



# The impact of VAT on Transportation Sector in Qatar

—  
Jan 2024



# What does VAT mean for the business in Qatar

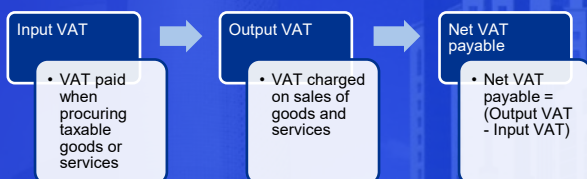
It is anticipated that Qatar will announce Value Added Tax (VAT) Law and its Executive Regulations in 2024.

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.

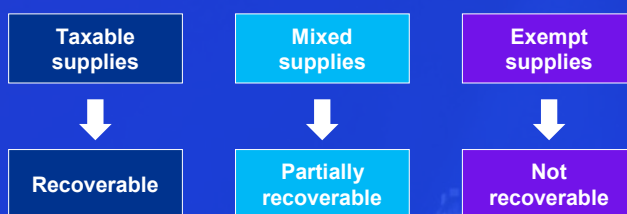
## How is input VAT recovered?

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.

# Key considerations for the Transportation Sector

For VAT purposes, transportation services are moving goods, passengers from one point to another one using means of transport such as car, truck, train, ship, plane and as well as a pipeline.

## Key considerations and complex areas

### Nutshell – VAT vs Transportation

For VAT purposes, transportation services are moving goods, passengers from one point to another one using means of transport such as car, truck, train, ship, plane and as well as a pipeline.

It should be taken into consideration that place of supply rule is one of the main component of the VAT law. Therefore transport, itself plays a considerable role in defining the place of supply of provided goods (with or without transport ). GCC Framework describes specific rules and requirements related to determination of the place of supply of provided goods.

It is obvious that countries in over the world have different VAT treatments to the above-mentioned transportation instruments. Taking into account that VAT law of Qatar will be drafted based on fundamental rules and requirements GCC Framework, consequently we would assume that Qatari Government will follow the same and below listed approaches are likely to be come out along with respective VAT law:

- International transportation of goods and passengers, freight forwarding and their ancillary services are likely to be subject to VAT at a zero rate (0%).
- Publicly available local transportation services are likely to be subject to VAT at a zero rate (0%) or will be exempted for VAT purposes.
- Supply of means of transport and supply of goods and services for the purpose of operation, repair, maintenance or transportation of them would be zero-rated for VAT purposes.

### International transportation and freight forwarding services

Airlines, long tour buses, long distance trucks, marine and logistic companies are some example for the participants of international transportation sector. As per global experience international transportation services and their directly related services are subject to VAT at a zero rate (0%).

Freight forwarding companies on behalf of their customers deal with all or part of international transportation process such as packing, shipping, customs, delivery. It should be noted that freight forwarding services are also classified as international transportation services stated that all provided services under the mentioned services line purely related with international transportation of goods or other movables. Therefore freight forwarder companies have to collect all respective backups in connection with their provided services in order to avoid any future VAT burden and penalties.

### Extra charges and fees

Airline companies often charge standard and extra fees to their customers. Penalties, extra charged fees are normally out of scope from VAT, since there is no supply of goods or services in relation to the payment.

# Key considerations for the Transportation Sector

## Ancillary services

Generally ancillary services are directly related to international transportation of goods which have significant support during provision of transportation services. Examples of ancillary services include:

- shipment
- packaging and securing cargo
- preparation of customs documents
- container management
- loading, unloading, storing and moving of goods.

Services which are directly connected and incidental to a international passenger transportation are also zero-rated (0%). Such services include:

- transporting luggage accompanied by passengers
- additional luggage charges
- transporting airport passenger charges and passenger load supplements
- seat reservations
- sleeping berths and cabin charges.

## Disbursement vs reimbursement

Any payments made as out-of-pocket expenses on the customer's assignment can be classified into following two categories:

Disbursement (services received by the customer and paid by the supplier on customer's behalf – not-VAT-able) and,

Recharge (services received by the supplier while performing customer's assignment and later recharged to the customer – subject to VAT).

## VAT recoverability

Major part of revenue streams of local transportation are categorized as taxable and for international transportation are categorized as zero rated for VAT purposes. Thus any input VAT amounts in connection with providing such services can be recovered accordingly. In light of this, the correct VAT treatment of the mentioned operations should be revealed in order to prevent any future financial penalties.

It should also be noted there are certain further conditions like existence of a tax invoice and commercial purposes which must be met in order to recover the incurred input VAT amounts.

In case public transport is classified exempt for VAT purposes then transportation companies will not be able to recover VAT amount of incurred expenses and all respective VAT amounts will have to be absorbed by the companies.



### 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 transportation 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.



#### **Barbara Henzen**

Partner – Head of Tax Services  
KPMG in Qatar

T: +974 4457 6671

E: [bhenzen@kpmg.com](mailto:bhenzen@kpmg.com)



#### **Nurlan Sadraddinzade**

Associate Director – Tax Services  
KPMG in Qatar

T: +974 4457 6453

E: [nsadraddinzade@kpmg.com](mailto:nsadraddinzade@kpmg.com)



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)

© 2024 KPMG LLC, a limited liability company registered with Qatar Financial Centre Authority (QFCA), State of Qatar and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.