

# THE POWER OF BEING UNDERSTOOD

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## VAT AND PUBLIC BODIES



## VAT INSIGHTS

### VAT AND PUBLIC BODIES

Working with Public Bodies as client or supplier raise obviously legitimate questions concerning the way VAT applies.

After recalling two main principles of the VAT we will analyze the treatment of Government Bodies as supplier and then as customer.

The VAT principle of equal treatment means that Persons in similar situation with similar activities should be subject to similar rules.

Then the legal form or type of organization of the economic actors are not relevant on a VAT standpoint.

The other important principle lies on the fact that VAT is an objective tax.

This means that the quality or the nature of the supplier or the client must be disregarded.

VAT sticks on the facts and only the actual type of operation matters for the VAT treatment.

It could be argued that KSA and UAE do not respect those principles because of the non-taxation of educational and health services carried by Public Bodies or by entities funded by the Government.

Furthermore, both countries give a VAT deduction right to Public Bodies or Charities for exempt supplies, which strikes one of the main VAT principle which put a strong link between deduction right and taxable supplies.

On top of that, unlike KSA, UAE gives a higher deduction right to public entities.

For instance Government entities are allowed to deduct input VAT on a broader range for entertainment services and some others Government entities or Charities are allowed to deduct almost all the input VAT they paid.

On a VAT point of view, a taxable Person is carrying, independently and regularly, an economic activity.

Government Bodies comply with this definition and then could qualify as taxable Persons.

However, the activities deriving from sovereign power or capacity (police, justice...) are not economic activities and are out of the VAT scope even though a service is rendered to the public.

It is the same thing when the activity does not compete with private economic sector.

A Public Body carrying out economic activities will have to comply with all the VAT regulations, from the registration and the invoicing with VAT to the filling of VAT returns.

A Public Body could be a simple taxable supplier like private companies.

On the client's side, VAT being an objective tax leads to treat Government bodies like others clients for VAT.

Therefore, a private taxable Person supplying taxable goods or services to Publics Bodies must invoice with VAT, irrespective if the Public Body carries out an economic activity or a sovereign power activity.

For example, to construct a bridge for the Government or a building for the Ministry of Justice are a taxable supplies.

Some could think that the taxation of Public Bodies is useless because for such entities the VAT paid or deducted comes from the same Government's pocket.

However, this is absolutely essential to preserve the integrity and balance of the VAT system and to maintain fair competition in the market whatever the activity.

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