

VAT in Qatar – Impact on Transportation 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 Transportation Industry, including businesses such as air and land transportation services, logistics, freight services etc. This document outlines the basics of VAT and specific considerations for the Transportation 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.

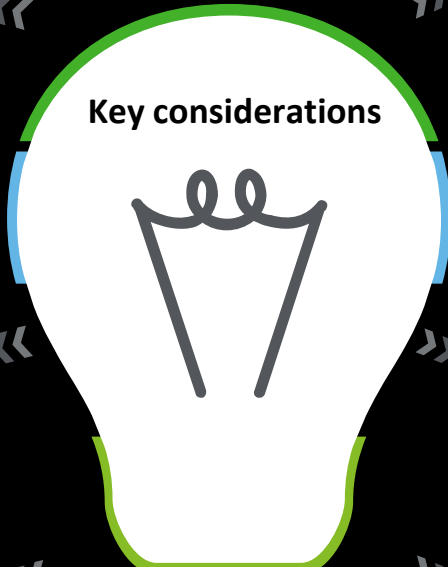
Key considerations for VAT in the Transportation Industry

Classification and VAT treatment

International transportation of goods and passengers, along with certain related supplies, qualify for zero rated VAT. However, some supplies within the industry do not meet the respective requirements, thus attracting standard rated VAT. The classification of transportation services in nature is an essential factor in determining the appropriate VAT treatment.



Key considerations



Ancillary services

International transportation typically encompass other ancillary services which are a necessary part of the transport such as brokerage / intermediary services, luggage transportation, provision of services for the passenger's enjoyment etc. Each of these components may be subject to distinct VAT treatments, necessitating a meticulous review if these services are directly connected and correlated with the principal supply.



Pricing and profitability impact

The restricted recovery of input VAT (in case of exempt supply) can affect margins, leading transportation providers to reevaluate pricing and profitability. Cost increases from non-recoverable VAT on exempt supplies may require a review of pricing strategies. A cost-benefit analysis is essential to understand the impact on margins and market position.



Input tax recovery

The transportation sector offers both zero-rated and standard-rated supplies, allowing for input VAT recovery if conditions are met. However, domestic passenger transportation, may be classified as an exempt supply, thus may limit VAT reclaim. It is crucial to assess VAT reclaim rights, as these differ for domestic versus international services as well as the associated ancillary services.



Freight transportation

The nature of freight transfer services is critical in determining the appropriate VAT treatment, which involves the following areas:

- ✓ Does the supply qualify for domestic or international freight transportation ?
- ✓ Does the international freight transportation commence within or outside Qatar ?
- ✓ VAT impact on goods or services for use or consumption on qualified means of transport ?



ERP updates

Transportation companies 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.



Check list to be considered by Transportation Industry prior VAT legislation release

- Classify the nature of transportation services

In the transportation industry, it is imperative to accurately determine whether the utilization of services pertains to domestic or international transport / passenger or freight transport. This differentiation is crucial for determining the appropriate VAT treatment of the supply, thereby ensuring VAT compliance.

Classification of the transport services

Place of supply

- Determining place of supply is crucial

A crucial step in applying VAT to supplies made in the transportation sector is to identify the correct place of supply rules. Similarly, the place of supply for the transport related services such as loading / unloading, cargo security etc. shall be determined.

- Optimize recoverable VAT

Assess the input VAT recovery positions as per the Treaty and GCC States VAT Laws. To evaluate attribution methods in case of exempt supplies made (Standard turnover-based method, Headcount method, Sectoral methods, Direct attribution ratio methods, Transactional methods). Implement strategies to minimize irrecoverable VAT costs.

Input tax recovery

Travel agents / travel packages

- VAT impact on travel packages / transportation packages

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

- VAT impact on the qualifying means of transportation

The Treaty provides for zero-rating of the qualifying means of transport; thus, crucial to check if the conditions related to the same are fulfilled for any such supply made. Also, the VAT treatment of the supply of goods and services related to the maintenance, repair, and conversion of a qualifying means of transport must be correctly determined to ensure VAT compliance.

Means of transportation

Clearing agent relationship

- VAT impact on clearing agent/principal relationship

During goods importation in Qatar, the agent/principal relationship impacts VAT compliance significantly. The principal typically holds VAT responsibilities since they own and direct the goods, whereas agents manage logistics and documentation. Clarity in roles and obligations remains essential, especially around import VAT recovery and reimbursement of expenses.

How we can help

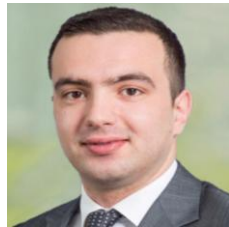
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