



VAT Public Clarification – Use of Exchange Rates for VAT purposes

Introduction

The Federal Tax Authority (FTA) has recently issued a Public Clarification (VATP004) on the usage of exchange rates for VAT purposes.

In this alert, we have summarised aspects of the clarification.

Would the Company be required to reissue tax invoices with historical exchange rates provided by the Central Bank for supplies made prior to 17th May 2018?

There is no requirement for businesses to reissue tax invoices to align with the historical Central Bank exchange rate, provided that the original tax invoice had been converted to UAE dirham using the exchange rate from a reliable source and that this rate was applied consistently by the business for all tax invoices issued in foreign currency during the period from 1st January 2018 to 16th May 2018.

An illustrative list of reliable exchange rate sources is given below:

- Thomson Reuters
- Oanda
- Exchange Rate published by a UAE Bank

What would be the exchange rate for supplies where the date of supply has triggered prior to 17th May 2018 but tax invoice is raised post 17th May 2018?

In such cases, the Company would be required to use the applicable historical exchange rates published by the Central Bank as on the date of supply.



What would be the exchange rate for supplies made from 17th May 2018?

Where a tax invoice is issued from 17th May 2018 onwards and the date of supply for such supplies is post 17th May 2018, the Registrant would be required to use the exchange rate published by the UAE Central Bank to convert the foreign currency to UAE dirham.

Can the Company round off the exchange rates?

Businesses are required to use the exact exchange rate as published by the UAE Central Bank, which includes using the same number of decimal places as published. It is important to note that it is not permitted to round off the exchange rate to fewer decimal places.

What is the Exchange Rate to be used for invoices raised before 6 PM?

The exchange rates would be updated on the website each day on or after 6 pm stating the rate applicable for that day. Where a tax invoice is issued prior to 6 pm on any given day, the Registrant may use the exchange rate published on the website at the time the tax invoice is raised, i.e. the rate for the day before.

How are exchange rates used for import of services?

For the purposes of applying a reverse charge mechanism to import of services, businesses are required to use the UAE Central Bank exchange rate applicable on the date of supply. The FTA has advised that the Registrant may use the date of the invoice as the date of supply of the imported service and use the exchange rate applicable on that date.

How are exchange rates used for import of goods?

The VAT due on imports is automatically calculated based on the import declarations submitted via the relevant Customs Department. Even though the exchange rate used differs from the UAE Central Bank exchange rate, businesses would be permitted to use the exchange rate applied by the Customs department for the purposes of declaring the VAT due and would not be required to convert the value of the import based on the UAE Central Bank rate and declare any adjustment due to exchange rate used.

Comments

Relaxation in terms of non-issuance of revised tax invoices dated prior to 17 May 2018 is of major relief to Businesses. However, usage of exact Central Bank Exchange Rate could be a challenge as the accounting systems (including ERP) may not support decimals beyond 2 or 3. Further, usage of date of supplier invoice for the purpose of exchange rate for import of services is important clarification however, it is not clear if date of supply such as date or receipt of invoice or posting date are acceptable for accounting VAT on import of services. Businesses should evaluate whether there is a requirement to take corrective actions for positions taken that are contrary to the this clarification.



W T S Dhruva Consultants

UAE

U-Bora Tower 2,
11th Floor, Office 1101
Business Bay P.O. Box 127165
Dubai, UAE
Tel: + 971 56 900 5849

Dhruva Advisors

Mumbai

1101, One India Bulls Centre,
11th Floor, Tower 2B,
841, Senapati Bapat Marg,
Elphinstone Road (West),
Mumbai 400 013
Tel: +91 22 6108 1000 / 1900

Ahmedabad

B3, 3rd Floor, Safal Profitaire,
Near Auda Garden,
Prahlanagar, Corporate Road,
Ahmedabad - 380 015
Tel: +91-79-6134 3434

Bengaluru

Prestige Terraces, 2nd Floor
Union Street, Infantry Road,
Bengaluru 560 001
Tel: +91-80-4660 2500

Delhi/NCR

101 & 102, 1st Floor, Tower 4B
DLF Corporate Park
M G Road, Gurgaon
Haryana - 122 002
Tel: +91-124-668 7000

Pune

305, Pride Gateway,
Near D-Mart, Baner,
Pune 411 045
Tel: +91 20 6730 1000

Bahrain

Bahrain Financial Harbour, East Tower - Floor 23,
Office 2301, Building 1398, Road 4626, Block
346. Manama, Kingdom of Bahrain
Tel: 973 1663 1921

New York

Dhruva Advisors USA, Inc.
340 Madison Avenue, 19th Floor,
New York,
New York 10173 USA
Tel: +1-212-220-9494

Silicon Valley, USA

Dhruva Advisors USA, Inc.
5201 Great America Parkway,
Santa Clara,
California 95054
Tel: +1 408 930 5063

Singapore

Dhruva Advisors (Singapore) Pte. Ltd.
20 Collyer Quay, #23-01,
Singapore - 049319
Tel: +65 9105 3645

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Contacts

Dinesh Kanabar

Chief Executive Officer
dinesh.kanabar@dhruvaadvisors.com
Phone: +91 22 6108 1010/11

Pratik Shah

Resident Partner & VAT Expert
pratik.shah@dhruvaadvisors.com
Phone: +971 55957 8232

Nimish Goel

Resident Partner & VAT Expert
nimish.goel@dhruvaadvisors.com
Phone: +971 50106 6531