

How VAT impacts you Healthcare Services and Private Hospitals



VAT and Healthcare Services

The 'Gulf Cooperation Council' (GCC) states are gearing towards the introduction of a 'Value Added Tax' (VAT) in the region commencing on 1 January 2018. The proposed VAT will tax 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.

Prescribed healthcare services are traditionally exempt from VAT and this may be the case in the GCC although some countries could be contemplating the application of a zero-rate. Exemption means that no VAT will be charged on the provision of such supplies and VAT incurred in relation to making these supplies can not 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 be irrecoverable.

To complicate matters, many other related services will be subject to VAT. 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 recoverable.

VAT impact on private hospitals

The likelihood in the GCC context is that 'private hospitals' (hospitals) will make supplies which would be considered as exempt as well as supplies that are subject to VAT. This will mean that VAT incurred on common overheads (such as marketing and promotional costs, utilities, purchases of office furniture and goods) will not be fully claimable and must be apportioned; meaning that only a portion of VAT incurred on such expenses is claimable in proportion to the amount of taxable supplies made over total supplies.

Historically, experience in other VAT jurisdictions shows that hospitals tend to recover 5-15% of all VAT incurred – thus costs are expected to increase for hospitals.

These additional costs will impact on your pricing policy. An early assessment of the VAT cost is required in order to rebalance prices in time for 1 January 2018 to maintain current levels of profitability.

Additional challenges facing private hospitals

Cost of outsourcing will increase for hospitals under VAT

Where hospitals outsource services (such as the provision of cleaning and laundry services, laboratory services, security services) these will all be subject to VAT. As these items are likely inputs for the provision of exempt healthcare services, the input tax incurred on outsourcing will not be claimable and will increase the cost of doing business. You will need to review the current outsourcing policy and identify for VAT purposes when input tax will (will not) be claimable. This will enable you to consider whether the cost efficiencies gained from outsourcing remain.

Accurate VAT classification of all your business transactions

Some services which you provide, for example ward accommodation for patients, will be treated as exempt. 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 exempt healthcare service (such as registration fees), then they too will be treated as exempt for VAT purposes. However stand-alone administration fees charged to your patients may be taxable (as they are not a supply of an exempt healthcare service).

The correct VAT classification of healthcare services will be crucial as it will dictate if:

- a. Where VAT has to be charged; and
- b. The base for claiming input VAT.

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.

VAT impact on your doctors

Doctors' consultation and professional fees are also likely to be exempt under the VAT. Thus doctors too will not be able to recover VAT charged to them, such as VAT charged on rental of clinic rooms. Should the fees they charge be regulated and capped, the VAT cost will have a material adverse impact on their business.

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 your staff are fully cognizant of VAT. It will be difficult to 'systemize' the VAT rules for all supplies made by you: 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. Early preparation is crucial and many of these issues may be resolved and the impact mitigated.

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	Undertake a VAT cost financial analysis
5	Provide a VAT implementation plan	6	Advise and support on systems, compliance and training

Talk to us

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