

# VAT brief | Healthcare

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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 healthcare sector?

- The GCC framework allows each GCC country to exempt or zero-rate healthcare supplies.
- Certain medicines and medical goods may be zero-rated and each GCC country is expected to publish their own list.
- Essential healthcare services in the UAE have been zero-rated.
- Healthcare services are standard-rated in Saudi Arabia, although public healthcare is out of scope.
- Bahrain has zero-rated 'qualifying medical services' provided by 'qualifying medical professionals' or 'qualified medical institutions'.
- The UAE, Saudi Arabia and Bahrain have all zero-rated specific medicines and medical equipment:
- In the UAE, the medicines or medical goods must be registered with, or approved by, the Ministry of Health and Prevention to qualify for zero-rating.
- In Saudi Arabia, the Ministry of Health has published lists of zero-rated medicines and medical goods.
- In Bahrain, the National Health Regulatory Authority (NHRA) has published a list of medicines, medical devices and health products that are zero-rated.
- Saudi Arabia is bearing the VAT on private healthcare for Saudi citizens. Healthcare providers must capture citizenship details to apply the relief.



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- As healthcare, medicines and medical goods are all taxable (at 0% or 5%) in Saudi Arabia, the UAE and Bahrain, any input VAT incurred by healthcare providers should be recoverable.
- While the precise VAT treatments to be adopted by the rest of the GCC with regards to healthcare and medicines are not known, the approach is likely to be similar to the model adopted by the UAE, Saudi Arabia and Bahrain.

### What should businesses in the healthcare sector be doing now?

- Distinguish between standard-rated and zero-rated products, charges and services.
- Consider the resulting impact of VAT on pricing.
- For healthcare providers in Saudi Arabia, ensure processes are in place to capture additional information about patient citizenship before applying any relief.
- Examine any long-term contracts spanning the date of implementation and decide whether VAT can - or should - be charged to customers.
- Establish the VAT treatment of combined supplies of healthcare services and medical products - are these mixed or composite supplies?
- Healthcare providers in the rest of the GCC should consider the potential impact that VAT exemption of their products and services might have on their costs, in terms of non-recoverable VAT on purchases and expenses.

#### 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.