The impact of VAT on Financial Sector in Qatar

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What does VAT mean for the business in Qatar

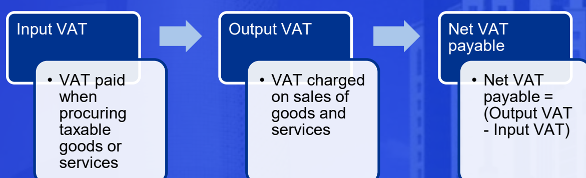
It is anticipated that Qatar will announce Value Added Tax (VAT) Law and its Executive Regulations in 2024.

VAT is expected to affect all businesses in Qatar - either directly or indirectly - and will affect most sales of goods and services in Qatar (with limited exceptions such as financial services and insurance). Therefore, businesses may need to consider certain actions prior to the implementation of the VAT regime.

In this flyer, we have identified a number of considerations that businesses across the different sectors will have to make, drawing on our knowledge of VAT treatment around the world. When the VAT law is released in Qatar, it is important that businesses assess it carefully to ensure they are fully compliant and manage their tax in the most efficient way possible.

General principle of VAT

Generally, businesses can be required to pay VAT (input VAT) on goods and services (known as supplies) they procure, and have to collect VAT from customers on supplies they deliver (output VAT). The collected output VAT has to be paid to the relevant tax or other responsible authority. VAT laws allow in general businesses to deduct the input VAT they pay (usually by mean of offsetting against the VAT that they collect).



VAT legislation usually applies one of three treatments to the supply of goods and services:

- standard rate – as per the GCC Framework this is set at five percent. However, KSA and Bahrain increased VAT rates to fifteen and ten percent respectively.
- zero rate – output VAT is charged at zero percent and input VAT can be recovered against this.
- exempt – no output VAT is charged and input VAT cannot be recovered.

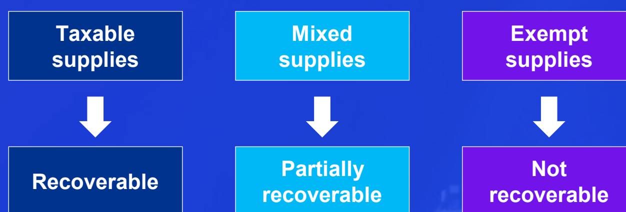
How is input VAT recovered?

In accordance with the best practice, input VAT amounts incurred by VAT registered businesses are listed as recoverable, provided that such expenses are incurred as part of making taxable supplies.

In case of making exempt supplies, recovery of input VAT is not allowed and business will need to incur unrecovered VAT amounts as an expense.

Tax invoice is also a focal factor entitling businesses to recover incurred input VAT amounts. In case of receiving services from a non-resident, the local VAT legislation in Qatar is likely to go for reverse-charge mechanism (customer registered for VAT in Qatar should be considered as liable for the tax (VAT) on behalf of its non-resident supplier).

Input VAT incurred for:



Place of Supply rules of VAT

Understanding where transactions take place (the place of supply) is crucial to ensure that the correct VAT treatment is applied.

Further to the general principle of the place of supply rules highlighted in GCC Framework, below points should be taken into account.

In case supply of services are provided in favor of taxable customer, place of supply is considered as a place of residence of the customer.

In all other cases, place of supply is the place of residence of the supplier.

Time of supply rules of VAT

Any business registered for VAT in Qatar should pay special attention on the importance of time of supply rules since calculating, reporting and transferring VAT is listed as supplier's obligation. Failing to meet these requirements are likely to lead to financial penalties. Based on time of supply rules, the general rule approach for defining the time of supply is the earliest date of the following:

- when the payment is received
- when the tax invoice is issued
- when the supply is made.

Specific time of supply rules apply in case of supplies of a continuous nature.

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Key considerations for the Financial Services sector

All businesses in Qatar will be affected by the introduction of VAT. However, the implications are likely to be more complex for the Financial Services sector. Most, but not all, activities within the financial services industry will qualify for VAT exemption. We have looked at how exemptions are applied to the industry elsewhere in the world, as it is likely that Qatar will follow similar principles.

To date, countries around the world use different methods of taxation on financial services. The jurisdictions which most recently implemented VAT, financial services are often divided into two categories (or supplies) for VAT purposes – fee-based and margin-based. VAT is usually applied on services when an explicit fee, commission, discount or charge is involved, and is only applied on the separately identifiable charge.

Examples of fee-based financial services include:

- investment advice
- money transfer fees
- bank account opening/closing/maintenance fees
- bank statement fees
- ATM transaction fees
- loan setup/renewal fees.

Margin-based supplies are often exempt from VAT and include:

- interest paid, or received, in respect of loans
- profit on investment tools
- deposits
- guarantees
- life insurance and re-insurance products.

VAT and Sharia compliance

VAT will most likely not be applied on margin profit earned by Islamic banks; however it could be applied to explicit fees paid to the bank. VAT treatment for each type of Islamic banking product; e.g. murabaha, sukuk, musharaka, ijara, will have to be identified separately.

For example, when an ijara contract with a bank comes to an end, the ownership of the property passes to the individual. Therefore, the individual has a contractual relationship with the bank, not with the original seller of the property. Under this contract, the bank makes two supplies for VAT purposes:

i. The supply of the underlying asset (the house) to the individual. VAT could potentially be chargeable on this supply.

ii. The supply of financing. The financing component of payments under the ijara will most likely be VAT exempt, as they represent the implicit profit margin derived by the bank on the ijara product.

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Key considerations for the Financial Services sector

How is input VAT recovered?

Input tax deduction

Financial institutions are likely to deliver taxable supplies (which allow input VAT deduction), as well as exempt supplies (which do not allow input VAT deduction). It is our understanding that Article 36 of the GCC framework suggests that member states can determine a recovery rate for input VAT incurred by financial institutions. However, as this is not explicit, the framework could permit different methods to be used. Around the world, a variety of methods are used to recover VAT; however the following two methods are the most frequently used within the financial services sector.

Singapore model

The Singapore model allows for a fixed VAT recovery percentage and seems, therefore, to be closest to the GCC framework agreement. This system has the advantage of being straight forward and can be easily managed by the tax payer. The fixed recovery rate (for example: 12 percent in commercial banking) is calculated using proxy statistics. It usually varies according to the type of banking license a financial institution holds and is reviewed annually.

Traditional model

The GCC member states that have already implemented VAT have decided to apply the traditional model of VAT recovery for financial services providers.

The traditional model ensures that:

- Input VAT charged on expenditure directly allocable to taxable activities can be deducted.
- Input VAT charged on expenditure directly allocable to exempt activities cannot be deducted.
- Input VAT charged on expenditure relating to taxable and exempt supplies (mixed use), can be deducted on a pro-rata basis, applied only to the taxable activity

Key considerations and complex areas

Determining taxable and exempt activities

Financial institutions are required to categorize supplies provided to their customers in taxable and exempt supplies. Even though VAT is not due on exempt transactions, they have an impact on recoverable input VAT as highlighted above.

ERP system

Ideally, financial institutions will have an enterprise resource planning (ERP) system ready and suitably configured for the implementation of VAT. Vendor and customer master data may need to be changed, a tax condition logic will have to be established and tax codes will have to be created.

Regulations of the local central bank

Bank commissions are usually approved by a country's central bank and a threshold is identified for certain charges. With this in mind, applying VAT could decrease profit margins for financial institutions, which can have an impact on long-term revenues if banks do not take appropriate actions.

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How we can help

At KPMG in Qatar, we are committed to the end-to-end delivery of solutions which help your business manage the implementation of VAT in the most effective and efficient way possible. We have a Qatar-based team of highly-skilled professionals, with experience of delivering VAT services to some of the largest financial services clients around the world. Our team use KPMG's tested and proven methodology, drawing on global best practice to ensure that you get the results your business needs.

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