



الإمارات العربية المتحدة
وزارة المالية

VAT General Briefing Session

Agenda



Agenda

- Introduction
- Legal structure of VAT regime
- The operation of VAT in the UAE
- Working together towards a successful implementation
- Q&A

Introduction



Why has VAT been implemented?

Why is the UAE implementing VAT?

- UAE Federal and Emirate governments provide citizens and residents with many different public services (e.g. hospitals, roads, public schools, parks) that are paid for from the government budgets.
- VAT will provide our country with a new source of income which will:
 - ❖ contribute to the continued provision of high quality public services;
 - ❖ help government reducing dependence on oil and other hydrocarbons.

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

The GCC group of nations have historically worked together in designing and implementing new public policies as we recognize that such a collaborative approach is best for the region.



The FTA – who are we?

Federal Tax Authority

- Formed by the Government to administer VAT and Excise Taxes, plus any future taxes, introduced in the UAE.
- Responsible for collecting taxes and reviewing Taxable Person compliance.
- Available to provide guidance and direction to Taxable Persons in order to support them in meeting their tax compliance obligations.
- Decision making capacity in areas of tax technical complexity.
- Responsible for conducting tax audits and administering penalties.



Getting assistance from the FTA

The FTA is committed to helping Taxable Persons learn about VAT in an easy, accessible and straightforward manner. As a result, the following options are available:



Publications, Notices, VAT Taxable Person Guide will be freely accessible at any time on the FTA website when launched



E-learning modules will provide guidance on the basics of VAT and available on the FTA website



VAT helpline can be used for general enquiries about the application of VAT

Legal structure of the VAT regime



When will VAT be implemented?

- **Implementation date:** GCC vs UAE
- **GCC VAT AGREEMENT** is a framework agreement signed by all six GCC countries:
 - Broad framework that mainly states provisions for intra GCC trade
 - Gives countries discretion to choose treatment in certain sectors where it does not affect intra-GCC trade
 - Mutual agreement on some provisions such as the standard rate of VAT and the registration threshold
- **Federal Laws in the UAE:**
 - **TAX PROCEDURES LAW** will govern the general rules and procedures relating to all taxes within the UAE
 - **VAT LAW** setting out the application of VAT within the UAE
- **VAT registration** will open during Q3 2017 on a voluntary basis and Q4 2017 on a compulsory basis

The GCC VAT Framework agreement is applicable to all GCC member states ...



The UAE's Federal VAT Law builds on the GCC Framework and applies to the UAE ...



And is further detailed in VAT Executive Regulations.





GCC VAT Agreement structure

Chapters	Titles
Chapter One	Definitions and General provisions
Chapter Two	Supplies within the Scope of the Tax
Chapter Three	Place of Supply
Chapter Four	Tax Due Date
Chapter Five	Tax Calculation
Chapter Six	Exceptions
Chapter Seven	Exceptions on Importation
Chapter Eight	Persons who are Obligated to Pay Tax
Chapter Nine	Tax Deduction
Chapter Ten	Obligations
Chapter Eleven	Special Treatments of Tax Refunds
Chapter Twelve	Exchange of information between Member State
Chapter Thirteen	Transitional Provisions
Chapter Fourteen	Appeals
Chapter Fifteen	Closing Provisions



Policy choices available to the GCC Countries (1/2)

The following slides summarize the **policy areas** which **the GCC Countries have discretion** to decide upon the approach to be taken:

- VAT groups [Article 4, GCC VAT Agreement]
- Application of exemption, or zero rating or standard rating of certain supplies [Article 29 (1), GCC VAT Agreement] relating to:
 - Health
 - Education
 - Real Estate
 - Local Transport
- Application of the standard rate or zero rate to:
 - Oil & Gas [Article 29 (2), GCC VAT Agreement]
 - Food [Article 31, GCC VAT Agreement]
 - Supply of a means of transport [Article 33, GCC VAT Agreement]



Policy choices available to the GCC Countries (2/2)

- Exceptions to payment of VAT (or allowing refund) in special cases [Article 30, GCC VAT Agreement] in relation to:
 - Government bodies, Charities
 - Some companies in relation to international event hosting agreements
 - Citizens of a Member State constructing homes for private use
 - Farmers and Fishermen



Examples of policy choices available to the UAE (1/2)

- Financial services – exempt or not [Article 36, GCC VAT Agreement]
- Input tax deduction – Conditions [Article 44, GCC VAT Agreement]
- Input tax apportionment methods [Article 46, GCC VAT Agreement]
- Tax period [Article 60, GCC VAT Agreement]
- Tax Payment – date and method [Article 63, GCC VAT Agreement]
- Repayment/refund of tax [Article 65, GCC VAT Agreement]
- Tax refunds for Tourists [Article 68, GCC VAT Agreement]



Examples of policy choices available to the UAE (2/2)

- Tax refunds for international organisations and diplomatic bodies – Conditions/limitations and the option to apply zero-rating [Article 69, GCC VAT Agreement]
- Transitional rules – Minimum set of rules provided [Article 73, GCC VAT Agreement]
- Appeals – Conditions and limitations [Article 74, GCC VAT Agreement]

The operation of VAT in the UAE



Overview of VAT

Tax on the consumption of goods and services, levied at the point of supply

Many countries have VAT or an equivalent tax system (e.g. GST) but some countries have other consumption taxes

VAT is collected by registered suppliers down the supply chain

Not all businesses will be VAT registered suppliers

VAT is payable by both businesses and individuals

Interesting Facts

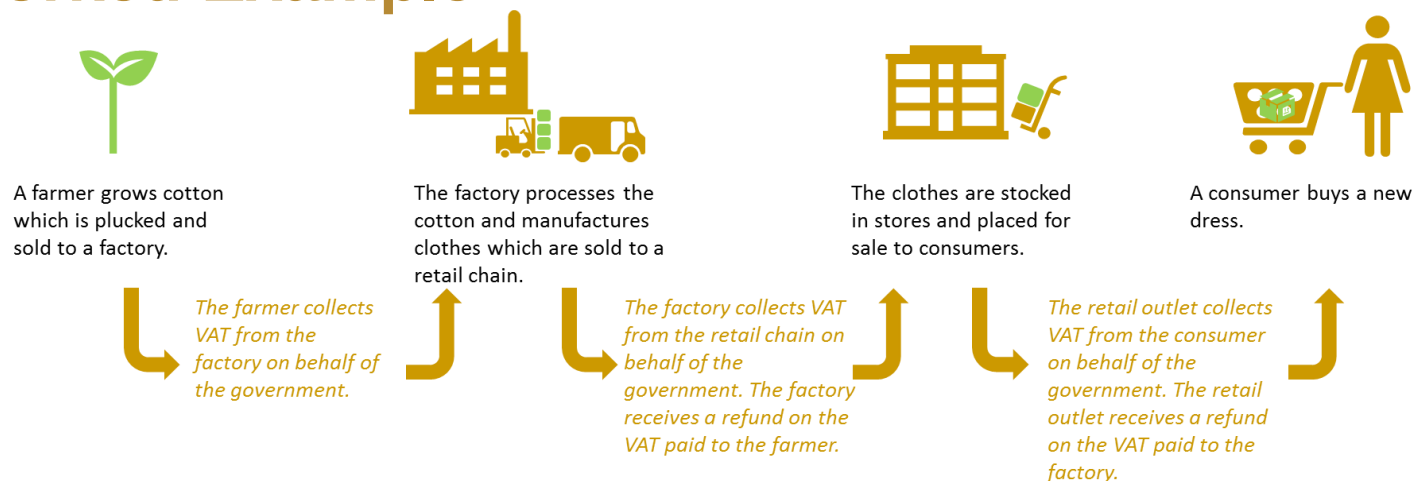


- VAT has been implemented in more than 150 countries around the world
- All OECD countries except for the US have VAT (or a variation)
- The concept of VAT was first proposed in 1918 by a German industrialist, Dr. Wilhelm von Siemens
- VAT was first implemented in 1954 by Maurice Lauré, Joint Director of the France Tax Authority (Direction Générale des Impôts)



Mechanics of VAT

A Worked Example



	Sales	5% VAT charged on Sales	VAT recovered on purchases	Net VAT payable
Farmer	AED 1,000	AED 50	AED 0	AED 50
Factory	AED 3,000	AED 150	AED 50	AED 100
Retailer	AED 5,000	AED 250	AED 150	AED 100
Total VAT paid by final consumer:				AED 250

Net result = VAT is collected through the chain and the end-consumer bears the cost.



Some important concepts

- What does conducting an **economic activity** mean [Article 1(9); GCC VAT Agreement]?
 - Economic activity means an activity conducted in a continuous and regular manner and includes commercial, industrial, agricultural or professional activities
- Who is a **taxable person** [Article 1(8); GCC VAT Agreement]?
 - Taxable person means any person (corporation or not) conducting an economic activity for the purpose of generating income
 - Such person is registered or obligated to register for VAT as per the registration threshold in a member state
 - Taxable persons can include businesses located outside the GCC territory
 - A Taxable Person can be any natural person conducting an economic activity
- Meaning of **supply** [Article 1(20); GCC VAT Agreement]?
 - Supply means any form of supply of goods or services in exchange for a consideration



Some important concepts



Input tax [Article 1(22); GCC VAT Agreement]:

Tax payable by a taxable person on supply of goods and services received or on import of goods and services for the purpose of carrying out economic activities



Meaning of **taxable supply** [Article 1(28); GCC VAT Agreement]:

Supplies on which tax is charged according to the VAT Agreement, whether at standard rate of 5% or at zero rate. A deduction of input tax can be claimed against the VAT payable on taxable supplies



Reverse charge mechanism [Article 1(18); GCC VAT Agreement]:

A mechanism under which the recipient of goods or services is required to pay VAT instead of the supplier, when the supplier is not a taxable person in the member state where the supply has been made



Tax group [Article 4; GCC VAT Agreement]:

Member states may allow two or more persons that are residents of the same member state to register for VAT as a Tax group; such group will be treated as a single taxable person for payment and compliance of VAT



Exempted supplies [Article 1(27); GCC VAT Agreement]:

Supplies on which no tax is payable and for which deduction for input tax cannot be claimed



Definition of “supply”

The supply of goods or services...

It is important to establish whether a taxpayer is supplying goods or services since there are different rules applying to each for the purposes of determining where and when the supply takes place.



Goods

The passing of ownership of physical property or the right to use that property as an owner, to another person.



Services

Anything which is not a supply of goods is a supply of services.



Definition of “supply” ...for Consideration...

- Consideration equals anything received in return for a supply
- If the consideration for a supply is just in money, the value of that supply is the amount of money received
- The consideration is treated as **VAT inclusive**, so the amount received in payment includes an element of VAT for taxable supplies
- VAT is normally calculated by applying the VAT rate to the VAT-exclusive price



Definition of “supply” ...in the course of conducting business in the UAE...

Business means:

- Any continuing activity making supplies for consideration
- Frequency activity to be continued over a period of time
- Not an isolated transaction
- Not activities purely private or personal (non business)



Remember:

Where any of the criteria set out above are not met, the transaction is outside the scope of VAT



Definition of “supply” ...by a VAT registered trader.

Only registered businesses or required to be registered for VAT are able to make ‘taxable’ supplies (subject to VAT)

Businesses become required to be VAT registered when their turnover reaches a certain threshold

It is possible for businesses to voluntarily register for VAT purposes before they reach the Mandatory Registration threshold if they reach a lower voluntary registration threshold



Place of supply

Place of supply rules will determine whether a supply is made in the UAE or outside the UAE for VAT purposes:

- If the supply is treated as made outside the UAE: no UAE VAT will be charged
- If the supply is treated as made in the UAE: VAT may be charged



Goods

- **Basic rule:** the place of supply is the location of goods when the supply takes place
- **Special rules**, for example:
 - ❖ Cross-border supplies – that is supplies which involve parties in different countries
 - ❖ Water and energy

Services

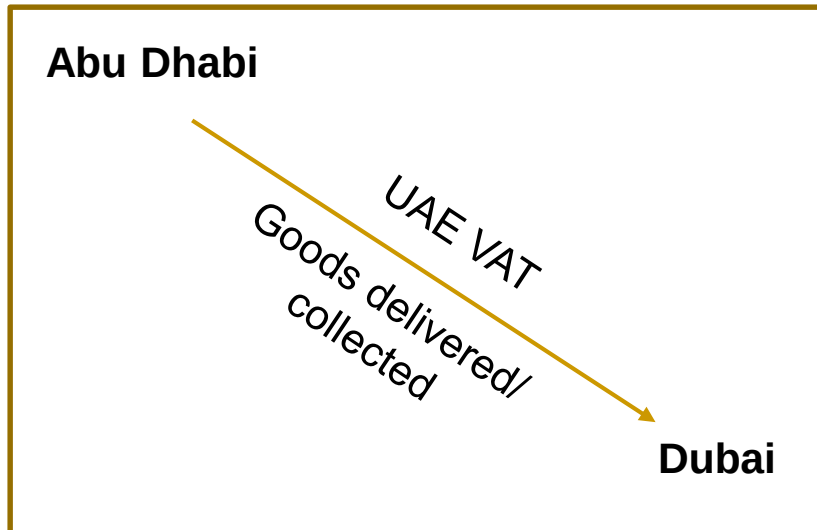
- **Basic rules:** the place of supply is where the supplier has the place of residence
- **Special rules**, for example:
 - ❖ Cross-border supplies of services between businesses
 - ❖ Electronically supplies services – where services are used or enjoyed



Place of Supply – Goods (1/2)

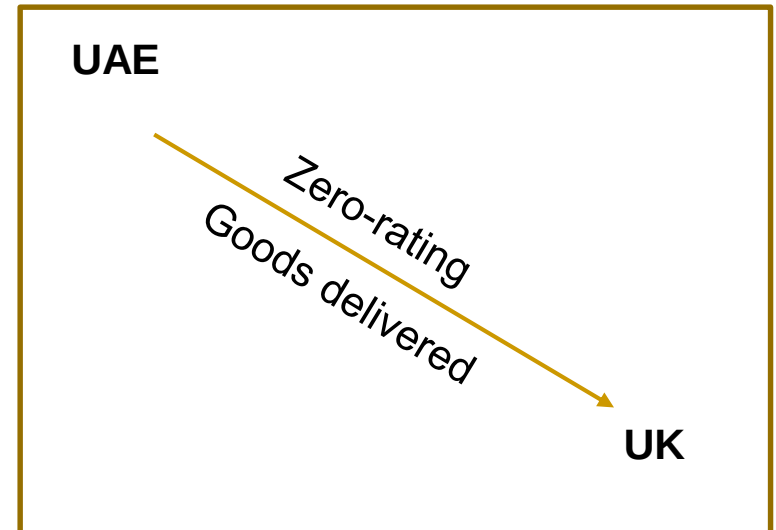
— Domestic Supplies —

- No movement of goods outside the UAE
- Subject to the applicable VAT rate in the UAE – standard or zero-rated



— Exports to outside the GCC —

- Export of goods: place of supply is still the UAE

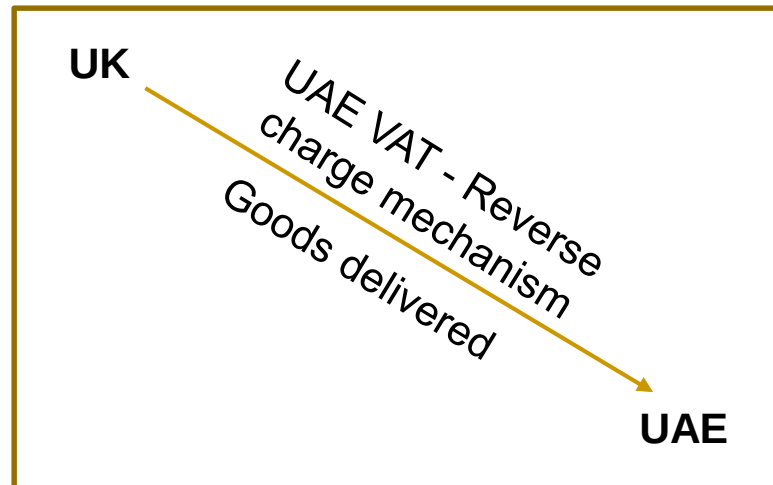




Place of Supply – Goods (2/2)

B2B Import into UAE from outside of GCC

- Import of goods: place of supply is the UAE
- The recipient accounts for VAT under the reverse charge mechanism
EXCEPT where goods will be re-exported to another GCC State – see next page for details





Place of Supply

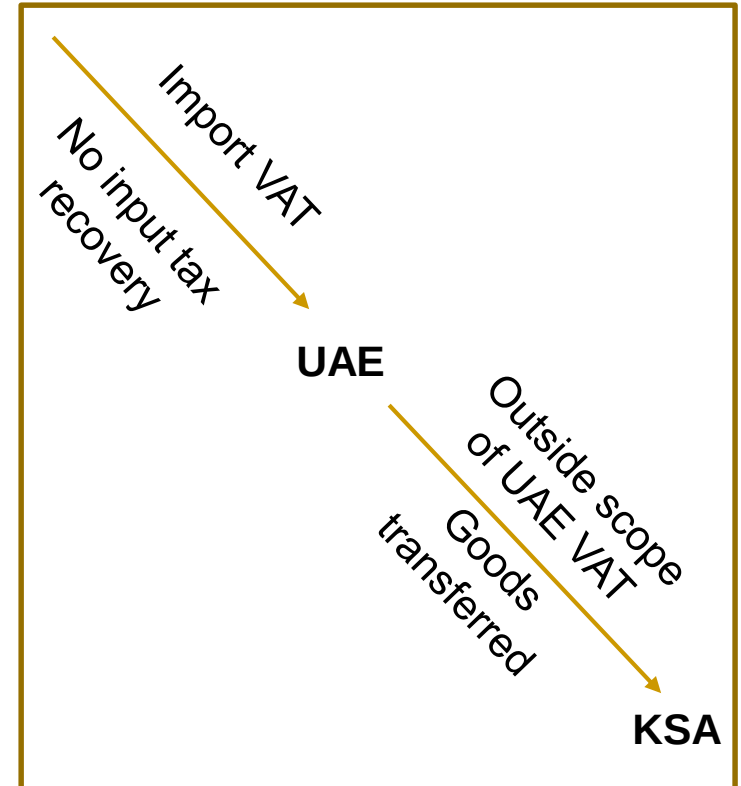
Goods imported to the UAE & transferred to GCC

Import followed by movement of goods within GCC

Where goods are imported into the UAE (i.e. released for consumption here) but the intention is that these goods will be transferred by the importer into another GCC State, the place of supply of import is still the UAE **BUT**...

- The importer must pay import VAT without using the reverse charge and cannot recover this VAT
- This import VAT should be recoverable in the GCC State to which the goods are transferred

Where import VAT was recovered in the UAE under the expectation that goods would not be transferred to another GCC State, but at a later date they are moved to another GCC State, the taxpayer will be required to “repay” the import VAT by treating the transfer as a deemed supply subject to VAT.

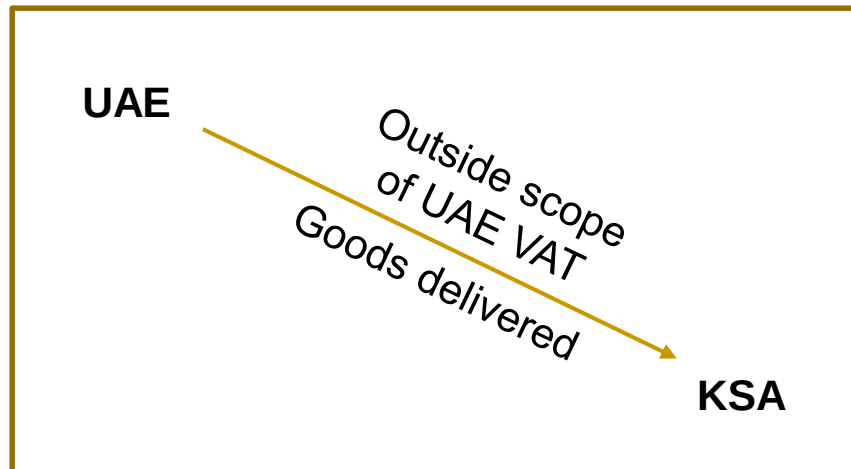




Place of Supply Goods supplied within GCC

— B2B Exports to GCC —

- Export of goods: place of supply is the other GCC State (e.g. KSA) provided the customer is registered for VAT in that GCC State, and the goods are exported outside the UAE





Place of Supply Services (1/2)

Basic rule = where the supplier has their place of residence

Specific rules =



Place of supply of services supplied to recipients who are VAT registered in another GCC State **is that other GCC State**



Place of supply of services supplied by a person that is not resident in the UAE to a business that is resident in the UAE **is in the UAE**



Place of supply of services relating to the installation of goods **is where the service is performed**



Place of supply of restaurant, hotel and catering services **is where they are performed**



Place of Supply Services (2/2)

Specific rules =



Place of supply of real estate services **is the location of the real estate**



Place of supply of transport services **is where the transport begins**



Place of supply of a means of transport to a person not registered for VAT in the GCC **is where the goods are put at the disposal of the recipient**



Place of supply of telecommunications and electronic services **is where the services are actually used and enjoyed by the recipient**



Place of supply of cultural, artistic, sporting, educational or similar services **is where they are performed**



Place of Supply

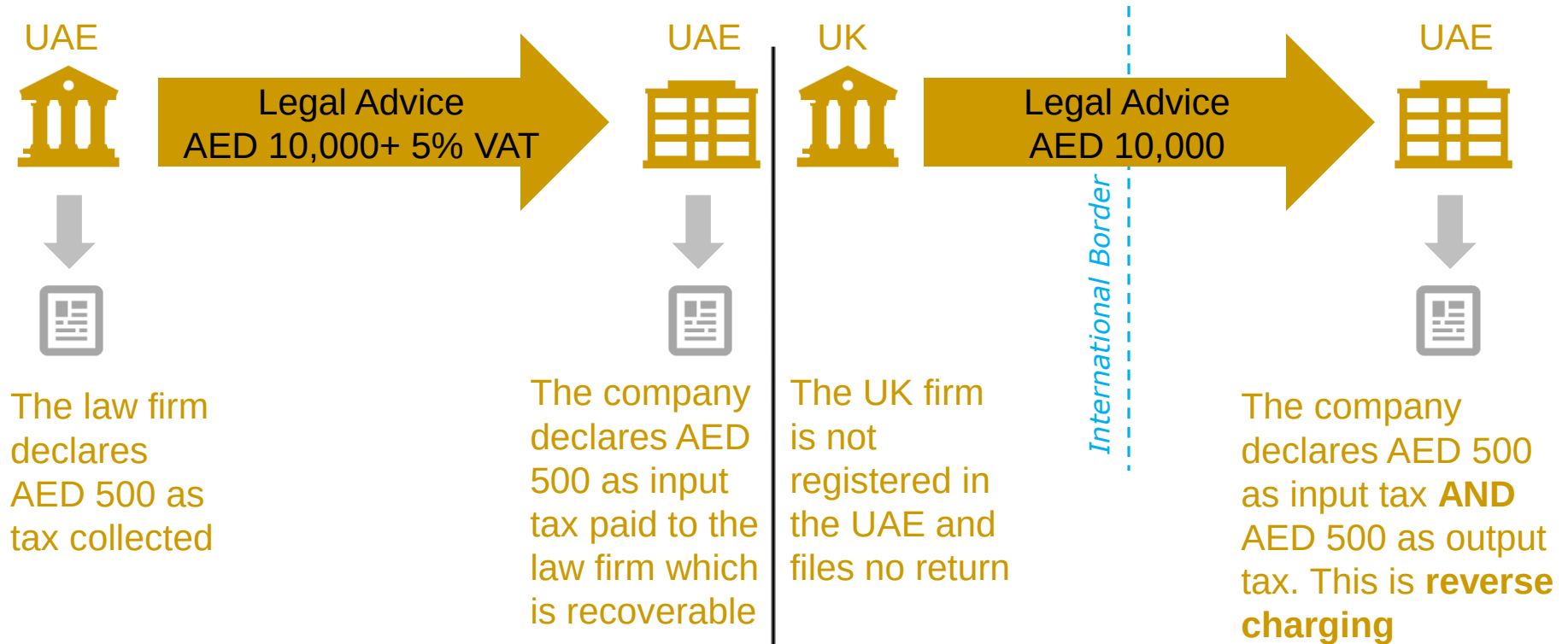
Services - Reverse charge mechanism

- VAT registered purchaser has to account for VAT in respect of supplies
- Typically used for cross-border transactions to relieve a non-resident supplier from the requirement to register and account for VAT in the country of the purchaser
- The purchaser will account for VAT on its normal VAT return and he may be able to claim that VAT back on the same return, subject to the normal VAT recovery rules
- It will apply in UAE in the situations where a VAT registered person imports goods or services into the UAE which would be subject to VAT if purchased in the UAE



Place of Supply

Reverse charge mechanism - example



Net result of Reverse Charging = puts local and international suppliers on the same footing



Date of supply: When to account for output VAT on supplies (1/2)

Basic tax point for goods

- Date of removal of goods (in case of supply of goods with transportation) [Article 23(2a); GCC VAT Agreement]
- Date on which goods made available to customer (in case of supply not involving transportation) [Article 23(2b); GCC VAT Agreement]
- Date of assembly/ installation (supply of goods involving assembly or installation) [Article 23(2c); GCC VAT Agreement]

Basic tax point for services

- Date on which performance of service is complete [Article 23(2d); GCC VAT Agreement]



Date of supply: When to account for output VAT on supplies (2/2)

Special tax point

- If any of the following event take place before the basic tax point, it will considered as the tax point for accounting for VAT [Article 23(1); GCC VAT Agreement]:
 - Payment is received
 - Tax invoice is issued

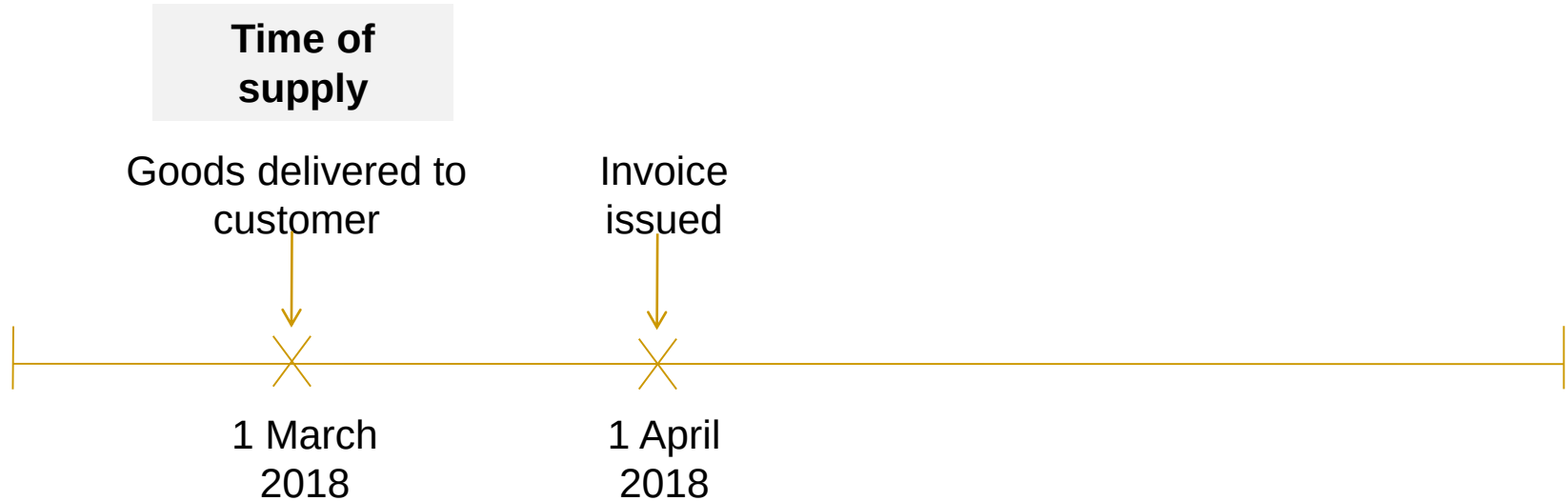
Tax point for supply of continuous services

- In case of continuous services over a period of several months or years, the time of supply for will be the earlier of [Article 23(3); GCC VAT Agreement]:
 - Receipt of payment
 - Issuance of tax invoice



Date of Supply

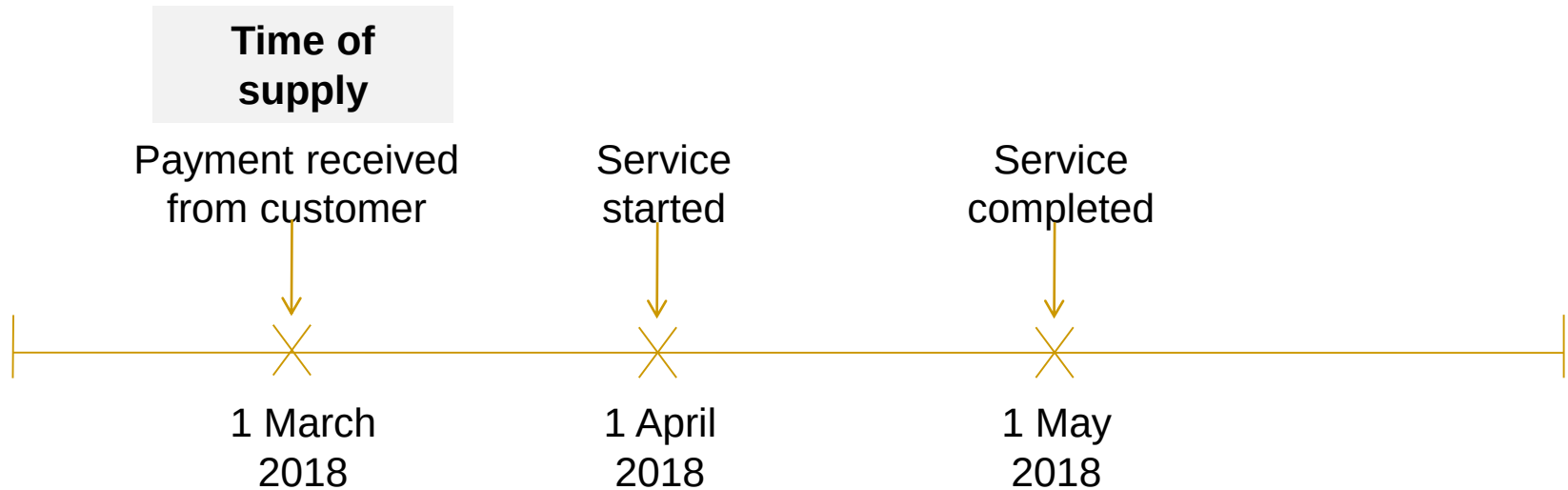
Example 1





Date of Supply

Example 2





Net Tax Payable

- VAT-registered businesses will submit a “VAT return” document to the FTA on a periodic basis mentioning all output tax due and input tax recoverable for the period
- Net VAT payable or credit recoverable will be calculated as the following:



- “Final consumers” (i.e. persons not registered for VAT) do not submit VAT returns and cannot recover the VAT they are charged



Input Tax Recovery Conditions

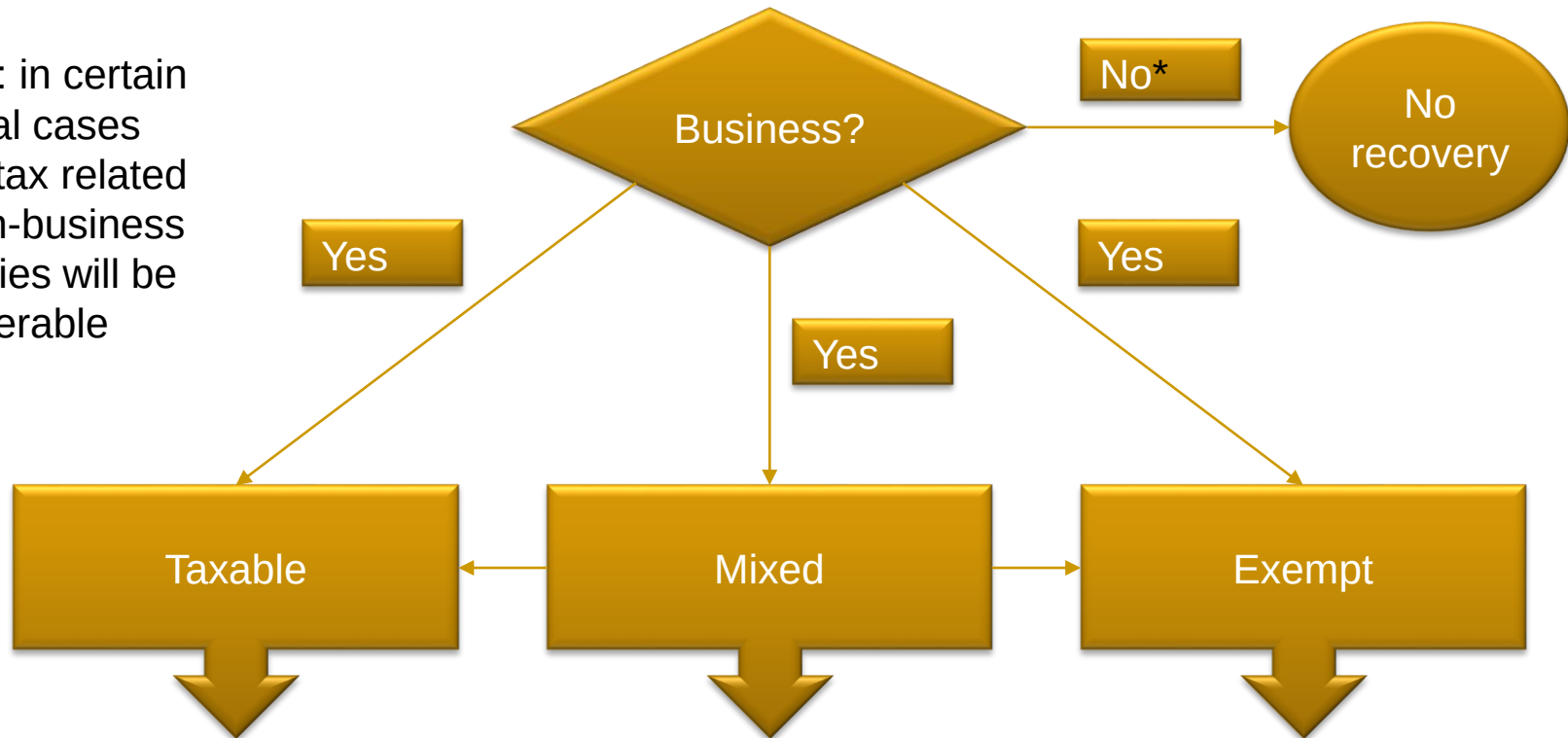
In order for input tax to be deductible by a person, a number of conditions must be satisfied by the recipient of the supply:

- 1) Recipient must be a **taxable person** and must be registered for VAT
- 2) VAT on the purchase must have been **correctly charged** by the supplier
- 3) The goods or services have been acquired for an **eligible purpose**
- 4) Recipient must received and retained a tax invoice **evidencing the transaction**
- 5) The amount of VAT which the recipient seeks to recover must **have been paid** in whole or in part, **or intended to be paid** in whole or in part
- 6) Certain incurred VAT **is specifically blocked** from being recoverable as input tax regardless of whether the above conditions have been met



Input tax apportionment

*Note: in certain special cases input tax related to non-business activities will be recoverable



Calculate recoverable portion of
'mixed' input tax by reference to the
ratio of input tax relating to taxable
supplies to the total input tax incurred



Registration: Who is required to register for VAT

- **Every taxable person resident** of a member state whose value of annual supplies in the member state exceeds or is expected to exceed the mandatory registration threshold

The **threshold** for registration will be:

- Mandatory registration threshold: **AED 375,000**
- Voluntary registration threshold: at least **AED 187,500**

Threshold will be **calculated** as follows:

- Total value of supplies made by a taxable person for the current month and the previous 11 months; or
- Total value of supplies of the subsequent 30 days
- Value of exempted supplies will not be considered for computing the annual supplies



No threshold applies to **non established taxable persons** – they may be required to register



VAT Registration Turnover Calculation

- For the purposes of voluntary VAT registration:
 - only taxable supplies are counted
 - a person may take into account taxable supplies or expenses which were subject to VAT
- Exempt supplies and supplies outside the scope of VAT are not used in calculating the VAT registration thresholds

“Taxable Supplies” include:

- Standard rated supplies
- Zero-rated supplies
- Reverse charged services received (provided the taxable person is responsible for accounting for the tax); and
- Imported goods (provided the taxable person is responsible for accounting for the tax).



VAT De-registration

- A Taxable Person who is registered for Tax purposes shall apply for de-registration in the following cases:
 - Cessation of the Economic Activity
 - Cessation of Taxable Supplies
 - The value of the Taxable Person's supplies falls below the Voluntary Registration Threshold as per Article (51) of this Agreement [Article 54(1); GCC VAT Agreement].
- The Taxable Person may apply for de-registration if the total annual revenue of its business falls below the Mandatory Registration Threshold but is over the Voluntary Registration Threshold [Article 54(2); GCC VAT Agreement].
- Each Member State may determine a minimum period to keep the Taxable Person registered for Tax purposes as a requisite for de-registration [Article 54(3); GCC VAT Agreement].
- Each Member State may determine the terms and limitations necessary to reject a de-registration application or to de-register a Taxable Person in cases other than those mentioned in the first and second clauses of this Article [Article 54(4); GCC VAT Agreement].



VAT Groups - Registration

- Each Member State may treat the Tax Group as a single Taxable Person
- Two or more persons carrying on a business are able to apply for a single “Group” VAT registration where:
 - Each person has a place of establishment or a fixed establishment in the UAE
 - The persons are “related parties”, and
 - Either one person controls the others, or two or more persons form a partnership and control the others



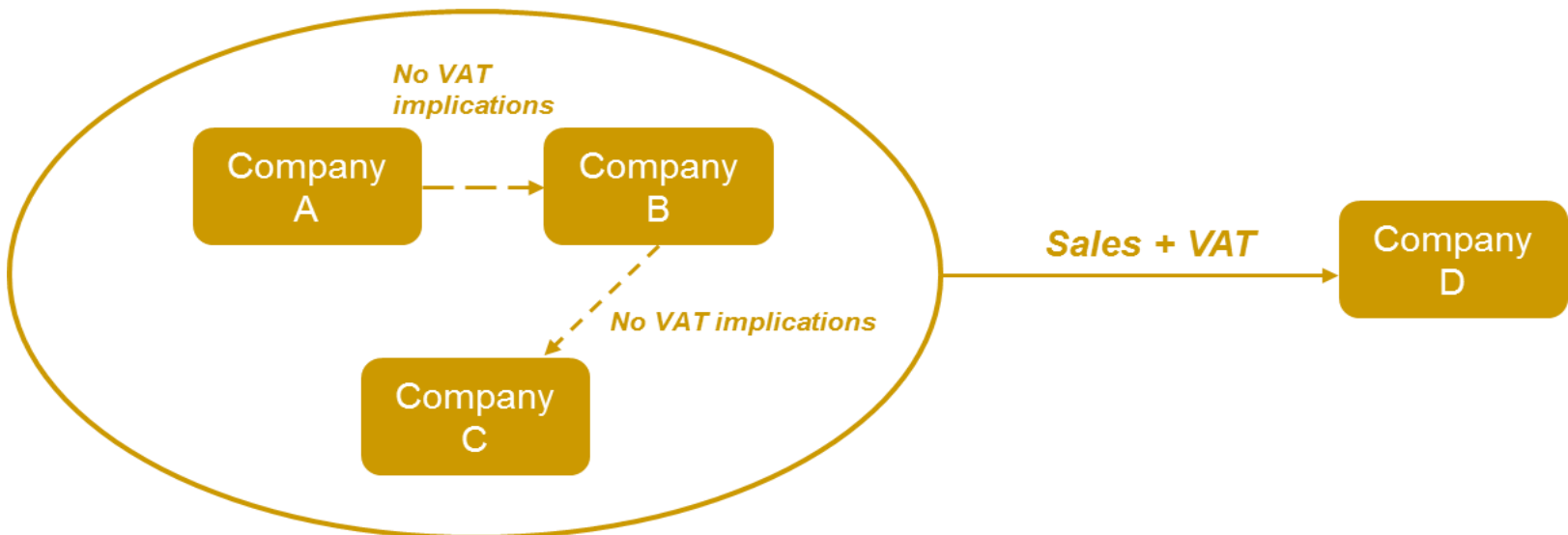
Two or more persons carrying
on a business (subject to
grouping conditions)

VAT group – for VAT purposes
the persons are now treated as
a single taxable person



VAT Groups - Registration

- **Effect:** entities within the VAT group are treated as one entity for VAT purposes
- **Results:**
 - supplies made between members of a VAT group are disregarded from VAT (i.e. no VAT is due on the supplies)
 - Supplies made by the VAT group to an entity outside the VAT group are subject to normal VAT rules





Supplies within scope of VAT in the GCC Treaty:

Type of supplies

- GCC VAT Agreement provides that the VAT will be charged at a standard rate of **5%** unless the goods or services are exempt, zero rated or out of scope [Article 25; GCC VAT Agreement]
- Each member state will have the flexibility to **either exempt or zero rate** the following type of supplies [Article 29(1); GCC VAT Agreement]:
 - Education
 - Real Estate
 - Health
 - Local transport



VAT liability

Planned zero-rated supplies in the UAE (1/2)

- Zero - rated supplies are not subject to VAT – right to an input tax deduction on the corresponding expenses
- Should be applied **strictly** as they are an exception to the normal rule that VAT should be charged.
- Examples of zero- rated supplies include:



International transport of passengers and goods, and services related to such transport



Certain supplies of means of transport, and related goods and services



New residential buildings



VAT liability

Planned zero-rated supplies in the UAE (2/2)

Examples of zero- rated supplies include:



Newly converted
residential
buildings



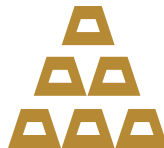
Charity related
buildings



Educational
services, in most
cases



Exported
goods and
services



Investment
precious metals



Healthcare
services, in most
cases



VAT Liability

Exempt supplies in the UAE

- Exempt supplies are not subject to VAT – no right to an input tax deduction on the corresponding expenses.
- Exemptions should be applied **strictly** as they are an exception to the normal rule that VAT should be charged.
- Examples of exempt supplies include:



Some specific
financial
services



Local
passenger
transport



Residential
buildings (other
than zero-rated
supplies)



Bare land



Record-keeping

The following records are required to be kept to ensure accurate tax compliance:

1

Books of account and any information necessary to verify entries, including, but not limited to:

- annual accounts;
- general ledger;
- purchase day book;
- invoices issued or received;
- credit notes and debit notes.

2

Additional records required for specific taxes

Different taxes may require different records to be kept in order for taxpayers to be compliant, for example, a VAT account.

3

Any other information as direct by the FTA that may be required in order to confirm, the person's liability to tax, including any liability to register.



Record-keeping

Taxable persons for VAT must in addition retain the following records for **at least 5 years**:

Invoices, credit/debit notes	Records of:	VAT account
❖ All tax invoices and alternative documents related to receiving the goods or services ❖ All received tax credit notes and alternative documents received ❖ All tax invoices and alternative documents issued ❖ All tax credit notes and alternative documents issued	❖ All supplies and imports of goods and services ❖ Exported goods and services ❖ Goods and services that have been disposed of or used for matters not related to business ❖ Goods and services purchased for which the input tax was not deducted	❖ VAT due on taxable supplies (incl. those pursuant the reverse charge mechanism) ❖ VAT due after error correction or adjustment ❖ VAT deductible after error correction or adjustment ❖ VAT deductible for supplies or imports

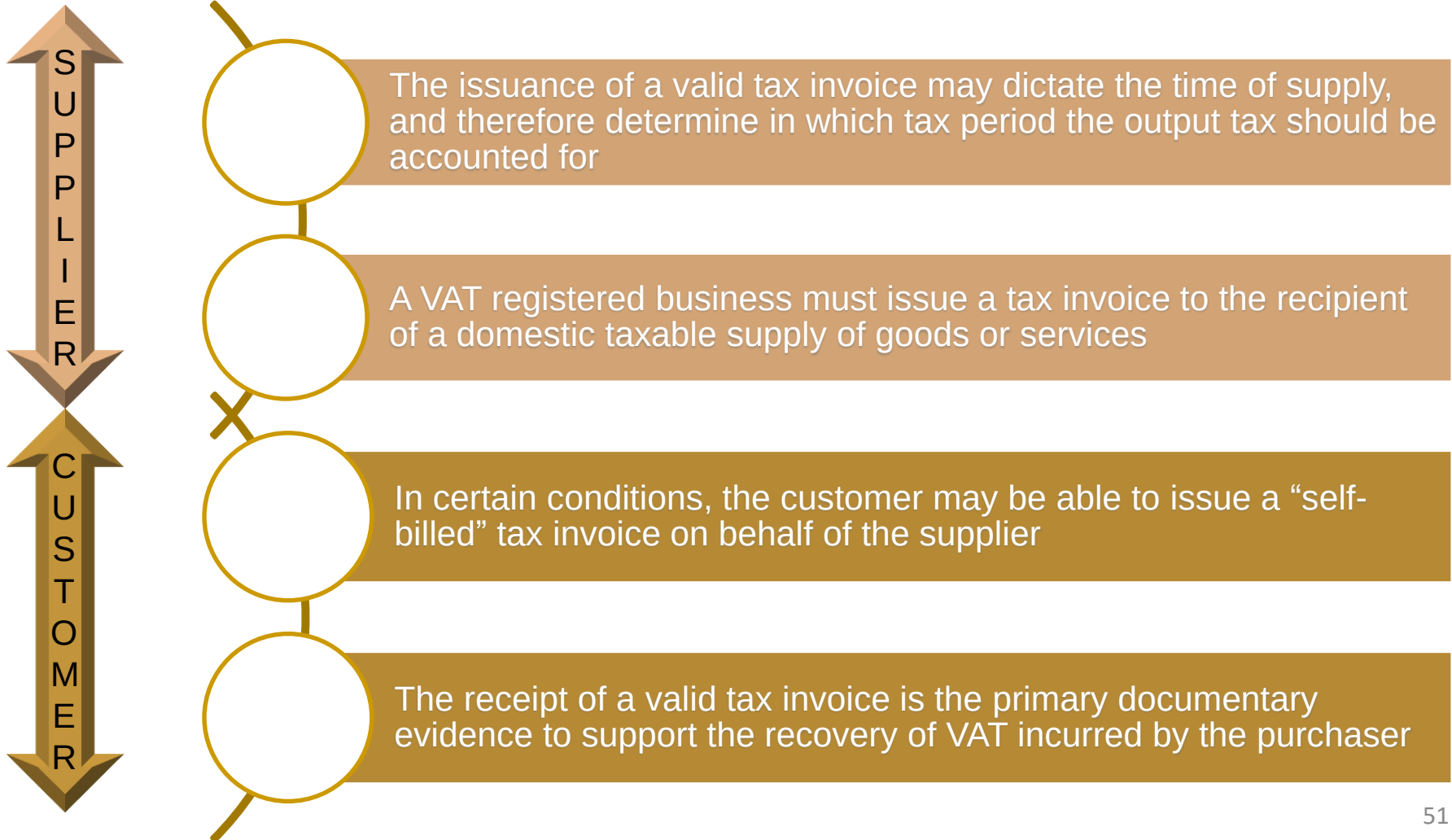


VAT Invoices





VAT Invoices





VAT Invoices

To be valid, a VAT invoice issued by a taxable person needs to include the following information, but not limited to:

- A sequential number which uniquely identifies the document
- The date of issue of the invoice
- The time of supply (only if different from the invoice date)
- The name, address and TRN of the supplier
- For each description, the quantity of goods or extent of services supplied, the rate of VAT and amount payable, expressed in UAE Dirham
- The total amount of VAT expressed in UAE Dirham together with the rate of exchange applied and the source of that rate, as below



VAT obligation - Tax Return filing & Payment



- Submission **online** and only in very limited circumstances (and at the sole discretion of the FTA) on paper

- Deadlines for submission and payment:
 - the due date will be within the month following the end of the return period and announced by the Executive Regulations
 - where the due date falls on a weekend or national holiday, the deadline shall be extended to the first following working day



- Late submission or payment can result in a penalty levied by the FTA



Errors and how to correct them VAT Invoices

Tax incorrectly
charged, wrong
amount of tax
charged

If the tax is higher
than it should be,
the supplier
should account
for the VAT
amount stated on
the invoice

If the tax is lower
than it should be,
the supplier
should account
for the correct
amount of tax on
its tax return

Adjustment of the
errors by issuing
a credit note or
debit note, and a
new correct
invoice



Errors and how to correct them

Tax Returns

- Where an error has been made on a VAT return submitted within the last 5 years, then the taxable person must disclose this error to the FTA within 30 days of becoming aware of the error.
- Depending on the nature of the error and the amount of tax under / over declared, the adjustment to take account of the error could be made:
 - either on the next tax return due for submission;
 - or via a separate voluntary disclosure to the FTA.
- It is recommended that errors in VAT returns are corrected as quickly as possible.



Reporting of transactions at an Emirates level

- Taxable Persons will be required to **report details** of the value of **supplies made in each Emirate** on their VAT returns.
- The mechanism for the allocation of supplies made in each Emirate will be announced in the Executive Regulations.



Not less than 500 dirham
and not more than 3 times
the amount of tax for which
the penalty was levied

Penalties

Administrative Penalties - Examples

- Administrative penalties are intended to address non-compliance, and encourage compliance.
- The FTA has the power to waive or reduce penalties at its discretion (e.g. taxable person has a reasonable excuse for the error).
- Few **examples** of administrative violation:
 - ❖ If the person conducting a business fails to keep the required records and other information;
 - ❖ If the person conducting a business fails to submit the data, records and documents related to tax in Arabic language when requested by FTA;
 - ❖ If the taxable person fails to submit a registration application within the period required.



Up to five times the
relevant tax at stake

Penalties

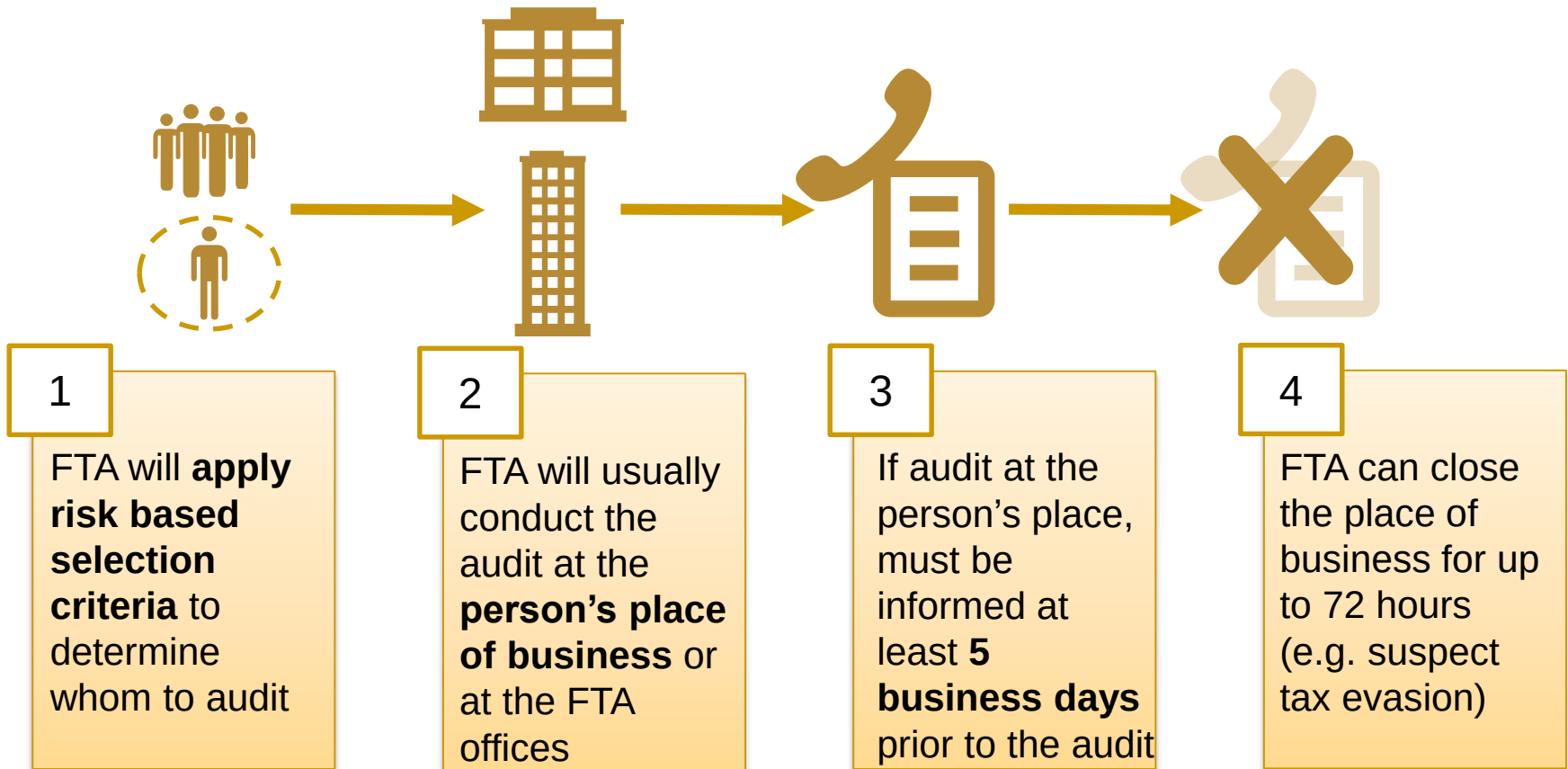
Tax Evasion Penalties - Examples

- The FTA can issue penalties for tax evasion.
- Tax evasion is where a person uses illegal means to either lower the tax or not pay the tax due, or to obtain a refund to which he is not entitled under law.
- The imposition of a penalty under tax law does not prevent other penalties being issued under other laws.
- Few **examples** of instances of tax evasion:
 - ❖ Where a person deliberately provides false information and data and incorrect documents to the FTA;
 - ❖ Where a person deliberately conceals or destroys documents or other material that he is required to maintain and provide to the FTA.



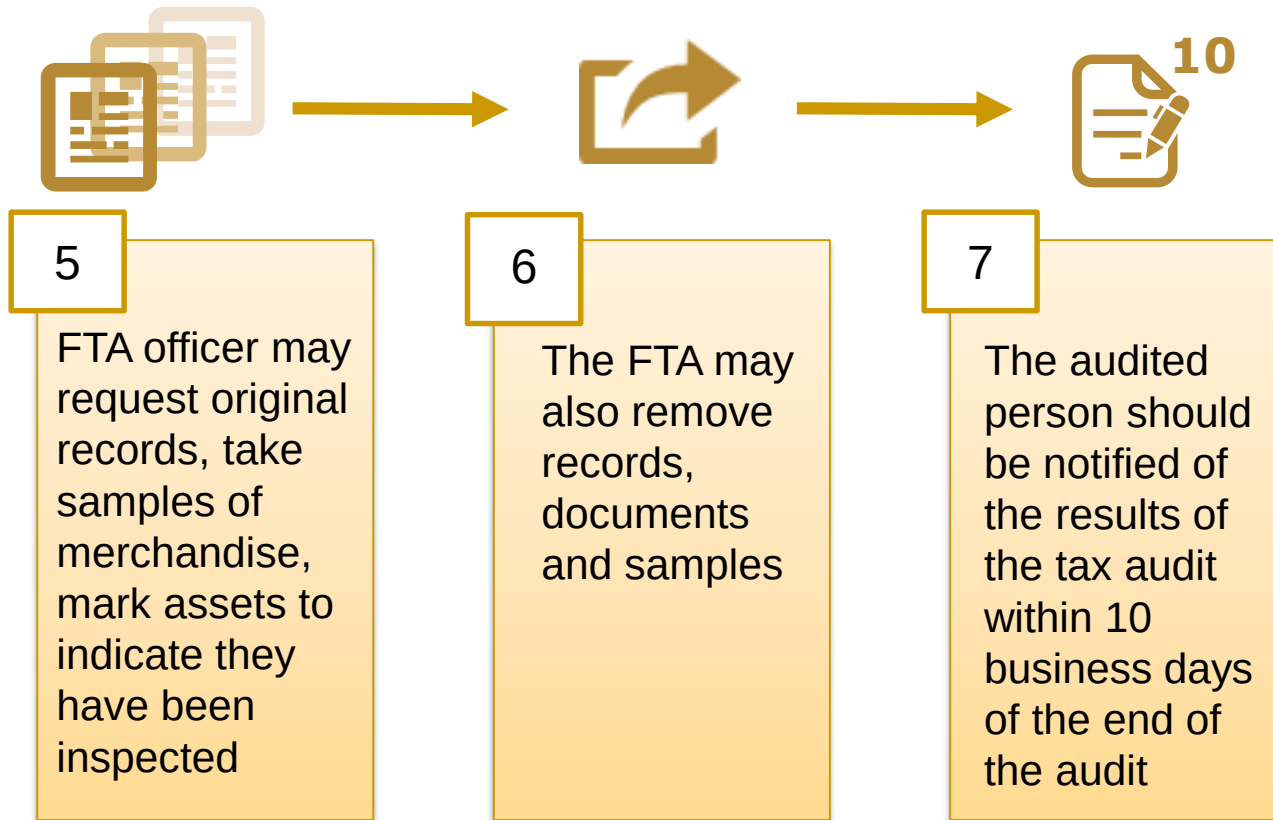
Audits

The FTA can visit businesses to inspect records and make sure persons are paying or reclaiming the right amount of tax.





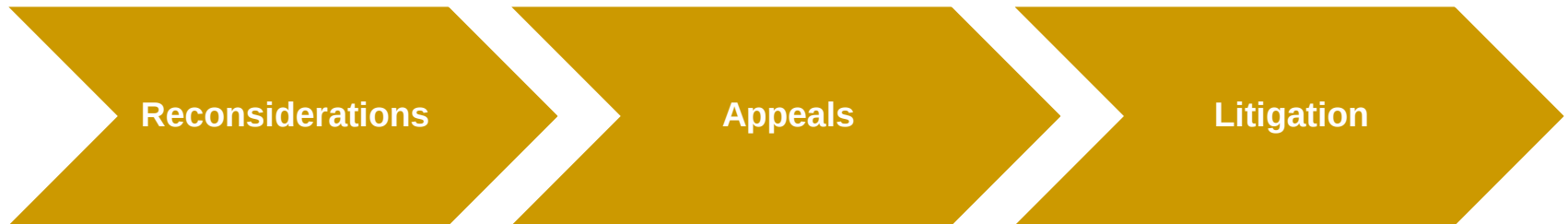
Audits





Contesting Decisions

If a taxable person is not satisfied with a decision by the FTA, they will be allowed to contest the decision. The FTA offers three levels of escalation for dispute resolution.



**Working together towards a
successful implementation**



Future industry sessions

Industry specific sessions are also planned for businesses operating in the following sectors:

- Import and export of goods
- Oil & Gas
- SMEs and Entrepreneurs
- Real Estate
- Consumer business
- Public Sector
- Import and export of services
- Education and Healthcare
- Financial services
- International organisations & diplomatic missions

Q&A



الإمارات العربية المتحدة
وزارة المالية

Thank You



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