



VAT Update GCC Transportation Services

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Transportation is vital to the economic advancement of Bahrain and the other GCC States. This fact is made clear with the flexibility given to each State, within the Common VAT Agreement (CVA), in relation to the VAT treatment of transportation services.

The CVA gives each State the right to forgo applying a 5% rate to local transportation services by treating the supply as either exempt from VAT or zero rated.

What are Transportation Services ?

Transportation services relating to the movement of passengers and goods are normally subdivided into different categories, namely, International Transportation and Local Transportation.

International Transportation is taken to mean:

“The provision of a transportation service by means of a vehicle, aircraft or vessel together with a driver or pilot and with a crew where necessary for the purpose of that service, provided that the transportation service involves transport of Goods or passengers either to a place outside the Kingdom, or from a place outside the Kingdom into the Kingdom.”

While **Local Transportation** is widely accepted as:

“any transportation service occurring, from start to finish, within the borders of the Kingdom.”

Passenger Transportation in Saudi Arabia is considered to be:

“...a transport service where one or more passengers are transported in any vehicle, regardless of whether the vehicle is designed for passenger transportation or the supplier is licensed to provide passenger transport. Any goods carried with a passenger is part of passenger transportation.”

Goods Transport, also referred to as Freight, includes:

“...any transport of goods from a place to another, provided that the goods are not accompanied by the customer as a passenger.”

What is the VAT liability of Transportation Services in the GCC ?

- Within the framework of the CVA, each Member State, must treat the supply of international transportation of passengers and goods as a zero rated supply;
- However, each Member State is given more freedom as it relates to the supply of local transportation of passengers & goods which can be treated as either an exempt, zero rated, or standard rated supply. Standard rated supplies in the GCC are charged at the 5% rate of VAT;
- In KSA, the supply of local transportation is charged at the 5% rate of VAT;
- While in the UAE, local passenger transportation service is exempt from VAT which will impact on the VAT recovery opportunities for providers of local transportation.

How will Transportation Providers be affected ?

- Companies that provide both local & international transportation may encounter challenges in relation to accurate VAT accounting and, where the local supply of transportation is exempt, this is likely to negatively impact on the company's VAT recovery
- Compliance costs involved in getting internal systems configured & staff fully trained and ready for the introduction of VAT in Bahrain;
- Businesses with exempt supplies may be required to undertake complex calculations such as Partial Exemption;
- VAT liability of inter GCC supplies may prove challenging;
- The inevitability of VAT being a real cost to the sector as it relates to exempt supplies where input VAT on expenditure may be blocked from recovery in whole or in part;
- The risk associated with the VAT treatment of composite and multiple supplies;
- The challenge in identifying the tax point and the place of supply.

What should Transportation Services Institutions do now?

1. Establish a relationship with a firm of trusted VAT specialists;
2. Arrange an IT review of your accounting systems to ensure its compatibility with VAT accounting & VAT compliance requirements in Bahrain;
3. Review long term contracts as there may be transitional & “grand-fathering” arrangements in the Bahrain legislation, especially where capital assets projects are concerned that has an element of continuous supply of services;
4. Review the use to which each means of transport is put to use, that is, the extent to which they are used for taxable and exempt supplies as the Bahrain legislation is likely to specifically address these issues via the Partial Exemption & Capital Assets Schemes;
5. Make adequate preparations for the possibility of input VAT being irrecoverable which will increase the cost base of the company;
6. Have VAT expertise at hand to separately assist with determining the VAT liability of the company’s various supplies to ensure, VAT compliance as well as the avoidance of penalties being levied on the company by the tax authorities;

Please note that the production of this document serves only as a high level guide to businesses operating in the KSA, UAE, and Bahrain and must not be taken as official VAT advice. The VAT treatment of an institution’s income is rarely straightforward and it is always beneficial to take professional advice. If you have concerns around the VAT treatment of your income and purchases streams it is prudent to engage with VAT specialists in order to protect yourselves from applying the wrong VAT treatment.

BDO has a global presence and is experienced in providing support in relation to technical VAT issues. If any of the points raised in this alert have implications for your business then we can provide assistance with:

- A review of the income streams to assess any potential VAT liability;
- VAT registration of businesses;
- Quantification, compilation and submission of VAT returns to the Tax Authorities;
- Negotiations with the Tax Authorities

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

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

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