

VAT in Qatar – Impact on Hospitality and Leisure Sector

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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 Hospitality and Leisure Industry, including businesses such as tourism etc. This document outlines the basics of VAT and specific considerations for the Hospitality and Leisure 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.

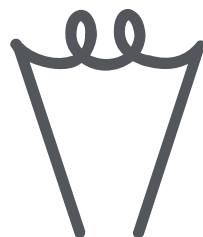
Key considerations for VAT in the Hospitality and Leisure Sector

Classification and VAT treatment

According to the Treaty, supplies provided by the hospitality and leisure sector are subject to VAT at the standard rate. This sector encompasses a diverse array of services, including both domestic and international transportation, hotel accommodations, food and beverage provisions, as well as entertainment and cultural events amongst others. It is imperative to accurately determine the nature of these transactions to ensure the correct application of VAT.



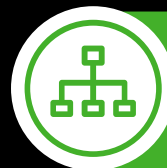
Key considerations



Pricing, billing and customer communication

The following are essential action points for the sector concerning VAT implications:

- ✓ Review and update pricing structures to incorporate VAT where applicable, including for room rates, food and beverage services, event spaces, and ticketing.
- ✓ Communicate any pricing changes to customers well in advance to ensure seamless business operations.
- ✓ Include VAT details in brochures and itineraries to facilitate effective communication.



Ancillary services

The sector also includes various ancillary services that are typically integral to the tourism and transportation packages offered by suppliers. These services may comprise onboard beverages, cultural events, access to exhibitions, or local sightseeing activities. Each of these components could be subject to different VAT treatments, necessitating a thorough examination to ascertain whether these services are directly connected or correlated with the principal supply. This review is essential to determine the appropriate VAT treatment.



Key areas to be evaluated

The sector encompasses transactions requiring thorough analysis to determine the appropriate VAT treatment. Key areas of consideration include:

- ✓ Provision of offers and rewards to clients, such as "buy one, get one free" promotions, loyalty points, vouchers, and discount coupons.
- ✓ Imposition of charges, rebates, including no-show fees, late charges, cancellation fees and tips.
- ✓ Agency charges, long term hotel accommodation.



ERP updates

Hospitality and leisure market players 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 etc.



Deemed supplies and non-cash benefits

The sector engages in non-monetary or internal supplies that might trigger VAT, necessitating thorough evaluation. Key areas to consider include:

- ✓ Employee benefits, such as complimentary meals, staff accommodations, and leisure passes, which may be categorized as deemed supplies.
- ✓ Complimentary guest services must be accurately accounted for in compliance with VAT regulations, supported by clear policies to determine VAT liability.



Check list to be considered by Hospitality and Leisure Sector prior VAT legislation release

- **Classify the nature of hospitality and leisure services provided**
The services provided by the market players includes multiple supplies and thus, it is imperative to accurately determine the transaction nature of each supply. This differentiation is crucial for determining the appropriate VAT treatment of the supply (if composite or mixed supply), thereby ensuring VAT compliance.

- **Timely collection of the invoices / supplier's data**
Since the majority of supplies provided within this sector qualify as taxable supplies — with exceptions such as long-term residential stays — the input VAT may be eligible for recovery, provided the requisite conditions are satisfied. Consequently, participants in this sector should ensure that VAT compliant invoices are promptly obtained from suppliers to facilitate VAT claims.

- **VAT impact on tour packages**
Travel packages provided by travel agencies consist of different components such as flight tickets, accommodation, entertainment including local tours, meals, insurance, commission, agent charges etc. Thus, value of each component, VAT treatment and recoverability of underlying input VAT needs to be determined separately.

Classification of the services provided

Input tax recovery

Packaged tours

Multi revenue stream mapping

High volume B2C transactions and System readiness

- **Determining VAT treatment on the multiple sources of revenue**
Hospitality businesses generate revenue from various streams, including room revenue, food and beverage services, banquets, memberships, event charges, and tourism packages. To ensure VAT compliance, it is essential to:
 - ✓ Map each revenue scenario individually to determine the specific VAT treatment.
 - ✓ Assess the VAT implications associated with service charges.
 - ✓ Evaluate the VAT impact on no-show charges, tips, rebates, deposits, and cancellation fees.
- **System readiness**
Unlike many industries, the hospitality sector involves extensive retail-level and high-volume transactions. Therefore, the following points should be considered:
 - ✓ Upgrade the point-of-sale (POS) system to generate VAT-compliant simplified tax invoices.
 - ✓ Implement periodic VAT reconciliation controls to manage the high volume of transactions effectively.

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 transportation 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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