

## VAT in Qatar – Impact on Financial Industry

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The Gulf Cooperation Council (GCC) States reached an agreement on a unified legal framework in November 2016 to introduce Value Added Tax (VAT) across the six member states, known as the GCC VAT Treaty (Treaty). As a result, the Kingdom of Saudi Arabia and the United Arab Emirates implemented VAT effective 1 January 2018, followed by the Kingdom of Bahrain on 1 January 2019, and the Sultanate of Oman on 16 April 2021. Currently, the State of Qatar is expected to implement VAT in near future which will notably impact the Financial Services Industry, including businesses such as insurance, banks, investment funds, capital markets, and financial service providers. This document outlines the basics of VAT and specific considerations for the Financial Services Industry players to consider.

## VAT introduction – Basics of VAT



### What is VAT ?

VAT is a consumption-based tax applied at each stage of the supply chain on the "value added."



### What is VAT rate?

Article 25 of the Treaty specifies that VAT shall be applied at the standard rate of 5% on the taxable value of the supply. VAT rate can be 0% or exempted depending on the transaction.



### The 5 W's of VAT

1. Who are the parties?
2. What is the supply related to?
3. Where does the supply take place?
4. When is the tax due?
5. What is the value of the supply?



### Output and input VAT

Taxable persons charge VAT on various supplies, referred to as "Output VAT." Conversely, taxable persons incur VAT on purchases, termed as "Input VAT". The balance between Output VAT and Input VAT determines whether a net tax is payable or refundable for a tax period.



### Time, place, value of supply

Tax due date rules determine when the transaction becomes a supply for VAT purposes, when the tax becomes due, when compliance and reporting obligations rise for the transaction.

Place of supply rules define the location for VAT purposes where a transaction occurs, and the jurisdiction that holds the right to tax the transaction for VAT purposes.

Value of supply rules clarify the nominal value of the supply for which VAT analysis applies.



### Input tax recovery

Input VAT incurred in the course of business and is directly attributable to making taxable supplies can be recovered in full. Similarly, any input VAT incurred that is directly related to making VAT exempt supplies cannot be recovered.

Input VAT incurred for purchases where direct allocation cannot be established, a proportional deduction is allowed. GTA might provide a specific percentage for the recovery of the input tax for the sector.

# Key considerations for VAT in the Financial Industry



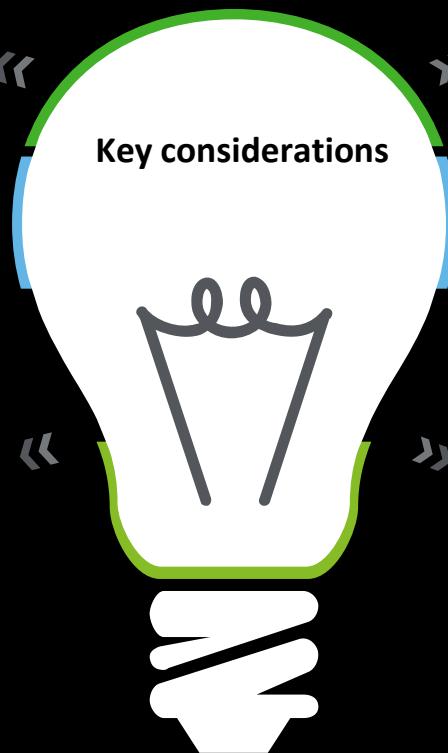
## VAT classification and treatment

Classification of financial products depending on the pricing strategy as either fee-based or margin-based plays a crucial role in determining their VAT treatment. GCC Member States have consistently adopted a uniform approach where margin-based services are classified as exempt supplies, while fee-based services are considered taxable supplies (subject to exceptions).



## Input tax recovery

Financial institutions generally provide a mix of exempt and taxable supplies. The input VAT incurred for providing these products must be allocated appropriately. A significant challenge within the sector is the inability to recover input tax for VAT incurred for providing exempt products.



Key considerations



## ERP updates

Financial institutions must ensure that their ERPs are appropriately modified or configured to comply with VAT legislation and requirements. This entails creating various tax general ledgers (GLs), correctly allocating VAT input credit on specific purchases, establishing necessary document types, generating appropriate reports, accounting entries amongst others.



## Cross border issues

Accurately determining the place of supply for cross-border transactions is crucial. This determination greatly influences the competitiveness of imports and exports, as well as the mechanisms for VAT recovery. Financial institutions involved in cross-border transactions, particularly when importing services from abroad, face the additional challenge of navigating the reverse charge mechanism, where the input VAT portion of the transaction may not be recoverable.

# Check list to be considered by Financial Services Industry prior VAT legislation release

- To classify financial products  
Financial institutions must accurately identify exempt and taxable transactions to avoid compliance errors. This requires reviewing services and understanding VAT implications to ensure correct categorization. Proper documentation and regular staff training are essential to enhance understanding.

## Mapping of financial products

## Contractual review

- Review contractual terms  
Conduct in-depth reviews of contracts to include VAT clauses, mitigating financial risks. Engage in renegotiations with partners to establish clear terms and consult with legal advisors for comprehensive assessments.

- Input tax recovery  
Develop an input VAT recovery methodology by testing different apportionment bases to identify the optimal method. (Standard turnover-based method, Headcount methods, Sectoral methods, Direct attribution ratio methods, Transactional methods)

## Input tax recovery

## Islamic financial derivatives

- Islamic finance VAT compliance  
Evaluate VAT requirements for Islamic financial derivatives by examining product classification, VAT applicability, recovery possibilities, and necessary documentation and compliance requirements.

- Assessing VAT cash flow impacts  
To assess the impact on the cash flow of the Company as the incurred input VAT may not be eligible to be fully recovered.

## Cash-flow impact

## Product evaluation

- Review financial product structures  
Evaluate financial products to assess VAT impacts, restructuring them if necessary to stay competitive. It involves analyzing each component's effect on fees and profitability, consulting with tax experts to ensure compliance and optimize outcomes.

- Manage inter bank transactions  
Understand VAT implications on complex, high-volume interbank transactions. Establish compliance systems tailored to jurisdictional nuances and integrate capable financial systems to manage VAT calculations, minimizing risks.

## Interbank VAT impact

## Lobbying

- Collaboration with the GTA  
By communicating industry concerns and collaborating with peers, financial institutions can make a better advance alignment on the tax framework to support growth and compliance. This proactive interaction also minimizes potential operational impacts.

## How we can help

Deloitte professionals have an in-depth understanding of the GCC's objectives for VAT and have significantly contributed to shaping the GCC VAT legislation. We engage regularly with Qatar's General Tax Authority, ensuring insights into VAT requirements. Our Qatar team comprises seasoned professionals with vast experience in delivering VAT services globally, particularly to financial services clients. Leveraging our sector knowledge and expertise in project management, we assure readiness and compliance with the anticipated VAT implementation in Qatar. Our successful track record in major regional VAT projects positions Deloitte as a capable partner in your VAT implementation journey. Please contact any member of our Qatar VAT team for further assistance.



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