

VAT brief | Supply chain disruptions

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The COVID-19 pandemic has had a swift and unexpected impact on businesses across the globe. Across the GCC, governments are acting to protect citizens and residents, with travel restricted, schools and universities closed and social events curtailed. Cancellations have become a fact of life for many businesses - but the VAT effects can be substantial and should be carefully considered.

Common scenarios

The hotelier

To secure rooms around a high-profile wedding in March 2020, a hotel insisted on deposits as an advanced payment. Unfortunately, the wedding has been called off so many of the guests have cancelled their stay. What should the hotel do now?

The hotel should issue a credit note for the deposit and make an adjustment in its March VAT return.

The event planner

In December 2019, an event organiser sold tickets for an event to be held in April 2020. The event has been cancelled and full refunds offered. Tickets sold in December 2019 were reported in the event planner's December 2019 VAT return. What should she do now?

The event organiser will need to issue VAT-compliant credit notes to cover the costs of tickets and adjust the VAT return for the tax period in which the credit notes were issued.

Common questions

- Can I recover the VAT that I have paid to the tax authority on cancelled supplies? What documents do I need to issue when providing refunds to customers?
- Am I required to refund the deposit paid by customers? If so, what are the VAT consequences?

- I'm entitled to charge a penalty fee for cancellation. What are the VAT consequences if I waive this fee?
- My suppliers have delayed delivery and I'm now required to pay liquidated damages to my customer. Is there a VAT consequence?
- I've purchased goods and recovered the input VAT but now the supplier has cancelled. Do I need to repay claimed input VAT?
- I've charged my customers VAT in advance but they are 'no shows'. Do I need to issue a credit note?
- I'm a non-resident business and was due to organise an event in April 2020 and recently registered for VAT. I have had to cancel the event. Can I deregister for VAT?
- To expand my business, I recently bought a very expensive capital asset. However, given the current situation, the expansion project has been put on hold and the capital asset has not been used. Can I recover the VAT I paid?
- A professional consulting firm we deal with locally has shut down and we have engaged an expert from outside the country. Are there any VAT implications?
- A customer we supply has been declared bankrupt. Our last three invoices - with the VAT accounted for and paid - have not been settled. What should we do?

Important note: The information in this document is based on translations of the VAT legislation of the UAE, Bahrain and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. Any omissions or errors are inadvertent. This document should not be relied upon in making any decisions. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.