



IMPACT OF VAT ON LOGISTICS INDUSTRY



INTRODUCTION

The member countries of the Gulf Cooperation Council (GCC) have signed a Unified Agreement on VAT containing the majority of the regulation for the operation of VAT. Each of the 6 countries under the GCC will complete the rules with their own VAT laws. As Kuwait is yet to issue its own VAT law, the content in this newsletter is based on guidelines given under the Unified Agreement or common practices followed by other countries.

VAT IN SIMPLE TERMS

- 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 for most goods and services is 5%.
- Apart from the standard-rated goods there are a few exceptions for zero-rated and exempted goods. Each country will issue the list of such zero-rated and exempted supplies in its VAT legislation.
- Businesses only facilitate in the collection and payment of VAT to the government.
- VAT tends to remove the cascading effect in tax by offsetting the VAT liability with input VAT paid on purchases
- Net VAT payable = Output VAT (due to be paid on sales @ 5%) – Input VAT (already 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 in the next VAT return.

LOGISTICS AND TRANSPORTATION INDUSTRY IN KUWAIT

Industry Overview

As part of Kuwait's diversification plans, many of the investments over the next few years are targeted at developing its logistics presence. This includes, for example, a new airport, a mega-port for Boubyan Island, bridges and a rail network that will help Kuwait build up its logistical footprint. Generally, this industry generates profits from offering a wide array of services that include: freight forwarding, transportation, warehousing, supply chain management, etc.

Specific Considerations

- 1. Scope of VAT on logistics and transportation activities:** All the transportation services, i.e., local, inter-GCC and international, are covered within the scope of VAT. Furthermore, the services linked to transportation would also fall within the scope of VAT although they are not defined in the Unified Agreement. It may be noted here that even though all the transport services are covered under VAT, the taxability of these items may differ from each other.
- 2. Taxability of transportation services:** Article 32 of the Unified Agreement provides for the same VAT treatment for international and inter-GCC transport (of goods and passengers) services in all the GCC countries, i.e., zero-rated. For the local transportation, Article 29 of the Unified Agreement provides that each GCC country has the right to exempt or zero-rate the local transport services. Saudi Arabia has chosen to tax all the local transport services while UAE has decided to tax local goods transport services and exempt local passenger transport services.
- 3. Taxability of transport-related services:** Transport-related services may follow the zero-rated VAT regime if there is a direct link between such related services and actual transportation services. Article 34 of the Saudi Arabia VAT rules states that to benefit from zero-rating, the related services must be ancillary to and provided with a supply of zero-rated international transport. If the services do not comply with this condition, they are taxable at the common rate of 5%.
- 4. Place and time of supply:** The place of supply, i.e., the state in which VAT becomes due, depends of the precise nature of the services rendered. Concerning the transportation services, Article 18 of the Unified Agreement provides that the place of supply of services for the transportation of goods and passengers and related services shall be the place where transportation begins. The time of supply, i.e., the date on which VAT becomes due, is the date on which the performance of the service is completed, or the date of issuance of the tax invoice or upon partial or full receipt of the consideration, whichever is earlier, and to the extent of the received amount.

5. Compliance complexity: Due to the multiple time and place of supply rules to comply with, great attention must be paid to the VAT implementation. A similar service could have a quite different VAT treatment. Depending on the status of the client and the frame of the service, a packaging service could be zero-rated or taxable at 5% and the place of supply could be either the state of the client or the state of the supplier. Similar rules will apply for storage, warehousing or inventory management services.

6. Registration: As the logistics and transportation companies are serving various jurisdictions at same time, it needs to be analyzed carefully whether they require a single registration or registration in several countries.

General Considerations

- 1. VAT Grouping:** This is an option wherein related businesses could register as one single Tax Person under VAT, depending on individual business structure and environment. Before exercising this option, businesses should carefully consider both the expected outcomes and related issues associated with VAT grouping.
- 2. Human resources:** It is a common practice to provide various facilities to employees in lieu of salary such as accommodation, gifts, perks etc. The levy or deduction of VAT on such facilities is a matter of concern for employers.
- 3. Contracts:** Each business should consider revisiting their existing contracts to update or include the VAT-related clauses.



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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 as it involves redrafting of the chart of accounts, reviewing the entire business process, redesigning the system and applications, training employees and reviewing legal agreements. Whilst the Kuwait Parliament has not endorsed the VAT law yet, an early preparation is recommended as a short time span to implement VAT may result in an enormous burden on employees, loopholes in the system and business exposure to various risks in the form of financial, operational, compliance or reputational risks.

Our service offerings

VAT Implementation

1. VAT Awareness
2. Assess Impact on Business
3. Gap Assessment of IT systems
4. VAT Implementation
5. Ongoing Compliance Services
6. Technical Consulting

Post implementation VAT subscription

In the frame of this subscription, we provide our clients with constantly available technical support in the frame of a pre-established budgetary framework.

Flash VAT audits

Post implementation, we also perform flash VAT audits on various specific items.

VAT Audit trail and VAT internal manual

The documentation of the VAT audit trail is the most reliable methodology to ensure VAT compliance to avoid systemic risks in case of VAT audit

Customized training

We build specific VAT trainings focused on the activity of the company and on the day to day concerns of the internal VAT stakeholders.

Tax/VAT archiving processes

The tax/VAT archiving processes will become key for the tax/VAT safety of the companies.