



# VAT Update GCC Education

March 2018

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## VAT Update GCC - Education

The influx of expatriates to the Gulf over the years has led to the creation of a number of international schools which are in addition to those that were already in existence. Still some of these schools are looking to expand even further by establishing additional campuses and diversifying their income streams away from that derived from the supply of traditional education. This has become a common practice within the education sector as a means to increase income but it brings with it added complications for VAT purposes as schools may generate additional income from a variety of sources; which may be standard rated, zero rated, exempt or outside the scope of VAT.

### What is Education ?

Education is not yet defined in any of the published domestic VAT legislations in the Kingdom of Saudi Arabia (KSA) or the United Arab Emirates (UAE) and it is not yet certain whether it will be defined in the Bahrain VAT legislation once it is published. However Article 29 of the GCC Treaty allows each state to either exempt or zero-rate education. For the purposes of this VAT update, we will define education by virtue of its natural meaning, that is, the educational training of individuals up to university level by a recognized institution in a curriculum approved and recognized by the State.

### What is the VAT liability of Education in the GCC?

- In the KSA all education is outside the scope of VAT except Private Education to non-Saudi citizens which is taxed at 5% VAT;
- In the UAE education is taxed at the rate of 0%. University education however is taxed at either 0% or 5% depending on whether the institution is at least 50% funded or fully owned by the government;
- The supply of nursery and pre-school education is also taxed at 0% in the UAE

### VAT liability of other Supplies by or to Education Institutions In UAE:

- School Trips are either taxed at 0% for trips related to the curriculum or, 5% for recreation;
- Rental of school grounds is taxed at 5% and other supplies are taxed at either 0% or 5% depending on the fact pattern of the supply;
- Printed and digital reading material is also taxed at the rate of 0% if it is related to the supply of education;
- Domestic transportation of students in a qualifying vehicle is exempt from VAT;
- Other items such as school uniforms, electronic equipment, food & drink consumed on educational campus are standard rated at 5%.

### In KSA:

No specific provisions for other services provided by academic institutions suggesting that any such supplies may be taxable at 5%.

## How will Academic Institutions be affected ?

- The current freeze on academic fees in Bahrain means school administrators & governors need to consider the potential impact on academic institutions' budgets once VAT is introduced in Bahrain;
- The potential impact on consumer choice in the event that education in Bahrain is taxable at 5%;
- Potential costs to the institution when preparing annual budgets especially if certain supplies made become exempt from VAT;
- The status granted to a non-profit making school by the Bahrain authorities, that is, whether they are recognized as charitable institutions or not, may impact on the VAT liability of supplies to and from these institutions.

## What should Educational Institutions do now ?

1. Establish a relationship with a firm of trusted VAT specialists;
2. Arrange an IT review of your accounting systems to ensure its compatibility with VAT accounting & VAT compliance requirements in Bahrain;
3. Review long term contracts as there may be transitional & “grand-fathering” arrangements in the Bahrain legislation, especially where capital projects are concerned in respect of new and partially completed educational buildings;
4. Review the use to which the Real Estate is put to use, whether residential, commercial or mixed use as the Bahrain legislation is likely to specifically address these issues via the Capital Assets Scheme;
5. Ensure that the drafting of contracts between the supplier and buyer include a clause on VAT;
6. Make adequate preparations for the possibility of input VAT being non-recoverable which will increase the cost base of the academic institution;
7. Have VAT expertise at hand to separately assist with determining the VAT liability of the institution's various supplies such as sponsorship and put planning mechanisms in place to mitigate the impact of VAT.

Please note that the production of this document serves only as a high level guide to businesses operating in the KSA, UAE, and Bahrain and must not be taken as official VAT advice. The VAT treatment of an institution's income is rarely straightforward and it is always beneficial to take professional advice. If you have concerns around the VAT treatment of your income and purchases streams it is prudent to engage with VAT specialists in order to protect yourselves from applying the wrong VAT treatment.

BDO has a global presence and is experienced in providing support in relation to technical VAT issues. If any of the points raised in this alert have implications for your business then we can provide assistance with:

- A review of the income streams to assess any potential VAT liability;
- VAT registration of businesses;
- Quantification, compilation and submission of VAT returns to the Tax Authorities;
- Negotiations with the Tax Authorities

VAT is complex,  
but you can address the challenges  
and reduce disruption and cost to  
your business with a pragmatic  
and comprehensive approach...

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