



# The impact of VAT on Oil and Gas Sector in Qatar

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# What does VAT mean for the business in Qatar

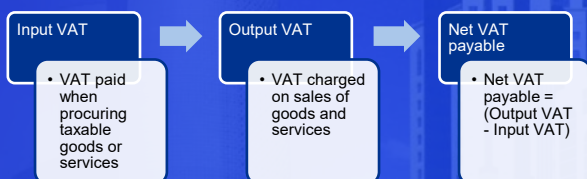
It is anticipated that Qatar will announce Value Added Tax (VAT) Law and its Executive Regulations in 2023.

VAT is expected to affect all businesses in Qatar - either directly or indirectly - and will affect most sales of goods and services in Qatar (with limited exceptions such as financial services and insurance). Therefore, businesses may need to consider certain actions prior to the implementation of the VAT regime.

In this flyer, we have identified a number of considerations that businesses across the different sectors will have to make, drawing on our knowledge of VAT treatment around the world. When the VAT law is released in Qatar, it is important that businesses assess it carefully to ensure they are fully compliant and manage their tax in the most efficient way possible.

## General principle of VAT

Generally, businesses can be required to pay VAT (input VAT) on goods and services (known as supplies) they procure, and have to collect VAT from customers on supplies they deliver (output VAT). The collected output VAT has to be paid to the relevant tax or other responsible authority. VAT laws allow in general businesses to deduct the input VAT they pay (usually by mean of offsetting against the VAT that they collect).



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

- standard rate – as per the GCC Framework this is set at five percent. However, KSA and Bahrain increased VAT rates to fifteen and ten percent respectively.
- 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.

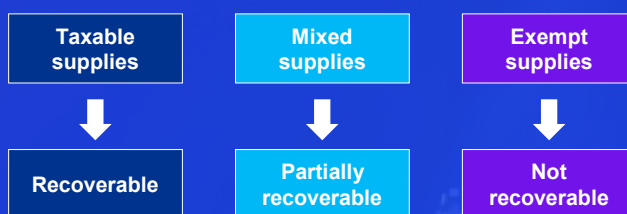
## How is input VAT recovered?

In accordance with the best practice, input VAT amounts incurred by VAT registered businesses are listed as recoverable, provided that such expenses are incurred as part of making taxable supplies.

In case of making exempt supplies, recovery of input VAT is not allowed and business will need to incur unrecovered VAT amounts as an expense.

Tax invoice is also a focal factor entitling businesses to recover incurred input VAT amounts. In case of receiving services from a non-resident, the local VAT legislation in Qatar is likely to go for reverse-charge mechanism (customer registered for VAT in Qatar should be considered as liable for the tax (VAT) on behalf of its non-resident supplier).

## Input VAT incurred for:



## Place of Supply rules of VAT

Understanding where transactions take place (the place of supply) is crucial to ensure that the correct VAT treatment is applied.

Further to the general principle of the place of supply rules highlighted in GCC Framework, below points should be taken into account.

In case supply of services are provided in favor of taxable customer, place of supply is considered as a place of residence of the customer.

In all other cases, place of supply is the place of residence of the supplier.

## Time of supply rules of VAT

Any business registered for VAT in Qatar should pay special attention on the importance of time of supply rules since calculating, reporting and transferring VAT is listed as supplier's obligation. Failing to meet these requirements are likely to lead to financial penalties. Based on time of supply rules, the general rule approach for defining the time of supply is the earliest date of the following:

- when the payment is received
- when the tax invoice is issued
- when the supply is made.

Specific time of supply rules apply in case of supplies of a continuous nature.

# Key considerations for the Oil and Gas sector

It is expected that there might be “soft approach” towards the businesses in the Oil and Gas sector (O&G) in terms of application of the VAT. However, still businesses in the O&G sector will face various challenges throughout the implementation of VAT in their operations. In this flyer, we have highlighted major facts those should be taken into consideration by O&G businesses.

## To what extent will VAT be applied to the O&G sector?

Typically, businesses within O&G include provision of drilling, oilfield services (seismic testing, directional services), oil refining, pipeline installation and sale of crude oil and gas.

Although a number of states have specific VAT legislation for O&G sector, many VAT implemented jurisdictions apply standard rated VAT for the supplies made in O&G sector. Considering the importance of O&G sector in Qatar, it is expected that in order to protect businesses from VAT burden, whole or part of supply chain will be zero rated.

However, a detailed analysis would be carried out for special cases in order to ensure that the businesses are in compliance with the respective VAT law.

## Input VAT recovery

In accordance with the global practice, incurred VAT amounts is recoverable, provided that such expenses are incurred as part of making taxable supplies (5% and 0%). In case of making exempt supplies, recovery of input VAT is not allowed. Considering that supply of oil and gas products is anticipated to be taxable, businesses engaged in this sector are expected to recover input VAT in full. Furthermore, many O&G businesses import goods and receive services from GCC and non-GCC countries. Generally, imported goods and received services from outside of country are subject to VAT at the standard rate and can be recovered through different mechanisms. However, different treatment can be applied in O&G sector regarding procurement of goods and services from outside of Qatar.

## Key considerations and complex areas

### Cash Flow

Businesses operating in the O&G sector in Qatar, generally export oil and gas products outside Qatar, which can be out of scope of Qatar VAT (Intra-GCC supplies) or subject to VAT at the zero rate (non-GCC supplies). Application of VAT at zero rate means businesses in the sector will charge zero rate VAT on the supplied goods and services, in return will be eligible to recover incurred VAT amounts. In such case, businesses will be in refund position of VAT from budget everlastingly. Considering that conditions of refundable tax have not been published, application of VAT will put pressure on cash flow of businesses.

### Long term contracts

It is typical for O&G businesses to enter long-term contracts with the engaging parties in respect of procurement of goods and services as well as sale of feedstocks. Special attention should be paid and respective amendments have to be done where a contract is entered into prior to the effective date of the VAT legislation and covers a supply made or received wholly or partly after the effective date of the VAT legislation.

Without taking actions, this could trigger a negative tax impact such as decreasing margins for the supplier, since remuneration could be seen as inclusive of VAT and non-deductible input VAT due to missing VAT invoice for the contracting party. As foreseen in VAT implemented GCC countries, tax authorities provided companies with grace period when VAT was implemented, allowing companies to communicate with suppliers and customers to take immediate actions in relation to contracts clauses.

# Key considerations for the Oil and Gas sector

## Capital expenditures

Globally, the O&G sector is well known for huge volume of capital expenditures. The incurred VAT amounts on capital expenditure in respect of making taxable supplies can be recovered by the businesses. Certain VAT implemented jurisdictions allow the businesses to recover input tax on capital expenditure using different types of capital assets scheme. It is expected that the mentioned recovery method will be followed by the taxation principles of Qatar VAT Law. In this respect, upon announcement of the Qatar VAT Law the respective VAT treatment for capital expenditures and capital asset scheme should be examined in details.

## Temporary importation

In some cases O&G businesses may import capital equipment such as whole or part of oil platforms for temporary use and later re-export after the completion of works. In most jurisdictions, import VAT is not charged in respect of goods imported on a temporary basis. It is expected that Qatar VAT Law will follow the same taxation principles. However, upon announcement of the Qatar VAT Law, VAT treatment should be analyzed in details for the cross-border intra-GCC and non-GCC transactions in the above mentioned nature in order to avoid any possible incompliances.



### 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 Oil and Gas clients around the world. Our team use KPMG's tested and proven methodology, drawing on global best practice to ensure that you get the results your business needs.



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