

VAT brief – Healthcare

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 predominantly zero-rated will usually be in a refund position.

How will VAT affect the healthcare sector?

- Healthcare is one area where the GCC states have discretion in the application of VAT. Under the GCC framework, each GCC country has the right to either exempt or zero-rate healthcare supplies.
- Based on the draft VAT implementing regulation which has been released by the Saudi Arabia's GAZT, healthcare service is not explicitly stated under zero-rated or exempt supplies. Therefore, provision of healthcare services are treated as standard rated supplies.

- As healthcare is standard rated, healthcare providers should be able to recover all VAT incurred on their purchases of goods and services.
- The draft VAT implementing regulation specifies that medicines and medical equipment are zero-rated, provided they are dispensed by a registered pharmacist, an SFDA-licensed distributor, a primary health care centre or in a hospital to an individual for personal use on an authorized prescription.
- A list of approved medicines and medical goods is available from the Ministry of Health and the Saudi Food and Drug Authority's website.

What should healthcare organisations be doing now?

- Consider the impact of VAT on pricing.
- 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?

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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