



VAT in Qatar – Impact on Healthcare 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 Healthcare Industry. This document outlines the basics of VAT and specific considerations for the Healthcare 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 Healthcare Industry



VAT treatment

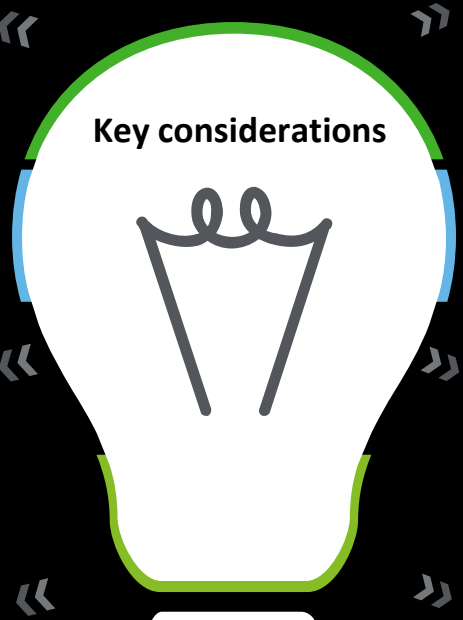
In accordance with the Treaty, the healthcare sector's supplies may be classified as either exempt or zero-rated, contingent upon compliance with the conditions outlined by the Qatar VAT legislation. Consequently, supplies falling under the healthcare sector can be subject to VAT at the standard rate of 5% if these conditions are not met. This level of complexity mandates healthcare providers to study the business scenarios to ensure the correct application of VAT determination and recovery rules.



Key areas to be analyzed for VAT treatment

The sector involves various transactions which needs to be examined and the correct VAT treatment to be determined:

- ✓ Insurance claims
- ✓ Medicines and medical goods
- ✓ Medical college education
- ✓ Rotation of specialists
- ✓ Donations, funding and grants



Key considerations



Ancillary services

Various players within the healthcare sector provides various ancillary goods and services which are integral part of providing healthcare services. Thus, each ancillary supplies needs to be analyzed in detail each potentially subject to unique VAT treatments, necessitating a thorough review of each supply.



Supplies received from non-residents

Businesses may receive goods and services from non-resident suppliers. In such instances, it is crucial to conduct a thorough evaluation over VAT determination rules. Consequently, the VAT obligations associated with these supplies from non-residents must be ascertained.



Input tax recovery

Healthcare institutions typically offer a combination of exempt and taxable supplies. Effectively managing VAT within the healthcare 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 supplies, alongside directly attributing expenses solely to taxable supplies.



ERP updates

Healthcare 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 Healthcare Industry prior VAT legislation release

- Map all the products / services provided
Healthcare companies 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.

Healthcare services classification

Handling special cases and other charges

- Special cases and other charges services
Understand VAT implications on donations and sponsorship, especially if advertising or naming rights are provided in return, Identify and segregate any commercial services or activities (example expert advice, sponsorship with advertising obligation) subject to VAT.

- 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

Health insurance providers-contracts

- Health insurance reimbursement model
Healthcare providers predominantly operate under models such as private insurance billing, direct settlement, and government-backed health schemes. It is essential to meticulously review contracts with health insurance providers to ascertain whether VAT can be added as a separate charge, or if it is deemed to be included within the agreed tariffs.

- Input VAT recovery on capital expenditures
Healthcare providers must focus on the VAT implications of capital expenditures like infrastructure and medical equipment to ensure compliance and financial optimization. Expert guidance is essential to navigate challenges, particularly in recovering input tax credits.

Cost of outsourcing

Revenue sharing and independent consultant structures

- Operating model of the health care sector
The healthcare sector operates under various arrangements, including revenue-sharing models with specialist doctors, visiting consultant arrangements, and independent practitioner licenses utilizing hospital infrastructure. Under these arrangements, it is imperative to determine the VAT treatment of professional services rendered by doctors or practitioners to the hospital. This evaluation will establish whether these services constitute taxable supplies and, consequently, are subject to VAT liability.

- Establish a communication guideline
Effective communication is essential to ensure transparency and maintain trust with patients and stakeholders as VAT legislation is introduced. Healthcare providers should develop a clear, consistent communication strategy that explains the impact of VAT on healthcare services and charges.

Communication guideline

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 healthcare 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.



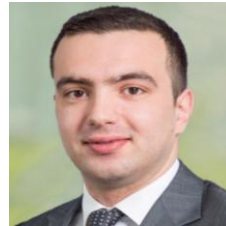
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