



## VAT in Qatar – Impact on Manufacturing & Retail 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 Manufacturing and Retail Sector. This document outlines the basics of VAT and specific considerations for the Manufacturing and Retail Sector 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 Manufacturing & Retail Sector

## Key considerations

### Product classification and treatment

The Treaty stipulates that the standard VAT rate is applicable in general to all consumer goods such as food items, automobiles etc.. However, certain food items may qualify for zero-rate VAT contingent upon fulfilling the prescribed conditions. For instance, certain GCC Member States specify basic food items as eligible for VAT zero-rating. Consequently, determining the correct VAT treatment for FMCG products requires precise analysis of the Qatar VAT legislation.



### Transactions specific to the retail industry

In the retail industry, product offers, samples, sales return, damaged goods etc. is a common practice. Therefore, it is imperative to accurately determine the VAT treatment applicable to these specific scenarios:

- Composite supply Vs. Mixed Supply Vs. Deemed Supply
- Sales return, lost, damaged / expired goods
- Treatment of unredeemed vouchers / SPV / MPV
- New vehicles or used vehicle sales (profit margin scheme).



### Treatment of loyalty cards, points redemption, gift cards, vouchers, discounts etc.

Retailers usually offer to customers various payment options, including the use of vouchers, points redemption, gift cards, and loyalty cards. Hence, accurately determining the correct VAT treatment along with the tax due date for each of these specific business scenarios is essential, as it can significantly affect VAT compliance and reporting.



### Principal vs. agent structures

Major manufacturers in the sector operate through a variety of channels, including distributors, redistributors, modern trade chains, and sales agents. Determining the correct VAT treatment necessitates understanding whether the distributor acts as a principal or an agent, as well as assessing the valuation of goods when they transit through multiple related entities.



### Product price

The Treaty stipulates that the published prices of products must include VAT. Retailers must ensure their pricing remains competitive to sustain their market position. Therefore, it is essential to focus on product pricing, ensuring that published prices reflect the inclusion of VAT.



### Cash Flow Impact

Manufacturers face delays between tax due date and tax collection, as products are often sold on credit terms with thin margins and high volumes. Post-VAT implementation, output VAT is payable according to the tax due date rules. This can cause significant working capital blockages in high-volume FMCG models, necessitating careful analysis of working capital needs.



# Check list to be considered by Manufacturing & Retail Sector prior VAT legislation release

- Classification of the products as per the Qatar VAT Law  
Taxpayers must accurately identify the VAT rate applicable to the consumer goods i.e., if the goods are subject to VAT at the standard rate or zero-rate. Proper documentation and regular staff training are essential to enhance understanding. The correct product classification would lead to correct VAT reporting.

**Consumer goods classification**

**VAT trainings**

- Preparedness of the team / staff  
To conduct general VAT training for the broader team and specific VAT trainings for the team responsible for VAT compliances like the AR team for sales, AP and procurement teams for purchases, in-house tax team for day-to-day VAT requirements / compliances, higher level management for overall review of the Company VAT health check up.

- To assess the VAT treatment  
The manufacturing sector should assess the VAT treatment of transactions peculiar to this industry i.e., goods sent to the job worker for re-work, abnormal production losses does it require input VAT reversal, scrap sales, free of cost materials would be treated as deemed supply etc.

**Industry specific transactions**

**ERP updates**

- Readiness of the ERP system  
The sector 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 amongst others.

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

**Contractual review**

**Cash Flow Impact**

- Assess VAT cash flow impacts  
The objective is to assess the impact of VAT introduction on cash flow by evaluating payment delays from distributors, customers etc. and the effect of ineligible input tax credits. This analysis will provide insights into potential liquidity challenges affecting financial performance. Understanding these factors is vital for developing effective cash flow management strategies in the new VAT framework.

## 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 retail and consumers 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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