

Education Plus

D³ Monthly Newsletter

June 2020, 16th Issue



+973 1755 1662



info@D3consultants.net d3consultants.net



The Indirect Tax implications of COVID-19 in the GCC



Education is one of the industries most immediately impacted by the COVID-19 outbreak. Nurseries, schools, and universities were among the first businesses to close and will remain so until at least the beginning of the next academic year. Education providers across the Gulf Cooperation Council (GCC) are currently putting in place emergency measures to ensure continuity of business until the next academic year begins in August/September. However, the global situation remains uncertain and there is a significant risk of resurgence or continuation of the COVID-19 epidemic well into the next academic year. Education providers must be prepared for a potential long-term impact on their businesses. Much of the challenge in the industry will come by way of reduced revenue and cash flow pressure, with a risk of foreign student numbers falling and current student revenue declining, and it is vital that finance teams begin work now to ensure that their business is resilient and could withstand such extraordinary pressures.

From an indirect tax perspective, now is the time for education businesses to think strategically about how they can use indirect tax management to strengthen their cashflow position and support efforts towards business continuity. As an industry which often finds itself in a repayment position for Value Added Tax (VAT) purposes - awaiting cash refunds of VAT from the tax authority in their country of operation - effective management of VAT refunds during this time is essential. If the pre-COVID period was a time where businesses tended to roll forward VAT credits until requesting a large refund covering a longer period, the current time should be focused on requesting refunds for each and every tax period quickly and efficiently. This will increase the chance of the business being able to secure more frequent, smaller refunds which are likely to take less time to clear through the tax authorities' approval processes.

This is also an opportunity for businesses to consider how best to manage their VAT recovery position generally, both in terms of seeking to reduce the payment of VAT on costs incurred where possible, but also to maximize VAT recovery. Many education businesses find themselves not entitled to recover all their input tax as a result of providing exempt student accommodation or exempt student transport.

Those businesses will calculate how much of their 'overhead' or 'residual' input tax they're entitled to recover by using the standard method of input tax apportionment, but there is an opportunity to explore whether applying to the tax authority to use a special method might produce a more fair and reasonable result. This could be especially relevant where a revenue-based method is selected, given that the revenue received from accommodation or transport in the current period is likely to reduce, thereby increasing the recovery percentage which could be achieved under a revenue-based method.