

VAT brief | Healthcare

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With less than a month to go before VAT is implemented in both the Kingdom of Saudi Arabia and the United Arab Emirates, legislation and regulations have been finalised. As business across the GCC move into a new tax era, key decision makers must ensure that their people, their systems and their technologies are sufficiently prepared – and sufficiently agile – to deal with a new business paradigm.

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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%).
- Supplies of goods and services are generally standard-rated but can also be zero-rated, exempt or out of scope.
- Registered suppliers will account for VAT on the price of a good or service they supply and pay VAT 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 most of the VAT they incur in 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 VAT refund position.

How will VAT affect the healthcare sector?

- Healthcare is one area where the GCC states have significant discretion – under the GCC framework, each GCC country has the right to either exempt or zero-rate healthcare supplies.
- While healthcare is commonly either exempt or zero-rated, GCC countries may decide to standard-rate some types of healthcare (such as non-essential healthcare).
- Article 35 of the Saudi IRs specifies that the supply of any qualifying medicines and medical supplies is to be zero-rated.
- Healthcare services are not explicitly as zero-rated or exempt supplies in the Saudi IRs. Provision of healthcare services is therefore standard rated.

- As healthcare is standard rated, healthcare providers should be able to recover all VAT incurred on their purchases of goods and services.
- The Saudi IRs specify 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 Saudi Ministry of Health and the Saudi Food and Drug Authority's website.

What should healthcare providers 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

Keypoint's VAT briefs are based on a translation of the Unified VAT Agreement for the Cooperation Council for the Arab States of the Gulf (the GCC VAT treaty), Saudi Arabia's VAT legislation, the UAE federal law, the Saudi implementing regulations, the UAE's executive regulations and general VAT principles and are provided for information purposes only. Saudi Arabia and the UAE continue – as of the date of release of this brief – to work towards an implementation date of 1 January 2018. 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.