



GCC VAT Fundamentals in the Education Sector

The introduction of VAT is a landmark event for the region and marks the true beginning of VAT implementation across the GCC. The VAT Treaty signed by the GCC states establishes the common principles of the VAT system which is to apply in each GCC State and provides a structure on which domestic VAT legislation will be developed. We are gradually getting clarity over the principles which every State will be required to enact and can start to confirm our understanding of how businesses will be impacted by the introduction of VAT within the region. The Treaty however leaves certain decisions to the discretion of the individual GCC States, so whilst we now have a greater understanding of how the VAT system will operate there remain many 'grey' areas which can only be resolved once each of the countries have released their VAT laws.



VAT will be relatively straightforward conceptually

- Registered suppliers charge VAT (output tax) in most instances (i.e. typically added to current prices)
- Registered business customers recover the VAT (input tax) in most instances
- End consumer suffers the total VAT cost; flows through businesses to a great extent
- Standard VAT rate will be 5% across the GCC

Zero-rated

- No VAT charged to customers but can recover input tax
- Zero-rated traders usually in a repayment position

Exempt

- No VAT charged but no input tax recovery
- Exempt traders have a higher cost base and often increase prices as a result



What will be the VAT liability of the education sector?

Article 29 of the Treaty states that each GCC State can choose whether to exempt or zero-rate education:

- A lot of countries around the world exempt education
- Exemption leads to a sticking VAT cost within the supply chain as VAT incurred on purchases is irrecoverable – **so increased cost for the education provider**
- To help with this **sometimes capital intensive expenditures are relieved** (e.g. special rules for educational buildings)
- Some GCC States **may decide to apply a zero-rate to education**, which would be very attractive and a lot simpler
- Education is a **difficult area to define** – will the rules apply to core education only (e.g. school fees) or will it include ancillary services?
- **Education may be treated differently in each GCC state and the definition of Education may also be different**



There will be issues...

- Defining what is educational vs what is not will be difficult in some countries and is often tied to local education law
- If exemption applies, then VAT will become a cost on expenditure
- If zero-rating applies, then VAT refunds and cash-flow will be an issue



Mark Junkin
Partner, Indirect Tax
majunkin@deloitte.com
+971 0 (4) 376 8888



Bruce Hamilton
Partner, Indirect Tax
brucehamilton@deloitte.com
+971 (0) 4 376 8888



Michael Towler
Partner, Indirect Tax
mtowler@deloitte.com
+971 (0) 4 376 8888