



FOCUS

Gulf Cooperation Council (GCC) VAT implementation

"Its ramifications on business and the economy, A Pro-active Approach"

Economic Backdrop: GCC Value added tax (VAT), a popular topic of discussion across the globe where companies and investors are 'eyeing' the region with great anticipation, interest and promise

A low 5% unified rate will be introduced in the UAE (and across GCC) with some exemptions. Consumer's spending on essential food items, education, health sector is expected to be zero rated or may fall in the "exempted" category.

Economic Benefits: Besides additional revenue generation, introduction of a simple unified VAT framework is also expected to promote trade within GCC resulting to overall growth in the business environment despite political challenges. This will help in continued infrastructure spending on social sectors like education, healthcare and housing.

Cash management

Most businesses are expected to have more VAT payables (Output VAT) than VAT receivables (Input VAT). If the frequency of VAT payments and filing will be the same, businesses will be expected to remit to the tax authority every quarter the difference between the collected Output VAT and the paid Input VAT.

For VAT-registered businesses it is therefore crucial to ensure that they

have sufficient funds to fulfil their tax obligations.

Cash management would be complex for groups with multiple entities that have no clear separation and maintenance of their tax accounts.

What lies Ahead:

- Legislation is not in place yet leading to continued uncertainty about its coverage, implications, exemptions.
- Businesses will most likely have around 6-9 months to understand, implement and comply with VAT legislation.
- Most of the businesses are unequipped and are yet to prepare for the implications of VAT. Most are awaiting country specific guidelines prior to taking any action; and are hoping that the implementation deadlines will be extended or delayed.
- Small businesses are likely to be majorly impacted if the revenue threshold of US\$ 1,000,000 is reduced in the final framework agreement as currently being speculated.
- Most small businesses, traders, shops, groceries in the region do not maintain proper accounting records resulting to major compliance challenges.

What can be done in the interim?

- Businesses must prepare proper books of accounts, which is a good omen for the authorities,

Quarterly Newsletter Volume 83 Spring 2017

auditors, consultants and IT vendors.

- Many other preparatory steps can be initiated in key areas of business such as contracts, procurement, logistics, finance, legal and commercial structures, technology and human resources.
- Long-term contracts must take into consideration the effect of VAT
- As per recent reports, businesses will be given three months prior to start date of 2018 to start registering under the new VAT system which will require updates to work-systems, human resource training and cash flow management.

Implications on non-compliance: Important areas can be completely overlooked, thereby inviting losses for missed Input VAT credits, fine and penalties

Companies should be aware of the risks and costs associated with the VAT implementation to its business and accordingly strategise for it in a planned manner.

It would be in the interest of the businesses to be proactive and stay 'ahead of the curve'.

Dr. Khalid Maniar

Founder & Group Managing Partner
khalid.maniar@crowehorwath.ae

Protectionism, the new word!

How it's painting the global economic picture?

The economic world is often dominated and driven by a cloud of the phenomenon at times. The popular terminology which is impassioned in the vocabulary and mind space of economists is "Protectionism". Dr. Arvind Subramanian, Chief Economic Adviser to the Government of India also mentioned about the resurgence of protectionism under the global risk outlook in the 2017 economic survey. The obvious onset is the agenda propagated by the present US President since his election campaign and Brexit.

Protectionism per se is the practice of shielding a country's domestic industries from foreign competition. The usual measures are imposing taxes on imports and restrictions on free trade and migration; all of what President Trump seems to be moving

towards. Was it only election propaganda or a real problem that endangers US economy? Will it resolve the issues that American people are facing today? As it was only the developed nations like the US who promoted and supported globalization a few decades back.

The present-day criticism is globalization has caused inequality, driving wealth and jobs out of America. President Trump in his inaugural address professed that he will go by two rules 'Buy American, Hire American.' Reacting to the present state the head of the second largest economy and developing nation China, President Xi Jinping at the WEF Annual Meeting, Davos 2017 said that pursuing Protectionism is just like locking one's self in a dark room: wind and rain might be kept outside but so are light and air. The Chinese billionaire and founder of e-com giant Alibaba, Jack Ma questioned US strategy of spending over \$14 trillion in fighting wars over the past 30 years rather than

investing in infrastructure at home and blaming other nations for stealing jobs.

So, is it just a power play between the developed and developing countries or intrinsic economic situation or just hoopla? It seems there is a thin line between the global wellbeing and own national interest. The implication of such news doing the rounds and manifestations of the influential is evident in the economic scenario at all levels whether it is the Middle East, Asia or European region. The genius of a professional engaged in the corporate advisory is to be aware, study and interpret the global and regional situations for the benefit of their clients. As Benjamin Franklin said, an investment in knowledge pays the best interest.

James Mathew

Group CEO, UAE & Oman

james.mathew@crowehorwath.ae

Quality of Disclosures in the financial statement:

This is one of the common concern that the users of the financial statements express on the extent of disclosures in the financial statements. Users of financial statements always feels that annual reports are becoming thicker every year, but lacks relevance of information and completeness of disclosures. Sometimes, it appears that IFRS disclosures are made in financial statements by the preparers more for formal compliance than providing relevant useful information to users.

There are several publications globally by various regulatory authorities expressing

their concerns on the quality of disclosures. These publications emphasized that improving disclosure is not the matter of quantity but is the matter of quality. Following are some of the key principles that can be considered in this regard while preparation of financial statements:

- Entity specific disclosures and avoid boilerplate languages.
- Consideration of Materiality.
- Clear and concise presentation of all information (e.g., use of graphs, charts in some cases to make it more use-friendly).
- Avoidance of repetition and use of cross referencing.

- Easy navigation of the annual report.
- Consistency of information.

Financial statements with good quality disclosures will have many benefits including increased confidence of users, greater efficiency and credibility.

This article is prepared for general guidance on matters of interest only and should not be acted solely based on this without obtaining specific professional guidance.

Umesh Narayananappa

Manager – Audit & Assurance

Abu Dhabi

umesh.narayananappa@crowehorwath.ae

Value Added Tax, it is not as "taxing" as it seems

Whilst businesses and regulators eagerly await the complete legislation that enacts (VAT) across the GCC, I would like to share my views on the different discussions I have come across.

What is Value Added Tax? VAT is a tax on the amount a good or service costs, which increases the cost at each stage of production or distribution.

Who is eligible to reclaim VAT? In most instances, businesses who are VAT registered and deal with businesses

which are in turn VAT registered, may be able to reclaim most types of input VAT. Tourists who export goods can also reclaim VAT (usually after a processing fee). There are also other instances, where VAT can be reclaimed.

It does not seem like a tax on my profits? Simply put, this is not a tax on your profits. Currently, the UAE has no plans to tax profits.

Would Free Zones be subject to VAT? Dubai has pioneered the concept of Free Zones, by establishing JAFZA (Jebel Ali Free Zone Authority), back in 1985. All Free Zones, are expected to

be exempt from VAT. This provides an exciting new opportunity, for businesses.

Are Free Zones a growing trend globally? Whilst Dubai seems to have a handle on the Free Zone concept, countries not only in the GCC but even further afield, such as the United Kingdom, are seriously considering at establishing Free Zones, to promote trade.

Zayd Maniar

International Liaison Partner

zayd.maniar@crowehorwath.ae

Could Brexit boost international trade by enabling free trade zones in the UK?

There has been much debate about whether Brexit will have a positive or negative impact on the UK's international trade. For many, leaving the EU presents many questions to which the answers are unclear. But, in the continuous mist of uncertainty there could be a potential bright side to Brexit, where international trade zones are concerned, in the form of Free Trade Zones.

A Free Trade Zone is an area that is physically within a country but legally outside of it for tax purposes. Put simply, a Free Trade Zone allows goods to be imported, manufactured, processed and re-exported without the payment of import taxes, which only fall due when the goods are removed from the zone and entered into the domestic economy.

Changes in International Standards on Auditing (ISAs)

Numerous changes in International ISA's effective for the audits for the periods ending on or after 15 December 2016 have been issued, which includes:

- Changes in independent auditor's report format and contents.
- Key Audit Matters (KAMs') to be included in independent audit reports.
- Changes regarding qualifications, adverse opinion, disclaimer of opinion, other matters and emphasis of matter paragraphs

Independent Auditor's Report

Audit report had undergone major changes in the format and contents:

Celebrating a milestone: 35 glorious years in the UAE

On Friday March 3rd, employees of Crowe Horwath - UAE and their family members gathered to celebrate the annual party at the Palm, Dubai. This year's fiesta was further special, as the Firm marked its 35 years since it was founded in 1981 by Dr. Khalid Maniar

Admittedly, the audit and advisory

There are currently no operational Free Trade Zones in the UK; while there are a number of ports which have been authorised in the past, none have active authorisations. However, post Brexit the UK could have the freedom to set its own trade policy and to re-introduce Free Trade Zones in the UK.

What are the benefits of Free Trade Zones?

Free Trade Zones are widely used across the world, particularly in the US, South America, Canada, Middle East and Asia. The precise format varies, but it is very common for governments to use Free Trade Zones to encourage local manufacturing. They can also be used to simplify, or remove, import and local tax obligations for goods that are imported into the zones for manufacturing or processing.

Looking ahead

Clearly, the establishment of Free Trade Zones themselves will only help the UK economy if the port infrastructure is in place to support and assist UK manufacturers. A quick internet search shows that the UK is one of Europe's biggest importers and exporters and my clients tell me that the UK has excellent port facilities; which suggests that the infrastructure is in place and could therefore be a platform for the creation of UK Free Trade Zones.

The questions are, could the UK re-introduce Free Trade Zones across the UK as one part of a number of measures aimed at promoting the UK manufacturing and ports industries?

Robert Marchant

VAT Partner

Crowe Clark Whitehill, UK

robert.merchant@crowecw.co.uk

- Auditor's opinion shall be the initiate paragraph
- Enhanced description of auditor responsibilities and key features of the audit
- Responsibilities of those charged with governance are more robust
- A key inclusion of the statement about the independence and other ethical responsibilities
- Listed company audit reports would consist the engagement partner's name
- Enhanced reporting on going concern
- Key audit matters

Key audit Matters (KAMs) – applicable for listed companies

- KAMs are those matters that in the auditor's professional judgement,

industry has changed dramatically from when the firm was initially established. Despite all the substantial changes in the industry over the intervening years, our values remain the same. Our continuing success is a result of the firm's commitment, sustainability, leadership, and service.

As we raise our glasses to toast our 35 glorious years in the UAE, we are both grateful for our heritage and proud of our evolution. We believe we have

were of most significance in the audit of the financial statements of the current period.

- KAMs need to be included unless the law or regulation precludes or in extremely rare circumstances when there is adverse consequences
- KAM can be areas of higher assessed risk of material misstatement, significant judgement, effect on significant events or transactions

Though the changes may result to a lengthier audit report; these shall further enhance the quality of reporting and provide the user a detailed understanding of the key risk areas.

Suresh Natarajan

Partner – Audit & Assurance

Head Office

suresh.natarajan@crowehorwath.ae

prospered because of our dual ability to stay focused on our core service and our willingness to change and grow.

I would like to personally thank our members, clients and employees for their loyal custom and support.

Saad Maniar,

Senior Partner, DIFC

saad.maniar@crowehorwath.ae

About Us

Your global partner

Crowe Horwath in UAE is a leading member firm of Crowe Horwath International which is ranked as the top 9 global accounting network with more than 764 offices with 35,000 partners and staff. In 2017, Crowe Horwath is ranked as the 6th largest in United Arab Emirates and globally as the 8th largest accountancy network.

The firm continually demonstrates a commitment to quality and provides an exceptional experience to those clients it serves. As a multidisciplinary practice, we offer unparalleled access to international expertise and talent. Our commitment, to the highest technical standards and integrity, ensures that our clients receive the most accurate and relevant advice.

Providing quality and efficient professional services leverage by our extensive experience of local businesses and a high level of partner involvement. Our aim to provide due diligence with care has enabled us to serve a diverse range of clients ranging from small family-owned businesses to large multinational conglomerates.

Smart Decisions. Lasting Value

Contact Us

UAE Headquarters

Level 21, The Prism,
Business Bay, Sheikh Zayed Road
P O Box 6747, Dubai, UAE
T +971 4 447 3951
F +971 4 447 3961
uae@crowehorwath.ae
www.crowehorwath.ae
 : @crowehuae

Disclaimer:

Horwath Mak is the legal title of Crowe Horwath in UAE and is the only legal member firm in the UAE representing the Crowe Horwath International network. We are licensed at the Government of Dubai's Department of Economic Development as Horwath Mak, license number 101627.

Horwath MAK is a member of Crowe Horwath International, a Swiss verein (Crowe Horwath). Each member firm of Crowe Horwath is a separate and independent legal entity. Horwath MAK and its affiliates are not responsible or liable for any acts or omissions of Crowe Horwath or any other member of Crowe Horwath and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath or any other Crowe Horwath member.

*Source: The ranking is based as per International Accounting Bulletin's, April 2017 Issue 572, publication.