

VAT brief | Education

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Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain has confirmed implementation on 1 January 2019, with the other GCC countries expected to follow over the next 12 months. Business leaders should now be more aware than ever that we have entered a new tax era. Key decision makers in the UAE, Saudi Arabia and Bahrain 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.

What is VAT?

- VAT is a tax on consumption.
- 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.
- The mandatory registration threshold is the equivalent of US\$100,000 - as set out in the GCC VAT treaty. The voluntary registration threshold is the equivalent of US\$50,000.
- 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.
- Bahrain has zero-rated the supplies of education, including the supply of related goods and services by education institutions. Further detail on how the zero rate will apply and what constitutes "related goods and services" is likely to be provided in Bahrain's VAT regulations.
- In Saudi Arabia, education services are mostly subject to VAT at five percent. VAT on the supply of education services provided to Saudi citizens is paid to the provider by the government and must be reported separately on the supplier's VAT return. Education provided by government-owned education providers in Saudi Arabia is out of scope of VAT.
- Where a special VAT treatment (such as zero-rating) is prescribed for educational services, the provider must determine which services qualify and which services don't. For example, depending on the rules, zero-rating may not extend to school uniforms or school buses.



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- Provided education services are not treated as exempt, education providers should be able to recover the VAT incurred in the provision of their services, which may result in a net refund position where their supplies are zero-rated.
- Depending on the applicable VAT treatment, education providers must consider the impact of charging their customers VAT, particularly because that VAT is unlikely to be recoverable by individuals paying fees, although it may be recoverable by some business customers.
- Education service providers will need to carefully watch their competitors to see how they respond to VAT and to remain competitive.

What should the education sector 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 their VAT return.
- Providers in the UAE and Bahrain should ensure the conditions for zero-rating are satisfied and that they have considered the cash-flow impact of being in a net refund position.
- 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

The information in this document is based on translations of the draft Bahrain VAT law, the VAT laws and regulations of the UAE and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. As the draft Bahrain VAT law has been recently released and is still being reviewed in detail, any comments on this law are preliminary in nature and are likely to change. Any omissions or errors are inadvertent. This document should not be relied upon in making any decisions. You should seek appropriate professional advice from a tax advisor before making any decision relating to your particular circumstances.