Impact of VAT on KSA hospitality sector
Introduction

The Kingdom of Saudi Arabia (KSA) has adopted a narrow exemption model when introducing value-added tax (VAT). The supply of almost all goods and services in the KSA will be subject to VAT at a standard rate of 5% unless specifically exempted or zero-rated.

As per the Gulf Cooperation Council (GCC) VAT Framework Agreement, any supply transaction not covered in the definition of goods shall be treated as a supply of “service” for the purpose of VAT.

The supplies of accommodation in “hotels, inns, boarding houses and similar establishments” (hereinafter referred to as hotels), and other supplies, such as food and beverages, recreational, and rental, supplied in the course or furtherance of business will be subject to VAT. The major source of revenue for hospitality industry are as follows:

- Holiday accommodation
- Homestays
- Service apartments
- Hotel accommodation service
- Restaurant meals
- Tour packages
- Entertainment and recreational fees
- Service charges

The services provided by the hospitality industry will be subject to VAT at standard rate.

Implication of VAT

Impact on operations, sales and purchases

- **Prepayments or advances**: In general, hotels may collect advances from customers before rendering their services. VAT needs to be accounted for and billed on a tax invoice on such receipt of advances at the time of receipt.

- **Cancellation charges**: In the hospitality sector, when bookings are canceled by the customer, the hotel will normally charge a certain amount as a cancellation fee. The treatment under VAT of such cancellation charges is still unclear – whether the charges will be treated as a penalty or as taxable compensation.

- **Membership fees**: A hotel’s club membership fees will be subject to VAT. Similarly, the use of a hotel’s facilities, such as gym, meeting rooms, business centers and swimming pools will be subject to VAT.

- **Parking fees**: If parking facilities are provided by the hotels, then such charges will also attract VAT.

- **Tips and service charges**: Tips and service charges given voluntarily by guests or customers to a hotel's staff as a token of appreciation for services rendered are excluded from consideration for the supply and, as such, not subject to VAT. However, if the service fee is charged and collected by the hotel in the invoice, it will be considered part of the taxable supply and subject to VAT at standard rate.

- **Long-stay customers**: Certain hotels provide lodging on a long-term basis at reduced rates to long-staying customers. In certain countries, the provision of long-term accommodation – even in a hotel – will qualify as the provision of residential housing and the treatment under VAT would reflect the same. At present, the provision of residential housing under lease or license is proposed to be exempted and it would be in the industries’ best interest to clarify this position with General Authority of Zakat and Tax (GAZT).

- **Currency exchange**: In the current e-commerce environment, most hotels accept online bookings and reservations from customers across the globe. Such transactions are normally paid for or reserved in the customers' home currency. Reflecting this and converting the amounts to Saudi riyals using the proper exchange rate at the correct time will be a challenging task to ensure compliance with the relevant VAT laws and regulations.

Impact on human resources

- **Gifts**: Supply of gifts or samples by a taxable person to promote its economic activities should not exceed SAR200, exclusive of VAT, per employee per calendar year.

- **Annual value of supplies of gifts, samples or goods to employees should not exceed SAR50,000 in any calendar year**.

- **All promotions and marketing efforts involving free supplies of**
VAT impact on hospitality sector

Monitoring of this activity would be important in order to ensure that VAT is not under accounted.

- **Provision of free meals to employees**: At present, catering services in hotels, restaurants and similar venues are activities in which the recovery of input taxes is disallowed. This will lead to the input taxes incurred in providing such meals to employees as being irrecoverable. The determination of such amount may be tedious and time-consuming. It would be in the hotel’s best interest to clarify this point with GAZT.

- **Employee reimbursement**: Companies can introduce a travel policy on business expenses claimed by employees, such as accommodation and travel. The input VAT credit for such reimbursements can be availed only if the tax invoices are addressed to the company.

**Impact on IT system**

- **Tax invoices**: All tax invoices should be issued in Arabic and any other language may also be added on the tax invoice, but Arabic, as a base, is mandatory.

- **IT systems may need to be reconfigured to comply with this requirement.**

- **Master data update**: Customer and vendor master databases should be updated accurately with name, address and Tax Identification Number (TIN) of the customers and suppliers. This activity is likely to play a vital role in accurately claiming and charging VAT post go-live date.

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