Impact of VAT on KSA education sector
The Kingdom of Saudi Arabia (KSA) has adopted a narrow exemption model when introducing value-added tax (VAT). The supply of almost all goods and services in the KSA, including education, will be subject to VAT at a standard rate of 5% unless specifically exempted or zero-rated.

As per the Gulf Cooperation Council (GCC) VAT Framework Agreement, any supply transaction not covered in the definition of goods shall be treated as a supply of “services” for the purpose of VAT. In the absence of specific exemption or zero rating in the KSA VAT Law, all the services rendered by educational institutions in the KSA for consideration shall be subject to VAT at the standard rate of 5%. However, education services provided by the government institutions (not for profit) shall be exempted.

Summary of VAT implications is provided below:

<table>
<thead>
<tr>
<th>Serial number</th>
<th>Nature of transaction</th>
<th>VAT treatment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Education services in KSA</td>
<td>VAT at 5%</td>
<td>Tuition fees, school fees and trainings provided by private institutions in KSA will be subject to VAT.</td>
</tr>
<tr>
<td>1.2</td>
<td>Intra-GCC supplies</td>
<td>Zero rate</td>
<td>Any research or training performed for customers residing in other GCC member states will be treated as a zero-rated supply.</td>
</tr>
<tr>
<td>1.3</td>
<td>Export to countries outside GCC</td>
<td>Zero rate</td>
<td>Any research or training performed for customers located outside the GCC shall be zero-rated subject to fulfillment of conditions.</td>
</tr>
</tbody>
</table>

2 Acquisition or procurements

| 2.1 | Purchases of goods and services in KSA | VAT at 5% | The procurement of all goods and services (tools and general machinery consumables, and contracted manpower) shall be subject to the standard rate of VAT, unless specifically exempted or zero-rated. |
| 2.2 | Intra-GCC procurements | Reverse charge mechanism | The procurement of goods and services from other GCC member states shall have to be accounted under the reverse charge mechanism. |
| 2.3 | Import of goods from outside GCC | VAT at 5% | The procurement of goods from outside GCC shall attract a standard rate of VAT payable at the first port of import in GCC along with the customs duty. |
| 2.4 | Import of services from outside GCC | Reverse charge mechanism | The procurement of services from outside GCC shall have to be accounted under the reverse charge mechanism. |

VAT implications – key impact areas

<table>
<thead>
<tr>
<th>Transaction</th>
<th>VAT implications</th>
</tr>
</thead>
</table>
| Procurements | • Ongoing contracts – identifying the value of work under continuous supplies (research services, manpower contracts, construction, if any) made up to 31 December 2017 to ensure that the vendor does not charge VAT on the value of supplies prior to the date of VAT implementation.  
• Modify existing procurement process to ensure that a valid tax invoice is received at the earliest date from date of issuance by vendor to account for deduction.  
• Obtain change orders for existing contracts to enable payment over and above Purchase Order (PO) value.  
• Budgets should be made to include 5% VAT impact. |
| Supplies | • Determining the “time of supply” separately for continuous services and other one-time transactions (research, training, etc.).  
• Adjustment of VAT liability for any future adjustments to tax invoice (cancellations, discounts, rebates, scholarships, etc.).  
• Requirements of tax invoice (to be in Arabic and contain prescribed particulars).  
• Valuation for paying correct VAT on sale of used assets, especially vehicles.  
• Recognizing VAT liability, irrespective of accounting treatment, such as deferred income, will attract VAT on 100% income; except in the case of sale on installments. |

1 Article 27 and 28 of the draft KSA VAT Regulations provide for certain financial services and lease or license of residential real estate to be exempted.

2 Article 83(6) of the draft KSA VAT Regulations provide that any member state, which has not introduced VAT following 1 January 2018, will be considered as a country outside of the council territory.

3 The import of goods under customs suspension scheme may also be exempted from VAT.
Human resources

- Provision of facilities to employees against deduction from salary would attract VAT (dependent education, accommodation, training, etc.).
- Gifts to employees shall attract VAT unless provided within prescribed threshold limits.
- Providing accommodation to employees may be treated as exempt supply for the purpose of VAT. This would impact on eligibility to recover input tax deduction for goods and services commonly used by companies.
- Undertake assessment to introduce VAT function.

Supplies during transition period

- Ascertaining the value of supplies made from 1 January 2018 may be difficult.
- Tracking of supplies where advance payment is received prior to 1 January 2018 may be difficult.

VAT grouping decision

One of the critical decisions to be made by companies is about forming a VAT group.

**Advantages**

- Reduced administrative burden
- Cash flow optimization

**Disadvantages**

- Additional cash flow for transactions with group companies
- Joint liability
- Consolidation of data
- Allocating disallowed VAT
- Additional record keeping

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**VAT impact on education sector**
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