

VAT brief | Education

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Saudi Arabia and the UAE implemented VAT on 1 January 2018, with the other GCC countries expected to follow in the next 12 months. Key decision makers should now be more aware than ever that we are entering into a new tax era. Key decision makers at businesses in the UAE and Saudi Arabia need to ensure their processes and systems are 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, not income or profits.
- The GCC countries have agreed a standard VAT rate of five percent (5%).
- Goods and services can be exempt, zero-rated or standard-rated, or out of scope.
- Registered suppliers will need to account for VAT out of 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) 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 as to the VAT treatment of education supplies.
- In many parts of the world, education is either exempt or zero-rated. However, in Saudi Arabia, education services are subject to VAT at 5%, while in the UAE, educational services are - subject to certain criteria - mostly be zero-rated.
- Where a special VAT treatment (such as zero-rating) is prescribed for educational services, the provider will need to determine which services qualify and which services don't (for example, zero-rating may not extend to fees relating to school uniforms or school buses).

- Provided education is not exempted, education providers should be able to recover input tax incurred in the provision of their services.
- Education providers must consider the impact of charging their customers VAT, particularly because the VAT is unlikely to be recoverable by parents or other parties paying fees.
- 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?

- Consider VAT's impact on pricing.
- Carefully examine place of supply issues, particularly in relation to overseas students from global campuses.
- Review capital expenditures



Important note

These briefs are based on a translation of the UAE and Saudi Arabia's VAT legislation, the relevant regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE implemented VAT on 1 January 2018 and the other GCC countries continue – as of the date of release of this brief – to work towards implementation in the next 12 months. This brief 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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