



The impact of VAT

**on the Real Estate and Construction
sectors in Qatar**

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What does VAT mean for the Real Estate and Construction sectors in Qatar?

It is expected that, in early 2019, Qatar will introduce a broad value-added tax (VAT) at a standard rate of 5%, according to the Gulf Cooperation Council VAT Framework (GCC framework).

All businesses in Qatar will be affected by the introduction of VAT and for the Real Estate and Construction sectors, there are a variety of factors to consider, which will affect different parts of the business.

In this flyer, we have identified a number of considerations that businesses across the sector 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 Real Estate and Construction businesses assess it carefully to ensure they are fully compliant and manage their tax in the most efficient way possible.

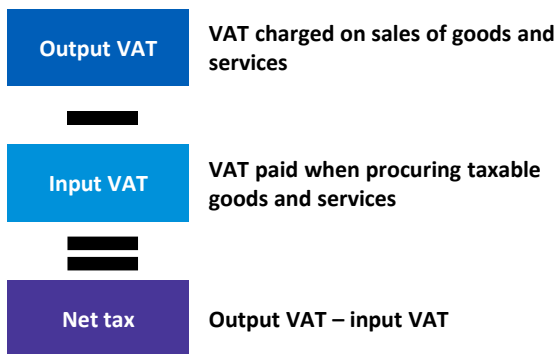


How will VAT be applied to the Real Estate and Construction sectors?

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 has to be paid to the government.

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 5 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.

For the Real Estate and Construction sectors, the GCC Framework agreement permits member states to decide which VAT treatment should be used.

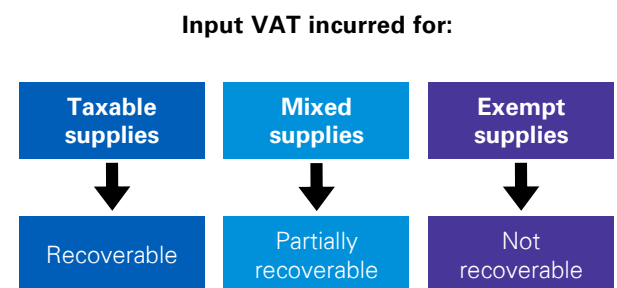
The VAT treatment for the Real Estate sector varies around the world and includes:

- exemptions for most real estate transactions (usually combined with the option to tax)
- a combination of exemptions and charging for some transactions
- zero-rating certain supplies of land and/or residential property.

GCC countries which have already introduced VAT tax commercial real estate transactions at standard rate and exempt some residential real estate transactions.

Input tax recovery

Any non-recoverable input VAT constitutes a financial cost for real estate companies, which needs to be taken into consideration when pricing supplies (e.g. for the sale or rent of real estate). Many real estate businesses will likely sell taxable supplies (which allow input VAT recovery) and exempt supplies (which do not allow input VAT recovery). Since it is often not possible to clearly allocate expenditures to one particular activity, this can complicate how input VAT can be recovered.

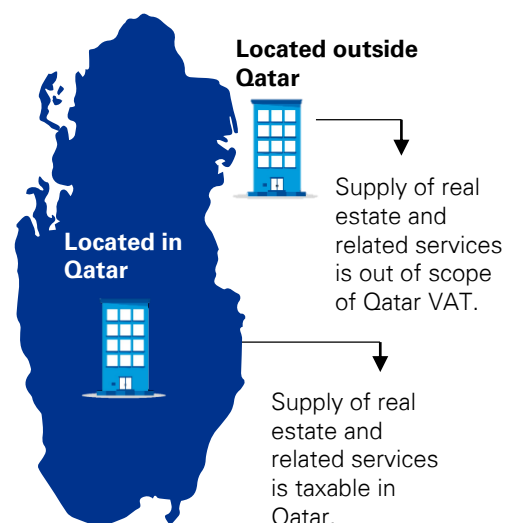


Place of supply of real estate and related services

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

The GCC Framework agreement explicitly states that the place of supply for real estate transactions and related services will be where the real estate is located. Real estate related transactions are defined as services closely related to real estate.

This means that real estate transactions, and any services closely related to real estate, located outside of Qatar will be out of the scope of VAT in Qatar.



Key considerations for the Real Estate and Construction sectors

Long-term contracts

Long-term contracts are very common in the Real Estate sector. As a result, many construction companies and real estate owners in Qatar have entered long-term arrangements or leased their real estate properties with contracts which do not consider the potential impact of VAT. This could have a negative impact on businesses, leading to decreasing margins for the supplier or non-recoverable input VAT. Generally, tax authorities provide a grace period once VAT is implemented, allowing businesses to communicate with their vendors and customers about the impact on their contracts and take remedial action, if appropriate.

Tax exemptions for specific customers

Many construction companies and real estate owners supply goods or services to organizations, which could be exempt from paying VAT (such as government bodies and charities). It is likely that the Qatar Tax Department (QTD) will publish a list of exempt organizations and it is important that suppliers check this regularly to identify any customers who are exempt.

Sale or rent of real estate

Based on VAT laws in other GCC countries, it is likely that some supplies of residential real estate will be VAT exempt (or zero-rated) and that most commercial real estate will be taxable. Businesses will need to carry out a detailed analysis of the law to ensure that their properties are categorized correctly, as this is likely to impact how VAT is applied. Globally, properties are categorized based on certain principles, including but not limited to; parties involved in the transaction, use of property, duration of stay, contract requirements and additional services.

As the sale or lease of residential real estate will likely be exempt, this can complicate how and if input VAT can be recovered. This will be particularly complex for real estate which is classed as both residential and commercial, or if its use is likely to change over time (e.g. residential real estate which becomes used for commercial purposes).

Rent-free periods

As an incentive, many landlords in Qatar offer discounts on contracts in the form of rent-free periods. This is likely to be impacted by VAT, which will have to be considered separately from standard rent payments.

Owners associations

Often, landlords who own apartments in the same building agree to form an association to manage cleaning, maintenance, security and other communal activities. Although these associations do not generally have a legal status, there could be some form of VAT registration necessary as goods and/or services may be procured jointly.

Real estate related services

The GCC Framework references 'real estate related services', without defining their respective VAT treatments. It will be important for service providers and users to identify each service separately, since the VAT impact can differ.

Distinction of supplies

It is essential for businesses to distinguish between construction services (which, generally, will be taxable) and the sale of real estate (in which case, residential property is exempt). Globally, the distinction often depends on who the owner of the land was when the contract was established.

Volume of transactions

The construction sector is known for purchasing and providing a high volume of supplies. The application and impacts of VAT on the sector will vary considerably, depending on the activity being carried out, and at what point in the process output VAT will have to be paid and input VAT can be recovered.

Cross-border transactions

Many businesses in the construction sector in Qatar export supplies to, and import supplies from other countries, which can require complex VAT treatment. It is therefore important for businesses to fully understand the VAT impact on imports and exports to ensure efficiency and avoid tax penalties.

Retention fees

Most construction companies in Qatar have a 'retention fee' clause in their contracts with customers and suppliers. This means that a portion of the due payment is withheld until the agreed-upon services are completed. Once completed, the fee is released to the supplier. The VAT treatment of retention fees needs to be assessed separately to the remuneration for the goods or services provided.

Progress payments

Progress payments are regularly included in contracts, releasing partial payments for goods and services periodically. Depending the nature of transactions, it will have impacts on the determination of tax due date for the respective transactions in relation to progress payments.

Disbursements

Disbursements allow businesses to make payments (e.g. utility bills, state fees, courier fees) to a vendor on their customer's behalf. These are widely used by construction companies, who are required to keep records of these transactions. In global practice, disbursements are not classed as supplies for VAT purposes.



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 Real Estate and Construction 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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