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UAE Shipping Companies Seek VAT Exemption as Industry Falters



By Matthew Kalman

Maritime executives in the United Arab Emirates are lobbying the government to reduce new value-added tax obligations, saying they threaten their slim profit margin and could cause companies to move elsewhere.

A 5 percent VAT rate was introduced in the UAE and Saudi Arabia on Jan. 1. The four remaining Gulf Cooperation Council states are expected to follow by Jan. 1, 2019, as agreed in a 2016 treaty. Supplies of goods and services used directly in commercial maritime transportation are zero-rated under Section 45 of the UAE's VAT law.

"The introduction of VAT has led to an increase in cost and hence lowered competitiveness, which is counterproductive for a trading hub," said Kapil Mehta, head of trade management, marketing and communications at Maersk Kanoo UAE LLC.

Executives are concerned that the new tax regime will halt the growth of the UAE's maritime sector. And they point to the government's recent decision to ease VAT requirements for the gold and diamond trade as evidence of potential flexibility.

"In the global shipping industry often the profit margin is not more, or even less, than 5 percent and thus there will be a number of companies for whom working out of the UAE will not be feasible any longer," said Jasamin Fichte, managing partner of Fichte and Co. law firm in Dubai.

A UAE government spokesman didn't return a request for comment.

'International Standards'

"The GCC VAT system should be in accordance with international standards," Fichte said by email May 9. "If supplies for ships are exempted anywhere else they should not be taxed here."

The UAE government "understands that the maritime industry will move elsewhere if they do not find the same conditions as in other maritime nations," she said. "Transport and shipping is one of the key industries of the country and there have been a number of meetings between Industry representatives and the Federal Tax Authority to gain a common understanding and to share experience."

Fichte is waiting to determine how tax authority "will apply the new law and if it will not be in accordance with international standards, this will certainly be raised with the government."

Hanjin Shipping's Demise

The start of VAT in the Gulf came at a critical time for the global transportation sector, still shaken by the collapse of Korea's Hanjin Shipping Co. in 2016. The shipping company filed for court protection in August 2016, which observers at the time believed was a sign of the industry's downturn.

"There's a very tangible sense of an increasingly tightening belt," said Eytan Buchman, a vice president at Freightos, a digital freight procurement platform based in Hong Kong. "The financial footing of the industry as a whole is still shaky," Buchman said by email May 8.

"Container rates from China to the U.S. have lagged behind last year's rates for over 30 consecutive weeks," he said, adding that carriers sought benefits to help pare operating costs, including "digitization, streamlining, or VAT reductions."

Snapshot

- Industry leaders say tax endangers industry struggling with narrow margins
- UAE, Saudi Arabia introduced 5 percent VAT in 2018

Sector-Based Exceptions

Many supplies and services in the UAE shipping sector are zero rated under Section 45, but unless specifically listed, other items are subject to VAT.

"Accordingly the supplier will be required to account for VAT and have other compliance obligations under the VAT law. A business in the shipping sector can generally recover any VAT paid on its purchases provided that it is registered for VAT and the VAT incurred relates to a taxable supply," said Shiraz Khan, senior tax adviser at Al Tamimi and Co. law firm in Dubai.

"Given the broad zero-rated treatment applicable to a number of supplies in the shipping industry, which is broadly in line with the international practice, it is unlikely that the UAE government will expand the scope of the zero-rated treatment," Khan said by email May 9.

"Sector-based exceptions are unusual," said Jeremy Cape, tax and public policy partner at Squire Patton Boggs law firm in London.

"The fear was that in introducing an exception for the gold and precious metals trade the government has now opened the door to other groups to make a case why they should be treated differently," Cape said May 9. "It would be hard, if special treatment were given to the maritime sector, to resist giving special treatment to others. Ultimately that would cause the breakdown of the VAT system."

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