



Brief Summary of Value Added Tax in the Emirates

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VAT in U.A.E. – A Brief Summary

Value Added Tax

VAT is an indirect tax applied on the consumption of most goods and services. VAT is levied by VAT registered businesses which make supplies of goods and services in the course or furtherance of their business. VAT will also apply on the import of goods. VAT is levied at each stage in the supply chain and is collected by businesses on behalf of the Government. VAT is ultimately incurred and paid by the end consumer.

1. Applicable Territory

All six GCC countries (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman) have agreed on a broad framework for the introduction of a general tax on consumption in GCC to be known as VAT and have signed Common VAT Agreement of the States of the Gulf Cooperation Council (GCC). Saudi Arabia is the first country in GCC which has already published VAT Implementing Regulations.

2. Taxable Supply

- a. Taxable supply is defined as a supply of Goods or Services for a Consideration by a Person conducting Business in the State, and does not include Exempt Supplies.
- b. Consideration: all that is received or expected to be received for the supply of Goods or Services, whether in money or other acceptable forms of payment.
- c. Business: any activity conducted regularly, on an ongoing basis and independently by any Person, in any location, such as industrial, commercial, agricultural, professional, service or excavation activities or anything related to the use of tangible or intangible property.
- d. Person: natural or legal person.
- e. Goods: physical property that can be supplied including but not limited to real estate, water, and all forms of energy as specified in this Decision.
- f. Services: anything that can be supplied other than Goods.

3. Value of Supply

- a. The phrase "similar supply", in relation to a supply of Goods or Services, means any other supply of Goods or Services that, in respect of the characteristics, quality, quantity, functional components, materials, and reputation, is the same as, or closely or substantially resembles that supply of Goods or Services.

- b. The market value of a supply of Goods or Services at a given date is the Consideration in money which the supply would generally achieve if supplied in similar circumstances at that date in the State (UAE), being a supply freely offered and made between Persons who are not connected in any manner.
- c. Where the market value of a supply of Goods or Services at a given date cannot be determined as mentioned under point (b) above, the market value is the Consideration in money which a *similar supply* would achieve if supplied in similar circumstances at that date in the State, being a supply freely offered and made between Persons who are not connected in any manner.
- d. Where the market value of any supply of Goods or Services cannot be determined as mentioned under point (b) or (c) above, the market value shall be determined by reference to the replacement cost of identical Goods or Services, with such supply being offered by a supplier who is not connected to the Recipient of Goods or Recipient of Services in any manner.

4. Zero-Rated Items

The following goods and services shall be zero-rated for VAT purposes (note: all foods will be standard rated):

- a. Goods physically exported to other VAT registered businesses outside of the UAE or other implementing state provided commercial evidence of the transport is retained by the vendor
- b. If supplied to a customer that does not have an establishment in UAE and it outside of the country at the time of supply. The exception is real estate in UAE.
- c. Supply of international transportation services for passengers and goods
- d. The supply or import of investment precious metals (gold, silver, and platinum subject to meeting of specific standards)
- e. New residential property supplies
- f. Education services if supplied by an accredited government body
- g. Healthcare services provided by a body linked to the state
- h. Approved pharmaceuticals

5. Exempted Items

- a. Financial services related to dealing in money (e.g. FX, debt securities, loans, bank accounts, derivatives or similar, issuing shares and life insurance)
- b. Other financial services attracting a fee or commission are liable to VAT
- c. Residential buildings with a lease longer than 6 months or the tenant of the property is a holder of an ID card issued by the Emirates Identity Authority.

- d. Bare land
- e. Local passenger transport

6. Tax Rates

A **standard rate of 5%** to be imposed on the value of supply or Import

7. Liability of non-registration – potential penalties

Everyone is urged to fully comply with their VAT responsibilities. Cabinet Resolution No. 40 of 2017 on administrative penalties for breach of the UAE tax laws provides that the fine for this breach will be AED 20,000.

8. Registration Requirements

The Federal Tax Authority (FTA) has announced that a phased registration approach has been introduced.

- i. Businesses with an annual turnover exceeding AED 150 million must apply for registration by 31 October 2017.
- ii. Businesses with an annual turnover exceeding AED 10 million must apply for registration by 30 November 2017.
- iii. Remaining businesses with an annual turnover exceed the mandatory registration threshold (AED 375,000) must apply for registration by 4 December 2017.
- iv. Businesses providing taxable supplies may apply for a voluntary VAT registration if their sales exceed AED 187,500 per annum
- v. Businesses providing exclusively zero-rated supplies may apply for an exemption from the obligation to VAT register
- vi. A registration application must be submitted within 30 days of being obliged to register
- vii. Tax Groups may be formed for multiple, related parties businesses to register under one number – one taxable party, the 'representatives', takes on the responsibility to prepare and submit the consolidated return
- viii. De-registrations are permitted on the cessation of the taxable supplies, or on the tax authorities decision

9. Non-recoverable Input Tax

The following VAT is not recoverable against VAT on taxable supplies:

- a. Where a motor vehicle was purchased, rented or leased for use in the Business and is available for personal use by any Person.
- b. Provision of entertainment to anyone not employed by the Person, including customers, potential customers, officials, or shareholder or other owners or investors of the Person.

- c. Where Goods or Services were purchased to be used by employees for no charge to them and for their personal benefit including the provision of entertainment, except in the following cases:
 - i. where it is a legal obligation to provide those Services or Goods to those employees under any applicable labor law in the State or Designated Zone;
 - ii. it is a contractual obligation or documented policy to provide those services or goods to those employees in order that they may perform their role and it can be proven to be normal business practice in the course of employing those people;
 - iii. where the provision of goods or services is a deemed supply under the provisions of the Decree-Law.

10. Time of Supply

VAT is payable upon the earlier of

- a. the invoice date;
- b. the delivery of the goods or performance of the services; or
- c. the payment date.

11. Place of Supply

- a. For real estate, a supply is deemed to take place in UAE where the services are directly connected with UAE real estate.
- b. Domestic transport services are deemed to be supplied from the place where the transport commences.
- c. For goods transported to another GCC State which has implemented VAT ('implementing state'), the place of supply is the destination provided adequate proof of transportation can be obtained.

12. VAT Invoices

VAT invoices must include the following details:

- a. Name and address of supplier
- b. VAT Number
- c. Unique VAT invoice number
- d. Date of invoice, and date of supply if different
- e. Description of the goods/services provided
- f. Unit prices, quantity or volumes of the supplies

- g. Any discount offered
- h. VAT calculation and gross amount due in AED (any rate of exchange used)

Simplified invoices may be issued to non-tax payers or if the consideration is below AED 10,000. Electronic invoices may be issued if the vendor has secure storage facilities, and the authenticity of the invoice can be guaranteed

13. Filing Dates and Frequency of filing

- a. The standard VAT reporting period is 3 months
- b. VAT returns must be received by the 28th of the month following the reporting period.
- c. The VAT return includes:
 - i. Name, address and tax registration number of the tax payers
 - ii. The tax period
 - iii. Submission date
 - iv. Values of taxable supplies made, and output VAT charged
 - v. Values of zero rated supplies made
 - vi. Values of exempt supplies made
 - vii. Value of taxable supplies consumed, and input VAT claimed
 - viii. Total value of VAT due

14. Transitional Rules

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