

Education

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What is the VAT treatment of education?

The main educational services and related goods and services supplied shall be zero rated, if supplied by any of the following 'qualifying educational institutions':

- Nurseries, preschools and schools
- Higher educational institutions owned or funded by Federal or local Government.

This means that a 'qualifying educational institution' shall not charge VAT on the zero rated educational services they provide, and will be able to recover the VAT they pay on related costs when they file their tax returns.

Any educational services provided by other entities not listed above shall be subject to the standard rate (i.e. 5%).

2

Does a 'qualifying educational institutions' have to register for VAT?

Provision of educational services by a 'qualifying educational institutions' is a zero-rated taxable supply. Hence, if the supplies exceed the Mandatory Registration Threshold of AED375,000, then the institution needs to register.

It may apply for exceptions from registration via the registration application if the institution does not provide any services or goods taxed at the standard rate of 5%. Applying for an exception will relieve the school from filing regular returns, but would also mean the school cannot recover the input tax incurred on its expenses.

3

Can anybody supply zero-rated education?

No. Only 'qualifying educational institutions' can provide zero rated supplies. 'Qualifying educational institutions' are those educational entities recognised by the federal or local competent government entity regulating the education sector where the course is delivered, and in the case of higher education institutions the institutions that are either owned by the federal or local government or receive more than 50% of their annual funding directly from the federal or local government.

That means that education provided by all other educational entities does not qualify for zero-rating and such institutions must charge standard-rate VAT on their supplies of education.

4

Is all education supplied by education institutions zero-rated?

Only educational services which are provided in accordance with the curriculum recognised by the federal or local competent government entity regulating the education sector where the course is delivered can be zero-rated. If an educational entity supplies education that is not in accordance with a recognised curriculum, it must charge VAT at the standard rate (i.e. 5%) on those supplies. In a limited number of cases, an educational institution may provide educational services to students free of charge and the education is wholly funded by Government grants. Provided the conditions for zero-rating are still met i.e. it is a recognised curriculum supplied by an educational institution, then the grant income can be treated as a zero-rated.

5

What about related goods and services?

If a 'qualifying educational institution' supplies other goods and services that are directly related to a zero-rated supply of education, they qualify for zero-rating as well. For example, books and digital reading material supplied by educational institutions that are related to the curriculum being taught also qualify for zero-rating.

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Are there any exceptions to zero-rating?

Yes. There are supplies related to the provision of the education services which are subject to the standard rate (i.e. 5%), such as:

- Goods and Services supplied by a 'qualifying educational institution' to persons who are not enrolled in it;
- Any Goods, other than educational materials provided by a 'qualifying educational institution', that are consumed or transformed by the students being taught by it;
- Uniforms or any other clothing which are required to be worn by a 'qualifying educational institution', irrespective of whether or not they are supplied by such institution as part of the supply of educational services.
- Electronic devices used in educational services, irrespective of whether or not supplied by a 'qualifying educational institution' as part of the supply of educational services.

- Food and beverages supplied at a 'qualifying educational institution' including supplies from vending machines or vouchers in respect of food and beverages.
- Field trips, unless these are directly related to the curriculum of an education service and are not predominantly recreational.
- Extracurricular activities provided by or through a 'qualifying educational institution' for a fee additional to the fee for the education service.
- A supply of membership in a student organisation.

A 'qualifying educational institution' must charge and account for VAT on its charges for each of the above items.

Another exception to zero rating is the provision of school transportation, which falls under "domestic transportation" and hence is exempt.

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What is the VAT treatment of student accommodation?

Student accommodation is included within the definition of residential accommodation, therefore the supply of student accommodation (other than the first supply of a new residential building) will be exempt from VAT. Educational institutions which also supply accommodation to students will be unable to recover VAT incurred on costs which directly relate to the provision of the accommodation.

8

What about grant income or sponsorship received?

In some cases, educational institutions may receive grant income or sponsorships from the Government or third parties. The VAT treatment of grant/sponsorship income depends on whether you are providing the donor with a benefit in return for the funding received. Where a benefit is provided, you are likely to be making a taxable supply of services for VAT purposes and should account for the VAT on the income received. A benefit could include e.g. naming an event after a sponsor, giving free of charge or reduced price tickets in return for the sponsorship, displaying the sponsors logo in a predominant place on flyers etc. However, where there is no significant benefit received, the income will be treated as outside the scope of VAT.

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Is grant funded research subject to VAT?

Again, the VAT treatment of grant income received to fund research depends on the extent of the benefit provided to the funder of the research. Where the educational institution is required to provide certain deliverables in return for the funding and is required to provide the intellectual property and other products of the research to the funder then this will be a supply of research services and subject to VAT at 5%. However, where the funder does not receive anything in return for the funding other than incidental information e.g. progress updates, records of expenses, evidence that the research has been conducted as requested, then this is not considered to be a supply of services by the educational institution and the grant income received will be outside the scope of VAT. VAT incurred on costs which are linked to an outside the scope supply and not linked to a taxable supply made by the business should not be recoverable as an overhead cost of the business in line with the business' input tax apportionment percentage.

