The impact of VAT on Real Estate and construction 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).

Input VAT
- VAT paid when procuring taxable goods or services

→ Output VAT
- VAT charged on sales of goods and services

→ Net VAT payable
- Net VAT payable = (Output VAT - Input VAT)

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:

Taxable supplies	Mixed supplies	Exempt supplies
↓	↓	↓
Recoverable	Partially recoverable	Not recoverable

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 Real Estate and Construction sectors

For the Real Estate and Construction sectors, the GCC Framework agreement permits member states to decide which VAT treatment should be used. The VAT treatment for the Real Estate sector varies around the world and includes:

- exemptions for most real estate transactions (usually combined with the option to tax)
- a combination of exemptions and charging for some transactions
- zero-rating certain supplies of land and/or residential property.

GCC countries have already introduced VAT on commercial real estate transactions at standard rate and exempt some residential real estate transactions.

Place of Supply

The GCC Framework agreement explicitly states that the place of supply for real estate transactions and related services will be where the real estate is located. Real estate related transactions are defined as services closely related to real estate.

This means that real estate transactions, and any services closely related to real estate, located outside of Qatar will be out of the scope of VAT in Qatar.

Time of Supply

As per the GCC Framework agreement, time of supply made on a repetitive nature leading to the repetitive issuance of invoices the tax is due on the earliest of the actual payment date or payment due date of the amount stipulated in the tax invoice. With the use of this article, taxpayers in real estate and construction industry where continuous supplies are widely referred could potentially avoid cash flow impact. For one-off supplies, general time of supply rules apply.

Key considerations and complex areas

Long-term contracts

Long-term contracts are very common in the Real Estate sector. As a result, many construction companies and real estate owners in Qatar have entered long-term arrangements or leased their real estate properties with contracts which do not consider the potential impact of VAT. This could have a negative impact on businesses, leading to decreasing margins for the supplier or non-recoverable input VAT. Generally, tax authorities provide a grace period once VAT is implemented, allowing businesses to communicate with their vendors and customers about the impact on their contracts and take remedial action, if appropriate.

Distinction of Customers

Many construction companies and real estate owners supply goods or services to organizations, which could be exempt from paying VAT (such as government bodies and charities). It is likely that the General Tax Authority will publish a list of exempt organizations and it is important that suppliers check this regularly to identify any customers who are exempt.

It is also essential for businesses to distinguish between construction services (which, generally, will be taxable) and the sale of real estate (in which case, residential property is exempt). Globally, the distinction often depends on who the owner of the land was when the contract was established.

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Tax exemptions for specific customers

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Real estate related services

The GCC Framework references 'real estate related services', without defining their respective VAT treatments. It will be important for service providers and users to identify each service separately, since the VAT impact can differ.

Sale or rent of real estate

Based on VAT laws in other GCC countries, it is likely that some supplies of residential real estate will be VAT exempt (or zero-rated) and that most commercial real estate will be taxable. Businesses will need to carry out a detailed analysis of the law to ensure that their properties are categorized correctly, as this is likely to impact how VAT is applied. Globally, properties are categorized based on certain principles, including but not limited to; parties involved in the transaction, use of property, duration of stay, contract requirements and additional services.

As the sale or lease of residential real estate will likely be exempt, this can complicate how and if input VAT can be recovered. This will be particularly complex for real estate which is classed as both residential and commercial, or if its use is likely to change over time (e.g. residential real estate which becomes used for commercial purposes).

Retention fees

Most construction companies in Qatar have a 'retention fee' clause in their contracts with customers and suppliers. This means that a portion of the due payment is withheld until the agreed-upon services are completed. Once completed, the fee is released to the supplier. The VAT treatment of retention fees needs to be assessed separately to the remuneration for the goods or services provided.

Progress payments

Progress payments are regularly included in contracts, releasing partial payments for goods and services periodically. Depending the nature of transactions, it will have impacts on the determination of tax due date for the respective transactions in relation to progress payments.

Rent-free periods

As an incentive, many landlords in Qatar offer discounts on contracts in the form of rent-free periods. This is likely to be impacted by VAT, which will have to be considered separately from standard rent payments.

Disbursements

Disbursements allow businesses to make payments (e.g. utility bills, state fees, courier fees) to a vendor on their customer's behalf. These are widely used by construction companies, who are required to keep records of these transactions. In global practice, disbursements are not classed as supplies for VAT purposes.

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 real estate and construction 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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