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Director’s Note

Mr. Vipul R. Kothari
Managing Partner / Director

Kothari Auditors & Accountants
Global Business Services DMCC

UAE economy is expected to gain steam through various positive developments. Fuelled by high fiscal stimulus, public and private infrastructure investment for Expo 2020, and recent business friendly reforms are likely to attract higher foreign investment. However, OPEC cuts are likely to constrain its economic momentum. Besides, slow down of global economy, fragile real estate sector present the downside risks to growth. The IMF expects GDP growth expected to push up to 2.8% against 1.7% last year, and may exceed to 3% in 2020-2021.

Economic growth in Q1 has remained strong despite OPEC cuts putting brakes on oil sector growth. Turning to Q2, non-oil economy accelerated sharply due to strong demand from domestic and GCC markets. This led to average PMI reading to over four year high. Sources indicate that GDP of UAE is expected to be $425.00 bn. by the end of this Q1 of 2019, and it is projected to trend around $451 bn. in 2020.

Budgets for 2019 signal spending increases. The AED 60 billion federal budget for 2019, 17.3% higher than the 2018 budget, is the largest in the country’s history. Although oil prices are expected to be lower in 2019 than previous projections, the VAT revenue in 2019 is expected to partially mitigate the loss in oil revenues.

As per the Report: Dubai 2019, Dubai is the second-largest of the seven emirates that comprise the UAE in terms of economic size, and the main driver of economic diversity in the country. Its tourism, logistics, manufacturing and services sectors provide opportunities for growth beyond oil and gas. Economic development programmes for the emirate have been designed to leverage its strategic location between Europe and Asia.

UAE enjoys a strategic location between Asia, Europe and Africa. Chinese businesses use Dubai as a hub for trading in Africa. Indian traders use it to access the world. Latin Americans use it as a launching platform into South Asia. Western nationals use Dubai as a hub for the Middle East. Hence, despite recent fluctuations in oil prices and the global slow down, UAE economy has remained robust and reasonably stable.

Real GDP growth will pick-up in 2020 with the hosting of World Expo 2020. Economic diversification efforts and improving the business environment, mainly in Dubai, are the major policy priorities. Key fiscal challenges include raising spending efficiency, revenue diversification, and improving policy coordination and management of fiscal risks across the Emirates.

US-CHINA TRADE WAR:
IMPLICATIONS FOR GLOBAL ECONOMY

BACKDROP

Sanctions in modern world are used as means to change or mould the undesirable behaviour of one country by other country. Sanctions are mainly of following types:

1) Economic Sanctions: These are the sanctions under which the bilateral trading relations between the countries are totally cut-off or majorly affected (in the form of tariffs)

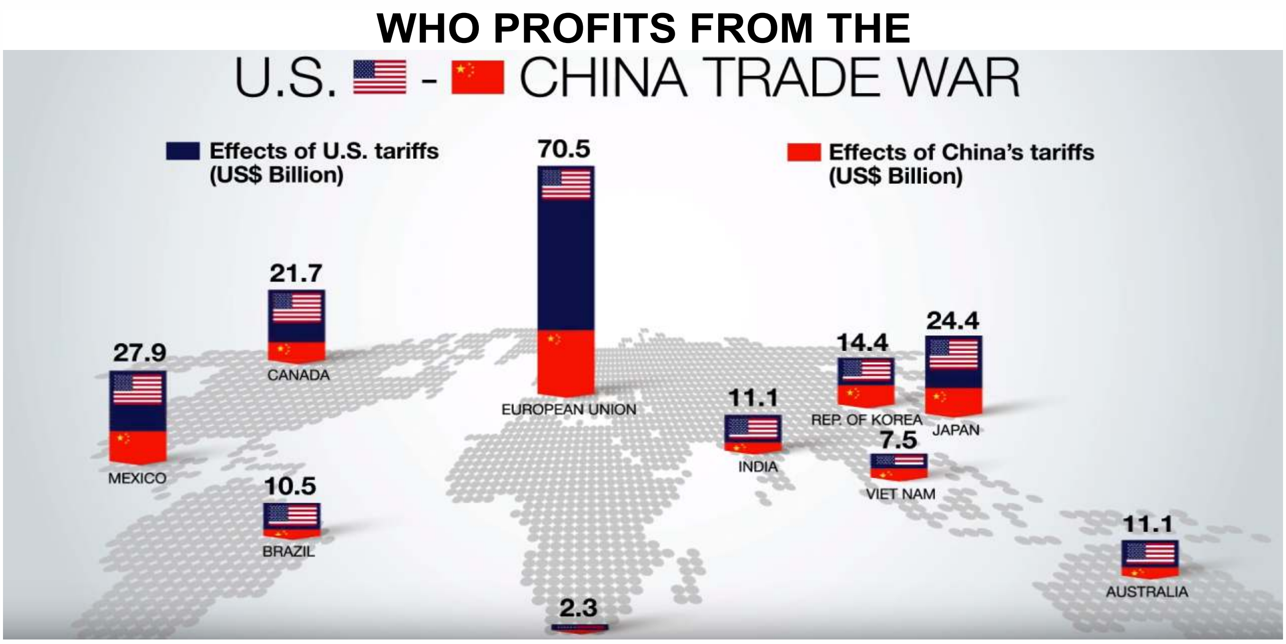
2) Military Sanctions: In this type of sanctions military interventions takes place and sharing of military technology is banned

3) Diplomatic Sanctions: In this kind of sanctions the diplomatic ties are reduced or totally cut down (like embassy removal of one country from another country)

China and USA, the two economic power houses of the world economy are at loggerheads. This time it is over the trade. The clash between world's most powerful economies is turning out to be a long, messy and expensive affair for the global economy.

On one side there is current super power U.S.A which is the hub of Innovations, Intelligence, and Science and Technology, Research and Development also it is the home of giant companies like Google, Microsoft, Facebook, Amazon, Tesla.

On the other hand there is one emerging power which have the potential of being next super power i.e. China the country which has become a manufacturing hub due to its operational efficiency and economical labour availability.



The United States of America holds Chinese unfair trade policies for tipping the favours into the Chinese economy. The USA feels that Chinese corporations exploit the open market policies of the US Government.

But on the other side, China keeps its markets closed to American corporations and products. This unfair competition has been instrumental in problems like lower productivity, factory closures, and job losses in American industries.

ECONOMICS OF TRADE WAR

A trade war is when a nation imposes tariffs or quotas on imports and foreign countries retaliate with similar forms of trade protectionism. As it escalates, a trade war reduces international trade. A trade war starts when a nation attempts to protect its domestic industry and create jobs. In the short run, it may work. Tariffs are supposed to give a competitive advantage to domestic producers of that product. Their prices would be lower by comparison. As a result, they would receive more orders from local customers. As their businesses flourish, they would add jobs. But in the long run, trade war costs job. It depresses economic growth for all countries involved. It also triggers inflation when tariffs increase the prices of imports. However, retaliatory tariffs imposed by China and Europe would reduct the exports. This would further increase the deficit.

The main weapons used in trade war are tariffs imposition, diplomatic relations, supply cut down.

REASONS FOR TRADE WAR

The main reason for the trade war (an economic conflict) is feeling of extreme protectionism of the home economy from the foreign trade, and perhaps the conflict is due to a foreign country challenging economic dominance and leadership of US.

HOW IT IS GOING TO IMPACT US AND CHINA GLOBAL ECONOMY?

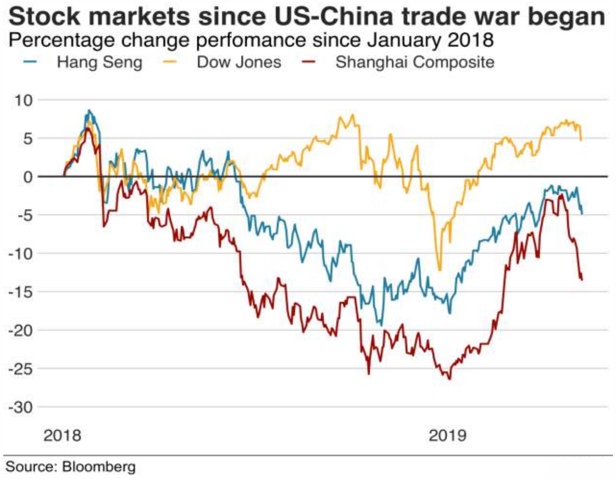
In last two decades the overall average growth rate of China is 8%-10% per annum and the average growth rate of USA during the same period is roughly 1.5%-2% per annum, whereas the average global growth rate during the same tenure is 2.5%-3%.

In current scenario nearly 124 countries consider China as there most important bilateral trade partner(because of its economic cost goods) and nearly 76 countries consider USA as there major trade partner(because of its technically advanced products). The overall trade between USA and China is estimated over $ 600 billion making USA China’s largest exporter market.

Basically USA is supplying technology to the world and China is providing economically manufactured products to the world. For the sustainable growth of the world economy, it is important to deliver the technological advancement in the form of economical products and hence the current tariffs imposed by UAS and China resulting in high prices of goods, scarcity of goods and

How U.S.-China tensions will affect Asian countries

Multiple countries	•Slowing exports •Diversion in trade •Supply chain disruption •Slowing world economy •Relocation of production from China
Indonesia	•Decrease in commodity prices •Pressure on financial markets
Malaysia	•Lower confidence in foreign investors
Philippines	•More cautious investor sentiment
Singapore	•Impact on manufacturing employment
Thailand	•Lower tourist spending
India	•Increased exports to China



apart from that a divide among the countries regarding with whom they should trade.

China exported goods worth of $539 bn to the US in 2018. On the other hand, the US exported goods worth $120 bn to China. Donald Trump's government in a move to show China how serious they were about this trade deficit problem, imposed three rounds of tariffs of more than $250 bn worth of Chinese goods. China retaliated with imposing tariffs on $110 bn of US goods and accused the USA of starting the largest trade war in economic history.

HOW IT IMPACT GLOBAL ECONOMY?

According to one estimate, the world economic growth rate will come down by 0.2% then expected by 2021 if the trade war between is continued with the same tariff rates and if tariffs are imposed on all the bilateral trade between USA and China, the world economy is likely to be hit by 0.4%-0.5%.

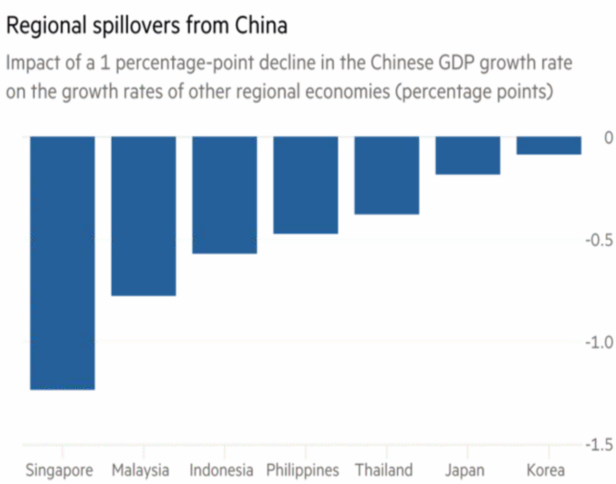
The Asian Economic giants (Asia's supply chain), the countries that are expected experience higher growth rates, including, India, Taiwan, Malaysia, South Korea will face the huge blow in case of drop in Chinese exports to USA, on the other hand Mexico and Canada will likely to be affected the most in case of drop in USA exports to China.

The trade war is hurting the global economy and if not resolved sooner, will push it into a slump from which it will be difficult to recover. The world economic forum estimates that a full-fledged trade war could reduce global growth by 0.7 % to 2.9% in 2019. The impact would be greater on China's growth (-0.9 %), due to direct trade effects, and on Europe (-0.8 %), due to indirect trade effects and financial links. US GDP would decelerate by less (-0.4 %), due to less direct trade effects and indirect financial links. Latin America's growth would slow down significantly in a full-blown trade-war scenario. The impact would occur on two fronts: weaker global growth (and its resulting effect on international trade) and tighter financial conditions. The ultimate impact on each country will depend on how vulnerable the economy is to global financial conditions - specifically, whether or not the economy is facing external or domestic imbalances - and the exposure to trade with each of the core economies.

Another major threat of the on-going trade war between USA and China is that this trade war may spark another such trade wars between many countries on the basis of economic imbalance i.e. high imbalances of imports-exports in bilateral trades between two nations, apart from this border issues, diplomatic pressure form USA, and China. And the Dominance and establishment issues can be the major reasons of the upcoming trade wars and thus transforming the current open global economy to a narrower and segmented global economy.

The impact of such trade and political segmentation may force the global economy to regress few decades and also it may result in monopoly and dominance of few nations over the other nations (economically). This would further slowdown global economic activity and result into widening the economic gap between the developed countries and developing countries.

One alternate view is, the trade war would broaden the global market as both US and China both would be exploring alternate partners for some of the major products and thus resulting into a more competitive global economy. Looking at the products subjected to higher tariffs, it has pushed the US-based firms to opt out for alternative sources for many sets of products. That includes electric apparatuses for phones, parts of office machines, automatic data process machines, furniture and travel goods. On the other hand, China's tariffs on the U.S. resulted in Chinese importers buying soybeans, aircraft, grains and cotton products from other countries.



A NEW LAW TO COMBAT MONEY LAUNDERING AND TERRORISM FINANCING

BACKDROP

The United Arab Emirates (UAE) has evolved as a global popular international financial center. Its economic development, political stability, ease of doing business has attracted large inflow of individuals and global capital in abundance. Because of its geographic location and 'liberal' business laws and trade 'relationships' with GCC, East Africa, South Asia, and Balkan states, the UAE becomes vulnerable to misuse of such economic freedom in mobility of global funds. However, it has developed actions and procedures to prevent abuse of money laundering.

MONEY LAUNDERING PROCESS

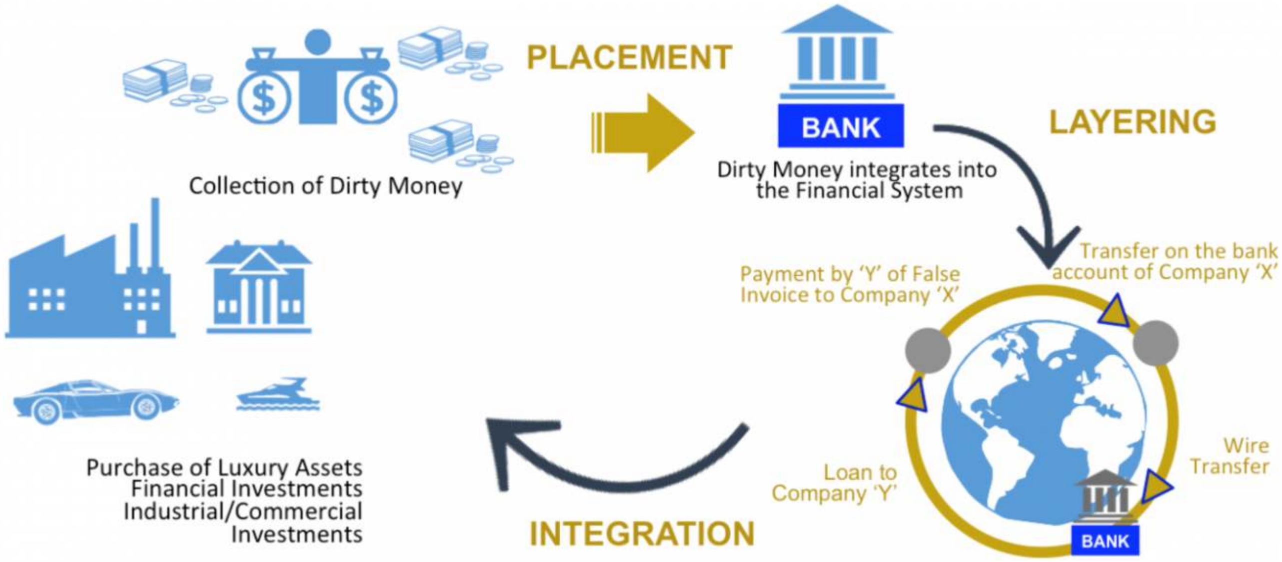
Money laundering process deals with disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention of regulatory agencies and low chances of getting further investigation in to journey of funds back to the source. The process of money laundering is diagrammatically presented below.

THE NEW LAW

The United Arab Emirates has passed a law to combat money laundering and terrorism financing. It aims to bring its rules into line with international standards on combating illicit money flows.

On 30/10/2018, HH Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE, issued Federal Decree No. (20) of 2018 on anti-money laundering and countering the financing of terrorism. It repeals then Anti-Money Laundering law was Federal Law 4 of 2002, as amended by Federal Law 9 of 2014. The law signals an acceleration in the UAE's efforts to modernise its financial regulatory environment.

The law, which is in line with the requirements and recommendations of the Financial Action Task Force (FATF), recommends the establishment of an independent financial information unit within the central bank to receive and investigate reports of illicit financing activity. FATF is global body that sets global standards for fighting illicit finance. It set out the measures countries' respective Governments should take to implement effective anti-money laundering programs.



The United Arab Emirates has

a) committed to the International Convention on the Suppression of the Financing of Terrorism, in 2005;

b) ratified the UN Convention Against Transnational Organized Crime in 2007;

c) supported the creation of the Middle East North Africa Financial Action Task Force and assumed its presidency in 2008.

MAJOR PROVISIONS OF THE LAW

The decree-law defines a perpetrator of a money-laundering offense as any person who is aware that the money was derived from a felony or misdemeanour, and intentionally commits one of the following acts: transferring or transporting proceeds of crime with intent to conceal or disguise the illicit origin thereof; and / or the concealment or disguise of the true nature, origin, location, way of disposition, movement or rights related to any proceeds or the ownership thereof; and / or the acquisition, possession or use of such proceeds.

These regulations will specify the Designated Non-Financial Businesses and Professions that will be subjected to Anti-Money Laundering compliance obligations under the new amendment.

Under the new law, UAE has formed two new units to monitor and prevent money laundering activities in the region. These units are

a) Financial Information Unit; and

b) National Committee.

FINANCIAL INFORMATION UNIT

The establishment of an independent "Financial Information Unit" (FIU) is within the Central Bank to receive and investigate all reports submitted by financial institutions and other corporate establishments regarding suspected illicit financial activity. The FIU will also follow up and gather evidence on the transaction in question, and share this information with the relevant law enforcement departments when referring the case for further investigation, should they deem it the most appropriate course of action.

The Unit shall be responsible for requesting financial institutions, designated non-financial businesses and professions, as well as the concerned authorities to provide any additional information or documents relating to the reports, information received and any other extra information deemed necessary to perform its functions.

NATIONAL COMMITTEE

Under the provisions of this decree, a national level committee has been set up under the chairmanship of the Governor of the Central Bank. The "National Committee to Counter Money Laundering, Combating the Financing of Terrorism and Financing of Illegal Organisations", will propose the relevant systems, procedures and policies in coordination with the concerned authorities, follow up their implementation, identify and assess the risks of crime at the national level, direct the regulatory authorities to verify the commitment of the financial institutions, including specific non-financial businesses and professions and the non-profit associations under their supervision to implement the measures to be taken and to facilitate the exchange of information and coordination between the entities represented therein.

The committee will also assess the effectiveness of the AML / CFT system, and the representation of the nation in international forums on countering money laundering and combating the financing of terrorism.

Obligations on Designated financial and specific non-financial institutions

The financial institutions and specific non-financial businesses and professions are required to continuously identify, evaluate, document and update crime risks in their area of business, undertake due diligence and determine their scope based on multiple risk aspects while taking into account the results of the national risk assessment.

Furthermore they may not open accounts or conduct any financial or commercial transaction, anonymously or by a pseudonym or number, retain or provide any services to them. They must also develop internal policies, controls and procedures to manage, limit, and review the risks identified, and apply them to all their branches and subsidiaries in which they hold a majority stake.

Such designated financial institutions, non-financial institutions, businesses and professions shall immediately apply all requirements made by the competent national authority. Additionally, it requires maintenance of all records, documents, whether local or international, which shall be made available to the competent authorities upon request in an urgent manner, as determined by the executive regulations of this Decree by law.

CONSEQUENCES OF NON-COMPLIANCE

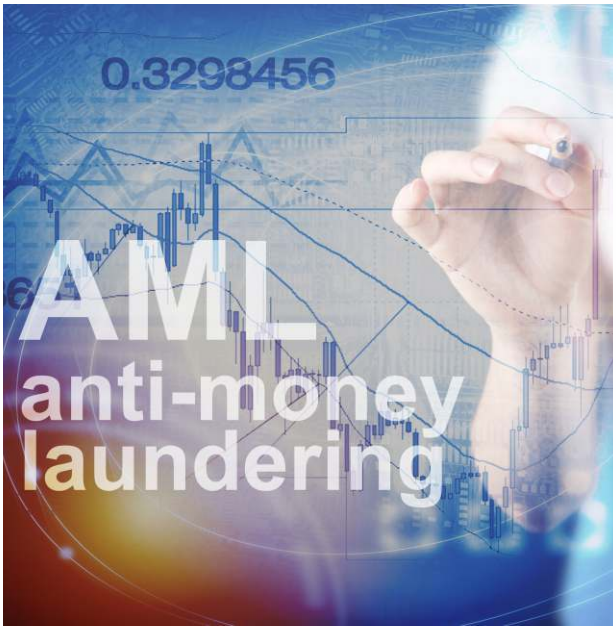
After the Implementation of the Anti Money Laundering law by the UAE Government any transactions by or through financial institutions or individual should comply with certain standards prescribed the Law. In case of non-compliance, the parties may be penalized including with fines, restriction, suspensions, cancellation of license and others. The law also provides in certain cases imprisonment of up to 10 years.

RECENT ACTIONS

The recent action by the United Arab Emirates Authorities to stringent the money laundering activities has shown a significant positive impact for the International Markets. The Authority forced shut down of a number of international and local companies which were involved in Money Laundering Activities and use of materials banned under the Nonproliferation Treaty and multiple UN resolutions. The United Arab Emirates Securities had banned and suspected ships carrying illicit cargo items.

It is now stated unambiguously that the handling of funds by any entity having association with a terrorist organization or an illegal organization would be a money laundering offense. The obligation to file Suspicious Transaction Reports (STR) with the Financial Information Unit of the Central Bank is mandatory.

The Financial Action Task Force is seeking to commence a mutual evaluation with the United Arab Emirates in mid-2019 on the state of Anti Money Laundering compliance in the United Arab Emirates.



A NEW LAW ON FOREIGN DIRECT INVESTMENT

BACKDROP

In 2018, the United Arab Emirates, or UAE, passed several laws to attract foreign direct investment (FDI) to help diversify its economy and reduce its dependence on oil.

The UAE previously required foreigners to share ownership of their company with an Emirati citizen. The first major move to attract FDI was made on May 20, 2018, when the UAE Council of Ministers granted foreigners the right to own 100 % of their companies in select sectors. Foreign investors and professionals with expertise in certain fields were also made eligible for a 10-year residence permit. Analysts and officials in the UAE now predict that this amendment will generate a 15 to 20% annual increase in FDI

FOREIGN DIRECT INVESTMENT LAW

The new FDI law aims to promote and develop the country's investment environment, and attract foreign direct investment in line with national development policies at the regional and global levels. With this decree, the UAE continues on its mission to offer a first-rate investment environment to foreign businesses.

The UAE Government has been making some landmark decisions to attract more foreign investments into the country. On September 23, 2018, the Government took another giant step towards relaxing the rules which limited foreign companies to own companies in the United Arab Emirates. The Foreign Direct Investment Law (the new FDI Law) (Federal Law No. 19 of 2018) was enacted to envisage possible liberalization of the restrictions of foreign ownership in the UAE.

Earlier, the maximum limit of the shares that an overseas shareholder could hold in a UAE-onshore company was 49 per cent (under the UAE Commercial Companies Law – Federal Law No. 2 of 2015). But the idea of relinquishing half a company's ownership to a local sponsor often dissuaded investors from setting up businesses in mainland UAE. The new investment law offers the Cabinet of UAE, a framework, which can permit shareholders from foreign countries to own all 100 per cent of shares in companies from specific sectors.

"The expected rise in FDI capital and projects due to introduction of new FDI law reinforces Dubai's leading position as the preferred global location for global businesses, startups, and in pursuing growth and expansion. It also clearly reflects investor confidence in Dubai's economy," Sheikh Hamdan bin Mohammed bin Rashid, the Crown Prince of Dubai and chairman of the Executive Council.

The new investment law also establishes two new government bodies

- Foreign Direct Investment Committee (FDI Committee) to support foreign direct investment in the UAE
- Foreign Direct Investment Unit (FDI Unit) and

Dubai Foreign Direct Investment: A snapshot

Particulars	Total FDI Capital	Total FDI Projects
Size	38.5 Dh Billion	523 FDI Projects
Ranking	6th Global ranking	3rd Global ranking
Top 5 sources	70% of source countries 37% USA 12% India 09% Spain 07% China 05% UK	57% of source countries 23% USA 13% UK 09% France 07% India 05% China

FDI COMMITTEE

According to the provisions of Article 6 of the Foreign Direct Investment Law, the Cabinet of UAE can constitute an FDI Committee or a Foreign Direct Investment Committee. This committee will propose a positive list which will be given to the Cabinet. Further, the list will detail the sectors wherein the Cabinet can permit greater levels of direct investment by foreign citizens or entities. This Committee will consider many aspects including:

- Integrating with the country's overall strategic plans
- Adding value to UAE's economy and accomplishing best profits
- Taking care of UAE-Nationals by supporting innovation and offering training and job prospects to them

The UAE cabinet may, on recommendation of FDI Committee:

- Dictate the level of foreign ownership permitted, this could be 100 % or less.
- Place restrictions or requirements on the type of legal entity which may conduct business in the relevant sector
- Apply minimum capital requirements
- Enforce Emiratisation requirements
- Allow greater levels of foreign ownership than is currently the case in specific Emirates

The FDI Committee will also propose a negative list of sectors wherein the Cabinet will not allow any foreign direct investment. According to Article 7 of the Foreign Direct Investment Law, currently, the sectors include sectors focused on exploring and producing petroleum, fisheries, military sectors, insurance sector, etc.

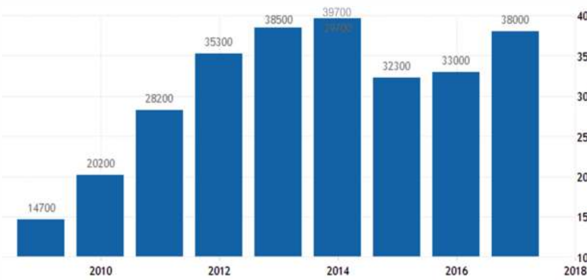
If a foreign company desires to carry on an overseas direct investment project which does not feature in either the positive or the negative list, then it can apply for permission to have more than 49 percent ownership in the sector. There is a separate process under the FDI Law for such cases.

FDI UNIT

The other body to promote foreign investment is Foreign Direct Investment (FDI) unit. It is responsible for proposing FDI policies in the country and determining its priorities, and creating associated plans and programs and work on their implementation post their approval by the UAE Cabinet. Major functions of FDI are:

·Developing a complete database for UAE investments, including data on existing FDI projects, and will review & update information periodically (Article 5).

Trend in FDI Capital flows (in millions)



- Supervise the creation of an inviting FDI environment, facilitate the registration procedures and license FDI projects and monitoring their performance in UAE.

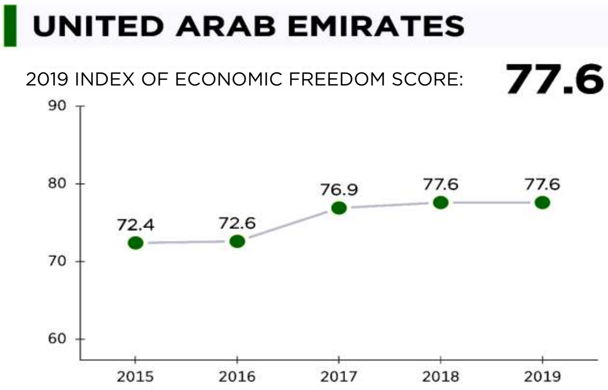
- The licensing authority & the responsible authority shall determine the conditions & procedures for the establishment & licensing of FDI projects (Article 10).

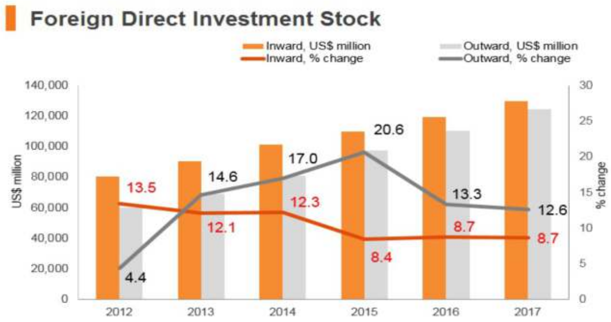
FDI projects initiated prior to the provisions of this Decree-Law entering into force shall retain all the privileges given in accordance with former legislations, agreements and contracts within the specified period.

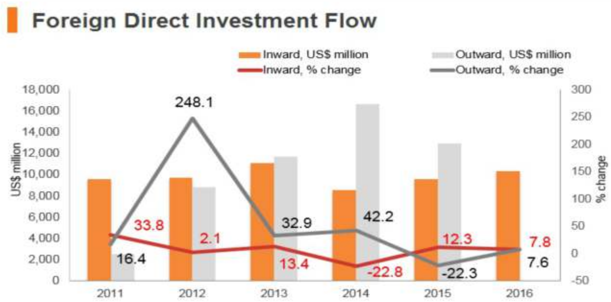
EXPECTED IMPACT

The implementation of new FDI law is expected to accelerate the growth of FDI in the UAE. FDI in the country had already soared 26% in the first six months of 2018, indicating that previous efforts to diversify the economy and support startups were successful.

This would prove to be a game-changing United Arab Emirates investment law, which is expected to change nation's business landscape by attracting increased foreign direct investments. the FDI law will help create jobs and increase the UAE's GDP, helping to accelerate the diversification of the UAE's economy.







VAT:
ASSESSMENT OF ONE YEAR OF IMPLEMENTATION

BACKDROP

Value Added Tax or VAT is a tax on the consumption or use of goods and services levied at each point of sale. VAT is a form of indirect tax and is used in more than 180 countries around the world. The end-consumer ultimately bears the cost. Businesses collect and account for the tax on behalf of the government.

The arrival of VAT in the UAE and KSA, in January last year, marked such a shift in the business environment that, right up to the day of the launch, some were sceptical it would even happen. Many underestimated how much it would affect their operations, and how easily they could fall short of compliance.

SEAMLESS IMPLEMENTATION

The UAE, and more specifically the FTA, faced an unprecedented task for developing framework and implementation of VAT, as no major or mid-sized country in the world has implemented VAT where there was no prior tax authority.

In collaboration with all concerned entities, the Federal Tax Authority set the foundations for a holistic and balanced tax system, making the UAE one of the first countries in the world to implement a fully electronic paperless tax system. Its advanced system encourages auto-compliance with procedures, all the while maintaining transparency and accuracy.

VAT: BRIEF BACKDROP

Value added Tax (VAT) was introduced in the UAE on 1 January 2018. The rate of VAT is 5 per cent. VAT provides the UAE with a new source of income which will be continued to be utilised to provide high-quality public services. It will also help government move towards its vision of reducing dependence on oil and other hydrocarbons as a source of revenue. VAT, as a general consumption tax, will apply to the majority of transactions in goods and services. A limited number of exemptions may be granted.

Registered businesses must charge VAT on taxable goods or services they supply, and reclaim any VAT they have paid on business-related goods or services, keep a range of business records which will allow the government to check that they have got things right.

VAT-registered businesses must report the amount of VAT they have charged and the amount of VAT they have paid to the government on a regular basis. This reporting and formal submission are on-line. If they have charged more VAT than they have paid, they have to pay the difference to the government. If they have paid more VAT than they have charged, they can reclaim the difference.

VAT: IMPLEMENTATION PERFORMANCE

A total of 296,000 businesses have registered for value added tax (VAT) in its first year of implementation in the UAE, the Federal Tax Authority (FTA) has revealed.The UAE implemented 5 per cent VAT on the supply of most goods and services in the country on January 1, 2018.

Statistics showed that the total number of periodic tax returns received by the FTA from businesses registered for VAT purposes exceeded 650,000 in 2018.

The payment mechanisms available include the UAE Fund Transfer System (UAEFTS) of the Central Bank, which enables taxable persons to pay their taxes through the branches of nearly 77 banks, exchange offices and financial firms across the country. These payments are made using the GIBAN or e-Dirham systems.

The FTA organised 90 seminars and training workshops, attended by approximately 28,000 experts from various sectors in 2018.

“The Federal Tax Authority” was among the eight most searched names in the UAE on global search engine Google in 2018. The FTA's contact centre answered more than 306,500 phone enquiries about the tax system, while another 147,000 were answered by e-mail.

The system's user base is also expanding with 122 freight forwarding companies commissioned, the number of accredited tax agents increasing to 176. Up to 12 tax accounting software vendors were also contracted.

FIRST YEAR OF VAT

It is also pertinent to mention here that The UAE expects to generate Dh12 billion in revenues through VAT in 2018 and Dh20 billion in 2019, helping the government to diversity its revenues away from the petrodollars as decline in crude prices prompted the UAE, and other oil-producing nations, to look at alternatives amidst volatility in prices.

TAX REFUND SCHEME

One of the most important procedures launched by the authority in the first year of VAT is the VAT Refund Scheme for Foreign Businesses in UAE, whereby the authority collaborates with countries that refund VAT for UAE businesses visiting their territories, facilitating tax refunds for businesses coming to the UAE from these countries. The FTA also launched VAT refund procedures for UAE nationals building new residences.

The first phase of the tourist VAT refund, allows visitors to claim VAT refund on the purchases made in the UAE from the country's three busiest airports - Dubai, Abu Dhabi and Sharjah - while flying out of the country within 90 days. By December 10, 2018, the total number of retail outlets linked to the refund scheme had reached 6,903 with 3,800 digital transactions on

7200 Retail shops across UAE participating in TRS	12 Air Land & Sea Ports covered under TRA	122 Freight and Customs Agents accredited by FTA	28000 Participation in VAT awareness Programmes
296000 Businesses registered for VAT	650000 VAT Returns submitted to FTA	176 Tax Agents authorised by FTA	35 FTA held meetings held with Business Groups
12 Accounting Software Vendors Contracted	30 Guide on VAT procedure published	136 General & Specific Publications issued by FTA	90 VAT awareness programmes

average being processed daily. Its electronic system, covers 12 ports of entry into the UAE – including six airports, two seaports and four land ports.

CHALLENGES

First, all VAT-eligible goods and services must be priced inclusive of VAT. Yet one often find this is not done. Sellers must price inclusive of VAT, and if they do not then there is huge penalty.

Second, a valid tax invoice is a legal requirement and not an option. Yet one finds that too many businesses have failed to set up systems to manage tax invoices. This in turn prevents businesses who want to recover their VAT later on from doing so. Tax invoices are critical to a well-functioning VAT system – and they are the seller's responsibility.

Third, too few companies use automated systems for completing their monthly or quarterly VAT returns. Instead, they just go back and look at their sales or purchase records and manually pull the information together – an error-prone process leaving a poor audit trail. As regulators' audit activity and capacity ramps up, businesses without automation will be exposed because a staggering number of errors emerge from manual approaches.

PREPARATIONS FOR HIGHER COMPLIANCE

Businesses should be ready for tax audits by the FTA in order to check their resources and accuracy of record-keeping in coming months. The FTA has started sending notifications to companies. A VAT audit would be a serious challenge for anyone who is not prepared and maintained tax records in compliance with guidelines issued by the FTA".

It is necessary that the businesses must prove that every expense claimed within the business is legitimate and their appropriate documents are in place. Besides expenses, each revenue is accounted for accurately and due tax is calculated and paid on timely basis.

PLAN AHEAD

Going ahead, the FTA expects 2019 to witness a significant leap forward for the UAE tax system. FTA is planning to further improve tax compliance rates, promote registration among taxable businesses, and combat tax evasion. The authority will continuously develop its electronic systems and will be launching new campaigns to raise tax awareness.

The Authority is currently working to launch new campaigns, most notably the tax invoice campaign, which is set to take place during the first quarter of 2019 and aims to ensure the use of tax invoices for all business operations.

These campaigns will run in parallel with the Tax Clinic, launched in August 2018 to ensure direct and constant communication with business sectors. The clinic is still underway across all seven emirates, raising awareness among businesses, identifying the obstacles they may face, and developing solutions to address them immediately.

UAE VAT - A SNAPSHOT

- **Standard Rate - 5%**
- **Zero Rate - 0%**

- **VAT Registration Opens - October 1st 2017**
- **VAT to be launched - January 1st 2018**
- **VAT 1st Return to be filed - April 2018**

- **Business Annual Turnover more than AED 375000 - Mandatory**
- **Business Annual Turnover AED 187500 to 375000 - Optional**
- **Business Annual Turnover less than AED 187500 - Not Required**

- **Proper, Accurate & Updated Financial Records**
- **Books to be maintained for 5 years**
- **Invoice should be properly maintained and numbered**

KUWAIT DEFERS VAT IMPLEMENTATION TO 2021

Value-added tax (VAT) will not be implemented in Kuwait till 2021.The introduction of excise tax on select products such as tobacco, energy drinks and carbonated drinks is expected to be announced soon. It was jointly decided among the gulf governments to impose an excise tax on tobacco and sugary drinks, which expected lower revenues in comparison to VAT.

Low oil prices leading to burdened state finances had pushed the six wealthy Gulf Arab oil-exporting countries to consider introducing 5% VAT at the beginning of this year. Saudi Arabia and the UAE are the only ones to have so. Fazed by domestic political opposition, the potential negative impact on consumer spending and the technical challenges with the new tax the other four countries have yet to announce an official date for imposing the taxation. With the most powerful parliament in the region, Kuwait's budget committee's decision to delay VAT seems final in spite of the cabinet officials requesting for quick & efficient tax and spending reforms.

As per the International Monetary Fund (IMF) substantial revenues, approximately 1.5% of gross domestic product for UAE can be expected from VAT. With the region's strongest state finances and rising oil prices in the past months, Kuwait is under no or less pressure for additional revenues.

The government is in continual process for Implementation but its enforcement remains subject to the approval by the National Assembly. This deferment of application of Value Added Tax brings in a concern for the loss of revenue of about 1.9 bn dinars in the general budget, while the selective tax delay loss accounted for about 2.5 bn dinars.

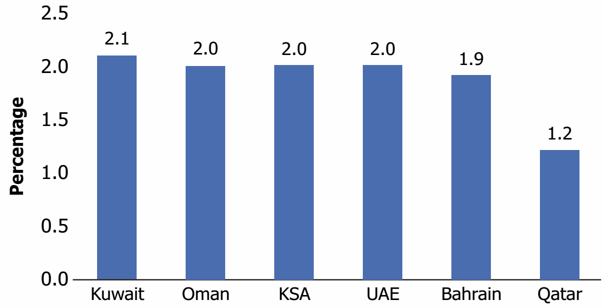
EXPERIENCE AND EXPECTED IMPACT

On January 01, 2018 two members of GCC, Saudi Arabia and UAE introduced VAT in the region. With a tax rate of 5 percent, it was applicable in the entire region with certain goods and services to be treated as exempted.

With the taxation being implemented on January, 2018 in these two countries, other members followed suit to implement it at the earliest. Though the draft regulations have not been crafted in Kuwait for VAT, an estimation of its possible revenue contribution to GDP has been depicted in the graph.

VAT is most likely going to increase the inflation rate in Kuwait. While real estate and transportation will see a decrease in demand, retail and financial sector might not see significant changes. Real estate is expected to see the maximum increase in cost while retail might see a low to medium increase in price.

Estimated VAT Revenue (% of GDP in 2018)



Source: National Bank of Abu Dhabi

VAT Refund Scheme for Tourists

BACKDROP

Tourist visitors will be able to claim tax refunds on their purchases within minutes as part of a new digital system for the Tax Refunds for Tourists Scheme. This would be subject to secondary checks as they exit the country.

The Federal Tax Authority (FTA) has introduced the digital system for the Tax Refunds for Tourists Scheme applicable for purchases by eligible tourists. The refunds can be claimed from Abu Dhabi, Dubai and Sharjah International Airports.

The system resembles the similar processes, which apply in some countries of Europe and Asia. The sales points and outlets are connected tax refund system on real time basis. Such systems are already working in several countries, for example, in some of the European countries tourists can get a VAT refund, but only at the airport when leaving the country. Another example is Japan, where tourists would receive a VAT refund at the outlet where you have purchased the product by showing the appropriate documents. The FTA has informed that more than 4,500 retailers are now linked to international payments specialist Planet's electronic system, with the number expected to rise next month.

ELIGIBILITY FOR VAT REFUND

Following are eligibility criteria for claiming refund of VAT

- The invoice amount inclusive of vat should be equal or more than AED 250.
- The seller has to registered for refund scheme or having TRN.
- The seller should have entered your details in the portal and has pasted the refund sticker on your invoice.
- The goods purchased has to be taken out of Dubai – not consumed in part of full in Dubai
- The VAT paid by you is for goods and not for services like Hotel Bill, Miracle Garden entry ticket, Desert Safari charges etc.
- The item/s should be supplied from UAE
- You should make sure that you'll be exiting the country with the item within 90 days upon purchase.
- Goods should belong to the tax refund system of UAE.

The process is generally seamless, fully automated and better than similar schemes of other countries.

VAT REFUND PROCESS

1. The seller from whom the goods are purchased, is required to be registered with Dubai VAT.
2. At the time of purchase, the tourist needs to submit his name and passport details on the tax portal.
3. It is necessary for tourist to carry and show his passport at the time of purchase.
4. After entering the details in the portal, the seller take printout on a sticker and shall paste that sticker on the back of tax invoice.
5. Only on the basis of that sticker, which is having a QR code, the tourist will be able to claim VAT refund at airport.
6. Tourist will be given only 85% of refund of full amount of VAT paid.

الهيئة الاتحادية للضرائب
FEDERAL TAX AUTHORITY

ELECTRONIC TAX REFUND SCHEME FOR TOURISTS

Nov 18, 2018
beginning phase one of the Tax Refund Scheme for Tourists leaving through the airports of Abu Dhabi, Dubai, and Sharjah.

Tax invoices issued as of
Nov 18, 2018
and forward will be eligible for tax refund for tourists.

Dec 15, 2018
continue implementing the Scheme, which allows tourists to recover tax at all airports, as well as land and sea ports in the UAE.

4000+
stores and retail outlets included in the new Scheme.

4 CONDITIONS FOR RETAILERS TO TAKE PART IN THE SCHEME:

1. The retailer must be registered with the Federal Tax Authority (FTA) for Value Added Tax (VAT) and have a tax registration number (TRN).
2. The supplier's sales of goods must not be excluded from the refund scheme, as determined by the authority.
3. The retailer must submit a request to participate in the Scheme as determined by the FTA.
4. The retailer must meet the financial credit requirements specified by the system operator and be committed to submitting Tax Returns and paying due taxes regularly.

A FULLY ELECTRONIC PROCESS:

Upon leaving the UAE, tourists will be able to reclaim taxes paid on their purchases in a fully electronic system, characterised by its simplicity, accuracy and speed, without any human involvement. The tourist shall submit the required documets and obtain a refund via credit card or in cash from the global operator.

Tourist → Retailers registered in the system (Obtain a tax invoice) → Departure from the UAE (air, sea and land port) → Kiosk / Tourist Refund office (present passport + tax invoices + credit card) → * The tax shall be transferred to the credit card account or paid in cash by the global operator

* Tax invoices, tax free tags and purchased goods may be subject to physical inspection at the border points to verify eligibility, therefore tourists should have these available.

www.tax.gov.ae @uaetax

Source: Federal Facts Authority, UAE

About 1,460,300 Digital transactions to refund taxes to tourists have been reported.

The VAT refund process is being handled by a company called Planet. They have their tax refund counter at the airports. They will require passport and departure flight details which they shall be verifying in their system. Once the details are verified, they shall confirm refund to you. They are giving two options to collect this refund -either you can collect it in cash or you can get it credited in your card account.

SECONDARY CHECKS

The tourists claiming refunds could be subject to checks to make sure they are complying with the regulations. The goods that "are not accompanied by the tourist at the time of leaving the state" and goods that have "been consumed in full or in part", such as a box of chocolates or a bottle of perfume, would be excluded from refund. "If a tourist goes and buys a box of chocolates and eats half of it, then he won't be able to get a refund for the tax on the box of chocolates," the FTA official said.

EXPECTED IMPACT

While UAE pushes the VAT movement for the economy's beneficial, the exemption of the rule to tourists is believed as a way to boost the country's tourism, encouraging the tourists to purchase more goods without worrying added tax to their receipts.

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Kothari Auditors and Accountants is a professionally managed accounting, auditing, management and financial consulting firm established in October 1992.

The firm is registered in UAE Ministry of Economy & Commerce having offices in Dubai and Sharjah. The firm excels in offering accounting, audit services and host of consulting services.

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M06 & M07, Above United Bank
Bank Street, Bur Dubai
Post Box 51504
Dubai (U.A.E)
Tel : + 971 4 3526330
Fax : + 971 4 3526332

202, Sharjah Cement Factory Building,
Bank Street, Rolla, Post Box 4706
Sharjah (U.A.E)
Tel : + 971 6 5683997
Fax : + 971 6 5686714
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Email : info@kaa.ae
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Office No. 12A-06, HDS Tower, Plot No. F2
Jumeirah Lakes Towers Post Box 309074, Dubai (U.A.E)
Tel : + 971 4 4471804
Fax : + 971 4 4471803
Email : info@gbsei.com
www.gbsei.com

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