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Value Added Tax
April 2017

GCC VAT Fundamentals in the Transportation 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 transportation sector?

The diversity of activity undertaken in the transportation sector means that the businesses are likely to make supplies with different VAT treatments:

- Article 29 of the Treaty states that **each GCC state can choose whether to exempt or zero rate local transportation**
- Exemption leads to a sticking VAT cost within the supply chain as VAT incurred on purchases is irrecoverable – **so increased cost for the providers of local transportation services**
- Some GCC States **may decide to apply zero-rate to local transportation**, which would be very attractive and a lot simpler
- Car hire provided to unregistered customers will be subject to VAT in the country **where the car is made available** as per Article 17 of the Treaty – could trigger a requirement to register for VAT in other GCC States
- **Transportation of goods and passenger from one member state to another or from the GCC territory to outside GCC** will be zero rated along with the other transport related services under Article 32 of the Treaty
- **Supply of means of transportation by way of sea, land and air for commercial purposes** along with supply of goods and services to operate, repair, maintain etc. such means of transportation will be zero rated as per Article 33 of the Treaty
- VAT will be due on the **import of goods when they enter the territory of the State** – use of Free Zones may delay payment of the VAT

There will be issues…

- Where exemption applies, VAT will become a cost on expenditure directly related to those supplies
- If zero-rating applies, VAT refunds and cash-flow will be an issue if the business pays more VAT on purchases than it is due to account for on its supplies – this could affect working capital

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