VAT brief | Logistics & transportation

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The Saudi VAT law has now been ratified. GAZT has released its calendar of VAT deadlines moving towards the 1 January implementation date. The Saudi implementing regulations have been finalised. The UAE has released its federal decree on VAT. Implementing regulations are expected imminently. Key decision makers should now be more aware than ever that we are entering into a new tax era. Businesses in the UAE and Saudi Arabia now have less than 75 working days to prepare for the implementation of VAT.

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.
- Goods and services can be exempt, zero-rated or standard-rated (five percent).
- Registered suppliers will add VAT to the price of a good or service they supply, collect the tax 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) 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 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 zero-rated will usually be in a refundable 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.
- 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?

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- 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

These briefs are based on a translation of Saudi Arabia's VAT legislation, the UAE federal law, the Saudi implementing regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE continue

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