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1. Financial Services – Guidance Note

1.1 Overview

1.1.1 Short brief

VAT was introduced with effect from 1 January 2018 in the UAE. As a general consumption tax on the supply of goods and services, its effects must be understood by providers of financial services in the UAE, in two contexts:

- its application to the activities of all financial services providers; and
- the approach financial services providers in the UAE should take to determine the

amount of VAT on costs (i.e. input tax) they are eligible to reclaim where they make both taxable and exempt financial services. Important: This document does not discuss insurance. This is covered in a separate
Guide VATGIN1.

1.1.2 Purpose of this document

This document contains guidance about the characteristics of financial services for VAT purposes. In addition, this document provides guidance for the financial services industry to understand which of the services and functions it provides are liable to and exempt from VAT and in turn, the extent to which VAT recovery on costs is possible. It explains the concept of input tax apportionment as well.
Detail on Special Input Tax Apportionment
Methods is provided in a separate Guide - Input Tax Apportionment | VATGIT1.

1.1.3 Who should read this document?

This document should be read by those responsible for tax matters operating in the financial services industry in the UAE, as well as their tax agents and advisers. It should be read in conjunction with the Taxable Person Guide for VATG001.

1.2 Status of the document

This guidance is not a legally binding statement, but is intended to provide assistance in understanding and applying the VAT legislation.

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concept of input tax apportionment as well. Detail on Special Input Tax Apportionment Methods is provided in a separate Guide - Input Tax Apportionment | VATGIT1.

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2. Financial Services

2.1 Financial services

2.1.1 What are financial services?

These are services which are provided by businesses or persons which in some way are connected with finance. Many such services will be directly related to money. This could mean dealings in money or its equivalent, or the provision of credit. It also includes more specialist types of finance (for example, hire-purchase or instalment credit finance) or more long-term finance, such as shares or loan stock. Some financial services may not have this direct link with money (for example, equipment leasing). In addition, there is a wide range of associated services which have a less immediate link to money (for example, financial advice, trustee services and debt collection). Other more peripheral activities include investment brokerage and the underwriting of securities. Financial services typically comprise a complex series of transactions and the products offered by the sector are continually evolving, through innovation and technology. In addition, the means of remuneration for financial services can also be complex (for example, margin and spread).

Historically, transactions in the sector were complex to analyse and presented difficulties, both in identifying the supply chains and the values of the various supplies being made. However, more recently, financial services have become more easily identifiable and measurable than in the past due to technological advancements and global developments in the manner in which transactions are conducted. Accordingly, the starting point for the UAE VAT treatment of financial services is that VAT should be charged on financial services where it is practicable to do so. Specifically, where fees or similar readily identifiable charges are made for the provision of a financial service as defined in the Federal Decree-Law[1] and Executive Regulations[2], such fees will be liable to VAT at the standard rate.

1 Federal Decree-Law No.8 of 2017 on Value Added Tax, hereafter 'the Law'.

2 Cabinet Decision No.52 on the Executive Regulations of Federal Decree-Law No.8 of 2017 on Value Added Tax, hereafter 'the Executive Regulations'.

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n the manner in which transactions are conducted.

Accordingly, the starting point for the UAE VAT treatment of financial services is that VAT should be charged on financial services where it is practicable to do so.

Specifically, where fees or similar readily identifiable charges are made for the provision of a financial service as defined in the Federal Decree-Law1 and Executive Regulations2, such fees will be liable to VAT at the standard rate.

1 Federal Decree-Law No.8 of 2017 on Value Added Tax, hereafter 'the Law'.

2 Cabinet Decision No.52 on the Executive Regulations of Federal Decree-Law No.8 of 2017 on Value Added Tax,
hereafter 'the Executive Regulations'.

2.2.1 What are financial services as defined by the Law?

As defined by the Law 3 and Executive Regulations4, financial services are services connected to dealings in money (or its equivalent) and the provision of credit and include, but are not limited to the following:

1. the exchange of currency, whether effected by the exchange of bank notes or coin, by crediting or debiting accounts, or otherwise;

2. the issue, payment, collection, or transfer of ownership of a cheque or letter of

3. the issue, allotment, drawing, acceptance, endorsement, or transfer of ownership

4. the provision of any loan, advance or credit;

5. the renewal or variation of a debt security, equity security6, or credit contract;

6. the provision, taking, variation, or release of a guarantee, indemnity, security, or

bond in respect of the performance of obligations under a cheque, credit, equity security, debt security, or in respect of the activities specified in items (2) to (5) above;

7. the operation of any current, deposit or savings account;

8. the provision or transfer of ownership of financial instruments such as derivatives,

options, swaps, credit default swaps, and futures;

9. the payment or collection of any amount of interest, principal, dividend, or other

amount whatever in respect of any debt security, equity security, credit or contract of life insurance;

10. agreeing to do, or arranging, any of the activities specified in items (1) to (9) above,

4 Article 42(2), VAT Executive Regulations
5 "Debt security" means any interest in or right to be paid money that is, or is to be, owing by any Person, or any
option to acquire any such interest or right.

6 "Equity security" means any interest in or right to a share in the capital of a legal person, or any option to acquire
any such interest or right.

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lection of any amount of interest, principal, dividend, or other

amount whatever in respect of any debt security, equity security, credit or contract
of life insurance;

10. agreeing to do, or arranging, any of the activities specified in items (1) to (9) above,

other than advising thereon.

3 Article 46(1), VAT Law

4 Article 42(2), VAT Executive Regulations

5 “Debt security” means any interest in or right to be paid money that is, or is to be, owing by any Person, or any
option to acquire any such interest or right.

6 “Equity security” means any interest in or right to a share in the capital of a legal person, or any option to acquire
any such interest or right.

3. VAT

3.1 What is a taxable supply?

Most business transactions involve supplies of good or services. A taxable supply is one where there is:

 a supply of goods or services; for consideration; supplied in the course of conducting business in the UAE; by a VAT registered business (or a business that is obliged to be VAT registered). Taxable supplies may either be subject to the standard rate or zero rate of VAT. The term ‘taxable supply’ excludes exempt supplies and any supplies that are outside the
scope of UAE VAT. 3.1.1 Standard rate

In general terms, where VAT is charged at the standard rate, businesses that are
registered for VAT are able to recover the VAT they are charged by their suppliers on
goods and services, subject to certain conditions. VAT which is incurred on purchases is
known as ‘input tax’. 3.1.2 Zero rate

VAT is charged but at 0% on zero-rated supplies. Zero-rated supplies are treated as
taxable supplies in all respects, including the right of the person making the supply to
recover the VAT on their own business expenditure. 3.2 What is an exempt supply?

No VAT is charged on exempt supplies.
As these supplies are not ‘taxable supplies’, the
supplier cannot recover any of the VAT on expenses (input tax) directly incurred in making
exempt supplies. In addition, businesses which make supplies with a mixture of differing VAT liabilities will
need to use a method of apportionment in respect of VAT incurred on general costs (i.e. input tax which is non-attributable to either taxable or exempt supplies).

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taxable supplies in all respects, including the right of the person making the supply to recover the VAT on their own business expenditure.

No VAT is charged on exempt supplies. As these supplies are not 'taxable supplies', the supplier cannot recover any of the VAT on expenses (input tax) directly incurred in making exempt supplies.

In addition, businesses which make supplies with a mixture of differing VAT liabilities will need to use a method of apportionment in respect of VAT incurred on general costs (i.e. input tax which is non-attributable to either taxable or exempt supplies).

Incurred VAT therefore may represent a large irrecoverable cost to businesses involved in making supplies which are wholly or partly exempt from VAT, such as those operating in the financial services sector.

As codified in the UAE Law and in conformity with its obligations under the GCC VAT Agreement, the UAE has taken a very narrow approach to the use of VAT exemption. Thus, the UAE will tax the majority of transactions taking place in the country at the standard rate, whilst only a very limited number of exceptions to this general rule will be made. These exceptions will include some financial services, subject to certain conditions, as outlined below.

3.3 Multiple supplies versus single composite supplies

A business will make multiple supplies where it charges a single inclusive price for a number of separate supplies of goods or services. This is different from a single supply of a mixture of goods or services (known as a single composite supply) to which a single rate of tax applies.

These scenarios can apply to financial services which may be packaged or 'bundled' together where they would ordinarily be treated as separate services or in the opposite situation, where a single composite supply may be unbundled or artificially split into separate components.

Where you make a multiple supply, you must determine the correct amount of VAT to charge.

If you make supplies and the: individual supplies are:
If you make supplies and the: Liable to VAT at the same rate
normal way
Not liable to VAT at the same rate | Work out the tax value of each supply in
order to calculate how much tax is due

Where the individual supplies are not liable to VAT at the same rate, you must use a method of valuing each supply which is fair and reasonable. This could include using the cost of each element of the supply as a proxy for assigning a value to each component of the supply. The value of each supply must be disclosed to the customer.

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Where the individual supplies are not liable to VAT at the same rate, you must use a method of valuing each supply which is fair and reasonable. This could include using the cost of each element of the supply as a proxy for assigning a value to each component of the supply. The value of each supply must be disclosed to the customer.

For example, a finance company provides credit finance upon the sale of goods via instalment payments. It charges for the cost of the goods and makes a separately disclosed interest charge. The interest charge will be exempt and the sale of the goods subject to VAT. This is because the two amounts are separately identified and the products, namely the goods and the supply of credit are not interrelated.

Single composite supplies are one, single indivisible supply of a mixture of goods and/or services. The supply is treated as a single supply and is subject to VAT at one rate which is applied to the value of the supply as a whole. You must not use apportionment where you make a composite supply.

There will be a single composite supply where one or more elements of the supply comprise the principal component, with other elements being ancillary – i.e. not an aim in itself, but a means of better enjoying the principal component. The contractual nature and wider circumstances of such supplies will be taken into account.
In addition, there will be a single composite supply where there is a supply which has two or more elements which are so closely linked that they form a single supply and which it would be artificial or impossible to split.

Charging a single price is not determinative, but may suggest that there is a single service. However, where there are indications that the recipient intended to buy two distinct services, with different VAT liabilities, this could mean that the single price should be apportioned.

Single composite supplies will not be accepted as such, unless:

 one price is charged and the prices of the different components of the supply are

not separately identified or charged by the supplier; and
 the consideration payable by the recipient of the services and/or goods would not

be affected were the recipient only to purchase the principal component of the supply; and
 all the components of the supply are supplied by a single supplier.
For example, as a promotional offer, a bank may offer a loan product at a particular rate of interest which includes giving a new tablet to customers in order to make the product more attractive. Any fees or prices are not separately identified. The tablet is considered ancillary to the principal supply of the loan product as it is not an aim in itself.

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For example, as a promotional offer, a bank may offer a loan product at a particular rate of interest which includes giving a new tablet to customers in order to make the product more attractive. Any fees or prices are not separately identified. The tablet is considered ancillary to the principal supply of the loan product as it is not an aim in itself.

4. Financial services and VAT

4.1 The VAT treatment of financial services in the UAE

4.1.1 General principle

The general principle applicable is that financial services, as defined by the VAT Law and Executive Regulations, will be subject to VAT at the standard rate when they are supplied for an explicit fee, discount, commission, rebate or similar type of charge. 4.1.2 Standard-rated services

Supplies of financial services where an explicit fee, discount, commission, rebate or similar type of charge is made are subject to VAT at the standard rate of VAT (i.e. they are treated as taxable supplies) to the extent of the amount of that separately identifiable charge. VAT incurred on costs wholly attributable to the standard rated supply can be recovered in full.
4.1.3 Banking Examples

Examples of fees liable to standard: rate VAT
Types of financial service: Operation of a bank account | Examples of fees liable to standard: subscription fee
Examples of fees liable to standard: transaction services fee
Examples of fees liable to standard: account opening or closing fee
Examples of fees liable to standard: withdrawal fee
Examples of fees liable to standard: deposit fee
Examples of fees liable to standard: replacement card fee
Examples of fees liable to standard: cheque book fee
Examples of fees liable to standard: bank statement fee
Examples of fees liable to standard: maintenance fee
Types of financial service: Money transfers
Types of financial service: Cash
Types of financial service: Mortgages
(including commercial mortgages)

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? sales agent commission fee
? refinancing fee
? mortgage statement fee
? processing fee: ? set up fee
? documentation fee
? renewal fee
? sales agent commission fee
? refinancing fee
? mortgage statement fee
? processing fee: ? sales commission
? participation fee
? advisory fee
? agency fee
? administration fee
? sales agent commission fee
? refinancing fee
? mortgage statement fee
? processing fee: ? card fee
? authorization fee
? cash withdrawal fee
? ATM transaction fee
? cardholder fee
? statement fee
? lost card fee
? commission fee
? overdraft fee
? balance transfer fee
? sales agent commission fee
? refinancing fee
? mortgage statement fee
? processing fee: ? exchange fee
? handling fee
Provision of safe custody facilities | ? safety deposit box fee

A more detailed list of charges for specific financial services is set out at Appendix A.

4.1.4 Zero-rated services – investment grade precious metals

The supply of investment grade precious metals7 is also subject to VAT at the zero rate.

VAT incurred on costs wholly attributable to a zero-rated supply can also be recovered in full.

7 “Investment precious metals” mean gold, silver and platinum where the metal is of a purity of 99 percent or more
and the metal is in a form tradeable in global bullion markets. Art 36, Executive Regulations

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.13]

ge statement fee
▯ processing fee: ▯ exchange fee
▯ handling fee
Provision of safe custody facilities | ▯ safety deposit box fee

A more detailed list of charges for specific financial services is set out at Appendix A.

4.1.4 Zero-rated services – investment grade precious metals

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7 “Investment precious metals” mean gold, silver and platinum where the metal is of a purity of 99 percent or more
and the metal is in a form tradeable in global bullion markets. Art 36, Executive Regulations

Financial services, insofar as they are remunerated by way of an implicit margin or spread (i.e. no explicit fee8 is charged in respect of them) will be exempt from VAT (i.e. they are not treated as taxable supplies). Accordingly, this VAT treatment will also apply to interest payable in respect of borrowing.
VAT incurred on costs wholly attributable to the exempt supply cannot be recovered at all.

In all cases, the following classes of financial services shall be exempt from VAT:

▯ the issue, allotment, or transfer of ownership of an equity security or a debt security;
▯ the provision, or transfer of ownership, of a life insurance contract or the provision

of re-insurance in respect of any such contract (more details on insurance is included in the Insurance Guide VATGIN1).

A detailed list of charges for specific financial services is set out at Appendix A.

The supply of financial services to a recipient established outside the GCC9 (whether or not they would otherwise have been exempt where supplied in the GCC) will be zero-rated (i.e. they are treated as taxable supplies).

Supplies of financial services to a recipient established within the GCC Implementing States have the following VAT treatments:

▯ where the recipient is registered or registerable for VAT in the GCC state in which the financial service is received, the supply is outside the scope of UAE VAT and the recipient is liable to account for the reverse charge in the GCC member state in which the supply is received, at the prevailing rate of VAT applicable to that service in that state.

Input tax which is wholly attributable to such supplies is recoverable whether or not the supplies in question would have been exempt or taxable in the UAE.

▯ where the recipient is not registered nor registerable for VAT in the GCC state in

which the financial service is received, the place of that supply will be the UAE. In

8 Fee in this context and throughout means explicit fee, discount, commission, rebate or similar type of charge.
9 In this context, the GCC refers to those States which have implemented the Unified VAT Agreement for The

Cooperation Council for the Arab States of the Gulf into their domestic legal systems.

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such instances, the supply will have the normal UAE VAT liability and related VAT recovery.

Where services are received from outside the GCC, those services will be liable to VAT at the standard rate where the supplies would be standard-rated supplies were they to be made in the UAE.
In this scenario, the imported services will be subject to the reverse charge mechanism as if the importer had supplied these services to itself. The importing financial services institution must therefore account for the VAT incurred on the imported services.

It will also be entitled to claim for the input tax on such services, subject to the usual rules of recovery, including those of input tax apportionment (see below).

VAT incurred on costs which is partly attributable to taxable supplies and also to exempt supplies of financial services must be apportioned; only that part which is reasonably attributable to the taxable supply can be recovered. The supplier in question must make use of an 'input tax apportionment' method in order to determine the amount of input tax which it may recover in such circumstances. Please refer to section 5 below for further guidance.
Any supply made under an Islamic financial arrangement10, which is certified as Shariah compliant, and which has the intention of and achieves effectively the same result as a non-Islamic financial product, shall be treated in such a way as to give an outcome for the purposes of the Law comparable to that which would be the case for its non-Islamic counterpart.

This is to ensure equality of VAT treatment between Islamic and non-Islamic finance products.

10 Article 42(1)(d): "Islamic financial arrangement" means a written contract which relates to a supply of financing
in accordance with the principles of Shariah.

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In determining the correct VAT treatment for Islamic finance products, the purpose, structure and pricing of the Islamic product will be considered.

Accordingly, in order to ascertain the VAT liability of an Islamic financial product, the following process should be followed.

Apply the same
VAT treatment to
the Islamic Finance

For example, a commodity Murabaha entered into for lending purposes will be treated as a loan for VAT purposes. Any explicit fees will be taxable, unless the fees are only made explicit as a requirement of Shariah law and where their non-Islamic equivalents would also be treated as exempt.

Accordingly, the profit derived from the supply of the commodity on deferred payment terms would be exempt if this is used de facto as a loan and the non-Islamic equivalent consideration is interest.

It is recognised, however, that certain aspects of Islamic finance may preclude direct equivalence in VAT treatment being applied. In such cases, the underlying purpose,

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features and circumstances of the product concerned must be taken into account when determining the appropriate VAT treatment.

Any significant difference in the overall liability between an Islamic financial product and any non-Islamic counterpart arising as a consequence of differential treatment being applied will be addressed on a product by product basis.
Providers of particularly complex or non-standard Islamic financial products should analyse these carefully and consider seeking advice on the VAT liability of such products.

4.3 Other financial services – VAT treatment

Where a financial service provider makes a payment which is a return on an investment, such as interest on deposits, dividends, drawings, etc. and where there is no service nor transaction provided in return for such a payment, then these returns on investment will be outside the scope of VAT.

4.3.2 Equity securities and debt securities

The issue, allotment, or transfer of ownership of an equity security or a debt security will be exempt from VAT. This also includes stocks and other securities.

Fees charged by brokers or dealers who act as intermediaries to the above types of transactions will be subject to VAT at the standard rate.

Share registrar, trading and settlement services which are provided in exchange for a fee, etc, will also be standard-rated. This includes fees charged for facilities provided by exchanges etc.
Where assistance is provided to a company with the management of shareholders and other financial stakeholders, payment of dividends, arranging annual general meetings and providing annual reports to shareholders, such services are standard-rated.

The management of a portfolio of investments is subject to VAT at the standard rate.

Trustee services are subject to VAT at the standard rate.

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Share registrar, trading and settlement services which are provided in exchange for a fee, etc, will also be standard-rated. This includes fees charged for facilities provided by exchanges etc.

Where assistance is provided to a company with the management of shareholders and other financial stakeholders, payment of dividends, arranging annual general meetings and providing annual reports to shareholders, such services are standard-rated.

The management of a portfolio of investments is subject to VAT at the standard rate.

Trustee services are subject to VAT at the standard rate.

4.3.5 Pensions and collective investments

Payments into a pension or a collective investment scheme are outside the scope of VAT. However, fees for the management of a pension fund or collective scheme are standard-rated.

The lending of shares is not subject to VAT. However, if a fee is charged for this service, it will be subject to VAT at the standard rate.
Where banks and other financial institutions exchange fixed interest rates on their debts and there is no explicit fee for this service, this is exempt from VAT.

Where banks and other financial institutions undertake currency swaps and there is no explicit fee for this service, this is exempt from VAT.

Derivatives are financial instruments whose price depends on the value of the underlying financial instrument, commodity or currency to which the derivative relates.

Devising, advising on, originating and the issuing of derivatives and similar structured products is liable to VAT at the standard rate, where this is carried out for an explicit fee (e.g. arranger's fee, rollover fee, upfront fee). Where consideration is derived from an explicit premium, this is also standard-rated.

Trading in derivatives where income is derived from arbitrage, or gains from net margin or spread is exempt from VAT.

Trading income earned on the underlying financial instruments is also exempt.
The transfer of ownership of derivatives or of a futures contract in relation to commodities, where there is no delivery of the underlying commodity, is exempt from VAT where carried out on a margin (i.e. non-explicit fee) basis.

However, settlement of futures contracts by delivery of commodities is taxable at the appropriate rate of VAT for the underlying supply of those commodities.

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. Where consideration is derived from an explicit premium, this is also standard-rated.

Trading in derivatives where income is derived from arbitrage, or gains from net margin or spread is exempt from VAT.

Trading income earned on the underlying financial instruments is also exempt.

The transfer of ownership of derivatives or of a futures contract in relation to commodities, where there is no delivery of the underlying commodity, is exempt from VAT where carried out on a margin (i.e. non-explicit fee) basis.

However, settlement of futures contracts by delivery of commodities is taxable at the appropriate rate of VAT for the underlying supply of those commodities.

Services of intermediation are subject to VAT. For example, a financial advisor may act as intermediary in the arranging or sale of a financial product. Any fees or commissions they receive from either their customer or the financial service provider for their services are standard-rated.
Preparatory services that are carried out separately to and before a supply of a financial service, whether the financial service is exempt or taxable, are themselves standard-rated, for example, the preparation and delivery of data or undertaking a due diligence.

Services related to debt recovery, litigation and the management of the recovery of debts due from debtors are subject to VAT at the standard rate. This includes all services related to debt factoring.

The hire or leasing of equipment is subject to VAT at the standard rate. Ownership of the equipment does not transfer to the lessee under this type of contract; rather, the contract grants the right to use the equipment for a specified period of time. Where equipment is subsequently sold to a third party at the end of the lease, this sale is also subject to VAT.

4.3.14 Hire purchase, credit sales agreements, etc.
The supply of credit is exempt from VAT (where there is no explicit fee etc.), but if goods or services that are subject to VAT are supplied on credit, and the finance charge is included in the total amount payable by the buyer in instalments, then the total amount payable will be liable to VAT, as it will be subject to the same VAT treatment as the goods or services themselves.

However, if separate charges of interest are made for the provision of the credit and these are not included in the charge for the goods, these interest charges will be exempt from VAT.

NB: This treatment will apply to any business which provides credit facilities of this type, e.g. retailers which have in-house credit providers or departments will be subject to this VAT treatment as well as banks or other financial service providers.

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As noted above at section 4.1.2, explicit fees which are charged for the provision of credit, such as administration or set-up fees are subject to VAT at the standard rate.

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.20]

5. Input tax apportionment methods

5.1 General approach for all methods

5.1.1 Fair and reasonable test

Input tax recovery must, in all cases reflect the actual use to which the VAT on the relevant cost has been put, or have been determined via an appropriate proxy (i.e. via an input tax apportionment method) for that use. Whenever there is a requirement to apportion input tax which is partly attributable to different supplies, each of which carries a different right to recovery, there is an inherent risk that the means by which that apportionment is carried out and the results it renders are not necessarily representative of actual use. In that regard, all businesses must take care when making use of an input tax apportionment method that it is 'fair and reasonable' in their particular circumstances. Where it is not, the business should take steps to ensure that an approved alternative method is identified and adopted.
The Federal Tax Authority (FTA) will closely examine the results of input tax apportionment methods used by businesses as part of its normal compliance program and, where necessary, will intervene in order to ensure that a fair and reasonable outcome is secured. 5.1.2 Step 1: Direct attribution

In all cases, in each tax period all input tax which can be wholly attributed to any particular supply must be attributed to that supply and either recovered or blocked from recovery as appropriate. This is referred to as direct attribution. Any input tax which cannot be wholly attributed in this manner must be apportioned by way of an input tax apportionment method in order to establish that part which may be recovered and that part which may not. A business may choose between either the standard input tax apportionment method (see step 2a below), or by application to and approval of the FTA a special input tax apportionment method (see step 2b below) in order to undertake the necessary apportionment. It is accepted that whilst the standard method may reasonably apply to most businesses circumstances, this might not always be the case.
Nevertheless, a business must only apply to the FTA to make use of a special input tax apportionment method where it has first established that the standard input tax apportionment method would not render a result which is fair and reasonable in the context of their particular circumstances.

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.21]

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standard input tax apportionment method (see step 2a below), or by application to and approval of the FTA a special input tax apportionment method (see step 2b below) in order to undertake the necessary apportionment.

It is accepted that whilst the standard method may reasonably apply to most businesses circumstances, this might not always be the case. Nevertheless, a business must only apply to the FTA to make use of a special input tax apportionment method where it has first established that the standard input tax apportionment method would not render a result which is fair and reasonable in the context of their particular circumstances.

5.1.3 Step 2a: standard method - attribution of residual input tax

On a VAT monthly or quarterly basis (as applicable), all input tax that cannot be wholly attributed under step 1 (‘residual input tax’) is to be apportioned between taxable and exempt use in the following manner:
1. Determine the recovery ratio as a percentage[11]

Input tax wholly attributable to taxable supplies[12] in the VAT period concerned

Input tax wholly attributable to supplies allowing VAT recovery in the period concerned

and input tax that cannot be recovered in the tax period concerned

2. Apply the rounded recovery ratio percentage to the residual input tax:

Residual x Recovery Ratio % = Proportion of residual attributable to taxable supplies

3. Treat that proportion of the residual which is attributable to taxable supplies as

recoverable in the normal manner (and include in the VAT return for the tax period in which the calculation was undertaken).

4. In the first period following the end of the previous Tax year[13], a calculation for the

preceding VAT year should be carried out, using the same principles as above. This is known as the ‘annual adjustment’ and may lead to an increase or a decrease in the amount of input tax previously treated as recoverable on a quarterly basis under (3).
5. Furthermore, if there is a difference of more than AED 250,000 in any tax year

between the recoverable input tax as calculated in accordance with the method described in this section and the input tax which would have been recoverable if the calculation was made on the basis of the actual use of the goods or services, then the taxable person should make an adjustment to the input tax in respect of

11 Note: the recovery percentage is to be expressed as a percentage and rounded to the nearest whole number.
12 This includes supplies taxable at the standard rate and the zero rate.
13 This will either be 30 April, 31 May or 30 June in each year depending on the VAT quarters allocated to the business
concerned or 31 January if the business submits monthly returns.

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.22]

the difference. The adjustment must be made in the first tax period following the end of the relevant tax year.

If the difference is less that AED 250,000, no adjustment is required to be made.

5.1.4 Step 2b: special method - attribution of residual input tax

A business may, having first established that the standard input tax apportionment method is not appropriate for use in its particular circumstances, apply to the FTA to make use of a special input tax apportionment method. Each business making such an application to the FTA must provide details of the method which they intend to use and the reasons why the standard method is not otherwise appropriate.

Important: Written approval from the FTA must be obtained in advance of the use of any special method. In all cases approval for the use of a special input tax apportionment method will only be made on a prospective basis. An annual adjustment must also be carried out under all methods. Details of how to apply for a Special Method are provided in the Guide - Input Tax Apportionment | VATGIT1.

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.23]

Appendix A

Please note the VAT liability of fees outlined in this Appendix applies only when the Place of Supply for the financial services is in the UAE. Please also note the VAT liabilities stated below are general and that there may be transactions which fall outside of these general treatments which should be analysed on a case-by-case basis.

1. Retail and Private banking

Financial Service / Fee Type
VAT Liability: Standard rate
closing accounts, withdrawals,
deposits, etc.
Early Redemption Fee | Standard rate
Transaction services fee | Standard rate
Minimum balance fee | Standard rate
VAT Liability: Exempt
charged to individual customers
Overdraft fees | Standard rate
VAT Liability: Standard rate
service charges | cost of running a non-profitable
account
VAT Liability: Outside scope
outside scope, it must be clear
that there is no consideration
for a supply and it does not
qualify as a deemed supply.
VAT Liability: Standard rate
issuance, cancellations,
guarantees, copies, service
charges, re-presenting
dishonoured cheques, etc.

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.24]

Certificate / letter issuance fees: Bank statement fees, etc. | Standard rate: Standard rate
Certificate / letter issuance fees: Fees for traveller's cheques, | Standard rate: Standard rate
Certificate / letter issuance fees: foreign currency, etc. Certificate / letter issuance fees: Money transfer fees, including
Certificate / letter issuance fees: processing overdue payments
Certificate / letter issuance fees: Fees for safe custody of cash | Standard rate: Standard rate
Certificate / letter issuance fees: Direct debit / standing order fees, | Standard rate: Standard rate
Certificate / letter issuance fees: including re-presenting
Certificate / letter issuance fees: dishonoured amounts, etc. Certificate / letter issuance fees: Credit card membership fees,
Certificate / letter issuance fees: service charges, late payment
Certificate / letter issuance fees: fees, cash advance fees, over
Certificate / letter issuance fees: the limit fees, etc.
Certificate / letter issuance fees: Interest income earned on credit
Certificate / letter issuance fees: cards
Certificate / letter issuance fees: Finance charge (Interest) | Standard rate: Exempt
Certificate / letter issuance fees: Minimum spend fee | Standard rate: Standard rate
Certificate / letter issuance fees: Dynamic currency conversion | Standard rate: Exempt
Certificate / letter issuance fees: (forms part of the foreign
Certificate / letter issuance fees: exchange spread and implicit in
Certificate / letter issuance fees: nature)
Certificate / letter issuance fees: Foreign exchange spreads
Certificate / letter issuance fees: earned on credit cards
Certificate / letter issuance fees: Issuance of loyalty points for use
Certificate / letter issuance fees: of card
"voucher" and the consideration
received does not exceed the
advertised face value. All
contracts should be analysed in
detail. Redemption of loyalty points for
use of card | Outside scope | Outside scope if there are no
services received / provided by
the financial institution, i.e. if

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.25]

ter issuance fees: (forms part of the foreign
Certificate / letter issuance fees: exchange spread and implicit in
Certificate / letter issuance fees: nature)
Certificate / letter issuance fees: Foreign exchange spreads
Certificate / letter issuance fees: earned on credit cards
Certificate / letter issuance fees: Issuance of loyalty points for use
Certificate / letter issuance fees: of card
“voucher” and the consideration
received does not exceed the
advertised face value. All
contracts should be analysed in
detail.
Redemption of loyalty points for
use of card | Outside scope | Outside scope if there are no
services received / provided by
the financial institution, i.e. if

the supply is between the: merchant and the customer. All
the supply is between the: such contracts should be
the supply is between the: analysed in detail. the supply is between the: Not a supply for VAT purposes
customers)
Cash back / profit sharing | Standard rate | Fee by bank for introducing
business to the merchant
arrangement with selected
merchants
Fee and charges received by | Standard rate
card brand companies
Debit cards - all related fees | Standard rate
Loan, mortgage and other credit | Standard rate | Standard rate
facilities - all opening fees,
processing fees, late payment
fees, etc.
the supply is between the: Implicit fee, as it is based on
the supply is between the: interest
Recovery of non-performing | Standard rate
loans - all related fees
the supply is between the: Standard-rated as long as there
the supply is between the: is no implicit margin payment
Promissory notes | Standard rate
Gold loans (lending interest) | Exempt
Gold loans - transaction fees for | Standard rate | Standard rate
gold certificates
Foreign Exchange (FX) - sales | Standard rate
and purchase fees
FX realized profits and loss | Exempt
spot/translation (spread income)
the supply is between the: Fees charged for name change
the supply is between the: of customers in bank systems
SMS services fee | Standard rate

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.26]

Disbursements, e.g. collection of: legal fees; cost recoveries | It is important that the services: are supplied to the customer
Disbursements, e.g. collection of: (repossessions, irrecoverable | It is important that the services: and not the financial institution
Disbursements, e.g.
collection of: tracing fee, auctioneer's | It is important that the services: for these to qualify as
Disbursements, e.g. collection of: commission, storage fees, towing | It is important that the services: disbursements. All such
Disbursements, e.g. collection of: fees, legal fees); sales agent | It is important that the services: contracts should be analysed in
Disbursements, e.g. collection of: fees etc. | It is important that the services: detail. Disbursements, e.g. collection of: Settlement fees between banks
Disbursements, e.g. collection of: Correspondent Bank services | Outside scope: Standard rate | It is important that the services: These will be standard-rated
It is important that the services: unless there is no consideration
It is important that the services: and it is merely a pass through
It is important that the services: of the correspondent bank's
It is important that the services: fees.
2. Asset Management and Private banking

Fee Type/Activity
VAT Liability: Standard rate
distribution fees, performance
fees, etc.
VAT Liability: Standard rate | Notes: This is consideration for a
supply.
revenue share between Asset
Management company and
Private Banking Business Unit
(two different entities and not part
of same Tax Group)
VAT Liability: Standard rate | Notes: As above
companies on account of
performance fee earned on funds
VAT Liability: Standard rate
commissions received from fund

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.27]

2. Asset Management and Private banking

Fee Type/Activity
VAT Liability: Standard rate
distribution fees, performance
fees, etc. VAT Liability: Standard rate | Notes: This is consideration for a supply. revenue share between Asset
Management company and
Private Banking Business Unit
(two different entities and not part
of same Tax Group)
VAT Liability: Standard rate | Notes: As above
companies on account of
performance fee earned on funds
VAT Liability: Standard rate
commissions received from fund

houses for routing customers for: wealth-related transactions
houses for routing customers for: Recharge income (e.g. recharges
houses for routing customers for: of expenses paid on behalf of
houses for routing customers for: underlying funds managed) –
houses for routing customers for: Disbursement
disbursements. All such
contracts should be analysed in
detail.
houses for routing customers for: Custody and Securities Services,
houses for routing customers for: Trustees Services
houses for routing customers for: Investment income – Interest
houses for routing customers for: income
houses for routing customers for: Initial investment by fund
houses for routing customers for: manager
houses for routing customers for: Commissions for switching,
houses for routing customers for: transfers, incentive fees, etc.

3. Equities trading

Fee Type/Activity
VAT Liability: Standard rate
Fixed Income/Equities/FX)
VAT Liability: Standard rate
customers
VAT Liability: Exempt
placed with other banks
VAT Liability: Exempt
from customers on facility
granted for margin trading

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.28]

for: Custody and Securities Services,
houses for routing customers for: Trustees Services
houses for routing customers for: Investment income – Interest
houses for routing customers for: income
houses for routing customers for: Initial investment by fund
houses for routing customers for: manager
houses for routing customers for: Commissions for switching,
houses for routing customers for: transfers, incentive fees, etc.
3. Equities trading

Fee Type/Activity
VAT Liability: Standard rate
Fixed Income/Equities/FX)
VAT Liability: Standard rate
customers
VAT Liability: Exempt
placed with other banks
VAT Liability: Exempt
from customers on facility
granted for margin trading

Dividends received on: investments | Not consideration for a supply: for VAT purposes
Dividends received on: Custody, processing fees etc.
Dividends received on: Operational Losses borne by the | Outside scope: Outside scope | Not consideration for a supply: Not a supply for VAT purposes
Dividends received on: business and not recharged to
Dividends received on: the customer
Dividends received on: Supply of underlying commodity | Not consideration for a supply: Will be dependent on the type
Not consideration for a supply: of contract and the form of
Not consideration for a supply: consideration
Dividends received on: Initial/variation margin – futures | Not consideration for a supply: Not consideration for a supply
Dividends received on: Option Premiums over equity and | Outside scope: Exempt14 | Not consideration for a supply: These are specifically exempt;
Dividends received on: debt securities | Not consideration for a supply: other option premiums are
Not consideration for a supply: taxable as they are explicit
Not consideration for a supply: fees for a service
Dividends received on: Arrangement fees, rollover fees
Dividends received on: Upfront fees - premium for | Outside scope: Standard rate
Dividends received on: structured products
Dividends received on: Early Redemption fee
Dividends received on: Collection Fee in respect of | Outside scope: Standard rate
Dividends received on: Dividends, Interest, Coupons
Dividends received on: Securities Lending fee
Dividends received on: Manufactured dividends | Not consideration for a supply: Not a supply for VAT purposes
Dividends received on: Manufactured interest
Dividends received on: Advisory services, e.g. retainer, | Outside scope: Standard rate
Dividends received on: milestone and success fees
Dividends received on: Clearing fees
Dividends received on: Minimum Monthly Fees

14 This item was updated in July 2019. Options over these instruments are specifically exempt under Articles 42(1)(a) and 42(1)(b) combined with Article 42(3)(b) of the Executive Regulations.

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.29]

Standard rate
Dividends received on: Dividends, Interest, Coupons
Dividends received on: Securities Lending fee
Dividends received on: Manufactured dividends | Not consideration for a supply: Not a supply for VAT purposes
Dividends received on: Manufactured interest
Dividends received on: Advisory services, e.g. retainer, | Outside scope: Standard rate
Dividends received on: milestone and success fees
Dividends received on: Clearing fees
Dividends received on: Minimum Monthly Fees

14 This item was updated in July 2019. Options over these instruments are specifically exempt under Articles 42(1)(a) and 42(1)(b) combined with Article 42(3)(b) of the Executive Regulations.

4. Transaction banking

Fee Type/Activity
Trade finance fees | Standard rate
Letter of Credit fees | Standard rate
Guarantee services fees | Standard rate
VAT Liability: Exempt
profit which is akin to interest for
Islamic loans
VAT Liability: Standard rate
settlement, termination, upfront
fees, etc.
Commission in lieu of exchange | Standard rate
Escrow fees | Standard rate
VAT Liability: Standard rate
fees

5. Institutional banking

Fee Type/Activity
VAT Liability: Outside scope
are made by the correspondent
bank to the customer and not
by the financial institution in
question for these to qualify as

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.30]

4. Transaction banking

Fee Type/Activity
Trade finance fees | Standard rate
Letter of Credit fees | Standard rate
Guarantee services fees | Standard rate
VAT Liability: Exempt
profit which is akin to interest for
Islamic loans
VAT Liability: Standard rate
settlement, termination, upfront
fees, etc.
Commission in lieu of exchange | Standard rate
Escrow fees | Standard rate
VAT Liability: Standard rate
fees
5. Institutional banking

Fee Type/Activity
VAT Liability: Outside scope
are made by the correspondent
bank to the customer and not
by the financial institution in
question for these to qualify as

disbursements. Otherwise: standard-rated.
Telex charges | Standard rate
Interest received from other | Exempt | Exempt
banks
Issue or transfer of debt | Exempt
securities
Securitisation of debt security | Exempt
Transfer of a loan portfolio | Exempt
Transfer of debt security | Exempt
Sale of debts or receivables | Exempt
Assignment of debt with full | Exempt | Exempt
recourse
Asset finance - lending | Exempt | If interest
component of instalments
Interest adjustment | Exempt
Interest on late payment | Exempt
Interest subsidy from | Exempt | Exempt
dealer/manufacturer
Admin and all other fees | Standard rate
disbursements. Otherwise: Not a supply for VAT purposes
instalments
6. Corporate Finance/ Investment banking

Fee Type/Activity
Interest on loans | Exempt

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.31]

from other | Exempt | Exempt
banks
Issue or transfer of debt | Exempt
securities
Securitisation of debt security | Exempt
Transfer of a loan portfolio | Exempt
Transfer of debt security | Exempt
Sale of debts or receivables | Exempt
Assignment of debt with full | Exempt | Exempt
recourse
Asset finance - lending | Exempt | If interest
component of instalments
Interest adjustment | Exempt
Interest on late payment | Exempt
Interest subsidy from | Exempt | Exempt
dealer/manufacturer
Admin and all other fees | Standard rate
disbursements. Otherwise: Not a supply for VAT purposes
instalments

6. Corporate Finance/ Investment banking

Fee Type/Activity
Interest on loans | Exempt

7. Treasury and Financial Markets

Fee Type/Activity
All types of interest income: | Exempt
Interbank Investment/
Placement:
VAT Liability: Exempt
placement
VAT Liability: Exempt
Interbank Investments (MII)
and commodity Murabaha
placement
Holding of Islamic Securities:
VAT Liability: Exempt
of Islamic capital market
instruments, i.e. IMTN,
Sukuk, etc.
VAT Liability: Exempt
of Islamic money market
instruments, i.e. Islamic
negotiable instruments, etc.
VAT Liability: Standard rate
compensation) | is also standard-rated
VAT Liability: Exempt
Trading (HFT) securities
VAT Liability: Exempt
Derivatives / Trading securities
VAT Liability: Exempt
Government Stock, Treasury

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.32]

7. Treasury and Financial Markets

Fee Type/Activity
All types of interest income: | Exempt
Interbank Investment/
Placement:
VAT Liability: Exempt
placement
VAT Liability: Exempt
Interbank Investments (MII)
and commodity Murabaha
placement
Holding of Islamic Securities:
VAT Liability: Exempt
of Islamic capital market
instruments, i.e. IMTN,
Sukuk, etc. VAT Liability: Exempt
of Islamic money market
instruments, i.e. Islamic
negotiable instruments, etc. VAT Liability: Standard rate
compensation) | is also standard-rated
VAT Liability: Exempt
Trading (HFT) securities
VAT Liability: Exempt
Derivatives / Trading securities
VAT Liability: Exempt
Government Stock, Treasury

Bills and Other Capital Market: Transactions, Debentures etc.
Bills and Other Capital Market: Marked-to-Market gain on HFT
Bills and Other Capital Market: securities
Bills and Other Capital Market: Actual revaluation on
Bills and Other Capital Market: investments
Bills and Other Capital Market: Market to market gains on
Bills and Other Capital Market: derivatives / structured products
Bills and Other Capital Market: Gain gain on sale of Islamic
Bills and Other Capital Market: securities
Bills and Other Capital Market: Capital gain on sales of
Bills and Other Capital Market: Available-for-Sales (AFS)
Bills and Other Capital Market: securities
Bills and Other Capital Market: Discount on Purchase of Fixed
Bills and Other Capital Market: Income Instruments
Bills and Other Capital Market: Dividend income on investments
Bills and Other Capital Market: Income from FX forwards, FX
Bills and Other Capital Market: revaluations, market to market,
Bills and Other Capital Market: etc. Bills and Other Capital Market: Capital gain on equity
Bills and Other Capital Market: investments
consideration for a supply.
Bills and Other Capital Market: Issue of securities
Bills and Other Capital Market: Supply of underlying physical
Bills and Other Capital Market: commodity requiring physical
Bills and Other Capital Market: delivery
Bills and Other Capital Market: Supply of a futures / forward /
Bills and Other Capital Market: swap / option agreement, where
Bills and Other Capital Market: there is no physical delivery of
Bills and Other Capital Market: the underlying commodity
Bills and Other Capital Market: Trading income earned on
Bills and Other Capital Market: underlying securities
Bills and Other Capital Market: Trading gains

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.33]

Full underwriting activity (where: there is no explicit fee)
Full underwriting activity (where: Issuance or sale of bonds
Full underwriting activity (where: Redemption for the principal | Exempt: Outside scope
Full underwriting activity (where: value
Full underwriting activity (where: Arrangement fee for | Exempt: Standard rate
Full underwriting activity (where: underwriting, purchase or sale of
Full underwriting activity (where: bonds
Full underwriting activity (where: Managing the issue, placement, | Exempt: Standard rate
Full underwriting activity (where: underwriting of new and existing
Full underwriting activity (where: securities
Full underwriting activity (where: Handling charges for payment or | Exempt: Standard rate
Full underwriting activity (where: collection of dividends, principal
Full underwriting activity (where: or interest in respect of securities
Full underwriting activity (where: Fee for acting as receiving | Exempt: Standard rate
Full underwriting activity (where: banker in connection with issue
Full underwriting activity (where: or placing of shares, stocks, etc.
8. Islamic finance

Fee Type/Activity
VAT Liability: Standard rate
products)
VAT Liability: Exempt
Shariah law and considered to be
the equivalent of non-Islamic
products
Profit on deferred payment terms | Exempt

[recovered from the vector store — VAT_Guide_Financial_Services.pdf p.34]

ecurities
Full underwriting activity (where: Handling charges for payment or | Exempt: Standard rate
Full underwriting activity (where: collection of dividends, principal
Full underwriting activity (where: or interest in respect of securities
Full underwriting activity (where: Fee for acting as receiving | Exempt: Standard rate
Full underwriting activity (where: banker in connection with issue
Full underwriting activity (where: or placing of shares, stocks, etc.
Islamic finance

Fee Type/Activity
VAT Liability: Standard rate
products)
VAT Liability: Exempt
Shariah law and considered to be
the equivalent of non-Islamic
products
Profit on deferred payment terms | Exempt

Taxable as explicit fees like this: are taxable for non-Islamic
Taxable as explicit fees like this: products
Late payment charges (paid to
charity): Murabaha / Tawaruq - purchase
and sale of supplies | Standard rate: Outside scope | Taxable as explicit fees like this: Generally,
outside scope
Taxable as explicit fees like this: unless the non-Islamic product
Taxable as explicit fees like this: would be taxable
- Commodity charges/fee | Standard rate
- Administration fee | Standard rate
Late payment charges (paid to
charity): Ijarah - purchase of assets by
bank | Standard rate: Outside scope | Taxable as explicit fees like this: Generally, outside scope
Taxable as explicit fees like this: unless the non-Islamic product
Taxable as explicit fees like this: would be taxable
Standard rate: Outside scope
instalments
- Administration fee | Standard rate
- Assessment fee | Standard rate
Late payment charges (paid to
charity): - Financing income (margin) | Standard rate: Exempt | Taxable as explicit fees like this: This
will be standard-rated if
Taxable as explicit fees like this: there is no credit charge in the
Taxable as explicit fees like this: non-Islamic equivalent (e.g.
Taxable as explicit fees like this: with some operating leases
Taxable as explicit fees like this: etc.)
Mudaraba - arrangement fee | Standard rate
- Administration fee | Standard rate
Standard rate: Exempt
margin or other implicit
margin
- Profit margins | Exempt
Wakala - Management fee | Standard rate
- Administration fee | Standard rate
- Retention of excess profits | Exempt
- Profit margins | Exempt