VAT brief | Logistics & transportation

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Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Key decision makers should now be more aware than ever that we are entering into a new tax era. Key decision makers at businesses in the UAE and Saudi Arabia need to ensure their processes and systems are VAT-compliant, while their counterparts in the other GCC states need to start preparing now for the implementation of VAT.

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, standard-rated, or out of scope.
- Registered suppliers will need to account for VAT out of the price charged for the goods or services they supply, 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 or out of scope) 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 zero-rated will usually be in a refundable position.

How does VAT affect the logistics and transportation sector?

- VAT is a new challenge for logistics businesses
- Transportation in the GCC often involves transporting goods and passengers between GCC and non-GCC member states. The VAT implications of each revenue stream need to be considered and separately itemised for invoicing and accounting purposes as different VAT treatments apply. Time and place of supply rules must be clearly understood.
- GCC member states have discretion as to the most suitable VAT treatment for the supply of local transportation services. The supply of local transportation services is standard-rated in Saudi Arabia while public transportation is VAT-exempt in the UAE. The approach to be taken by the other GCC member states is still to be clarified.
- The VAT treatment of local transportation largely determines the recoverability of input VAT. If input VAT is incurred in relation to standard- or zero-rated supplies, it should be recoverable. Common costs and general overheads will need to be correctly apportioned to maximise the recoverability of any input tax as these may relate to both taxable and exempt supplies.
- Article 32 of the GCC treaty zero-rates the supply of international goods or passenger transport between GCC member states or between GCC member states and non-GCC member states. Other transport-related services have also been zero-rated.
- Local logistics agents and affiliates to overseas logistics providers need to consider whether they are acting as agents or principals as the VAT treatment may differ.
- Logistics providers need to consider whether they are providing transportation services within or between two or more GCC countries as they may be required to report – and register for – VAT in more than once country even though they only physically operate in one GCC country.
- VAT is testing logistics providers' ability to manage and document import-export procedures.

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

Omar Hisham
Manager
omar.hisham@keypoint.com
+973 1720 6877
+973 3833 8640

Willem Bam
Manager
willem.bam@keypoint.com
+973 1720 6875
+973 3833 8649

Chris Park
Manager
chris.park@keypoint.com
+973 1720 6888
+973 3833 8634

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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

Omar Hisham
Manager
omar.hisham@keypoint.com
+973 1720 6877
+973 3833 8640

Willem Bam
Manager
willem.bam@keypoint.com
+973 1720 6875
+973 3833 8649

Chris Park
Manager
chris.park@keypoint.com
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+973 3833 8634

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Areas which may need further consideration

- What is a transport-related service? Are different GCC member states going to treat transport-related services differently?
- Will some domestic transportation services - such as the inland haulage, trucking and temporary storage of imported goods - be considered as part of international transportation services? Will it make any difference if they are provided by the same logistics supplier but under separate entities? Will incoterm be a good basis to determine the extent of the services provided by logistics providers?
- Will logistics providers be required to register in more than one GCC country, even though they may not have a physical presence in that country?
- How will the movement of goods involving free zones and bonded warehouses be treated?

Important note

These briefs are based on a translation of the UAE and Saudi Arabia's VAT legislation, the relevant regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE implemented VAT on 1 January 2018 and the other GCC countries continue – as of the date of release of this brief – to work towards implementation in the next 12 months. This brief 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.