



# The impact of VAT on hospitality and Leisure Sector in Qatar

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# What does VAT mean for the business in Qatar

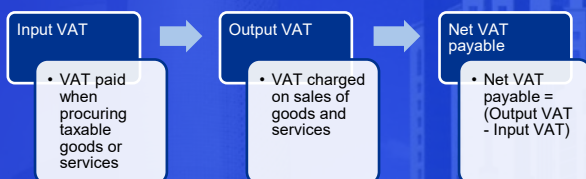
It is anticipated that Qatar will announce Value Added Tax (VAT) Law and its Executive Regulations in 2023.

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.

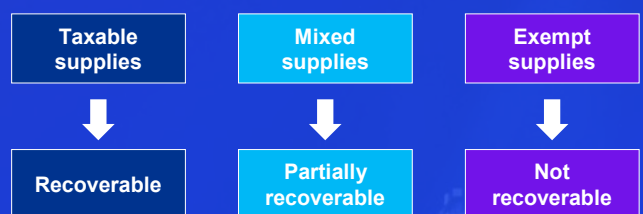
## How is input VAT recovered?

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 Hospitality and Leisure sector

It is likely that most supplies made by Hospitality and Leisure sector (H&L) businesses will be treated as taxable at the standard rate. However, the GCC Framework foresees certain activities e.g. international transportation, to be zero rated. Local VAT legislation could categorize other H&L-related activities as zero rated or exempt from VAT e.g. many jurisdictions consider long-term hotel accommodation as an exempt real estate-related service, or some cultural events as zero rated/ exempt educational services.

Although most supplies made by H&L businesses are taxable, certain supplies may be listed as exempt. Hotels in Qatar, for instance, are likely to charge a standard rate of VAT when supplying hotel rooms, however, long-term supply of accommodation may be VAT exempt. Any additional services supplied during the stay e.g. food and beverages, spa treatments, are likely to be standard rated for VAT purposes. Consequently, if hotels provide both taxable and exempt supplies, they can recover input VAT on a proportionate basis.

## Key considerations and complex areas

### Determining the nature of supply

Nature of supply is the key element in determination of taxation of a supply. For instance, the provision of golf courses can either be listed as a sports activity or an educational activity, which are likely to be standard rated and zero rated, respectively. This said, H&L businesses should pay specific attention to the identification of the nature of supply and the respective VAT impact on it.

### Tour packages

Many local tour operators offer both outbound and inbound packages to their customers in Qatar and elsewhere, which can involve a variety of goods and services including international and local transportation, accommodation, catering, guides, etc. Tour operators are advised to examine correct VAT treatment of these components separately.

### Supplementary goods and services

Many H&L businesses in Qatar supply supplementary goods and services including dry cleaning, mini bars, areas for personal events, Wi-Fi, car rentals etc. Each supply should be considered separately for VAT purposes as different treatments may apply.

### Promotions and rewards to clients

Some H&L businesses provide loyalty points to customers based on spend, which can be used to purchase additional items or services, or to redeem discounts. The H&L sector also commonly uses promotions and discounts to increase business such as buy-one-get-one-free offers. When using loyalty points or discounts to pay or part-pay, no monetary payment or partial payment is made and therefore, the VAT treatment (especially with respect to the calculation of VAT and the time of supply) can be complex.

# Key considerations for the Hospitality and Leisure sector

## Sales through vouchers

Many businesses in the H&L sector provide customers with the option to purchase vouchers, either directly or through voucher companies, which can be redeemed against goods or services. When customers redeem the issued vouchers, the supplier is obliged to calculate, report and transfer the VAT amount to the tax authority. Establishing the correct time and value of the supply is complex and needs to be analyzed once the VAT legislation has been published in Qatar.

## Deemed supply

Commonly, H&L businesses provide employees with certain benefits including free catering and free hotel stays. These benefits are categorized as deemed supplies for VAT purposes. H&L businesses are generally not permitted to recover input VAT amounts incurred in the course of providing these benefits. The businesses are encouraged to revise their policies once the VAT legislation is released.

## Agency charges

Most travel agencies add a fee to the services they provide to customers, commonly known as a 'mark-up'. In most jurisdictions, this fee is taxed, even if the supplies made are zero rated or exempt e.g. if international flight tickets are listed as zero rated, any mark-up amount added by agencies could be treated as subject to standard rated VAT depending on the provisions of Qatar VAT legislation.

## Exemptions for hosting international events

Some companies hosting international events may not have to pay input VAT on goods or services they procure in Qatar. It is anticipated that Qatar's VAT legislation will clearly set out which entities this will apply to and identify how the refund process should be carried out. In this regard, H&L businesses taking part in such events should review the relevant provisions of the Qatar VAT legislation and assess whether they should be entitled for such exemption.

## Additional charges

H&L businesses sometimes charge penalties to customers who have deviated from the terms and conditions of the service provided e.g. no-show charges for bookings, penalties for returning a hire car late. Many tax authorities consider penalties out of scope of VAT, but do charge VAT on no-show charges. Businesses should review their current policies, depending on the provisions of the VAT legislation in Qatar.

## Input VAT Recovery

Due to the high level of spending on procured goods and services subject to VAT in the H&L business model, input VAT recovery can be particularly significant. Therefore, relevant businesses need to receive correct and timely tax invoices in order to control cashflow of recoverable input VAT.



### 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 Hospitality and Leisure 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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