

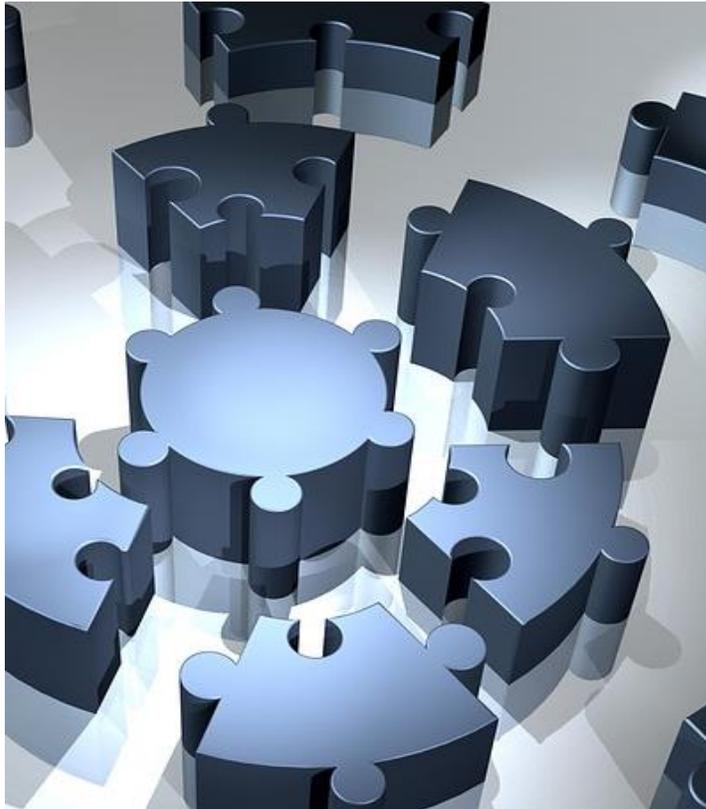
VAT INTRODUCTION IN THE UAE

by

MENA LEGAL International Tax Practice Group



VAT IN THE UAE



2017 has been a landmark year in the UAE, which has witnessed the most far-reaching reforms on the economical local market in the young history of the county.

This bears a lot of legal and factual challenges for the financial and business sector.

To provide the needed guidance to businesses in the UAE taxpayers are advised to seek consultation which allows them to take the necessary measures in time.

Deadline for registration of companies with a turnover above AED 375,000/y is the 4th of December 2017. A fine of AED 20,000 would be imposed upon a lack of registration.

“The barrier to change is not too little caring; it is too much complexity. To turn caring into action, we need to see a problem, see a solution, and see the impact. But complexity blocks all three steps.”

Bill Gates

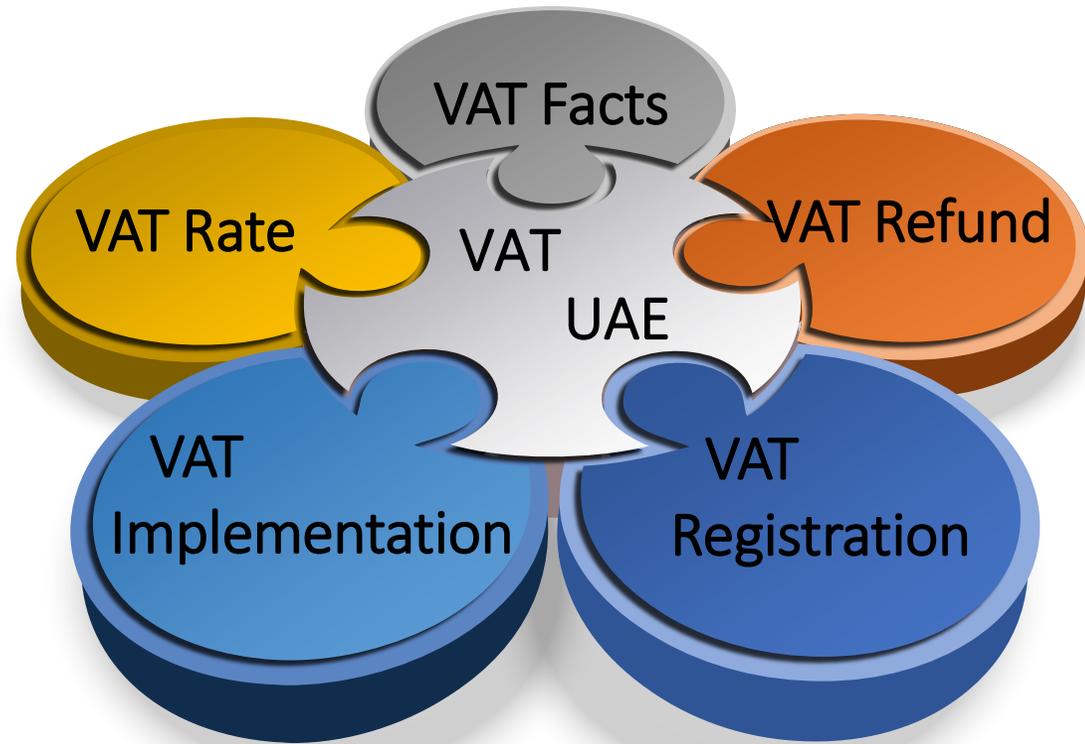


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MENA LEGAL is providing a complete overview on the VAT subject below stating its status, conditions and application, as per current available information.



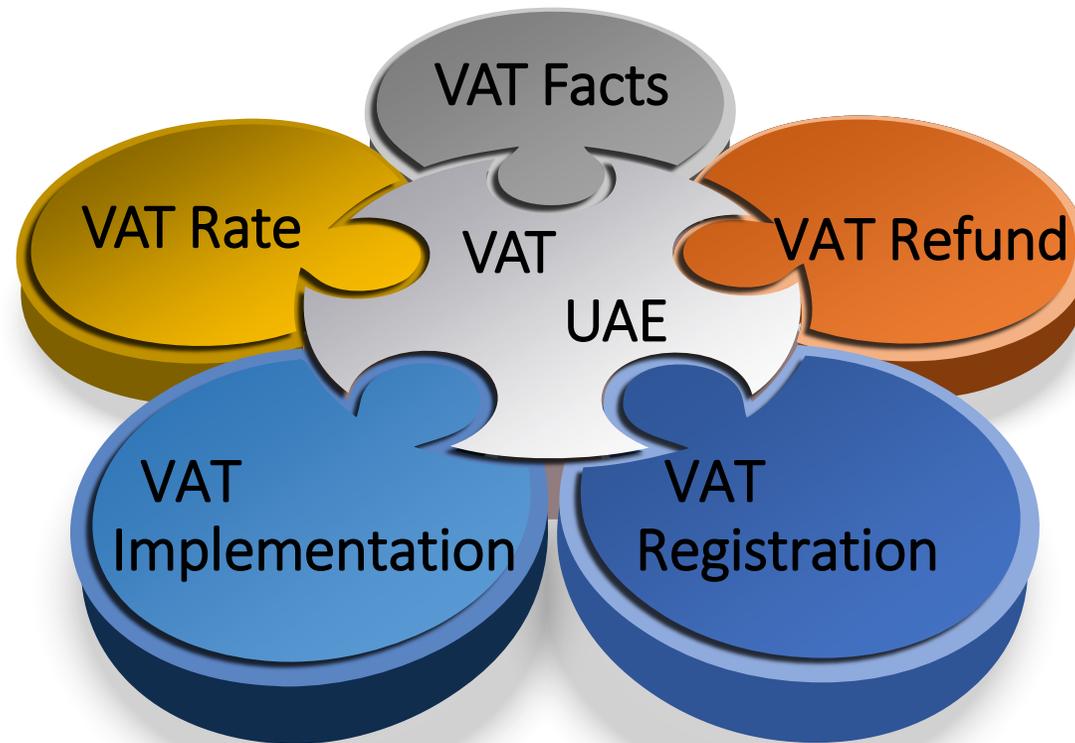
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VAT IN THE UAE

VAT Rate

A standard VAT rate of 5% will be applied on goods and services (e.g. food, consulting services, maintenance works etc.) that are not VAT exempt or zero-rated.



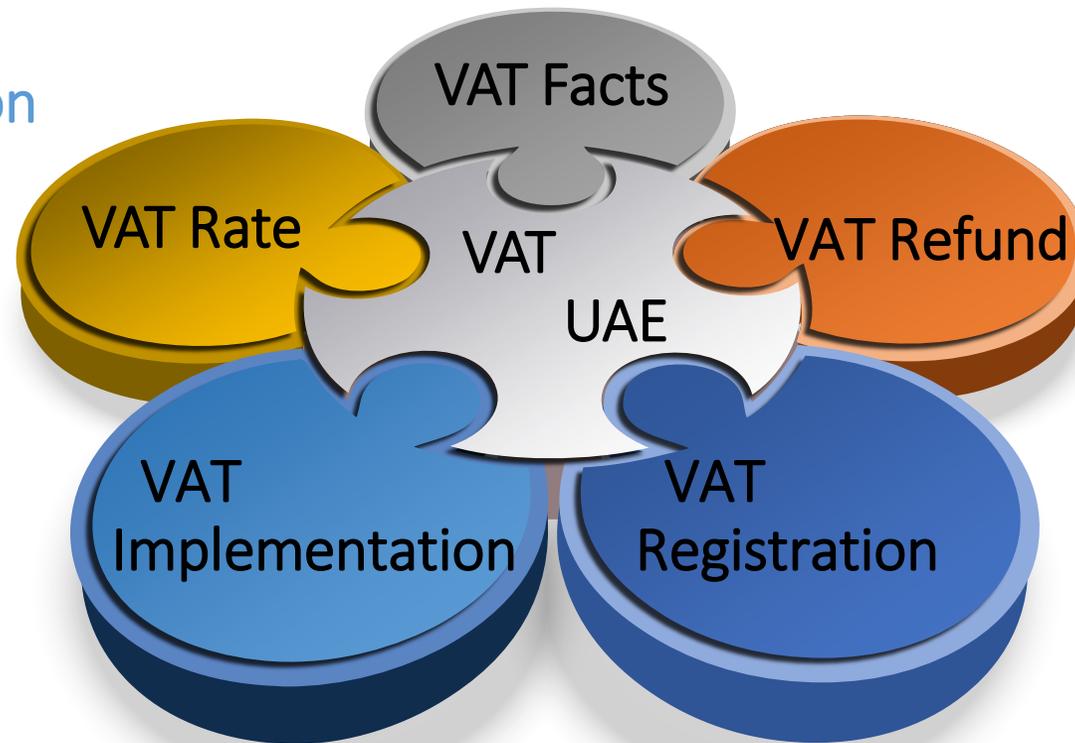
VAT Facts

UAE has released the text of its domestic VAT Law, after releasing the text of its Excise Tax Law as well as the FTP Law.

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VAT Implementation

Implementation in the UAE on 1st of January 2018. The FTA is the government entity responsible for the collection and management of federal taxes.



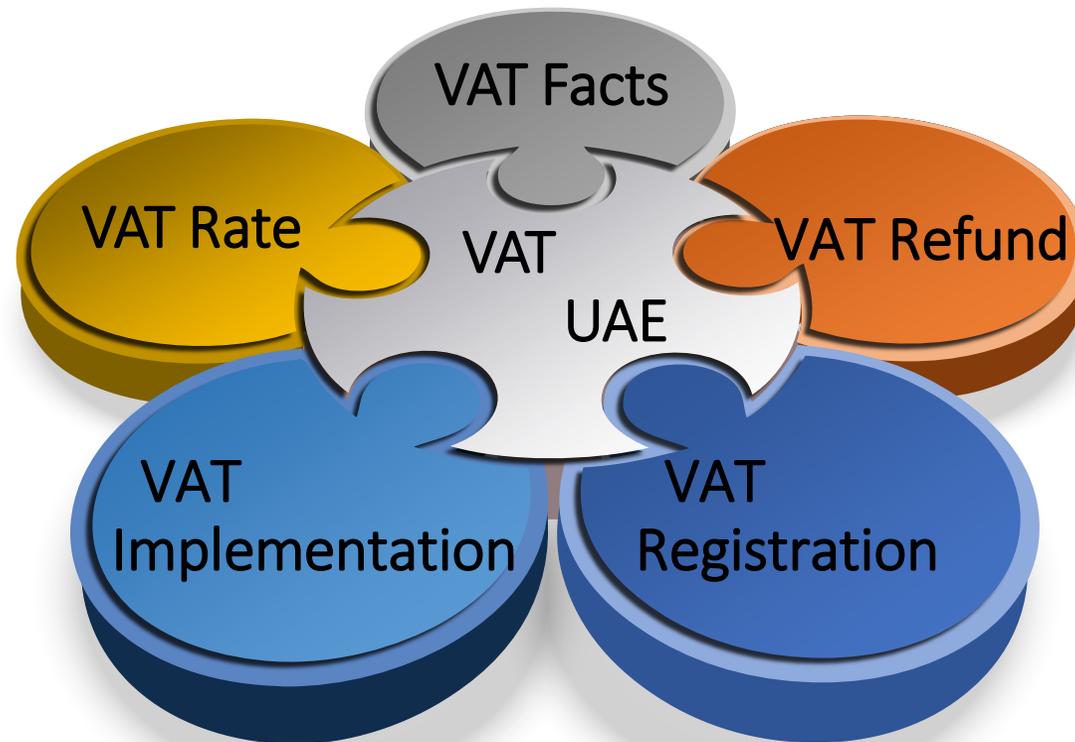
VAT Refund

Any business will be able to recover VAT on purchases of goods and services, to the extent that those purchases are only used for business purposes (subject to certain conditions).

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VAT Registration

The FTA has already opened VAT registrations on its portal.

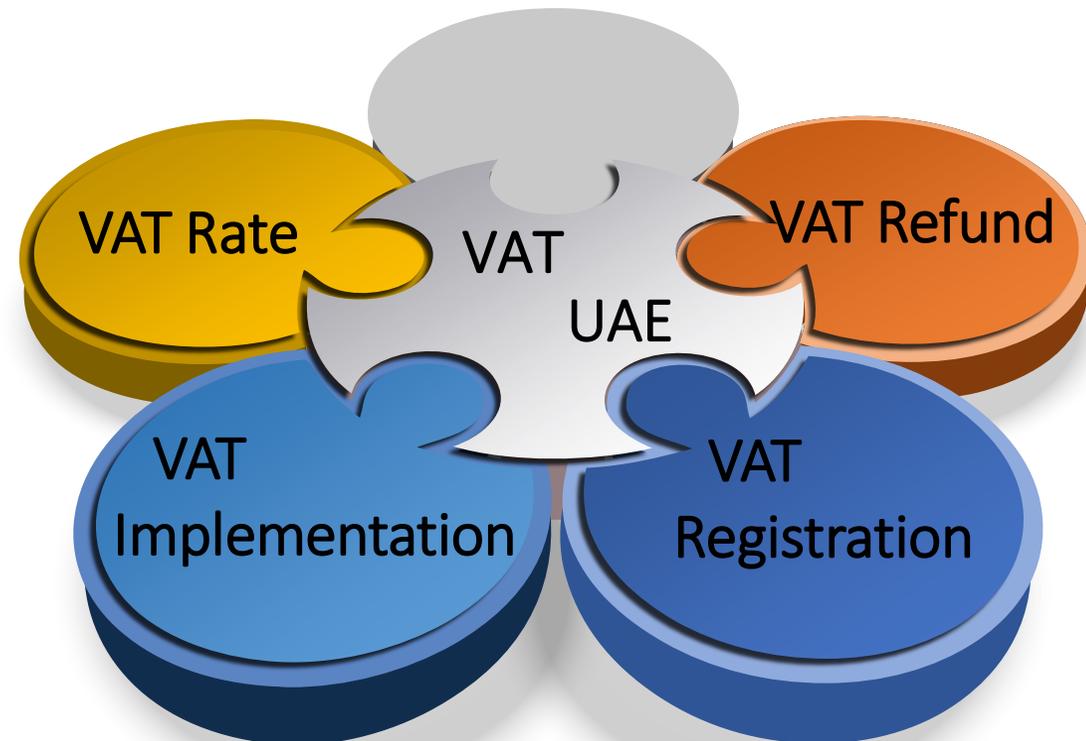


Any business that is required to be VAT registered and that should charge VAT from 1 January 2018 must register for VAT purposes, in the manner specified by the FTA, prior to that date.

VAT IN THE UAE

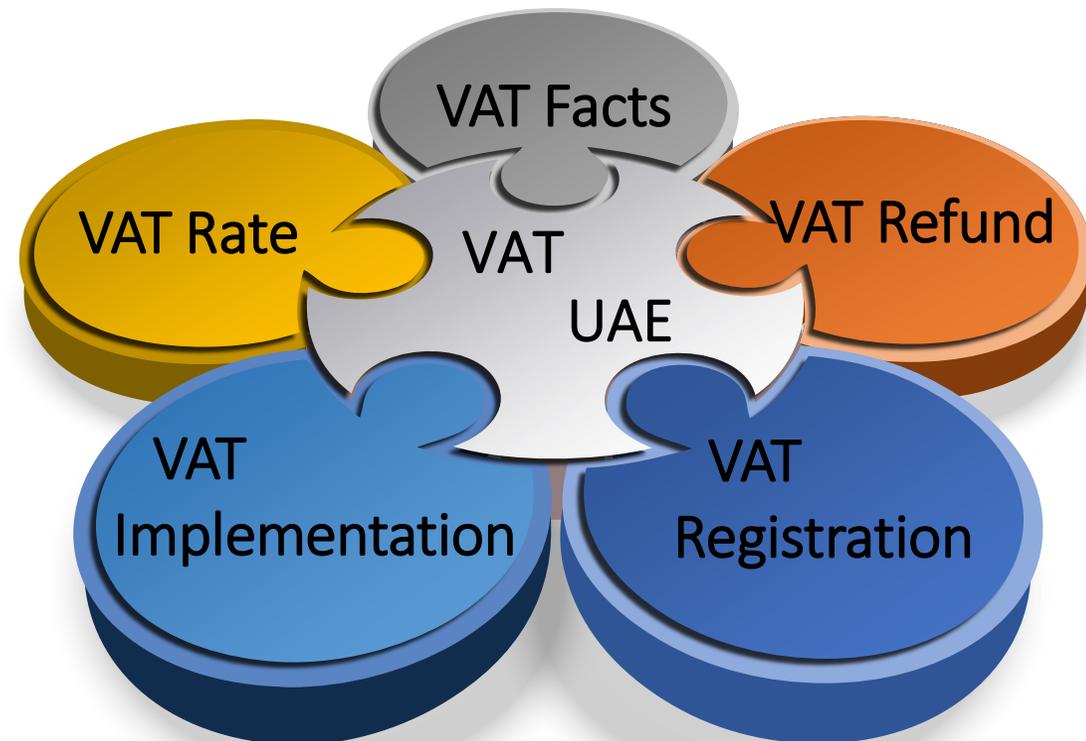
VAT Facts

- Ministry of Finance has launched a dedicated tax website for the FTA.
- The FTP regulations aim to outline
 - the mutual rights and obligations between the Authority and the Taxpayer and
 - any other Person dealing with the Authority with regards to VAT and Excise Taxes, plus any future taxes, introduced in the UAE.



VAT IN THE UAE

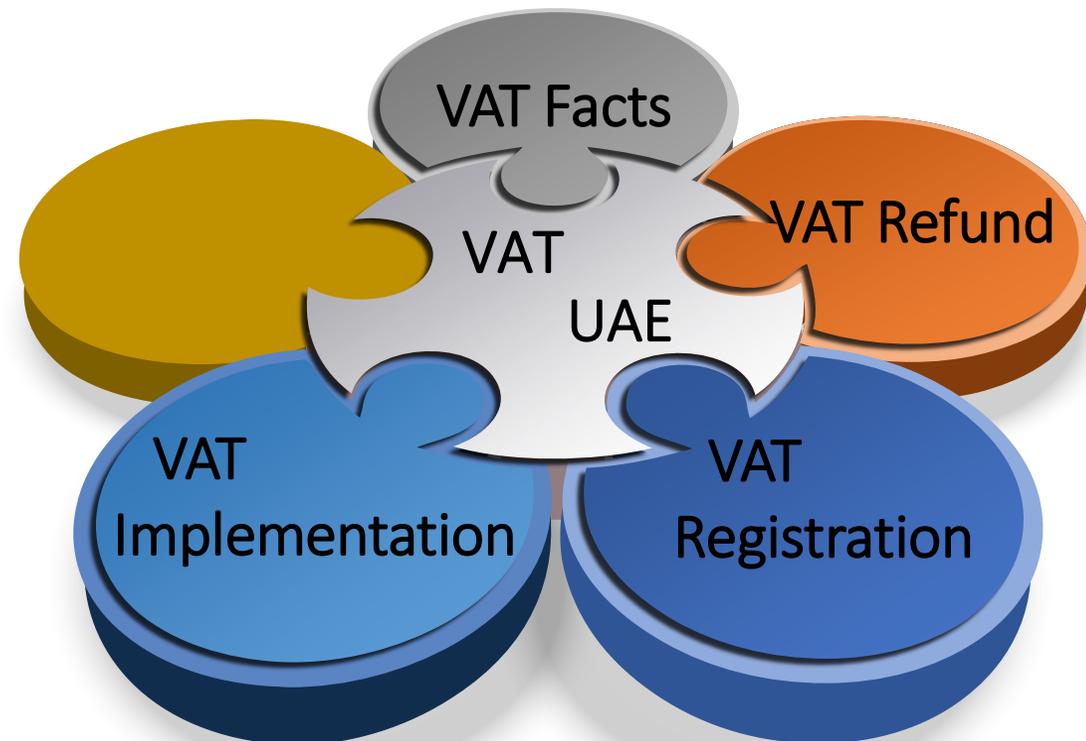
- The Federal Government issued special rules to regulate various situations and minimize VAT evasion, the draft of the Executive Regulations.
- The Executive Regulations add details to key areas such as:
 - Registration obligations, Zero and nil rating for certain supplies
 - Liability to VAT of financial services, VAT return obligations; and
 - VAT treatment of supplies between Gulf States



VAT IN THE UAE

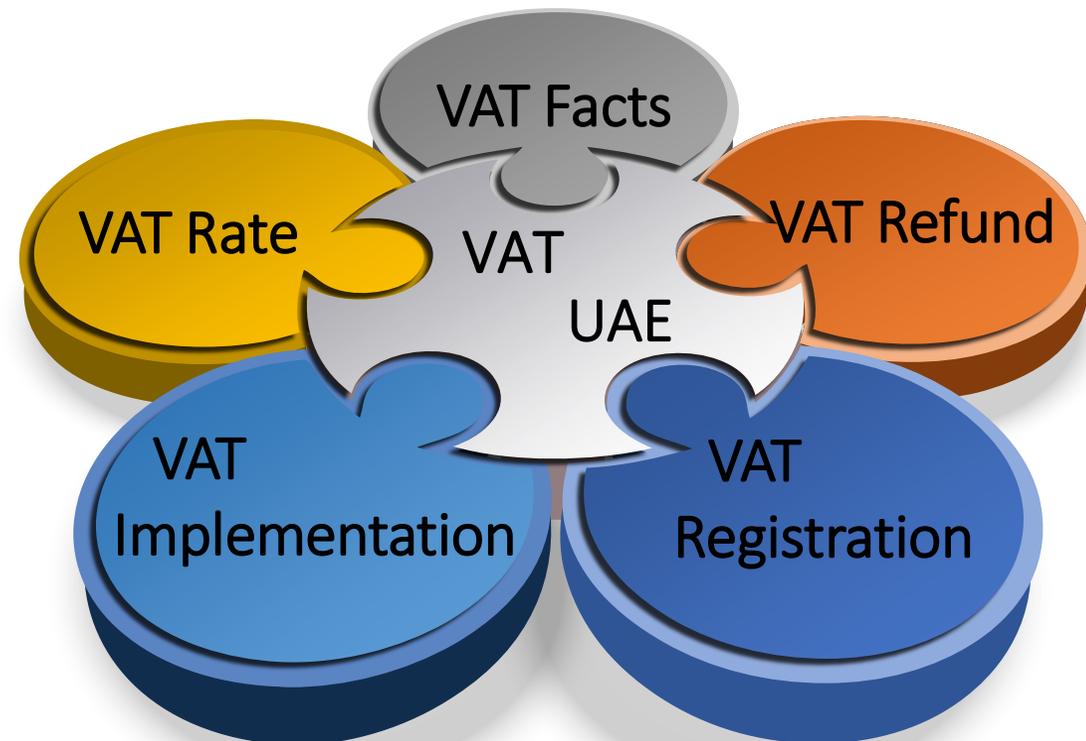
VAT Rate

- Some key sectors are confirmed as having VAT reliefs such as:
 - healthcare
 - education
 - financial services
 - passenger transport
 - Exports
 - hydrocarbons (though not petrol)
- There are also special rules for paying import VAT, VAT grouping rules and so on.



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- The Excise Tax Law is due to be effective from 1 October 2017.
- VAT becomes due on the earlier of the invoice-date, the delivery of the goods or performance of the service or the payment-date.
- The Excise Tax will be applicable to
 - carbonated drinks at a rate of 50%, and
 - energy drinks and tobacco products at a rate of 100%.

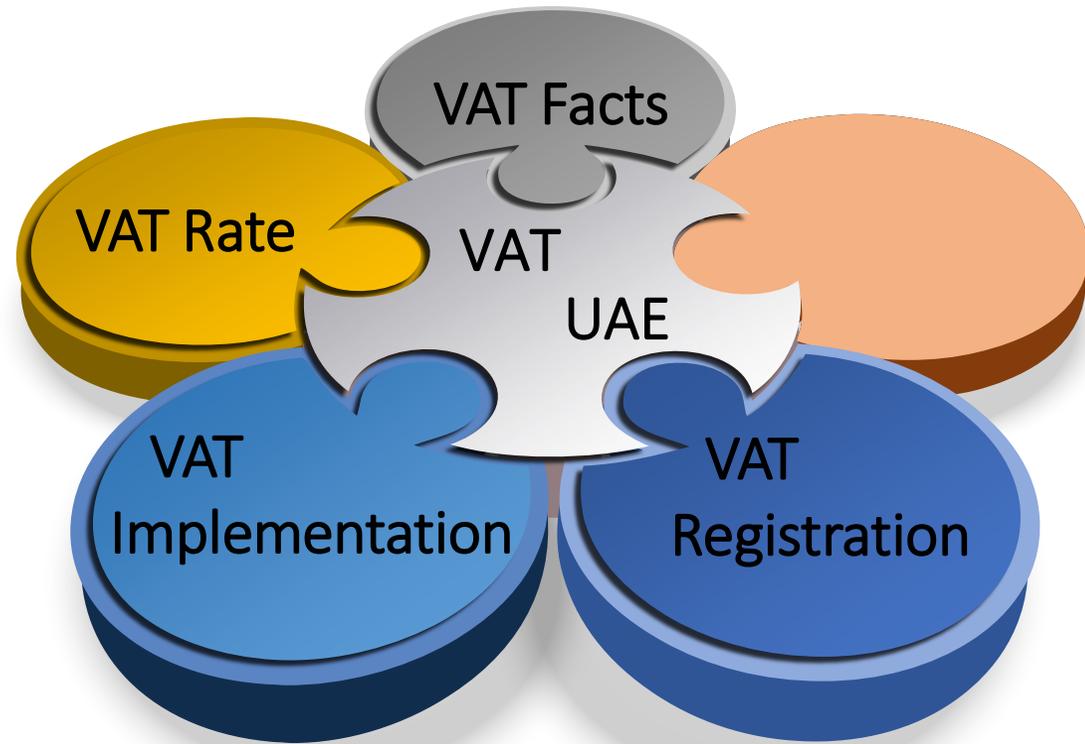


VAT IN THE UAE

VAT Refund

Input tax ...

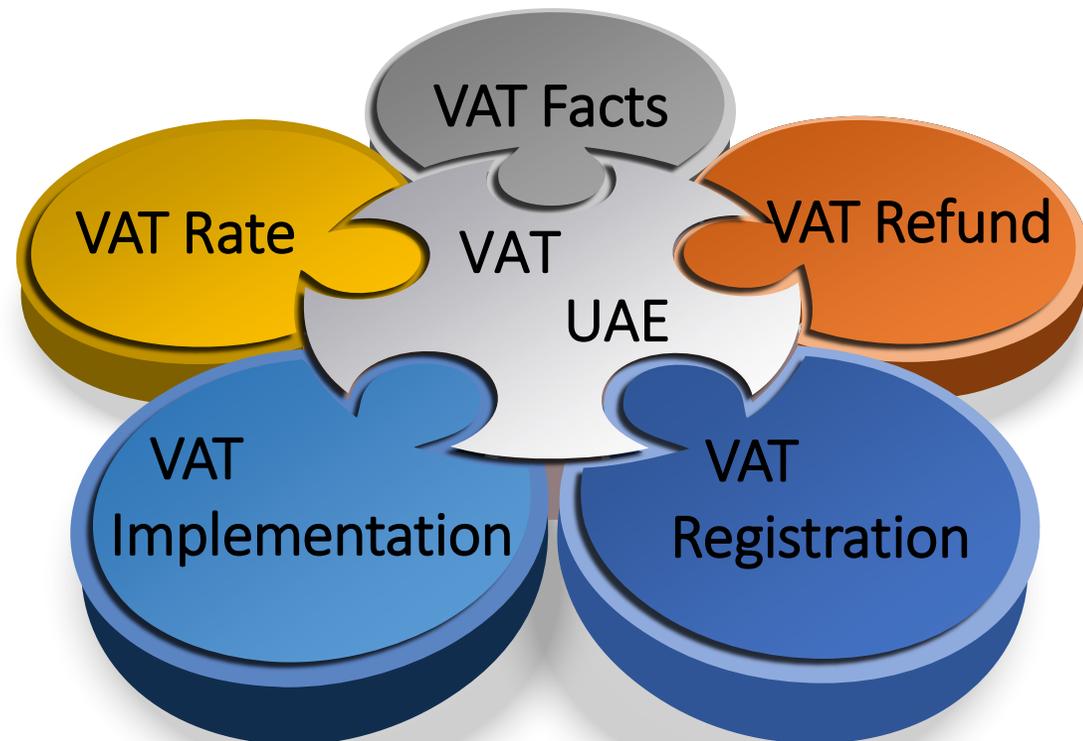
- Can be fully recovered if it relates to a taxable supply made (5% or zero-rated supply).
- May not be recoverable if it relates to a non-taxable supply made (exempt supply) or if it is incurred for private purposes (e.g. personal use of a motor vehicles).



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It will be expected ...

- To apportion an expense related to both taxable and non-taxable supplies made by a business.
- That VAT incurred within the UAE will be refunded to non-resident and not registered businesses or required to register for VAT within the UAE but who do not perform any supplies within the UAE.



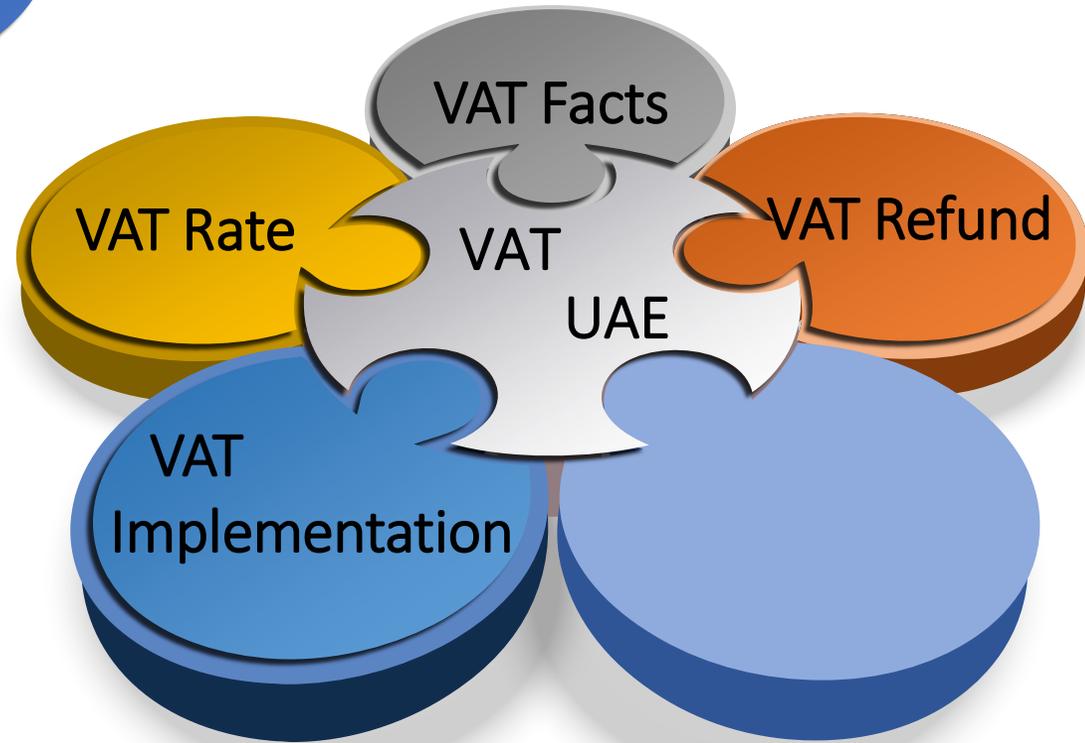
VAT IN THE UAE



A VAT registration threshold shall apply for all UAE-resident businesses:

- Mandatory: Taxable supplies or imports of AED 375,000 or more in any 12-months period.
- Voluntarily:* Taxable supplies and imports of an annually turnover of AED 187,500.

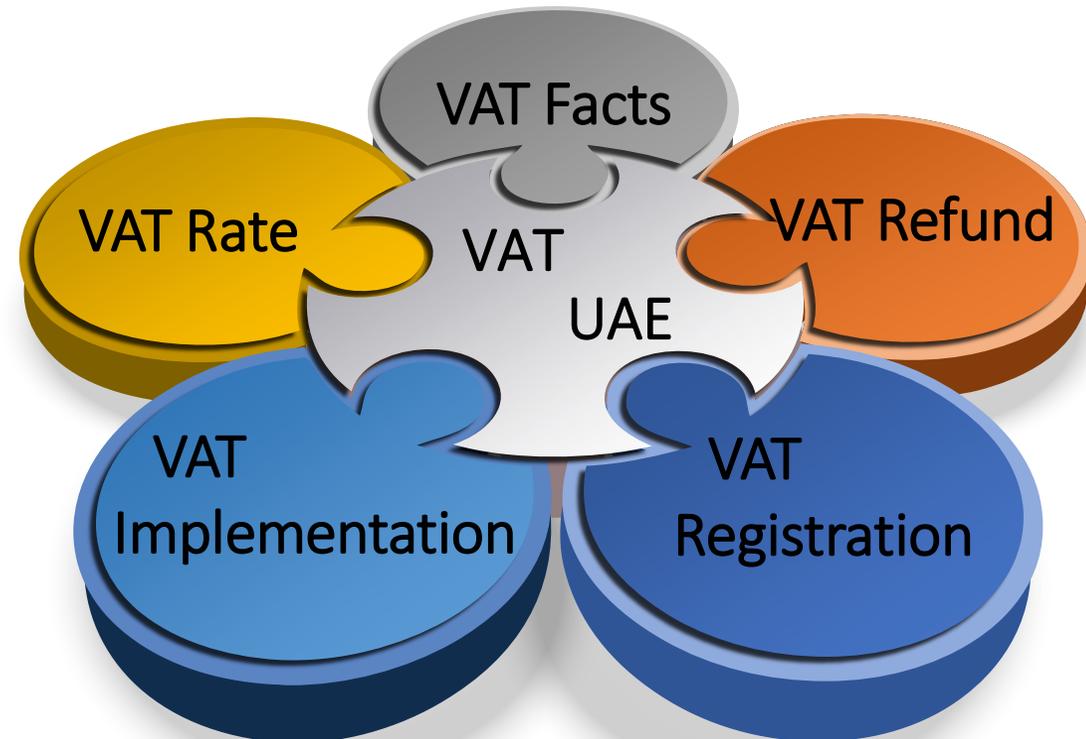
* Companies choosing not to register should be aware that they cannot refund VAT paid for goods and services.



VAT IN THE UAE

Furthermore:

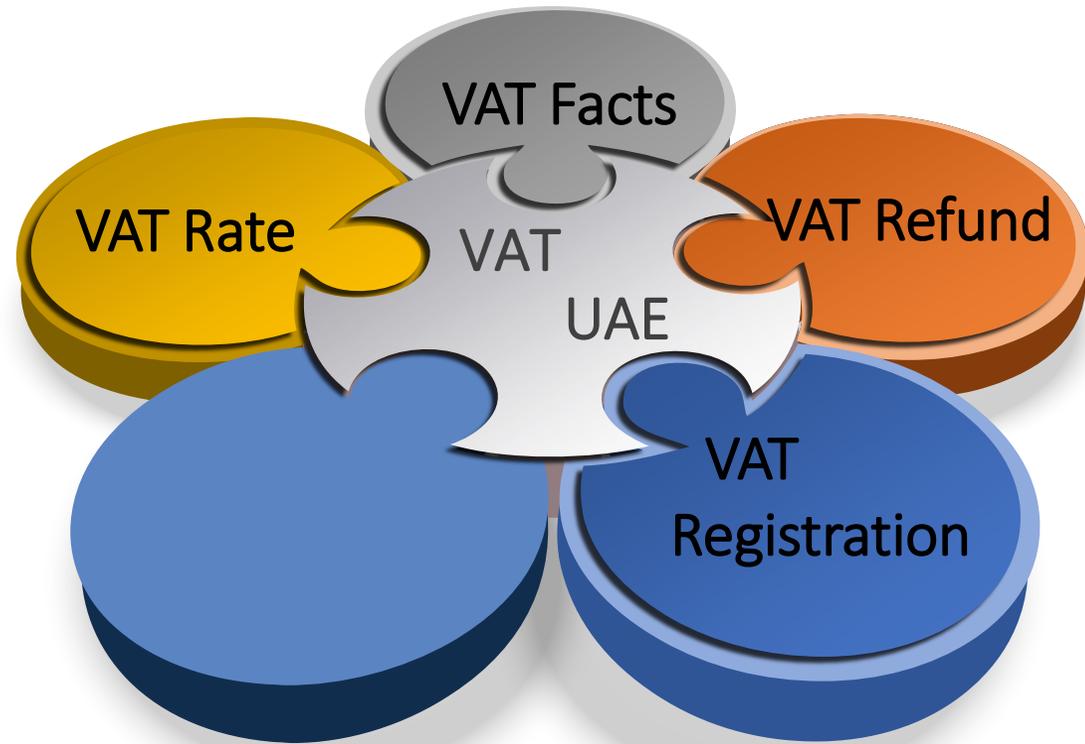
- Businesses without a UAE establishment are also required to register for VAT if they are obliged to charge and collect UAE VAT on any value of local sales.
- A person not registered for VAT will be required to pay tax on import of taxable goods from outside the GCC at the time of import.



VAT IN THE UAE

VAT Implementation

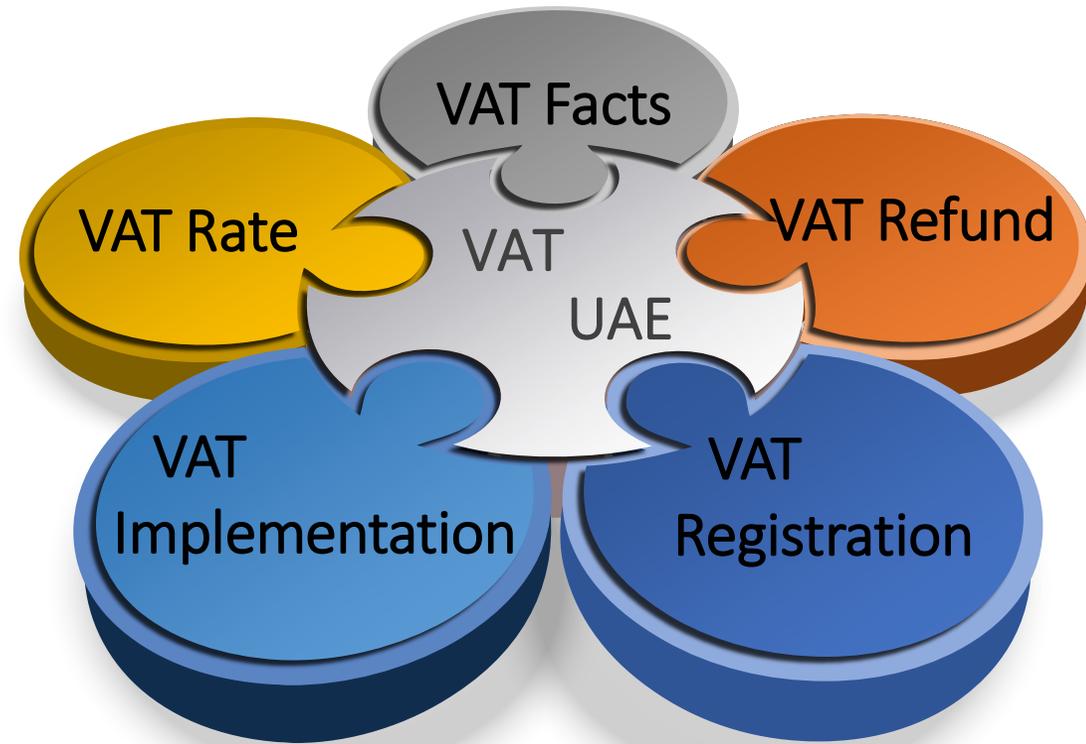
- The UAE will remain tax-free in many ways even after the implementation of VAT:
 - There is still no income tax on salaries in the country.
 - Free Zones also offer tax free environment including 100% foreign.
 - The transfer of goods or provision of services within the Zones will not be subject to VAT; Import VAT becomes payable when any goods leave the Zone.



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➤ Transitional rules as follows:

- Goods and services provided before the implementation of VAT will be treated as having been provided on the implementation date.
- A payment for the services prior to the implementation date will be disregarded for determining the time of supply after the implementation date.
- The value prior to VAT implementation of any goods or services will be treated as exclusive of VAT.



VAT IN THE UAE



The Law

- The Federal Law on Tax Procedures aims to clarify several topics, including keeping accounting records and commercial books related to tax purposes, period of record-keeping mechanism and saving.
- This is in addition to the Federal Law on VAT which identifies liability to tax, tax registration and exception methods, and rules of tax payment, with a detailed explanation about exemption for selective goods.
- The UAE Cabinet also issued the Federal Law on Excise Tax on excise Goods, excise tax rates and the methods of calculating the excise price.
- The draft of the Executive Regulations add details to VAT registration and refund obligations.

VAT IN THE UAE

Outlook



- As mentioned the Federal Laws on Tax Procedures, on VAT and on Excise Law have already been announced.
- The Ministry of Finance has issued the draft of the Executive Regulations which will be officially published and shall come into effect on January 1st 2017.
- The impact of VAT should be kept to a minimum as the government is likely to use its ability to either zero-rate or exempt many supplies.
- Intention to ensure that those at the lower end of the spectrum are protected and assisted.



“All truths are easy to understand once they are discovered; the point is to discover them.”

Galileo Galilei



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