VAT impact on transportation sector

August 2017
VAT impact on transportation sector

Introduction

Transportation is a supply of services for the carriage or movement of goods and passengers by sea and inland waterways, rail, road or air. The goods and passengers are carried or moved using various means of transport such as ships, trains, busses, trucks or aircraft.

The services provided are classified under three categories as per the GCC VAT regime:

- Standard Rate (5%)
- Zero Rate
- Exempted

Impliedation of VAT

1. Impact on operations, sales and purchases

1.1 Treatment of domestic transport service: Domestic freight transportation is the service of transporting goods and passengers from a place in KSA to another place within KSA. Domestic transportation is a taxable supply of services and is subject to VAT at the standard rate.

1.2 Treatment of international transport service: Transportation of goods and passenger from one member state to another or from the GCC territory to outside GCC will be zero rated along with the other transport related services.

For the purposes of KSA VAT, at the time of go live in January 2018, it is likely that only KSA and UAE would have a live VAT environment. The other 4 GCC members would likely not be ready. For the purposes of VAT, these countries would be considered as outside of GCC until they go live with their individual VAT regimes.

1.3 Arrangements with third parties e.g., travel agents and other intermediaries: Determining the correct VAT treatment of the transactions involving agents would be important. Under the proposed KSA model, the VAT treatment of these arrangements will depend on the status of the supply. If the supply is zero rated – then the services of agents would similarly be zero rated.

1.4 Cancellation of tickets: It is common in the transportation industry for travelers to cancel bookings and seek a refund of the ticket cost. In such cases, most booking agents usually charge a cancellation fee. It is unclear what the VAT treatment on such charges would be. It would be taxable if GAZT views this as a taxable service and exempt if they view it as an imposition of penalties to the clients. It is best to engage with GAZT to obtain certainty as soon as possible.

1.5 Sky sales: Normally in airline industry, certain products will be sold “duty free” during the journey. Determination of point of sale and place of supply and applying the correct VAT treatment will be challenging for the airline industry.

1.6 Currency exchange: In the tourism industry, agencies provide quotations and services in various currencies. Determination of the proper exchange rate to be used and accounting for the correct VAT amount would be another major challenge for the industry.

1.7 Motor vehicles: Companies in the transportation industry, especially the Tourism Industry utilize a lot of vehicles for their business – busses, vans, agency cars, taxis, etc. If there is any element of private usage for any of these vehicles, the input tax incurred in their purchase and running expenses may be blocked from recovery. Policy and process changes may be required for such companies and the monitoring of these assets would be vital to ensure that the companies comply fully with the VAT Law and Regulations.
2 Impact on human resources/promotions

2.1 Gifts: Taxable Person supplies gifts or samples to promote its Economic Activities, provided the Fair Market Value of each gift or sample supplied without Consideration does not exceed SAR200, exclusive of VAT, per recipient per calendar year.

The maximum annual value of supplies of gifts, samples, or Goods to employees is SAR50,000 in any calendar year, based on the Fair Market Value of those Goods.

All air mile promotions or any other similar promotions run by transportation providers and their promotional partners would be affected. Monitoring of this activity would be important in order to ensure that VAT is not under accounted for.

2.2 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.

3 Impact on IT systems

3.1 Tax Invoices: All Tax Invoices should be issued in the Arabic language. Any other language may be added on the Tax Invoice, but Arabic language as a base is mandatory. IT systems would need to be reconfigured to comply with this requirement.

3.2 Master data update: Customer and vendor master databases should be updated accurately with name, address and TIN number of the customers and suppliers. This activity would play a vital role in accurately claiming and charging VAT post go live date.

---

Key contacts

<table>
<thead>
<tr>
<th>EY contacts for VAT inquiries</th>
<th>KSA VAT Services Leaders</th>
<th>KSA VAT Coordination Desk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finbarr Sexton</td>
<td>Michael Hendroff</td>
<td>Mohammed Bilal Akram</td>
</tr>
<tr>
<td>MENA Indirect Tax Services Leader</td>
<td>+971 4 332 4000</td>
<td>+966 11 215 9898</td>
</tr>
<tr>
<td>+ 974 4457 4200</td>
<td><a href="mailto:michael.hendroff@ae.ey.com">michael.hendroff@ae.ey.com</a></td>
<td><a href="mailto:mohammedbilal.akram@sa.ey.com">mohammedbilal.akram@sa.ey.com</a></td>
</tr>
<tr>
<td><a href="mailto:finbarr.sexton@qa.ey.com">finbarr.sexton@qa.ey.com</a></td>
<td>David Stevens</td>
<td>Ahmed A Hassanin</td>
</tr>
<tr>
<td>MENA VAT Implementation Leader</td>
<td>+971 4 312 9442</td>
<td>+966 11 273 4740</td>
</tr>
<tr>
<td><a href="mailto:david.stevens@ae.ey.com">david.stevens@ae.ey.com</a></td>
<td>Rolf Winand</td>
<td><a href="mailto:ahmed.hassanin@sa.ey.com">ahmed.hassanin@sa.ey.com</a></td>
</tr>
<tr>
<td>Asim J. Sheikh</td>
<td>+966 12 221 8501</td>
<td>Nazar Hussain Khan</td>
</tr>
<tr>
<td>KSA Tax Leader</td>
<td><a href="mailto:rolf.winand@sa.ey.com">rolf.winand@sa.ey.com</a></td>
<td>+966 11 215 9898</td>
</tr>
<tr>
<td>+966 11 2159 876</td>
<td><a href="mailto:sujit.narayanan@xe04.ey.com">sujit.narayanan@xe04.ey.com</a></td>
<td><a href="mailto:nazar.khan@sa.ey.com">nazar.khan@sa.ey.com</a></td>
</tr>
<tr>
<td><a href="mailto:asim.sheikh@sa.ey.com">asim.sheikh@sa.ey.com</a></td>
<td></td>
<td>Sujit Narayanan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ 966 11 215 9898</td>
</tr>
<tr>
<td></td>
<td></td>
<td><a href="mailto:sujit.narayanan@xe04.ey.com">sujit.narayanan@xe04.ey.com</a></td>
</tr>
</tbody>
</table>
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

The MENA practice of EY has been operating in the region since 1923. For more than 90 years, we have grown to more than 6,000 people united across 20 offices and 15 countries, sharing the same values and an unwavering commitment to quality. As an organization, we continue to develop outstanding leaders who deliver exceptional services to our clients and who contribute to our communities. We are proud of our accomplishments over the years, reaffirming our position as the largest and most established professional services organization in the region.

© 2017 EYGM Limited. All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com/mena