



## Value Added Tax ( VAT ) in the UAE



AUDITING | ACCOUNTING | FEASIBILITY | VAT IMPLEMENTATION | DUE DILIGENCE | CORPORATE FINANCE | SYSTEM IMPLEMENTATION & REVIEW  
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# SECTION 1

- Introduction to VAT
- How does VAT work?
- VAT Rates

# A brief introduction to VAT

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UNIFIED VAT AGREEMENT (UVAT) is a framework agreement signed by all six GCC countries. This framework agreement sets out the underlying principles of VAT laws for the six GCC countries. Member states retain some flexibility, such as how to treat healthcare, education and free zones for VAT purposes. The KSA & UAE are among the first GCC member states to introduce VAT, with a effective date of 1 January 2018.

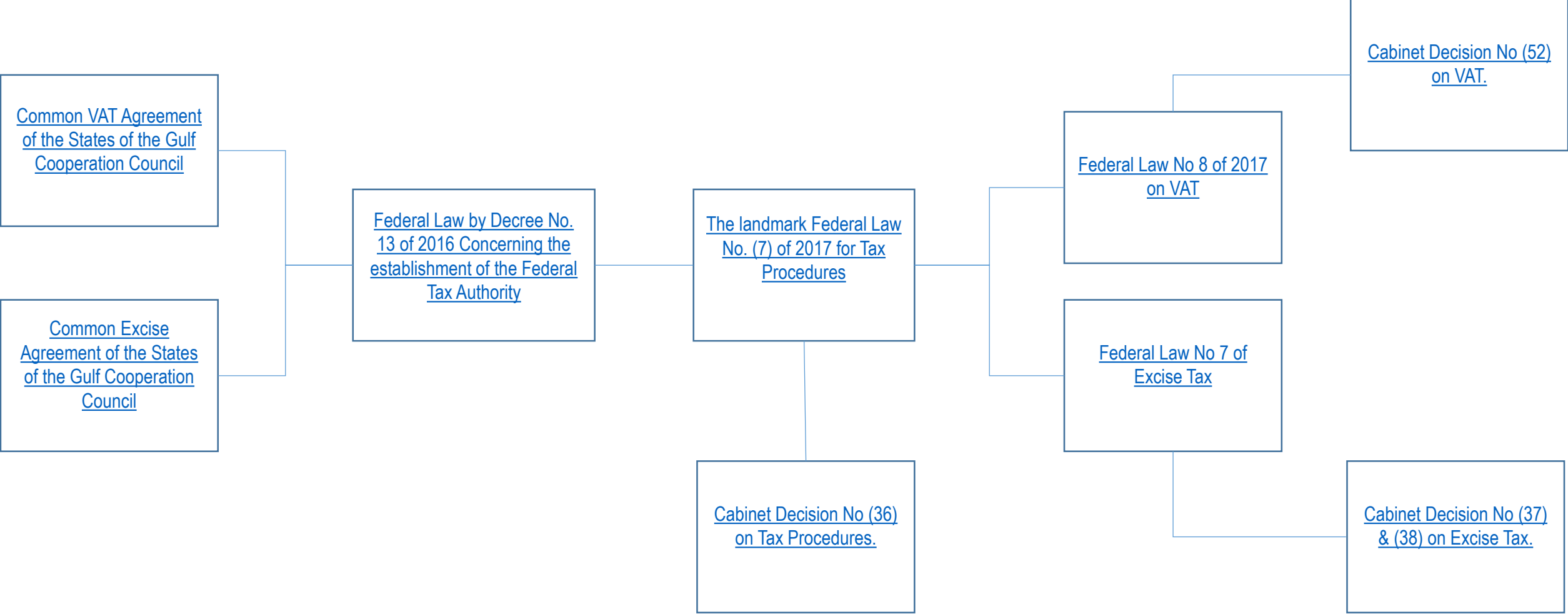
VAT will be charged at the standard rate of 5%. There are certain supplies and services which will be subject to zero rate or under exempt categories.

VAT is a Tax on the consumption of goods and services, levied at the point of supply and is not intended to be a tax on business. VAT is collected by registered suppliers down the supply chain and remitted to the government.

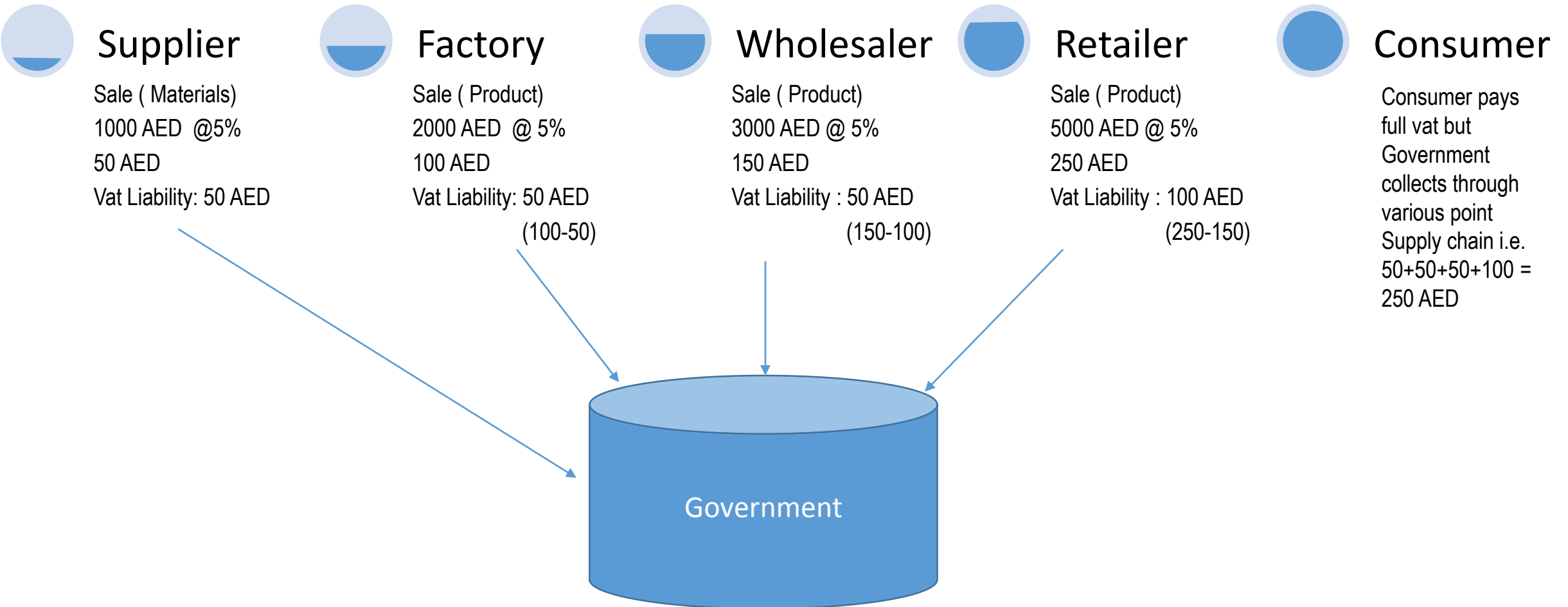
VAT will be governed by Federal Tax Authority (FTA). It will be responsible for collecting taxes and reviewing the compliances. They will be responsible for conducting Tax audits and administering penalties.

A business must register for VAT if their taxable supplies and imports exceed the mandatory registration threshold of AED 375,000. Furthermore, a business may choose to register for VAT voluntarily if their supplies and imports are less than the mandatory registration threshold, but exceed the voluntary registration threshold of AED 187,500.

# Legislation on VAT & Excise Tax Implementation



# How does VAT work?



# VAT Rate

Details	Taxable	Zero-rated	Exempt
General insurance ( vehicle, medical )	X		
Life insurance			X
Fee based Financial Services	X		
Margin-based Financial Services		X	
Exports of goods and services		X	
International transportation		X	
Supplies of identified sea, air and land means of transportation		X	
Identified investment grade precious metals ( Gold, silver, Platinum )		X	
Jewelry	X		
Newly constructed residential properties that are supplied for the first time ( and within 3 years of their construction )		X	
Certain education services		X	
Certain healthcare services		X	
Residential properties			X
Commercial properties	X		
Bare land			X
Local passenger transport			X
Crude oil and Natural gas		X	

# SECTION 2

- 5 Steps to identify if VAT is applicable
- Place of Supply of Goods
- Place of Supply of Services
- Date of Supply of Goods
- Date of Supply of Services
- Flow chart of supplies



# Five steps to identify whether vat is applicable?



**Business:** Any activity conducted regularly, on an ongoing basis and independently by any person, in any location, such as industrial, commercial, agricultural, professional, service or excavation activities or anything related to the use of tangible or intangible property.

**Taxable Supply:** A supply of goods or services for a consideration by a person conducting business in the State. Supply can be either under zero percent or at standard rate of 5% or a deemed supply, and does not include exempt supplies.

**Place of supply :** It will determine whether a supply is made in the UAE or outside the UAE for VAT purposes:

- If the supply is determined as made in the UAE: VAT shall be applicable.
- If the supply is determined as made outside the UAE: VAT is not applicable.

**Date of Supply:** It will determine when to account for output VAT on supplies.

**Consideration:** All that is received or expected to be received for the supply of goods or services, whether in money or other acceptable forms of payment. It will determine value of supply on which VAT is to be charged.

# Place of Supply for Goods

## Place of supply for Goods :

*Place of supply rules will determine whether a supply is made in the UAE or outside the UAE for VAT purposes:*

- If the supply is treated as made outside the UAE: no UAE VAT will be charged.
- If the supply is treated as made in the UAE: VAT may be charged.

## Domestic Supplies ( B2B and B2C ) :

*If movement of goods are inside the UAE, then subject to the applicable VAT rate in the UAE – standard or zero-rated.*

**Example:** Company A in Dubai delivers goods to Company B in Abu Dhabi. Place of supply will be UAE as there is no supply of goods outside UAE.

## Exports to Implementing GCC State :

*Place of supply is the other implementing State (e.g. KSA ) provided the customer is registered for VAT in that GCC State, and the goods are exported outside the UAE and consumption is in that State. If the customer is not registered for VAT, then the place of supply is UAE.*

**Example:** Company A in UAE delivers goods to Company B in KSA. Place of supply will be KSA ,if the company B is tax registered as per VAT law of KSA. In this case as supply of goods is outside UAE i.e. KSA, place of supply will be KSA.

## Exports outside GCC and to Non Implementing GCC state :

*Place of supply will be UAE but vat will be charged at the Zero rate.*

**Example:** Company A in UAE delivers goods to Company B in USA. Place of supply will be UAE, but VAT will be charged at Zero rate as any supply of goods outside the implementing state will be considered as an export and will be subject to Zero rate.

## Import into UAE :

*Place of supply is the UAE and the recipient accounts for VAT under the reverse charge mechanism.*

**Example:** Company A in USA delivers goods to Company B in UAE. Place of supply will be UAE as per the reverse charge mechanism. VAT will be accounted at standard rate by the buyer of the goods i.e. Company B provided B is tax registered in UAE. Company B will account for VAT on its normal VAT return and will be able to claim that VAT back on the same return, subject to the normal VAT recovery rules

## Import followed by movement of goods within implementing state :

*Where goods are imported into the UAE ( i.e. released for consumption here ) but the intention is that these goods will be transferred by the importer into another implementing State, the place of supply of import is still the UAE but:*

- *The importer must pay import VAT without using the reverse charge and cannot recover this VAT in UAE.*
- *This import VAT should be recoverable in the implementing State to which the goods are transferred.*

*Where import VAT was recovered in the UAE under the expectation that goods would not be transferred to another implementing State, but later they are moved to another implementing State, the taxpayer will be required to “repay” the import VAT by treating the transfer as a deemed supply.*

**Example:** Company A imports goods from India into UAE and re exports the same Goods from UAE to KSA.

# Place of Supply for Services

## Place of Supply ( Services ) :

### Basic rule :

*Where the supplier has their place of residence.*

**Example:** Company A in UAE provides accounting services to Company B of USA. Place of supply will be UAE as the company A have there place of residence in UAE.

### Specific rules :

*Place of supply of services supplied to recipients who are VAT registered in another implementing State is that other implementing State. If the customer is not registered for VAT, then the place of supply is UAE*

**Example:** Company A in UAE provides services to Company B in KSA. Place of supply will be KSA ,if the company B is tax registered as per VAT law of KSA. In this case as supply of services is outside UAE i.e. KSA, place of supply will be KSA.

*Place of supply of services supplied by a person who is not resident in the UAE to a business that is resident in the UAE is in the UAE. So reverse charge mechanism shall apply.*

**Example:** Company A in UAE receives accounting services from MR.B of India. Place of supply will be UAE and the company A have to account VAT as per reverse charge mechanism.

*Place of supply of services relating to the installation of goods is where the services of installation are performed.*

**Example:** Company A which is in UAE provides installation services to Company B which is situated in Oman in Oman. Place of supply will be Oman and no VAT will be applicable as per VAT law of UAE.

*Place of supply of real estate services is the location of the real estate.*

**Example:** Mr. A from UK providing brokerage services for real estate which is locate in UAE, place of supply will be UAE and such brokerage commission will be subject to VAT at the standard rate as per UAE vat law.

# Place of Supply for Services( Contd. )

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**Place of supply for services will be the place where they are performed or started:**

*Supply of restaurant, hotel and catering services is where they are performed.*

*Supply of transport services is where the transport begins.*

*Supply of cultural, artistic, sporting, educational or similar services is where they are performed.*

**Place of supply of telecommunications and electronic services is where the services are used and enjoyed by the recipient:**

*The following indicators may be used by a supplier to determine the usual place of residence of the Customer for the purpose of the services mentioned in this article:*

- a) the invoicing address of the Customer,*
- b) the bank account details of the Customer,*
- c) the Internet Protocol address used by the Customer to receive the wired and wireless telecommunications services and electronic services,*
- d) the country code of the SIM card used by the Customer to receive the wired and wireless telecommunications services and electronic services.*

# Date of supply for goods

## Date of supply :

### Basic tax point for goods :

*Date of removal/transfer of goods under the supervision of supplier (Supply of goods involving transportation provided by the supplier).*

**Example:** Company A buys an asset from Company B. Company B delivers the asset to Company A on 28th March, 2017 but issues invoice on 4th April, 2017. In this case, date of supply will be 28th March as per basic tax point and vat will be due on the same date.

*Date on which goods are made available to customer for possession (Supply of goods not involving transportation by supplier)*

**Example:** Company A orders goods from Company B. Goods are made available by Company B on 28th March 2017 for collection and raises an invoice for the same on 4th April 2017. In this case, date of supply will be 28th March and vat will be due on the same date.

*Date on which the assembly or installation of the Goods was completed where goods are supplied with assembly and installation*

**Example:** Company A buys a machinery from Company B. Company B delivers the machinery to Company A on 28th March, 2017 but assembly and installation is done on 4th April, 2017. In this case, date of supply will be 4th April and vat will be due on the same date.

*Date on which goods are cleared by the customs authority in case of imports.*

### Special tax point for goods :

*If any of the following event takes place before the basic tax point for goods:*

- *Payment is received or*
- *Tax invoice is issued*

*It will be considered as the tax point for accounting VAT.*

# Date of supply for services

## Date of supply :

### Basic tax point for Services :

*Date on which services are completed.*

**Example:** Company A provides accounting services to Company B. Company A starts the service on 28th March, 2017 and completes the same on 04<sup>th</sup> April, 2017. In this case, date of supply will be 04<sup>th</sup> April as per basic tax point and vat will be due on the same date.

### Special tax point for services :

*If any of the following event takes place before the basic tax point for services:*

- *Payment is received or*
- *Tax invoice is issued*

*It will be considered as the tax point for accounting VAT.*

### Tax point for supply of continuous services :

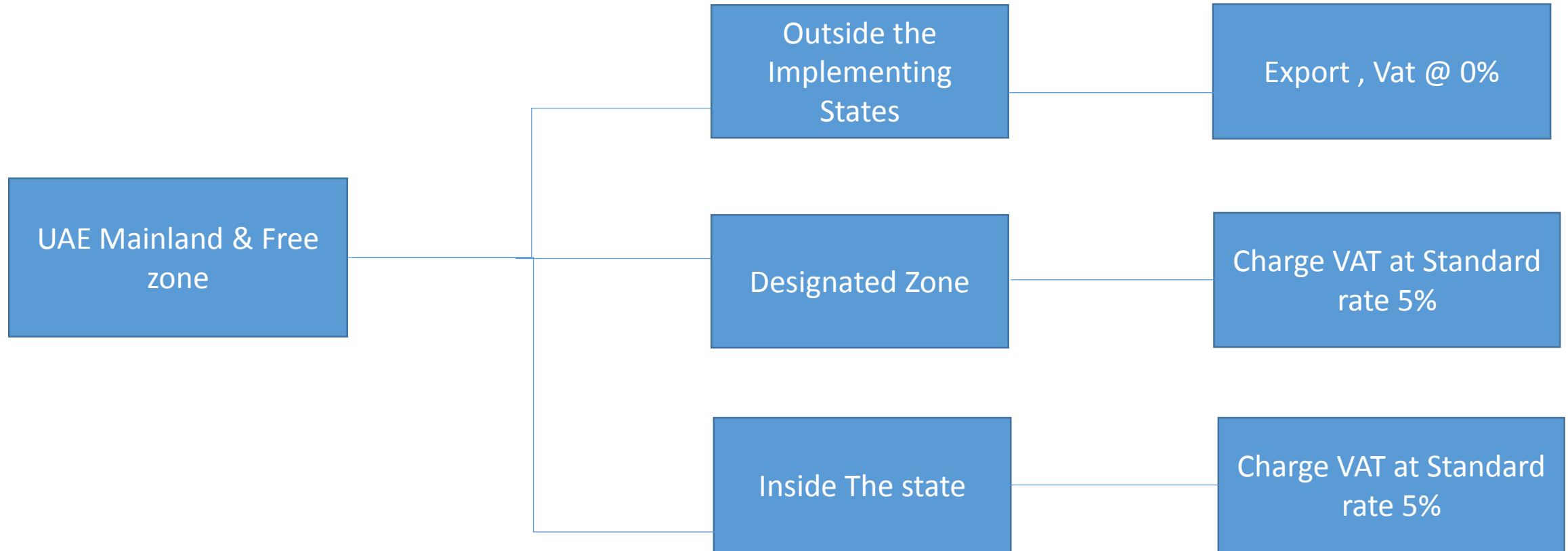
In case of continuous services over a period of several months or years, the time of supply for will be the earlier of:

- Receipt of payment.
- Issuance of invoice.

**Example:** Company A provides insurance services to company B for a period of one year. Such service starts from 01<sup>st</sup> October 2017 and ends on 30<sup>th</sup> September 2018. Invoice of full amount for such services is issued by company A on 01<sup>st</sup> November 2017 and payment is received on 02<sup>nd</sup> January 2018. Vat will not be applicable even if the payment is received in a period which is after VAT implementation.

# Supply of Goods & Services from UAE Mainland & Free zone

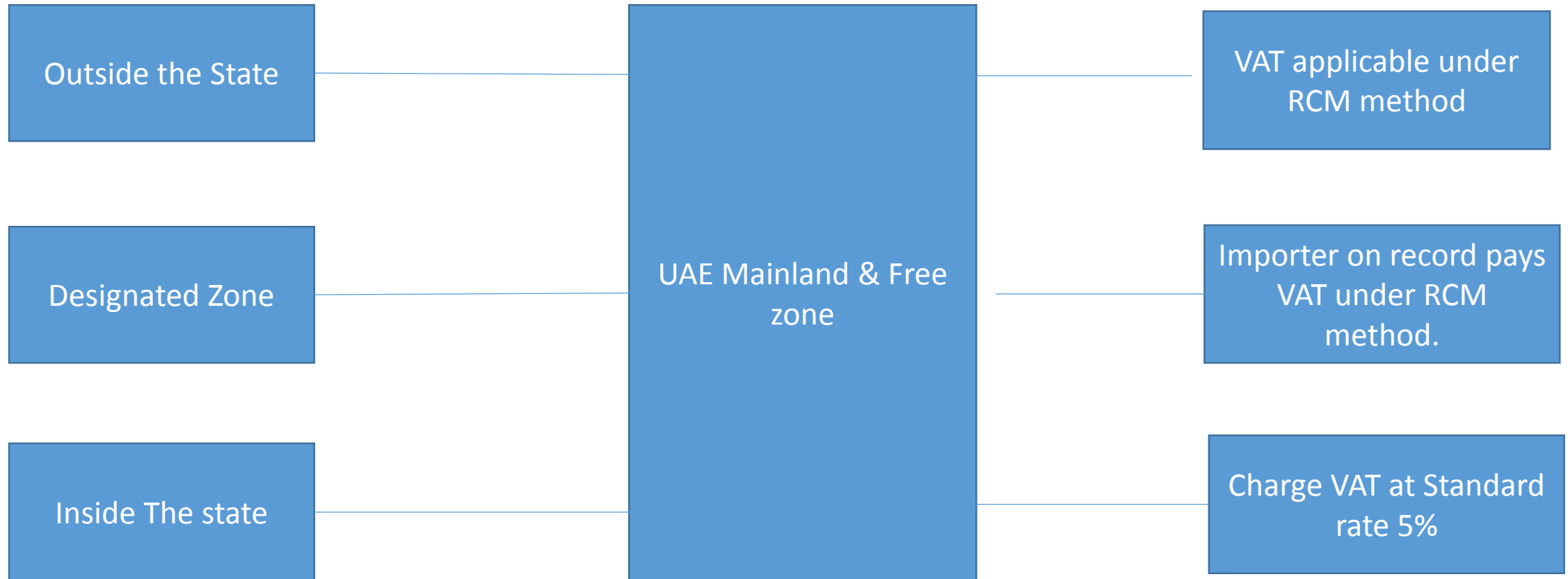
## Output VAT





# Supply of Goods & Services to UAE Mainland & Free zone

## Input VAT

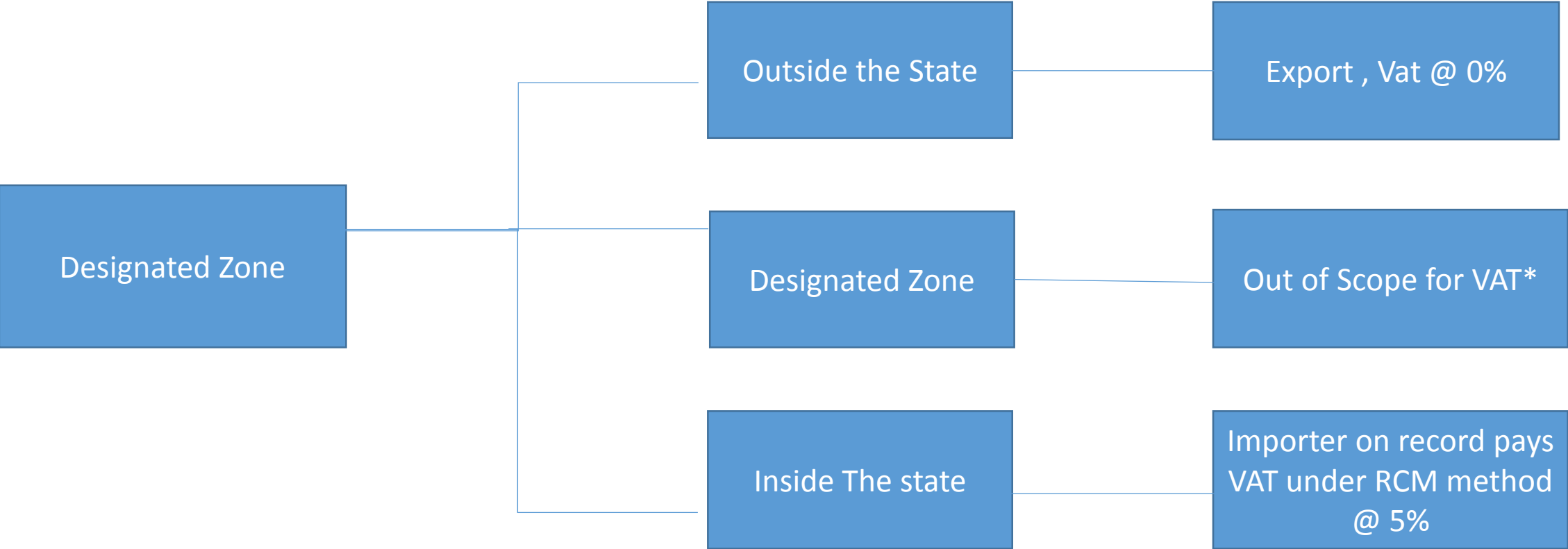


# Supply of Goods from Designated Zone – Output VAT

## DESIGNATED ZONE:

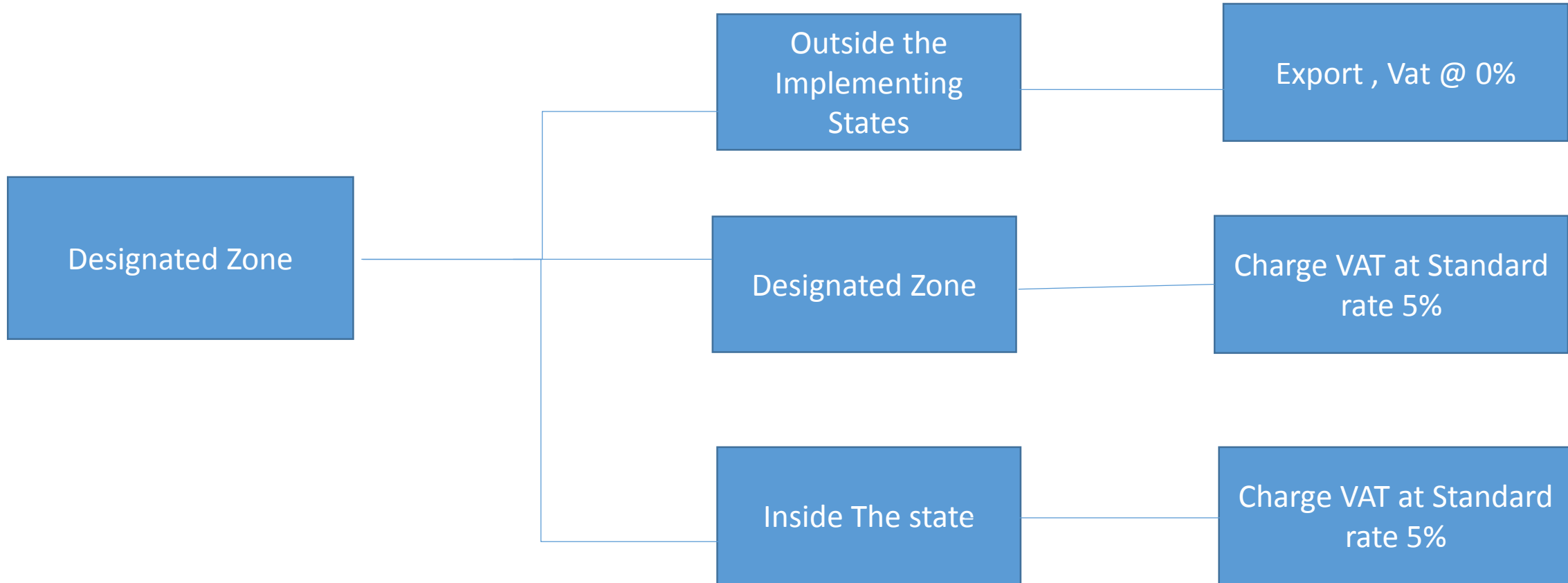
Any Designated Zone shall be treated as being outside the State and outside the Implementing States. A movement of Goods into a designated zone or supply of goods to a designated zone from a place in the State or a shall not be considered an export of those Goods. Goods shall not be treated as imported into the State if Imported into a Designated Zone from a place outside the State. Designated zone will be a specified fenced geographic area , Custom controlled and as specified under Cabinet decision.

In case of Supply of Goods from Designated Zone:



# Supply of Services from Designated Zone

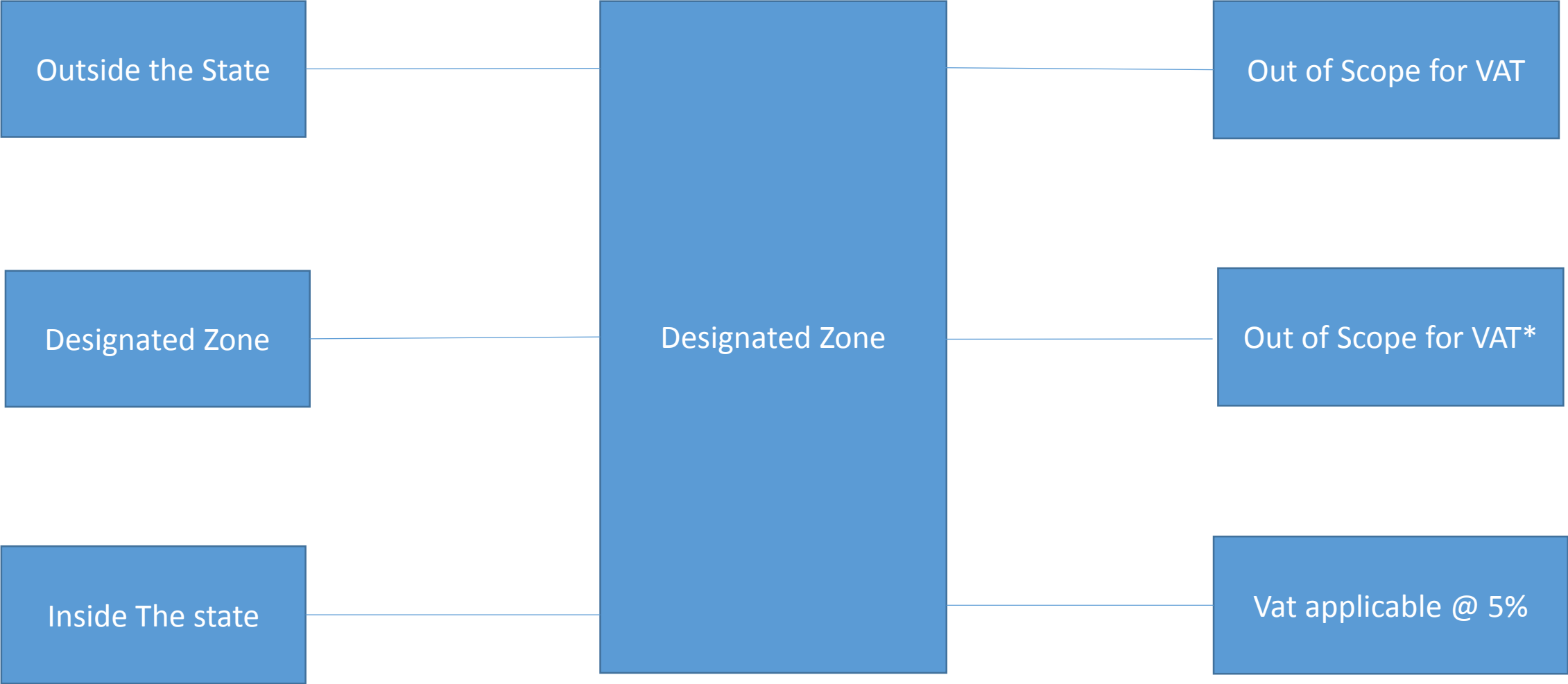
## Output VAT



# Supply of Goods to Designated Zone

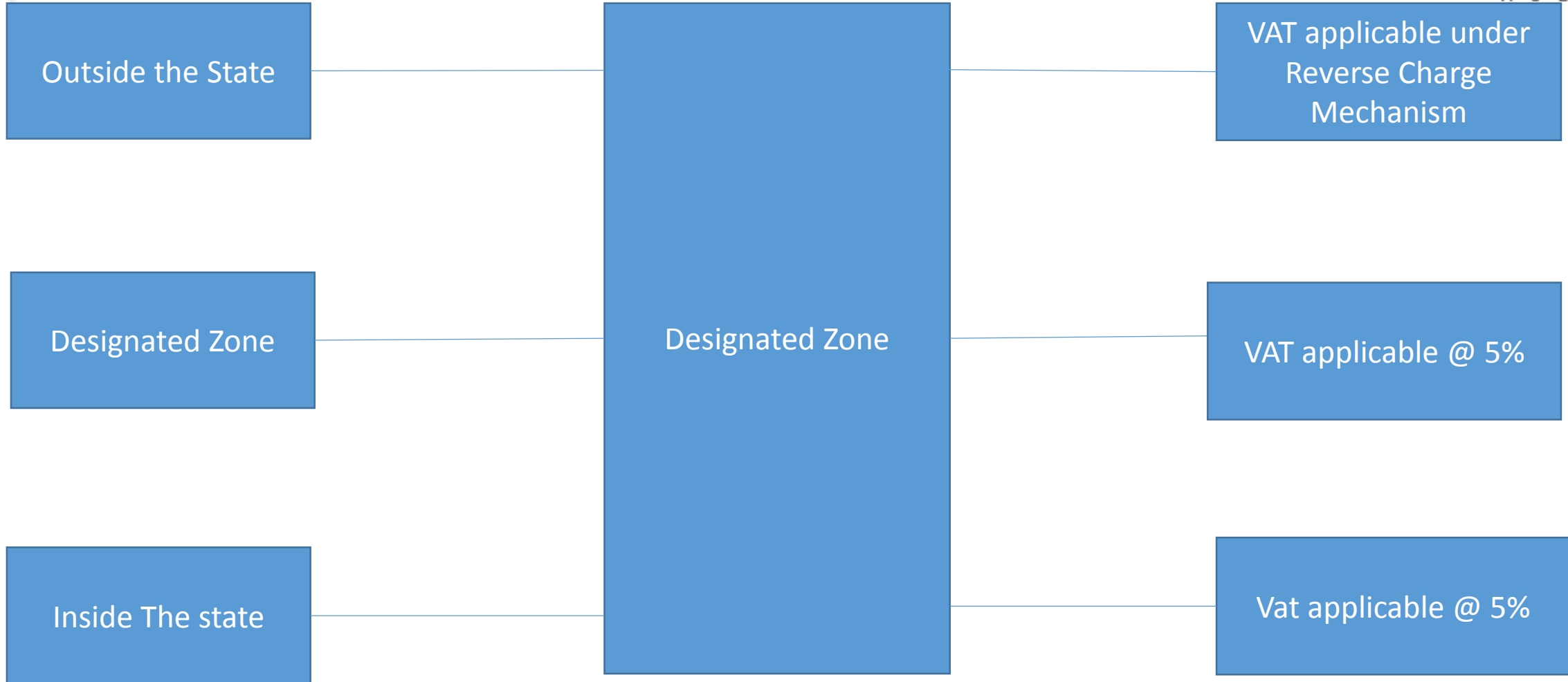


## Input VAT

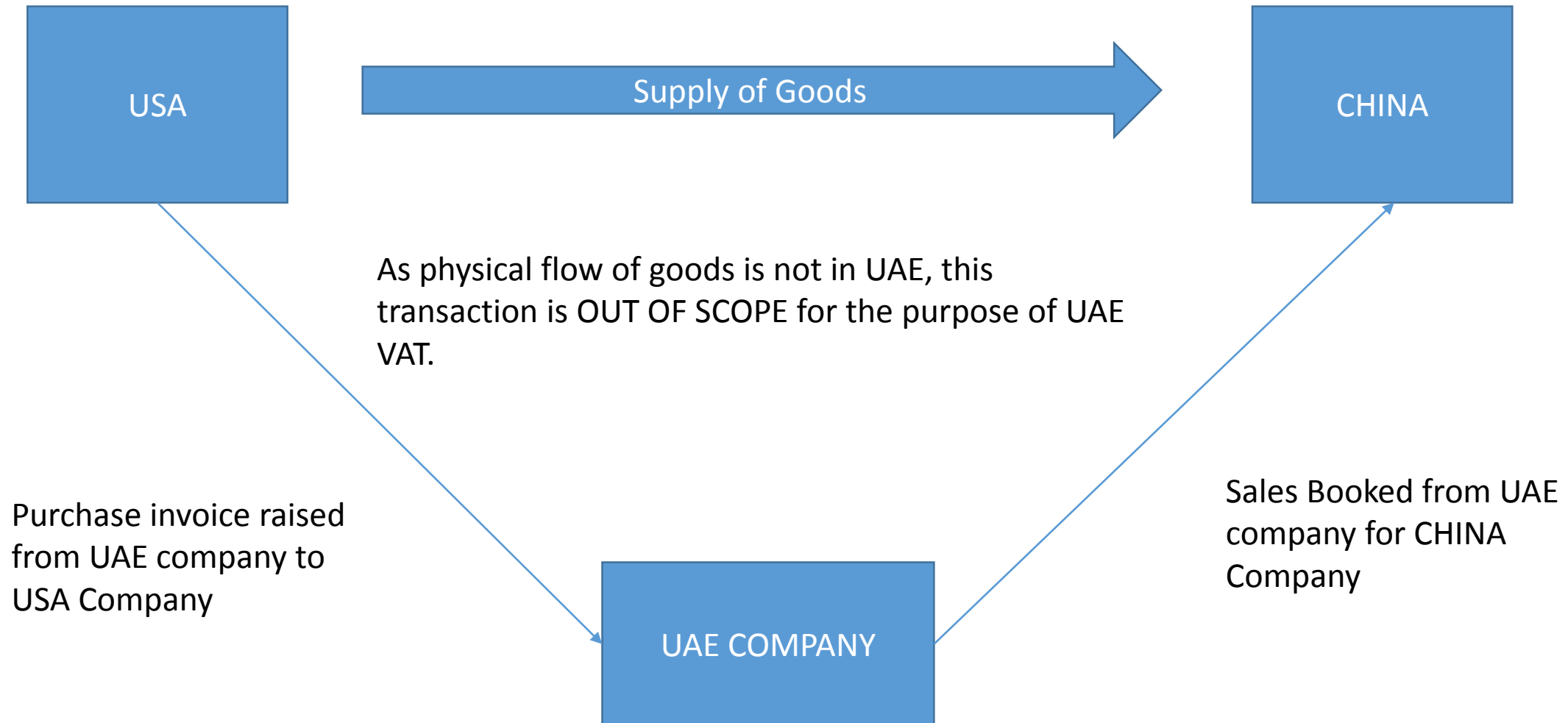


# Supply of Services to Designated Zone

## Input VAT



# Out of scope Supplies



# SECTION 3

- Book Keeping & Accounting Entries
- Tax Grouping
- Tax Invoices / Credit Note
- Transactional Rules
- Discounts & Subsidies
- Appeals & Penalties

**Record-keeping :** Books of account and any information necessary to verify entries, including, but not limited to:

- annual accounts; general ledger; purchase day book; invoices issued or received; credit notes and debit notes for a minimum of 5 years.
- Invoices must be issued within 14 calendar days of the date of the supply.

**Invoices, credit and debit notes:**

- All tax invoices and alternative documents related to receiving the goods or services
- All received tax credit notes and alternative documents received
- All tax invoices and alternative documents issued
- All tax credit notes and alternative documents issued

**VAT account:**

- VAT due on taxable supplies (incl. those pursuant the reverse charge mechanism)
- VAT due after error correction or adjustment
- VAT deductible after error correction or adjustment
- VAT deductible for supplies or imports.

**Records of:**

- All supplies and imports of goods and services
- Exported goods and services
- Goods and services that have been disposed of or used for matters not related to business
- Goods and services purchased for which the input tax was not deducted



# Tax Invoices / Tax Credit notes

**Conditions for valid tax invoices :** A sequential number which uniquely identifies the document

- The words “Tax Invoice” clearly displayed on the invoice
- The date of issue of the invoice & The time of supply (only if different from the invoice date)
- The name, address and TRN of the supplier and customer.
- For each description, the quantity of goods or extent of services supplied, the rate of VAT and amount payable, expressed in UAE Dirham
- Gross amount payable expressed in UAE Dirham.
- The amount of discount if any offered.
- The total amount of VAT expressed in UAE Dirham together with the rate of exchange applied and the source of that rate.
- Where the invoice relates to a supply under which the Customer is required to account for Tax, a statement that the Customer is required to account for Tax, and a reference to the relevant provision of the Decree-Law.

**Conditions for Simplified tax invoices :** Where the Customer is not Tax registered or Where the customer is Tax registered and the Consideration for the supply does not exceed AED 10,000.

- The words “Tax Invoice” clearly displayed on the invoice.
- The name, address, and Tax Registration Number of the Registrant making the supply.
- The date of issuing the Tax Invoice.
- A description of the Goods or Services supplied.
- The total Consideration and the Tax amount charged

## **Supply of Goods or Services is considered as supplied in an Implementing State:**

The Taxable Person must include the following additional particulars in the document issued:

- a. The tax registration number of customer issued to him by the competent authority of the Implementing State in which the supply is treated as taking place.
- b. A statement identifying the supply as between the State and an Implementing State.

# Tax Invoices / Tax Credit notes cont....

## Conditions for valid Tax Credit Note :

- The words “Tax Credit Note” clearly displayed on the invoice.
- The name, address, and Tax Registration Number of the Supplier.
- The name, address, and Tax Registration Number of the Customer.
- The date of issuing the Tax Credit Note.
- The value of the supply shown on the Tax Invoice, the correct amount of the value of the supply, the difference between those two amounts, and the Tax charged that relates to that difference in AED.
- A brief explanation of the circumstances giving rise to the issuing of the Tax Credit Note and information sufficient to identify the supply to which the Tax Credit Note relates..

## Conditions for valid electronic Tax Invoice :

- The Taxable Person must be capable of securely storing a copy of the electronic Tax Invoice in compliance with the record keeping requirements.
- The authenticity of origin and integrity of content of the electronic Tax Invoice should be guaranteed.

## Emirates Reporting :

There is a requirement to keep records for supply made in each Emirate based on the following rules;

- Emirates in which the fixed establishment related to the supply is located ( Location of the supplier )
- Exception to above if the taxable person does not have established in the state, it must keep records of the transaction to prove the Emirate in which the supply is received.

## Quarterly return format :

- [UAE VAT Return Format.pdf](#)

# Tax Invoice – Format - Trading



<b>Tax Invoice</b>											
Supplier name - _____											
Supplier Address - _____											
TRN								Invoice Date			
Place of supply								Invoice serial no.			
Tax is payable under reverse charge by recipient(Yes/No)								Currency			
<b>Bill to</b> Name :- Address :-  Country:- TRN :-						<b>Ship to</b> Name :- Address :-  Country:- TRN :-					
Sr.no.	Description of Goods	Item code	Qty	Unit	Rate	Total	Trade Discount	Taxable amount	VAT Rate    Amt.		Total Amount
Total Invoice value (in words)									<b>Invoice Total</b>		
Certified that particulars given above are true and correct											
Payment should be made at											
Terms & Condition of Sale, if any									Supplier name		
									Signature/Digital signature		
									Name		
									Authorised signatory		

# Tax Invoice – Format - Services

Tax Invoice							
Supplier name - _____							
Supplier Address - _____							
TRN				Invoice Date			
Place of supply				Invoice serial no.			
Tax is payable under reverse charge (Yes/No)				Currency			
<b>Bill to</b> Name :- Address :-  Country :- TRN:-				<b>Services rendered to</b> Name :- Address :-  Country :- TRN:-			
Sr.no.	Description of Services	Total	Trade Discount	Taxable amount	VAT		Total
					Rate	Amt.	Amt.
Total Invoice value (in words)					Invoice Total		
Certified that particulars given above are true and correct							
Payment should be made at							
Terms & Condition of Sale, if any					Supplier name		
					Signature/Digital signature		
					Name		
					Authorised signatory		

# Flow of Accounting Entries

Sr no	Particulars	Debit	Credit
1	Purchase A/C & Expense A/c	XXX	
	Input Vat A/C	XXX	
	To Bank Creditors A/C		XXX
2	For Sales:		
	Bank / Debtor A/C	XXX	
	To Sales A/C		XXX
	To Output Vat A/C		XXX
3	Quarterly / Monthly Journal for VAT Payment		
	Output Vat A/C	XXX	
	To Input Vat A/C		XXX
	To Vat Payable A/C		XXX
4	Payment to FTA		
	Vat Payable A/C	XXX	
	To Bank A/C		XXX
5	Quarterly / Monthly Journal for VAT Refund		
	Vat Refund A/C	XXX	
	Output Vat A/C	XXX	
	To Input Vat A/C		XXX
6	Refund received from FTA		
	Bank A/C	XXX	
	To Vat Refund A/C		XXX

FOR REVERSE CHARGE ENTRIES (Supply of imported goods in the same return)			
Sr no	Particulars	Debit	Credit
1	Purchase A/C & Expense A/c	XXX	
	Input Vat -RCM A/C	XXX	
	To Bank Creditors A/C		XXX
	To Vat payable RCM a/c		XXX
2	For Sales:		
	Bank / Debtor A/C	XXX	
	To Sales A/C		XXX
	To Output Vat A/C		XXX
3	Quarterly / Monthly Journal for VAT Payment		
	Output Vat A/C	XXX	
	Vat payable RCM a/c	XXX	
	To Input Vat RCM A/C		XXX
	To Vat Payable A/C		XXX
4	Payment to FTA		
	Vat Payable A/C	XXX	
	To Bank A/C		XXX
5	Quarterly / Monthly Journal for VAT Refund		
	Vat Refund A/C	XXX	
	Output Vat A/C	XXX	
	Vat payable RCM a/c	XXX	
	To Input Vat RCM A/C		XXX
6	Refund received from FTA		
	Bank A/C	XXX	
	To Vat Refund A/C		XXX

# Impact on account of VAT

Particulars	Vat Rate (%)	Condition	Input/Output VAT available/payable
<b>Supply of Services</b>			
Domestic Supplies	5		Y
Intra GCC Supplies	Out of scope	If customer has TRN.	N
Export of Services	0		Y
<b>Sale of Goods</b>			
Domestic Supplies	5		Y
Intra GCC Supplies	Out of scope	If customer has TRN.	N
Export of Services	0		Y
<b>Purchase of Services</b>			
Domestic Suppliers	5		Y
Intra GCC Suppliers	5	RCM	Y
Import from Non- GCC Suppliers	5	RCM	Y
Import from Outside UAE to another Country	Out of scope		Y
<b>Purchase of Goods</b>			
UAE Suppliers	5		Y
Intra GCC Suppliers	5	RCM	Y
Import from Non- GCC Suppliers	5	RCM	Y
Import from Outside UAE to another Country	Out of Scope		Y
<b>Purchase of other general and administrative expenses</b>			
Commercial Rent expense	5		Y
Communication expense	5		Y
Office supplies	5		Y
Insurance	5		Y
Legal & Professional	5		Y
Bank Interest expense	Exempt		Y
Bank Charges	5		Y
Reimbursement of expenses to employees	5		N
Expenses not related to making Business Suppli	5		N

# SECTION 4

- Tax Grouping
- Tax Invoices / Credit Note
- Transactional Rules
- Discounts & Subsidies
- Appeals & Penalties

# Tax Grouping

**Tax Group:** Two or more taxable persons can register as a single taxable person if all of the following conditions are met:

- Each shall have a place of establishment or fixed establishment in the State (e.g. UAE).
- The taxable persons should be Related Parties.
- One or more persons conducting business in a partnership shall control the others.

As per Federal Tax Authority (FTA) directive following criteria needs to be met for Tax grouping by each company:

Sr.no	Criteria	Brief Explanation
1	Business Criteria	Each Company (Member) must be operating a business
2.	Legal Person Criteria	Each company must be legal person
3.	Establishment Criteria	Each company must have either P.E (Permanent Establishment or a branch)
4.	*Related Parties Criteria	Each UAE company should share economic, Financial and organizational ties with at least one UAE company.
5	**Control Criteria	Each company should be under control of One person or group of persons which can be either legal or natural person.

Tax grouping is a long-term decision and hence needs to be properly evaluated by doing impact analysis. Tax grouping can be done for UAE companies only, so GCC and Non-GCC companies cannot be included in Tax grouping.

## **\*\*Control Criteria:**

- One person must be able to control the other members; or
- More than one Legal person where one person, or two or more persons acting in a formal partnership arrangement fulfill below mentioned criteria:
  - a voting interest in those companies of at least 50% when added together; or
  - a market value interest in each of those companies of at least 50% when added together; or
  - control by any other means



**\*Related Parties :** Two or more legal persons who are not separated on the economic, financial or regulatory/organisational level, where one can control the others either by Law, or through the acquisition of shares or voting rights.

**Taxable person :** Taxable person means any natural or legal (corporation or not) person conducting an economic activity for generating income. Such person is registered or obligated to register for VAT as per the registration threshold in a member state. Taxable persons can include businesses located outside the GCC territory.

**Place of Residence :** The place where a taxable person has a place of establishment or fixed establishment in the state.

**Place of Establishment :** The place where a business is legally established as per laws and regulations, or in which significant management decisions are taken and central management functions are conducted.

**Fixed Establishment :** Any fixed place of business, other than the Place of Establishment, in which the Person conducts his business regularly or permanently and where sufficient human and technology resources exist to enable the Person to supply or acquire Goods or Services, including the taxable person's branches.

In case related parties do not apply for tax registration as a tax group, then the Authority may on their own assess their relations based on their economic, financial and regulatory practices in business and require the taxable person to register them as a tax group.

## **In case the supply of goods and performance of services are made on or after 1<sup>st</sup> January 2018**

If an invoice is issued or Consideration is paid before the commencement date i.e. before 01<sup>st</sup> January 2018, in respect of a Supply which occurs on or after the commencement date, the Supplier of the Goods or services shall be considered to make a Taxable Supply on the date the Goods or services are supplied. In such cases the Taxable Person shall issue an additional invoice showing the Tax charged on the Supply of Goods or services, unless this Tax was included on the invoice issued before the commencement date of the Law.

The date of a Supply occurs on or after the commencement date in the following cases:

- (a) if the date when Goods are delivered or made available occurs on or after 01<sup>st</sup> January, 2018.
- (b) if the date when the performance of services is completed occurs on or after 01<sup>st</sup> January, 2018.

## **Scenarios Industry wise:**

### **Trading companies:**

Goods sold by trading companies before 01<sup>st</sup> January 2018, but delivered (includes transportation) or made available (when transportation is not included) after 31<sup>st</sup> December 2017. VAT will be applicable over such supplies.

# Transitional Rules ( Contd. )

## Trading companies dealing with Call Off Stock:

Call off stock is where goods are already stored at the premises or warehouse of a potential customer, however the ownership remains with the seller until customer takes stock. Trading companies supplying goods on sales and return basis need to account VAT when:



## **Insurance Companies:**

Insurance policies which are issued or renewed on or after 01<sup>st</sup> January 2018, will be subject to VAT.

Insurance contracts which have payment in installment basis, the due dates of the installments which are getting due after 31<sup>st</sup> December 2017 will be subject to VAT.

## **Real estate:**

In case of the construction contracts running over the period of commencement date, VAT is not applicable on the portion of supplies provided before 31<sup>st</sup> December 2018.

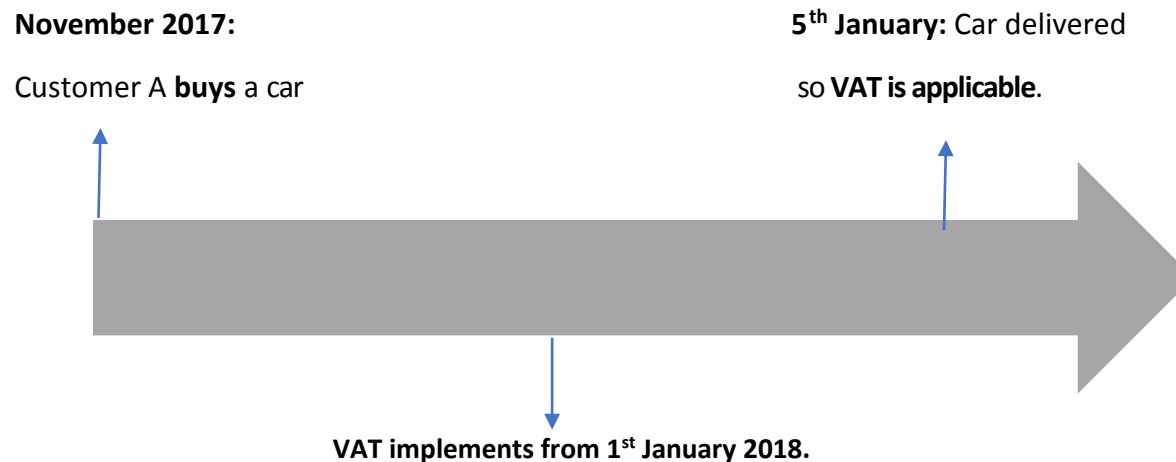
Construction services are continuous services and VAT will be accounted as follows:

The time of supply for will be the earlier of receipt of payment or issuance of tax invoice.

# Transitional Rules ( Contd. )

Transitional rules refer to those transactions which are going to overlap the two periods i.e. period before and after vat implementation. For example, following scenarios are covered under transitional rule:

- A) Where a payment is received in respect of a supply of goods or services before the introduction of VAT i.e. before 01st January 2018, but the goods or services are delivered after the introduction of VAT, VAT must be charged on such supplies.



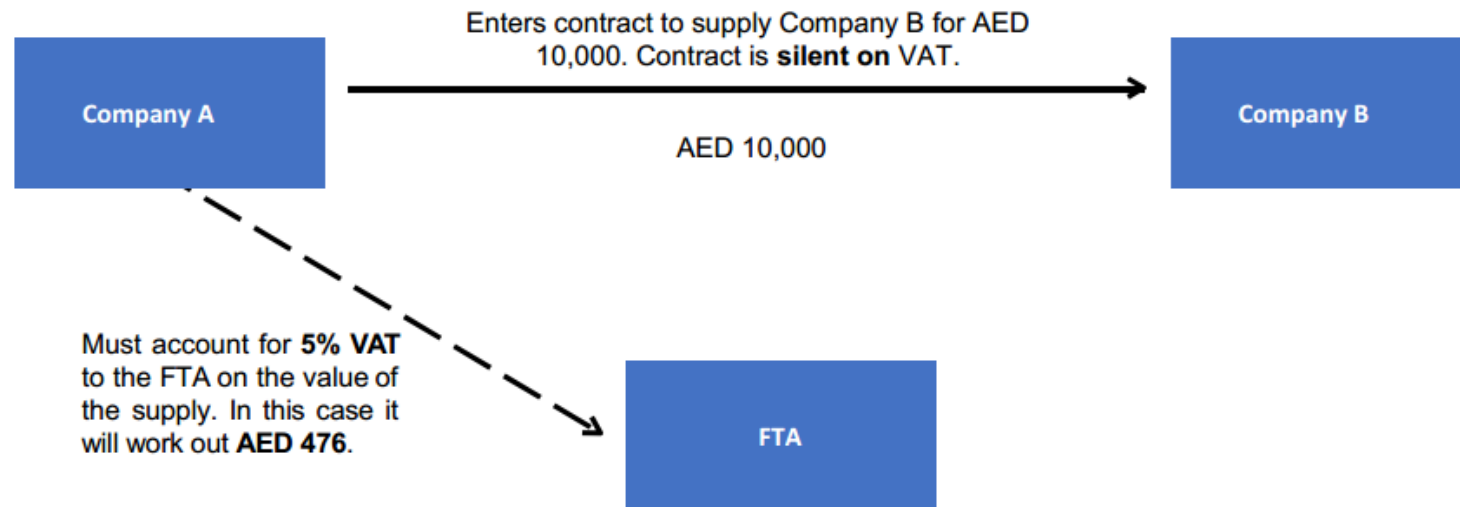
Example:

- Transfer of goods under the supplier's supervision. In case the supply is done after 1st January 2018, then VAT is applicable.
- Completion of assembly of the goods.
- A customs statement is issued.

# Transitional Rules ( Contd. )

**B) Where a contract is concluded prior to the introduction of VAT in respect of a supply which is wholly or partly serviced/supplied after the introduction of VAT, VAT needs to be charged for those services / suppliers. Example:**

- If the contract is silent on the treatment of VAT, value of supply will be considered as **Inclusive** of tax.

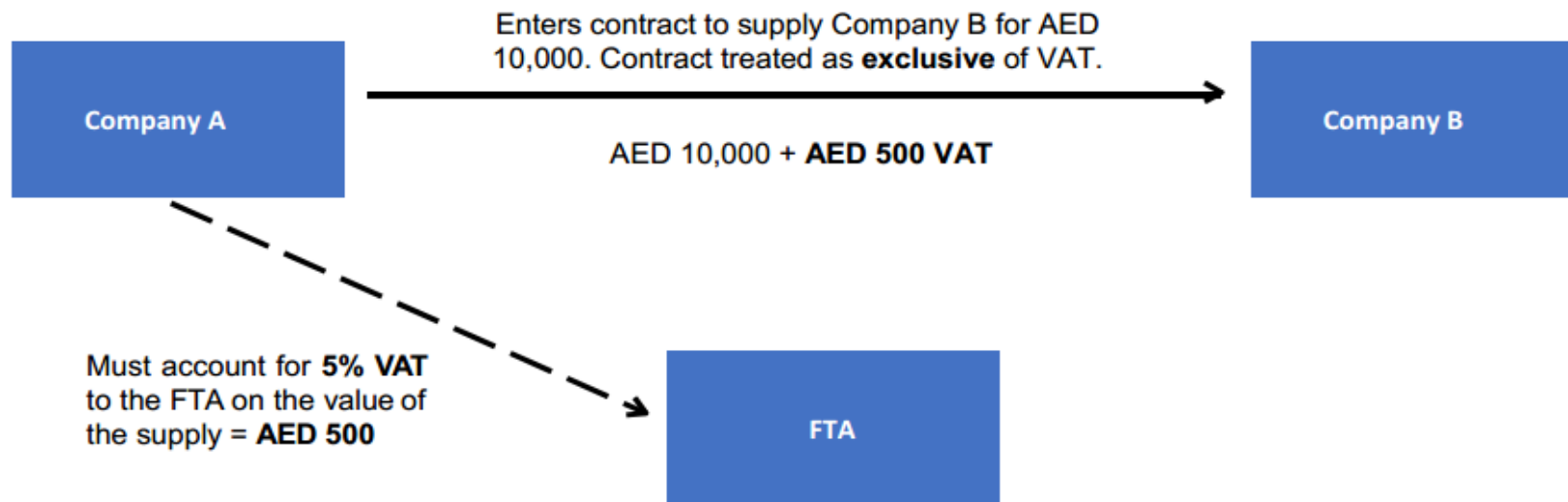


# Transitional Rules ( Contd. )

- If the contract states the treatment of VAT, value of supply will be exclusive of tax and tax will be collected over and above the value.

Where company B is registered for VAT and is entitled to recover VAT on their costs incurred, Company A can treat the contract as if the price stated was exclusive of VAT.

Company A can therefore charge VAT to Company B in addition to the price stated.



# Contracts concluded before 1 January 2018 – exclusive of VAT

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Where a contract has been concluded prior to 1 January 2018 but the date of supply made under the contract after 1 January 2018, the consideration shall be treated as exclusive of tax if all of the following conditions are met :

- the recipient is a Registrant
- the recipient may deduct Input Tax incurred on the supply either in full or in part

The supplier needs to request the recipient of goods or services before 1 January 2018 to confirm;

- whether the recipient is or expects to be registered on 1 January 2018
- the extent to which he expects to be able to recover tax incurred on the supply

The recipient needs to reply in writing within 20 business days of receiving an information request



If a Capital Asset is supplied or imported by a Taxable Person, the latter shall assess the period of use of such asset and make the necessary adjustments to the Input Tax paid pursuant to the Capital Assets Scheme. A Taxable Person shall keep the records related to Capital Assets for at least ten years.

Qualifying assets for Capital asset scheme:

- Capital asset of 5 million AED or more.
- Useful life of more than 120 months for Buildings or part of such Buildings.
- Useful life of more than 60 months for assets other than Buildings or part of such Buildings.

Method:

**Year 1:** Recover input tax incurred on the purchase of the asset based on the expected taxable use of the asset. If 100% taxable use (For Business activity), then recover all input tax incurred in full.

**Year 2 – 10:** Adjust *input tax recovery* for that year based on that year's taxable use.

Calculation for such Input tax recovery :

Total Input tax on Capital asset

Adjustment Period

X

( Original Taxable Use % - Actual taxable use)

=

Additional Vat recoverable/Payable to/from FTA.

Supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.

**Illustration** – Where goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance is a composite supply and supply of goods is a principal supply.

A supply will be regarded as a 'composite supply' if the supply should consists of two or more taxable supplies, the supplies may be of goods or services or both; the supplies should be naturally bundled; they should be supplied in conjunction with each other in the ordinary course of business; and one of the supplies should be a principal supply

The following aspects need to be noted:

- The way the supplies are bundled must be examined. Mere conjoint supply of two or more goods or services does not constitute composite supply.
- The two (or more) supplies must appear natural when bundled and presented to the recipient.
- The ancillary supply becomes necessary only because of the acceptance of the predominant supply.
- The method of billing, assignment of separate prices etc. may not be relevant.
- The tax treatment of a composite supply would be as applicable to the principal supply.

Illustrations of composite supply are as follows:

- Supply of laptop and carry case;
- Supply of equipment and installation of the same;
- Supply of repair services on computer along with requisite parts;

The State shall not be treated as providing a subsidy to the supplier if the subsidy or part of it is a consideration for a supply of Goods or Services to the State.

The value of supply may be reduced in the case of a discount; if the following conditions are met:

- The customer has benefited from the reduction in price.
- The supplier funded the discount.

The value of a discount shall be the amount by which the consideration is reduced.

The value of a discount shall not include the value of any voucher used, and any such reduction will be ignored unless that voucher was provided for no consideration.

Where the voucher was issued and sold by the supplier for consideration that is less than the value stated on the voucher, the value of a discount shall be the difference between the value of the voucher and the consideration paid for that voucher.

“Voucher” shall not include an instrument that gives the right to receive goods or services or the right to receive a discount on the price of the goods or services unless the monetary value for which the voucher may be redeemed is identifiable at the time the voucher is issued

## Appeals:

Any person will be able to object a decision of the Federal Tax Authority ( FTA ).

As a first step, the taxable person shall request the FTA to reconsider its decision. Such request of re-consideration has to be made within 20 business days from the date the person was notified of the original decision of the FTA, and the FTA will have 20 business days from receipt of such application to provide its revised decision.

If the person is not satisfied with the revised decision of the FTA, it will be able to object to the Tax Disputes Resolution Committee set up for these purposes. Objections to the Committee will need to be submitted within 20 business days from the date the person was notified of the FTA's revised decision, and the person must pay all taxes and penalties subject of objection before objecting to the Committee. The Committee will give its decision regarding the objection within 20 business days from its receipt.

As a final step, if the person is not satisfied with the decision of the Committee, the person may challenge its decision before the competent court. The appeal must be made within 20 business days from the date of the appellant being notified of the Committee's decision

## Penalties :

### **Administrative Penalties :**

Administrative penalties are intended to address non-compliance, and encourage compliance and will be not less than 500 dirhams and not more than 3 times the amount of tax for which the penalty was levied.

Example:

If the person conducting a business fails to keep the required records and other information; If the person conducting a business fails to submit the data, records and documents related to tax in Arabic language when requested by FTA;

If the taxable person fails to submit a registration application within the period required.

### **Tax Evasion Penalties :**

Tax evasion is where a person uses illegal means to either lower the tax or not pay the tax due, or to obtain a refund to which he is not entitled under law and will be Up to five times the relevant tax at stake.

Example:

Where a person deliberately provides false information and data and incorrect documents to the FTA Where a person deliberately conceals or destroys documents or other material that he is required to maintain and provide to the FTA.

- Supply of goods & services without consideration
- Goods used or partially used for non business purpose
- Goods & services owned on the date of tax de - registration
- Supply of business assets to / from another implementing state

## Deemed Supply exemptions (Executive regulation article 5)

- Input tax not recovered on supply of said goods / services supplied
- Input tax adjusted pursuant to capital goods scheme
- Samples & Commercial gifts less than AED 500 per recipient within 12 month period
- Total output tax payable on all deemed supplies is less than AED 2000 per person for 12 month period

# Non Recoverable Input Tax

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- Business Entertainment
- Motor vehicle - purchased or leased for biz and available for private use
- Goods & services purchased for personal use
- Import of goods in UAE where intended final designation of goods is in another implementing state

# Non Taxable Supplies

## Input Tax Credit available

- Exempt supply under the VAT law → No
  - Outside the scope of VAT Not a supply or disregarded supply
  - Cannot charge VAT on a non-taxable supply
- Depends



# SECTION 5

- VAT Readiness key areas

# VAT Readiness Key Areas

- Compliance & Control
- Filing & Payment
- Customer management
- Organization & Employees Responsibilities
- Accounting
- Data & Record management
- Supplier Management



We appreciate and thank you for going through the information furnished above and welcome you to connect with us for further details.

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