



Hotel Sector Targeted in KSA by the Tax Authority

2018 August



Hotel Sector Targeted in KSA by the Tax Authority

It is now becoming a fact of life that no business sector in the Gulf is exempt from VAT inspections and this is why it is increasingly important that the hospitality sector, in particular hotels and furnished apartment suppliers, engage with a trusted VAT professional now in order to avoid the erosion of their profit margins due to non-compliance with the VAT legislation. Financial Controllers and owners should therefore prioritize the avoidance of financial penalties in the remaining GCC States who have yet to implement VAT.

However, due to the fact that the domestic VAT legislation has not yet been confirmed in Bahrain, quite a number of Hotels are yet to engage with local VAT expertise to prepare them for the forthcoming introduction of VAT in Bahrain. Many prefer instead to either utilize the limited VAT experience of their counterparts in the UAE or KSA which have already implemented VAT or to attempt to do it themselves (DIY), that is, prepare for VAT without external VAT support or knowledge. From the reports obtained from the Saudi Tax Authorities, this approach poses significant financial and reputational risks to the Hotel Sector.

What's has being happening to the Hotel Sector in Saudi Arabia (KSA)?

Saudi Arabia's General Authority for Zakat and Tax (GAZT) has been quite aggressive with initiating VAT on-site inspections as part of its field inspection campaigns and we can expect the Bahraini Tax Authorities will adopt a similar approach. With a special focus on this sector, GAZT has visited more than 2,000 Hotels and similar establishments and has issued around 500 VAT violations to businesses that have failed to comply with the VAT law.

It is worth noting that this figure may represent only those violations that are identified by the GAZT and it may well be much higher than the reported number and those Hotels not caught should not rest comfortably until they are fully compliant as retrospective VAT penalties may still apply.

The violations identified by GAZT include;

1. Issuing of VAT Invoices by suppliers without actually being registered for VAT;
2. Non-compliance with the VAT collection process;
3. General non-compliance and misunderstanding of the VAT regulations.

The nature of the errors suggests that adequate VAT expertise was not retained by Hotels in breach of the law. GAZT considers these violations to be an indication of serious non-compliance with the VAT Implementing Regulations and has empowered consumers to report to GAZT via a mobile APP, any violations they have identified while conducting business with suppliers in this sector. To further encourage businesses to comply with the VAT Regulations, the Authorities have also highlighted the penalties that will be charged to businesses that are found guilty of non-compliance.

The KSA Penalty Regime

1.Late Registration - A financial penalty of 10,000 SAR (1,000 BD) will be imposed on businesses that fail to register for VAT on time.

BDO Commentary - Unfortunately, a number of Bahraini Hotels may commit this violation as the “wait & see” approach is likely to result in applying late for VAT registrations.

2.Incorrect VAT Return - Filing an incorrect VAT return which results in lower tax yield for the Government would result in a penalty of 50% of the difference between the correct amount due and the incorrect VAT calculated.

BDO Commentary - The risk of submitting incorrect returns will be extremely high especially in the early months and up to a year following VAT implementation in Bahrain. Engaging with a trusted VAT adviser who can help with VAT implementation and provide post-implementation support will significantly lower the risk of submitting incorrect VAT returns.

3.Late Return & Payment - Failure to submit a VAT return on time will result in a penalty of between 5% and 25% of the VAT value that should have been declared and failure to pay on time will result in a monthly penalty of 5% of the VAT due for each month.

BDO Commentary - Bahrain will have its own penalty regime and there is a possibility that it may copy the current penalty regime in KSA to a certain degree. It is highly likely that many businesses in Bahrain may be penalized for this violation as a lack of proper VAT code mapping of their ERP IT systems will delay the submission of VAT returns and associated payments to the Authorities.

4.VAT Evasion - Any incidence of VAT evasion will be considered a more serious offence resulting in a penalty of at least 100% of the tax due to a maximum of 300% of the value of goods and services subject to evasion.

BDO Commentary - It is worth noting that any individual submitting forged or false documents or declarations is considered to be a tax evader. Given this example alone, it is easy to fall in the trap of VAT evasion and if the KSA penalty for this violation is replicated in Bahrain, it could pose a serious cash flow risk to businesses and thus establishing a relationship with a trusted VAT adviser is key in avoiding this risk.

5.Non-Registered Businesses Charging VAT - Companies which issue tax invoices despite being not registered for VAT will be fined a maximum SAR 100,000 (BD 10,000), as well other penalties it incurs under other laws.

BDO Commentary - This error is quite common in KSA & UAE and is likely to be a problem for businesses in Bahrain. However this VAT accounting error is easily avoided if the proper expertise and support is acquired from a VAT specialist. The penalty for this violation is significant and businesses in Bahrain must take special care to avoid paying thousands of dinars in unnecessary penalties to the Authorities.

What does this mean for Bahrain?

VAT being introduced in Bahrain is more a matter of when, not if. Using the examples of KSA and UAE, Hotels that do not retain adequate VAT expertise are more likely to be the ones caught by the levy of financial penalties.

Additionally, these companies are more likely to inadvertently damage their risk profile as a result of attracting an increase focus from the Tax Authorities with VAT compliance visits and scrutiny of IT systems.

It is worth noting that since the VAT record keeping requirement for KSA & UAE is a minimum of 6 years and 5 years respectively, the time limits for assessing VAT violations may be the same timeframe as the record keeping requirement in each State. This means it is likely that companies may be penalized for VAT violations committed 5 or 6 years prior to the violation being brought to the attention of the Authorities.

What should you do if you are a supplier?

Hotels in Bahrain have an opportunity now to learn from the examples in the implementing States and avoid similar problems by engaging with a professional VAT service provider in conducting jointly an impact assessment of your business trade and internal practices in addition to ensuring that there is a tried and tested tax code mapping of the correct tax ERP within the IT accounting system.

To do otherwise is likely to increase the risk of inviting serious problems into your businesses once VAT is finally implemented in Bahrain. It is clear that these types of campaigns by the tax authorities will continue and will eventually include all service sectors so the risk remains that the longer you wait then the less time you will have to be adequately prepared for VAT implementation in Bahrain.

Please contact any one of our VAT specialists who will be able to help you navigate the complexities of VAT.

Contact :

STEPHEN KITCHING
VAT Director
Office : + 973 17101321
Mobile : + 973 35397656
stephen.kitching@bdo.bh

MARLON APPLETON
Senior Manager
Office : + 973 17101323
Mobile : + 973 33192463
marlon.appleton@bdo.bh



VAT is complex,
but you can address the challenges
and reduce disruption and cost to your business
with a pragmatic and comprehensive approach.

BDO

17th floor, Diplomat Commercial Tower
P.O Box 787, Manama
KINGDOM OF BAHRAIN
Tel : + 973 17530077
Fax : + 973 17919091
www.bdo.bh

BDO is the brand name for the BDO International network and for each of the BDO member firms

