liability after setting-off input tax credit against tax payable • Adjust the Advance Tax paid against the tax liability • Payment of VAT Liability	The Input VAT and advance VAT payments, if any, made by the dealer can be adjusted towards the actual output tax liability for the return period. For setting off the advance payments with the output tax liability of current period, a journal entry with VAT Adjustment - Advance Tax Paid needs to be made.
VAT Reports	• Generate VAT Computation Report • VAT Statutory Monthly and Annual Return Form • Form for Exporters • VAT Annexures	The VAT system is based on self-assessment and transparency at every stage of transaction. Hence, accurate record maintenance is of critical importance. In ERP, client can maintain books of accounts, reports and registers as prescribed by FTA and generate statutory returns as prescribed in the statues.

Functionalities	Activities	Description
	• VAT Commodity Report • VAT Registers	
E-VAT	• Export the Annexures in Text as well as Excel Spread- sheet format. • Understand the procedure of validating and data exported to excel files. • Understand the procedure of uploading the validated excel sheets to the website, if allowed.	Business will be able to login, file annexures and pay tax online for the required period, subject to allowance by FTAs.

Systems, Applications, Products in data processing (SAP):

SAP certified CAs will be able to lay down broad objectives establishing scope, schedule and means of initiating the work to be performed in successful implementation of VAT in the GCC region.

Objectives

1. To be ready in time before January 1st, 2018 laying down efficient work processes between FTAs, I.T., finance and third parties.
2. To optimize VAT deduction and automate this process in ERP.
3. To limit VAT risks and meet VAT reporting obligations (e.g. reverse charge mechanism to avoid non-compliance)
4. To automate VAT processes via enhancing the SAP 'as is' functionality where possible.
5. Set up processes and controls when VAT automation is not feasible.
6. To test new SAP functionality in pre-go-live phase.

Scope[1]

Design I.T. System Blueprint (Pre-go-live phase)		System Implementation, Training & Documentation (Post-go-live phase)	
Design	Understand VAT strategy, regulations & current system landscape. Review process maps to (i) identify existing business processes impacted by VAT, and (ii) include any processes requiring mapping. Identify VAT touch points at process and system levels that need change to facilitate VAT capture & accounting.	System Implementation	Work in conjunction with IT for implementation of system blueprint in SAP. Facilitate user testing of reports produced from the system to ensure they are accurate, complete and effective to enable compliant return filing Facilitate, oversee and provide sign off for all User Acceptance Testing

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[1] *Richard Cornelisse's archive*

Design I.T. System Blueprint (Pre-go-live phase)		System Implementation, Training & Documentation (Post-go-live phase)	
	Consider VAT configuration technique.	Training & Documentation	User training of new VAT procedures and control (sales, procurement, accounting)
	Identify most efficient system design to ensure application & capture of VAT is complete, sustainable, effective & compliant in future.		Provide configuration documents for implementation
	Incorporate within system design the most effective method of VAT determination for recording Output VAT & Input VAT including import/export and reverse charge.		Provide functional and technical specifications for all developments done in the system
	Incorporate reporting requirements in system design as mandated in the GCC regulations.		Provide new Standard Operating Procedures for business processes.
	Document changes required to be implemented at process and system level.		Assist with communications and training plan for business users.
Kickoff	A kick-off via workshop led by service provider		Assist with communication plan with domestic suppliers in regard to MRP, invoice requirements and VAT compliances.
	Review the current SAP/systems setup via direct access to SAP.		Provide technical documentation of VAT specific procedures in SAP and related systems for client's I.T. department.
	Disclose with IT basic SAP VAT functionality needed to meet the VAT automation aim.		Provide user manuals and key user training to the client's I.T. department.
	Understand current impact analysis of team, discuss gaps and actions.		
	Propose project plan with key milestones and deadlines aligned with deliverables.		
Diagnose	Conduct impact analysis to fully understand business implications. This includes-		
	Transaction mapping to label VAT taxable transactions.		
	Assess the current sales, procurement and accounting processes.		
	Review current SAP environment including interfaces.		
Design	Design VAT blueprint for final SAP VAT blueprint and/or new VAT processes and controls		
	Workshop to present SAP VAT recommendations and validate SAP VAT feasibility		
	Design final SAP VAT blueprint.		

Design I.T. System Blueprint	System Implementation, Training & Documentation
(Pre-go-live phase)	**(Post-go-live phase)**
Design harmonized tax code structure for all GCC countries	
Design VAT processes and procedures for sales & procurement	
Design processes for sound tax audit defense	
Workshops to validate and signoff of the final deliverables	
Design unit test and user acceptance test scenarios for testing in SAP development systems	

UAE VAT Impact Overview from a practicing CA Perspective

Technology Audit

As discussed above there are lot of avenues in system migration and implementation related activities of the business. Beginning from identifying the right application software to review of configurations and implementation of the same. However, the risk of duplication of ledgers, Vendor master, Customer master & Tax master have also to be considered

Re-modelling of business structure

Certain Items of Prices would undergo a change owing to increase in prices to end customer, re-aligning of costing and assist companies in re-look at their business model and decide whether to continue existing branches or set up new location across local state borders. Further, the option of creating separate divisions/entities in case of different business verticals within state may have to be explored. If an enterprise has multiple branches, then consolidation activities to be done before VAT periodical reporting.

VAT & IFRS Mapping

Every Business has their financial reporting, these also needs to be aligned for reporting and reconciliation purpose. VAT liability arise at the point of supply, companies accounting policies for procurement and sales needs to be analysed and timely booking of these transaction shall be in compliance with law. Hence in VAT regime, the business processes such as Order to Cash, Procure to Pay, Inventory, Reporting, etc. require a detailed review to re-assess how the processes work, compliances applicable, new risks due to VAT and whether enterprise has implemented required controls to mitigate these risks.

Summary

UAE VAT is a game-changer for ensuring compliance of commercial transactions. Technology is a key enabler and the epicenter for the transformation to the new VAT regime. Hence, it is critical for enterprises to understand the impact on compliance and changes required in their existing information systems. CAs can be catalyst and change-agent for ensuring smooth transition to VAT by providing advisory and assurance services not only pertaining to interpretation

of VAT (traditional area) but also facilitate implementation and changes to information systems (new avenues) as required. VAT is definitely a challenge but this can be converted as a big opportunity to provide IT-enabled VAT compliance services. CAs will have to update their technological skills so that can deliver these new services to their clients.

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