

VAT brief | Education

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Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Business leaders should now be more aware than ever that we are entering into a new tax era. Key decision makers in the UAE and Saudi Arabia need to ensure their processes and systems are - and remain - VAT-compliant, while their counterparts in the other GCC states need to start preparing now for the implementation of VAT.

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What is VAT?

- VAT is a tax on consumption, not income or profits.
- The GCC countries have agreed a standard VAT rate of five percent.
- The supply of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- Registered businesses account for VAT on the price charged for the goods or services they supply and pay it to the tax authority on a regular basis.
- Registered businesses should (where the supplies they make are either standard- or zero-rated or out of scope with recovery) be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may not be able to recover the VAT they have incurred on certain purchases that are deemed to have a private element.
- Registered businesses that make supplies that are predominantly zero-rated are likely to be in a VAT refund position.
- Businesses that make both exempt and taxable supplies can only recover a proportion of their input VAT.

How will VAT affect the education sector?

- GCC states have discretion as to the VAT treatment of education supplies.
- In many parts of the world, education is either exempt or zero-rated. In the UAE, education services are (subject to certain criteria) mostly zero-rated. However, in Saudi Arabia, education services are mostly subject to VAT at five percent
- In Saudi Arabia, the VAT on the supply of education services provided to Saudi citizens is paid to the provider by the government and reported separately on the VAT return. Education provided by government-owned education providers are out of scope of VAT.
- Where a special VAT treatment (such as zero-rating) is prescribed for educational services, the provider will need to determine which services qualify and which services don't. For example, depending on the rules, the zero-rating may not extend to fees relating to school uniforms or school buses.
- Provided education services are not treated as exempt, education providers should be able to recover VAT incurred in the provision of their services.
- Depending on the VAT treatment, education providers must consider the impact of charging their customers VAT, particularly because the VAT is not likely to be recoverable by individuals paying the fees, although it may be recoverable by some business customers.

Your business is our priority



- Education service providers will need to carefully watch their competitors to see how they respond to VAT and to remain competitive.

What should education providers be doing now?

- Consider VAT's impact on pricing.
- Carefully examine place of supply issues, particularly in relation to overseas students from global campuses.
- Providers of education services in Saudi Arabia should introduce policies and procedures to identify Saudi citizens benefiting from VAT relief and report the relevant value in box 2 of the Saudi VAT return
- Review VAT recovery positions – particularly in relation to capital assets.
- Examine any long-term contracts spanning the date of implementation and decide whether VAT can - or should - be charged to customers.

Important note

These briefs are based on a translation of the GCC VAT Treaty, UAE and Saudi Arabia's VAT legislation, the relevant regulations and general VAT principles and are provided for information purposes only.

Saudi Arabia and the UAE implemented VAT on 1 January 2018 and the other GCC countries continue – as of the date of release of this brief – to work towards implementation in 2019.

This brief is not a substitute for professional advice. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.