



# The impact of VAT on telecommunication Sector in Qatar

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# What does VAT mean for the business in Qatar

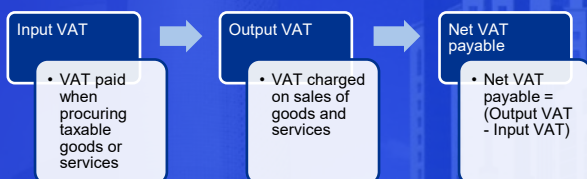
It is anticipated that Qatar will announce Value Added Tax (VAT) Law and its Executive Regulations in 2023.

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.

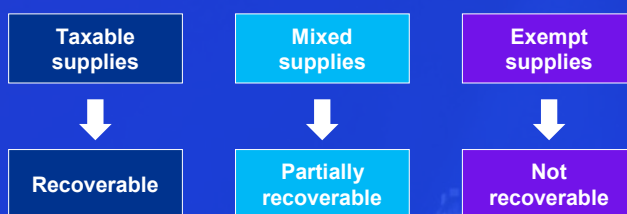
## How is input VAT recovered?

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 Telecommunications and Electronically provided services

Globally, supplies made in the Telecommunications and Electronically provided services are considered as taxable at a standard rate. It is anticipated that Qatar VAT legislation will follow similar principles. Generally, there are no exemptions applied to supplies made in the T&E sectors and therefore, it is likely that all input VAT amounts incurred by businesses can be recovered in full.

## Place of supply

Article 20 of the GCC Framework provides specific place of supply rules for Telecommunications and Electronically provided services, stating that “The place of supply for wired and wireless telecommunication services and electronically supplied services shall be the place of actual use of or enjoyment from these services.”

## Key considerations and complex areas

### Pre-paid telecommunication packages

Customers may purchase credit to “top-up” or “recharge” their balances on an ad-hoc basis. Applying VAT on the sale and use of vouchers can be complex, and in general, one of the two following principles are used to identify the correct time of supply for VAT purposes:

1. Time of supply is when a voucher is purchased
2. Time of supply is when the voucher is redeemed.

### Promotions and rewards

Many businesses provide promotions and loyalty rewards to their customers including free voicemail or messages, free mobile data, access to online databases, free extensions of online membership etc.

Although these products may be offered free of charge, VAT may still apply to them and suppliers will need to ensure they fulfil relevant VAT obligations for these.

### Supplies through an agent or intermediary

Whilst most electronically provided services can be purchased directly from suppliers, customers sometimes use an online store to make purchases (e.g. App Store, Google Play, Netflix, YouTube). In these circumstances, the store becomes an agent for the sale, and is responsible for calculating VAT, if the customer is not registered for VAT purposes.

Vouchers for telecommunications services are often sold indirectly, through a third-party retailer (with the exception of direct sales from telecommunication companies to customers). This, in turn, adds additional complexity on when VAT should be collected.

### Roaming

Through roaming, customers use telecommunications services whilst travelling outside of their base-country (outbound roaming). It is likely that the traditional place of supply rules will apply to outbound roaming, meaning that these services will be taxed in the country where they are used. In this case, no Qatar VAT should be applied to roaming charges incurred abroad. On the other hand, standard rated VAT is expected to be charged in Qatar for foreign visitors using roaming services in Qatar (inbound roamers).

# Key considerations for the Telecommunications and Electronically provided services

## Types of supplies

To fully understand the impact that VAT will have on businesses, it is important to define the common supplies provided by sector participants:

### Telecommunications services:

- wired and wireless communications
- mobile internet data
- signals used to operate and control any machinery or equipment
- voice, music and other audio material.

### Electronically provided services:

- domain names, web-hosting, supply and updating of software
- images, text, photos, electronic books and other digitized documents
- music, films, games, online magazines
- advertising space on a website and any rights associated with such advertising
- live streaming via the internet
- online and distance learning.

## Agreements without VAT clauses

Many agreements signed in relation to supplies in the sector in Qatar do not currently contain VAT clauses. When VAT is implemented, it will need to be decided whether VAT should be charged on top of existing agreement prices. This could have a negative impact on businesses, leading to decreasing margins for the supplier. 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.

## Transitional provisions

Many customers in the sector will have credit in their account balances on the date that VAT is implemented in Qatar and it will need to be determined whether or not VAT will be applied to these balances. Transitional provisions are likely to apply for those cases where services are supplied after, but paid for prior to the implementation of 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 telecommunication and electronic services 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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