

## VAT implications for the Education sector in the Kingdom of Saudi Arabia

From 1 January 2018, the Kingdom of Saudi Arabia (KSA) introduced a standard rate of VAT (5%) on private education services. This means that, where certain criteria are met, Value Added Tax (VAT) will be charged on such supplies. Some ancillary services connected with education are not taxable however, and therefore the provision of accommodation to students by education providers could lead to restrictions on input tax recovery. This mixture of VAT liabilities, combined with complex funding arrangements, such as grants and sponsorship, presents challenges around effective VAT management. As such, it is crucial that robust VAT processes are in place to ensure the correct VAT treatment is applied and the correct amount of input tax is recovered.

### Areas of VAT complexity

#### Exception to standard rate

- Where education services are supplied to Saudi Nationals, VAT should not be charged.
- A tax invoice should be issued with no VAT applied, and the recipient's national identification details should be recorded.

#### Input tax recovery

- Apportionment of input tax on residual costs applies if generating both taxable and exempt/non-business income.
- Is the standard method most appropriate, or would a special method produce a more accurate result?

#### Grant funded research

- May be out of scope or taxable - depends on the extent of the benefit provided to the funder of the research.
- If grant income is out of scope, then associated input tax is not recoverable.
- Non-business income can give rise to increasingly complex input tax recovery calculations.

#### Exempt supplies

- Residential leases to students and faculty may be exempt from VAT on the condition that this is their primary residence.
- Making exempt supplies will limit the recovery of a business' directly attributable and residual input tax, thereby creating a greater cost to your business.

#### IT systems

- Proper IT systems in place to charge the correct VAT rate, generate valid tax invoices and the necessary data to prepare the required VAT returns.
- Consider the level of automation required in order to optimize compliance.

#### Penalties & GAZT audits

- Fines for various reasons, including late VAT registration, and late & incorrect VAT return submissions.
- Values of penalties range in fixed values from SAR 10,000 to up to SAR 100,000.
- Percentage based fines can be up to 50% of unpaid VAT.

#### Funding by block grant, endowment or sponsorship

- Where there is no significant benefit provided to the grantor, income will be outside the scope of VAT i.e. non-business income.
- Non-business activities limit the recovery of input tax related to these supplies.

#### Standard rate 5% education services

- Where education services are supplied to non-Saudi nationals, this will be subject to VAT at the standard rate of 5%.

### How we can help



**Dedicated education sector VAT specialists** with extensive commercial and technical experience in your sector who will share best practice and the latest insights on VAT and industry matters.



**VAT health-check** to assess the robustness of your current VAT compliance and related processes, and identify areas of potential optimization and risk mitigation.



**Technical advice** when you need greater certainty on VAT treatment, including the preparation of tax authority ruling requests and audit support.



**Input tax apportionment reviews** to investigate whether the standard method is being calculated correctly, and whether an alternative special method could achieve a more fair and reasonable result.



**Tax technology** experts to assess current processes and systems in order to improve the accuracy and efficiency of VAT reporting.

### Contacts



**Michael Camburn**  
KSA Indirect Tax  
Leader

mcamburn@deloitte.com



**Kate Bacon**  
Education VAT  
Industry Leader

kabacon@deloitte.com