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VAT IN THE UAE
Progress Report August 2017

Which laws and regulations have been issued up to August 2017?	1. Federal Decree-Law No. (13) of 2016 "On the Establishment of the Federal Tax Authority (FTA)" 2. Federal Law No. (7) of 2017 "On Tax Procedures" 3. GCC Agreement on Unified VAT "Regional VAT Law"
What we are we still waiting on?	UAE VAT that will include specific guidance and regulations that are essential for VAT planning
Official Source for UAE VAT?	UAE Ministry of Finance and the relevant laws on VAT in the UAE and GCC
Expected implementation date?	1 January 2018
Applicability of VAT?	VAT will apply to the majority of goods and services provided in the UAE ("taxable supplies") The exact list of taxable supplies will be known once the UAE VAT Tax Law is issued It is also unclear if there will be any differentiation between free zone and mainland UAE businesses
VAT tax rate?	5% (Standard Rated) 0% (Zero Rated/Exempt)
Registration timeline?	Optional by Q3 2017 (Expected by mid-September 2017) Mandatory by Q4 2017
Registration threshold?	Businesses that provide taxable supplies (goods and services) will have to register if their annual income exceeds AED 375,000
Group registration?	Yes. For businesses that are resident in the UAE and are related parties with common ownership and management control, it is permissible to register for VAT as a group that can simplify filing of returns and accounting for VAT
How to determine the place of supply?	The place of supply is a significant attribute in order to determine the treatment of VAT For goods, the place of supply relates to the location of the goods when the supply takes place For services, the place of supply relates to the location of the supplier

Zero-rated and exempt goods and services?	So far, the Ministry of Finance has noted the following zero rated and exempt goods and services: • Exports of goods and services to customers outside the GCC • International transportation, and related supplies • Supplies of certain sea, air and land means of transportation (such as aircrafts and ships) • Certain investment grade precious metals (e.g. gold, silver and metals of 99% purity) • Newly constructed properties that are supplied for the first time within 3 years of construction • Supply of certain education services, and supply of relevant goods and services • Supply of certain healthcare services, and supply of relevant goods and services • The supply of some financial services • Residential properties • Bare land • Local passenger transport • Life insurance (it is expected that other insurance, such as vehicle, medical, and property will be taxable)
Bad debt relief?	This is an important point as VAT is generally payable based on invoicing, not collection and this may lead to cash flow difficulties in the event of a customer default However, businesses will be able to reduce their VAT liability by the amount of VAT that relates to bad debts that have been written off Rules governing bad debt relief, including the conditions and limitations, will be made clear in the UAE VAT Law once issued
Margin scheme?	There may be occasions when a VAT registered business acquires second hand goods from an unregistered business. In this case, rules will be issued soon that govern the accounting for VAT payable only on the gross profit margin, not the full sale amount

Are all VAT input taxes deductible?	VAT on expenses that is incurred by a business (known as "input tax") can be deducted in the following circumstances: • The business is registered as a taxable person • VAT was computed and charged correctly • The business possesses valid documentation indicating the VAT paid • The goods or services acquired are used or intended to be used in the production of taxable supplies • VAT input tax refund can be claimed only on the amount paid or intended to be paid before the expiration of 6 months after the agreed date for the payment of the supply VAT input tax incurred for non-taxable supplies is not deductible If the supplier is within the GCC, the supplier invoice should mention clearly the VAT to be paid If the supplier is outside of the GCC, the UAE business will be responsible for reporting both their purchase and the supplier's VAT number. This is referred to as a reverse charge mechanism, as described below
Reverse charge mechanism?	Normally, businesses will have to pay VAT for purchases at the point of sale; however, if the supplier is outside of the GCC, businesses will not have to pay VAT at the point of sale Therefore, it will become the responsibility of the buyer of the goods or services to report the input tax (VAT on purchases) and output tax (VAT on sales) to the FTA as part of the ongoing VAT returns
VAT returns?	Quarterly electronic submission with a due date within 28 days from quarter-end Interestingly, in the VAT quarterly filings, it is also expected that businesses will need to report a geographic analysis of income on an Emirate-by Emirate basis
Interplay GCC with customs duty?	Custom duties incurred cannot be recovered as VAT input tax under the VAT regime VAT will be calculated on the total value that includes custom duties Also, certain goods that are exempt from custom duties may still be subject to VAT

Documentation requirements?	5 years retention policy for all financial records, including VAT invoices, contracts, debit/credit notes, POS cash register summaries, bills of lading, bank statements, deposit slips, and accounting records
Are appeals possible?	Yes, there is an established process for the appeal of a decision of the FTA
Transitional considerations and regulations?	Special considerations will be provided by the UAE VAT Law in due course that will deal with various situations that may arise during the implementation timeline of VAT These transitional situations may include: • Payment is received in respect of a supply of goods before the introduction of VAT but the goods were delivered after the introduction of VAT • Contract is finalised prior to the introduction of VAT in respect of a supply which is wholly or partly performed subsequent to the introduction of VAT, and the related contract does not contain clauses relating to VAT
What other taxes is the UAE considering?	The FTA has also confirmed its intention to introduce excise taxes of certain goods considered harmful to humans or the environment It is expected that the UAE will impose an excise tax of 100% on tobacco products and energy drinks, while certain carbonated soft drinks will face an excise tax of 50% by the expected implementation date of Q4 2017 According to the Ministry of Finance, the UAE is currently exploring other tax options. This may include corporate taxes However, personal income taxes are not currently being considered
Will tourists pay VAT?	Yes, tourists are expected to be a significant source of VAT for the UAE As the end-user, tourists and consumers will ultimately bear the cost of the VAT It is still an open question whether tourists will be able to reclaim or refund any VAT incurred while visiting the UAE
Will visiting businesses pay VAT?	Yes, visiting businesses will also incur VAT while in the UAE; however, they will likely be allowed to recover the VAT that they have incurred during their visit, while UAE businesses may recover VAT they incur on trips abroad

Other highlights:

- The newly-formed Federal Tax Authority ("FTA") will be the enforcement agency headquartered in the capital city, Abu-Dhabi, with full authority to administer, collect, and enforce federal UAE taxes, including VAT. The FTA will also be responsible for conducting tax audits on a selected basis.

- There is a renewed focus on the requirement for all businesses in the UAE, in particular those registered under VAT, to maintain accounting records and VAT related information.

- VAT returns and source documents are required to be submitted to the FTA in Arabic, either by the business or its tax agent. With that said, it is permissible to maintain the accounting records and source documents in English provided a translated copy is provided to the FTA and tax returns are submitted in Arabic.

- Every registered business will receive a VAT Registration Number as a unique identifier with the FTA.

- A business registered with the FTA may appoint a tax agent to act on behalf of its VAT affairs.

General implementation considerations:

The UAE VAT Law is expected to be issued soon that will be the primary source of information and guidance for VAT in the UAE. Until then, the following are some action points which you may wish to consider now to help smooth the implementation process once the national VAT law is released:

1. Review the current accounting system to ensure it can comply with the additional tracking of taxable versus non-taxable supplies, payments, and credits under the VAT regime, including a geographic breakdown of income on an Emirate-by-Emirate basis.

2. Ensure that invoices charged to customers are able to clearly indicate the amount of VAT on taxable supplies and that new contracts with customers include a suitable reference to the inclusion of VAT if within scope.

3. Adjustment to the chart of accounts, ERP, and accounting policies to automate as much as possible the computation, monitoring, and payment of VAT.

4. Mapping of transactions to determine the rates of tax, whether standard or exempt, place of supply, and cash flow forecasts.

5. Staff awareness training is recommended so they can be informed to explain the basic features of VAT to customers. Further training should be provided to accounting and finance departments to ensure daily transactions are accurately recorded and documented.

6. Identification of possible group registration for ongoing VAT returns.

7. Maintenance and compliance with record retention policies, including proper archiving controls.

8. Review current inventory management procedures to ensure it is optimal based on expected liquidity needs given that input VAT (5% on purchases) may remain tied up in inventory until sold.

9. Monitor cash flow carefully, as output VAT invoiced to customers that is uncollected at the time the VAT return is due will still need to be paid to the FTA. Consider in the overall strategy how this may impact current cash flow. This impact is exacerbated for businesses that grant sales on credit while purchases are in cash.

How we can help?

The goal for all businesses is to be compliant with the VAT Law, while minimising any potential disruptions.

Our team draws its expertise from almost 40 years of local experience in the UAE and in conjunction with our BKR International member firms, many of which are based in established VAT jurisdictions, we are able to provide comprehensive tax services from planning and implementation tax advisory to ongoing reporting, compliance, and filing of returns.

Disclaimer

The purpose of this publication is to provide a high-level overview and introduction of the expected implementation of VAT in the UAE and is not meant to be a substitute for professional advice.

Furthermore, certain information is still unknown as of the date of this communication until the official UAE VAT Tax Law is issued that will contain specific guidance that is essential to the tax planning and implementation process.

Contact Us

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The International Accounting Bulletin ("IAB") has ranked BKR International #8 worldwide, after the Big 4, with more than US $1.4 billion in annual revenue.

BKR International was formed in 1989 as the result of a merger of the U.S.-based National CPA Group and certain members of DHR International, an association comprised primarily of European accounting firms.

The Power of the BKR Association (a top 10 public accounting association)

BKR firms combine resources and share information to increase their competitive advantages, improve the quality and range of their work, and better serve their clients. Members are part of a large team, and have expertise available to them in virtually every area of practice.

Through BKR International, various committees exist, such as the Technical Committee based in London, to provide member firms with technical resources, guidance, and practical experience to help our clients solve problems on a daily basis.

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BKR International currently has over 300 offices in over 70 countries around the world. Partners in member firms are experts in accounting and business advisory of their own, and consider direct partner contact with clients to be the key to successful professional relationships.

Our firms have offices in each of the following countries to enable a seamless client service experience across borders. With a BKR member firm, you can rest assured that your best interests are taken care of.

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