

How will VAT Impact the GCC Education Sector?

Shiraz Khan - Partner, Head of Taxation - Tax / Corporate / Mergers and Acquisitions / Family Business
s.khan@tamimi.com - Dubai International Financial Centre

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The United Arab Emirates (“UAE”) and the Kingdom of Saudi Arabia (“KSA”) have announced that VAT will be implemented on 1 January 2018. This effective date has been confirmed by the final VAT laws, which have now been published by both the UAE and KSA. The other GCC countries have yet to make an official announcement on the implementation date.

At the time of writing, of the GCC countries, KSA has published its final VAT law and implementing regulations and UAE has only published its final VAT law.

Overview of VAT in the GCC

VAT registered businesses that supply goods and services are subject to VAT at either the standard rate or zero rate. Businesses are entitled to claim a credit for VAT paid on their purchases if they relate to a supply that is standard rated or zero rated. However, any VAT incurred in connection with a supply that is exempt from VAT cannot be reclaimed.

Unless supplies of goods or services are specifically zero rated or exempt, they will be subject to VAT at the standard rate. The standard rate will be 5% across the GCC.

Education - The GCC VAT Treaty

It is common for many countries across the world to exempt education from VAT.

Under the GCC VAT framework agreement, which is a country level agreement between GCC states setting out the common principles on which VAT laws in individual countries will be based, each GCC country has the discretion to either exempt the education sector from VAT or subject it to VAT at the zero rate.

What we know so far on VAT treatment for Education sector in individual countries?

The UAE VAT law states that VAT applies at the zero rate to the “supply of educational services and related Goods and Services for nurseries, preschool, elementary education, and higher educational institutions owned or funded by Federal or local Government, as specified in the Executive Regulation of this Decree-Law.” An interesting observation is that there is no reference to secondary education so unless the executive regulations bring it within the scope of the zero rate, the supply of education services related to secondary education will be subject to VAT at the standard rate.

According to KSA’s VAT implementing regulations, supplies of education services are not exempt or zero rated. Therefore, the expectation is that the education sector in KSA will generally be subject to VAT at the standard rate. However, services provided by the government as part of its government function are outside the scope of VAT and thus public education providers may not be subject to VAT in KSA where there is no commercial activity.

The other GCC countries have not yet made any announcements on the VAT treatment for the education

sector.

Different treatment of education across GCC

As the GCC VAT framework agreement gives individual states the ability to subject education sector to either VAT at the zero rate or treat it as exempt, it is possible that education services may be treated differently in individual GCC countries. Indeed, as noted above, in the UAE certain education services will be zero rated whereas KSA appears to prefer the standard rated approach.

What are the implications if education is exempt?

Clearly there will be implications for education providers in GCC countries where the education sector is exempt because they will not be able to recover any VAT incurred on their expenses directly attributable to that exempt supply.

Education service providers that make both taxable and exempt supplies will also need to apportion the VAT in relation to certain shared overheads – for example, marketing, utilities and rent – because the VAT attributable to exempt supplies will not be recoverable.

These factors will increase the cost for education providers who may, in turn, wish to raise the school fees to compensate for the higher cost in order to maintain profit levels.

What are the implications if education is zero rated?

A consequence of zero rated treatment is that the educational provider is likely to be in a VAT refund position, which may result in cash flow issues. Therefore, it is important for affected businesses to manage and review their commercial contracts, invoices and VAT refund claims to reduce this impact.

What is the definition of education?

The meaning of “education” services where such services are either exempt or zero rated is important because ultimately this will dictate the VAT treatment. To the extent that any services fall outside the definition of “education”, they will be subject to VAT at the standard rate. Any potential exclusions from the zero rated or exempt treatment must also be considered.

In the UAE, certain education services will be zero rated, but it remains to be seen how “education” and “education provider” will be defined for these purposes and whether there will be any exclusions from the zero rated treatment. In some countries, the definition of “education” is usually based on local law and subject to the education provider being accredited by the local educational authority.

The VAT treatment can vary depending on whether the education provider is engaged in pre-school, primary, secondary or higher education. Some countries also appear to favour a distinction between private and public sector education providers with the latter not subject to VAT.

Ancillary services

In addition to education services, for which the education provider usually charges a school or tuition fee, the education provider may also be engaged in other ancillary services. Determining the VAT treatment may present challenges for such services. For example, education providers may also undertake the following income generating activities:

- administrative services;
- provision of course materials;
- provision of catering to students, staff and guests;
- membership of student organisations, associations or bodies;
- sale of goods such as uniform, stationary, merchandising, books, computers, musical equipment and

- bags;
- provision of accommodation to students, staff, visitors and letting to general public during non-term time;
 - transportation of students;
 - provision of short term courses to the public, for example, during the summer or evening;
 - organisation of events including attending sites, excursions and field trips, conferences, musicals, plays, shows etc.;
 - examination services;
 - research grants and donations; and
 - scholarships and sponsorships.

It is important to determine whether and to what extent the above activities will fall to be treated as related and incidental to “education” services and subject to the same VAT treatment, or whether they will be considered as supplies of a different service and subject to separate VAT treatment.

Businesses must ensure that appropriate controls and processes are in place and that the correct VAT classification is identified for all your transactions at the outset in order to be compliant and avoid penalties.

[Al Tamimi & Company's tax team](#) regularly advises on VAT implementation. For further information please contact Shiraz Khan (s.khan@tamimi.com).