VAT brief | Healthcare

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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. Business leaders should now be more aware than ever that we are entering into a new tax era. Key decision makers in the UAE and Saudi Arabia need to ensure their processes and systems are - and remain - 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.
- The supply of goods and services can be exempt, zero-rated or standard-rated (five percent), or out of scope.
- Registered businesses account for VAT on 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 with recovery) 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 cannot recover the VAT they have incurred in the course of making those supplies.
- Registered businesses may not be able to recover the VAT they have incurred on certain purchases that are deemed to have a private element.
- Registered businesses that make 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 will VAT affect the healthcare sector?

- The GCC framework gives each GCC country the ability to exempt or zero-rate healthcare supplies. Certain medicines and medical goods will be zero-rated and and each GCC country will publish their own list.
- Essential healthcare services have been zero-rated in the UAE, while healthcare services will be standard-rated in Saudi Arabia, unless it is public healthcare in which case it will be out of scope.
- The UAE and Saudi Arabia have 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.
- Saudi Arabia is bearing the VAT on private healthcare for Saudi citizens. Healthcare providers will need to capture citizenship details to apply the relief.
- As healthcare, medicines and medical goods are all taxable (at 0% or 5%) in Saudi Arabia and the UAE, 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 and Saudi Arabia.

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What should healthcare providers 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

These briefs are based on a translation of the GCC VAT Treaty, 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 2019.

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.