



IMPACT OF VAT ON LOGISTICS AND TRANSPORT



Introduction

The Member States of the Gulf Cooperation Council (GCC) have signed a Unified Agreement on VAT containing the majority of the regulations for the operation of VAT. Each GCC Member State will complete the rules with their own VAT laws. As Bahrain has just approved the Decree Law on VAT, the content in this newsletter is based on guidelines given under the Decree Law, the Unified Agreement and/or common practices followed by other countries.

VAT Simplified

- VAT is a consumption-based tax levied on every value addition made at each stage of the product cycle.
- The standard rate of VAT as per the Unified Agreement and Bahrain VAT Law is 5%.
- Apart from the standard-rated goods there are exceptions for zero-rated and exempt goods and services. Each State will issue the list of such zero-rated and exempt supplies in its VAT legislation.
- The role of businesses is to facilitate the collection and payment of VAT to the government.
- Net VAT payable = Output VAT (due to be paid on sales at a rate of 5%) – Input VAT (paid on purchases)
- In cases where the outcome of this formula is negative, then such net VAT is refundable from the government or can be carried forward to adjust in the next VAT return.

Logistics and Transport Industries in Bahrain

Industry Overview¹

According to the December 2017 *Bahrain Economic Quarterly* issued by the Bahrain Economic Development Board (EDB), transportation and communication was the third fastest growing sector of the Kingdom's economy in the third quarter of 2017, with an annual real growth rate of 6.6%, up considerably from the 3.2% average recorded over 2016, when it was the fifth largest growing sector.

The willingness of Bahrain to invest heavily in major transport infrastructure improvements point to a promising future for the sector, with increased opportunities for the economy. Efforts to streamline customs procedures and to liberalise the sector are also welcome developments, and could further encourage export-driven and logistics companies to set up shop in the Kingdom.

Specific Considerations for the Logistics and Transport Industries

Scope of VAT– Domestic, Intra-GCC, and International transport all fall within the scope of VAT, however, the treatment of each varies for each Member State. Transport here, refers to transport by land, sea, or air for both passengers or goods. International transport is zero-rated in Bahrain, KSA, and UAE. Bahrain has chosen to zero-rate domestic transport, while UAE has opted to exempt the sector. Domestic transport in KSA, however, is standard-rated. For the purposes of VAT, Intra-GCC transport is considered International.

Registration– As logistics and transport companies carry out their operations in multiple jurisdictions; careful consideration must be given to whether companies will have to register in these jurisdictions, or whether a single registration will suffice.

Place of Supply– The place of supply, i.e. the state in which VAT becomes due, depends on the nature of the services rendered. Article 18 of the Unified GCC VAT Framework stipulates that the place of supply of services for the transportation of goods and passengers and all related services shall be the place where the transportation begins.

Time of Supply— Determining the time of supply is important for each transaction under VAT as it forms the basic point at which VAT becomes due. It is determined by three factors: the date the performance of the service is complete, or the date of the issuance of the tax invoice, or upon partial or full receipt of the consideration owed, whichever earlier, and to the extent of the amount received.

Transport-Related Services— Transport related services may be zero-rated if there is a direct link between the related services and the transportation services. The KSA VAT Law stipulates that to benefit from zero-rating, the related services must be ancillary to and provided with a supply of international transport. If the services do not meet this condition, they are taxable at the standard rate of 5%.

General Considerations

VAT Grouping— Related businesses have the option to register as an individual taxable person depending on the individual business structure and environment. The main purpose of a VAT group is to disregard the intercompany transactions from a VAT standpoint, and to increase the deduction right of companies carrying out fully or partially exempt activities. A great deal of attention must be paid to the organisation of the group and to the internal implementation of the tax group processes to maximise the benefit and effectiveness of the VAT group.

Human resources— Where it is common practise to provide benefits such as gifts, memberships, and other perks to employees, the implication of VAT on such benefits will be a matter of concern to employers under VAT laws.

Contracts— Businesses should consider revisiting their existing contracts to update or include VAT related clauses.

Why You Need To Start Preparing for VAT Today

A full-fledged, effective, robust and comprehensive VAT implementation takes ample time from planning to execution. Early preparation is recommended, as a short time span to implement VAT may result in an enormous burden on the company and its resources.

Our Services

VAT Implementation

RSM's VAT advisory services focus on understanding our client's activities and needs. This culture leads to developing a more strategic approach to VAT and creating opportunities to measure and improve efficiency our client's processes. Our methodology protects our clients from overstated tax liabilities, interest charges, and heavy penalties; and helps them, on a long term view, to control VAT liabilities. We advise our clients to proceed with a VAT assessment at the earliest to avoid a last minute panic.

Post Implementation Support

We provide our clients with on-demand technical support in the frame of a pre-established budgetary framework.

Customised Training

We design customised VAT training sessions focused on the client's business activities and on the day to day concerns of the internal VAT stakeholders.

Complete VAT Audit

We propose a VAT audit to anticipate tax audit drawbacks and to evaluate the accuracy of the VAT implementation done by the business itself.

VAT Record Keeping

The VAT record keeping process will become key for the VAT safety of businesses.

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