

## VAT in Qatar – Impact on Technology, Media & Telecommunication 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 Technology, Media & Telecommunication Industry. This document outlines the basics of VAT and specific considerations for the Technology, Media & Telecommunication 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.

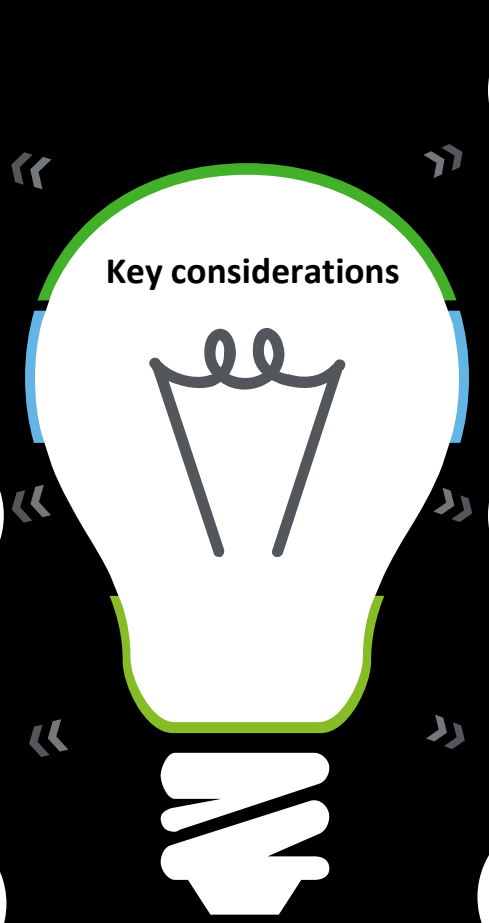


### Input tax recovery

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 Technology, Media & Telecommunication (TMT) Industry



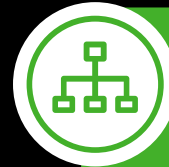
## Compliance complexity and system integration

TMT companies deploy intricate billing methodologies, bundled service offerings, and manage revenue streams across multiple jurisdictions. Furthermore, digital platforms add to this complexity. A critical consideration for VAT implementation is the necessity for substantial updates to billing systems, modifications to ERP systems, revisions to contracts, reporting, and accounting processes to ensure the accurate recording of VAT.



## VAT risk on barter advertising and free supplies etc.

Technology and media businesses offer users free access to digital platforms, generating revenue through targeted advertising, with content creators compensated via product exchanges. It's essential to determine if this free access involves non-monetary consideration, affecting barter transactions and output VAT on supplies provided without consideration. Thus, it is a key point to implement a framework to identify and value all such transactions.



## Determination of Place of Supply

According to the Treaty, the place of supply for wired and wireless telecommunication services and electronically supplied services (ESS), is determined by the location of actual use or enjoyment of the services. Thus, it is crucial to consider the following:

- ✓ Is the service being provided to the taxable customer or the non-taxable customer?
- ✓ Where is the actual place of use or enjoyment?
- ✓ Does 'used and enjoyed' mean ultimate consumption by the end customer or it refers to the immediate customer in the supply chain?



## Digital Platform Revenue Models

Technology and media businesses often use complex monetization models, including subscription-based streaming, digital advertising revenue etc. Consequently, it necessitates careful determination of:

- ✓ Tax Due Date: For subscriptions, identifying when VAT becomes chargeable.
- ✓ VAT Treatment: Consideration for auto-renewals and advance payments.
- ✓ Principal vs. Agent – to analyze the VAT implications.



## VAT treatment of key transactions

Given the vast number of transactions in the telecommunication company, evaluating VAT treatment for the following is essential:

- ✓ Provision of Free Supplies: This includes free data, installation services, data/call offers, and promotional campaigns offering additional usage at no charge.
- ✓ Loyalty Schemes: Assessment of how VAT applies to benefits offered under these programs.



## Input VAT recovery

Technology and media businesses face substantial costs related to content production, acquisition rights, software development, cloud infrastructure, and marketing. As most supplies in this sector are taxable, businesses may reclaim input VAT if conditions are met. Therefore, it's crucial for participants to promptly obtain VAT-compliant invoices from suppliers to facilitate these claims.



# Check list to be considered by Technology, Media & Telecommunication Industry prior VAT legislation release

- Input tax recovery and cash flow impact  
Businesses should undertake a review of the following:
  - ✓ VAT Recoverability: Analyze recoverability related to network infrastructures, including towers, fiber optics, and data centers.
  - ✓ Partial Exemption Exposure: Evaluate exposure to partial exemptions in scenarios where exempt income is present.
  - ✓ Cash Flow Impact Assessment: Assess the impact on cash flow due to volume of transactions and significant upfront capital expenditures.

## Infrastructure capex and Input tax recovery

## Multi revenue stream mapping

- Determining VAT treatment on the multiple sources of revenue  
The sector generate revenue from various streams, including bundles, subscriptions, revenue from advertisements etc. To ensure VAT compliance, it is essential to map each revenue stream individually and to determine the specific VAT treatment. Also to review the promotional offers such as free devices, cashbacks, loyalty points for deemed supply implications.

- Collaboration with the GTA  
By communicating industry concerns and collaborating with peers, the sector companies 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

## High volume B2C transactions and system readiness

- System readiness  
Unlike many industries, the Technology, Media & Telecommunication Industry involves high number of transactions both at the retail-level and also for the B2B supplies. 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.

## VAT trainings

- Preparedness of the team / staff  
To conduct internal basic VAT training for the broader team and specific VAT trainings for the team responsible for VAT compliances like the AR team for sales, AP team 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.

## 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 Technology, Media & Telecommunication 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.



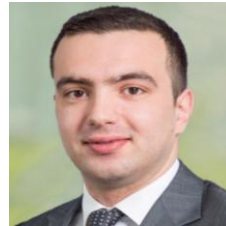
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