VAT brief | Hospitality and tourism

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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 hospitality and tourism sector?

- Generally, supplies made by the hospitality and tourism sector are taxable, enabling suppliers to recover VAT incurred on their purchases.
- However, the hospitality and tourism sector can be complicated. Hotels have multiple revenue streams – such as rooms, food and beverages, telephones, internet, weddings and conferences. Different VAT treatments may apply to each revenue stream (although such supplies are all subject to local VAT in Saudi Arabia, the UAE and Bahrain).
- Time and place of supply rules also need to be considered. Bahrain's application of the zero-rate to supplies of food does not extend to supplies of catering services in hotels, restaurants and other similar establishments.
- Hotel taxes and tourism taxes or levies may be subject to VAT.
- Hotels are being asked to issue tax invoices for business trips in the name of the business, rather than the employee staying at the hotel. Booking systems and invoicing templates need to be updated to ensure the system is capable of capturing business information and issuing compliant tax invoices to the correct party.

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- Outbound tourism is complicated. Cross-border flights are zero-rated but domestic flights are standard-rated –the domestic legs of international journeys can be complicated, still qualifying for zero-rating under certain conditions. Hotel accommodation is standard-rated and taxable according to its location.
- Intermediaries such as travel agents or booking agents need to carefully consider their contractual arrangements to determine which party supplies what. Intermediaries may be responsible for collecting payments or issuing invoices on behalf the actual service provider. However, they should only account for VAT on the supplies they are making as a principal.
- The VAT treatment of 'no-shows' must be considered to avoid over-declaring VAT. In other VAT jurisdictions, these can be outside the scope of VAT.
- Tours that involve travel within or between more than one GCC country could potentially require travel agents to register and report VAT in more than one GCC country even though they only physically operate in one GCC country.
- Where tourists purchase goods directly from approved retailers, a VAT refund scheme will be available. However, residents of GCC member states are not eligible for VAT refunds. Retailers who sell products to tourists may be required to register to enable non-GCC customers to refund VAT costs and to comply with additional administrative requirements (such as completing forms and checking tourists' passports).

What should businesses in the hospitality and tourism sector be doing now?

- Consider the VAT treatment of supplies - particularly for packages of supplies at different VAT rates (such as flights and accommodation)
- Review principal-agent arrangements and understand the VAT implications
- Review long-term contracts that span VAT's implementation to determine whether the supplier has the contractual right to charge the VAT amount on top of the contract price or to apply any concessionary transitional provisions.
- Understand the impact of increasing prices due to VAT, the effect on consumer demand and competitors' reactions.