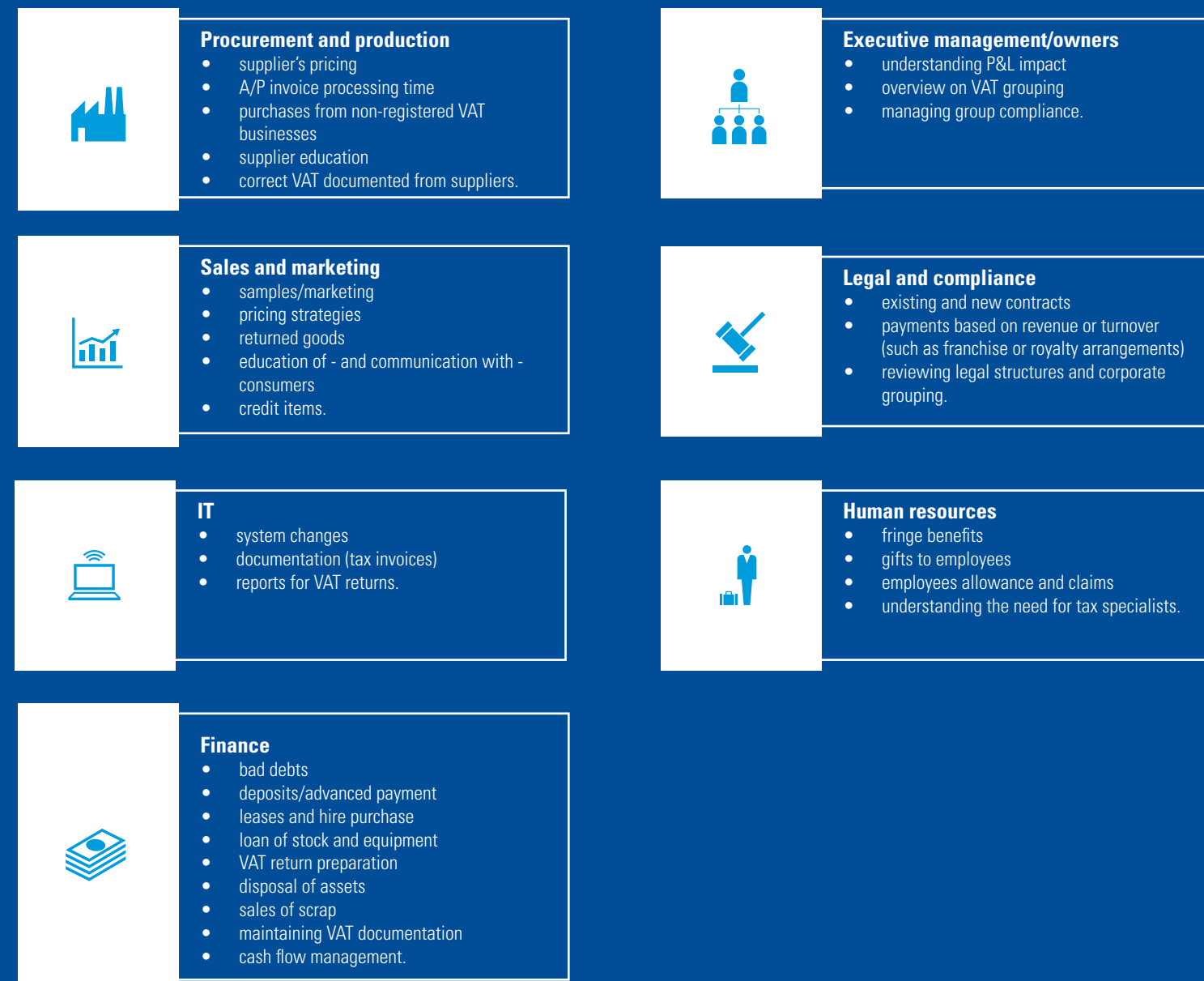


## Introducing VAT

VAT will impact:



“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



# GCC VAT implementation roadmap – are you ready?

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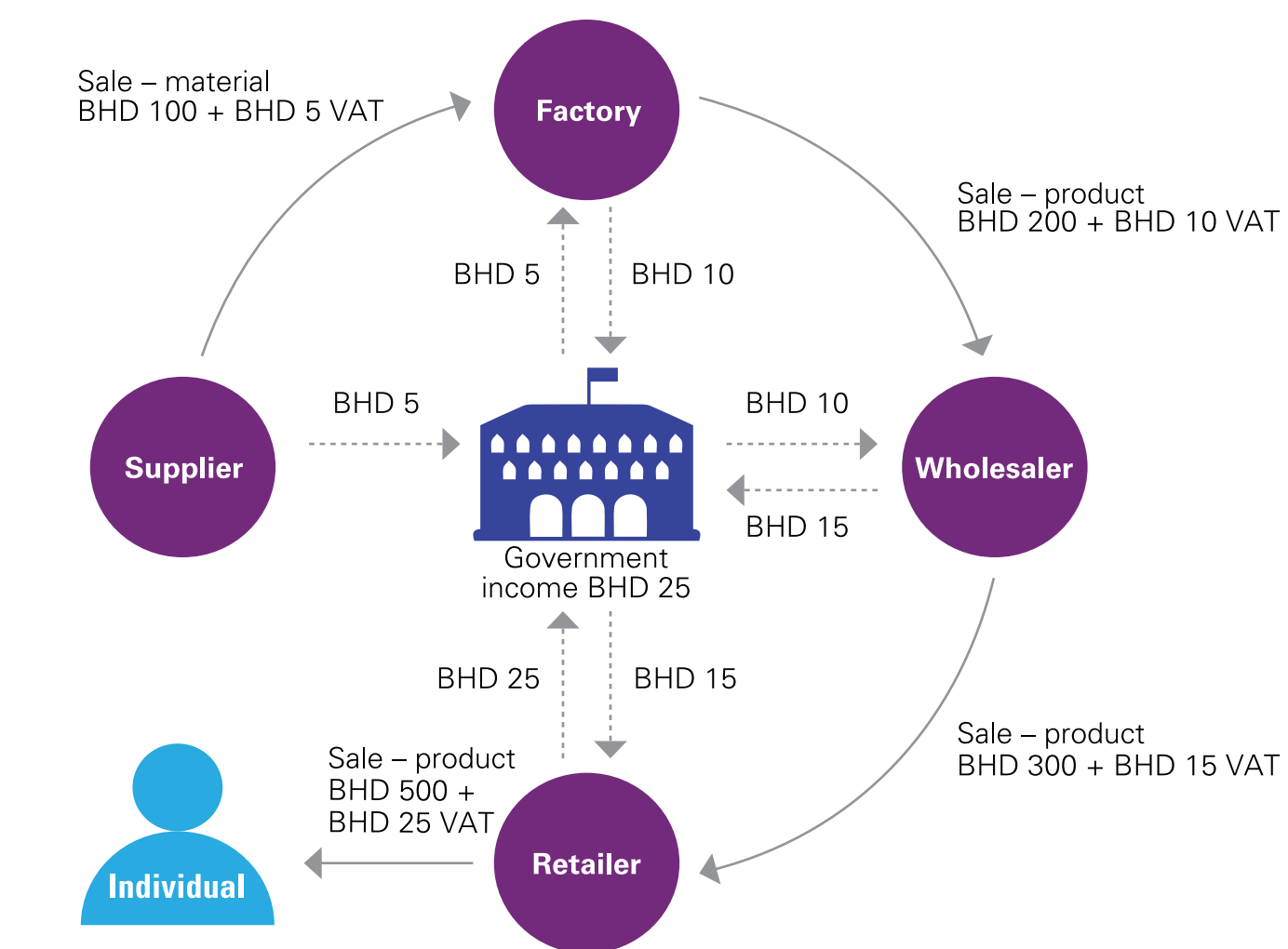
## A brief introduction to VAT in the GCC

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 ready?**

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.

[www.kpmg.com/bh](http://www.kpmg.com/bh)



What should you be doing?

**Phase 1: Plan and analyze**

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



Now

**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.

From 2018 onward



**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.

**Deliverables**

**Project plans**

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

**VAT awareness workshop**

**How KPMG can help**

**Scope of work**

**Transaction mapping**

- 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 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.

**Deliverables**

**VAT submission**

- 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.