Impact of VAT on KSA health care 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 health care, 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 a specific exemption or zero rating in the KSA VAT Law, all the health care services provided in the KSA shall be subject to VAT at the standard rate of 5%. However, supply of qualifying medicines listed on the formulary drug list issued by the Ministry of Health and medical devices or products licensed by the Saudi Food and Drug Agency to an individual for his or her personal use (Business-to-consumer supply) shall be zero-rated. Also, health care services provided by the Government as a sovereign function shall be exempted.

Summary of VAT implications for the health care sector 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</td>
<td>Supplies or revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Health care services in the KSA</td>
<td>VAT at 5%</td>
<td>Health care services, such as diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy, including other services, such as cosmetic or plastic surgery performed in the KSA will be subject to VAT.</td>
</tr>
<tr>
<td>1.2</td>
<td>Intra-GCC supplies</td>
<td>Zero rate</td>
<td>Any services (such as lab tests, review of reports) performed for customers residing in other GCC member states will be zero-rated.</td>
</tr>
<tr>
<td>1.3</td>
<td>Export to countries outside GCC</td>
<td>Zero rate</td>
<td>Any services (such as lab tests, review of reports) performed for customers located outside the GCC shall be zero-rated subject to fulfillment of conditions.</td>
</tr>
<tr>
<td>2</td>
<td>Acquisition or procurements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Purchases of goods and services in KSA</td>
<td>VAT at 5%</td>
<td>The procurement of all goods and services (cleaning and laundry services, laboratory services, and security services) shall be subject to the standard rate of VAT, unless specifically exempted or zero-rated.3</td>
</tr>
<tr>
<td>2.2</td>
<td>Intra-GCC procurements</td>
<td>Reverse charge mechanism</td>
<td>The procurement of goods and services from other GCC member states shall have to be accounted under the reverse charge mechanism.2</td>
</tr>
<tr>
<td>2.3</td>
<td>Import of goods from outside GCC</td>
<td>VAT at 5%</td>
<td>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 customs duty.1</td>
</tr>
<tr>
<td>2.4</td>
<td>Import of services from outside GCC</td>
<td>Reverse charge mechanism</td>
<td>The procurement of services from outside GCC shall have to be accounted under the reverse charge mechanism.</td>
</tr>
</tbody>
</table>

1 Article 33 of the draft KSA VAT Regulations provides that the supply of any qualifying medicine or qualifying medical goods dispensed to an individual for that individual’s personal use on the prescription of an authorized prescriber is zero-rated subject to certain conditions. Further, Article 27 and 28 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 provides that any Member State which has not introduced VAT following 1 January 2018 will be considered a country outside of the council territory. Further, import of qualifying medicines and qualifying medical equipment may be zero-rated.

3 The import of goods under customs suspension scheme may also be exempted from VAT. Further, import of qualifying medicines and qualifying medical equipment may be zero-rated.
### 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 continuous supplies made up to 31 December 2017 to ensure that the vendor does not charge VAT on the value of supplies prior to date of VAT implementation.  
                         • Modify existing procurement processes to ensure a valid tax invoice is received at the earliest 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 to include 5% VAT impact.                                                                 |
| **Supplies**           | • Value of supply of medicines during surgery (in-patients) to be determined separately as it is zero-rated.  
                         • Ascertaining other taxable supplies, such as accommodation for patients' attendants, car parking fees, rental of equipment, hiring of ambulance, etc., which shall be subject to VAT.  
                         • Determining the “time of supply” separately for continuous services (diagnosis, treatment or care for illness, injury, deformity, abnormality or pregnancy) and other one-time transactions (lab tests, 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.  
                         • VAT to be charged on recharge to group companies on gross value.                                                                 |
| **Human resources**    | • Provision of facilities to employees against deduction from salary would attract VAT (treatment of employees and dependents, 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 commonly used goods and services.  
                         • Undertake assessment to introduce VAT function.                                                                 |
| **Supplies during transition period** | • Ascertaining the value of supplies 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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