

VAT brief | Logistics and transportation

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We have entered a new tax era. Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain implemented - for businesses with taxable turnovers above BD5m - on 1 January 2019 - with other businesses going live on 1 July 2019 or 1 January 2020. Other GCC countries are expected to follow. Key decision makers in the UAE, Saudi Arabia and Bahrain need to ensure their processes and systems are - and remain - VAT-compliant, while their peers in other GCC states need to start preparing now for VAT's implementation.

What is VAT?

- The GCC countries have agreed a standard VAT rate of five percent.
- Supplies of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- The mandatory registration threshold (MRT) is the equivalent of US\$100,000. The voluntary registration threshold is the equivalent of US\$50,000. Bahrain has staggered VAT's introduction.
- Registered businesses account for VAT - a consumption tax - on the price charged for the goods or services they supply and regularly pay the VAT to the tax authority.
- Where registered businesses make supplies that are standard- or zero-rated or out of scope with recovery, they should be able to recover the VAT they have incurred in making those supplies.
- Registered businesses making supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may be unable to recover VAT incurred on purchases that are deemed to have a private element.
- Registered businesses making 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 businesses in 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 provided by an appropriately licenced provider, subject to a number of exceptions.
- 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.



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- 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 businesses in the logistics and transportation sector 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 VAT legislation of the UAE, Bahrain and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. 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.