



The impact of VAT

on the Retail sector in Qatar

2018

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What does VAT mean for the Retail sector in Qatar?

It is expected that, in 2019 Qatar will introduce a broad value-added tax (VAT) at a standard rate of five percent, according to the Gulf Cooperation Council VAT Framework (GCC framework).

All businesses in Qatar will be affected by the introduction of VAT. However, the Retail sector differs from other industries, as there are a large number, and wide variety, of market participants – from local groceries to global supermarket chains and there are a number of factors to consider which will affect different aspects of their operations.

In this flyer, we have highlighted the key areas that retailers should consider to ensure that they manage VAT effectively, drawing on our knowledge of VAT treatment around the world. When the VAT law is released in Qatar, it is important that retailers assess it carefully to ensure they are fully compliant and manage their tax in the most efficient way possible.

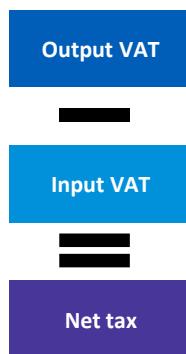


How will VAT be applied to the Retail sector?

General principle of VAT

Businesses can be required to pay VAT on goods and services (known as supplies) they procure (input VAT), and have to collect VAT from customers on supplies they deliver (output VAT). The collected output VAT then has to be paid to the government by the supplier, who is also responsible for providing reports on the tax collected and paid.

In general, governments allow businesses to recover the input VAT they pay (usually by offsetting it against the output VAT that they collect).



VAT legislation usually applies one of three treatments to the supply of goods and services:

- standard rate – in the GCC this is set at five percent
- zero rate – output VAT is charged at zero percent and input VAT can be recovered against this
- exempt – no output VAT is charged and input VAT cannot be recovered.

It is likely that the standard rate of VAT (at five percent) will be applied to the vast majority of goods sold by retailers in Qatar. On these transactions, the cost of VAT will typically be borne by individual consumers (as the end users) who are not able to recover input VAT. The GCC Framework, permits each member state to zero rate certain foodstuffs, medicine and medical equipment, however the GCC countries which have already implemented VAT have opted to apply a standard rate for foodstuffs. In other countries around the world, it is very common to apply a reduced rate or zero rate to basic foodstuffs to avoid inflation and a negative impact on the cost of living.

As retailers will likely charge output VAT at a standard or zero rate, they should be able to recover input VAT they incur, and the implementation of VAT should not affect their cost base. However, to correctly recover input VAT, retailers must ensure that they accurately report taxable transactions and provide valid tax invoices. To do this correctly, retailers will need to invest in ensuring they have adequate systems and procedures, especially when goods are procured from a variety of different suppliers.

Exempt and zero rated customers

The GCC Framework entitles member states to exempt certain customers from paying VAT or to permit them to claim a refund if VAT is paid.

These groups include:

- charitable organizations and public utility establishments
- companies who host international events in Qatar
- citizens of member states who are building a home for personal use
- farmers and fishermen who are not registered for VAT.

In addition, it is expected that supplies made to foreign governments, international organizations, diplomatic consular and missions will be zero rated.

Import of goods

In Qatar, a majority of goods purchased by retailers to sell on to customers are imported, largely from countries outside the GCC. This means that there are a variety of potential VAT and other tax treatments for retailers to consider. These include:

- paying import tax to Qatar customs authorities (or declaring a reverse charge).
- paying customs duty in the country where the goods enter.



Key considerations for the Retail sector

Shelf prices

Generally, legislation requires the advertised shelf price of an item must include VAT to ensure customers are aware of the total price. Retailers in Qatar will need to ensure that this work is completed when VAT is implemented.

Simplified invoices

Retailers are obliged to issue tax invoices to their customers when selling taxable goods. Tax invoices must include a large amount of information relating to the transaction including the supplier and purchaser details. In some jurisdictions, when the total value of taxable goods falls below a pre-determined threshold, suppliers are given the option to issue a simplified tax invoice, with fewer details including:

- name, address of the retailer
- VAT registration number of the retailer
- number of the invoice
- invoice date
- description of supply
- value of transaction.

Consignment sales

It is common for retail businesses to purchase goods based on consignment agreements. This means that the retailers do not take ownership of the goods from the supplier until the goods are sold on to the final customer, at which point the goods are considered as purchased. This process gives the retailer the right to return any unsold goods to the initial supplier without having to account for this from a VAT perspective.

Returning goods

When a customer returns an item to a retailer or goods are damaged or lost during delivery, the retailer is able to adjust the original value of the supply in the respective tax return, ensuring that input VAT is only recovered for the complete/undamaged items they received. In this instance, it is important to ensure that all the relevant documents are completed and maintained to eliminate challenges by the respective tax authorities.

Product bundling

Retailers often supply several products or services as one combined product – known as a bundle. In many jurisdictions, VAT laws outline the correct treatment for supplies that are sold within the same transaction but that, individually, are subject to different VAT rates. This will require crucial attention if Qatar VAT legislation applies different VAT rates for supplies made in the retail sector.

Payments using loyalty cards

Retail businesses often provide loyalty points to customers based on spend, which can be used to purchase items or redeem discounts. When using loyalty points to pay or part-pay for an item, no monetary payment or partial payment is made and therefore, the tax treatment can be complex.

Gifts and samples

Many retail businesses supply free gifts and samples to their customers to promote future sales. The GCC Framework states that VAT should be applied at a standard rate when businesses supply free gifts or samples of significant value. The exact definition of "significant value" in Qatar will likely be made clear when the law is released.

Gift vouchers

Retail businesses often sell gift vouchers, which can be used to purchase goods and services to the value of the voucher at a later date. Generally, VAT laws define whether VAT should be applied on the voucher sale date, or the redemption date to ensure that VAT treatment is consistent.

Discounts

Some retailers provide customers with discounts for reasons including:

- reward for early payment
- to maintain business relations
- for bulk or frequent purchases
- to improve the volume of sales.

Globally, different types of discounts have different VAT treatments. The correct treatment of VAT on discounts in Qatar will be established once Qatar VAT legislation has been published.

Sale of second-hand goods

Some businesses in the retail sector supply second-hand or pre-owned goods to customers. For these transactions, some jurisdictions allow suppliers to calculate output VAT on the margin – the difference between the price they paid for the item and the price they sell the item for – as long as the supplier has not recovered the respective VAT amounts at another time during the product life-cycle.

VAT refunds for tourists

Due to the increasing number of international events being hosted in Qatar, including the upcoming 2022 FIFA World Cup, the country is likely to see a steady increase in tourism. In most jurisdictions, tourists are permitted to recover any VAT they pay when purchasing goods outside of their home country through refund schemes.

How we can help

At KPMG in Qatar, we are committed to the end-to-end delivery of solutions which help your business manage the implementation of VAT in the most effective and efficient way possible. We have a Qatar-based team of highly-skilled professionals, with experience of delivering VAT services to some of the largest Retail clients around the world. Our team use KPMG's tried and tested methodology, drawing on global best practice to ensure that you get the results your business needs.

Consulting

KPMG's Indirect Tax and Management Consulting professionals based in Qatar, together with colleagues from our offices world-wide, are able to assist clients with requirements relating to the upcoming changes, including, but not limited to nexus – the VAT taxability impact assessment study, IT strategy, sourcing and procurement, contracting strategy, cost optimization, supply chain analysis, business strategy, business process re-engineering and reviewing compliance requirements.

Technology implementation

Our Transactions Tax Systems professionals, together with our Technology and Digital Advisory team, can assist clients that are implementing automated solutions with their transaction tax compliance processes, by providing a holistic technology view. This includes:

- reviewing, updating and testing IT system(s) and sub-modules
- ensuring proper and efficient interfacing between information systems.

Compliance

Our local Compliance Center can help clients to prepare and file new VAT returns.



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