

VAT brief – Education

1 August 2017, Kingdom of Bahrain



Following on from the release of the GCC VAT framework, Saudi Arabia's General Authority of Zakat and Tax (GAZT) has released a draft version of the law as well as a bilingual version of its VAT implementing regulations. All businesses must now be actively preparing for VAT - 1 January 2018 is less than 100 working days away.

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.
- Goods and services can be exempt, zero-rated or standard-rated.
- Registered suppliers will add VAT to the price of a good or service they supply, collect the tax 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) 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 will not be able to recover the VAT they have incurred in the course of making those supplies.
- Registered businesses that make supplies that are zero-rated will usually be in a refundable position.

How will VAT affect the education sector?

- GCC states have discretion in the VAT treatment of education supplies.
- In many parts of the world, education is either exempt or zero-rated. However, based on the draft VAT implementing regulations which have been released by Saudi Arabia's GAZT, education services will be subject to VAT at the standard rate (five percent).

- While education service providers should be able to claim input tax incurred in the provision of their services, they must consider the impact of charging their customers VAT.
- Education service providers will need to carefully watch their competition to see how they respond to VAT and to remain competitive.

What should education providers be doing now?

- What is defined as education?
- Will education materials be subject to VAT?
- Consider VAT's impact on pricing.
- Carefully examine place of supply issues, particularly in relation to overseas students from global campuses.
- Review capital expenditure from a VAT perspective

Based on VAT regimes in other jurisdictions, schooling and university education is likely to be zero-rated. However, we may have to wait for further clarifications on this, including the treatment of vocational training and private tuition.

Important note

These briefs are based on a translation of Saudi Arabia's draft VAT laws and general VAT principles and are provided for information purposes only. This document 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.

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