

Tax Groups

VAT Compliance & Reporting



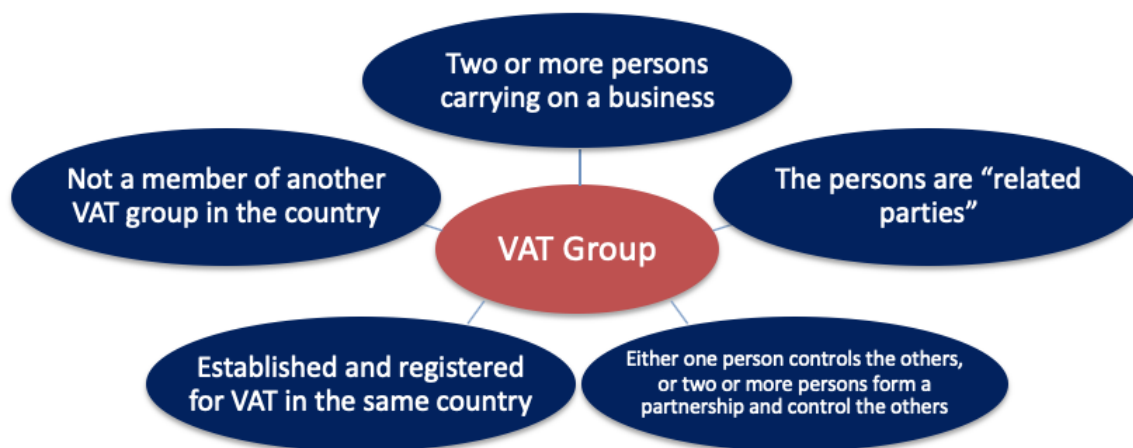
Introduction

Under the UAE Executive Regulations, registering as a Tax Group provides significant benefits to businesses to reduce the complexities and costs for VAT.

Although the term ‘Group’ implies this provision applies to solely large companies, the UAE economy hosts many businesses that are connected as ‘related parties’ where either one person controls the others, or two or more persons form a partnership and control the others. Therefore, Grouping can serve companies of various sizes operating as ‘related parties’.



The Benefits of Tax Grouping



The key benefit of Grouping being supplies made between members of a VAT group are disregarded from VAT (i.e. no VAT is due on the supplies) and treated as Out of Scope for VAT. Companies registered as under the same VAT Group will file a Consolidated VAT return with the same reporting period and filing can share a single VAT reporting period and submission deadline.

This is a major benefit if there are several parties where if ungrouped, they would be obliged to report and file VAT returns under Company registrations individually, manage and pay VAT for each company as per its filing deadlines and charge VAT on intra-group supplies, leading to an amplified impact on cashflow and management overheads.

In this paper, we share the challenges and approaches to improve operating as a Tax Group.

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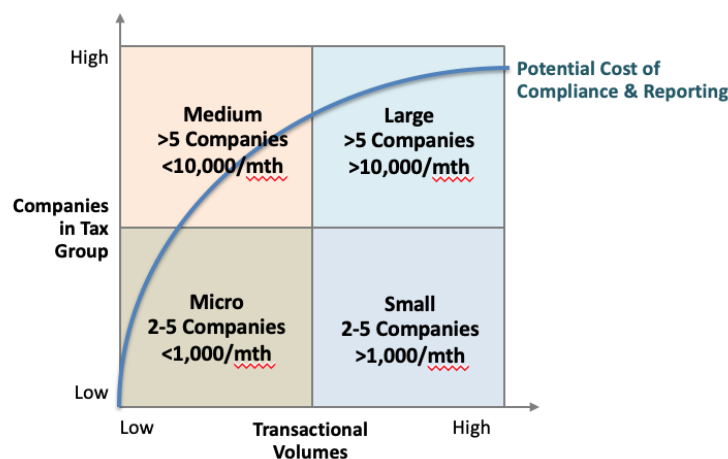
Operating as a Tax Group

As a Tax Group, the scale and scope of your obligations and the potential cost of compliance will be a function of 1. Nature of your business 2. Volume of transactions and 3. the number of related companies in the Group.

As a general guide the higher the transaction volumes, the variety and related nature of transactions and the number of companies in the Group, the higher the complexities and cost of your Group compliance and reporting model.

Whatever your situation, the technology platform, centralized internal governance & processes and VAT policies become increasingly important as business scope and scale increases.

Failing to assess, optimize and streamline these areas create opportunity for errors, place pressure on your finance function to meet deadlines and lead to challenges in case of FTA audit. For large groups, these lead to larger administrative penalties based on the VAT amounts under question.



If you have been operating your VAT model for some time, best practice is to review and refresh your model especially as there is period of operation to identify areas of risk and cost reduction.

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Improving Your Approach

Impacts to Finance

VAT places increased responsibilities on central teams to manage the implementation, controls, policies and reporting of VAT for the Group and adapt as the business or legislation evolves.

In addition, local finance and business teams also require support for any escalations. As a result, this forces the central team into the forefront for managing issues on a timely basis. The larger the group, the greater the requirement for expert resources to guide and manage these obligations.

For any central function, Governance and executive support are essential to empower central teams to roll out common policies and ensure they are supported by the individually companies. Whereas in the past the information flow may have been bottom up, this must change to a bidirectional flow to the businesses for your Group Tax structure to function correctly.

Impacts to IT

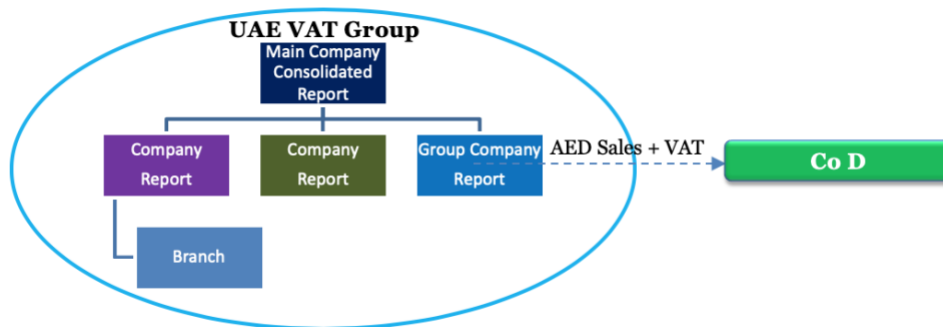
A critical component for Group Reporting is the IT application to cost effectively managing the transactional recording of supplies and purchases. Ideally your platform should:

- Accurately record taxable supplies at Emirates level
- Accurately recover purchase transactions
- Allow for blocked input VAT recovery
- Record intercompany transactional flows
- Reporting capabilities to generate the tax reporting by transaction type
- Create an audit trail with supporting document attachment from a filed VAT report

It may be the case that your business operates different software platforms or does not support group reporting functionality to provide a consolidated VAT report.

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This is a common issue and creates risk for errors, misreporting and presents risk such as:

- The manually prepared consolidated VAT report not reconciling with your source data.
- Manual corrections in the consolidated VAT report not reflected in the source data backed up by correct issue of Invoices and Credit notes as required.
- Lack of proper system audit trail in the event of enquiries or FTA audit
- Provision of FTA Audit File (FAF) to report transactional files as required by FTA.

If you are seeking to improving this situation, a system-based model may require upgrading your existing IT systems or complement your existing system with a VAT tool. Both options require careful planning, investment budgets, skilled resources and more importantly time. However, they will deliver benefits such as:

- Eliminate or reduce significantly any manual selection of tax codes and enable accurate recording and reporting of taxable supplies
- Enable use of selectable tax codes to correctly record Supplier invoices and accurately recover input VAT

To improve accuracy of your recorded purchases and supplies to correct tax codes, the use of a transactional tax validation tool will significantly reduce misreporting issues caused by human or system errors.

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Impacts to Internal Capabilities

A major contributor to a successful Group reporting model will be your company's investment in human resources. Increasing the Group finance function's skills and capabilities is essential. VAT can create specific challenges to commercial and financial departments. The Group function will be required to:

1. Input to contractual or commercial terms
2. Assess and manage cashflow impacts
3. Lead ongoing VAT reporting operational improvements
4. Guide and advise operating finance teams
5. Liaise with internal stakeholders to manage changes from new legislation
6. Manage FTA queries or audits

Research has shown a lack of attention on training and change management across the Group increases risks and can actually cost more than the required investment.

Summary

From our experience, these discussion points can improve the success of your Tax Group model and represent the main issues that can be better managed with:

- Enhanced visibility and sponsorship for central finance team
- Fit for purpose controls and governance
- Appropriate investment in IT
- Setting reliable and timely decision-making processes
- Filling capability gaps and resourcing appropriately

On-going training and development to remain compliant

In your assessment of your group reporting model, implementing changes may not necessarily lead to major demands on resources or investment. They may in fact reduce the financial impact to your business lead to better performance and cost of compliance.

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Our innovative and proven modular services are designed to enable individuals and businesses of all sizes, including Large Enterprise Tax Groups, to cost effectively manage their Financial & Tax reporting and derive key business insights to the business performance.

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