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Value Added Tax
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GCC VAT Fundamentals in the Aviation Sector

The introduction of VAT is a landmark event for the region and marks the true beginning of VAT implementation across the GCC. The VAT Treaty signed by the GCC states establishes the common principles of the VAT system which is to apply in each GCC State and provides a structure on which domestic VAT legislation will be developed. We are gradually getting clarity over the principles which every State will be required to enact and can start to confirm our understanding of how businesses will be impacted by the introduction of VAT within the region. The Treaty however leaves certain decisions to the discretion of the individual GCC States, so whilst we now have a greater understanding of how the VAT system will operate there remain many 'grey' areas which can only be resolved once each of the countries have released their VAT laws.

VAT will be relatively straightforward conceptually

- Registered suppliers charge VAT (output tax) in most instances (i.e. typically added to current prices)
- Registered business customers recover the VAT (input tax) in most instances
- End consumer suffers the total VAT cost; flows through businesses to a great extent
- Standard VAT rate will be 5% across the GCC

Zero-rated

- No VAT charged to customers but can recover input tax
- Zero-rated traders usually in a repayment position

Exempt

- No VAT charged but no input tax recovery
- Exempt traders have a higher cost base and often increase prices as a result

What will be the key VAT issues in the aviation sector?

- Businesses will need to **consider the rules applicable in each Member State**, as well as considering the place of supply rules to identify where VAT is incurred, where VAT registration liabilities are created, and where VAT is due
- The place of supply for passenger and cargo transport (together with related services) will be **where the transportation begins** under Article 19 of the Treaty. As a result **VAT registration liabilities could be generated across the GCC**
- The extent of zero-rating in the sector **could lead to taxpayers being in a repayment position** i.e. a net-recoverable VAT position on their VAT returns. This could have a **negative cash flow impact**, and put **pressure on working capital** – with potential delays in VAT repayments possible
- It is **unclear how far the zero-rating for services relating to international transport will extend**. It is likely to be based on the necessity of that service to the transport – for example, ramp fees would be more likely to be zero-rated than lounge services where charges are made separate to the flight ticket
- It is likely that certain goods provided as part of the international transport (and charged as part of the price of transport) will also benefit from zero-rating
- **Fuel** supplied for use in commercial flights could be **either zero-rated or standard rated** (or exempt in respect of domestic flights) this has been left to the Member States to decide under Article 29 of the Treaty
- **Uncertainty remains around the liability of aircraft fuel, leasing of aircraft, repair and maintenance cost etc.** It could be the case that the Member States do not take a uniform approach in their national laws
- Local transport can be exempted or zero-rated under Article 29 (1) of the Treaty

There will be issues…

It is possible that standard rating, zero rating, or exemption could apply – **the Member States may take differing approaches**

- If exemption applies, then VAT will become a cost on expenditure
- If zero-rating applies, then VAT refunds and cash-flow will be an issue

Justin Whitehouse
Indirect Tax Leader
jmwhitehouse@deloitte.com
+971 (0) 4 376 8823