

VAT brief – Hospitality & tourism

1 August 2017, Kingdom of Bahrain



Following on from the release of the GCC VAT framework, Saudi Arabia's General Authority of Zakat and Tax (GAZT) has released a draft version of the law as well as a bilingual version of its VAT implementing regulations. All businesses must now be actively preparing for VAT - 1 January 2018 is less than 100 working days away.

What is VAT?

- VAT is a tax on consumption, not income or profits.
- The GCC countries have agreed a standard VAT rate of five percent.
- Goods and services can be exempt, zero-rated or standard-rated.
- Registered suppliers will add VAT to the price of a good or service they supply, collect the tax 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) 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 will not be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are predominantly zero-rated will usually be in a refund position.

- The VAT treatment of ancillary services, such as currency exchange, will need to be considered.
- Tour operators and travel agents will need to consider whether they are acting as agents or principals as the VAT impact in each case may be different.



- From a VAT perspective, outbound tourism may be complicated. Cross-border flights will be zero-rated while domestic flights will be standard-rated. Hotel accommodation will be standard-rated and taxable according to the location of the hotel. If a consumer is charged an administrative fee, that may or may not be subject to VAT, depending on whether the administrative fee is subsumed into overall supply or a separate supply for a separate fee.
- The VAT treatment of 'no-shows' will have to be considered to avoid over-declaring VAT.
- Travel agent will also need to consider tours that they book for customers that involve travel within or between two or more GCC countries. Travel agents may be required to register and report VAT in more than one GCC country even though they only physically operate in one GCC country.

How will VAT affect the hospitality & tourism sector?

- Generally, supplies made by the hospitality and tourism sector are taxable which allows suppliers to recover VAT incurred on their purchases. However, from a VAT perspective, the hospitality and tourism sector is likely to have a fair degree of complexity.
- Hotels, for example, have multiple revenue streams – room, food and beverages, telephones, TV and movies, internet, weddings, conferences and other functions. The VAT implications of each revenue stream will need to be considered and separately itemised for invoicing and accounting purposes as different VAT treatment may apply. Time and place of supply rules will also need to be taken into account.

Contact us



Mubeen Khadir
Head of Tax
mubeen.khadir@keypoint.com
+973 1720 6879
+973 3222 6811



George Campbell
Associate Director
george.campbell@keypoint.com
+973 1720 6872
+973 3833 8641

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- Restaurants will need to understand the different VAT treatments that apply to their purchases and sales. For example, even if basic food items are zero-rated, the restaurant will need to charge VAT when selling cooked food.
- The VAT charged by a hotel or restaurant will on top of any existing government taxes, levies or service charges.
- Where tourists purchase goods directly from approved retailers, a tourist refund scheme will be available for VAT refunds. However, residents of GCC member states will not be eligible for VAT refunds.

Important note

These briefs are based on a translation of Saudi Arabia's draft VAT laws and general VAT principles and are provided for information purposes only. This document is not a substitute for professional advice. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.

What should hospitality and tourism businesses be doing now?

- Consider the VAT treatment of their supplies
 - particularly with packages containing supplies at different VAT rates (such as flights and accommodation)
- Review principal-agent arrangements and understand the VAT implications

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Mubeen Khadir
Head of Tax
mubeen.khadir@keypoint.com
+973 1720 6879
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+973 3833 8641

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