

UAE VAT FAQ

Introduction

The Ministry of Finance (MoF), United Arab Emirates (UAE) has added new questions to the initial list of Frequently Asked Questions (FAQs). The FAQs further clarify various aspects of the upcoming VAT regime in UAE and lays down the foundation for introduction of VAT from 01 January 2018. As a measure to ensure smooth roll-out of taxation system in UAE, a telephone hotline (600 599 994) has been setup to connect with Government employees for more information on VAT.

In this document, we have provided a summary of some of new FAQs issued.

Compliance & Records

Time limit for VAT return

- VAT returns to be filed online within 28 days from the end of tax period with the Federal Tax Authority (FTA);
- Regular filing of VAT returns on quarterly basis or any other shorter period as specified by FTA

Emirate-wise Transaction reporting

- Specific section for furnishing additional information for reporting of revenues earned in each Emirates;
- Separate rules will be provided for the same

Issue of cash receipt vis-à-vis VAT invoice

- Valid invoice in a specified format to be issued for supply of goods and/ or services;
- Conditions will be specified for issuance of simplified VAT invoice for certain situations

Preservation of records

VAT invoices issued and received to be retained for a minimum period of 5 years

Refunds and Recovery

Processing of refund and conditions for claiming of refund

- Refunds will be processed subject to scrutiny and verification of application of refund in order to avoid inappropriate grant of refund;
- No refund can be claimed where payment for supply has not been made, within a period of six months from the agreed date of payment

Recovery of VAT by UAE nationals

Non registered UAE nationals will be allowed recovery of VAT paid on construction of residence for use by the said person and family

VAT Input Tax Credit (ITC)

ITC means VAT charged on goods or services received for providing output supply of goods or services.



Conditions to claim ITC

- Taxable person can claim ITC;
- VAT should be correctly charged i.e. Unduly charge of VAT cannot be claimed as ITC;
- Valid document evidencing VAT paid, e.g. invoice;
- ITC should pertain to supply of those goods or services which are used or intended for use of providing taxable supply;

ITC in case where supply comprises of both taxable as well as non-taxable

- Apportionment of ITC between taxable and non-taxable supply (exempt) i.e. ratio of claimable ITC to total ITC;
- Other fair methods for apportionment of ITC can be used subject to approval from FTA

Inadmissible ITC

- ITC cannot be claimed related to non-taxable supplies;
- ITC cannot be claimed on certain specified expenses such as employee entertainment expenses;
- No credit of customs duty paid at the time of import can be claimed for payment of VAT

Imports and Customs Duty

Payment of VAT on imports

- Typically, VAT is to be paid under reverse charge mechanism (RCM) on goods and services received from person located outside GCC region. In case where the importer is registered with FTA in the State of import then VAT is to be paid under RCM as per normal due date.
- However, where the importer is not registered in the State of import then VAT will be paid before the goods are released by customs authority

Exemption from VAT if customs duty is exempt

- VAT and customs duty are two separate and independent levies;
- Accordingly, even if customs duty is exempted on certain goods, imports can be subjected to VAT

Levy of VAT on value including customs duty

It is clarified by way of an FAQ that VAT shall be levied on value of goods including value of custom duty

Small and Medium Enterprise (SMEs)

- No specific rules are planned for SMEs;

- FTA will provide material and resources to assist SMEs for their queries

Government Entities

Supply to and supply by Government entities

- Treatment for supplies made by Government entities and private entities have been kept at par for the purpose of VAT. Accordingly, Government entities would typically levy VAT on supplies made by them. Similarly, VAT would be levied when goods or services are supplied to Government entities;
- However, certain supplies made by Government entities may not be taxable if such Government entities are not in direct competition with private entities. Further, refund may also be granted to government entities

Registration

Registration and threshold

- Voluntary registration process will initiate from Q3 of 2017 compulsory registration from Q4 onwards;
- All persons are advised to register prior to 01 January 2018 in order to avoid last minute hassle

Registration Criteria	Action Point
Value of taxable supplies and imports > AED 375,000	Compulsory Registration
Value of taxable supplies and imports > AED 187,500	Voluntary Registration
Value of expenses > AED 187,500	Voluntary Registration

VAT Grouping

Businesses need to satisfy certain conditions to register as VAT group such as resident in UAE and related/ associated parties. More conditions are expected to be introduced.

Registration in case of non-resident

- No registration required for non-resident providing taxable supplies in UAE, where a UAE resident person is responsible for its accounting on such supplies
- The responsibility for accounting such supplies and payment of VAT under reverse charge mechanism will be on the UAE resident person receiving such goods or services.



Other aspects

Place of supply (POS)

- POS provisions determine the place of accrual of VAT liability;
- POS for supply of goods shall be the location of goods or location service provider, as the case may be;
- Special rules for certain categories of goods / services (e.g. intra GCC region transactions, supply of water and energy, etc.) will be provided;

Transitional Rules

- Transitional rules are to be referred when the contract/ agreement for supply of goods or services is spread over pre and post cutoff date/ implementation date i.e. 1 January 2018;
- Below is the principle deduced from the example stated in FAQ:
- When the advance is received and the actual supply is post implementation date (post 1 January 2018), the said supply is taxable and VAT will have to be paid on such advance received;
- Where contract is concluded prior to the introduction of VAT in respect of a supply which is wholly or partly made after the introduction of VAT and there is no specific clause in the contract regarding VAT treatment on such supply then such consideration will be deemed as inclusive of VAT
- Special rules will be provided for different situations where actual supply is spread over pre and post cutoff date

Bad Debts

- VAT amount that pertains to bad debts will be allowed to be adjusted from output liability provided bad debts has been written off in the books;
- Additional conditions and limitations will be prescribed for treatment of bad debts

Margin Scheme (MS)

- MS refers to difference of purchase price and sale price where acquirer of goods is a registered person and the goods are acquired from non-registered person;
- The said difference is inclusive of VAT;
- The goods should be acquired for the purpose of resale;
- Conditions will be prescribed to qualify the transaction under MS

Penalties

- Penalties will be imposed in case of non-compliance;
- Administrative penalties will be decided by Cabinet and in case of tax evasion, Courts to decide on penalties;
- Few examples are enlisted of actions and omissions where penalty could trigger such as person failing to register, maintenance of records, submission of tax return, deliberate act or omission with the intent to evade tax

FTA rulings or advice

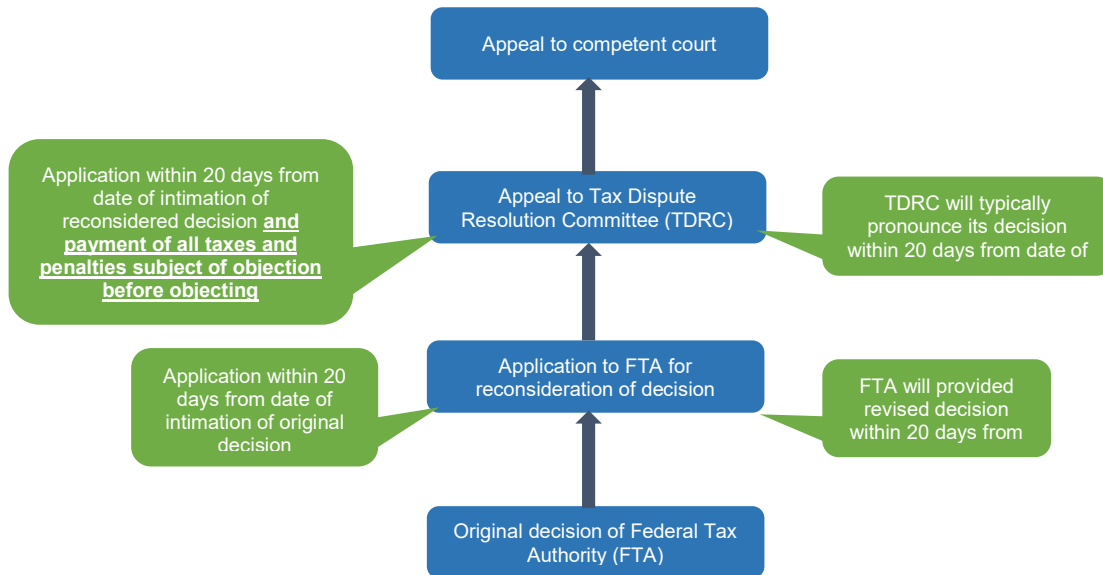
- FTA may provide its views on different aspects in the law;
- The views provided by FTA can be challenged by the tax payer

Treatment of Islamic Finance

Islamic finance products vis-à-vis similar standard FS products to be treated at par for levy of VAT



Appeals and Assessment



Sr. No.	Description	0%	Exempt	Taxable
Real Estate				
1	Residential Property			
2	First supply of newly constructed property within 3 years of its construction			
3	Supply of commercial property including sale or lease			
4	Bare Land			
Financial Services and Insurance Sector				
5	Some financial services			
6	Fee based services			
7	Margin based products			
8	General insurance for e.g. vehicle insurance, medical insurance, etc.;			
9	Life insurance			
Transportation				
10	International transportation and related supplies			
11	Supply of certain means of transportation i.e. sea, air and land, e.g. supply of ships			
12	Local passenger transport			
Others				
13	Selected investment grade precious metals, e.g. gold, silver of 99% purity			



Sr. No.	Description	0%	Exempt	Taxable
14	Supply of specified education services and related goods and services			
15	Export supply of goods and services outside GCC region			

Way-forward

Various initiatives are being undertaken in order to disseminate the information pertaining to operation and implementation of VAT in UAE such as awareness workshop on VAT, periodic update of FAQs, opening of hotline service etc. All such initiatives taken by Government sends a very strong signal to trade and industry about the determination and commitment on part of Government to introduce the new tax regime as per announced timeline of 1 January 2018. Considering this, following steps are needed to be taken up by business:

- Determine nature of VAT registration to be obtained i.e. single vis-à-vis group registration;
- Initiate functional training for different department of organization;
- Conduct VAT Impact Assessment on the relevant business functions such as Finance, IT, Procurement, Commercial, Legal, HR, etc.;
- Formulate plan of VAT implementation to align various business functions with the new levy;
- Identify resources and form a team for VAT implementation;
- Undertake business process realignment with new tax regime;
- Upgrade software / ERP tool being used by any organization for recording of transactions on day to day basis;
- Conduct trial testing before actual go-live period



Our VAT Service Offerings

Impact Assessment <ul style="list-style-type: none">• Understand business transactions• Map VAT impact on business transactions• Undertake Financial & Working Capital impact, Legal & IT Impact & Supply-Chain function related Impact of VAT on business• Outline Implementation Roadmap basis the Impact Assessment	Implementation Support <ul style="list-style-type: none">• Regular meetings with various functional heads including ERP vendor/in-house IT team• Converting Implementation Roadmap to Actual Implementation• Project Management Support & Resource Deployment• Policy Advocacy & Representation
Awareness Sessions <ul style="list-style-type: none">• Conducting generic VAT awareness session• Specific awareness sessions for business functions and verticals post impact assessment• Workshop for undertaking compliances and reporting requirements• Industry specific issues & challenges awareness sessions covering vendors and customers	IT and System Upgrade Recommendation <ul style="list-style-type: none">• Undertake GAP Analysis and assess 'As-Is' scenario• Recommend Master and Transaction level changes in System• Suggest report formats considering VAT filings and recommend System Logic to be configured• Conduct UAT and Sign-off for System Readiness
Redesign Business Process <ul style="list-style-type: none">• Suggest changes in the business model on account of introduction of VAT• Undertake transaction structuring basis VAT impact• Suggest changes in documents, contracts, invoices, business processes & Technology etc• Drafting of Standard Operating Process Manuals/ User Manuals basis revised operating model	Hypercare Support <ul style="list-style-type: none">• Assist in Accounting and Record Keeping• Real-time support to address the queries raised post Go-live phase• Assistance in Registration, Computation of VAT Liability, Filing of Returns and processing of Refund Claims• Representation support during VAT Audit by Revenue Department



W T S Dhruva Consultants

UAE

U-Bora Tower 2,
11th Floor, Office 1101
Business Bay P.O. Box 127165
Dubai, UAE
Tel : +97 14 2408 477
Mob: + 971 56 900 5849
gccvatquery@dhruvaadvisors.com

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
Fax:+91-22-6108 1001

Ahmedabad

B3, 3rd Floor, Safal Profitaire,
Near Auda Garden,
Prahladnagar, Corporate Road,
Ahmedabad - 380 015
Tel: +91-79-6134 3434
Fax: +91-79-6134 3477

Bengaluru

Prestige Terraces, 2nd Floor
Union Street, Infantry Road,
Bengaluru 560 001
Tel: +91-80-4660 2500
Fax: +91-80-4660 2501

Delhi/NCR

101 & 102, 1st Floor, Tower 4B
DLF Corporate Park
M G Road, Gurgaon
Haryana - 122 002
Tel: +91-124-668 7000
Fax: +91-124-668 7001

Singapore

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

Contacts

Dinesh Kanabar

Chief Executive Officer
dinesh.kanabar@dhruvaadvisors.com

Pratik Shah

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

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