



Value-Added Tax (VAT) in Qatar

General VAT principles and important concepts

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“ VAT is going to affect all businesses in Qatar and companies can, and should act now to ensure that they have the right tools and processes to mitigate any potential impacts.

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VAT in the GCC region



VAT is a consumption tax levied on the sale of goods and services within (or imported into) a country. The ultimate cost of VAT is borne by the final consumer. Many jurisdictions allow businesses to offset the tax they incur when procuring goods and services, that are then used to create goods and services which they sell to their customers. This means that for businesses, VAT will not necessarily bring additional costs if controlled efficiently.

In November 2016, Qatar signed the Gulf Cooperation Council (GCC) Value-Added Tax (VAT) Framework Agreement (the Framework) along with all other GCC member states. The Framework requires all member states to introduce VAT and establish national legislation, within the agreed parameters.

The Framework is a treaty, not a law, however it provides a clear overview of how the VAT system is intended to be implemented in the region.

The Framework contains some binding provisions (e.g. there will be two VAT rates – the standard rate of 5 percent and the reduced rate of 0 percent), but permits flexibility in other areas, so that countries' individual economic circumstances can be considered.

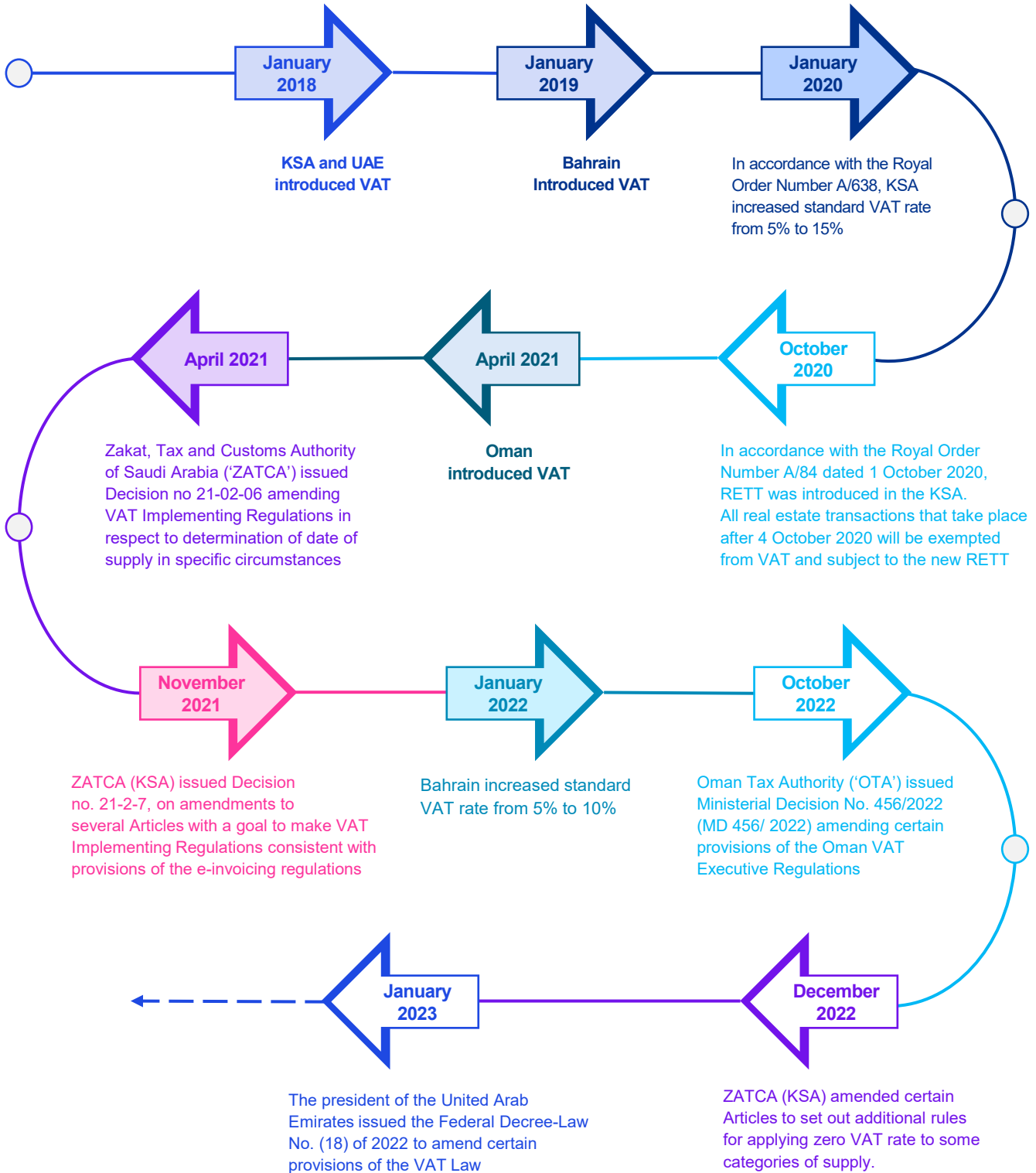
It is essential that businesses plan to implement VAT as soon as possible, as it is likely that there will not be a lot of time between the publication of the local law and the go-live date.

It goes without saying that the introduction of VAT in Qatar will have a big impact on businesses and private individuals, both in Qatar and abroad.

In this publication, we explain the basic principles of VAT, based on the Framework and outline practical steps that businesses can take now, to minimize and optimize the impact of VAT on their operations.



GCC VAT Timeline

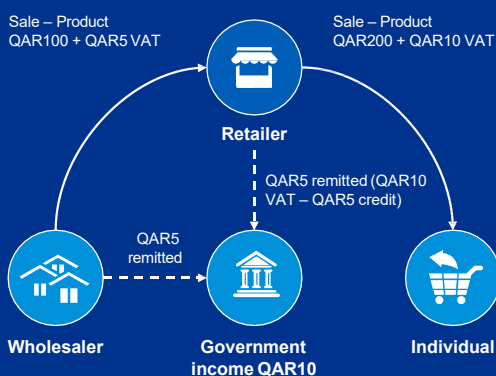


How VAT works



Payment of VAT

Generally, businesses are able to offset the VAT they incur in respect to purchases from suppliers against the VAT they collect from their customers on supplies. This means that if handled correctly, for most businesses VAT should be cost neutral.



VAT recovery

Input VAT can only be recovered by suppliers if the goods and services they supply are taxable (at standard or zero rate) and they have completed a tax return. This is known as VAT recovery and means that the supplier should not bear the cost of VAT.

Proportional deduction

VAT can only be recovered if the goods or services a supplier provides are standard or zero rated. If the goods or services are exempt, then the input tax cannot be recovered and the supplier bears the cost of the VAT incurred on the items they procure. Often, suppliers procure goods or services that are partly used to make taxable supplies and partly used to make exempt supplies. In these cases, VAT can be recovered on a proportional basis. When published, Qatar's VAT law is likely to define what goods and services are taxable, and set out how VAT can be recovered in these circumstances.

Output tax

Suppliers collect VAT on the goods and services they supply to their customers. This is known as output tax.

Input tax

Suppliers incur VAT on the goods or services they procure which they use to provide goods and services to their own customers. This is known as input tax.

Net tax

Net tax is the difference between the output tax a supplier collects on sales and the input tax they incur on purchases. When output tax is more than input tax, suppliers pay the difference (the net tax) to the government. However, if input tax exceeds output tax then the suppliers claim the difference from the government.

Output tax

VAT charged on sales of goods and services

Input tax

VAT incurred when procuring taxable goods and services

Net tax

Output VAT – input VAT

How VAT works



Place of supply



Generally, countries only levy VAT on the supply of goods or services within their own boundaries however, the Framework defines specific rules for different transactions. Therefore it is important to determine the place of supply for all transactions (where transactions take place) to ensure the correct VAT treatment is applied.

Local supplies

When goods are sold within Qatar, and services are sold between two parties resident in Qatar, the supply takes place in Qatar and VAT is usually charged at a standard rate of 5 percent.

Intra-GCC supplies

When taxable goods and services are sold by a supplier based in a GCC member state (e.g. Qatar), to a taxable customer based in another GCC member state (e.g. Oman), the sale is considered an intra-GCC supply. Intra-GCC supplies of goods and services to taxable customers can be subject to VAT based on a reverse charge mechanism. The reverse charge mechanism results in the taxable customer being liable for the VAT due on behalf of the supplier and responsible for the reporting obligations. This means that taxable customers report output VAT on purchases made within the wider GCC and deduct it in their Qatar VAT returns.

If the recipient of a service is not a taxable customer in another GCC country, Qatar VAT will apply. With respect to sale of goods, the supplier's VAT registration status and how the goods are delivered (e.g. with transport or without transport) should be taken into account when determining the correct VAT treatment.

Goods and services received from outside the GCC

When customers purchase goods from outside the GCC countries, these are considered imported goods and are subject to import VAT at standard rate of 5 percent, which must be paid to the General Authority of Customs of State of Qatar.

Services provided from outside GCC countries are also subject to VAT, which is reported using the reverse charge mechanism described previously.

For some services, there maybe special rules around the place of supply. These include:



Oil, gas, water and electricity.



Hiring transport, transport services for goods and passengers.



Services related to real estate.



Supply of telecommunication and electronically provided services.



Supply of restaurant, leisure, cultural and sporting events.

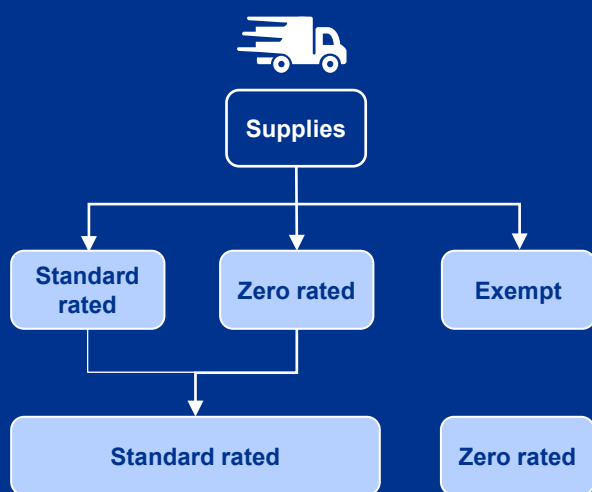
How VAT works



Types of supplies

As mentioned previously, different VAT treatments are applied to different supplies.

It is important to have a clear understanding of the type of supply as input tax incurred in connection with taxable supplies is fully recoverable. Input tax incurred in connection with exempt supplies is not recoverable.



Standard rated

The supply of most goods and services is likely to be taxable at the standard rate of 5 percent.

Zero rated

Some goods and services are classed as zero rated for VAT purposes, which means that the supplier does not charge output tax when selling to the customer. However, the supplier is permitted to recover the input tax incurred when procuring these supplies. Zero rated VAT is commonly applied to supplies including:

- The export of goods and provision of services to non-resident taxable customers.
- Medicines and medical equipment.
- International transportation of goods and passengers.

Exempt supplies

Some goods and services are exempt from VAT entirely, meaning that the supplier does not charge any VAT on the goods and services they offer, thus are not able to recover input tax they incurred to make such supplies.

Exempt supplies include:

- some financial services
- residential buildings and land.

Local jurisdictions are also permitted to classify the education, health, real estate and local transportation sectors as exempt or zero rated.

Out of scope supplies

Some transactions are not within the scope of Qatar VAT and payments received from the sale or purchase of these goods and services will not have to be reported in VAT returns. These include:

- statutory fees paid to the government
- donations to charity
- penalties charged between businesses; e.g. fees charged for delays on completion of the project.

Tax invoices

Accurate tax invoices are the most important documents in the VAT process as, without them, businesses are unable to offset input tax against output tax to claim back the VAT that they have incurred.

Tax invoices must contain a large amount of information, including the supplier, the goods or services delivered, the transaction amount and the customer. 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.

How VAT could affect your business?



VAT is likely to impact all businesses in Qatar, either directly or indirectly, but it should have a neutral impact if managed effectively. Therefore, companies should review their procurement processes, operating models and systems, contracts and legal structure today, to be VAT ready and minimize the impact of this imminent change.

The first step businesses must make is to plan and analyze their products and services to assess the impact of VAT, to maintain profitability and avoid VAT leakage.

Our experience from implementation in various jurisdictions has shown that businesses need significant lead time to prepare their people, customers, vendors and systems for the introduction of VAT. Based on our experience of VAT implementation in other jurisdictions, we have found that businesses who began planning for VAT early had successful implementations and were ready on go-live date.

The key activities that businesses should undertake to prepare for VAT implementation include:

01 Analyzing the business

Identifying how VAT will impact the business model and operations. A line-by-line analysis of the business areas that are likely to be affected by the regulations, either directly or indirectly.

02 Analyzing the impact on pricing

Analyzing the impact of VAT on the prices of services/products the business offers. Will VAT result in increasing demand, if prices are to rise? How will VAT affect businesses pricing strategy?

03 Analyzing the ERP systems

Investigating whether current systems can support VAT. Do current ERP and accounting systems recognize input and output taxes and enable them to be claimed on purchases that a business makes?

04 Analyzing contracts

Analyzing contractual clauses of the existing contracts and checking whether the business is entering into new contracts, which can potentially span the introduction of the regulation. If so, are there contractual provisions within those contracts, which would allow the business to pass on the impact of a new tax?

05 Analyzing the impact on cash flow

Examining the impact of VAT on cash flow. How does the business ensure it receives payments from customers before it is required to remit VAT and, equally minimize the time between incurring VAT on purchases and claiming input VAT credits?

How KPMG 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 in delivering VAT services to some of the world's largest businesses.



VAT awareness trainings



Review of operations



Legislation review



Implementation support and system validation



Transition and system testing



Post implementation assistance



Consulting

KPMG's Qatar-based Indirect Tax and Advisory professionals, 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 Advisory teams can help clients implement automated solutions with their transaction tax compliance processes, by providing a holistic technology view. This includes:

- reviewing, updating and testing ERP system(s)
- ensuring proper and efficient interfacing
- generating documentation and VAT reports.



Compliance

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



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