Building a better working world

Implementation of VAT in the GCC: lessons learnt so far

Over the past five years, Value-Added Tax (VAT) has been implemented in several of the Gulf Cooperation Council (GCC) states and this has resulted in both challenges and opportunities for businesses. This article is the first in a new series reflecting on the common technology-related issues businesses have experienced and more importantly, how to manage the issues.

In theory, VAT should be cost-neutral for organizations (excluding certain sectors such as financial services and real estate), however, the introduction of VAT has had a large functional and financial impact on organizations. The largest issue for many organizations has been the compilation of data for the VAT return, primarily because many organizations did not take into consideration cross-business impacts, such as the impact on the supply chain or cashflow. As such, what should have been a relatively simple task, has now potentially become complex.

Where these impacts were not previously considered, this has led to scenarios where organizations were unable to plan and budget for technology systems appropriately. Therefore, it is essential that VAT implementation projects are considered across all business functions of an organization. Furthermore, many organizations have had to introduce a tax function which they have previously not needed.

What were the common technology issues?

Many organizations implemented their IT systems long before new taxes such as VAT were introduced. As a result, the tax technology in place may be insufficient, inadequate, or generally unable to handle tax complexities. In addition, over the years, IT systems have gone through multiple customizations leading to a very complex IT landscape, which can make upgrades and further customization difficult.

The preference for many organizations was to customize their existing enterprise resource planning (ERP) systems and to make isolated changes to their finance modules without embedding any tax technology. This has resulted in further costs for some organizations such as, challenges in producing the correct required data when requested by tax authorities, which has then led to large fines, or incomplete or incorrect VAT returns which can also lead to fines. In addition, some organizations were unable to claim back deductible input tax as they did not have the correct data (especially applicable in the real estate and financial services sectors).

For example, organizations operating in the Kingdom of Saudi Arabia (KSA) experienced a couple of unique scenarios including:

- **Transition rules:** existing systems have been unable to handle transitional rules during VAT introduction and the rate change
- **Amnesty:** KSA ran an amnesty program which organizations could avail if they were able to explain the errors, when and how the errors were made, and how it was fixed. This requires data which many organizations may not have, meaning most were likely unable to benefit from the amnesty

To better manage the above issues, organizations that are looking to digitize their tax function should focus on four main pillars which are:

- Determination
- Data quality
- Reporting
- Controversy

Tax authorities continue to move forward in their digitization journeys, for example, the introduction of e-invoicing in KSA is expected to be replicated by other states in the GCC. In turn, organizations are required to upgrade their technology.

It still is not too late to start your tax technology transformation! A practical assessment of your existing ERP system to understand how it can be best adapted to support new and changing requirements is a sturdy first step. The result is often not decommissioning your existing ERP system, but instead enhancing it. It is important to identify all issues that need to be addressed and consequently, a roadmap can be built and tailored to your IT landscape, organizational goals and budget.

Upcoming articles will focus on each of the pillars (determination, data quality, reporting and controversy) and will provide a snapshot of technology solutions available.

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