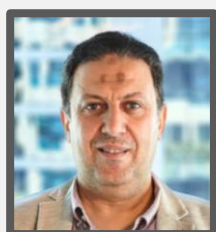




Revenue Recognition in the GCC: Bridging IFRS 15, Tax, VAT, and Zakat



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1. Introduction

Revenue recognition is a cornerstone of financial reporting, providing the foundation for accurate profit measurement and tax computation. In the Middle East and GCC region, where IFRS is the dominant accounting framework, IFRS 15 “Revenue from Contracts with Customers” governs how and when revenue is recognized.

However, the implications of revenue recognition extend beyond financial statements. They directly influence corporate tax, VAT, transfer pricing (TP), and real estate transactions, making it essential for businesses to align their accounting policies with local tax frameworks.

2. IFRS 15 Overview: The Five-Step Model

Under IFRS 15, revenue recognition follows five key steps:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.

4. Allocate the transaction price to performance obligations.

5. Recognize revenue when (or as) the entity satisfies a performance obligation.

While this model is globally accepted, the interpretation and tax impact differ across GCC countries.

3. Country-Wise Treatment and Examples

United Arab Emirates (UAE)

- **Accounting:** IFRS 15 is mandatory for all entities under the UAE Corporate Tax regime. Revenue is recognized when performance obligations are satisfied, which may differ from when cash is received.
- **Corporate Tax:** The UAE Corporate Tax Law (Federal Decree-Law No. 47 of 2022) allows accounting-based revenue recognition as a starting point for taxable income, with adjustments where revenue is deferred or prepaid.

- **VAT:** Timing of VAT differs — VAT is triggered upon the earlier of issuance of invoice or receipt of payment (as per VAT Law Article 26). Hence, deferred revenue under IFRS may still attract VAT earlier.
- **Example:** A construction company recognizes revenue progressively over time under IFRS 15, but VAT becomes due upon each milestone invoice, even if not fully recognized in accounting.
- **Transfer Pricing:** Multinationals must ensure consistent recognition between local books and group TP documentation, especially for service and licensing income.
- **Real Estate:** In property development, revenue is recognized over time (for off-plan sales) if control transfers progressively — this aligns with the FTA's VAT treatment for ongoing construction projects.

Saudi Arabia (KSA)

- **Accounting:** IFRS is mandatory for listed companies, while other entities follow SOCPA-adopted IFRS standards. Under IFRS 15, revenue is recognized based on satisfaction of performance obligations — either over time or at a point in time.
- **Corporate Tax:** For mixed-ownership entities (foreign and Saudi shareholders), corporate income tax applies on the foreign share. Revenue is generally recognized on an accrual basis, aligned with accounting standards. However, ZATCA may challenge deferred recognition if invoices or payments clearly indicate earned income.
- **Zakat:** The Zakat treatment diverges from IFRS and tax principles. Under Zakat Regulations (Ministerial Decision No. 2216 dated 1440H) and the Zakat Collection Manual (2023):
 - Zakat is based on adjusted equity, not income.
 - Deferred revenue (unearned income or advance receipts) is added back to the Zakat base because it represents a liability to customers. This effectively increases the Zakat base even though income is not yet recognized under IFRS.
 - Accounts receivable and accrued income are included in the Zakat base, even if the corresponding IFRS revenue is deferred or spread over multiple periods.
- **Example:** A construction company with SAR 10 million in advance billings recognizes only SAR 6 million as IFRS revenue (based on progress). For Zakat, the full SAR 10 million is treated as part of the base (since it reduces liabilities) and may increase Zakat payable.
- **VAT:** VAT under KSA regulations (Article 23 of VAT Law) is triggered upon the earlier of invoice issuance or payment. This creates timing differences with IFRS 15, especially in long-term contracts and milestone projects.
- **Transfer Pricing:** The Transfer Pricing Bylaws (Article 5) require transactions to reflect arm's length conditions. Timing mismatches between IFRS and TP documentation, such as recognizing service income later under IFRS but earlier for tax, can lead to adjustments.
- **Real Estate:** RETT (Real Estate Transaction Tax) applies at the time of property transfer, independent of accounting recognition. For developers, revenue under IFRS 15 may be recognized over time, but RETT liability arises immediately upon transfer of legal title.

Comparative Note: Revenue Recognition vs. Zakat in KSA

Item	IFRS 15 Treatment	Zakat Treatment	Tax Impact
Advance payments / deferred revenue	Recognized when performance obligation is satisfied	Added back to Zakat base (treated as liability reduction)	May not be taxable until revenue is earned
Accrued revenue	Recognized when control transfers	Included in Zakat base (as receivable)	Taxable as accrued income
Contract assets	Recorded when revenue recognized but unbilled	Included in Zakat base	Taxable when accrued
Contract liabilities	Deferred until performance obligation satisfied	Added back to Zakat base	

Practical Insights

- KSA’s dual system (Zakat and Corporate Tax) demands careful coordination: IFRS drives accounting, but Zakat relies on balance sheet adjustments rather than income recognition.
- Businesses with significant deferred income (e.g., construction, telecom, software licensing) face higher Zakat exposure due to the treatment of unearned revenue as part of the base.
- Reconciliation between IFRS 15 disclosures, tax computations, and Zakat schedules (Form Z2) is increasingly scrutinized by ZATCA during audits.

Qatar

- **Accounting:** IFRS 15 applies to all companies under the Qatar Financial Centre (QFC) and outside the QFC for large entities.
- **Corporate Tax:** Revenue recognition follows accounting principles unless tax rules specify otherwise. For long-term contracts, revenue is recognized on a percentage-of-completion basis.
- **VAT:** Not yet implemented, but in anticipation, companies align their systems with IFRS 15 to prepare for eventual VAT compliance.
- **Transfer Pricing:** The 2020 TP regulations require consistency between accounting revenue and TP reporting.
- **Real Estate:** Gains are recognized upon transfer; however, under potential future VAT or RETT rules, timing may follow UAE/KSA precedents.

Oman

- **Accounting:** IFRS 15 applies. The Tax Authority often follows accrual-based recognition but scrutinizes deferred income and advance receipts.
- **Corporate Tax:** Oman Income Tax Law (RD 28/2009) recognizes revenue when earned. Deferred revenue (like advance maintenance fees) is taxable upon earning, not receipt.
- **VAT:** Revenue recognition differences are common. VAT is payable upon issuance of the tax invoice or payment, whichever is earlier.
- **Transfer Pricing:** TP documentation must align with accounting recognition of revenue and intercompany service delivery.
- **Real Estate:** No RETT, but capital gains on real estate are taxable when sale is recognized in books.
- **Example:** A software company bills an annual license in advance — under IFRS 15, revenue is spread over 12 months, but VAT is due at invoice issuance.

Bahrain

- **Accounting:** IFRS 15 is applicable; Bahrain follows IFRS across most sectors.
- **Corporate Tax:** Currently limited to oil and gas sector, but revenue recognition follows IFRS for financial reporting.
- **VAT:** Bahrain’s VAT Law mirrors UAE’s; VAT is triggered upon invoice or payment, often creating timing differences.
- **Transfer Pricing:** No formal TP law yet, but large multinationals align group reporting with IFRS revenue.
- **Real Estate:** VAT applies to commercial property sales; residential supplies are exempt.

Kuqait

- **Accounting:** IFRS 15 mandatory for listed companies.
- **Corporate Tax:** Revenue is generally recognized for tax when earned. Deferred revenue under IFRS may be taxable earlier if invoiced.
- **VAT:** Not implemented yet.
- **Transfer Pricing:** Not formally in place, but intercompany transactions are examined under general anti-avoidance principles.
- **Real Estate:** Real estate profits are taxed as part of business income; no RETT exists currently.

Updated Key Challenges Table

Area	Common Issue	GCC Impact
VAT	Timing mismatch between invoice and performance obligation	Creates temporary differences between IFRS and VAT reporting
Corporate Tax	Deferred or accrued revenue adjustments	May lead to timing differences or tax deferrals
Zakat (KSA)	Deferred revenue added to Zakat base	Increases Zakat payable even before IFRS recognition
Transfer Pricing	Timing mismatch in intercompany service income	May trigger TP adjustments or double recognition risk
Real Estate	RETT recognized at legal transfer, not IFRS revenue date	Requires dual accounting records

Conclusion (Expanded)

Revenue recognition in the GCC remains an area where accounting precision intersects with tax complexity.

- IFRS 15 ensures uniform recognition standards.
- Corporate tax and VAT laws drive local timing and compliance differences.
- In Saudi Arabia, the Zakat dimension adds a unique balance sheet-based layer, where deferred or unearned revenue still affects the taxable base — a key consideration for multi-contract and service-based entities.

As regional regulations evolve, entities should implement revenue alignment frameworks linking accounting, tax, VAT, Zakat, and transfer pricing systems to ensure accuracy and defendability during audits.