VAT brief | Logistics & transportation

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With less than a month to go before VAT is implemented in both the Kingdom of Saudi Arabia and the United Arab Emirates, legislation and regulations have been finalised. As business across the GCC move into a new tax era, key decision makers must ensure that their people, their systems and their technologies are sufficiently prepared – and sufficiently agile – to deal with a new business paradigm.

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What is VAT?

- VAT is a tax on consumption, not income or profits.
- The GCC countries have agreed a standard VAT rate of five percent (5%).
- Supplies of goods and services are generally standard-rated but can also be zero-rated, exempt or out of scope.
- Registered suppliers will account for VAT on the price of a good or service they supply and pay VAT to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard- or zero-rated or out of scope) be able to recover most of the VAT they incur in making those supplies.
- Registered businesses that make supplies that are exempt from VAT will not be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are predominantly zero-rated will usually be in a VAT refund position.

How will VAT affect the logistics and transportation sector?

- Logistics and transportation businesses tend to have relatively straight-forward operating models. However, this does not mean that there are no operational complexities. Transportation in the GCC often involves transporting goods and passengers between GCC member states as well as non-GCC member states. The VAT implications of each revenue stream will need to be considered and separately itemised for invoicing and accounting purposes as different VAT treatment may apply. Time and place of supply rules must also be clearly understood and taken into account.
- The GCC VAT treaty allows for supplies made by the logistics and transportation sector to be either zero-rated or exempt. GCC member states have been allowed to individually determine the most suitable VAT treatment on the supply of local transportation services and any conditions.
- In Saudi Arabia's draft Implementing Regulations (IRs), the supply of local transportation services is standard rated. According to the VAT FAQ section on the UAE's Ministry of Finance webpage, this will be VAT exempt in the UAE. The approach to be taken by the other GCC member states is still unclear.
- The VAT treatment of local transportation needs to be identified as this will largely determine the recoverability of input VAT for the business. If input VAT was incurred in relation to standard rated or zero-rated supplies, it should be recoverable - but it won't be if it's attributable to an exempt supply. Common costs and general overheads will need to be correctly apportioned to maximise the recoverability of any input tax as these may relate to both taxable and exempt supplies.
- Under article 32 of the GCC treaty, the supply of international goods or passenger transport made between GCC member states or between GCC member states and non-GCC member states will be zero-rated. Other transport related services have also been zero-rated. It is important to consider the types of transport-related services that might qualify for zero-rating.

Your business is our priority

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- storage of imported goods - be considered as part of international transportation services? Will it make any difference if it's provided by the same logistics supplier but under separate entities? Will incoterm be a good basis to determine the extent of the services provided by logistics providers?
- Will logistics providers be required to register in more than one GCC country, even though they may not have a physical presence in that country?
- How will the movement of goods involving free zone and bonded warehouses be treated?
- Local logistics agents and affiliates to overseas logistics providers will need to consider whether they are acting as agents or principals as the VAT impact may differ accordingly.
- Logistics providers will also need to consider whether they are providing transportation services within or between two or more GCC countries. Logistics providers may be required to register and report VAT in more than one GCC country - even though they only physically operate in one GCC country.
- The introduction of VAT across the GCC will impact all businesses in the region, but will particularly impact businesses in the import and export sectors. From a commercial perspective, the new VAT regime will be a new challenge to logistics businesses, testing their ability to assist their customers in managing import-export procedures and documentation.

What still needs to be clarified?

- What is a transport-related service? Will transport-related services be treated differently by different GCC member states?
- Will domestic transportation services - such as the inland haulage, trucking and temporary storage of imported goods - be considered as part of international transportation services? Will it make any difference if it's provided by the same logistics supplier but under separate entities? Will incoterm be a good basis to determine the extent of the services provided by logistics providers?
- Will logistics providers be required to register in more than one GCC country, even though they may not have a physical presence in that country?
- How will the movement of goods involving free zone and bonded warehouses be treated?

Important note

Keypoint's VAT briefs are based on a translation of the Unified VAT Agreement for the Cooperation Council for the Arab States of the Gulf (the GCC VAT treaty), Saudi Arabia's VAT legislation, the UAE federal law, the Saudi implementing regulations, the UAE's executive regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE continue – as of the date of release of this brief – to work towards an implementation date of 1 January 2018. This brief is not a substitute for professional advice. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.