



VAT in Qatar – Impact on Education Industry

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The Gulf Cooperation Council (GCC) States reached an agreement on a unified legal framework in November 2016 to introduce Value Added Tax (VAT) across the six member states, known as the GCC VAT Treaty (Treaty). As a result, the Kingdom of Saudi Arabia and the United Arab Emirates implemented VAT effective 1 January 2018, followed by the Kingdom of Bahrain on 1 January 2019, and the Sultanate of Oman on 16 April 2021. Currently, the State of Qatar is expected to implement VAT in near future which will notably impact the Education Industry. This document outlines the basics of VAT and specific considerations for the Education Industry players to consider.

VAT introduction – Basics of VAT



What is VAT ?

VAT is a consumption-based tax applied at each stage of the supply chain on the "value added."



What is VAT rate?

Article 25 of the Treaty specifies that VAT shall be applied at the standard rate of 5% on the taxable value of the supply. VAT rate can be 0% or exempted depending on the transaction.



The 5 W's of VAT

1. Who are the parties?
2. What is the supply related to?
3. Where does the supply take place?
4. When is the tax due?
5. What is the value of the supply?



Output and input VAT

Taxable persons charge VAT on various supplies, referred to as "Output VAT." Conversely, taxable persons incur VAT on purchases, termed as "Input VAT". The balance between Output VAT and Input VAT determines whether a net tax is payable or refundable for a tax period.



Time, place, value of supply

Tax due date rules determine when the transaction becomes a supply for VAT purposes, when the tax becomes due, when compliance and reporting obligations rise for the transaction.

Place of supply rules define the location for VAT purposes where a transaction occurs, and the jurisdiction that holds the right to tax the transaction for VAT purposes.

Value of supply rules clarify the nominal value of the supply for which VAT analysis applies.



Input tax recovery

Input VAT incurred in the course of business and is directly attributable to making taxable supplies can be recovered in full. Similarly, any input VAT incurred that is directly related to making VAT exempt supplies cannot be recovered.

Input VAT incurred for purchases where direct allocation cannot be established, a proportional deduction is allowed.

Key considerations for VAT in the Education Industry



VAT treatment

In accordance with the Treaty, the education sector's supplies may be classified as either exempt or zero-rated, contingent upon compliance with the conditions outlined by the Qatar VAT Law. Consequently, supplies originating from the education sector can be subject to VAT at the standard rate of 5% if these conditions are not met. The VAT treatment centers significantly on the classification of the supplies and the category within the sector.



Grants and Funding

The sector receives capital receipts by way of Grants from the State, donations from private sources, sponsorships, royalty payments etc. and it is critical to correctly determine the VAT treatment on such receipts. The VAT on such transactions mainly depends on the fact that if any direct or indirect benefit is provided by the education sector to the donor / sponsor and thus needs to be critically analyzed.



Key considerations

Ancillary services

The education sector provides various ancillary services, each potentially subject to unique VAT treatments, necessitating a thorough review of each service.

- ✓ Provision of books and course materials
- ✓ Supply of uniforms, membership fees, field trips etc.
- ✓ Provision of accommodation and catering services



Cross-border transactions

Cross-border education services often involve various complexities: students may travel internationally for educational purposes, or increasingly, education is delivered online or through electronic media. In addition, VAT implications on visiting teaching staff should be analyzed. Thus, it is critical to determine the correct VAT treatment based on:

- ✓ Place of supply of the education services
- ✓ Provisions of electronically supplied services

Input tax recovery

Educational institutions typically offer a combination of exempt and taxable supplies. Effectively managing VAT within the education sector requires careful planning to determine eligible input tax credits. A notable challenge in this sector is the inability to recover input tax on VAT incurred for delivering exempt services, alongside directly attributing expenses solely to taxable supplies.



ERP updates

Educational institutions must ensure that their ERPs are appropriately modified or configured to comply with VAT legislation and requirements. This entails creating various tax general ledgers (GLs), correctly allocating VAT input credit on specific purchases, establishing necessary document types, generating appropriate reports, accounting entries etc.

Check list to be considered by Education Industry prior VAT legislation release

- Map all the products / services related to the sector institutions must accurately identify exempt and taxable transactions to avoid compliance errors. This requires reviewing details related to the supplies made and understanding VAT implications to ensure correct categorization. Proper documentation and regular staff training are essential to enhance understanding.

Education Goods / Services Classification

- Optimize recoverable VAT
Assess the input VAT recovery positions as per the Treaty and GCC States VAT legislation. To evaluate attribution methods (Standard turnover-based method, Headcount method, Sectoral methods, Direct attribution ratio methods, Transactional methods). Implement strategies to minimize irrecoverable VAT costs.

Input tax recovery

- Capital expenditures
Capital projects in the education sector, such as new constructions and renovations, involve complex VAT considerations, particularly when balancing exempt educational uses with taxable activities. Institutions must navigate these challenges to optimize tax recoverability and ensure compliance, often requiring expert guidance to do so effectively.

Capital expenditures

Contractual review

- Review contractual terms
Conduct in-depth reviews of the ongoing contracts to assess VAT implications, to include VAT clauses, mitigating financial risks. Engage in renegotiations with partners to establish clear terms and consult with legal advisors for comprehensive assessments.

Key areas to be considered

- Key transactions which requires VAT analysis
There are certain transactions in the education industry which requires specific considerations. and detailed analysis should be done to arrive at the correct VAT treatment. This includes capital investment, scholarships, fee discounts, cross border digital and franchise arrangements etc.

Transitional Implications

- Advance fees collected by the educational institutions
Educational institutions typically collect tuition fees and other charges in advance. It is imperative for this sector to carefully consider the VAT implications associated with such advance payments. This analysis should determine the following key items:
 - **Tax Due Date:** Assess whether the tax due date is aligned with the payment received date, the invoice date, or the date of service performance.
 - **Contractual Pass-Through:** Evaluate if the VAT amount can be passed on to customers under the terms of the contract.

How we can help

Deloitte professionals have an in-depth understanding of the GCC's objectives for VAT and have significantly contributed to shaping the GCC VAT legislation. We engage regularly with Qatar's General Tax Authority, ensuring insights into VAT requirements. Our Qatar team comprises seasoned professionals with vast experience in delivering VAT services globally, particularly to education clients. Leveraging our sector knowledge and expertise in project management, we assure readiness and compliance with the anticipated VAT implementation in Qatar. Our successful track record in major regional VAT projects positions Deloitte as a capable partner in your VAT implementation journey. Please contact any member of our Qatar VAT team for further assistance.



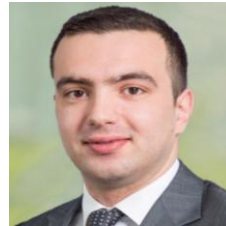
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