KPMG

The impact of VAT on Utilities Sector in Qatar

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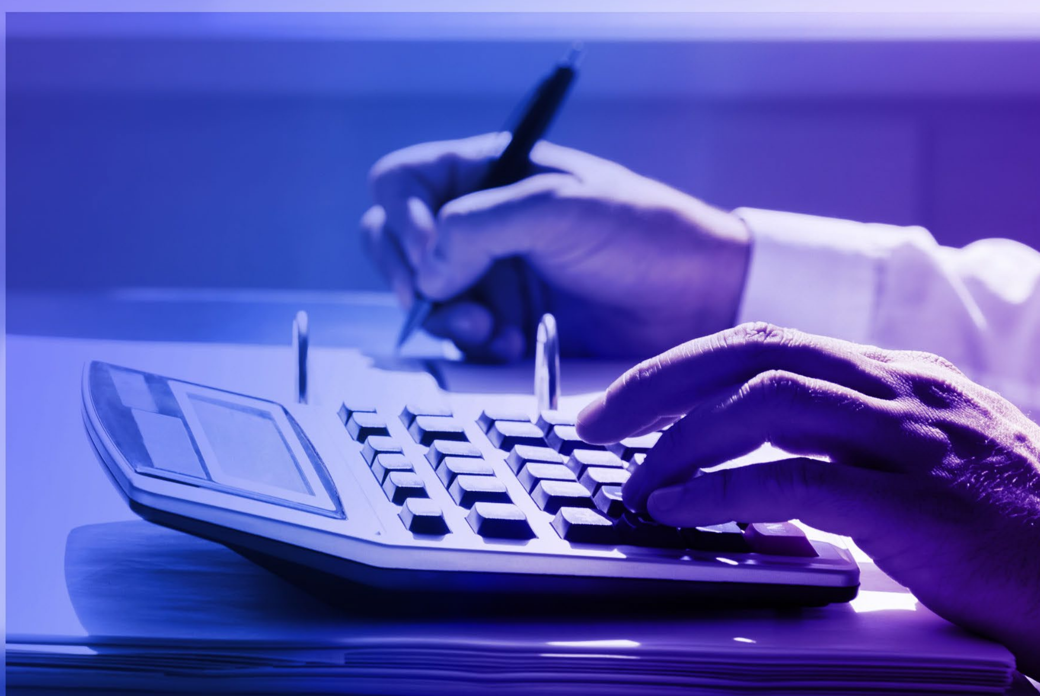

What does VAT mean for the business in Qatar

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.

Key considerations for the Utilities sector

To what extent will VAT be applied to the utilities sector?

Many businesses in Qatar will be affected by the introduction of VAT and businesses involved in providing power, electricity, water, gas, cooling and heating ("Utilities") may face various challenges throughout the implementation of VAT in their operations.

Globally, supplies made by utility businesses are treated as taxable supplies and VAT at standard rate is applied. However, certain countries in European Union apply reduced rate for utility products. Considering that products offered by utility sector are used by customers on a daily basis, it makes utility sector one of the main revenue sources for tax authorities worldwide.

Place of supply in utilities sector

It is essential to check place of supply (i.e. where the supply takes place) rules for intra-GCC and cross border non-GCC transactions. So that, place of supply rules determine the respective jurisdiction where supplies should be taxed. GCC Framework highlights two rules for determination of place of supply for utilities:

1. The place of supply of water and gas through the pipeline distribution system and supply of electricity by a Taxable Person who is established in a GCC Member State to a Taxable Trader established in another GCC Member State shall be the place where the Taxable Trader is established.

*Taxable Trader is the taxable person in any GCC states whose principal activity is to distribute gas or oil or water or electricity.

2. The place of supply of water through the pipeline distribution system and supply of electricity to a person who is not a Taxable Trader shall be the place of actual consumption.

As such, businesses in utility sector should check the status of consumers in order to avoid any potential risks that can be raised in respect of determination of place of supply.

In general, utilities are considered as being continuous in nature. It is expected that Qatar VAT law will have specific treatments for determination of time of supply for goods supplied in continuous nature.

Another important factor for input VAT recovery is issuance of the tax invoice. In case of receiving supplies from a non-resident suppliers (import of electricity, power), 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 on behalf of its non-resident supplier).

In accordance with the global practice, input VAT amounts paid by registered businesses are listed as recoverable, provided that such expenses are incurred as part of making taxable supplies (standard rated and zero rated). In case of making exempt supplies, recovery of input VAT is not allowed. Considering that utilities are considered as taxable supplies, companies engaged in this sector are expected to recover input VAT in full. Furthermore, it is recommended that the businesses in utility sector to procure goods and services from VAT registered suppliers. So that, non-registered suppliers for VAT purposes will not be eligible to recover incurred VAT amounts, respectively incurred VAT amounts will be additional cost for them. In light of this, they may commercially decide to increase price of supplied goods or services.

Key considerations for the Utilities sector

Capital Expenditures

Globally, the Utilities sector is well known for huge volume of capital expenditures. The incurred VAT amounts on capital expenditure in respect of making taxable supplies can be recovered by the businesses. Certain VAT implemented jurisdictions allow the businesses to recover input tax on capital expenditure using different types of capital assets scheme. It is expected that the mentioned recovery method will be followed by the taxation principles of Qatar VAT Law. In this respect, upon announcement of the Qatar VAT Law the respective VAT treatment for capital expenditures and capital asset scheme should be examined in details.

Continuous supply

In general, supply of goods in utility sector are in continuous nature. Businesses in the respective sector should ensure to calculate exact monetary value of supplies made to customers prior to VAT effective date. As such, VAT amounts cannot be charged to goods supplied prior to VAT effective date.

Temporary importation

GCC Framework entitles the member states to exempt below listed certain organizations from paying VAT.

- Government organizations
- Charitable organizations and public utility establishments
- Exempted companies by virtue of agreements for hosting international events.

As such, utility providers would not charge any VAT to exempt customers, in case some of aforementioned bodies are exempt from paying VAT.

Long term contracts

It is typical for businesses in utility sector to supply goods based on long term contracts. It is worth to mention that companies in VAT implemented countries face with VAT collection problem during transition period face. As such, most contracts signed prior to the implementation of VAT, do not have any VAT related clauses and subsequently the value of supply stated in the contracts are treated as inclusive of VAT.

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 utilities 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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