



VAT

in Construction

Is your Business ready?



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1. HISTORY

- The concept of VAT was first proposed in 1918 by German industrialist, Dr Wilhelm von Siemens.
- VAT existed in France in some form since 1948, its modern version was introduced in April 1954 in its Ivory Coast (Côte d'Ivoire) colony. Recognising the experiment as successful, the French introduced it in 1958.
- Six European countries – France, Germany, Italy, Belgium, the Netherlands and Luxembourg – started the process that would lead to the creation of a European Common Market.
- In 1957 the six countries signed the Treaty of Rome.
- Currently, there are 160 countries in the world that have implemented VAT/GST.



2. VAT TERMS

VAT

Value Added Tax.

Input Tax

The VAT you pay on your purchases.

Output Tax

The VAT you charge on your sales.

Economic Activity

An activity or service that is conducted on a regular manner or any use of material or immaterial property.

Taxable Person

A person conducting an Economic Activity independently for the purpose of generating income, a person who is registered or obliged to register for VAT in accordance with the LAW.

Taxable Supplies

All goods and services sold or otherwise supplied by a taxable person that are subject to VAT.

Taxable Turnover

The total value - excluding VAT - of the taxable supplies you make in the GCC.

TAX PERIOD

The period of time covered by your tax return.

3. WHAT IS VAT?

Value-added tax (VAT) is a tax, charged by the government, on the consumption of goods and services.

VAT has been set at a standard 5% across GCC countries and has come into effect from 1 January 2018 in the United Arab Emirates and Kingdom of Saudi Arabia with Bahrain implementing for the first time from **1 January 2019**.

VAT is a cost that is paid by the consumer and collected by businesses on behalf of the government.

It is mandatory to register as a VAT vendor if your business has an annual taxable turnover of **SAR 375,000** or more (or the equivalent in other GCC states).

VAT is not a Sales TAX:

Sales tax may be imposed only on transaction relating to goods whereas VAT is imposed on both goods and services. Sales tax is only imposed on the final sale to the consumer whereas VAT is imposed at each point in the supply chain including imports of goods and services.



Key points



VAT starts in Bahrain
Jan 1st 2019

5%

Percentage of VAT.



Mandatory Registration Threshold
SAR 375,000
annual turnover.

Borne by the
Final Consumer



MECHANICS OF VAT



The factory buys cemento to manufacture blocks which are sold in a retail chain.



The blocks are stocked in retail outlets and placed for sale to contractors.



The contractor uses the blocks to build hotels.



A consumer buys the Hotel.



The factory collects VAT from the retail chain on behalf of the government.



The retail outlet collects VAT from the contractor on behalf of the government. The retail outlet receives a refund on the VAT paid to the factory.



The contractor collects VAT from the consumer on behalf of the government. The contractor receives a refund on the VAT paid to the retail outlet.



	Sales	5% VAT charged on sales	VAT recovered on purchases	Net VAT payable
Factory	SAR 1,000	SAR 50	SAR 0	SAR 50
Retail Outlet	SAR 3,000	SAR 150	SAR 50	SAR 100
Contractor	SAR 5,000	SAR 250	SAR 150	SAR 250
Total VAT paid by final consumer:				SAR 250

Net result = VAT is collected through the chain and the end-consumer bears the cost.

4. HOW CCS CAN HELP YOUR BUSINESS

- CCS is supported by construction professionals bringing industry and VAT expertise specific to the construction industry.
- We can assist in the process of assuring VAT does not become an additional cost to your business, through VAT compliance, global industry knowledge and a fully compliant cost management & enterprise accounting system.
- CCS is a robust construction & engineering cost management software that can not only automate issuance of TAX compliant invoices and credit notes but will also keep records of all transactions for reporting purposes.
- Report to prepare VAT return.

This publication covers the general aspects of GCC VAT and the processing thereof in BuildSmart. They do not constitute any form of official VAT compliance or endorsement. We recommend that you obtain professional advice from registered VAT advisors and/or official bodies with regards to the application and compliance of VAT in relation to your business and its activities.

Is your business VAT ready? Let's talk.

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