

VAT 2.0: The Story So Far

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The [introduction of value added tax](#) (VAT) in the UAE and KSA raises complexities for education providers, even as both countries are now moving towards the eighth month since the implementation of VAT.

In this article, we will examine the UAE VAT treatment of supplies made in the education sector and the VAT issues which arise in the industry.

The VAT story so far in the Education Sector in the UAE



What is the VAT treatment in the education sector?

By way of background, VAT is imposed at the standard rate of 5% on the taxable supply of most goods and services (unless the supply is zero-rated (0%) or exempt) made in the UAE by a taxable person for consideration in the course of conducting business in the UAE.

The main difference between standard rated, zero rated and exempt supplies is that input tax incurred in connection with standard rated or zero rated supplies is as a general rule recoverable (subject to the normal rules of input tax recovery). Conversely, input VAT incurred in connection with exempt supplies is not generally recoverable.

In the UAE, the supply of educational services and related goods and services for nurseries, preschool, school education, and higher educational institutions owned or funded by Federal or local Government is subject to VAT at the zero-rate.

For a supply of educational services to qualify for zero-rating, the following conditions prescribed under the UAE VAT Executive Regulations should be fulfilled:

- the supply of educational services must be provided in accordance with a curriculum recognised by the federal/local competent government entity;
- the supplier of the educational services is an educational institution which is accredited by the federal/local competent government entity; and
- where the supplier of educational services is a higher education institution, the institution is either (i) owned by the federal or local government; or (ii) receiving at least 50% of its annual funding directly from the federal or local government.

Qualifying educational institutions may also avail of the zero-rating treatment in respect of the following:

- a supply of goods or services that is directly related to the provision of a zero-rated educational service; and

- printed and digital reading material which are related to the curriculum of an education.

Are there any exceptions to the zero-rating rule?

Not all supplies made by qualifying educational institutions benefit from this zero-rating rule. The following supplies are specifically excluded from this treatment and will therefore be subject to VAT at the standard rate:

- goods and services supplied to persons who are not enrolled in the educational institution;
- any goods other than educational materials provided by the educational institution;
- uniforms or any other clothing required to be worn by the educational institution;
- electronic devices in relation to educational services;
- food and beverages at the educational institution;
- recreational field trips;
- extracurricular activities provided for an additional fee; and
- student organisation memberships.

Additionally, the supply of residential accommodation for students or school pupils is exempt from VAT. This means that qualifying educational institutions will be unable to recover any input VAT paid on expenses that are related to the supply of residential accommodation.

Would qualifying educational institutions need to register for VAT in the UAE?

Qualifying educational institutions are required to register for VAT in the UAE if the value of their annual taxable turnover meets the mandatory registration threshold of AED 375,000. In calculating the value of taxable turnover, the value of standard rated and zero-rated supplied made by the qualifying educational institutions must be taken into account.

Qualifying educational institutions may also apply for an exception to register for VAT in the UAE if they make wholly zero-rated supplies. If the application is approved, the educational institution will be exempted from any VAT obligations such as filing VAT returns. However, in doing so, educational institutions will be unable to recover any input VAT incurred on their expenses. In determining whether to apply for the exception to register for VAT, educational institutions should carefully assess the potential VAT compliance costs against the amount of recoverable input VAT.

“While the primary supply of most educational services is zero-rated in the UAE, the VAT treatment of some activities may not always be straightforward. Given that the VAT regime is still in its early stages of implementation, it is expected that the VAT legislation

would continue to evolve. Educational institutions should continuously ensure that the correct VAT treatment is applied to all of its transactions.”

The VAT issues



What type of supplies are “directly related” to the provision of a zero-rated educational service?

As noted above, a supply of goods or services made by educational institutions is treated as zero-rated where the supply is directly related to the provision of a zero-rated educational service. However, the UAE VAT Executive Regulations do not provide further guidance on what constitutes supplies which are “directly related” to the provision of a zero-rated educational service. This uncertainty will likely give rise to challenges in ascertaining the VAT treatment.

For example, a qualifying educational institution provides music courses. As part of the course requirements, students of the institution are required to perform in a musical concert held at the institution. Only the students’ family members and friends who received a special invitation are allowed to attend the musical concert. The concert tickets are sold at a reduced fee to cover some of the costs of running the musical concert. Can the supply of the musical performances be treated as a supply “directly related” to the provision of an educational service?

It is arguable that the supply of the musical performance may be “directly related” to the provision of educational service considering that:

- the principal supply of the qualifying educational institution is zero-rated educational service; and
- the practical training arising from the supply of musical performances forms a necessary and essential part of the curriculum;
- therefore, the supply of musical performances is ancillary to the principal supply; and
- the musical concert is not in competition with any commercial enterprise and not generating additional

profits.

On the other hand, the supply of the musical performances may also be regarded as falling under the scope of the exception to the zero-rating rule, and therefore be subject to VAT at the standard rate. It can be contended that the musical performances are supplied to third parties, rather than the intended recipient of educational services, i.e., the students. Further, the supply of musical performances itself will generally be treated as standard rated if it was conducted in the course of business.

What is the VAT treatment of grants and sponsorships?

It is common for the government or third parties to provide educational institutions with financial support such as grants or sponsorships. While the VAT legislation does not prescribe the VAT treatment of grants or sponsorships, the general principle is that if a monetary grant or sponsorship is freely given without receiving anything in return, the grant or sponsorship will not constitute consideration for any supply. Therefore, the grant or sponsorship would fall outside the scope of UAE VAT.

Conversely, if the grantor or sponsor receives a benefit or something in return from the educational institution for the monetary grant or sponsorship, the grant or sponsorship may be subject to VAT. The benefit provided by the educational institution will be rated as a taxable supply and the educational institution will have to account for VAT on the benefit. Currently, determining what constitutes a benefit is a grey area. As such, it is open to question as to whether an inclusion of the sponsor in a list of supporters in a notice or naming a university building after the sponsor may be considered as benefits.

Final remarks

Generally, the primary supply of most educational services is zero-rated in the UAE to the extent the educational services are provided in accordance with an accredited curriculum by qualifying educational institutions. Notwithstanding this, the VAT treatment of some activities may not always be straightforward. Given that the VAT regime is still in its early stages of implementation, it is expected that the VAT legislation will continue to evolve. Educational institutions should continuously ensure that the correct VAT treatment is applied to all of its transactions, in compliance with the current VAT legislation.

Al Tamimi & Company's [tax team](#) regularly advises on VAT and other tax matters. For further information, please contact [Shiraz Khan \(s.khan@tamimi.com\)](mailto:s.khan@tamimi.com) or [Janet Gooi \(j.gooi@tamimi.com\)](mailto:j.gooi@tamimi.com).