

## **UAE- VAT Impact Study – Professional Opportunities- 2**

UAE VAT would be implemented from January 2018. The first challenge for the businesses would be as to how this new law would affect the many facets of their organisation and its working.

### ***Understanding business impact through initial impact study***

Introduction of VAT would not only bring change in the tax structure of the GCC countries, but it could change the way business is done. It would be a significant move with far reaching implications. VAT could impact almost every aspect and function of the business. Therefore, it is time for the business entities to assess the impact of VAT on their business. Following are few of the important aspects to be considered in the initial impact study which could be undertaken by professionals having good knowledge of business and VAT concepts:

- Understanding impact of VAT on key business functions.
- Requirement of realignment of key business processes i.e. supply chain, finance, cash flow, procurement, standard operating procedures in line with VAT.
- Identification of stress on cash flow due to change in mechanism of taxation.
- Understanding need for adaptation / changes in Information Technology system.
- Impact of change in credit mechanism and understanding credit restrictions.
- Vendor management including educating the vendors.
- Understanding requirement of contracts / agreement modification in line with VAT.
- Understanding the transitional challenges.
- Understanding impact on registration and the responsibilities.

The business strategy, organisational structure, IT infrastructure, transaction or process flow would need revisiting and may need to be changed. There would be key decisions to be taken by the entities during transitional phase i.e. before VAT is implemented. All these would need good amount of time to be spent by the entities core group along with professionals to advice suitably. Therefore, it is time to act as soon as possible to get advantage in the market and retain the business post implementation of VAT.

### ***Initial impact study could be value additive***

Initial impact study could add lot of value to business entities. In addition to understanding the impact of VAT on the business, the entities could get following advantages through VAT impact study.

- a) Identification of export benefits now and later.
- b) Impact of tax payable in the initial 2-3 months and ensuring that deductions available are availed.
- c) Measures to mitigate the impact by completing transactions already contracted before 1<sup>st</sup> January 2018.

## Impact Study Program:

We attach the preliminary VAT impact study Program to this article. This would be useful but may have to be added to as per needs of client and also when the executive regulation is in public domain. Checklist on how to verify each aspect maybe prepared by the professional

**Conclusion:** Introduction of VAT from January 2018. Businesses and professional together need to gear up quickly. As the saying goes, 'A stich in time saves nine', it is the appropriate time for the SME entities to start preparing themselves for VAT.

Acknowledgement to CA Prakash Mehta, CA Anand T P & CA Ashish Chaudhary for inputs. Please revert on [idthc@icai.org](mailto:idthc@icai.org) or [rdme@icaidubai.org](mailto:rdme@icaidubai.org) for any suggestions or recommendations.

| VAT Preliminary Impact Study Program |                                |  |
|--------------------------------------|--------------------------------|--|
| 1                                    | Name of the concern            |  |
| 2                                    | Address of the concern         |  |
|                                      |                                |  |
| 3                                    | Contact persons                |  |
| 4                                    | Phone numbers                  |  |
| 5                                    | E-mail Id                      |  |
| 6                                    | Nature of business             |  |
| 7                                    | Review team                    |  |
| 8                                    | Date of commencement of review |  |
| 9                                    | Date of conclusion of review   |  |

| Sl. No.   | Particulars  | Y / N | Remarks |
|-----------|--|-------|---------|
| <b>A.</b> | <b>UNDERSTANDING OF BUSINESS</b>   |       |         |
|           | Review of AOA/MOA to know the objectives of the business   |       |         |
|           | Review and understanding of present and future business plans to ascertain VAT impact  |       |         |
|           | Assessing the business first hand by visit to place of business including branches   |       |         |
|           | Review of historical financial statements for last 2 years- (including upto TB level)  |       |         |
|           | Review of forecast balance sheet, cash flow and income statements for 2 years  |       |         |
|           | Review of product / service data sheets and literature   |       |         |
|           | Review corporate structure of organisation   |       |         |
|           | Identifying the places of business, if multi-location presence [Branches, depots or other places from which goods/services are provided] |       |         |
|           | Understanding the industry, major competitors and various business process as prevalent in the industry                                  |       |         |
|           | Evaluating the perception of customer/vendors/other stakeholders on likely impact of VAT on business                                     |       |         |

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|-----------|---|--|--|
|           | Understanding various policies in the entity such as retention of money from customers and repayment policy, Guarantee / warranty / replacements    |  |  |
| <b>B.</b> | <b>REVENUE / SALES / SERVICES</b>   |  |  |
|           | Review of Profit of Loss account to ascertain   |  |  |
|           | a. Sale of goods Manufactured / Traded  |  |  |
|           | b. Goods cleared in Designated Zones / Direct exports / GCC   |  |  |
|           | c. Services provided in State/ GCC / Exports  |  |  |
|           | Review of treatment of sales return to study implication under VAT  |  |  |
|           | Review of discount policy in organization and impact under VAT  |  |  |
|           | Review the client base of the organisation to ascertain VAT implication including impact based on place of supply principle in VAT                  |  |  |
|           | Identify the major customers/clients to trace the realizations to study the implications under VAT. Suggestion on changes/ modifications if any.    |  |  |
|           | Review of various modes of supplies of goods and services such as   |  |  |
|           | - Stock transfers to depots / warehouses / godowns / branches   |  |  |
|           | - Samples   |  |  |
|           | - Exhibitions   |  |  |
|           | - High Sea sales  |  |  |
|           | - Transit sales   |  |  |
|           | - Leasing / rentals   |  |  |
|           | - Sale from job worker's place  |  |  |
|           | Supply of services to other branches  |  |  |
|           | Ascertain impact on sales supply chain / distribution model under VAT law   |  |  |
|           | Ascertain requirement / non-requirement of various sales / Service offices / branches   |  |  |
| <b>C.</b> | <b>PROCUREMENT OF GOODS AND SERVICES</b>  |  |  |
|           | Review of procurement policy of the organization including imports  |  |  |
|           | Review the nature of services and goods procured by segregating the expense under following categories:   |  |  |
|           | ● Expenditure presently taxed at full rate  |  |  |
|           | ● Expenditures presently not liable to tax  |  |  |
|           | Review whether procurements are made through registered persons in State/ GCC /and impact under proposed VAT.                                       |  |  |
|           | Analysing the possibility of suggesting vendors for better pricing and cost reduction in VAT.   |  |  |
|           | Review of procurements made under intra GCC / import to study impact under VAT  |  |  |
|           | Review the purchase and expense invoices on sampling basis to study impact under VAT with respect to taxations and deductions for smooth transition |  |  |
|           | Review of treatment of purchase returns to study the possible impact under VAT  |  |  |
|           | Review the foreign currency payments to ascertain impact under VAT- Reverse Charge  |  |  |

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|           | Ascertain possibility of better purchase planning during transition   |  |  |
|           |   |  |  |
| <b>D.</b> | <b>OPERATIONAL / ADMINISTRATIVE</b>   |  |  |
|           | Review the credit policy of the organisation. This could have significant impact on cash flow especially if the policy with vendor and customer is not synchronised       |  |  |
|           | Review the system of recognizing sales / services and system of invoicing customers   |  |  |
|           | Review present valuation mechanism adopted and impact under VAT on valuation  |  |  |
|           | Review the services provided free of cost or free issue of materials  |  |  |
|           | Review of job work register to identify the process outsourced  |  |  |
|           | Review of accounting and billing system (Centralized or De-centralized) followed and impact under VAT   |  |  |
|           |   |  |  |
| <b>E.</b> | <b>FINANCIAL STATEMENTS REVIEW</b>  |  |  |
|           | Review the shareholding pattern by investment by group companies / associated enterprises   |  |  |
|           | Studying the nature of accounts maintained by the organization  |  |  |
|           | Review of taxes under refund  |  |  |
|           | Review of stocks in trade at all business places including job worker's place and impact on release   |  |  |
|           |   |  |  |
| <b>F.</b> | <b>INFORMATION TECHNOLOGY</b>   |  |  |
|           | Review and identifying software/s presently being used at various divisions of organisation   |  |  |
|           | Review system of integration of different software with each other  |  |  |
|           | Review system of integration of data from various business locations across GCC/ World  |  |  |
|           | Review the agreement entered with the software vendor to check policy of regular updates, modification of parameters  |  |  |
|           | Review the existing controls established to prevent alteration of information in the records and importance of the same under VAT regime                                  |  |  |
|           | Review of following systems and suggesting changes which may be required under VAT  |  |  |
|           | - Customer master process   |  |  |
|           | - Vendor master process   |  |  |
|           | - Tax master process  |  |  |
|           | - Purchase master process   |  |  |
|           | Advising on importance of strong IT system under VAT regime and arrangement with IT vendor with respect to modification of tax structures, requirement of various reports |  |  |
|           |   |  |  |

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|-----------|--|--|--|
| <b>G.</b> | <b>REVIEW OF VARIOUS REPORTS</b>   |  |  |
|           | Review of following to ascertain the issues pertaining to indirect taxes and level of compliance:<br>- Information Internal system audit reports<br>- Others   |  |  |
|           | Review of MIS reports, if any  |  |  |
| <b>H.</b> | <b>REVIEW OF AGREEMENTS / CONTRACTS</b>  |  |  |
|           | Review of agreements to identify important clauses with customers or vendors which could have major impact under VAT   |  |  |
|           | Advise on major implications and precautions to be taken considering the transition provisions under VAT   |  |  |
| <b>I.</b> | <b>ASSESSMENT OF TRAINING REQUIREMENT</b>  |  |  |
|           | Understand the level of knowledge among various department's head  |  |  |
|           | Review of the training modules of the organization and suggestion considering VAT law  |  |  |
|           | Understanding requirement of training for vendors / contractors  |  |  |
| <b>J.</b> | <b>SUPPLY AND DISTRIBUTION CHANNEL</b>   |  |  |
|           | Study the distribution channel presently employed to determine underlying factors for choosing particular model  |  |  |
|           | If the distribution channel is guided by tax inefficiency under present tax regime, the extent to which anomaly is being rectified in proposed VAT. Whether the change necessitate the need to alter/modify/change the supply chain or distribution model presently being followed |  |  |
| <b>K.</b> | <b>TRANSITION PROVISIONS</b>   |  |  |
|           | Review of registrations obtained for various place of business and status to ascertain impact under VAT  |  |  |
|           | Review of systems followed with respect to goods sent for job work and impact under VAT  |  |  |
|           | Review of systems followed with respect to finished goods received back from customers and impact under VAT  |  |  |

**VAT Review Team**

**Review partner**

**Signature with Date**

**Signature with Date**

**This Program is only an indicative one, which would need to be specifically added to, once the regulations are in place. Some aspects in the present law also may not have been covered.**

Indirect Tax Committee of the ICAI

With Dubai Branch and Abu Dhabi and Dubai Chapter of ICAI.

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<http://idtc.icai.org/>

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**For any queries, please contact:**

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