

VAT brief

Healthcare



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.

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.
- The GCC countries may also decide to standard-rate (five percent) some types of healthcare (for example, non-essential healthcare).
- Healthcare is commonly either exempt or zero-rated.
- The draft of the Saudi VAT law which has now been released is silent on the treatment of healthcare – and, importantly, the definition of healthcare (for example, would cosmetic treatment fall under the definition of healthcare?).

- Articles 15 and 16 of the Saudi VAT law state that the VAT regulations will specify the goods and services that will be exempt and those that will be zero-rated. The Saudi VAT implementing regulations have not yet been released.
- If healthcare is exempt, healthcare providers will not be able to recover any VAT incurred on their purchases of goods and services, increasing their cost of doing business.
- If healthcare is zero-rated, VAT will not be added to services provided – while healthcare providers will be able to recover input VAT.
- However, cash-flow is likely to be significantly affected and VAT refunds may become an issue.
- The GCC unified framework specifies that certain medicines and medical equipment will be zero-rated, consistent with many other VAT jurisdictions.

What still needs to be clarified?

- What is defined as healthcare?
- What happens where a treatment involves both essential medical treatment and cosmetic procedures?
- Will healthcare be standard-rated, zero-rated or exempt?

Based on VAT regimes in other jurisdictions, essential healthcare is likely to be zero-rated and non-essential healthcare (for example, cosmetic or elective procedures) to be standard rated (five percent). However, we will have to wait for the regulations for more clarity on this, including precisely which medicines and medical equipment will be zero-rated.

Contact us
vat@keypoint.me

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