

INTRODUCTION OF THE VALUE ADDED TAX ('VAT') IN THE UAE

1. What is VAT?

It is an indirect tax on consumption which will apply to most goods and services effected within the UAE. Although VAT is collected by businesses on behalf of the government, it is ultimately borne by the final consumer.

2. Why is VAT being introduced in the UAE?

The introduction of VAT is one step forward in the UAE's pursue of reducing their dependency on oil. Preconditioned that the VAT system is well organized and executed, it can be a great instrument to create a significant stream of income for the government.

It is important to note that VAT is a GCC- wide project, meaning that common GCC framework is the basis for the local VAT legislations of the GCC countries and special rules will apply for intra-GCC transactions. The GCC framework agreement is already publicly available the website of Saudi Arabia's tax administration.

3. When will VAT be effectively implemented in the region?

Six GCC countries have agreed to implement VAT in the period commencing from January 1, 2018, and by latest January 1, 2019. The UAE and Saudi Arabia have already formally announced that they will introduce VAT as from January 1, 2018.

4. Who will charge VAT?

Only businesses registered for VAT will be able to charge VAT.

5. What about free zone companies?

Rules on free zones are still to be clarified. However, free zone companies are expected to be subject to VAT.

6. Who will need to register for VAT?

Businesses must register for VAT if their annual VAT taxable turnover exceeds the mandatory registration threshold of AED 375,000.

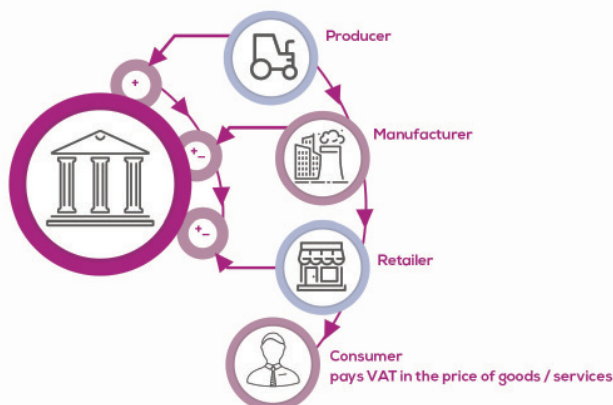
A voluntary registration for VAT will be possible if the turnover is below the mandatory registration threshold but exceeds the amount of AED 187,500.

For businesses with no turnover, it should be possible to register voluntarily if their expenses exceed the voluntary registration threshold, which gives start-up businesses the ability to recover input VAT.

7. When to register?

Registration for VAT on a voluntary basis will become possible from the third quarter of 2017. VAT registration will become compulsory from the final quarter of 2017.

8. How does it work?



VAT registered businesses will have to charge VAT on their taxable sales. This is known as output VAT.

Similarly, VAT will be charged on most goods and services purchased by the business. This is known as input VAT.

The output VAT is being collected from the customer by the business on behalf of the government and must be regularly paid over to them. However, the input VAT charged on the goods and services purchased can be deducted from the amount of output tax owed.

9. What will be the applicable rate?

The standard VAT rate will be of 5%. Some transactions will be however either zero-rated or exempted.

10. What will VAT be charged on?

VAT is a very broad tax and it should be charged on most goods and services.

Transactions may be subject to VAT because they are carried out against payment or by law. Regarding the first type of VAT-able transactions, they must be connected with an economic activity. Activities not connected with the economic sector should not fall within the scope of VAT.

In addition, the transaction should be subject to VAT if it involves a consideration. However, it is irrelevant whether the transaction generates a profit or a loss.

Finally, the transaction must be carried out by a taxable person (roughly speaking an economic actor habitually effecting such transactions).

Some specific transactions shall be compulsorily subject to VAT, as per the law. These include deliveries of goods or services to oneself and imports.

11. Which transaction will benefit from a specific VAT treatment?

The UAE VAT law is still being finalized but we already know that some services and goods will be either exempt from VAT or zero-rated, meaning no VAT shall be applied on such transactions.

12. What is the difference between zero-rated and exempt transactions?

There is a big difference between zero-rated and exempt supplies and this difference is essential. Businesses that make zero-rated supplies may be entitled to register for VAT and recover VAT on their purchases. This is not the case for exempt transactions.

13. What is the expected VAT treatment in the UAE of different sectors?

The following transactions sectors should benefit from the zero-rated treatment:

- Medical sector (list of medicines and certain medical equipment is being agreed across GCC);
- Education sector;
- Transport of goods/ passengers from one GCC country to another and international transport;
- Exports of goods and services;
- The first sale of the new residential property.

The exempt treatment shall apply to the following transactions:

- Margin-based financial services (fee-based products will be subject to the standard rate);
- Life insurance (general insurance services will be subject to the standard rate);

- Sale and lease of residential property (except the first sale; commercial property will be subject to the standard rate);
- Bare land;
- Local passenger transport.

14. Will there be any reporting obligations?

Yes, it is expected that businesses will need to submit quarterly VAT returns. The initially self-assessed VAT due should be paid to the government. An annual return may also be required to adjust any VAT liabilities.

The UAE will introduce an electronic registration, filing and payment system to facilitate the process.

Although VAT will be levied at the federal level, businesses will be required to report in their tax returns revenue for each emirate. This will result in an additional compliance burden and businesses will need to ensure that their systems record their transactions accordingly.

15. What kind of records are businesses required to maintain?

Tax payers should be required to keep full records, including invoices, of all business transactions which affect their VAT position. Most likely, such records should be kept for 5 years.

The records must be sufficiently detailed to enable the tax administration to check the VAT calculation, if necessary.

16. Will there be penalties in case of non-compliance?

There will be strict penalties for non-compliance. The tax

authorities will also have the power to conduct VAT audits with a prior notice, unless fraud is suspected.

17. What actions should businesses consider now?

It is crucial for businesses to start the preparation process early. Even though the details of the VAT legislation are not fully available yet, an early understanding on the potential impact on business will reduce friction in the ongoing process. Steps to be taken at this point are:

- Map which business activities will be impacted by VAT;
- Analyze contractual arrangements that require action;
- Develop a strategy to successfully implement VAT;
- Create a timetable to execute the implementation strategy in time.

18. How can we help?

We can assist you in reviewing your current business lines and flag the potential impact of the new VAT legislation and advise on possible ways to optimize your VAT position.

We can also help you to adapt your current IT system as well as corporate and business documentation that may be impacted by the new rules.

Finally, we can help you to complete and file your VAT returns and assist you in solving any disagreements that may arise with the government on the application of the new rules.

Who we are

Rethink is a boutique accounting, audit, advisory, compliance and tax advisory firm with offices in Dubai and Abu Dhabi (ADGM), focused on providing businesses of varying sizes with timely, proactive, and customized business solutions from start-up and early development to the latest stages of a business lifecycle.

We offer tailored regulatory expertise and focus on guiding clients to reduce the risk of non-compliance across a wide range of compliance services and regulatory advice. While we focus on compliance consultancy services including advisory, training and process improvement, we do not just tell you what to do, we give you practical ways to make things work for your business.

Who will assist you



Greg Shippee, Managing Partner

Over sixteen years of corporate finance experience in the US, Europe, and Middle East & Africa regions. Multidimensional expertise and vast experience in strategy consulting, family office controlling, acquisition due diligence and financial planning, budgeting and control.



Patrick Sulzer, Partner and Group Operations Director

Fifteen years of broad international experience in various sectors (industrial, consulting, legal and financial services) with a deep and comprehensive knowledge of the Middle East. Extensive practice in operations management, strategic implementation and business development.