





GCC VAT Fundamentals in the Healthcare 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.

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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

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What will be the VAT liability of the healthcare sector?

Article 29 of the Treaty states that each GCC State can choose whether to exempt or zero-rate healthcare. In addition, a specific zero-rating provision is given for certain medicine and medical equipment under Article 31 of the Treaty. The effect of these provisions is as follows:

 - **A lot of countries around the world exempt healthcare**
 - Exemption leads to a sticking VAT cost within the supply chain as VAT incurred on purchases is irrecoverable – so **increased cost for the healthcare provider**
 - To help with this **reliefs are often applied to certain expenditure** – there will be a mandatory zero-rate applied to certain medicine and medical equipment **across the GCC** as per Article 31 of the Treaty
 - Some States may decide **healthcare should be subject to a zero-rate**, which would be very attractive and a lot simpler
 - Defining what is healthcare vs what is not will be difficult – often the purpose of treatments are examined and **procedures considered 'cosmetic' can often be standard rated**
 - **Healthcare may be treated differently in each GCC state**

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There will be issues...

 - 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
 - Where a mixture of medical and cosmetic treatments are provided, careful attention will need to be given to the liability of supplies and partial exemption may need to be considered

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

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