# Taxing times

By **Claire Malcolm** on May, 2 2018 | Industry News

The dual implementation of the newly introduced 'sin tax', and arrivals duty free unexpectedly falling under the scope of VAT, is having a double whammy impact on duty free prospects with the UAE and Saudi Arabia the first GCC nations to introduce both forms of taxation.

Saudi Arabia was first through the starting gate, introducing excise tax in June 2017, with the UAE following in October, and Bahrain in December; while both Saudi Arabia and the UAE kicked off the new year with the introduction of VAT.

According to Bernard Creed, Vice President Finance, Dubai Duty Free, who laid bare the bones of the fledgling legislation in a session at this year's MEADFA conference, the rest of the GCC isn't far behind.

"The legislation in Kuwait and Qatar is developed, but they still haven't confirmed when they will bring in excise tax; and Oman is still lagging behind. Bahrain is expected to introduce VAT in Q3 or Q4 this year with the rest of the GCC countries set to bring it in by January next year," he said.

Industry on the defensive

Generally payable on alcohol, cigarettes and soft drinks, excise duty (also known as the 'sin tax') may be a one-time non-refundable amount, but with the amount ranging anywhere from 50-100% - in the case of tobacco – there's a skyrocketing end cost to the consumer.

VAT in both Saudi Arabia and the UAE is currently set at 5%, which is extremely reasonable compared to many international jurisdictions, and departures as well as onboard duty free remains tax-free, but the inclusion of arrivals duty free within the taxable scope has been an unexpected blow to the industry.

Said Creed: "The risk to our industry is that if you want a duty free sign over your arrivals shop, and you're selling product such as tobacco, for example, and charging VAT and excise, is the whole concept of duty free being eroded? We believe that it is."

Sharjah Duty Free has already stopped selling tobacco on arrivals, with Abu Dhabi set to follow suit as the category has effectively lost its competitive pricing advantage.

"The legislation defines arrivals a vatable but departures as not, so any movement between departures also means very different VAT or VAT refund scenarios," he said, and added: "It influences so many aspects of our business, for example sales of our Millennium Millionaire tickets, online business and buy on departure, collect on arrivals – it's really quite complex."

The planned implementation of both forms of taxation across the rest of the GCC in the coming months is another area of industry concern, as Creed explained: "Potentially, within the next 12 months, anyone leaving our departures area and going to [other] GCC countries will be charged VAT, and we disagree with that.”