VAT brief | Hospitality & tourism

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With less than a month to go before VAT is implemented in both the Kingdom of Saudi Arabia and the United Arab Emirates, legislation and regulations have been finalised. As business across the GCC move into a new tax era, key decision makers must ensure that their people, their systems and their technologies are sufficiently prepared – and sufficiently agile – to deal with a new business paradigm.

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 (5%).
- Supplies of goods and services are generally standard-rated but can also be zero-rated, exempt or out of scope.
- Registered suppliers will account for VAT on the price of a good or service they supply and pay VAT 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 most of the VAT they incur in 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 VAT refund position.

How will VAT affect the hospitality & tourism sector?

- Generally, supplies made by the hospitality and tourism sector are taxable, enabling suppliers to recover VAT incurred on their purchases.
- From a VAT perspective, the hospitality and tourism sector is likely to be fairly complicated. Hotels have multiple revenue streams – such as rooms, food and beverages, telephones, TV and movies, internet, weddings and conferences. Different VAT treatments may apply to each revenue stream. Time and place of supply rules also need to be taken into account.
- Outbound tourism may be complicated. Cross-border flights are zero-rated but domestic flights are standard-rated. Hotel accommodation is standard-rated and taxable according to its location. If an administrative fee is charged, that may or may not be subject to VAT, depending on whether the administrative fee is a separate supply for a separate fee or subsumed.
- The VAT treatment of 'no-shows' will have to be considered to avoid over-declaring VAT.
- Tours that involve travel within or between two or more GCC countries may require travel agents to register and report VAT in more than one GCC country even though they only physically operate in one GCC country.
- Restaurants need to understand different VAT treatments. For example, even if basic food items are zero-rated, VAT must be charged when selling cooked food.
- VAT charged by hotels or restaurants is on top of any existing government levies or service charges.
- Where tourists purchase goods directly from approved retailers, a VAT refund scheme will be available. However, residents of GCC member states will not be eligible for VAT refunds.

What should hospitality & tourism providers be doing now?

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

Important note

Keypoint's VAT briefs are based on a translation of the Unified VAT Agreement for the Cooperation Council for the Arab States of the Gulf (the GCC VAT treaty), Saudi Arabia's VAT legislation, the UAE federal law, the Saudi implementing regulations, the UAE's executive regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE continue – as of the date of release of this brief – to work towards an implementation date of 1 January 2018. 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.

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