



The impact of VAT on Retail Sector in Qatar

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What does VAT mean for the business in Qatar

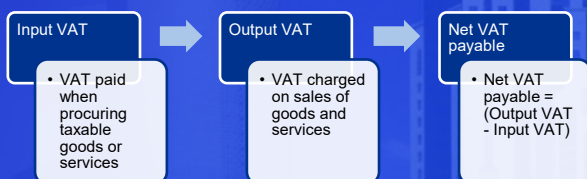
It is anticipated that Qatar will announce Value Added Tax (VAT) Law and its Executive Regulations in 2024.

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.

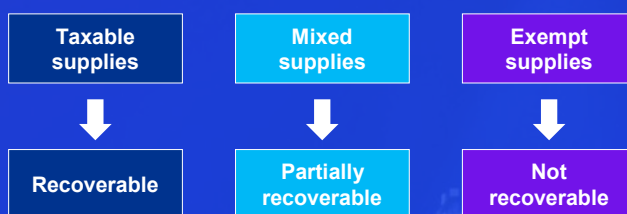
How is input VAT recovered?

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.

Key considerations for the Retail sector

It is likely that the standard rate of VAT (at five percent) will be applied to the vast majority of goods sold by retailers in Qatar. On these transactions, the cost of VAT will typically be borne by individual consumers (as the end users) who are not able to recover input VAT. The GCC Framework, permits each member state to zero rate certain foodstuffs, medicine and medical equipment, however the GCC countries which have already implemented VAT have opted various approaches with regards to VAT rate.

Shelf prices

Generally, legislation requires the advertised shelf price of an item must include VAT to ensure customers are aware of the total price. Retailers in Qatar will need to ensure that this work is completed when VAT is implemented.

Customer care

Retailers are obliged to issue tax invoices to their customers when selling taxable goods. Tax invoices must include a large amount of information relating to the transaction including the supplier and purchaser details. In some jurisdictions, when the total value of taxable goods falls below a pre-determined threshold, suppliers are given the option to issue a simplified tax invoice, with fewer details including:

- name, address of the retailer
- VAT registration number of the retailer
- number of the invoice
- invoice date
- description of supply
- value of transaction.

Consignment sales

It is common for retail businesses to purchase goods based on consignment agreements. This means that the retailers do not take ownership of the goods from the supplier until the goods are sold on to the final customer, at which point the goods are considered as purchased. This process gives the retailer the right to return any unsold goods to the initial supplier without having to account for this from a VAT perspective.

Returning goods

When a customer returns an item to a retailer or goods are damaged or lost during delivery, the retailer is able to adjust the original value of the supply in the respective VAT return, ensuring that input VAT is only recovered for the complete/undamaged items they received. In this instance, it is important to ensure that all the relevant documents are completed and maintained to eliminate challenges by the respective tax authorities.

Product bundling

Retailers often supply several products or services as one combined product – known as a bundle. In many jurisdictions, VAT laws outline the correct treatment for supplies that are sold within the same transaction but that, individually, are subject to different VAT rates.

This will require crucial attention if Qatar VAT legislation applies different VAT rates for supplies made in the retail sector.

Payments using loyalty cards

Retail businesses often provide loyalty points to customers based on spend, which can be used to purchase items or redeem discounts. When using loyalty points to pay or part-pay for an item, no monetary payment or partial payment is made and therefore, the VAT treatment can be complex.

Key considerations for the Retail sector

Gifts and samples

Many retail businesses supply free gifts and samples to their customers to promote future sales. The GCC Framework states that VAT should be applied at a standard rate when businesses supply free gifts or samples of significant value. The exact definition of “significant value” in Qatar will likely be made clear when the law is released.

Discounts

Some retailers provide customers with discounts for reasons including:

- reward for early payment
- to maintain business relations
- for bulk or frequent purchases
- to improve the volume of sales.

Globally, different types of discounts have different VAT treatments. The correct treatment of VAT on discounts in Qatar will be established once Qatar VAT legislation has been published.

Sale of second-hand goods

Some businesses in the retail sector supply second-hand or pre-owned goods to customers. For these transactions, some jurisdictions allow suppliers to calculate output VAT on the margin – the difference between the price they paid for the item and the price they sell the item for -- as long as the supplier has not recovered the respective VAT amounts at another time during the product life-cycle.

VAT refunds for tourists

Due to the increasing number of international events being hosted in Qatar, the country is likely to see a steady increase in tourism. In most jurisdictions, tourists are permitted to refund VAT they pay when purchasing goods inside of visited countries through implemented VAT refund schemes.



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 retail 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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