



The impact of VAT

**on the Hospitality and Leisure
sectors in Qatar**

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What does VAT mean for the Hospitality and Leisure sectors in Qatar?

It is anticipated that Qatar will announce Value Added Tax (VAT) law and its Executive Regulations during 2020.

All businesses in Qatar will be affected by the introduction of VAT. For businesses in the Hospitality and Leisure (H&L) industry, there are a variety of factors to consider which will impact different aspects of their operations.

In this flyer, we have highlighted the key areas that H&L businesses should consider to ensure that they manage VAT effectively, drawing on our knowledge of VAT treatment around the world. When the VAT law is released in Qatar, it is important that H&L businesses assess it carefully to ensure they are fully compliant and manage their tax in the most efficient way possible.

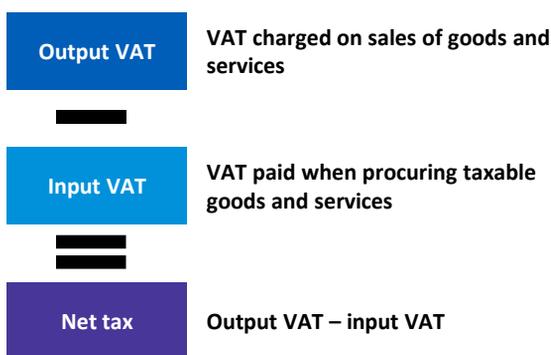


How will VAT be applied to the Hospitality and Leisure sectors?

General principle of VAT

Businesses can be required to pay VAT on goods and services (known as supplies) they procure (input VAT), and have to collect VAT from customers on supplies they deliver (output VAT). The collected output VAT then has to be paid to the government by the supplier, who is also responsible for providing reports on the tax collected and paid.

In general, governments allow businesses to recover the input VAT they pay (usually by offsetting it against the output VAT that they collect).



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

- standard rated – in the GCC this is set at five percent
- zero rated – output VAT is charged at zero percent
- exempt – no output VAT is charged.

It is likely that most supplies made by H&L businesses will be treated as taxable at the standard rate. However, the GCC Framework foresees certain activities e.g. international transportation, to be zero rated. Local VAT legislation could categorize other H&L-related activities as zero rated or exempt from VAT e.g. many jurisdictions consider long-term hotel accommodation as an exempt real estate-related service, or some cultural events as zero rated/ exempt educational services.

The cost of VAT in the sector will mostly be covered by individual consumers, who purchase services at restaurants, hotels (including memberships granting access to spas, gyms and pools located in hotel premises), entertainment complexes, travel agencies and transportation companies.

Input tax recovery

Input VAT can be recovered, if the goods or services that were procured are used to deliver taxable (standard rated or zero rated) supplies. However, VAT laws do not permit taxpayers to recover input VAT related to the delivery of exempt supplies.

Although most supplies made by H&L businesses are taxable, certain supplies may be listed as exempt. Hotels in Qatar, for instance, are likely to charge a standard rate of VAT when supplying hotel rooms, however, long-term supply of accommodation may be exempt. Any additional services supplied during the stay e.g. food and beverages, spa treatments, are likely to be standard rated for VAT purposes. Consequently, if hotels provide both taxable and exempt supplies, they can recover input VAT on a proportionate basis.

Place of supply

Understanding where transactions take place (the place of supply) is crucial to ensure that the correct VAT treatment is applied. According to the GCC Framework, the place of supply for restaurants, hotels, catering providers and cultural, artistic, sports, educational and recreational services is the place where the services or performances are delivered.

Some H&L businesses based in Qatar may offer services which are delivered outside of the country (e.g. tour operators) so it will be important for them to establish which tax jurisdiction is entitled to tax the supply. If it is clear that the place of supply is outside of Qatar, the tax jurisdiction in the country where the services take place may require the supplier to register for VAT purposes, where different applications could be applied.

Time of supply

In addition to the significance of correct determination of place of supply and the respective VAT treatment, it is also essential to determine the time of supply to ensure that the correct VAT treatment is used. There are no pre-defined rules in the GCC framework to clarify at what point during the supply and purchase of goods and services VAT should be paid in the H&L sector.

The general rule for defining the time of supply is the earliest date of the following:

- when the payment is received
- when the invoice is issued
- the date that the supply is made.

Taking the technological developments in the H&L sector into account, business should track cash in-flows of advance payments and supplies made.

Key considerations for the Hospitality and Leisure sectors

Determining the nature of supply

Nature of supply is the key element in determination of taxation of a supply. For instance, the provision of golf courses can either be listed as a sports activity or an educational activity, which are likely to be standard rated and zero rated, respectively. This said, H&L businesses should pay specific attention to the identification of the nature of supply and the respective VAT impact on it.

Tour packages

Many local tour operators offer both outbound and inbound packages to their customers in Qatar and elsewhere, which can involve a variety of goods and services including international and local transportation, accommodation, catering, guides, etc. Tour operators are advised to examine the tax treatment of these components separately.

Supplementary goods and services

Many H&L businesses in Qatar supply supplementary goods and services including dry cleaning, mini bars, areas for personal events, Wi-Fi, car rentals etc. Each supply should be considered separately for VAT purposes as different treatments may apply.

Promotions and rewards to clients

Some H&L businesses provide loyalty points to customers based on spend, which can be used to purchase additional items or services, or to redeem discounts. The H&L sector also commonly uses promotions and discounts to increase business such as buy-one-get-one-free offers. When using loyalty points or discounts to pay or part-pay, no monetary payment or partial payment is made and therefore, the tax treatment (especially with respect to the calculation of tax and the time of supply) can be complex.

Sales through vouchers

Many businesses in the H&L sector provide customers with the option to purchase vouchers, either directly or through voucher companies, which can be redeemed against goods or services. When customers redeem the issued vouchers, the supplier is obliged to calculate, report and transfer the tax to the government. Establishing the correct time and value of the supply is complex and needs to be analyzed once the VAT legislation has been published in Qatar.

Agency charges

Most travel agencies add a fee to the services they provide to customers, commonly known as a 'mark-up'. In most jurisdictions, this fee is taxed, even if the supplies made are zero rated or exempt e.g. if international flight tickets are listed as zero rated, any mark-up amount added by agencies could be treated as subject to standard rated VAT depending on the provisions of Qatar VAT legislation.

Additional charges

H&L businesses sometimes charge penalties to customers who have deviated from the terms and conditions of the service provided e.g. no-show charges for bookings, penalties for returning a hire car late. Many tax authorities consider penalties out of scope of VAT, but do charge VAT on no-show charges. Businesses should review their current policies, depending on the provisions of the VAT legislation in Qatar.

Long-term existing contracts

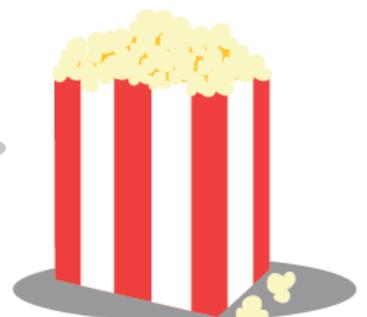
Many existing contracts signed in relation to supplies in the H&L sector in Qatar do not currently contain VAT clauses. When VAT is implemented, it will need to be decided whether VAT should be charged on top of existing agreement prices. This could have a negative impact on businesses, leading to decreasing margins for the supplier or non-recoverable input VAT. Globally, tax authorities often provide companies with grace period once VAT is implemented, allowing companies to communicate with suppliers and customers to take immediate actions in relation to contract clauses.

Deemed supply

Commonly, H&L businesses provide employees with certain benefits including free catering and free hotel stays. These benefits are categorized as deemed supplies for VAT purposes. H&L businesses are generally not permitted to recover input VAT amounts incurred in the course of providing these benefits. The businesses are encouraged to revise their policies once the VAT legislation is released.

Exemptions for hosting international events

Some companies hosting international events may not have to pay input VAT on goods or services they procure in Qatar. It is anticipated that Qatar's VAT legislation will clearly set out which entities this will apply to and identify how the refund process should be carried out. In this regard, H&L businesses taking part in such events should review the relevant provisions of the Qatar VAT legislation and assess whether they should be entitled for such exemption.



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 hospitality and leisure clients around the world. Our team use KPMG's tried and tested methodology, drawing on global best practice to ensure that you get the results your business needs.

Consulting

KPMG's Indirect Tax and Management Consulting professionals based in Qatar, together with colleagues from our offices world-wide, are able to assist clients with requirements relating to the upcoming changes, including, but not limited to nexus – the VAT taxability impact assessment study, IT strategy, sourcing and procurement, contracting strategy, cost optimization, supply chain analysis, business strategy, business process re-engineering and reviewing compliance requirements.

Technology implementation

Our Transactions Tax Systems professionals, together with our Technology and Digital Advisory team, can assist clients that are implementing automated solutions with their transaction tax compliance processes, by providing a holistic technology view. This includes:

- reviewing, updating and testing IT system(s) and sub-modules
- ensuring proper and efficient interfacing between information systems.

Compliance

Our local Compliance Center can help clients to prepare and file new VAT returns.



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