UAE VAT Rules Are Changing: Understanding Cabinet Decision No. 149 of 2026

The UAE VAT framework is entering another important phase of development.

Cabinet Decision No. 149 of 2026 introduces a series of amendments to the Executive Regulation of the UAE VAT Law. These changes are not limited to VAT return preparation. They can affect contracts, employee benefits, procurement practices, payment methods, accounting systems, product classifications and the way recoverable input VAT is calculated and recovered.

> Articles 4(6), 29(5), 41(4), 52(2), 53(1)(c), 54(3), 57(1) and 60(1)(a) take effect from **1 October 2026.** However, the revised input tax apportionment rules under Article 55(6), 55(7), 55(19) have a later commencement date and will apply from the **first Tax Year commencing after 1 October 2027**.

SUMMARY OF THE AMENDMENTS

The following table summarises the principal amendments introduced by Cabinet Decision No. 149 of 2026.

VAT Provision	Original Clause – Previous Position	Original Clause – After Amendment	Effective Date	Practical Business Impact
Article 4(6) – Composite Supplies	**No equivalent Clause 6 existed.** Article 4(1)–(5) already governed single composite supplies, including principal/ancillary components and elements so closely linked that separating them would be unnatural. It also contained conditions relating to separate pricing and a single supplier.	6. A Taxable Person may not consider a supply consisting of more than one component as multiple supplies if the nature of the supply and its economic substance demonstrate that these components are interconnected and cannot be separated. In such case, the supply shall be deemed a single composite supply, and shall be subject to the tax treatment in accordance with its principal component.	1 Oct 2026	Review bundled products, combined contracts and transactions containing components with different VAT treatments.
Article 29(5) – Profit Margin Scheme	**Clause 5:** The purchase price referred to in Clause 4 included the price of the goods together with costs and fees incurred in acquiring them, without an express condition linked to recoverability of input VAT.	5. The "purchase price" stated in Clause 4 of this Article includes, in addition to the purchase price of the Good, any costs or fees incurred to purchase the Good, provided that the Input Tax on such costs or fees, where incurred, is not recoverable pursuant to the provisions of Article 54 of the Decree-Law.	1 Oct 2026	Dealers using the Profit Margin Scheme should review how acquisition costs are included in margin calculations.
Article 41(4) – Healthcare	**Clause 4:** Zero-rating separately covered Cabinet-specified pharmaceutical products, Cabinet-specified medical equipment, and other necessary goods supplied in the course of providing zero-rated healthcare services.	4. A supply of Goods or an Import of Concerned Goods is zero-rated if it is a supply or an Import of: a. Any medical product as specified in a decision issued by the Cabinet. b. Any other Goods not covered by paragraph (a) of this Clause which are supplied in the course of supplying a Person with zero-rated Healthcare Services that are necessary for the supply of such Healthcare Services.	1 Oct 2026	Healthcare businesses should review product classification and VAT coding.
Article 52(2) – Person Outside the UAE	**Clause 2:** A person could still be treated as outside the State where their UAE presence was short-term—less than one month—and that presence was not effectively connected with the supply.	2. For the purposes of Clause 1 of this Article, a Person shall be considered "outside the State" if only present in the State for a period of less than 30 (thirty) days, and such presence is not effectively connected with the supply.	1 Oct 2026	Relevant businesses should use an actual day-count test and continue assessing whether the UAE presence is connected with the supply.

VAT Provision	Original Clause – Previous Position	Original Clause – After Amendment	Effective Date	Practical Business Impact
Article 53(1)(c)(1) & (2) – Employee Benefits	**Sub-clause 1:** Recovery exception applied where providing the goods/services was a legal obligation under applicable labour law in the State or a Designated Zone. **Sub-clause 2:** It also applied where provision was a contractual obligation or documented policy enabling employees to perform their role and could be demonstrated as normal business practice.	1) Where the provision of those Goods or Services to the employees is mandatory under the applicable labour legislation in the State or any free zone, including financial and non-financial free zones, provided that this does not include the accommodation provided by the employer to its employees, unless the provision of such accommodation is mandatory pursuant to the decisions or directives issued by the Ministry of Human Resources and Emiratisation. 2) Where it is a contractual obligation or documented policy to provide those Goods or Services to the employees, in accordance with the cases and conditions specified by the Authority.	1 Oct 2026	Employers should review accommodation, transport, meals, telecommunications, parking and other employee benefits.
Article 54(3) – Cash Payments	**No equivalent Clause 3 existed.** Article 54 previously contained two clauses dealing with timing of input tax recovery/payment of consideration; it did not contain a specific restriction based on high-value cash payments.	3. Input Tax may not be recovered on any supply which has a value exceeding the amount specified in a decision issued by the Minister where the consideration is paid or intended to be paid in cash, in accordance with the controls specified in that decision.	From 1 Oct 2026, subject to prescribed threshold and controls	Procurement and payment processes may need additional controls once the threshold is prescribed.
Article 55(6) & (7) – Input Tax Apportionment	**Clause 6:** Input tax was divided between fully recoverable input tax, non-recoverable input tax and residual input tax requiring apportionment. **Clause 7:** The standard recovery percentage was determined by reference to recoverable input tax compared with total input tax for the Tax Period; the percentage was rounded and applied to residual input tax.	6. To determine the Input Tax that could be recoverable, the Taxable Person shall apportion Input Tax as follows: a. Input Tax that relates to supplies, as specified in Clause 1 of Article 54 and Article 57 of the Decree-Law, made by the Taxable Person may be recovered in full. b. Notwithstanding paragraph (a) of this Clause, Input Tax that is not recoverable in accordance with Article 53 of this Decision or that does not relate to supplies specified in Clause 1 of Article 54 and Article 57 of the Decree-Law, may not be recoverable unless the provisions of the Decree-Law and this Decision provide otherwise. c. Input Tax that partly relates to supplies as specified in Clause 1 of Article 54 of the Decree-Law and partly relates to other supplies, shall be calculated in accordance with the mechanism set out in Clause 7 of this Article, and only the part that relates to supplies specified in Clause 1 of Article 54 of the Decree-Law may be recovered. d. Notwithstanding paragraph (c) of this Clause, Input Tax that partly relates to the supplies specified in Clause 1 of Article 54 of the Decree-Law, and Article 57 of the Decree-Law, and partly relates to other supplies, in respect of Government Entities and Charities, shall be calculated in accordance with the mechanism set out in Clause 19 of this Article. 7. Input Tax that could be recoverable shall be calculated as follows: a. The Taxable Person shall calculate the percentage of total supplies as specified in Clause 1 of Article 54 of the Decree-Law, to the total value of all supplies. b. The supply of Capital Assets attributable to the Taxable Person, the receipt of the Concerned Goods and the receipt of the Concerned Services in accordance with Article 48 of the Decree-Law, shall be excluded from the calculation of the percentage referred to in paragraph (a) of this	First Tax Year commencing after 1 Oct 2027	Potentially significant for businesses making both recoverable and non-recoverable supplies.

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		Clause. c. The percentage calculated under paragraph (a) of this Clause shall be rounded to the nearest whole number. d. The percentage calculated under paragraph (c) of this Clause shall be multiplied by the amount of Input Tax referred to in paragraph (c) of Clause 6 of this Article to establish the recoverable portion of that Input Tax.		
Article 55(19) – Government Entities & Charities	**No equivalent Clause 19 existed.** Government Entities and Charities were not provided with the new separate Clause 19 calculation now introduced by Decision 149. The existing Article 55 standard apportionment framework applied before this amendment.	19. For the purposes of paragraph (d) of Clause 6 of this Article, Government Entities and Charities shall calculate the recoverable Input Tax as follows: a. Government Entities and Charities shall calculate the percentage of the recoverable Input Tax pursuant to Clause 1 of Article 54, and Article 57 of the Decree-Law, to the total recoverable Input Tax and non-recoverable Input Tax for the Tax Period. b. The percentage calculated under paragraph (a) of this Clause shall be rounded to the nearest whole number. c. The percentage calculated under paragraph (b) of this Clause shall be multiplied by the amount of Input Tax referred to in paragraph (d) of Clause 6 of this Article to establish the recoverable portion of that Input Tax.	First Tax Year commencing after 1 Oct 2027	These entities do not move to the general supply-value method applicable to most taxpayers.
Article 57(1) – Capital Asset Scheme	**Clause 1:** A Capital Asset was defined by reference to a single item of business expenditure of at least AED 5 million, excluding VAT, on which VAT was payable and which met the prescribed useful-life requirements.	1. For the purposes of the Capital Asset Scheme referred to in Articles 12 and 60 of the Decree-Law, a Capital Asset is a business asset with a cost amounting to AED 5,000,000 or more, excluding Tax, on which Tax is payable and which has an estimated useful life equal or longer than: a. 10 (ten) years in case of a building or a part thereof. b. 5 (five) years for all Capital Assets other than buildings or parts thereof.	1 Oct 2026	Businesses with significant capital projects and assets should review Capital Asset Scheme classifications and records.
Article 60(1)(a) – Tax Credit Notes	**Paragraph (a):** The previous wording required the words identifying the document as a Tax Credit Note to be clearly displayed on the invoice, creating an apparent drafting inconsistency.	1. The Tax Credit Note shall contain all the following particulars: a. The words “Tax Credit Note” clearly displayed on the credit note.	1 Oct 2026	Review ERP-generated credit notes and document templates.

Source: *Cabinet Decision No. 149 of 2026 amending the Executive Regulation of Federal Decree-Law No. 8 of 2017 on Value Added Tax.*

WHAT SHOULD UAE BUSINESSES DO NEXT?

Not every amendment requires an immediate system change. However, businesses should understand which changes affect their activities and prepare before the relevant effective dates.

1. Review employee-related VAT recovery

Businesses should identify employee costs on which input VAT is currently being recovered and determine the basis for that recovery.

Particular attention should be given to:

- staff accommodation;
- employee transportation;
- meals and food arrangements;
- mobile phones and data packages;
- home internet expenses;
- employee parking; and
- benefits provided under employment contracts or internal policies.

The VAT treatment should be supported by the actual circumstances and documentation rather than relying only on the existence of a company policy.

Finance and HR teams may therefore need to work together more closely when determining whether employee-related VAT is recoverable.

2. Identify bundled or composite transactions

Businesses providing multiple products or services under a single commercial arrangement should revisit how those transactions are classified for VAT.

The key question is increasingly: Are these genuinely separate supplies, or are the components economically part of one overall supply?

This assessment could be particularly important where different components would otherwise be standard-rated, zero-rated or exempt.

Contracts, quotations, pricing structures and invoice descriptions should therefore be consistent with the commercial substance of the transaction.

3. Prepare for the new input tax apportionment method

The Article 55 amendment has a delayed effective date, but affected businesses should not wait until the final VAT period before assessing its impact.

Businesses making a mixture of supplies with different input VAT recovery outcomes should consider modelling the revised calculation in advance.

The new methodology may produce a recovery percentage that is **higher or lower** than the current result depending on the business's supply and cost structure.

Sectors that may need particular attention include financial services, real estate and other businesses with significant mixed or partially recoverable activities.

Businesses should also determine whether their accounting systems can produce the supply-value information required for the future calculation.

4. Review cash procurement and payment practices

The new restriction on high-value cash purchases should be monitored closely.

Once the Ministerial threshold and controls are prescribed, businesses may need to introduce approval mechanisms that identify qualifying purchases before payment is made.

This could require coordination between:

- procurement;
- accounts payable;
- treasury;
- finance; and
- tax teams.

Until the relevant threshold is formally prescribed, businesses should avoid applying an assumed monetary limit.

5. Check Profit Margin Scheme calculations

Businesses applying the Profit Margin Scheme should revisit the costs included in the purchase price of qualifying goods.

Where VAT on an acquisition-related cost is recoverable, the amended provision may prevent the same amount from effectively providing an additional benefit through the margin calculation.

Cost schedules and supporting documentation should clearly identify the VAT recovery status of each relevant expenditure item.

6. Review healthcare product classifications

Healthcare businesses should confirm that product classifications and VAT codes remain consistent with the revised terminology and the applicable Cabinet decisions identifying qualifying medical products.

Product master files and ERP tax codes may require review where older descriptions continue to distinguish between categories that have now been brought under the broader “medical product” terminology.

7. Check Capital Asset Scheme records

The AED 5 million threshold has not changed.

However, because the wording now focuses on a **business asset and its cost**, businesses undertaking significant property developments, construction projects or other major capital expenditure should review whether their fixed-asset and Capital Asset Scheme records appropriately reflect the underlying asset.

8. Do not overlook the smaller changes

Some changes are straightforward but still deserve attention.

For example:

- the “outside the State” test now uses a specific **30-day threshold** rather than “a month”; and
- the Tax Credit Note provision has been corrected to clearly refer to the credit note itself.

Small wording changes can still affect processes, templates and supporting documentation.

Looking Ahead

Cabinet Decision No. 149 of 2026 is not simply a collection of technical drafting amendments.

It reflects a broader development of the UAE VAT framework towards clearer rules, closer alignment between economic substance and VAT treatment, and more detailed conditions around input tax recovery.

For many businesses, the immediate priority will be employee-related expenses and transactions affected from **1 October 2026**.

For businesses with mixed taxable and non-recoverable activities, the longer-term priority will be preparing for the revised input tax apportionment methodology. Although its implementation is deferred, the change could have a meaningful impact on future VAT recovery and should be modelled in advance.

At **M&M Al Menhali Auditing**, our tax team assists UAE businesses with VAT compliance, VAT return filing, input tax recovery reviews and the practical implementation of changes to UAE tax legislation.

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This publication is intended for general information purposes only and should not be considered tax or legal advice. The application of UAE VAT legislation depends on the facts and circumstances of each transaction. Businesses should obtain professional advice where appropriate.

Legislative reference: *Cabinet Decision No. 149 of 2026 amending certain provisions of Cabinet Decision No. 52 of 2017 on the Executive Regulation of Federal Decree-Law No. 8 of 2017 on Value Added Tax.*