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The impacts of introduction of VAT on the audit profession and economy in the UAE: Auditors' perspective

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Abstract: Commencing 1st January 2018, Value Added Tax (VAT) was made effective in the UAE. The decision was made in light of the fall in oil prices and with the aim of diversifying the country's revenue to non-hydrocarbon sectors. This paper examines the impacts of introducing VAT on the audit profession and the economy in the UAE. Unlike previous studies which have viewed this topic from a business or consumer perspective, this paper examines it from an auditor's perspective. Given that this topic relates to a new policy and there isn't much literature available on it, this study explores the auditors' perceptions about the implications of this new policy on both; audit profession and the economy. This paper employs semi-structured interviews with auditors from both Big-Four as well as Non-Big-Four audit firms in order to collect data. This research, apart from being a timely and trending topic, may be useful to academicians, tax specialists, auditors, businesses and regulatory bodies. The findings of the study suggest that auditors are optimistic about VAT implementation in the UAE with respect to the growth in the economy in the long run. However, they have mixed perceptions regarding the audit profession and believe that there is no material impact on it due to VAT implementation.

Keywords: VAT, auditors, UAE, perceptions, economy, qualitative, Big 4 and non-Big 4.

JEL codes: M41

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1. Introduction

Value added tax is a vital source of revenue for nations all over the world. Apart from its significant impacts on the GDP, it is one of the most widely accepted means of indirect taxation. VAT can help the UAE government diversify its revenues so that it may reduce its dependency on the oil sector. From 1st January 2018, the United Arab Emirates (UAE) Government has imposed a VAT of 5% (Ministry of Finance, 2017). This paper aims to understand the impacts of introduction of VAT on the audit profession in the UAE as well as the economy as a whole. VAT is the first form of taxation being adopted by UAE and thus makes it an interesting research topic.

The International Monetary Fund (IMF) played an important role in influencing UAE to adopt a VAT. Though the issues of implementation, compliance and general increase of standard of living will be present, VAT will bring about new employment opportunities and foster economic growth of the nation. Research is silent on the auditor's perspective of impacts of introduction of VAT on the economy and this will be the dimension adopted by this paper.

The six member-nations of the Organization of the Petroleum Exporting Countries (OPEC) also realized that there was a pressing need to resort to renewable sources of energy instead of oil as there is a rising awareness globally about environmental issues such as pollution. Moreover, since oil reserves will run out in a few years, the nations need to identify means to cope with this depletion, as seen in Figure 1:

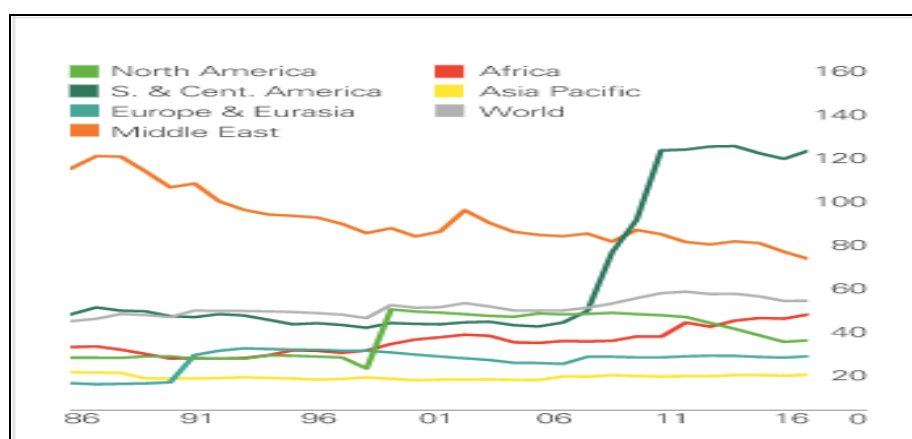


Figure 1. Reserves to Production (R/P) Ratios History (Years)
(Source: BP, 2017)

In 2008, an initiative called Gulf Common Market was approved for launch by the GCC in order to improve trade and investment through the provision of a single market (Al Murad, 2017). To make this initiative a smoother process, the GCC

decided to introduce a single rate of VAT applicable to all goods and services with the exception of basic necessities such as food, healthcare and education (PwC, 2017).

The UAE follows a system of fees rather than taxes such as sponsorship fee of employees, license fee etc. There is no income or corporate tax which adds on to the willingness of organizations to startup businesses in the UAE. Moreover, 'Free Zone Areas' have been set up which are characterized by a tax-free environment and confer free customs duty benefits (PwC, 2015). Taxation aims to, among other things, support the economic growth. According to economic theory the economic system of any country will be affected by its tax policy (Gober & Burns, 1997; Stoilova, 2017).

This paper seeks to investigate the implication of VAT policy on UAE, in particular, the paper tries to answer the following questions:

- a) What potential implications does the introduction of VAT have on the audit profession in the UAE?
- b) What are the likely impacts of introduction of VAT on the UAE economy?

A country's economy is affected by the taxation system of the country and therefore it is crucially important for regulators to assess the implication of any taxes adopted by the country (Gober & Burns, 1997). According to Stoilova (2017), conventional economic theory holds that taxation may create distortion may adversely affect the economic growth.

To the best of our knowledge, this paper is different as it may be the first empirical one after the implementation of VAT in the UAE. Literature has been silent with regards to the impact of VAT on the audit profession and practices as well as the impacts on the economy from an auditor's perspective. This study aims to tackle this gap in the literature. Previous studies on VAT in relation to the UAE have been carried out from a business or consumer perspective such as Gilder (2017) and Al Murad (2017) and those cited in them such as Al Mehrazi (2014) and Mears (2016).

The findings of the current research suggest that auditors are optimistic about VAT implementation in the UAE with respect to the growth in the economy in the long run. However, they have mixed perceptions regarding the audit profession and believe that there is no material impact on it due to VAT implementation. Such finding may be of interest to some stakeholders. For example, regulators whose concern would be the consequences of any new economic policy.

The papers is structured as follows: the following section, Section 2, reports on the literature review about VAT. Section 3, discusses research methodology and

methods while Section 4 analyses and discuss the findings. Section 5 concludes the study and limitation and further research recommendations are reported in Section 6.

2. Literature Review

2.1 VAT- Origin and Definition

In 1918, a German businessman by the name of Dr. Wilhelm von Siemens originated the idea of VAT while Maurice Laure who was the Joint Director of the French Tax Authority, was the first to implement it in 1954 (Charlet & Owens, 2010: 943). France was identified as the first country to adopt VAT (Shenk & Oldman, 2007). VAT was rarely heard of beyond France till around fifty years ago (Keen & Lockwood, 2007). More than 150 countries have implemented VAT and it is an extensively recognized indirect taxation system globally (Brown & Gale, 2012) which accounts for at least 20% of the entire tax revenue (Grinberg, 2009).

Basic and special rates for certain goods and services along with exemption for some economic activities, good and services is the structure of many VAT systems (Kamruddin, 2012). The definition of VAT has been scrutinized by many academics (Bird, 2005; Charlet & Buydens, 2012; Keen, 2013; Onwuchekwa & Aruwa, 2014) which advocates that it is an indirect tax which is charged on goods and services consumption; levied on the value of imports; and the value added on goods and services provided by one entity to another whilst it reaches its ultimate customer (Xing & Whalley, 2014). In a multistage production, businesses engage in upstream and downstream transactions in order to produce the final product. Indirect taxes are levied by the government on the production or sale of goods at every stage. In order to prevent double taxation, VAT is devised to tax the "value-added" in each step (Xing & Whalley, 2014).

Timing is critical with VAT. The time of supply will decide if a supply will be subject to VAT as well as determine the rate which is chargeable. This is commonly referred to as the 'tax point'. In the context of the UK and in particular VAT on land, a tax point is formed for a contract on sale of land in the sole instance of the deposit being taken as agent for the seller and not as a stakeholder. In such a scenario, only the deposit can be charged for. Since the land was barren at the contract stage, VAT was exempted on the deposit. A noteworthy point is that the final use of land was immaterial in this scenario (Harper, 1995).

The greatest drawback of VAT is substantial administrative burden which implies that the cost of tax administration as well as taxation are high. However, the benefits include neutral effect of taxation, deterrence of tax evasion and greater transparency (Hajdúchová et al., 2015).

2.2 Impacts of VAT on the economy

Limitations of government expenditure, ineffective tax collection and international tax competition may pose a constraint on policymakers. This may lead to implementation of more consumption taxes such as VAT. Such taxes are frequently recommended to improve compliance (Weller & Rao, 2010). Studies on VAT stress on the significance of the circumstances under which VAT is completely optimal wherein an efficient tax structure necessitates the advancement of VAT and income taxes in the case of Romania (Keen, 2008; Zee, 2008; Pantazi & Straoanu, 2011).

Taxes are a vital portion of state budget revenues and VAT accounts for majority of the income from taxation in Slovak Republic. As per a study conducted, it is seen that regardless of the gradual rise of tax revenue to state budget, the portion of VAT on total tax revenues did not increase even though the rate was increased by one percentage point. On analysis of the effectiveness of VAT, it is comprehended that the tax revenues are multiple times greater than the expenditures for tax collection, and tax collection can be concluded as effective (Hajdúchová *et al.*, 2015). VAT has significantly contributed to fiscal revenue in developing countries such as China as compared to developed countries (Xing & Whalley, 2014). In developing countries, where tax revenue is much-needed, VAT is expected to improve efforts to assemble it through efficiency in tax compliance and administration. However, the opponents to this school of thought contrast this view by saying that there is no proof regarding how the government uses this revenue (Keen & Lockwood, 2007). This view is the true in the context of the United States (only OECD country without VAT) where the presidential panel was unsure of whether to adopt VAT or not: “Some panelists were.... concerned that introducing a VAT would lead to higher total tax collections over time and facilitate the development of a larger federal government—in other words, that the VAT would be a ‘money machine’” (President's Advisory Panel, 2006. 192).

Only two studies have considered the effect of VAT on the efficiency of and the income generated by the entire tax system. A primary evaluation of the impact on revenue of a few VAT implementations was done through case study by Nellor (1987). In the most recent past, Ebrill *et al.* (2001) have observed the same, however, using a single cross-section of data. Moreover, all the papers cited above consider the existence or absence of a VAT as exogenous which may result in a biased conclusion.

An empirical study involving an uneven panel of 143 countries over 26 years showed that VAT adoption is linked with a long-term rise in the overall revenue-to-GDP ratio of around 4.5% (Keen & Lockwood, 2007). Several researchers have claimed that VAT can be progressive when basic consumption items have the provision to be excluded (Munoz and Sang-Wook 2003; Decoster, 2005; Jenkins, Jenkins & Kuo, 2006). With respect to CEE-5 countries, for the period 1995-2005, a rise in VAT rate positively affects economic growth in the long run. On the short

run, however, this rise will cause consumption tax collection difficulties which will decrease the GDP rate (Simionescu & Albu, 2016).

2.3 VAT in the UAE

VAT has been the flagship of tax reform in many emerging nations apart from extensive implementation in sub-Saharan Africa. In the recent decades, the ascent of VAT has been the most crucial growth in tax policy and administration. This has influenced Libya, Syria and several Caribbean countries, apart from UAE which is our point of interest, to consider adoption of VAT in the near future (Keen & Lockwood, 2007). VAT has been found to be a good means to increase resources and modernize the tax system in totality (Ebrill *et al.*, 2001).

The role of IMF is also quite significant in the spread of VAT. The prospect of embracing VAT substantially increases with partaking in a non-crisis IMF program. Moreover, if a large percentage of other nations in the region have already implemented VAT, this may act as an additional influence. Fascinatingly, results strongly suggest that VAT implementation is less likely in more open economies (Keen & Lockwood, 2007).

Value Added Tax is deemed to be the most stable source of revenue which has the least negative consequences on investments. UAE, which is a macro-fiscal environment, a rate such as 5% which is minimal could be considered. Revenue can be raised at low efficiency costs by means of broad-based consumption taxes such as VAT (IMF, 2015).

Simultaneously, there would be comparatively insignificant equity consequences as the taxes are minimal and the expenditures by government are backed by oil revenue. Tax administration would receive a substantial and positive lift. VAT yield is estimated to be 2.7% of non-hydrocarbon GDP (IMF, 2013). VAT collection in other regions include 1.5% of GDP in Algeria to around 8% in Chile and Norway from oil exporters, as seen in Figure 2 below (IMF, 2015).

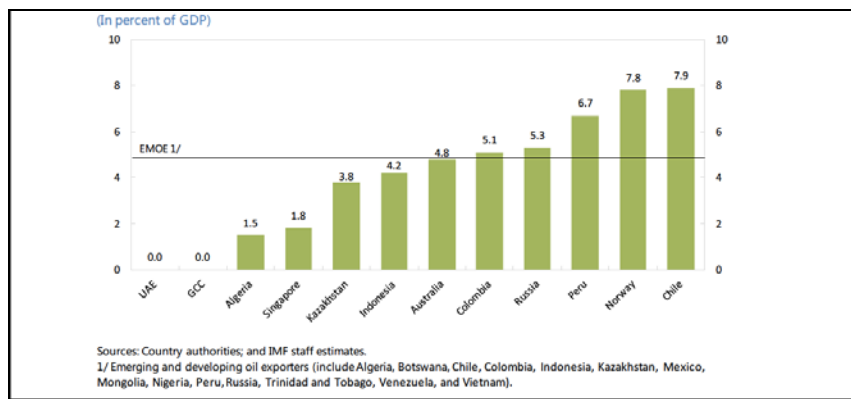


Figure 2. VAT Revenue (2014)
(Source: IMF, 2015)

Commencing 1st January 2018, VAT has been introduced across UAE at a nominal rate of 5% (Ministry of Finance, 2017). Debates on whether a uniform or differentiated rate of VAT are extensive since there is constant progress in the optimal tax theory (Ramsey, 1927; Atkinson & Stiglitz, 1972; Sadka, 1977; Keen, 2007). Public services such as schools, roads, waste management etc. are rendered by the UAE Federal and Emirate governments which are financed by the government budgets (Ministry of Finance, 2017). Empirical evidence doesn't support the notion that public expenditure effectively serves the requirements of target groups (Filmer & Pritchett, 1999; Gauthier & Wane, 2008).

UAE needs to harmonize its VAT implementation with other GCC countries as it is a part of "The Economic Agreement between the GCC States" and "The GCC Customs Union". Historically, these countries have worked together to propose and adopt new public policies which they identify as working in the best interest of the region (Ministry of Finance, 2017). According to IMF, the government will be able to diversify its sources of revenue as well as reduce reliance on oil and other hydrocarbons which marks a growing economy. Around two-thirds of the GDP is attributed to non-hydrocarbon undertakings. The volatility of these exports which is 68% of entire exports of goods which is facilitating the growth drive even with the dip of oil prices post June 2014 and appreciation of the local currency owing to the fixed peg to the US dollar (Al Mansoori, 2017).

Non-hydrocarbon exports increased by 3.4% in 2015, and 4% in 2016 which gave a lift to the progress of export-oriented trades. In terms of GDP growth, it slowed down in 2015 to 3.2% and 2.7% in 2016. However, it is expected to recoup to 3.1% in 2017 and 3.4% in 2018 due to improved oil prices and a spike in growth globally (Al Mansoori, 2017). The Gulf-wide VAT scheme will omit VAT on key food items, education and healthcare according to Younis Haji Al Khoori who is the under-secretary of the UAE's Ministry of Finance. A zero rate will be applied to the education and healthcare sector. Tax is exempted from around 94 foodstuffs (Kundnaney, 2017). For a business in the UK, from an international business point of view, paying VAT locally would make administration easier. However, if there is scope to handle it overseas, the business may strategically base itself in a nation where the VAT is lesser than that of the UK (Newark, 2006).

The UAE government has followed its policy along these lines. Foreign businesses can recover the VAT incurred by them while operating in UAE. This has a dual-goal wherein it motivates them to continue operations in the UAE as well as provides local businesses with the same opportunity of being able to recover VAT when operating in other nations who charge a higher rate (Ministry of Finance, 2017).

Government entities will be subject to VAT for their supplies which safeguards that they are not unfairly advantaged in comparison to private entities. However,

certain supplies produced by government entities for which they are sole suppliers or there is no private competition, will be exempted from the scope of VAT (Ministry of Finance, 2017). Standard rate of VAT will be applicable to commercial property (leases and sales). Residential property (leases and sales) will be exempted from the standard rate except for the first sale of a new property, in which case, the zero rate of VAT will apply. VAT is exempted for bare land and residential rents. However, this exemption to rent applies only when the lease exceeds six months (Nair, 2017).

However, studies on the implications of VAT on cross-border trade suggest that other than high-income nations, export performance and openness are both inversely related to the existence of VAT as well as the degree of revenue dependence on it (Desai & Hines Jr., 2005). However, the above study considers the presence or absence of a VAT as external which may result in a biased conclusion. Newark (2006), in his study, suggests that VAT isn't confined to the accounts division only. It has extended its reach to the boardroom where its repercussions on any new business deals or undertakings are considered. Initial checks include whether or not the good/service is subject to VAT (Newark, 2006). When VAT wasn't even due and the customer can't reclaim it, it becomes quite relevant.

An unnecessary VAT charge may impact the product's competitive positioning which is crucial for retail businesses (Newark, 2006). The aim of businesses in the UAE should be to address VAT implications at the boardroom level instead of limiting it to the accounts department which can help minimize losses.

There are various technical and administrative hardship for authorities. These include drafting detailed regulations, registering tax paying companies and creating bureaucracies to supervise the system. Some specialists also expect VAT to slow down economic growth which deepens the current economic situation (Khaleej Times, 2017)¹.

The consumption pattern of women is different which may lead to a gender bias due to VAT. Apart from nutrition, education and health, women are likely to purchase more goods and services than men. These include luxury items, entertainment and items of daily use. In addition to "pink tax", which already renders products of girls and women more expensive as compared to men, VAT would aggravate this inequality. Thus, the impact of VAT may be weighted towards women despite exemptions and zero ratings (Kundnane, 2017).

Gender-specific expenditures include beauty services, cosmetics and sanitary products. Sanitary product taxation has been a debated topic in various nations in the past. As of now, there is no information regarding this in relation to UAE.

Despite these drawbacks, VAT will serve as a new source of employment with the creation of employment opportunities for men and women in VAT consultancies, thus generating a new industry of employment for oil-based economies (Kundnaney, 2017).

3. Research methodology and methods

This paper falls under the case study design which includes a detailed and rigorous analysis of a single case (Bryman & Bell, 2011). It is a very popular approach adopted in business research (Eisenhardt & Graebner, 2007). Researchers who adopt a case study design tend to favour qualitative approaches involving participant observation and interviews. If a qualitative approach is adopted, it may result in an inductive approach between theory and research. Lee *et al.* (2007) believe that particularization rather than generalization is one of the key strengths of case studies. Thus, the aim of case study analysis is to emphasize on the individuality of the case as well as develop a deep understanding of its complexity (Bryman & Bell, 2011).

Qualitative methods focus on context and provide a more holistic account of the reality (Liamputtong, 2013). This means that the outcomes will differ from person to person which results in a wide range of answers, thus enabling the researcher to look at the larger picture (Holloway, 1997). The key advantage of qualitative method is that it discloses the “natural, interactive and personal” side of human attitude.

The above discussion shows that an inductive approach facilitated through a qualitative methodology is most appropriate. The inductive approach moves from particular observations to broader theories and generalizations (Saunders *et al.*, 2012). The method of data collection adopted under the qualitative methodology is interviews. Interviews are one of the most frequently used methods for collecting data in qualitative researches (Symon & Cassell, 2012). The interview questions for this study can be found in Appendix 1.

The advantage of semi-structured interviews is that it has a certain degree of flexibility which allows the questions to be modified according to the respondents so that the quality of the data can be enhanced. A total of sixteen interviews have been conducted using both traditional as well as modern techniques of interviewing which are face-to-face (9) and telephone (1) and Google Forms (6) respectively. Majority of the interviews were conducted face-to-face. However, to suit the convenience of some of the interviewees, telephone interviews and electronic interviews via Google Forms have also been used. Since the interviews have been conducted during the demanding season for auditors (year-end audits), many found the electronic interviews easier. The time frame for conducting all the interviews is one month. Telephone interviews are considered convenient, speedy and cost-

effective (Saunders *et al.*, 2012). As per Morgan and Symon (2004), electronic interviews fall into two categories which are synchronous (in real time) and asynchronous (offline), as seen in the next page:

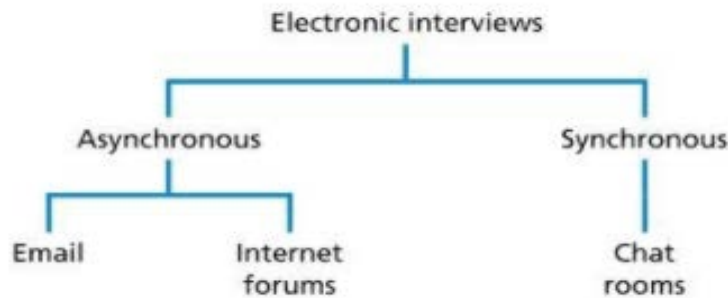


Figure 3. Types of electronic interviews
(Source: Saunder *et al.*, 2012)

This study has adopted asynchronous electronic interviews via internet forums (Google Forms). The first section of the form requires some inputs regarding personal details. The following section has all the interview questions. Once all the interviews are completed, Google Forms transcribes the responses into spreadsheets which is used for data analysis.

The first five questions of the interview are related to the audit profession and the remaining four relate to the economy. For the face-to-face and telephone interviews, each one would last between 15-20 minutes as mentioned in the information sheet provided to each interviewee. The consent of the interviewees will be obtained before the interviews so that the sample size remains unaffected. The interviews will be recorded to provide supporting evidence to the written summaries.

Overall, the number of male interviewees were slightly higher than female interviewees. Similarly, the number of non-big-four interviewees were marginally more than the big-four interviewees. The qualifications held by most of the auditors were ICAI, followed by the ACCA. Majority of the interviewees have 2-5 years of experience in the audit profession. The auditors with more than six years of experience held senior posts such as Director, CEO, Partner etc. Table 1 summarised the interviewees' demographic information.

Table 1. Interviewees' demographic information

Respondents				
Non-Big 4	Code	Gender	Experience	Qualification
MM	N1	Male	6-10 years	ICAI
RR	N2	Female	6-10 years	ICAI

Respondents

Non-Big 4	Code	Gender	Experience	Qualification
RE	N3	Female	2-5 years	ICAI
MS	N4	Male	2-5 years	ICAI
JM	N5	Female	2-5 years	ACCA
VS	N6	Male	2-5 years	ICAI
KG	N7	Male	2-5 years	Others: CMA, CS
AK	N8	Male	More than 10 years	ICAI
MN	N9	Male	More than 10 years	ICAI

Big 4

AP	B1	Female	Less than 2 years	ACCA
MD	B2	Male	2-5 years	ACCA
PC	B3	Female	6-10 years	ICAI
AI	B4	Female	2-5 years	ICAI
PS	B5	Female	More than 10 years	ICAI
AV	B6	Male	More than 10 years	ICAI
NN	B7	Male	More than 10 years	ICAI

Before the interviews were done, a pilot study was conducted with three senior audit managers. They provided ideas regarding additional areas that could be studied and this was incorporated into the final set of interview questions. Pilot study is an important step to ensure that the questionnaire is properly devised so as to obtain the most valuable answers from the selected sample (Denscombe, 2014).

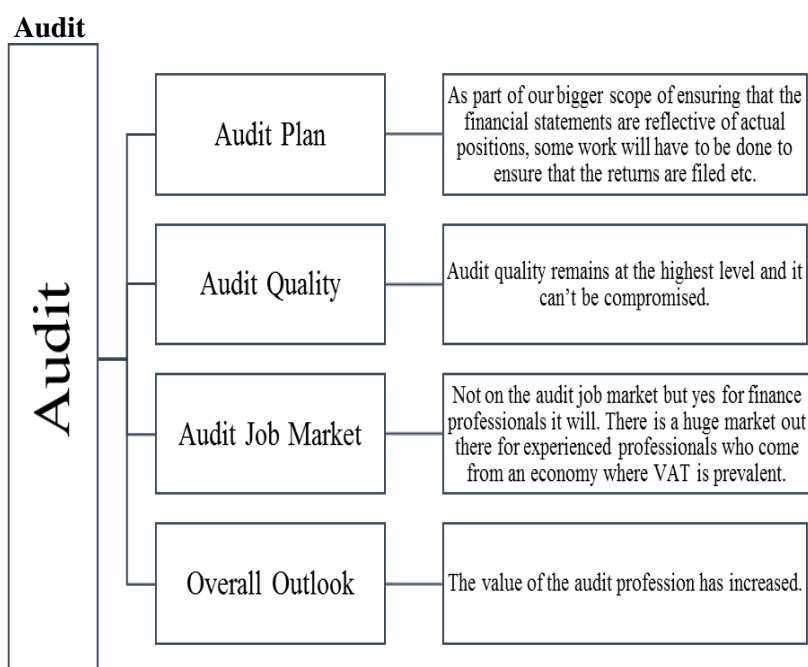
4. Data analysis and findings

The data analysis technique that will be employed in this paper is thematic analysis. Thematic analysis is a “method for identifying, analyzing, and reporting patterns (themes) within data” (Braun & Clarke, 2006).

For the face-to-face interviews, the voice recordings were transcribed first. For every interview question, the data was read multiple times and responses with similar traits were grouped together to form sub-themes. These were further grouped together to arrive at the themes which presented a broader picture. Once the themes had been identified, the most relevant and valuable quotes relating to each theme/sub-theme were gathered and subsequently evaluated and the relevant concepts and findings as per previous studies in the literature review was taken into account while analyzing the responses of the interviewees.

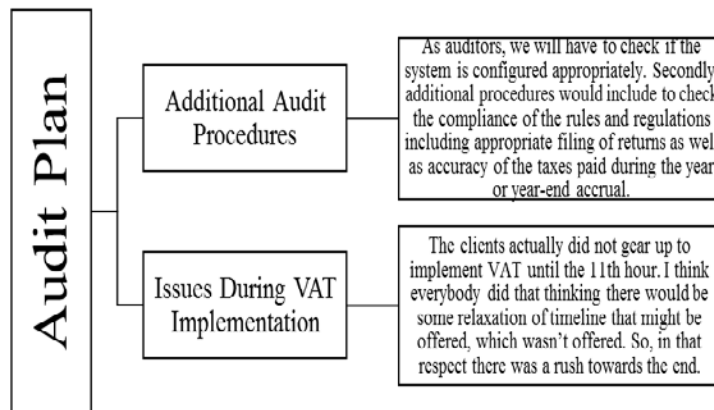
The main themes associated with audit are the audit plan, audit quality and audit job market, which form Section 4.2.1- 4.2.3 respectively. Section 4.2.4 provides the overall outlook of the auditors with respect to the audit profession. Section 4.3 analyzes the responses related to the economy with an emphasis on relocation of businesses, relocation of people and impacts on start-ups/new businesses (Section 4.3.1- 4.3.3 respectively). Lastly, the overall perception of the interviewees regarding VAT implementation on the economy as a whole is discussed in Section 4.3.4. These themes will initially discuss the responses provided by the participants, and then trace it back to the literature review as mentioned earlier.

An essential note while progressing through the current research is that the names of the interviewees will be kept confidential throughout this study. References to the Big-Four interviewees will be done using codes beginning with 'B' while 'N' will be used for the Non-Big-Four interviewees throughout this paper. A diagram comprising the sub-themes and a respective noteworthy quote from the interviewees has been presented at the beginning of each theme.



The first theme in this study is audit which will be studied through three sub-themes, namely: audit plan, audit quality and audit job market. These sub-themes were formulated to ensure that all the important aspects pertaining to impacts of VAT implementation on the audit profession were covered.

Audit Plan



This theme is drawn based on Question 1 of the interview which asked the auditors if the audit plan would be impacted due to the implementation of VAT in the UAE. It also questioned, for instance, whether it would result in any additional audit procedures. 50% of the interviewees believed that the implementation of VAT would definitely affect the audit plan. Interviewee B5 emphasized that VAT falls within the scope of an auditor’s work. Additionally, she points out that even though it falls within the scope of audit, they cannot provide complete assurance, as is the case with any other line item:

“...typically, as an auditor, under the ISAS, we are expected to audit these as well if they are significant and have a significant financial implication ... as part of our bigger scope of ensuring that the financial statements are reflective of actual positions, some work will have to be done to ensure that the returns are filed etc. We obviously don't give a 100% assurance but we'll have to do some sampling and see whether the way they're accounting for VAT is IFRS compliant.”

Moreover, Interviewee N6 said that VAT being the first tax in this region would significantly impact the audit plan as:

“VAT is a new terminology for this market where there are no taxes. So definitely there needs to be a lot of focus emphasized in the audit plan. Once it becomes a routine practice for everyone, the quantum of risk might reduce but initially since the law isn't very clear, there isn't much to rely upon unlike India where there is GST for example, which can be related to VAT. Due to this there is a lot of confusion

going on. All in all, there is a significant increase in the audit plan due to this as well as more procedures.”

On the other hand, Interviewee N4 says that it will not impact the audit plan. It is just an additional area to be considered by the auditors:

“...VAT is just a new step which we need to consider, just as other type of steps such as debtors, expenses etc.”

Furthermore, Interviewee N7 gave an insight into the changes that VAT will bring to standard practices:

“Earlier customs value was different from our value but now it is the same. So as part of the audit, we need to check if the purchase value is same as that of Customs.”

Four out of the sixteen interviewees were unsure about the impact of VAT implementation on the audit plan. Interviewee N5 said that it wouldn't necessarily impact the audit plan since a specialized VAT team is present to handle VAT matters. However, it would result in an increased timeline since a new area has to be taken into consideration:

“It would honestly depend as most of the VAT work is done by the VAT team. However, we need to verify if the VAT has been calculated correctly and as far as the accounting entries are concerned, whether they have been accounted for properly in the books of accounts. This is how they will make payment to the authorities and we would have to report for any mismatches. So, on a normal basis we would just check up on purchases and sales but then now we'll have to make an additional timeline for calculating VAT on those sales and purchases that have been made. It will be an increased timeline definitely.”

Overall, the responses pertaining to impact on the audit plan are mixed. The most common response was that rather than a significant impact on the audit plan, it would only result in additional audit procedures. This aspect has been covered in the following section.

Additional Audit Procedures

All of the respondents unanimously agreed that it would result in additional audit procedures to ensure that VAT is computed correctly and VAT laws are being complied with. Interviewee B4 says that:

“The additional audit procedures would start from the test of the IT system where the configuration has to be changed by the clients, for e.g. invoicing (including VAT amount). As auditors, we will have to check if the system is configured appropriately. Secondly, additional

procedures would include to check the compliance of the rules and regulations including appropriate filing of returns as well as accuracy of the taxes paid during the year or year-end accrual.”

Interviewee B5 said that the quantum of additional procedures depends on the types of transactions the businesses deals with:

“I think it becomes a bit more challenging when you have import-export, transfers within free trade zones and certain specific items such as free samples.”

The opinions of Big-Four and Non-Big-Four auditors were similar. They all believed that implementation of VAT would definitely result in added responsibility, additional work and increased timeline.

Issues Regarding VAT Implementation

This theme refers to Question 3 wherein the interviewees were asked if they faced any issues regarding VAT implementation for their clients. 50% of the interviewees said that they faced challenges while implementing VAT. It is worth noting that of these, seven out of eight interviewees belong to the Non-Big-Four category.

The general consensus among Non-Big-Four auditors is that they did face some hurdles while most of the Big-Four auditors (five out of seven) did not face issues with respect to the implementation process. As mention by Interviewee B7, this is because the Big-Four usually takes on larger clients as compared to the Non-Big-four:

“We don’t usually do the implementation for the client, the clients would do it themselves and then hire consultants to help them... The big clients started preparing almost 6-9 months before the implementation date... It depended on the nature of the client, their size, complexity and confidence regarding implementation.”

Specific to the airline industry, Interviewee N5 said that there was confusion of which VAT category it falls under:

“If you see for an airline company, you don’t know if you need a VAT return, or if it’s completely exempt, or its zero-rated VAT. It is a service entity but an airline is a zero-rated VAT entity. They don’t have "costs", only revenue and expenses, so the difficulty of accounting for VAT arises.”

Interviewee N6 gave some insight into the VAT implementation challenges for banks and how the Government has been lenient to ease the process. The interviewee also mentioned the issues faced by the hospitality sector:

“The banks which were earlier given return filings for one month, have now shifted to quarterly... FTA says charge VAT but the other party says the banks can't increase the rates. In the end, money is going from the banker's pockets. With regards to hospitality industry, there was a confusion on whether VAT is applicable to 'Municipal and tourism fee'. There was no clarity and then the Tourism Authority came up with a clarification.”

With respect to the insurance industry, Interviewee N7 gave some shocking statistics which show that even though VAT is just 5%, at a large scale it has a huge impact on businesses. The interviewee also said that the businesses in the construction industry, predominantly transacting through post-dated cheques, have to carefully plan their cash flows so that they can correctly account for VAT:

“...the tax and internal documents are different. Thus, a lot of industry complications have been taking place. One of the big hits for the insurance sector is that if they have collected the advances for the policy falling in this year. The client is paying around AED 8 million for VAT. With regards to the construction industry, earlier they used to give and collect PDC's. Now they have to capture and pay VAT. So now they have to plan their cash flows.”

The main issue faced by SMEs according to Interviewee N8 was that they may not be technically equipped to ensure a smooth transition:

“...there were some issues with the softwares. With SAP for example, if the IT guys are tech-savvy then it isn't a big task but in other cases they find it difficult to map in the integration. Usually only revenues are linked to tax but now advances are also linked to taxes.”

On a slightly different angle, Interviewee N9, through the example of a transport company, said that some of the transactions that may be allowed legally, might not fulfil the VAT criteria:

“A driver may approach such a company and take a vehicle in the name of the company but paid by the driver. It will be the responsibility of the driver and they will make monthly payments but the legal responsibility lies with the company. The issue with this is that the company doesn't know where it is running, how much revenue is being generated etc. The drivers won't make tax invoices. Thus, such sort of issues exist wherein they are legally permitted to work but it doesn't satisfy the VAT requirements.”

In such a case, businesses may have to rethink how to accommodate such transactions (e.g. by making sure drivers issue invoices) or may have to put an end to such dealings.

Contrasting the issues mentioned above by the Non-Big-Four auditors, most Big-Four auditors were of the opinion that the main issue faced was that the regulation came out very late and since the law is generic, there was some confusion regarding its interpretation. Moreover, Interviewee B6 said that part of the challenges faced may be attributed to the procrastination and complacency of the businesses:

“Considering that the Government has been talking about VAT implementation for quite some time, there were a number of news articles that came on VAT but the clients actually did not gear up to implement VAT until the 11th hour. I think everybody did that thinking there would be some relaxation of timeline that might be offered, which wasn’t offered. So, in that respect there was a rush towards the end.”

All in all, there seems to be some industry-specific issues but the initial panic and confusion has subsided as indicated in the responses. The auditors believe that within a year’s time, VAT will become a part of routine. The perspective of auditors with more than 10 years of experience was directed towards issues faced by businesses in general while those with 2-5 years of experience were able to give industry-specific examples. This may be because the latter group has hands-on experience with the clients as compared to those with more than 10 years of experience who hold positions such as directors, CEOs etc.

Audit Quality

This theme relates to Question 2 of the interview which examined whether implementation of VAT would impact the audit quality according to the auditors. The responses were very conflicting. All of the Big-Four auditors said that it would not affect the audit quality. Their underlying reason was that the audit quality can’t be compromised and additional procedures are done to ensure that a correct audit opinion may be given. Interviewee B4 said that:

“On a quantitative basis, there may be few longer audits based on the complexity and additional procedures required on a client.”

In addition, Interviewee B6 conveyed that it is well within the scope of the auditor’s work:

“I think not really as it’s a part and parcel of change in the economy. New things get implemented, audit quality remains at the highest level and it can’t be compromised. We will have to do additional procedures to achieve and maintain that audit quality which is required for us to give an opinion on the financial statements.”

Interviewee B7 believes that rather than the audit quality, it will improve the quality of records from the business point of view:

“It will however, make companies start maintaining proper records and they'll have to formalize a lot of things. So, it will help improve documentation from the company's side. So, it will help the companies more than the auditors.”

Among the Non-Big-Four auditors, five out of nine interviewees believe that it will impact the audit quality and another said that it may impact the audit quality depending on the situation. It is worth noting that the Non-Big-Four interviewees who said that it resulted in improved audit quality, said so as a consequence of increased responsibility and work. Thus, the very definition of audit quality is unclear among many of the auditors even though they are professionally qualified.

For instance, Interviewee N4 said that: “Yes, because of the VAT, auditor's responsibility will increase and he will work with more efficiency.” Interviewee N7 said that businesses disclose more information now, which in turn improves the audit quality:

“Earlier the clients wouldn't provide much information saying that it is internal information but now they are ready to give all information due to compliance requirement. So, it will definitely increase the audit quality.”

On the other hand, Interviewee N9 and two other interviewees said that the audit quality would be unaffected even if the audit isn't mandatory: “Quality of the audit can't be compromised whether there is a legal requirement or not.” Thus, ten out of sixteen interviewees don't believe that implementation of VAT will impact the audit quality in any manner. It will simply result in additional procedures, time and effort. The Non-Big-Four auditors who believe that it would impact the quality did not provide justifications which reconciles with the audit quality definition, as is evident from their responses. Moreover, they mainly belong to the category who have 2-5 years of experience which may suggest that their limited experience may cause their statements to be less credible.

Audit job market

Pertaining to Question 4 in the interview, this theme questions how introduction of VAT in the UAE would impact the audit job market. Similar to the previous question, the responses were varied. Eight out of nine Non-Big-Four interviewees said that the audit job market would improve. On the other hand, six out of seven Big-Four interviewees said that there would be no impact. Their rationale was that rather than the audit job market, job creation would focus on tax specialists and other finance professionals.

Interviewee N9 also goes on to highlight the rise in significance of internal audit:

“Yes, the opportunities will be more. Importance for accounts is larger now which increases their scope. Tax audits are not required so

auditors aren't directly issuing any report for tax purposes. However, at the same time, accounts have to be maintained properly and need to be checked so audit is required. In that way, more companies are proposing for auditing to make sure everything is in line. In specific, rather than statutory audit, internal audit has got more scope. So that's the biggest change in the audit field. Sometimes, in SMEs, they aren't able to employ full time accountants so they'll approach audit firms to do part-time book-keeping."

Contrary to such views, the interviewees said that the job market would cater to finance professionals and tax specialists as mentioned earlier. Interviewee B3 says that the impact would:

"Not on the audit job market but yes for finance professionals it will. There is a huge market out there for experienced professionals who come from an economy where VAT is prevalent. They can use their expertise and guide, and in particular has opened up jobs for people with an interest/expertise in tax matters. The inflow is mainly from any developed economy which has VAT."

Some of the auditors said that it is quite similar to the Goods and Services Tax (GST) which has been implemented in India. Thus, a lot of professionals are being brought in from India and other places with strong taxation background such as European nations. For example, Interviewee N2 said:

"Since India has already implemented GST and the basic underlying concepts are same, people are brought in from India. Indian market is definitely looked up to over here."

In addition, Interviewee B5 adds that: "They are coming in from jurisdictions that already had VAT type regime, such as the UK, India, many European countries, Greece etc." The justification for getting people from Europe was provided by Interviewee B6:

"The VAT Law is designed more in line with the European law so it was very useful to have someone from the European team come down and work with us. Some of them worked in the Revenue department as well so there was a dual benefit of getting them to work with us. This provided a lot of insights as the Law will not provide every detail and it is subject to interpretation."

Thus, with respect to job creation, the auditors have opposing views. This may be explained by the type of clients they deal with. The Non-Big-Four firms mostly deal with small and medium clients, who may require additional assistance from auditors as compared to the larger clientele dealt by the Big-Four. Moreover, in the Big-Four firms, a separate tax wing is in place to assist the taxation related matters. Thus, it does not impact the auditors. It is also clear that apart from training the

existing staff, for the initial implementation phase, professionals have been recruited from countries with strong taxation settings such as India, UK, and Singapore etc. The findings from the interviews which expect job creation to occur are in line with the literature which says that VAT would create a new set of employment opportunities in oil-based economies (Khaleej Times, 2017).

Overall outlook on the audit profession

This theme relates to Question 5 of the interview which concludes the audit theme by asking what was the overall perception of the auditors regarding impact of introduction of VAT on the audit profession. Eleven of the sixteen interviewees said that the audit profession would be impacted positively, increase credibility and recognition due to VAT implementation. Businesses may value auditors and their work more out of fear of incurring penalties, as mentioned by Interviewee N7:

“Earlier audits were important to avail bank loans or revise overdraft limits. Now the clients themselves want us to check everything thoroughly. Clients are scared of the penalties. For example, for an insurance client, the authority gave a fine of AED 75,000 for not recording it in the right format. So, the value of the audit profession has increased.”

Though the audit isn't mandatory for taxation, businesses will still undertake it so as to avoid the aforementioned penalties. Interviewee N9 said that: “...companies will approach audit firms to do a tax audit before giving it to the FTA.” Interviewee N6 said that if VAT isn't implemented and reviewed correctly, the entire business is impacted:

“Right from sales to procurement, everyone is now getting affected. So, it brings everyone to a common platform. If I do something wrong, everyone in the chain goes wrong.”

However, Interviewee N5 feels that the recognition would be higher for tax professionals rather than auditors:

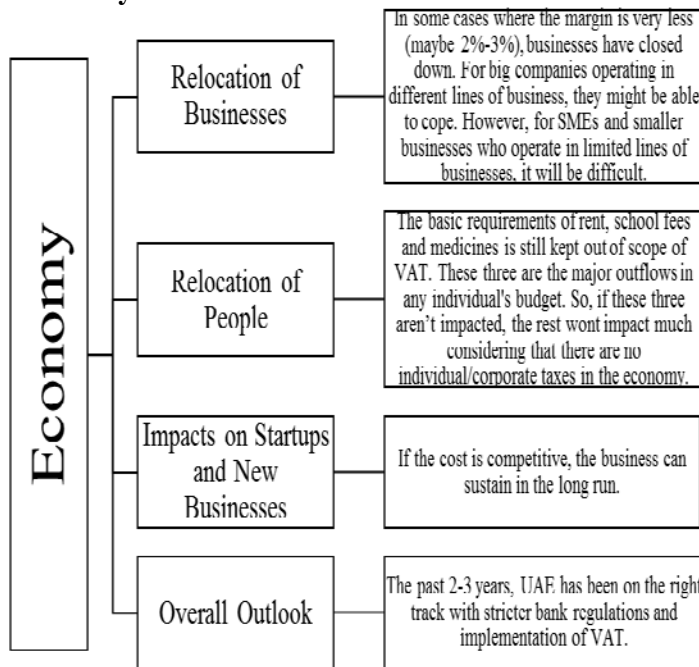
“I think tax consultants would be more valued than auditors because what clients want is knowledge and know-how of how to go about making entries and determining the VAT amount. Auditors will be recognized for checking how the VAT is calculated, the basis for calculation, whether it has been correctly calculated. However, to understand the entire concept, a tax consultant would be more recognized.”

Interviewee N8 feels that for auditors to be more recognized, audits have to become mandatory or the FTA has to recognize the audits performed by the auditors. Contrastingly, Interviewee B5 said that VAT implementation wouldn't impact the audit profession much and that the impacts are limited to the first year:

“I don’t think it would have any specific implication to the audit profession. It’s not going to dramatically change the way we do work. In the first year, it’s going to be an added effort to make sure it’s all right. The first return will be quite important because if they don’t get that right, it could be a problem. Going forward, it shouldn’t have too much of an impact on the audit profession per se.”

Though the responses are mixed, majority of the interviewees said that they expect the audit profession to be positively impacted and that the clients give them more recognition. Four of the sixteen interviewees said that there would not be any implications due to VAT implementation, primarily in the long-run.

Economy



This theme analyzes how implementation of VAT will affect UAE’s economy. Since it is a macro-level concept, three sub-themes were considered. The sub-themes are: relocation of businesses, relocation of people and impact on startups/new businesses. Finally, the overall perception of the auditors regarding impacts of introduction of VAT on the UAE economy is discussed.

Relocation of businesses

Relocation of businesses refers to the likelihood of businesses moving out of the UAE and pursuing trade in non-VAT nations, which forms Question 6 of the

interview. Ten of the sixteen interviewees said that introduction of VAT would not cause businesses to move out of the UAE.

Six of the seven Big-Four auditors were of the view that it would not result in any relocation attributable to VAT. The underlying reasoning is that a VAT of 5% is very minimal as compared to other developed countries. Moreover, the tax burden ultimately falls on the consumer and businesses are simply the middlemen. However, Interviewee B7 gives an insight into the impacts on small businesses and free-zones saying:

“To an extent that’s true because we've seen a lot of small businesses have already started shutting down and they’ve already started moving out of UAE. Only time will tell how significant it is and how far this trend continues. However, initial evidence is that small businesses have started moving out. Free-zones may not be impacted significantly as they have VAT exempt. They just have to be careful with business with onshore companies where they have to levy VAT and claim the credit just as any other company.”

Among the Non-Big-Four interviewees, there were diverse views on this matter. Interviewee N5 said that it would definitely impact businesses as:

“They will need to get more experienced labour as well which is an additional cost. So already there isn't much revenues coming into the companies, adding in that additional cost would worsen it. They will have to implement new softwares, will have to do a whole bunch of changes in their accounting systems. Some cases where people are just working on loans or trade on a small scale, it would have an impact. At a macro level, it may have a high impact later or else people may get used to it since its just 5% or maybe the Government may increase VAT. At this point of time, it's a moderate situation. Since consumers don't want to buy due to higher prices, the sales are going down.”

Specific to the jewellery and diamond industry, Interviewee N9 said that: “From the Gold and Diamonds Parks itself there was a news prior to VAT becoming effective, that a lot of companies started moving to Hong Kong.” Interviewee N8 mentioned some of the possible segments which may be impacted negatively due to introduction of VAT in the UAE:

“In some cases where the margin is very less (maybe 2%-3%), businesses have closed down. For big companies operating in different lines of business, they might be able to cope. However, for SMEs and smaller businesses who operate in limited lines of businesses, it will be difficult. There are chances of UAE not being chosen as a re-export hub. Mainly procurement business has taken a hit. Some businesses may not want to be transparent so they may also think twice.”

On the other hand, the concept of fees has been prevalent in the UAE which is not very different from tax. Interviewee N6 said that:

“In the case of the hospitality industry, we assume there are no taxes but they have other forms such as tourism and municipal fees. So, they are already dealing with it. So, for some industries it is quite easy and they can adapt to their existing practices while some industries such as the real estate where only a system of contracts existed without the use of invoices, may face challenges. Even for banks, issuance of invoices is not a practice till now but going forward they will have to do it. Adaptation to these things might be complex but it doesn't mean businesses will move out of the economy.”

Similar to the opinion of Big-Four interviewees, some of the Non-Big-Four interviewees also said that 5% is a very small rate as compared to other nations. However, if the Government plans to introduce corporate taxes, it may impact the economy and businesses may decide to relocate to their home country.

Thus, the general agreement is that VAT is unlikely to drive businesses out of the UAE with the exception of small businesses. As mentioned in the literature, if businesses have the means to handle overseas trade, they would base their business in places with low VAT (Newark, 2006). UAE has the lowest rate of VAT globally so it would continue to be a business hub. Corporate tax, however, may have a significant role in relocation of businesses, which will impact the economy at large as well.

Relocation of people

This theme refers to Question 7 of the interview which asked whether the interviewees thought that introduction of VAT would cause people to quit their jobs and relocate to other countries, under the premise that salaries have not increased commensurately. Nine of the sixteen respondents said that they do not expect people to leave their jobs and move to another country, solely because of VAT. It may be the case that they were considering moving out and VAT just gave them the necessary push.

Moreover, as mentioned in the previous theme, VAT in the UAE stands at the lowest rate globally. Most nations have a tax of 20%-30% and may even have corporate and income taxes. In light of these factors, it is highly unlikely for people to shift due to a VAT of 5%. Interviewee N2 said that:

“...the basic requirements of rent, school fees and medicines is still kept out of scope of VAT. These three are the major outflows in any individual's budget. So, if these three aren't impacted, the rest wont impact much considering that there are no individual/corporate taxes in the economy.”

Interviewee N8 said that currently only around one-third of an individual budget is subject to a 5% increase. However, if the VAT rate increases to around 10% for instance, people may move out of the UAE. The likely impact on the economy would be in the form of cautious spending by the public as stated by Interviewee N9:

“Before 2008, no one bothered about the costs as the potential of the city was quite high. After the financial crisis, everyone was at risk of losing their job, so people started thinking of their costs. Now when VAT came into the picture, people are even more cautious about costs.”

On the other hand, Interviewee N5 said that majority of the population consists of expats who come to the UAE to earn money and make savings. This perspective may also be explained by the gender bias caused by VAT (Khaleej Times, 2017) as female products are generally more expensive than that of men. If they don't receive any benefits in return, people may consider moving out of the country as it is simply an added cost for them. She said that:

“At a macro level, I feel it'll work only till Expo 2020, but after that it's all going to go downhill.”

Countering this point, Interviewee N6 mentions that the general public do benefit in the form of public services and improved standards of living. This is in agreement with the literature which points out that the funds will be used for improving public services such as schools, roads and waste management (Ministry of Finance, 2017).

Overall, the respondents don't expect people to move out of the UAE due to introduction of VAT. As mentioned by Interviewee N2, the literature also highlights that education, healthcare and key food items will not fall under the scope of VAT. It may be the case only when income tax or corporate tax comes into the picture. However, people have become more cautious when it comes to spending, which will in turn impact the economy negatively. It is worth noting that most of the female respondents looked at this question from an individual budget perspective while the male respondents looked at it through a macro lens wherein they compared the VAT rate in the UAE to that of other nations.

Impact on start-ups and new businesses

Pertaining to Question 8 of the interview, this theme evaluates whether VAT will be a deterrent to start-ups and new businesses in the UAE, from the perspective of auditors. Overall, nine out of sixteen interviewees said that introduction of VAT would not be a deterrent to start-ups or new businesses in the UAE. It is worth noting that among the Big-Four respondents, six of the seven interviewees agreed with the aforementioned opinion. The Non-Big-Four interviewees had an equally mixed opinion.

The rationale behind the consensus is that the ultimate burden falls on the consumer in most cases. The business hardly incurs any costs due to VAT. Moreover, start-ups will imbibe VAT into their costing right from the beginning, so it is easier for them rather than existing businesses. Interviewee N9 said that:

“Until they reach a turnover of AED 375,000 they need not register for VAT. Secondly, since they are new, they will comply with the regulations from the beginning itself.”

Interviewee B7 said that start-ups wouldn't be impacted but it would also depend on the industry within which they operate. He said: “FMCG sector will continue to perform well but luxury goods such as jewellery, automotive retailers are getting impacted big time.” Adding onto this, Interviewee N5 said that even though restaurants and food industries come under the taxable category, they will continue to grow as people will continue to eat out. Interviewee N8 also had a viewpoint similar to that of Interviewee B7 and said that:

“...those who are into designing or structuring, the Government is promoting digital world, artificial intelligence etc. So, they can do well and it won't affect their returns. However, for trading companies and those with thin margins, it will be quite difficult to start. Businesses may be able to roll the costs onto the customer but they have to always check international pricing. If the cost is competitive, the business can sustain in the long run.”

Citing the example of free-zones, Interviewee N6 said that free-zones expected that VAT would not be applicable to them. However, in reality, there are only few designated areas and within those, only few transactions which are VAT exempt. Interviewee N7 added to this saying that:

“Free-zones will only be impacted if they transact with the mainland. Around 30%-40% of free-zones are Saudi based entities etc. So, they may choose to retain operations in their own country. In the Jebel Ali Free-zone, around 20%-30% are expected to be vacated in the next 2-3 months.”

Thus, majority of the interviewees are of the opinion that VAT will not be a deterrent to start-ups/new businesses in the UAE, especially if they belong to the FMCG industry. However, it depends on the business model, scale of operation and margins. Possibly the free-zone entities may be negatively impacted to an extent.

Overall outlook on the economy

Lastly, Question 9 of the interview attempts to gauge the overall perception of the interviewees regarding implications of VAT implementation on the UAE economy. Nine of the sixteen interviewees said that VAT would have a positive impact on the economy. They said that it was the need of the hour and a measure which UAE had

to take to ensure sustainable growth. None of the Big-Four interviewees felt that there would be any negative impact on the economy.

From a business perspective, majority of the interviewees were of the opinion that VAT would result in greater transparency. Another reasoning provided was that the UAE implemented VAT to exit from the tax-haven countries list. Interviewee N8 said that:

“If they want to achieve something similar to Singapore, for example, greater transparency is required. The past 2-3 years, UAE has been on the right track with stricter bank regulations and implementation of VAT. Moreover, the financial profession will also get due recognition which wasn't present earlier.”

Contrasting the majority, Interviewee N5 said that:

“People come here for a vacations/tourism and this is what Dubai is based on. Other countries where VAT is implemented, VAT return can be filed after you leave the country. No such regulation is there in the UAE. In the long run, it may be a negative outcome.”

Some of the respondents said that the main challenge businesses faced was that the VAT Law was released quite late (just one month before it was made effective). Moreover, the Law is subject to various interpretations. Interviewee N6 said that:

“...designated zones list got released only in the first week of January. So that one week people are not aware what is to be done.”

Thus, majority of the auditors are of the opinion that VAT will have a positive impact on the UAE economy and that it will lead to sustainable growth. The findings are in line with the literature review which identified international tax competition as one of the reasons for implementation of VAT (Weller and Rao, 2010). Moreover, Keen and Lockwood (2007) found that VAT results in GDP growth which is similar to the opinion held by the auditors.

Though at a personal level their cost of living is slightly higher, they recognize that VAT is a need of the hour which is once again in agreement with the literature which pointed to the role of IMF in encouraging VAT implementation. Contrasting opinions were also noted especially with respect to the possible decline in the tourism industry which is one of the main revenue generators for the UAE.

5. Conclusion

This paper aimed to analyze the perceptions of the auditors about impacts of VAT implementation on the audit profession as well as the economy in the UAE. The overall perception of the first theme (audit) was that there isn't a material impact on the profession. However, audit as a whole is being valued more, particularly by

small enterprises. Most of the respondents agreed to the fact that VAT would not result in an increase or decrease in audit quality as the quality is something which cannot be compromised. VAT is just an additional area of work which increases the auditors' responsibilities and timeline. The role of the auditor is to ensure that the VAT amounts are computed correctly and that the VAT requirements are complied with.

The analysis was able to identify various issues faced by the auditors during the implementation stage. The nature of the issue and its significance depended on the industry as well as type of business, cash flow management etc. The Non-Big-Four auditors were able to give more insight on this sub-theme as they deal with a lot of SME clients who faced relatively more issues than the bigger companies.

The auditors however were of the general view that VAT on its own would not cause businesses to shut down their operations in the UAE and pursue trade in other countries. It may impact the start-ups if they work on low margins or in luxury goods sectors such as diamond and jewellery. The auditors are quite optimistic that people will accept the VAT as part of their normal lives and that there is no major outflow from their budget as basic necessities lie outside the chargeable category. However, if and when corporate taxes come into the picture, people may reconsider living in the UAE. In other words, VAT is perceived to be supportive the UAE's economy. Overall, most auditors appreciate that VAT was a need of the hour for the UAE Government and that it will lead to a sustainable growth in the GDP, however, its impact on inflation remains a crucial factor which only time will tell.

The overall conclusion that can be drawn from this research is that VAT does not materially impact the audit profession. There are contrasting views concerning the impacts on the audit plan. However, an undisputed opinion regarding additional audit procedures existed wherein all auditors acknowledged that VAT implementation would definitely result in added procedures. Furthermore, rather than the audit job market, job creation is larger for tax specialists and accounting/finance professionals. For the implementation of VAT, tax specialists are being recruited from countries with a strong taxation background such as India, UK, Singapore etc.

Most auditors are optimistic about VAT implementation in the UAE and believe that it will lead to sustainable economic growth in the long run. For small and medium clients, VAT has resulted in the proper upkeep of books of accounts and more transparent dealings. Furthermore, they value the auditors to a greater extent. The general consensus was that VAT on its own is highly unlikely to drive out businesses and people from the UAE, barring some exceptions such as low-margin businesses. They also believed that VAT isn't necessarily a deterrent to start-ups and new businesses in the UAE.

6. Limitations and further research

One of the limitations faced while conducting this research is the shortage of literature regarding impact of VAT on the audit profession. Even with respect to the UAE, previous studies have looked at it from a consumer/ business perspective. Secondly, the sample size was limited to only sixteen auditors due to the time constraints. Purposive sampling requires the researcher to use his/her judgment which may lead to bias.

Furthermore, qualitative research is quite subjective as well as prone to error and bias. In specific, the electronic interviews lack non-verbal aspects. Most of the respondents who used Google Forms gave short responses which affect the depth of the study. Since VAT has just been implemented, some of the insights given may be short-term which may lead to misleading conclusions. If the same study is conducted after the first cycle of VAT filings, it may give a better picture.

Further studies can look at the same research topic from the perspective of regulatory bodies such as the Federal Tax Authority (FTA). By the end of this year, a quantitative study can be done on the level of compliance of VAT by businesses. An attention-grabbing research may take the form of impacts of introduction of VAT in the UAE on the inflation rate. At the macro level, another research topic could be to evaluate the extent to which the funds collected by VAT are employed in improving public facilities and infrastructures. Research can evaluate the revenue pie of the UAE before and after VAT implementation. A comparative study can be done on the impacts of VAT implementation in the UAE and the Kingdom of Saudi Arabia.

Industry-specific researches may also be undertaken such as in the jewellery and real-estate sectors which have been significantly impacted at the implementation stage. Lastly, research can also evaluate the implications of VAT implementation on the tourism industry as UAE is predominantly a tourist destination.

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Appendix 1: Interview Questions

Section 1: Personal Information

1. Job Title: _____
2. Gender:
 - a. Male
 - b. Female
 - c. Prefer not to say
3. Qualification:
 - a. ICAEW
 - b. ACCA
 - c. CPA (US)
 - d. ICAI
 - e. Others: _____
4. Which firm do you work for?
 - a. Big-Four
 - b. Non-Big-Four
5. How long have you worked for in the audit profession?
 - a. Less than 2 years
 - b. 2-5 years
 - c. 6-10 years
 - d. More than 10 years

Section 2: Questions on impacts of VAT on the audit profession and economy in the UAE

1. How would the implementation of VAT affect the audit plan? Will it, for example, result in any additional audit procedures?
2. Does the introduction of VAT have an impact on the overall audit quality? If so, how?
3. Were there any issues regarding implementation of VAT for your clients? If yes, what were some of the issues?
4. Will the introduction of VAT have an impact on the audit job market? If so, how?
5. In your opinion, how would the implementation of VAT impact the audit profession as a whole?
6. Will the introduction of VAT cause businesses to move out of the UAE and pursue trade in non-VAT nations? If yes, how would this impact the economy?

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7. With the increase in cost of living and no increase in salaries, will the employees be more inclined to leave their jobs? If yes, how will this impact the economy on a macro-level?
8. Will VAT be a deterrent to start ups and new businesses in the UAE?
9. What is your overall perception regarding the implementation of VAT in the UAE?

¹ The author for this newspaper article was not given.