



Certificate Course VAT UAE
ICAI-DUBAI
CAPITAL ASSETS-VAT
22nd Dec;2017
DUBAI



Ashu Dalmia

GST INDIA & GCC VAT Consultant, Trainer & Author

CAPITAL ASSETS AND INPUT ADJUSTMENT

S.No.	Description	Article VAT-Law	Article-VAT Regulation
1	Recoverable Input Tax	54,55,58	55
2	Capital Asset Scheme	60	58
3	Meaning of Capital Assets	55	

- **Article (54) of LAW : Recoverable Input Tax : -**

The Input Tax that is recoverable by a Taxable Person for any Tax Period is the total of Input Tax paid for Goods and Services which are used or intended to be used for making:

- Taxable Supplies.
- Supplies that are made outside the State which would have been Taxable
- Supplies had they been made in the State. Supplies specified in the Executive Regulation of this Decree-Law that are made outside the State, which would have been treated as exempt had they been made inside the State

- **Article (54) of LAW : Recovery of Recoverable Input Tax in the Tax Period : -**

“ Recoverable Input Tax may be deducted through the Tax Return relating to the first Tax Period.....”

Article (58) of the LAW: Calculating the Input Tax that may be Recovered

Specify the method in which the **Input Tax that may be recovered** is calculated,

- if Input Tax is paid for Goods or Services during a specific Tax Period to make supplies that allow recovery under Article (54) and
- others that do not allow recovery, or
- for activities conducted that are not in the course of doing the Business

Article (55)(6) of the Regulation: Calculating the Input Tax that may be Recovered

The Taxable Person shall calculate the percentage of Recoverable Tax calculated by reference to Article (54) of the Decree-Law to the sum of Recoverable Tax and non-Recoverable Tax for the Tax Period

CAPITAL ASSETS SCHEME-Article (60) of LAW

assess the period of use of such asset and make the necessary adjustments to the Input Tax paid pursuant to the Capital Assets Scheme.

keep the records related to Capital Assets for **at least ten years**

Executive Regulation of this Decree-Law shall specify the following:

- a. Capital Assets subject to the provisions of this Decree-Law and their estimated useful life.
- b. The method of adjusting Capital Assets and the periods for which adjustments should be made.
- c. Instances where the period for keeping records of Capital Asset records is extended

What is CAPITAL ASSET-Article 57 -Regulation

single item of expenditure of the Business amounting to **AED 5,000,000 or more excluding Tax**

And has **estimated useful life** equal or longer than:-

i. **10 years** in case of a **building** or a part thereof.

or

ii. 5 years for all Capital Assets **other than** buildings or parts thereof

Items of stock, which are for resale, shall not be treated as Capital Assets

Expenditure consisting of smaller sums which collectively amount to AED5,000,000 or more shall be treated as a single item of expenditure of AED5,000,000 or more for the purposes of this Article where the sums are staged payments for any of the following:-

- For the purchase of a building
- For the construction of a building.
- Work undertaken on building
- Assembly ,installation

How to Adjust-Article 58 -Regulation

- Monitor and the Input Tax incurred shall be adjusted for 10/5 years or part thereof ,
commencing on the day on which the owner first uses the Capital Asset for the purposes of its Business.
- if a Capital Asset is **destroyed, sold, or otherwise disposed of before the end of the period as referred above, the Capital Asset Scheme shall cease in respect of the asset in the “Tax year” in which the asset was destroyed, sold or disposed of.**
- The “Tax year” in which the Capital Asset is acquired (**i.e. put to use**) shall be treated as Year 1 for purposes of the Capital Asset Scheme.

How to Adjust-Article 58 -Regulation

- keep a Capital Asset register and record therein the Input Tax incurred on the Capital Asset in Year 1 (represented by “W” in this Article) as well as details of any adjustments made to the Input Tax calculations under this Article. **[W Value of Input Tax claimed]**
- **The Input Tax recovered** on the Capital Asset in Year 1 after any adjustment that may be due **under Article (58) of the Decree-Law** shall be recorded together with the percentage that gave rise to that recovery (referred to as “X” in this Article). **[X the Initial recovery %]**
- At the end of each year from Year 2 onwards, the Taxable Person shall calculate the percentage of Recoverable Tax for that Capital Asset for that year in accordance with Article (58) of the Decree-Law (referred to as “Q” in this Article). – **[Q changed Recovery %]**
- **If Q is not equal to X**, the Taxable Person shall make an adjustment to his Input Tax.

How to Adjust-Article 58 -Regulation

- The Taxable Person shall calculate an amount (referred to as “R” in this Article) as:
 - a. One tenth of W multiplied by Q if the Capital Asset is a building or a part thereof; or
 - b. One fifth of W multiplied by Q if the Capital Asset is not a buildings or a part thereof
- The Taxable Person shall calculate an amount (referred to as “Z” in this Article) as:
 - a. One tenth of W multiplied by X if the Capital Asset is a building or a part thereof.
 - b. One fifth of W multiplied by X if the Capital Asset is not a buildings or a part thereof.
- Where “R” is **more** than “Z”, the Taxable Person shall **increase** his Input Tax by the difference
- Where “R” is **less** than “Z”, the Taxable Person shall **reduce** his Input Tax by the difference.

How to Adjust-Article 58 -Summary

If $(Q) \neq (X)$ Adjustment Required, Calculate (R) & (Z)

$(R) = 1/10 \text{ or } 1/5 (W) * (Q)$

$(Z) = 1/10 \text{ or } 1/5 (W) * (X)$

If $(R) > (Z)$, Increase Input Tax

If $(R) < (Z)$, Reduce Input Tax

EXAMPLE

Disclaimer

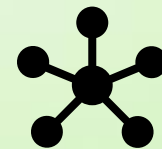
This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Author would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Author has no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication



ashu.dalmia@ada.org.in



+91-9810893243



www.gstindia.biz