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VAT ON HEALTHCARE SECTOR



VAT INSIGHTS

VAT on the Healthcare sector

The healthcare industry in Kuwait is advanced and modern, and the sector accounts for approximately 3% of Kuwait's GDP. Kuwait's healthcare industry is undergoing rapid expansion, growing at a rate of 7–9% (approx.) per year. The healthcare system is largely state-funded, and public and private insurance schemes exist. Kuwaiti nationals receive treatment free of charge, through government subsidies. Expatriates usually cover their medical expenses through insurance.

The article 41 of the UAE regulations gives a definition of Healthcare services: "Any service supplied that is generally accepted in the medical profession as being necessary for the treatment of the Recipient of the supply, including preventative treatment". Are excluded cosmetic treatment not for treating or preventing a medical condition, as well as healthcare services that are components of entertainment or accommodation packages. In KSA the article 1 of the Health law provides the following definition: "*Preventive, therapeutic and rehabilitative services concerned with the health of the individual*"

The article 29 of the Unified Agreement states that member states may exempt or zero-rate their healthcare sector.

Article 45 of UAE law zero-rates specifically preventative and basic healthcare services. However, article 41 of UAE regulations state that healthcare services are zero-rated under certain conditions: the service must relate to the wellbeing of a human being, and the service must be made by a healthcare body or institution, doctor, nurse, dentist, technician, or pharmacy licensed by the government.

In both countries, listed medicines and medical equipment are zero-rated. However, UAE goes further by also applying zero-rate to any other goods supplied in the course of the healthcare service that is necessary for supplying that service.

In KSA, a distinction is made between public and private healthcare service providers. GAZT considers that all provision of healthcare by a Government healthcare provider is considered to be provided in the capacity of a public body and then being out of the VAT scope.

Since the healthcare services are provided free for the Saudi citizens this position seems to be compliant with the general VAT principles. But the health services provided to non-Saudi citizens are not free and the patient pays the full price.

Hence, the healthcare services provided to non-Saudi citizen by the Government Healthcare Providers should be taxable. At the same time, there is a complete disadvantage for the private healthcare services providers since all their services are fully taxable.

On top of that the Government Healthcare Providers benefit from a right to ask for a refund of the input VAT paid to the suppliers. This doesn't comply neither with the general VAT principle for which VAT is deductible only if there is a link with a taxable operation, nor with the article 45 of the GCC VAT agreement stating that the input VAT borne for non-economic activity is not deductible. The healthcare services rendered by private providers are taxable.

Another complication arises due to the typical structure of payments in the healthcare sector. A consumer does not pay the entire price for the services they consume. A part of the full or a portion of the total medical bill is paid by the insurance company or by employers. On a VAT standpoint, the fact that a third party pays a part or the full amount of the price has no impact, the supply remains taxable. The clinic or the hospital will have to issue an invoice with VAT for the full amount in the name of the patient. More likely than not the invoice will also show the share paid by the client and the share to be paid by the insurance company. Even though both amounts will be inclusive of VAT the insurance company won't be allowed to deduct the VAT.

However if the health contract is signed directly between the healthcare services providers and the insurance company, the individual will benefit from the service but the actual client is the insurance company. In that case, the invoice will be raised on the name of the insurance company with VAT. This VAT will be deductible for the insurance company because this is a VAT borne in the frame of an insurance taxable activity.

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