

# How VAT impacts you

## Healthcare Services and Private Hospitals

### **VAT and Healthcare Services**

'Value Added Tax' (VAT) in the UAE commenced on 1 January 2018. It taxes will most goods and services with a limited number of specifically exempt or zero rated supplies.

VAT registered businesses that supply goods and services subject to VAT at standard rate or zero-rate are usually entitled to claim a 'credit' (input VAT) for VAT incurred on their business expenses. However, in the case of supply of exempt goods and services, no input tax credit will be available. Therefore the VAT cost will be borne by these businesses.

However UAE has opted to apply VAT at 0% to certain healthcare services which in other countries are traditionally exempt from VAT Exemption means that no VAT will be charged on the provision of such supplies and VAT incurred in relation to making these supplies can be reclaimed.

Healthcare services could include medical and dental services and extend to room accommodation and meals for patients, prescription drugs and medical equipment supplied to patients in the course of receiving exempt healthcare services; input tax incurred in making these supplies will irrecoverable.

To complicate matters, many other related services will be subject to VAT at 5%. This may include cosmetic surgery, traditional and alternative medicines and therapies (such as reflexology, acupuncture, naturopathy, Chinese medicine), rental of clinics to doctors, room and food for non-patients, car parking fees and televisions rented to patients.

In these instances, input tax will be also recoverable.

### **Zero rated – 0% VAT**

The following services/goods should be subjected to 0%:

- Preventive healthcare and treatment services – provided by a healthcare institution, physician, nurse, dentist or pharmacy licensed by the Ministry of Health and Prevention or the competent authority
- Medications and medical equipment, registered and approved by the Ministry of Health and Prevention



### **Standard rated – 5% VAT**

The following goods and services should be subject to 5% VAT:

- Medications that are not registered or approved by the Ministry of Health and Prevention
- Other healthcare services that are not for treatment and are not preventive

### **Accurate VAT classification of all your business transactions**

Some services which you provide, for example ward accommodation for patients, will be treated as zero rated. However accommodation for non-patients (such as spouse or relatives) will be taxable.

Where the administration fees you charge are incidental to the supply of an zero rated healthcare service (such as registration fees), then they too will be treated as zero rated for VAT purposes. However stand-alone administration fees charged to your patients may be taxable (as they are not a supply of zero rated healthcare service).

The correct VAT classification of healthcare services will be crucial as it will dictate if VAT has to be charged.

Therefore appropriate VAT controls and processes will need to be established to ensure the correct VAT treatment applies on a transaction-by-transaction basis for all business supplies.

## Systems, Procedures and People

An assessment of the capabilities of existing IT systems and re-configurations necessary in order to generate VAT compliant outputs is crucial. In many cases, significant changes will be required to IT platforms and present workflows and processes.

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

### In summary

The above is just a sample of the many issues that will impact private hospitals under the VAT. Addressing your customers and other stakeholders' concerns in advance of the VAT will be critical.

'Will the cost of treatment in private hospitals rise?' may be one of the questions your customers will ask you. Your readiness is crucial in order to mitigate risk of charging VAT incorrectly.

At PwC, we have a strong indirect tax department with many years of experience in VAT matters impacting private hospitals both in the Middle East and abroad and we are in an excellent position to help you during this transitional period.

## How we can help – VAT implementation

- 1 Conduct VAT awareness briefings
- 2 Assist with classification of your business transactions
- 3 Review your long term contracts and propose VAT specific changes
- 4 Provide a VAT implementation plan
- 5 Advise and support on systems, compliance and training

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