That's VAT! – An update on VAT in the U.A.E.

The Ministry of Finance has reaffirmed its intention to introduce Value Added Tax ("VAT") from 1 January 2018. Whilst we continue to wait for the release of the source legislation before advising and implementing systems changes for our clients (we do not expect this to be released for a few months yet), we understand that time is ticking and believe that it may be appropriate for you and your businesses to start preparing for VAT now.

UHY Saxena
Chartered Accountants

That's VAT!

Please contact us on VAT@UHYUAE.COM if you have any queries or require any assistance.

Based on our interaction with the Ministry of Finance, our VAT team has compiled some of the key aspects of VAT and its impact on your businesses.

Rates of VAT

Rate	Description	Examples
'Standard Rate'	The Standard Rate of VAT will be 5%, and this rate will apply to most goods/ services supplied by 'Chargeable Persons'.	Most Professional Services, Consumer Goods, Electricity and Gas.
'Zero Rate'	The Zero Rate of VAT (effectively VAT at 0%) will apply to very limited goods and services.	Exports to non-GCC countries, Essential Healthcare and Education, Certain Financial Services, 'First Supply' of Residential Property.
'Exempt Supplies'	Exempt Supplies will be outside the scope of VAT. The key aspect to this is input VAT attributable to Exempt Supplies will not be recoverable.	Any 'non-First Supply' of Residential Property by Chargeable Persons, Bank Fees, Local passenger transport.

How can UHY SAXENA help your Business prepare for the introduction of VAT?

- We can perform assessments of VAT's impact on your business.
- We can help advise you on structuring your business in the most tax-efficient manner with respect to the recovery of input VAT.
- We can help draft sample invoices in accordance with FTA requirements for use in your business.
- We can advise you on how to amend any contracts with suppliers / customers as appropriate.
- We can help you implement appropriate accounting systems and tailor your record keeping to meet the requirements.
- We can assist you with registering and filing returns.
- We can help you with any appeals or assessments from the FTA, and correct any mistakes on your returns and apply to the FTA to reduce any penalties if appropriate.

The Federal Tax Authority ("FTA") will be the newly created body that will be responsible for VAT & Excise Duties. In the future this authority is expected to also administer any other taxes as they are introduced. The FTA will collect tax, publish guidance, conduct tax audits and impose penalties amongst other matters.

The FTA have provided a lot more information on the specifics of the upcoming VAT legislation, such as on the availability of bad debt relief, the appeals and assessments procedures, precise details on the terms 'Chargeable Persons', 'taxable supplies' and regarding the place and timing of supplies – all of which has an impact on how businesses will have to charge, or recover, VAT. Details on the application of VAT to the UAE Free-Zones, however, have yet to be finalized.

Overall, even though the exact legislation has not been released, the impact of VAT's introduction will be wide-ranging. Whilst the above is an attempt to summarize some key aspects of VAT in the UAE, there is a lot more detail available, and our advice is businesses would be to start preparing for VAT's introduction in the UAE as soon as possible.

Points to consider

- **Registration Thresholds:** Mandatory registration will be required for 'Chargeable Persons'(i.e. individuals, companies, groups etc) making 'Taxable Supplies' of AED 375,000 (generally calculated over a 12 month period). The voluntary registration threshold will be AED 187,500.

  Chargeable Persons may register for VAT if taxable expenses are greater than the above thresholds.

  Foreign businesses (for example: your foreign suppliers) may be required to register if their taxable supplies to the UAE exceed the above thresholds.

- **Restriction in recovery of input VAT:** Where Chargeable Persons make both 'exempt supplies' and 'taxable supplies', recovery of input VAT may be restricted. This is also the case where there is an element of 'private use' (for example if a company car is also used for personal activities) and in certain other circumstances.

  There are specific requirements for the recovery of input VAT, even where it is not restricted as above.

- **Transitional Rules:** Transitional rules will apply on stock / WIP as at 31 December 2017. Contracts that cross over the date of implementation of VAT will be affected.

- **Record Keeping:** There are significant records that Chargeable Persons will be required to keep, such as books of accounts, invoices, delivery notes etc. These records will be required to be kept for a minimum of 5 years.

  Invoices will need to contain certain specified information, and as such will need to be re-drafted in line with FTA requirements.

- **Timeline for registration:** Relevant persons may voluntarily register in Q3, 2017. It will be compulsory for such persons to register in Q4, 2017. Penalties may apply to those not registered by 1 January 2018.

- **VAT Returns:** Most Chargeable Persons will need to file quarterly returns. The deadlines for VAT returns will be a month from the end of the quarter. Some entities may need to file monthly returns.

- **VAT Groups:** Companies in a group structure or under common ownership may be entitled to form VAT Groups. This may bring numerous benefits, if applicable.

  The FTA has the ability to refuse applications for companies to be treated as VAT Groups, or alternatively may force companies into VAT Groups where they deem appropriate.

- **Reverse Charges:** Where Chargeable Persons import goods / services from non-GCC countries for use in their business activities, they may be required to 'reverse charge' VAT, i.e. pay the FTA a hypothetical VAT amount based on the price of the goods / services imported.

  Special rules apply where supplies are made to GCC countries and where you import goods / services from other GCC Countries.

To find out how UHY Saxena can assist your business, contact us at:
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