

VAT brief

Education



The release of the draft Saudi VAT law on 29 May 2017 is an important development in the introduction of VAT in the GCC. Following on from the release of the unified agreement on VAT, which sets out a basic framework for VAT across the GCC but leaves GCC states with discretion in certain areas, key decision makers should now be more aware than ever that VAT is going to be implemented – and that preparation time is short.

What is VAT?

- VAT is designed to be a tax on consumption, not income or profits.
- The GCC countries have agreed a 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 paid as an input tax credit.
- Registered businesses that make supplies that are exempt from VAT will not be able to recover the VAT they have paid.
- Registered businesses that make supplies that are zero-rated will usually be in a refundable position.

- If education is exempt, schools and other education providers will not be able to recover any VAT incurred on the purchase of goods and services, increasing their cost of doing business.
- If education is zero-rated, VAT will not be added to services or goods provided – such as school fees – while education providers will be able to recover input VAT.
- However, if education is zero-rated, cash-flow may be significantly affected and VAT refunds may become an issue.



How will VAT affect the education sector?

- Education is one of the areas where the GCC states have significant discretion.
- In many parts of the world, education is either exempt or zero-rated.
- The draft of the Saudi VAT law which has now been released is silent on the treatment of education – and, importantly, the definition of education.
- Articles 15 and 16 of the Saudi VAT law state that the VAT implementing regulations will specify the goods and services that will be exempt and those that will be zero-rated.

What still needs to be clarified?

- What is defined as education?
- What is the VAT liability for education?

Based on VAT regimes in other jurisdictions, schooling and university education is likely to be zero-rated. However, we will have to wait for the regulations for more clarity on this, including vocational training and private tuition.

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Please visit our website
keypoint.me to read more about how VAT may affect the education industry in Bahrain and the wider GCC.