

Gulf Co-operation Council countries agreed in 2015 for GCC wide implementation of VAT. UAE as a part of this drive to increase non-oil revenue, has implemented VAT wef 1st Jan 2018. Federal Tax Authority has already been setup which will oversee implementation & enforcement of VAT as well as any other forms of taxation that UAE may implement at any stage in future. Tax Procedures Law, Excise Law & VAT Law alongwith implementing regulations have already been published.

We give herein below some basic information & issues in this respect.

Some important matters pertaining to VAT:

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| VAT | Value Added Tax (VAT) is an indirect form of taxation in which tax is collected by an intermediary from the person who bears the ultimate economic burden of tax. VAT is a consumption tax levied on majority of goods & services. It is levied at each stage of supply chain, collected by businesses on behalf of the government and ultimately borne by the end consumer of such goods or services. |
| VAT Regulations | <ul style="list-style-type: none"> ▪ GCC VAT Agreement (which is guiding regulation). ▪ Tax Procedures Law. ▪ VAT Law |
| VAT Globally | Globally > 150 countries have adopted which includes all major economic powers (excl. USA) and is also known by Goods & Services Tax in some countries. VAT rates range upto 28% in some countries. |
| Taxable Persons | Any persons (whether individual or entities) carrying out economic activity liable for VAT |
| Limit for VAT registration | Turnover > AED 375,000 p.a. (Optional for taxable persons whose supplies & expenses > AED 187,500 p.a. < AED 375,000 p.a.) |
| Registration timelines | Commenced by Q3 of 2017 and mandatory during Q4 of 2017. Has been extended upto 30 th Apr'18 without penalty. |
| Group registration | Multiple entities of same group / owner (ownership or control by voting rights) can register as a group rather than individual registration and pay VAT as one single entity |
| Applicability | Majority of goods sold or services provided in UAE (called taxable supplies) |
| Categories of taxable supplies | <ul style="list-style-type: none"> ▪ Exempt - Not chargeable to VAT (& cannot claim VAT refund of VAT paid on consumed goods / services) ▪ Taxable - Standard rated to be @ 5% or Zero rated @ 0% (can claim refund of VAT paid on consumed goods / services) |
| Exempt goods / services | <ul style="list-style-type: none"> ▪ Financial services (interest & forex) ▪ Local transport for passengers. ▪ Residential real estate (3 years after construction upto first sale) ▪ Bare Land |
| Zero rated goods / services (0%) | <ul style="list-style-type: none"> ▪ Health (preventive healthcare services), Education (upto elementary all & higher educational institutes only those funded by govt (& only selected educational services) ▪ Real estate - residential (for 3 years from construction or upto first sale/lease) ▪ International transport of passenger & goods. ▪ Supply of means of transport (like boat, trains, aircrafts) ▪ Investment grade precious metals ▪ Supply of crude & natural gas |
| Standard rated @ 5% | All other goods & services including but not limited to <ul style="list-style-type: none"> ▪ Food items ▪ Petrol/Diesel ▪ Real estate (commercial) ▪ Financial services (fees / chgs but excl interest) |
| Custom duty | VAT payable over and above custom duty |
| Margin scheme | Second hand goods sale - VAT only on margin (& not on full value) (on certain items) |
| Capital Asset Scheme | For capital goods / fixed assets, input tax credit permitted to be claimed & to be monitored over life of asset for asset > AED 5 mn. |
| Input tax | VAT paid on goods / services used for generating outputs |
| Supply value | To include fees / expenses / costs (excl. VAT) recovered from customers |

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| Place of supply | <ul style="list-style-type: none"> Outside UAE - Not chargeable to VAT (except exports to non taxable customers in Implementing States) Inside UAE - Chargeable to VAT |
| Location deemed for supply | <ul style="list-style-type: none"> For goods - where supply takes place For services - where supplier has place of residence or if used in UAE, then deemed location of supply to be UAE Electronic supply - place where service is used / enjoyed |
| Types of supplies | <ul style="list-style-type: none"> Domestic - Standard or Zero rated Exports - Zero rated (except exports to Implementing States which may be taxable) Imports - Reverse charge mechanism |
| Reverse charge mechanism | Where seller is based non-taxable person (i.e. based overseas), then purchaser pays VAT (instead of seller collecting & paying) |
| Date of supply | <ul style="list-style-type: none"> Goods - when goods supplied Services - when service rendered <p>(Exceptions.. if payment is received or tax invoice issued prior to supply of goods / services, then date of payment receipt may be deemed to be date of supply)</p> |
| Bad debts: | Can claim refund / credit of output tax paid on uncollectible debts can be claimed subject to certain conditions |
| Net VAT payable | Output VAT (VAT Collected/to be collected) Less Input VAT (VAT paid on goods/services) |
| VAT refund will be granted to | <ul style="list-style-type: none"> Govt bodies Charities Specialised companies for international events Citizens for construction of house <p>(Refunds to tourists not expected to be in phase 1)</p> |
| Input tax recovery conditions | <ul style="list-style-type: none"> Should be taxable person Should be correctly charged For eligible purpose Have tax invoice Must be paid / intended to be paid Not non-recoverable |
| VAT returns | <ul style="list-style-type: none"> Quarterly or monthly returns to be filed (electronically) within 28 days of end of period Need to provide Emirate-wise supply |
| Record keeping | Maintain following for 5 years: <ul style="list-style-type: none"> - Books of accounts - Documents - VAT accounts - Any other docs specified <p>Tax invoice very critical to VAT (should have sequential numbering, date, time of supply, description of goods / services, VAT charged in AED)</p> |
| Penalties | <ul style="list-style-type: none"> For defaults - upto 3 times VAT (min of AED 500/-) For evasion - upto 5 times plus could result into prosecution for offence under other applicable laws |
| Audits | Federal Tax Authority may conduct audit of taxable persons on selected basis |
| Excise duty | Excise duty on tobacco, energy drinks & carbonated drinks charged wef 1 Oct 2017. VAT will be payable over and above customs duty & excise duty & on value incl. customs & excise. |

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