VAT brief | Hospitality & tourism

May 2018 | Kingdom of Bahrain

keypoint

Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Business leaders should now be more aware than ever that we are entering into a new tax era. Key decision makers in the UAE and Saudi Arabia need to ensure their processes and systems are - and remain - 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.
- The supply of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- Registered businesses account for VAT on 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 with recovery) 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 cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may not be able to recover the VAT they have incurred on certain purchases that are deemed to have a private element.
- Registered businesses that make supplies that are predominantly zero-rated are likely to be in a VAT refund position.
- Businesses that make both exempt and taxable supplies can only recover a proportion of their input VAT.

How will VAT affect the hospitality sector?

- Generally, supplies made by the hospitality and tourism sector are taxable, enabling suppliers to recover VAT incurred on their purchases.
- However, the hospitality and tourism sector can be complicated. Hotels have multiple revenue streams – such as rooms, food and beverages, telephones, internet, weddings and conferences. Different VAT treatments can apply to each revenue stream (although such supplies are all subject to local VAT in both Saudi Arabia and the UAE). Time and place of supply rules also need to be taken into account.
- Hotel taxes and tourism taxes or levies may be subject to VAT.
- Hotels are being asked to issue tax invoices for business trips in the name of the business, rather than the employee staying at the hotel. Booking systems and invoicing templates need to be updated to ensure the system is capable of capturing the business information and issuing compliant tax invoices to the correct party.
- Outbound tourism is complicated. Cross-border flights are zero-rated but domestic flights are standard-rated – complication can arise with domestic legs of international journeys, which still qualify for zero-rating under certain conditions. Hotel accommodation is standard-rated and taxable according to its location.

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

keypoint

- Intermediaries such as travel agents or booking agents need to carefully consider their contractual arrangements to determine which party supplies what. Intermediaries may be responsible for collecting payments or issuing invoices on behalf the actual service provider. However, they should only account for VAT on the supplies they are making as principal.
- The VAT treatment of 'no-shows' must be considered to avoid over-declaring VAT. In other VAT jurisdictions, these can be outside the scope of VAT.
- Tours that involve travel within or between two or more GCC countries could potentially require travel agents to register and report VAT in more than one GCC country even though they only physically operate in one GCC country.
- Where tourists purchase goods directly from approved retailers, a VAT refund scheme will be available. However, residents of GCC member states are not eligible for VAT refunds. Retailers who sell products to tourists may be required to register to enable their non-GCC tourists to seek a VAT refund, and to comply with additional administrative requirements (such as completing forms and checking the passports of tourist customers).

What should tourism businesses do now?

- Consider the VAT treatment of supplies - particularly for packages of supplies at different VAT rates (such as flights and accommodation).
- Review principal-agent arrangements and understand their VAT implications.
- Review long-term contracts that span VAT's introduction to determine whether the supplier has the contractual right to charge the VAT amount on top of the contract price or to apply any concessionary transitional provisions.
- Understand the impact of increasing prices due to VAT, the effect on consumer demand, and the