FOCUS

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VAT

Are you aware of VAT and how will it affect your business? Are you maintaining proper books of accounts? Which category will your business fall under VAT rules? Is your company tax compliance? Are you ready for VAT?

Tax Group

Two or more persons conducting businesses may apply for tax registration as a single taxable person if all the following conditions are met:

- Each shall have a place of establishment or fixed establishment in the state.
- The relevant persons shall be related parties.
- One or more persons conducting business in a partnership shall control the others.

Any person conducting business is not allowed to have more than one tax registration number unless otherwise prescribed in the executive regulation.

Determining Place of Supply

This will help determine whether a supply is made within or outside the UAE. Supplies made within are subject to UAE Vat Laws. For supply of goods, the place of supply will be the location where the transaction takes place.

For supply of services, the place of supply will be where the supplier is established. Special rules will be applied to certain categories of supplies i.e. cross border supplies, water, energy, etc.

Categories:

Zero rated Sectors

VAT will be charged at 0% in respect of the following main categories of supplies:

- Exports of goods and services to outside the GCC;
- International transportation, and related supplies;
- Supplies of certain sea, air and land means of transportation (such as aircrafts and ships);
- Certain investment grade precious metals (e.g. gold, silver, of 99% purity);
- Newly constructed residential properties, that are supplied for the first time within 3 years of their construction;
- Supply of certain education services, and supply of relevant goods and services;
- Supply of certain healthcare services, and supply of relevant goods and services.

Exempted Sector

The following categories of supplies will be exempt from VAT:

- The supply of some financial services (clarified in VAT legislation);
- Residential properties;
- Bare land; and
- Local passenger transport

Bad debt relief

VAT registered businesses will be able to reduce their output tax liability by the amount of VAT that relates to bad debt which has been written off by the VAT registered business. The legislation will include the conditions and limitations concerning the use of this relief.

Actions from mid-2017- Key steps for compliance

During 2017, businesses must assess the capability of their existing systems, flag contracts that need VAT action, identify inter-company transactions, and provide appropriate training for staff. All goods sold and all services offered must be VAT rated, and all taxable items from suppliers will need to be properly recorded and charged. Scrupulous cash accounting and record-keeping are crucial at all levels throughout the business in order to satisfy the tax authorities and ensure that tax returns are filed when due, which is likely to be every three months.

This means tighter controls and professional oversight at every stage in the business cycle. Invoices and records, filing systems, collection and payment procedures, remittance of VAT returns: all need to be brought into line and rigorously checked so that VAT can be collected smoothly and efficiently, and with clear audit trails. This can be particularly demanding for smaller businesses with fewer resources, but every enterprise now faces the same challenge to navigate the steps to become VAT ready and then meet a new and ongoing tax obligation. Even businesses that currently fall outside the VAT threshold must still review their positions. Group of companies must maintain separate books of accounts for each of their entities so that they comply with the regulations.

Lack of familiarity with VAT is a significant obstacle, particularly for businesses that have relatively basic accounting systems, and some small businesses may not even keep formal records. Expert advice and guidance is needed so that businesses can map their activities and understand their VAT liabilities across the supply chain.

As the implementation date nears, businesses must start preparing to be ready for 2018. For many, taxes are now a certainty, and even if your business currently falls below the VAT threshold, you must still be tax-aware and financially focused.

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Risk Management is a risky business

Which came first, the chicken or the egg? To date, there is no certain answer to this question. However, if one were to ask, "which comes first, a business risk or a business objective", the answer is a business risk.

The reason is simple – a business objective is ideally set after considering possible risks. At least that is how prudent business people set business objectives. If a business objective is set without considering the inherent risks, chances are that the business will lose direction, the moment a risk manifests itself.

So, risk management is therefore very essential for a business to define its objectives, and can be able to achieve them.

Why is it then that there are many organizations that do not have a risk management system? Some of the common responses to this question are, "we know and manage our business risks our way, and we do not need a system for this", "we go by gut-feel, intuition and experience", "we have run our business successfully for all these years without it, so why have it now", "we are a small organization and cannot afford it", etc. However, if one were to peel away the upper layer of these statements, the actual underlying truth would be revealed. There is, and always has been, some form of risk management, but because of its informal nature, it has not been christened 'Risk Management'.

To better understand risk management, let us first look at the definition of risk. The latest definition of risk is that, it is the effect (both, positive and negative) of uncertainty, on business objectives. Risk management is all about developing ways to get best value for the organization from uncertainty, with the ultimate aim to achieve business objectives.

If those businesses that adopt an informal approach to risk management, continue to remain small, they can perhaps manage with their existing approach. However, with growth and development, comes complexity, and a systematic formal risk management approach is not just good to have, but is an absolute necessity.

If there is no risk management, a business faces a high risk of going off-track and losing direction. if a business adopts risk management, but does not implement it the right way, the business is again at risk of going astray. The solution is to bring-in experts to firstly help the board and executive management fully understand and appreciate the benefits of risk management. Buy-in from the Board/Executive Management is the first step, followed by their mandate for its implementation. Only then will an organization be set to implement Risk Management the right way, and reap its benefits.

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A WAKE-UP CALL

The start of August 2017 brought in some unpleasant news. Few businesses houses were unable to bear the onslaught of the market conditions and thus folded.

Earlier the businesses who were in bank default and skip cases were entities in the UAE market for less than a decade. This time the businesses that have defaulted have been in UAE for over 4-5 decades.

Some of the areas which can be identified as the culprits for the downfall can be (a) the pricing strategy, (b) funding mismatch, (c) disregard for overheads and (d) gross over optimism.

Pricing: Pricing of product and services is a key winner for any business. Are the businesses following an optimum pricing policy sufficient to cover their costs and have a reasonable margin? Unfortunately, in some cases it is not true. In an effort to cut off or match the competition, businesses try to artificially have a low sale price. In the race to maintain the price level the business owners, at times, set a blind eye to the question; what if the target sales are not achieved? Do we have a plan B or sufficient cash to inject?

If not, the sustainability is under serious threat.

Funding: Businesses are either self-funded or funds injected from external bodies, like the bank. It is a common practice to use short term loans for long term needs. Banks would advance a debt to the business entity for a short-term nature for its working capital needs while the entity would utilise the same for a long-term usage, such as purchase of machinery or building.

In UAE, the first funding from a bank is a lengthy process as the company must pass a stringent requirement test. This severe scrutiny however losses its steam once the first debt is approved. If the owner has other resources to repay or a plan B in place it can survive.

If not, the sustainability is under serious threat.

Disregard for overheads: Some management make decisions without considering the full impact of the overheads on their profitability and cash flow. It is a common pitfall to focus on the direct costs associated with the product and service while the other overheads are not fully taken into consideration, particularly the non-cash overheads. Costs like depreciation, end of service benefits for staff, additional costs of bank interest and effect of additional bank loan installment are at times disregarded. This is a recipe for disaster. If the owner has other resources to repay or a plan B in place it can survive.

If not, the sustainability is under serious threat.

Over optimism: Businesses are expected to take calculated risk, which will either pay off or would result in a failure. In the passion of getting ahead the management take high risk decisions by being over optimistic on its assumptions and may not have a backup. Owners might project and assume that banks will provide the required funding and sales target would be achieved. If the owner has other resources to repay or a plan B in place it can survive.

If not, the sustainability is under serious threat.

Sustainability is the name of the game. Slow growth is better than sudden death. Businesses need to reexamine themselves to avoid these errors of judgement. May better sense prevail.

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META ACCELERATES CORPORATE PERFORMANCE

Isn't this world dangerously ever-changing simply because it is abundant in precariousness, vagueness, involvedness and abstruseness? Oh! Gladly, there's no scarceness of 'opening-full-ness'!

John F. Kennedy remarked "The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger--but recognize the opportunity."

Businesses still flourish in this digitally fast paced universe where intense long-term and short-term forces plow into each other very capriciously. Anyways, it is imperative to accelerate corporate performance.

Acceleration: The ability to reduce time to value by building and changing momentum more quickly than competitors. Most profitable growth is driven by the ability to accelerate performance. Developing the ability to accelerate performance can help organizations outperform their peers. Nevertheless, future outperformance can be predicted.

Sharon Toye, a prominent author, an organizational development expert, qualified psychotherapist and skilled consultant, supported the top teams of PE-backed market leaders, including a global payments business, to deliver immediate performance targets while transforming the organization to stay ahead of the market. Such ability has its roots in passion. To quote Donald Trump (as CEO), "Without passion, you don't have any energy, and without energy, you simply have nothing."

Meta: Colin Price, a renowned author, and a recognized leading authority on organizational performance, advocates a detailed method whereby corporate performance can be accelerated: Mobilize, Execute, and Transform with Agility (META).

Mobilize: Inspire aligned action based on a compelling purpose and a simple set of strategic priorities.

Execute: Fully harness and streamline resources to consistently deliver excellence in the core business.

Transform: Experiment and innovate to create new growth engines and to reinvent existing businesses ahead of the market.

Agility: Spot opportunities and threats; adapt and pivot at a faster pace than competitors to create competitive advantage.

Why Meta? : The co-authors opine that the future is to be looked at as ever-changing consequence of a marketplace that is constantly evolving rather than as a predictable point in time. Divergent, imaginative thinking should be practiced. Strategy must go well beyond basic risk management to consider the multitude of external factors at play. Though risk-averse executives tend to stick to the familiar, the knowledge and experience gained from weathering, failure can pay dividends and help your organization to accelerate performance to keep the company on the cutting edge. Boxer Mike Tyson said "Everybody has a plan until they get punched in the mouth." The same is true with META. It never gets implemented quite as planned. But being in a continual state of planning allows organizations to remain accelerated in challenging environments. META will facilitate to compete better, in ways that will accelerate your business and allow you to win.

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GCC: BEYOND OIL

Despite the sharp fall in oil prices since 2014 (Fig 1), the Gulf Cooperation Council (GCC) region is expected to witness higher growth rates in 2018, primarily on the structural reforms the respective governments have introduced.

US$	UAE	KSA	Bahrain	Oman	Kuwait	Qatar
GDP nominal 2016	$375B	$637.8B	$31.8B	$59.68B	$110.5B	$156.6B
GDP PPP 2016	$667.2B	$1.731 T	$66.4B	$173.1B	$201.1B	$334.5B
GDP Real growth						
2016	2.30%	1.20%	2.10%	1.80%	2.50%	2.60%

(Fig 1)

These reforms include the introduction to Value Added Tax (VAT) spending cuts in the public sector and revision of project spending.

Further, the regional economies have tapped into the debt markets to balance the budgets (Fig 2). The Saudi bond sale was oversubscribed indicating that capital markets have full confidence in KSA to implement the reforms. KSA also plans to IPO Aramco and sell 5% of the company with the whole company valued at US$2 trillion.

The public debt to GDP for most GCC countries is still low when compared to other developed economies.

% Public Debt/GDP	2015	2016	2017*	2018*
Saudi Arabia	5.0	14.1	19.9	24.6
UAE	18.1	19.0	18.8	18.6
Qatar	34.9	54.9	66.2	71.2
Oman	14.9	21.8	24.5	27.0
Bahrain	61.9	75.2	82.3	87.8
Kuwait	11.2	18.3	22.4	26.6

(Fig 2)

And this economic growth in GCC is happening at the backdrop of a very low inflation.

The Economic diversification of the GCC beyond oil is going as planned.

The UAE is building itself as the 'fashion hub' as Dubai develops the fashion district. Some GCC member countries are also turning towards solar to provide energy needs.

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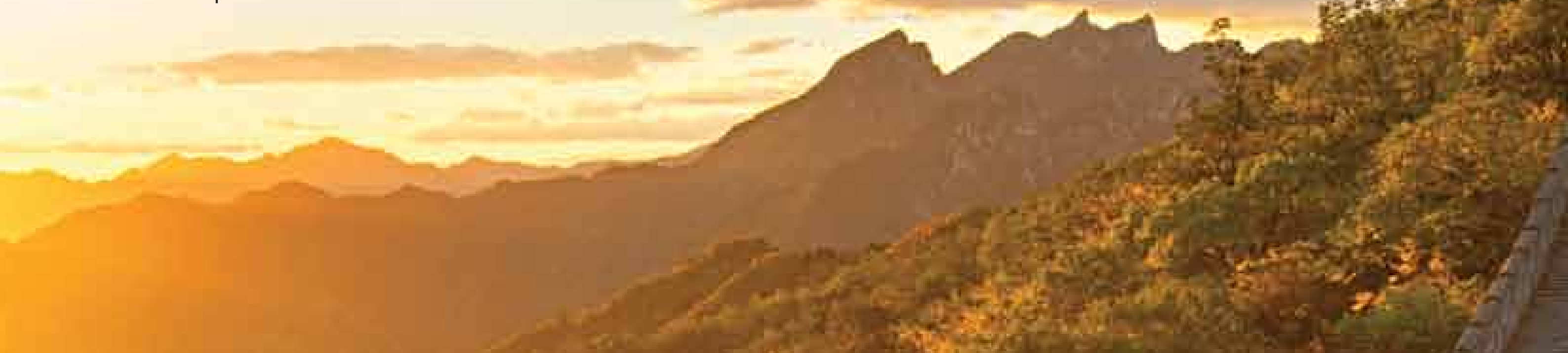

NEW FOOTSTEP IN REAL ESTATE SECTOR

Dubai International Financial Center entered a Memorandum of Understanding with Dubai Land Department to allow entities based in the DIFC to register and transfer properties with DLD.

The strategic agreement signed by H.E. Essa Kazim, Governor of DIFC, and H. E. Sultan Butti Bin Mejren, Director General of the Dubai Land Department, will simplify the land owner registration process for DIFC based companies, partnerships, foundations and Real Estate Investment Trusts (REITS). The first quarter of 2017 marked a tremendous increase of 45% additional transactions compared to last year.

The cooperation of DIFC and DLD is key to stimulate growth and investment activity in the real estate sector.

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Good manners:

Abu Bakr (may Allah please with him) reported:

Allah's Apostle (peace be upon him) said thrice, "Shall I not inform you of the biggest of the great sins?" We said, "Yes, O Allah's Apostle" He said, "To join partners in worship with Allah: to be undutiful to one's parents." The Prophet (peace be upon him) sat up after he had been reclining and added, "And I warn you against giving forged statement and a false witness; I warn you against giving a forged statement and a false witness." The Prophet kept on saying that warning till we thought that he would not stop

(Sahih Bukhari)

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.

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