

VAT brief | Education

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We have entered a new tax era. Saudi Arabia and the UAE implemented VAT on 1 January 2018. Bahrain implemented - for businesses with taxable turnovers above BD5m - on 1 January 2019 - with other businesses going live on 1 July 2019 or 1 January 2020. Other GCC countries are expected to follow. Key decision makers in the UAE, Saudi Arabia and Bahrain need to ensure their processes and systems are - and remain - VAT-compliant, while their peers in other GCC states need to start preparing now for VAT's implementation.

What is VAT?

- The GCC countries have agreed a standard VAT rate of five percent.
- Supplies of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- The mandatory registration threshold (MRT) is the equivalent of US\$100,000. The voluntary registration threshold is the equivalent of US\$50,000. Bahrain has staggered VAT's introduction.
- Registered businesses account for VAT - a consumption tax - on the price charged for the goods or services they supply and regularly pay the VAT to the tax authority.
- Where registered businesses make supplies that are standard- or zero-rated or out of scope with recovery, they should be able to recover the VAT they have incurred in making those supplies.
- Registered businesses making supplies that are exempt from VAT cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may be unable to recover VAT incurred on purchases that are deemed to have a private element.
- Registered businesses making 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 does VAT affect businesses in 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. Related goods and services include admin fees, books and reading materials, certain student accommodation and activities related to the educational curriculum.
- 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, in Bahrain, supplies of school uniforms, food and beverages, stationery, electronic devices and any extra-curricular activities are standard rated.



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- 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.
- It is important to remember that the education provider's customer is the student, so any VAT charged will be a real cost as the customer cannot cover input VAT. This is the case even where an employer is paying for the education of an employee's child.
- Education service providers will need to carefully watch their competitors to see how they respond to VAT and to remain competitive.

What should businesses in 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.
- Separately identify all supplies made and the associated VAT treatment, particularly with regard to extra-curricular activities and transport services.
- Consider whether the second-hand profit margin scheme rules can apply.
- If providing student accommodation (such as for boarders), consider the VAT treatment.
- 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 - and should - be charged to customers.

Important note

The information in this document is based on translations of the VAT legislation of the UAE, Bahrain and Saudi Arabia, the GCC VAT framework and general VAT principles. It is provided for information purposes only. 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.