

# How VAT impacts you

## Education sector

### VAT in the GCC

The 'Gulf Cooperation Council' (GCC) states have been gearing towards the introduction of a 'Value Added Tax' (VAT) in the region. The first countries to introduce VAT on 1 January 2018 were the United Arab Emirates (UAE) and Kingdom of Saudi Arabia (KSA). In general, VAT is chargeable on most goods and services with a limited number of specifically zero rated or exempt supplies.

The education related supplies are traditionally exempt from VAT in foreign VAT regimes. The GCC VAT Framework Agreement – prescribing the general VAT principles to be applied across the GCC – however followed a different approach when it gave the option to each GCC state implementing VAT to decide whether it would treat certain education related supplies as standard rated or zero-rated.

In the light of the flexibility provided by the GCC VAT framework agreement, the VAT treatments of various supplies in the education sector have been different in the UAE and KSA to some extent. Below, we have provided an insight into the education sector in both the countries.

### VAT impact of education related transactions in the UAE

#### The VAT treatment of tuition fees

In general, educational services shall be zero rated if they meet the following criteria provided by the respective UAE VAT rules:

1. they are provided by education institutions approved by the authorities and in the frame of a curriculum recognised by them (such as nurseries, preschools, schools).
2. where provided by a 'higher educational institution' (such as college or university), such institution must be owned by the local or federal government or receives more than 50 % of its annual funding directly from them.

Any educational services that are not in accordance with the above criteria, are subject to VAT at the standard rate (i.e. 5%).



#### The VAT treatment of other supplies related to education

Educational institutions have evolved to provide more than just education to their students; they are now often involved in business activities such as the sale of goods from campus shops, restaurants, vending machines, admission to plays, concerts, dances and museums, etc. Many of these business activities in the periphery of the education sector and their VAT treatment are indicated below:

**Books and other educational materials:** The supply of goods and services in general that are directly related to zero-rated supply of education, qualify for zero-rated, as well. For example, books and digital reading material supplied in relation to the curriculum – where the tuition fee qualifies as zero rated. We note that materials which are not provided in direct relation to a zero-rated education service (e.g. where the education service itself should be taxed at 5%) are taxable at the standard rate.

**Supplies to non-student persons** qualify as standard rated given that the customers are not students enrolled to the curriculum. Any goods, other than educational materials also qualify as standard rated provided that they are consumed or transformed by the students being taught by it.

**Uniforms or any other clothing which are required to be worn** are taxable at standard rate 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** are taxable at standard rate irrespective of whether or not supplied as part of the supply of educational services.

**Food and beverages including supplies from vending machines or vouchers in respect of food and beverages** are taxable at standard rate in all cases.

**Field trips** are taxable at standard rate unless these are directly related to the curriculum of an education service and are not predominantly recreational.

**Extracurricular activities** are taxable at standard rate given that these are provided for a fee additional to the fee for the education service.

**Membership in a student organisation** are taxable at standard rate.

**Student accommodation:** The supply of student accommodation (other than the first supply of a new residential building) is 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.

### **VAT impact of education sector in the KSA**

The KSA has followed a different approach than the UAE wherein based on the implemented KSA VAT rules, the education related supplies are taxable at the standard rate of 5% for private education. On the other hand, the public education is considered to be out of scope.

The Saudi Government published a Royal Decree No (A/86) in January 2018 according to which the VAT incurred by Saudi citizens on their private education expenses will be covered by the Kingdom so as to allow Saudi citizens to adjust to the introduction of VAT in the KSA. In this respect, private education institutions registered for VAT are required to issue tax invoices to Saudi citizens for the amount due for the education services provided to them, but without VAT.

### **Situations where determining the VAT treatment can be a challenge**

**Grant income/sponsorship received:** The VAT treatment of grant/sponsorship income could sometimes be a bit complex. It depends on whether the receiving institute provides the donor with a benefit in return for the funding received. Where a benefit is provided, the supply might be taxable. 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, etc. However, where there is no significant benefit received, the income will be treated as outside the scope of VAT.

**Research funding:** The VAT treatment of grant income received to fund research and the VAT liability of research undertaken by an educational institution is complicated and may or may not attract VAT. Whether the institution is treated as providing certain deliverables and intellectual property in return for the funding to the donor is the trigger for any VAT liability on the institution. However, where the funder does not receive anything in return for the funding other than incidental information e.g. progress updates, evidence that the research was performed as requested, then this will be outside the scope of VAT. It will be important to examine any contracts to identify the correct VAT treatment.

**Input VAT recovery related to educational supplies:** If the education institute supplies standard or zero-rated services or goods, it would be entitled to recover the input VAT incurred in relation to these supplies. However, VAT incurred on costs which are linked to exempt or outside the scope supplies made by the education institute are not recoverable as an overhead cost of the business in line with the business' input tax apportionment percentage. In these cases, the apportionment computation could be complex given that only a portion of VAT incurred on such expenses is claimable in proportion to the amount of taxable supplies made over total supplies.

### **In summary**

There are many issues that will impact education institutions under the VAT.

It is essential that your staff are fully cognizant of VAT. It is difficult to 'systemise' the VAT rules for all supplies made by you: nuances in the VAT law or slight changes in fact scenarios can lead to varying VAT outcomes, as described above.

At PwC, we have a strong indirect tax department with many years of experience in VAT matters impacting educational institutions, both in the Middle East and abroad, and we are in an excellent position to help you with your VAT related inquiries.

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