

# Online marketplaces operating in the GCC

An online marketplace, also referred to as a 'digital platform' or 'intermediary' acts as an agent or a facilitator of transactions where the suppliers allow the electronic marketplace to market and sell their goods or services.

The online marketplace is not clearly defined and is a concept that is likely to evolve over time. Commonly, there are three parties involved in an e-commerce transaction: 1) customer, 2) online marketplace and 3) supplier (or merchant in the case of goods).

According to the OECD, two-thirds of all cross-border e-commerce sales of goods are made through online marketplaces.

With the exponential growth of e-commerce in the GCC during the pandemic, online marketplaces have become a widely used sales channel for many businesses in the GCC.

There are a number of **VAT aspects** to consider when operating an online marketplace. We have highlighted some of these below.

## Electronic services

All GCC countries that have introduced VAT have special place of supply rules for electronic services. Under these rules, electronic services which are used and enjoyed in the country are within the scope of the local VAT regime. However, the interpretation of these concepts is not harmonized across the GCC and taxpayers should assess for each country individually whether their services are within scope of the local VAT regime.



## VAT registration risk for non-resident suppliers

When the use and enjoyment of electronic services is within the scope of the local VAT regime, the non-resident supplier may be required to register for VAT if the supply is not made to a VAT registered person. Non-compliance with these requirements may result in penalties.



## Agent vs principal

Online marketplaces or platforms may operate as agents on behalf of the supplier of goods or services. When this is the case the online marketplace needs to determine whether it operates as a disclosed or undisclosed agent of the supplier. Under the VAT regimes in the GCC, an undisclosed agent is considered a principal in receiving and supplying the goods and services from and to the supplier and customer respectively. In other words, in some cases the online marketplace is considered both the supplier and customer. The online marketplace should manage the VAT obligations and requirements by setting clear contractual terms and conditions.



## Goods sold via online marketplaces

When physical goods are supplied via an online marketplace, VAT is due in the place where the ownership of the goods is transferred. In cases where the ownership changes after the goods are imported, VAT may be due twice (import VAT and VAT on the onward sale of the goods) and the non-resident supplier of the goods may be required to register for VAT in the country where the goods are located at the time of supply, irrespective of the VAT registration status of the customer. The online marketplace or supplier should also consider the customs formalities for the import of goods into the country.

## Digital assets and Non-Fungible Tokens

Digital assets are a new and rapidly evolving asset class, with unique tax implications. Non-Fungible Tokens ("NFTs") are unique and non-interchangeable digital assets stored on a blockchain.

Digital assets and NFTs are commonly transacted via online marketplaces. Tax authorities globally are reviewing how to treat these transactions under the existing (indirect) tax legislation.



## VAT liability for online marketplaces

In order to prevent loss of tax revenues due to suppliers failing to register and charge VAT when obliged to do so, many tax authorities around the world have moved the liability for accounting for the VAT to the online marketplace (irrespective of whether the online marketplace operates as an undisclosed agent). In the EU such obligations came into force from 1 July 2021 and under these rules online marketplaces may become deemed suppliers.

The GCC countries face the same issues in respect of enforcing compliance for marketplace suppliers, so it would not be surprising to see similar rules introduced in the region in the near future. For online marketplaces this will be a significant change which, if not given appropriate consideration, can have huge financial consequences, together with operational and system related challenges. Given the speed at which the tax systems in the region are developing, it would also be prudent for marketplaces to start considering moving the liability and how they would implement such a change.



## How can PwC help?

Operating an online marketplace in a fast changing tax environment can be challenging. PwC can help you navigate the risks and advise on optimizing your business model.

## Contact us

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