VAT brief | Logistics and transportation

October 2018 | Manama | Kingdom of Bahrain

keypoint

Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain has confirmed implementation on 1 January 2019, with the other GCC countries expected to follow over the next 12 months. Business leaders should now be more aware than ever that we have entered a new tax era. Key decision makers in the UAE, Saudi Arabia and Bahrain 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.

What is VAT?

- VAT is a tax on consumption.
- 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.
- The mandatory registration threshold is the equivalent of US$100,000 - as set out in the GCC VAT treaty. The voluntary registration threshold is the equivalent of US$50,000.
- 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 and 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 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.
- Bahrain has extended the zero-rating to include local transportation. The extent of the zero-rate will need to be clarified, but private transport such as taxis, ride hailing services and leisure transport should be subject to VAT at 5%
- 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.

Contact us:

Mubeen Khadir
Head of Tax
mubeen.khadir@keypoint.com
+973 17206879
+973 32226811

George Campbell
Associate Director
george.campbell@keypoint.com
+973 17206872
+973 38338641

Chris Park
Senior Manager
chris.park@keypoint.com
+973 17206845
+973 38338634

Omar Hisham
Manager
omar.hisham@keypoint.com
+973 17206877
+973 38338640

Willem Bam
Manager
willem.bam@keypoint.com
+973 17206875
+973 38338649

- 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.
- 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 (applies mostly to the UAE).
- 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 don't have a physical presence in those countries?
  - How is the movement of goods involving free zones and bonded warehouses being treated?
- Logistics providers need to analyse if they are providing transportation services within or between more than one GCC country to fully evaluate potential pan-GCC registration requirements.
- 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.
- The VAT regime is a complication for logistics businesses, testing their ability to assist their customers in managing import-export procedures and documentation.

What should logistics and transportation providers be doing now?

- Consider what a transport-related service is. How are transport-related services being treated differently by different GCC member states?
- Determine whether domestic transportation services - such as the inland haulage, trucking and temporary storage of imported goods - are part of international transportation services
- Consider whether it make any difference if domestic transportation services are provided by the same logistics supplier but under separate entities.
- Ensure incoterms reflect the legal reality of the services provided by logistics providers.
- Determine whether logistics providers must register in more than one GCC country even if they don't have a physical presence in that country.
- Ensure long-term contracts spanning the implementation of VAT have been identified.
- Consider whether VAT can - and should - be charged to customers.

Important note

The information in this document is based on translations of the draft Bahrain VAT law, the VAT laws and regulations of the UAE and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. As the draft Bahrain VAT law has been recently released and is still being reviewed in detail, any comments on this law are preliminary in nature and are likely to change. Any omissions or errors are inadvertent. This document should not be relied upon in making any decisions. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.