## Introducing VAT

# VAT will impact:



### Procurement and production

- supplier's pricing
- A/P invoice processing time purchases from non-registered VAT
- correct VAT documented from suppliers.



- education of and communication with -
- credit items.





- reports for VAT returns.

# Finance

- leases and hire purchase
- loan of stock and equipment

- maintaining VAT documentation cash flow management.

The implementation of VAT may increase the cost of doing

business. However, VAT should have a neutral impact on

registered businesses when managed efficiently.

# **Craig Richardson**

Partner and Head of Tax and Corporate Services KPMG in Bahrain

# understanding P&L impact

- overview on VAT grouping managing group compliance.

### Legal and compliance

- existing and new contracts
- payments based on revenue or turnover
- (such as franchise or royalty arrangements) reviewing legal structures and corporate



- employees allowance and claims
- understanding the need for tax specialists.

# Contacts For more information please contact:

**T**: +973 17201459

E: craigr@kpmg.com

**Arvind Sharma** 

**T**: +973 17222345

in 🗗

Senior Manager, Audit

E: arvindsharma@kpmq.com













Management Consulting

E: pnurani@kpmg.com

**T**: +973 17201439



Sumit Pandey

**T**: +973 17222396

Senior Manager, KPMG

E: spandey@kpmg.com

Associate Director, Management Consulting **T**: +973 17201448 E: aparab@kpmg.com

# kpmg.com/socialmedia





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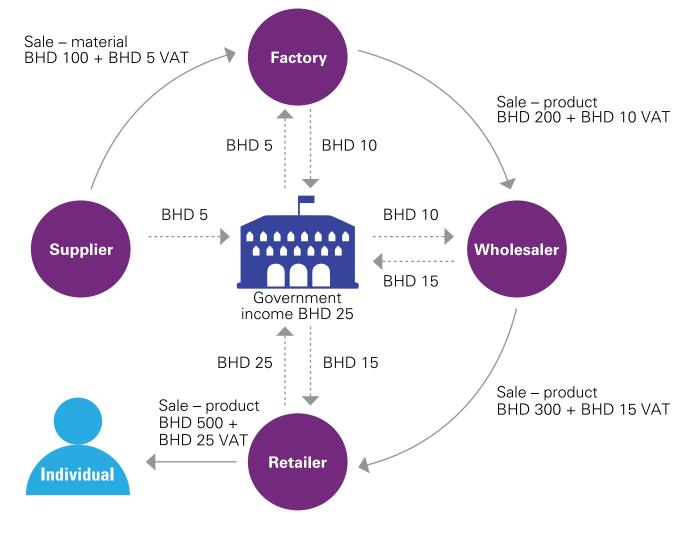
## A brief introduction to VAT in the GCC

The GCC states have worked together to develop a broad framework to introduce Value-Added Tax (VAT). The 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 the healthcare and education sectors and economic free zones for VAT purposes. Various GCC member states have publicly announced that they will introduce VAT, with a proposed effective date of 1 January 2018. VAT is likely to significantly affect all businesses in Bahrain, directly or indirectly – and a mid-2018 start date leaves only a short window for businesses to prepare. Will you be

While VAT is not intended to be a tax on business, collecting and remitting the tax to the government will have significant compliance costs and potential cash flow implications. Businesses need to review supply chains 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 Enterprise Resource Planning (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.

## How does VAT work?

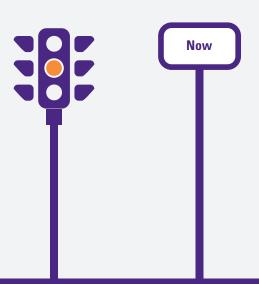


\*The example is calculated using a VAT rate of 5% on a taxable supply.

### What should you be doing?

# Phase 1: Plan and analyze

- identify project resources
- understand the 'as is' situation
- assess the impact of VAT.



# 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 prioritize key issues that need to be addressed during implementation
- review sample contracts
- debrief
- prepare an implementation plan.

# As soon as possible

# Phase 3: Implement (once legislation is published)

- prepare and assist with implementation
- assistance with IT VAT solution design
- assistance with IT implementation support
- assistance with VAT registration
- provide VAT technical training.

March - December 2017

# Phase 4: Go live

- ongoing VAT compliance
- preparation/review of VAT returns and supporting documents
- assistance with VAT audit
- ongoing VAT training.



# How KPMG can help

## Scope of work

### Planning

- identify key stakeholders
- finalize and agree communication plan for staff, suppliers and customers
- assess the impact of VAT.

# VAT awareness

identify information requirements.

#### VAT awareness workshop

# **Deliverables**

#### Project plans

- resource plan
- roles and responsibility matrix
- communications strategy and materials.

# **How KPMG can help**

# Transaction mapping

Scope of work

 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
- provide inputs on VAT's IT impact.

# **Deliverables**

### High level impact assessment

presentation to senior management.

### Transaction maps

business process impact requirements and matrix.

## **Contract review report**

- overview of impact and high level resolution plan
- recommendation on VAT clauses.

## Legislation review

VAT issues and ambiguities log.

# VAT approach recommendations

documentation of implementation decision points.

#### Tax credit allocation model

impact assessment model.

#### IT impact assessment report

- solution architecture design functional ERP requirements
- impact on customizations master data assessment
- reporting requirements.

# **How KPMG can help**

# Scope of work

## **VAT** implementation planning

prepare plan.

#### IT testing

- develop user acceptance test scripts
- support end user testing
- review VAT compliance reports.

## **Training and VAT manual**

- prepare training calendar
- review end user training material.

# Registration

- advise on registration
- advise on applicability of special VAT schemes (such as forming a VAT group).

# **Deliverables**

### Implementation plan

# User acceptance testing

#### user acceptance test plan

- user acceptance test scripts
- user acceptance report
- tax reporting and filing test.

## **Training and VAT manual**

- reviewed training manuals VAT process maps and manuals.

# Registration

registration completion report and review.

# **How KPMG can help**

Scope of work

VAT submission

support throughout submission

report on gaps and lessons learned.

# **VAT** submission

**Deliverables** 

From 2018 onward

assist with - or review - VAT returns prior to submission.

# What are the benefits of being VAT ready?

- maximize VAT recovery on business inputs
- reduce adverse impacts on cash flow
- ensure compliance with VAT obligations and reporting
- minimize risk of fines, penalties and reputational damage.