

- **The Introduction of VAT in UAE**

These are some FAQs, which are not given in the public domain but are intentionally simplified here. If you are intended to know more detailed information, you just have to wait for further policy announcements by the Ministry of Finance (MoF). Let us see some FAQs to know VAT in UAE more better.



# General Questions

## What is Tax?

Tax is an additional amount, which is payable by every individual to help the government in raising the revenue to pay for public services. These raised revenues will be used to pay for public services such as public hospitals, schools and universities, defense and other important aspects of daily life .

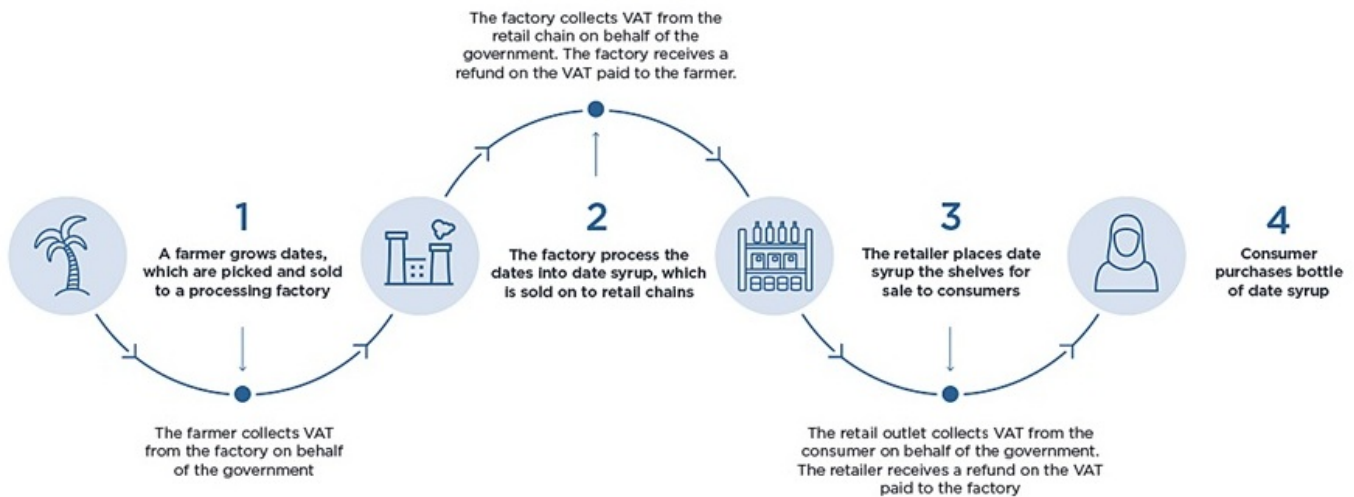
**There are basically 2 type of taxes:**

**Direct Tax:** The Tax collected by the government by the same person on whom it is imposed is called Direct Tax (Eg: income tax, corporate tax).

**Indirect Tax:** The Tax collected by an intermediate medium for the government from the same person that pays the tax is known as indirect tax (Eg: Retail Stores).

## What is VAT?

VAT (Value Added Tax) is an indirect tax, which is imposed on most supplies of goods and services that are bought and sold. It is the most common type of consumption tax around the world and has already been implemented in over 150 countries, which include all 29 European Union (EU) members, Canada, New Zealand, Australia, Singapore and Malaysia. It is charged at each and every step of the 'supply chain', which ultimately ends up to the consumer paying VAT, Businesses plays the role of a collector on behalf of the government.



## What is the difference between VAT and Sales Tax?

There may not be any observable difference between a Sales Tax and a VAT for common people, but there are some key differences, which makes their working a bit different from each other. Sales tax only gets imposed on the final sale to the consumer, while VAT works for both Goods and Services. Moreover, Sales tax is only imposed to the final sale to the consumer. Many countries chose VAT over Sales tax for many reasons, in which the most important reason is that VAT is considered as a sophisticated approach to taxation, because the whole system from consumer to the government work under this in a well arranged manner.

## Why is the UAE implementing VAT?

The UAE government offers many public services to the residents such as hospitals, roads, public schools, parks, waste control, and police services, which are paid by government funds. VAT will provide an additional source of generating revenues for the government to provide high quality public services into the future

# Why does the UAE need to coordinate VAT implementation with other GCC countries?

The UAE is basically a part of a group of countries, which are connected through “The Economic Agreement Between the GCC States” and “The GCC Customs Union”. The GCC group has previously too worked together to implement new policies.

# When will the VAT go in effect and what will be the rates?

VAT will be introduced across the UAE on 1 January 2018 at a standard rate of 5%.

# How will the government collect VAT?

The businesses and retail stores will be responsible for documenting their business income and costs carefully along with the VAT charges. The registered businesses will charge VAT to their consumers on the goods or services they purchase from the suppliers. Then the difference between these sums is to be paid to the government. This is the way, government collect VAT.

# Will VAT cover all product and services?

Except a limited number of reliefs, VAT will be applied to the majority of transactions in goods and services.

# Will the cost of living increase?

Yes, the cost of living is expected to increase a little, but this will totally depend on the lifestyle of any individual. If you're spending on the things, which are affected by VAT then you will surely see the change in your cost of living.

# What measures will the government take to ensure that businesses don't use the VAT implementation as an excuse to increase prices?

VAT is being implemented to improve the economic base of the country. So, special rule should be implemented, which will make clear that how much VAT you are paying for each transaction.

## When will more details on VAT be available?

We more detailed information by the government has been announced.

## **VAT for Business**

### Will all the businesses need to register with the government for VAT?

No, not all the business will be required to register with the government for VAT. A business must register for VAT if their taxable supplies and imports, which have a certain minimum annual turnover will be and their limitation is VAT threshold of AED 375,000. So, many small businesses will not need to get registered for VAT. This step has been taken to prevent small business holders from extensive reporting and documentation that VAT requires.

any business may choose to register for VAT with own if their export and imports are less than to the compulsory registration limit, but exceed the voluntary registration threshold of AED 187,500.

as well as many types of business may register voluntarily if their outlay exceeds the voluntary registration threshold. it's another way to registration. designed enable start-up businesses with no turnover to register for VAT.



# What are the VAT-related responsibilities of businesses?

All the business holders across the country will need to keep the record of their financial transactions accurate and up to date. The businesses, which meet the minimum annual turnover fixed by the government, will have to register for VAT.

## **VAT-registered businesses generally have to follow the given instructions**

They must charge VAT on all the taxable goods and services they provide. They can reclaim any VAT they've paid on goods and services. They have to maintain proper business records so that government can check that things are going in right direction. VAT registered businesses must report the amount of VAT they've charged and the amount of VAT they've paid to the government on a regular basis. If the charged VAT is more than the VAT paid to the government then the business holders have to pay the difference to the government.

# What does a business need to do to prepare for VAT?

The business organizations will have time to prepare before VAT required to fulfill will come into effect in January 2018. During the time, businesses will need to meet requirements to fulfill their tax responsibility. Business holders should the preparation as soon as possible so that they will be ready at the right time. Businesses could start now so that they will be ready later.

To fully abide with VAT, We all believe that businesses have to need some changes to our business to their little operations, their financial management, and book-keeping, their technical related technology, even their human resource mix (e.g., accountants and tax advisors). It is necessary that businesses try to understand the implications of VAT now and any types of legislation issue make every effort to align their business model to government reporting and compliance requirements. We have to provide businesses with any guidance on how to fully comply with VAT once the legislation is issued. The final responsibility and accountability to comply with the law are in the business.

## When are the businesses supposed to start registering for VAT?

The businesses that fulfill the requirement criteria will be able to register for VAT before three months of its launching via e-Services.

## How often are registered businesses required to file VAT returns?

Taxpayers are likely to submit VAT returns with the FTA on a regular basis with 28 days. Registered businesses returns shall be filling their returns using online e-Services.

## What kind of records are businesses required to maintain, and for how long?

The Businesses will be required have records which will enable the Federal Tax Authority (FTA). And the authority has to identify all details related to the business activities and their review transactions. The specific regarding and important to the documents which will be required and their time period for holding them for the relevant legislation.

## How long must a taxable person retain VAT invoices for?

A taxpayer must keep his VAT invoices for at least 5 years from the date of issuance.

# How should a business determine the place of supply?

The Place of Supply will be used to determine whether the particular supply is taxable within the UAE or not.

The location of goods when the supply takes place will be treated as the place of supply for goods, with special rules and exceptions for some categories including cross-border supplies, water and energy supplies, etc.

For services, the place of supply would be the location of the supplier, with special rules for some services such as cross-border supplies.

# Can businesses offset customs duty against VAT payments?

VAT will be levied in addition to the customs duty on the imports of goods. VAT cannot be deducted or reduced in such cases, and it will be levied on the supply value plus customs duties.

# How will real estate be treated under VAT?

**VAT will be applied differently to commercial properties and residential properties.**

The standard 5% VAT rate shall be levied on the supplies (sales or leases) of commercial estates. However, the supplies of residential properties will be exempt from the VAT with a few conditions.

This will ensure that VAT would not comprise an unrecoverable cost to persons that who buy their personal properties. In another order to ascertain that real estate developers can recover VAT on the construction of residential properties, When the First supply of residential properties is within 3 years from their completion it will be the zero-rated.



# What sectors will be zero-rated?

**The following categories of taxable supplies will be zero-rated under VAT**

- Supply of specific health care services and relevant goods/services
- Supply of certain education services and relevant goods/services
- The first supply of new residential properties within 3 years of the construction
- Some investment grade metals like gold and silver.
- Transport to international markets and other related supplies
- Supplies of certain transportation vehicles including aircraft and ships.
- Exports made outside GCC

# What sectors will be exempt?

**VAT will be not be levied on the following sectors or categories of supplies:**

- Bare land
- Certain financial services
- Local transport for passengers
- Residential properties

# Will there be VAT grouping?

A VAT group can be formed and registered by businesses that fulfill the basic requirements as mentioned under the VAT Legislation. VAT grouping might make the VAT accounting easier for some businesses.

# Will there be bad debt relief?

VAT registered businesses that may have previously written off any bad debt can reduce their output tax liability by the VAT amount on such debt. The terms and conditions of such relief will be explained in the Legislation.

## Will there be a margin scheme?

The VAT-registered dealers involved in the sales of secondhand items will have to pay the VAT only on the difference value between the actual purchase price and the sale price of the item (i.e., the profit margin). This is to avoid double-taxation on items on which VAT was already levied during the first time supply.

The profit margin has to include The VAT which must be accounted for by the registered person. The legislation will include the details of the conditions to be met in order to apply this mechanism.

## How will partial exemption work?

The input tax paid on the business expenses relating to a taxable supply by a VAT registered person can be fully recovered. However, the expenses made on a non-taxable supply may not be eligible for input tax credit.

There are some expenses that may include both taxable and non-taxable supplies, and the registered person will be able to recover only partial input tax which will be apportioned between the supplies. The Businesses will be expected to use input tax as a basis for allocation in the first instance although there will be the facility use to another different method where they are fair and agreed with the Federal Tax Authority.

# What are the cases that would lead to the imposition of VAT penalties?

The following actions will be treated as non-compliance of VAT rules and may result in penalties:

- An eligible person not registering for VAT
- A registered person not filing returns or paying taxes on time
- A registered taxpayer who is not maintaining proper tax records as instructed under the legislation
- When a person deliberately avoids paying taxes or pays wrong tax amount.

## Will there be any special schemes for SMEs?

No, there will be no special rules or schemes for SMEs as such, but the FTA will provide required help, guidance and resources to assist businesses with compliance in the new tax system.

## Will there be transitional rules?

There will be some special rules to deal with the situations regarding the supplies made during the VAT introduction and transition period.

**These situations may include the following:**

- If the payment for a future supply is received before the VAT implementation and the actual supply is made after the introduction of VAT, the supply will be covered under the VAT system. The rule will apply to the supply of both goods and services.
- If a contract was made before the implementation of VAT but the actual supply is made in partial or whole after the VAT implementation, and the contract doesn't mention anything about VAT compliance, then the supply will be considered under VAT. There will be provisions such that the supplier can charge VAT from the recipient who can recover it from someplace else.

## **How will insurance be treated?**

Life insurance will be exempt from the VAT. Other general insurance types, including medical and vehicle insurance, will be taxable.

## **How will financial services be treated?**

It fee-based financial services will be taxed under VAT whereas margin based services might be exempt from tax.

## **How will Islamic finance be treated?**

Under the VAT system, all kinds of financial services including Islamic finance products/services will be treated the same. Islamic finance products are included with the principles of sharia and these operate differently from financial products that are very common internationally.

## **Can UAE nationals claim VAT?**

A UAE national not registered under VAT might still be able to claim VAT paid by him on the construction goods and services when building a new residence for his personal/family use. This will include the VAT paid on construction materials and contractor services.

## **How quickly will refunds be released?**

Refunds will be made within a few days after the receipt of the application, subject to the validation and verification of fraud claims.

## **Will FTA issue rulings advice on tax?**

To facilitate interaction with taxpayers, the FTA may often share its views and/or provide advice on certain tax matters and laws. Taxpayers may even challenge an FTA rule or view. There will be penalties for violation of tax rules and regulations.

## **Can a business issue a cash receipt in place of a VAT invoice?**

All the taxable supplies must include valid VAT invoices in the format specified in the VAT legislation. In certain conditions, the registered supplier may issue a simplified tax invoice which will also be in a prespecified format.

To valid VAT invoice, the document must consider a specific format as mentioned in the legislation. In other certain situations, the supplier may be able to issue a simplified The VAT invoice. because the conditions for the VAT invoice and the simplified VAT invoice are mentioned legislation.

## **Are there any VAT types on which input credit cannot be claimed?**

Input credit will not be available on tax paid on certain types of expenses, such as expenses on non-taxable supplies, entertainment expenses, etc.

# Under which conditions VAT can be claimed by businesses on their expenses?

**Businesses can claim VAT on expenses in the following conditions:**

- The business must be a registered taxable entity
- Must have proper documentation to show the VAT paid
- VAT input credit can only be claimed on the actual amount and only within 6 months from the agreed date of payment.
- The VAT should have been paid in full and correctly.
- Input credit can be claimed only if the received goods/services are or will be further used for making taxable supplies.

## Does a non-resident need to register under VAT?

A non-resident making taxable supplies within UAE needs to register under VAT and pay tax unless any other registered UAE resident is already paying VAT for such supplies. For example, a UAE business purchasing supplies from a non-resident and accounting for VAT on these supplies under reverse charge mechanism.

## Is VAT applicable on imports?

Yes, VAT will be levied on the imports of goods and services. If the supplies are being received by a registered taxpayer, he shall pay the VAT on import under the reverse charge mechanism. However, if the supplies are imported by a non-registered person, the VAT would be paid by the sender before the supplies are released to the recipient.



# **Will government entities be included under VAT?**

Yes, the supplies made by a government entity will be applicable for VAT. However, there are some specific supplies, the ones which are not in competition with private entities or the ones supplied only by the particular government entity, which will be exempt from the VAT.

Certain government entities may also be eligible to get VAT refunds to maintain their budget and operations. be excluded from the scope of VAT if they are not in competition with the private sector or where the entity is the sole provider of such supplies.

It is likely certain government entities will be entitled to VAT refunds this is designed to avoid budgeting issues and provide a level playing field between outsourced and in sourced activities. The VAT on the supplies made to a government entity will depend on the supply, not on the recipient of the supply, and so such supplies will be covered under the same standard tax rate.

# **Will Businesses have to report on their business in each of the Emirates?**

Businesses may have to provide additional information when filing their tax returns to mention revenues generated in each Emirate. The FTA will provide guidance for this. The rules will be clarified further after the launch of the VAT system. And the guidance will be provided to businesses with regards to this.

And the expected that the rules will be relatively aboveboard for most businesses and will be based, for an example, for B2C transactions is on the location of the transaction (e.g. in a retail environment, the location of the shop).

# **Can VAT be levied on goods that are exempt from customs duties.**

Not necessarily. Some imported goods which are exempt from customs duties may still be liable under VAT.

# VAT for Tourists and Visitors

## Will tourists also pay VAT?

Of course yes, tourists are a significant source of income for UAE and will pay VAT while buying anything. However, the authorities have already set the VAT rate very low, so that it will not be a burden for any consumer.

The government authorities will allow foreign businesses to recover the VAT they spend while visiting the UAE. This is believed to be an important step because it will encourage foreign industries to enhance their business in UAE and other countries also have VAT system.

## UAE VAT Frequently Asked Questions

### How can someone access UAE Tax Law?

UAE VAT tax is in its final stage of getting implemented, and all the announcements regarding new tax laws will be made clear in front of press and details will be published on the official Ministry of Finance website, which is the primary source of information regarding it. You can bookmark the page and check it out frequently to stay up to date on VAT related information.

### How can someone join the Tax administration team in the UAE?

The people who are interested in working with the Tax administration team in the UAE are requested to visit <https://www.mof.gov.ae/En/Pages/Careers.aspx>, where he/she can see the list of jobs available and choose one of them as per the qualification. Desired applicants will have to fill have to complete all the required documents along with their CV and send it to [fta\\_careers@mof.gov.ae](mailto:fta_careers@mof.gov.ae).

# Other Questions

## What other taxes in the UAE considering?

As per global best practice, the UAE is exploring other tax options as well. However, these are still being analysed and it is unlikely that they will be introduced in the near future. The UAE is not currently considering personal income taxes, however.

## Will this impact economic growth of the UAE?

Yeah, the implementation of VAT is believed to strengthen the economy of UAE by diversifying revenues away from oil and will help government generate revenues from Tax regimes.

## Where can I learn more about the UAE's plan to implement VAT?

The government has introduced awareness and education campaigns to spread awareness in the people of the UAE. The education campaigns to educate UAE residents,

businesses, and other impacted groups. now our aim is how to help everyone and understand what VAT is, how it works, and what businesses will need to do as necessary with the law.

As a part of the awareness campaign and the Ministry of Finance has announced the first phase of the awareness sessions during the period from March until May 2017. These sessions were held in the different Emirates. We will also set up our website that you can find the information related VAT and to understand the new tax in detail.

## Are there any groups (individuals or organisations) that will exempt from paying VAT?

VAT is a large level tax regime, which does not allow to offer special exceptions for individuals. Still, there are some rules on VAT for government entities and other organisations related to it and refunds available as well.

## Changing my business systems for VAT reporting will cost money. Can the government help?

After implementing VAT, the government will offer information and education to the business holders to help them understanding new tax reforms. However, the government will not provide new technologies or hire tax specialists and accountants. But it will help in accessing the information regarding new tax regime.

## What are the penalties for not complying with a business's VAT responsibilities?

The country in their business is urged with their The VAT responsibilities and the government of UAE process are defining the exact fees and penalties for non- compliance. Administrative penalties for trespass will be decided by Cabinet and announced after issuance. There will be further different penalties decided by Courts in the case of tax evasion.

A telephone hotline has been set up so that you can call and speak to one of our employees directly on 600599994.

For More Information: [www.mof.gov.ae](http://www.mof.gov.ae)

**Thank You**