

VAT brief | Logistics & transportation

May 2018 | Kingdom of Bahrain



Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Business leaders should now be more aware than ever that we are entering into a new tax era. Key decision makers in the UAE and Saudi Arabia need to ensure their processes and systems are - and remain - VAT-compliant, while their counterparts in the other GCC states need to start preparing now for the implementation of VAT.

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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.
- The supply of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- Registered businesses account for VAT on the price charged for the goods or services they supply and pay it 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 with recovery) be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may not be able to recover the VAT they have incurred on certain purchases that are deemed to have a private element.
- Registered businesses that make supplies that are predominantly zero-rated are likely to be in a VAT refund position.
- Businesses that make both exempt and taxable supplies can only recover a proportion of their input VAT.

How does VAT affect the logistics & transportation sector?

- The VAT implications of each revenue stream need to be considered and separately itemised for invoicing and accounting purposes as different VAT treatment may apply.
- 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 the discretion to determine the VAT treatment for supplies of local transportation services (such as public transport).
- There are no specific VAT treatments for transport in Saudi Arabia. As a result, services should be standard-rated - unless the supplier is below the mandatory registration threshold.
- Public transportation in the UAE (including the metro, taxis and buses) is exempt.
- The GCC treaty stipulates that the supply of international transport (that is, the movement of goods or passengers between different countries) is zero-rated. Services related to international transport are also zero-rated.
- VAT incurred on expenses incurred in relation to the making of taxable supplies (whether 5% or 0%) should be recoverable. VAT incurred on expenses incurred in relation to exempt supplies is not recoverable.

Your business is our priority



- Recovery of VAT incurred on common costs and general overheads is subject to apportionment for any transport or logistics providers who make both taxable and exempt supplies.
- Because the transport and logistics sector have differing VAT treatments for their products, there can be difficulty in determining the appropriate VAT treatment. For example:
 - Storage of imported goods – should this be related to international transportation (and therefore zero-rated)? Does it make any difference if the storage is provided by the same group but by different entities?
 - Are incoterms a good basis to determine the extent of the services provided by logistics providers?
 - Are logistics providers required to register in more than one GCC country, even if they may not have a physical presence in that country?
 - How is the movement of goods involving free zones and bonded warehouses being treated?
- Local logistics agents and affiliates of overseas logistics providers need to consider whether they are acting as agents or principals as the VAT impact may differ.
- Logistics providers 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 new VAT regime is a new challenge to logistics businesses, testing their ability to assist their customers in managing import-export procedures and documentation.

Areas which need further consideration

- What is a transport-related service? Will transport-related services be treated differently by different GCC member states?
- Are domestic transportation services - such as the inland haulage, trucking and temporary storage of imported goods - part of international transportation services?
- Does it make any difference if domestic transportation services are provided by the same logistics supplier but under separate entities?
- Do incoterms reflect the legal reality of the services provided by logistics providers?
- Are logistics providers required to register in more than one GCC country, even though they may not have a physical presence in that country?
- Have long-term contracts spanning the implementation of VAT been identified?
- Can - and should - VAT be charged to customers?

Important note

These briefs are based on a translation of the GCC VAT Treaty, UAE and Saudi Arabia's VAT legislation, the relevant regulations and general VAT principles and are provided for information purposes only.

Saudi Arabia and the UAE implemented VAT on 1 January 2018 and the other GCC countries continue – as of the date of release of this brief – to work towards implementation in 2019.

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.