

## VAT in Qatar – Impact on Oil and Gas 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 Oil and Gas Industry. This document outlines the basics of VAT and specific considerations for the Oil and Gas 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.

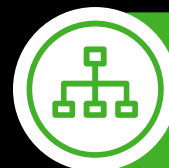
Input VAT incurred for purchases where direct allocation cannot be established, a proportional deduction is allowed.

# Key considerations for VAT in the Oil and Gas Sector



## Classification and VAT treatment

The Treaty specifies that the oil and gas sector shall be taxable if the conditions prescribed therein are met. The activities performed by the sector in general practice classified as upstream, midstream and downstream activities. Thus, it is crucial for a detailed analysis to be conducted on transactions performed by the market players to conclude the VAT treatment on the supply made subject to special government concessions or exemptions granted if any.

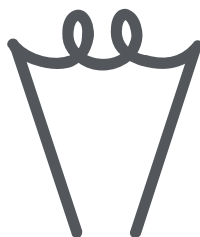


## Key areas to be considered

The sector entails complex transactions necessitating thorough analysis and consideration of VAT implications, as outlined below:

- ✓ Temporarily imports, classification of transportation and storage activities and capacity charges within the upstream, midstream, or downstream sectors.
- ✓ Transactions involving the government, such as royalties, signature bonuses, or production bonuses.
- ✓ Supply of goods and services among operators, contractors, subcontractors, and non-residents.

## Key considerations



## Capital intensive projects / long term contracts

Contracts in the oil and gas industry are typically long-term and involve substantial capital investment. Given this context, it is crucial to thoroughly review and, if necessary, amend contract clauses to address the implications of VAT on contracts extending beyond the VAT implementation date.



## VAT treatment on transactions between parties

The sector involves transactions between the various parties and VAT evaluation on the same is critical:

- ✓ Transaction between JV partners (Cash calls etc.)
- ✓ Transaction between operator and affiliated entities
- ✓ Transaction between upstream operators
- ✓ Transaction between operators and contractors / suppliers



## Input tax recovery

According to the VAT laws across GCC member states, supplies within this sector are generally either standard-rated or zero-rated. Given the significant capital investment involved in this sector, it is essential to closely monitor the input tax recovery mechanism for capital assets and take necessary actions accordingly. Any restricted eligibility for input tax credits on capital assets could significantly affect working capital and cash flow.



## ERP updates

Oil and gas 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), establishing necessary document types, generating appropriate reports, accounting entries etc. The ERP should be configured to provide the data required for the preparation of the VAT return.



# Check list to be considered by Oil and Gas Sector prior VAT legislation release

- **Classify the nature of activity performed**  
The activities performed by the sector needs to be critically examined and to be classified as those related to upstream, midstream and downstream activities. Thus, accordingly VAT treatment on the same to be determined.

**Classification of the activities performed by the sector**

**Input tax recovery**

- **Optimize recoverable VAT**  
To ascertain the eligibility for input tax recovery in capital-intensive operations, equipment, and services, it is crucial to establish robust VAT documentation and reporting systems that ensure compliance. The input tax credit on capital assets scheme is a critical area to focus.

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

**Industry representation**

**Treatment of Joint Ventures, PSA and cost sharing arrangements**

- **VAT impact on agreements with various parties**  
It is imperative to review the VAT implications of the Production Sharing Agreement (PSA) between the government and the entity. This includes assessing whether cash calls, cost recharge mechanisms, and operator recharges constitute taxable supplies and other relevant considerations.

- **VAT impact on account of the transitional rules**  
As the contracts entered by the industry players are long term contracts, the impact of VAT on the contract clauses needs to be critically examined on account of the transition rules. The contracts needs to be assessed for the VAT implications on supply, services and joint ventures.

**Transitional rules**

**Exports and Free Zone structures**

- **Zero-rating VAT impact on the exports and free zone structures**  
Critically analyzing VAT implications is essential to determine the correct VAT treatment for the following transactions: VAT treatment of crude oil, natural gas, and other oil derivative products, which are likely to be zero-rated, necessitates maintaining robust supporting documentation. Additionally, it is vital to reinforce export documentation controls to mitigate the risk of VAT reclassification during audits.

## 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 oil and gas 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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