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1. Glossary

Antiques: Goods that are older than 50 years. **Collectors' Items:** Stamps, coins and currency and other pieces of scientific, historical or archaeological interest. **Consideration:** All that is received or expected to be received for the supply of Goods or Services, whether in money or other acceptable forms of payment. **Eligible Transactions:** The sale of Goods which were previously subject to VAT and that are either Eligible Goods acquired from a Non-Registrant or a Taxable Person that applied the Scheme, or Goods in respect of which Input Tax recovery was blocked under Article 53 of the VAT Executive Regulation. **FTA:** Federal Tax Authority, being the Authority responsible for the administration, collection and enforcement of federal taxes in the UAE. **Goods:** Physical property that can be supplied including real estate, water, and all forms of energy as specified in the VAT Executive Regulation. **Import:** The arrival of Goods from abroad into the territory of the UAE or receipt of Services from outside the UAE. **Importer:** With respect to importing Goods, it is the Person whose name appears for customs clearance purposes as the importer of the Goods on the date of Import. With respect to Services, it is the Recipient of these Services. **Input Tax:** Tax paid by a Person or due from him when Goods or Services are supplied to him, or when conducting an Import. **Non-Registrant:** A natural or legal person who has not been issued with a TRN. **Output Tax:** Tax charged on a Taxable Supply and any supply considered as a Taxable Supply. **Person:** A natural or legal person. **Profit Margin:** The difference between the Purchase Price of the Goods and the Selling Price of the Goods, inclusive of VAT. **Purchase Price:** The price of the Good and any costs or fees incurred to purchase the Good. **Registrant:** The Taxable Person who has been issued with a TRN. **Reseller:** A Taxable Person who resells Goods which they previously purchased. **VAT Guide | Profit Margin Scheme | VATGPM1**

respect to Services, it is the Recipient of these Services.

Input Tax: Tax paid by a Person or due from him when Goods or Services are supplied to him, or when conducting an Import.

Non-Registrant: A natural or legal person who has not been issued with a TRN.

Output Tax: Tax charged on a Taxable Supply and any supply considered as a Taxable Supply.

Profit Margin: The difference between the Purchase Price of the Goods and the Selling Price of the Goods, inclusive of VAT.

Purchase Price: The price of the Good and any costs or fees incurred to purchase the Good.

Registrant: The Taxable Person who has been issued with a TRN.

Reseller: A Taxable Person who resells Goods which they previously purchased.

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Second-Hand Goods: Tangible moveable property that is suitable for further use as it is or after repair.

Selling Price: The Consideration received for the supply of Eligible Goods.

Tax Invoice: A written or electronic document in which any Taxable Supply and its details are recorded, including an Electronic Invoices, as the case may be.

Tax Period: A specific period of time for which the Payable Tax shall be calculated and paid.

Taxable Person: Any Person registered or obligated to register for Tax purposes under the VAT Law.

Tax Registration Number (TRN): A unique number issued by the FTA for each Person registered for Tax purposes.

VAT Return: Information and data specified for VAT purposes and submitted by a Taxable Person in accordance with a form prepared by the FTA.

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Tax Registration Number (TRN): A unique number issued by the FTA for each Person registered for Tax purposes.

VAT Return: Information and data specified for VAT purposes and submitted by a Taxable Person in accordance with a form prepared by the FTA.

VAT: Value Added Tax.

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2. Introduction

VAT is a general consumption tax on the supply of Goods and Services, that applies to most supplies which take place within the territorial area of the UAE. Taxable Persons are required to impose 5% VAT on all their supplies of Goods and Services made in the course of business in the UAE, unless such supply qualifies for zero-rating or exemption. Since VAT is imposed on the value of Taxable Supplies and Imports,¹ it is, generally, important to identify the value of each supply. The value of a supply for VAT purposes is directly linked to the Consideration received for the supply as the value is equal to the Consideration less the VAT included therein.²

However, where certain Goods are supplied under the Scheme, the Profit Margin is regarded as being inclusive of VAT, i.e. VAT is not imposed on the full value of the supply of these Goods.³

2.1. Purpose of this document

The purpose of this Guide is to provide guidance on the Scheme, its rationale, conditions for application, and the record keeping and invoicing requirements. For any additional questions regarding the Scheme and its application, please contact info@tax.gov.ae. 2.2.

Who should read this document?

This document should be read by any Registrant supplying Eligible Goods or Goods in respect of which Input Tax recovery was previously blocked under Article 53 of the VAT Executive Regulation, where that Person intends to calculate the VAT based on the Profit Margin instead of the full value of the Goods, i.e. to apply the Scheme. 2.3. Legislative references

In this Guide, legislation will be referred to as follows:

1

Article 3 of the VAT Law. 2

Article 34 of the VAT Law. 3

Article 29(1) of the VAT Executive Regulation. VAT Guide | Profit Margin Scheme | VATGPM1

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s for application, and the record keeping and invoicing requirements.

For any additional questions regarding the Scheme and its application, please contact info@tax.gov.ae.

This document should be read by any Registrant supplying Eligible Goods or Goods in respect of which Input Tax recovery was previously blocked under Article 53 of the VAT Executive Regulation, where that Person intends to calculate the VAT based on the Profit Margin instead of the full value of the Goods, i.e. to apply the Scheme.

In this Guide, legislation will be referred to as follows:

- 1
Article 3 of the VAT Law.
- 2
Article 34 of the VAT Law.
- 3
Article 29(1) of the VAT Executive Regulation.

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- Federal Decree-Law No. 8 of 2017 on Value Added Tax and its amendments is

referred to as “VAT Law”,

- Federal Decree-Law No. 28 of 2022 on Tax Procedures and its amendments is

referred to as “Tax Procedures Law”, and

- Cabinet Decision No. 52 of 2017 on the Executive Regulation of the Federal

Decree-Law No 8 of 2017 on Value Added Tax, and its amendments, is referred to as “VAT Executive Regulation”.

This Guide is not a legally binding document, but is intended to provide assistance in understanding and applying the VAT legislation with regards to the Scheme.

The information provided in this Guide should not be interpreted as legal or Tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every case. It is based on the legislation as it stood when the Guide was published. Each Person's own specific circumstances should be considered.

The VAT Law and VAT Executive Regulation referred to in this document will set out the principles and rules that govern the application of the Scheme. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.

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The information provided in this Guide should not be interpreted as legal or Tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every case. It is based on the legislation as it stood when the Guide was published. Each Person's own specific circumstances should be considered.

The VAT Law and VAT Executive Regulation referred to in this document will set out the principles and rules that govern the application of the Scheme. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.

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3. Eligible Goods and Eligible Transactions

3.1. Introduction

The Scheme is an optional special arrangement which applies to the sale of Eligible Goods⁴ and Goods in respect of which Input Tax recovery was blocked under Article 53 of the VAT Executive Regulation, and enables the Reseller to calculate VAT based on the Profit Margin instead of the full value of the Goods.⁵

The Scheme is intended to avoid the cascading of VAT. The cascading effect arises as VAT incurred can, generally, not be fully recovered, where:

- a Reseller purchases Goods from a non-registered seller, or from a seller who also

accounted for VAT by applying the Scheme, or

- a Reseller sells Goods in respect of which the Reseller's Recovery of Input Tax is

blocked under Article 53 of the VAT Executive Regulation. The Scheme only applies to Goods which have previously been subject to VAT.⁶

3.2. When does the Scheme apply?

The Scheme applies in two main cases, i.e. where:

- the Taxable Person acquires Eligible Goods⁷ from another Taxable Person that

applied the Scheme on the sale of the Goods, or from a Non-Registrant.

- the Taxable Person sells Goods in respect of which the Taxable Person's Input

Tax Recovery is blocked under Article 53 of the VAT Executive Regulation ("Article 53 Goods").⁸

As the Scheme is optional, when opting to apply the Scheme, the Taxable Person is required to notify the FTA that it opted to calculate and charge VAT on the Profit Margin instead of the value of the supply of Goods.⁹

A Taxable Person may not elect to apply the Scheme in respect of Eligible Goods if that Person issued a Tax Invoice or other document for that supply which reflects the amount of VAT imposed on that supply.¹⁰

4

Article 29(2) of the VAT Executive Regulation. 5 Article 29(1) of the VAT Executive Regulation. 6 Article 29(2) of the VAT Executive Regulation and VAT Public Clarification – Profit Margin Scheme

– Eligible Goods (VATP002). 7

Article 29(2) of the VAT Executive Regulation. 8

Article 29(1) of the VAT Executive Regulation. 9

Article 43(1) of the VAT Law. 10 Article 29(3) of the VAT Executive Regulation. VAT Guide | Profit Margin

ify the FTA that it opted to calculate and charge VAT on the Profit Margin instead of the value of the supply of Goods.⁹

A Taxable Person may not elect to apply the Scheme in respect of Eligible Goods if that Person issued a Tax Invoice or other document for that supply which reflects the amount of VAT imposed on that supply.¹⁰

4

Article 29(2) of the VAT Executive Regulation.

5 Article 29(1) of the VAT Executive Regulation.

6 Article 29(2) of the VAT Executive Regulation and VAT Public Clarification – Profit Margin Scheme

– Eligible Goods (VATP002).

7

Article 29(2) of the VAT Executive Regulation.

8

Article 29(1) of the VAT Executive Regulation.

9

Article 43(1) of the VAT Law.

10 Article 29(3) of the VAT Executive Regulation.

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The Scheme may only be applied in respect of the following categories of Goods, provided they were previously subject to VAT:

- Second-Hand Goods (see Section 3.3.1).¹¹
- Antiques (see Section 3.3.2).¹²
- Collectors' Items (see Section Error! Reference source not found.).¹³

Moreover, a Reseller may only apply the Scheme if the Eligible Good was subject to VAT at some point in the preceding supply chain.¹⁴ For example, any Eligible Goods which were acquired prior to the implementation of VAT (i.e. prior to 1 January 2018), or which have not previously been subject to VAT for other reasons, are not Eligible Goods for the purpose of the Scheme.¹⁵

The onus is on the Reseller intending to apply the Scheme to obtain and retain sufficient supporting evidence proving that the Eligible Goods were previously subject to VAT, for example, the Tax Invoice issued when the Non-Registrant acquired the Eligible Good. If the Reseller is unable to obtain such evidence, the Scheme would not apply and the Reseller would be required to impose VAT on the full value of the Taxable Supply.

The various categories of Eligible Goods are addressed in more detail below.

Second-Hand Goods are tangible moveable property that is suitable for further use as it is or after repair,¹⁶ for example used cars, mobile phones, electronic devices and furniture. Non-usable scrap is not considered as Second-Hand Goods for the purpose of the Scheme.

Second-Hand Goods may be sold as they are, or they may be repaired before resale. Where repair takes place, it should not result in a change in the basic characteristics of the Good. The repair may only make the Good suitable to be used for the same function as previously. If the repair on the Good changes its basic nature, it does not meet the criteria for being treated as a Second-Hand Good, as it will be considered a new Good.

11 Article 29(2)(a) of the VAT Executive Regulation.

12 Article 29(2)(b) of the VAT Executive Regulation.

13 Article 29(2)(c) of the VAT Executive Regulation.

14 Article 29(2) of the VAT Executive Regulation.

15 VAT Public Clarification – Profit margin scheme – eligible goods (VATP002).

16 Article 29(2)(a) of the VAT Executive Regulation.

Company A is a second-hand car dealer and buys a car from Mr. Z who is not registered for VAT. Company A services the car, including repairing the car body, and then resells the car to Mr. Y. In this instance the car may qualify as a Second-Hand Good.

Example – Change in nature: Company B buys old aircraft equipment, refurbishes it and sells it as furniture. The

Example – Change in nature: Scheme is not applicable because the sold items serve a wholly different function

Example – Change in nature: (i.e. furniture) than the ones purchased (i.e. aircraft equipment).

Antiques are Goods that are older than 50 years.¹⁷ Generally, Antiques are art works, furniture or other forms of valuable physical items. The Reseller is required to retain proof that the Goods are eligible for the Scheme, including evidence that the Goods are older than 50 years and that VAT was previously imposed on the Goods.

Collectors' Items are stamps, coins and currency and other pieces of scientific, historical or archaeological interest.¹⁸ These Goods, generally, have a higher value due to being rare and their desirability from collectors' perspective. The Reseller is required to retain proof that the Goods are eligible for the Scheme, including evidence that the Goods are objectively regarded as Collector's Items, and that VAT was previously imposed thereon.

The Scheme can be applied in respect of the following transactions:

- The Reseller supplies Eligible Goods which were either purchased from a Non-

Registrant, or from a Taxable Person who calculated the VAT on the supply of the Eligible Goods by applying the Scheme (see Section 3.4.1).¹⁹

¹⁷ Article 29(2)(b) of the VAT Executive Regulation.

¹⁸ Article 29(b)(c) of the VAT Executive Regulation.

¹⁹ Article 29(1)(a) of the VAT Executive Regulation.

nd their desirability from collectors' perspective. The Reseller is required to retain proof that the Goods are eligible for the Scheme, including evidence that the Goods are objectively regarded as Collector's Items, and that VAT was previously imposed thereon.

The Scheme can be applied in respect of the following transactions:

- The Reseller supplies Eligible Goods which were either purchased from a Non-

Registrant, or from a Taxable Person who calculated the VAT on the supply of the Eligible Goods by applying the Scheme (see Section 3.4.1).¹⁹

17 Article 29(2)(b) of the VAT Executive Regulation.

18 Article 29(b)(c) of the VAT Executive Regulation.

19 Article 29(1)(a) of the VAT Executive Regulation.

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- The Reseller supplies Goods for which Input Tax was not recovered based on

Article 53 of the VAT Executive Regulation (see Section 3.4.2).²⁰

3.4.1. Purchases from a Non-Registrant or a Taxable Person applying the Scheme

The Reseller supplies Eligible Goods which have been purchased from a Non-Registrant or a Taxable Person who applied the Scheme.²¹

Example - Good not previously subject to VAT: Company C buys and sells used cars. It purchases a car from Mr. P, a private

Example - Good not previously subject to VAT: individual who is a Non-Registrant. Mr. P had purchased the car in 2017.

Example - Good not previously subject to VAT: Since the car has never been subject to VAT (i.e. the car was purchased by Mr. P

Example - Good not previously subject to VAT: before the introduction of VAT in the UAE in 2018), Company C cannot apply the

Example - Good not previously subject to VAT: Scheme when reselling the car.

Example - Good previously subject to VAT: Company D buys furniture from Mr. Q, a private individual who is a Non-Registrant.

Example - Good previously subject to VAT: Mr. Q had purchased the furniture in 2019. The seller had charged VAT on the supply

Example - Good previously subject to VAT: to Mr. Q and had issued a Tax Invoice to Mr. Q.

Example - Good previously subject to VAT: If Mr. Q shares a copy of the Tax Invoice issued by the seller with Company D,

Example - Good previously subject to VAT: Company D has proof that the furniture was previously subject to VAT, and can apply

Example - Good previously subject to VAT: the Scheme when reselling the furniture, provided all the other conditions are met.

20 Article 29(1)(b) of the VAT Executive Regulation.

21 Article 29(1)(a) of the VAT Executive Regulation.

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In instances where a Taxable Person acquired Goods in respect of which Input Tax was incurred but where recovery was blocked under Article 53 of the VAT Executive Regulation, e.g. motor vehicles available for private use, the Taxable Person may opt to apply the Scheme where such Goods are subsequently sold.²²

Note that this provision is not limited to Eligible Goods but applies to any Goods in respect of which Input Tax recovery was blocked under Article 53 of the VAT Executive Regulation.

For completeness, note that the Scheme does not apply to Goods in respect of which a portion of the Input Tax incurred is not recoverable due to the application of Article 55 of the VAT Executive Regulation, unless such Good qualifies as an Eligible Good.

The Scheme does not apply to the sale of Eligible Goods which the Reseller imported into the UAE. In these cases, the Reseller may recover Import VAT in accordance with the normal Input Tax recovery rules, and account for the VAT due based on the full value of the Goods.

However, if the Import VAT was not recoverable by the Reseller under Article 53 of the VAT Executive Regulation, the Scheme can be applied upon resale.

Example – Resale of imported Good: Company G is a Taxable Person and antique dealer. Mrs. S is a Non-Registrant that

Example – Resale of imported Good: lives in Oman. Mrs. S sells Antiques to Company G which Imports the Antiques and

Example – Resale of imported Good: pays the related Import VAT.

Example – Resale of imported Good: When reselling the Antique, Company G cannot apply the Scheme as the Import VAT

Example – Resale of imported Good: may be recoverable by Company G in accordance with the normal Input Tax recovery

Example – Resale of imported Good: rules. Hence, there is no VAT cascading in this case.

Example – Resale of imported Eligible Good

Mr. A is not registered for VAT and imports his gaming computer into the UAE. He incurs VAT on the Import and subsequently sells the computer to Company H

22 Article 29(1)(b) of the VAT Executive Regulation.

le – Resale of imported Good: lives in Oman. Mrs. S sells Antiques to Company G which Imports the Antiques and

Example – Resale of imported Good: pays the related Import VAT. Example – Resale of imported Good: When reselling the Antique, Company G cannot apply the Scheme as the Import VAT

Example – Resale of imported Good: may be recoverable by Company G in accordance with the normal Input Tax recovery

Example – Resale of imported Good: rules. Hence, there is no VAT cascading in this case. Example – Resale of imported Eligible Good

Mr. A is not registered for VAT and imports his gaming computer into the UAE. He incurs VAT on the Import and subsequently sells the computer to Company H

22 Article 29(1)(b) of the VAT Executive Regulation. VAT Guide | Profit Margin Scheme | VATGPM1 11

(Registrant). Company H replaces the graphics card and applied the Scheme when selling the computer to Company I, another Registrant. Company I may apply the Scheme when it sells the Computer to Mr. G, provided it has documentary evidence that Company H applied the Scheme, e.g. the Tax Invoice issued by Company H to Company I. 3.5.

Option to use the Scheme

The Reseller is not required to apply the Scheme where it supplies a Good under Eligible Transactions. The choice to apply the Scheme can be exercised individually for each supply. Prior approval from the FTA to apply the Scheme is not necessary, but Resellers choosing to apply the Scheme must do the following:

- issue a Tax Invoice that clearly states that the VAT was charged with reference to

the Profit Margin, and the Tax Invoice must not disclose the VAT amount²³ (see

Section 5.2).

- keep all the records required under the Scheme²⁴ (see Section 5.1) and comply

with the reporting requirements (see Section 6).

Where the Reseller does not apply the Scheme, the normal VAT rules will apply, i.e. the VAT should be calculated based on the full value of the Goods supplied.

²³ Article 29(7) of the VAT Executive Regulation.

²⁴ Article 29(6) of the VAT Executive Regulation.

4. Calculating the Profit Margin and accounting for VAT

In order to calculate the VAT under the Scheme, the Reseller must perform the following two steps:

- Step 1: Calculate the Profit Margin (see Section 4.1). If the Profit Margin is

negative, refer to Section 0. • Step 2: Calculate the VAT based on the Profit Margin (see Section 4.2).

4.1. Calculation of Profit Margin

The Profit Margin is the difference between the Purchase Price (see Section 4.1.1) and the Selling Price (see Section 4.1.2) of the Eligible Good.²⁵

$$Profit\ Margin = Purchase\ Price - Selling\ Price$$

The Profit Margin is inclusive of VAT. 4.1.1. Purchase Price

The Purchase Price includes the following:²⁶

- The price of the Good paid by the Reseller when purchasing it.
- Any costs and fees incurred by the Reseller to purchase the Good. The second category includes costs that form part of the cost of the Good to make it

ready to be used or resold, e.g. transport and installation costs. 4.1.2. Selling Price

The Selling Price is the Consideration received by the Reseller for the supply of the Good.

Where the buyer also pays the Reseller for any ancillary supplies which are directly linked to the sale of the Eligible Good (e.g. non-optional accessories fitted in a used car during repairs, which are necessary and incidental to the supply of the used car), such payments should be included in the Selling Price. Where the Reseller provides additional Goods or Services as a separate supply (e.g. extended warranty services on a used car), such payment does not form part of the

Selling Price, and would be subject to the normal rules. ²⁵ Article 29(4) of the VAT Executive Regulation. ²⁶ Article 29(5) of the VAT Executive Regulation. VAT Guide | Profit Margin Scheme | VATGPM1
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The Selling Price is the Consideration received by the Reseller for the supply of the Good.

Where the buyer also pays the Reseller for any ancillary supplies which are directly linked to the sale of the Eligible Good (e.g. non-optional accessories fitted in a used car during repairs, which are necessary and incidental to the supply of the used car), such payments should be included in the Selling Price.

Where the Reseller provides additional Goods or Services as a separate supply (e.g. extended warranty services on a used car), such payment does not form part of the Selling Price, and would be subject to the normal rules.

25 Article 29(4) of the VAT Executive Regulation.

26 Article 29(5) of the VAT Executive Regulation.

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To differentiate between the two aforementioned categories, please refer to the Taxable Person Guide for VAT (VATGTP1) for more information on the distinction between a single composite supply and multiple supplies.

The following formula should be used to calculate the VAT due on the Profit Margin:

As the Profit Margin is already inclusive of VAT, the VAT fraction is used to calculate the VAT due.

Example – Eligible Good sold for profit: Company J buys and sells used cars and purchases cars from private individuals

Example – Eligible Good sold for profit: who are Non-Registrants. The cars are then refurbished and marketed again as

Example – Eligible Good sold for profit: pre-owned cars in Company J's showroom.

Example – Eligible Good sold for profit: During December 2024, Company J purchased a car for AED 100,000 and sold

Example – Eligible Good sold for profit: the same car for AED 200,000. Consequently, Company J made a profit of

Example – Eligible Good sold for profit: AED 100,000 (i.e. AED 200,000 – AED 100,000).

Example – Eligible Good sold for profit: Assuming the conditions for the Scheme are satisfied, VAT is calculated as

Example – Eligible Good sold for profit: follows:

Particulars | Amount (AED)

Purchase Price (A) | 100,000

Selling Price (B) | 200,000

Profit Margin (C = B-A) | 100,000

Example – Eligible Good sold for profit: VAT on Profit Margin: $[C \times (5/(100+5))]$
 $[100,000 \times 5/(100+5)]$

27 The VAT Fraction is 5/105 and can be simplified by dividing the Profit Margin by 21.

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Example – Purchase price (including associated costs): Company K purchased a car from Mrs. O, who is a Non-Registrant, for

Example – Purchase price (including associated costs): AED 100,000 and sold the car for AED 250,000.

Company K had also hired a

Example – Purchase price (including associated costs): contractor to pick up the car from Mrs. O and bring it to its showroom, and paid

Example – Purchase price (including associated costs): the contractor AED 5,000. No VAT was charged by the contractor as the

Example – Purchase price (including associated costs): contractor is not registered for VAT.

Example – Purchase price (including associated costs): Assuming the conditions for the Scheme are satisfied, VAT is calculated as

Example – Purchase price (including associated costs): follows:

Particulars | Amount (AED)

Purchase Price (A) + associated costs | 105,000 (100,000 + 5,000)

Selling Price (B) | 250,000

Profit Margin (C=B-A) | 145,000

Example – Purchase price (including associated costs): VAT on Profit Margin: (C/21)

Example – Article 53 Goods: Company M buys a Porsche for the business and its CEO's private use. The price

Example – Article 53 Goods: of the car is AED 500,000 plus AED 25,000 VAT. Due to Article 53(1)(b) of the

Example – Article 53 Goods: VAT Executive Regulation, the Input Tax of AED 25,000 is not recovered by

Example – Article 53 Goods: Company M.

Example – Article 53 Goods: After one year, Company M sells the Porsche for AED 530,000.

Example – Article 53 Goods: Assuming the conditions for the Scheme are met, VAT is calculated as follows:

Particulars | Amount (AED)

Purchase Price (A) | 525,000

Selling Price (B) | 530,000

Profit Margin (C = B-A) | 5,000

VAT on Profit Margin: (C/21) | 238.10

associated costs): VAT on Profit Margin: (C/21)

Example – Article 53 Goods: Company M buys a Porsche for the business and its CEO's private use. The price

Example – Article 53 Goods: of the car is AED 500,000 plus AED 25,000 VAT. Due to Article 53(1)(b) of the

Example – Article 53 Goods: VAT Executive Regulation, the Input Tax of AED 25,000 is not recovered by

Example – Article 53 Goods: Company M.

Example – Article 53 Goods: After one year, Company M sells the Porsche for AED 530,000.

Example – Article 53 Goods: Assuming the conditions for the Scheme are met, VAT is calculated as follows:

Particulars | Amount (AED)

Purchase Price (A) | 525,000

Selling Price (B) | 530,000

Profit Margin (C = B-A) | 5,000

VAT on Profit Margin: (C/21) | 238.10

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No VAT is due under the Scheme if the Good is sold at loss or no profit is realised.

Losses incurred on the sale of a Good can also not be set off against profits on another

supply of a Good.

Example – Goods sold at a loss/break-even: Company N, a used car dealer, sold four cars in Q1 2025 and applied the Scheme

Example – Goods sold at a loss/break-even: on all of them. The Profit Margin and related VAT are as follows:

Selling Price | Purchase Price | Profit Margin | VAT

(AED) | (AED) | (AED) | (AED)

Example – Goods sold at a loss/break-even: Car 1

Example – Goods sold at a loss/break-even: Car 2

Example – Goods sold at a loss/break-even: Car 3

Example – Goods sold at a loss/break-even: Car 4

Example – Goods sold at a loss/break-even: Total

Example – Goods sold at a loss/break-even: Although Company N has not made a profit in Q1 2025, it still has to account for

Example – Goods sold at a loss/break-even: VAT on the two cars that were sold at a profit, i.e. AED 714.29.

Example – Goods sold at a loss/break-even: As Cars 3 and 4 were not sold for a profit, no Output Tax should be reported in

Example – Goods sold at a loss/break-even: respect of these supplies. The loss made on the supply of Car 4 may not be set-

Example – Goods sold at a loss/break-even: off against the profits made on the supplies of Cars 1 and 2.

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5. Record-keeping and invoicing requirements

5.1. Record-keeping requirements

In order to apply the Scheme, the following records must be kept by the Reseller:²⁸

- A stock book or a similar record showing details of each Good purchased and sold

under the Scheme. • Purchase invoices showing details of the Goods purchased under the Scheme. Where the Goods are purchased from Non-Registrants, the Reseller must issue an invoice showing details of the Goods himself, including at least the following information:

- The name, address and TRN of the Reseller. • The name and address of the Person selling the Good. • The date of the purchase. • Details of the Goods purchased. • The Consideration payable in respect of the Goods. • Signature of the Person selling the Good or authorised signatory. The Reseller is required to retain sufficient documentary evidence that VAT was previously imposed on the Good, e.g. original tax invoice issued to the Non-Registrant selling the Good to the Reseller. 5.2.

Invoicing Requirements for the Reseller

When the Scheme is applied, the Tax Invoice issued by the Reseller for the supply of the Eligible Good must clearly state that VAT was charged with reference to the Profit Margin, in addition to all the information required to be reflected on a full Tax Invoice, except the amount of VAT.²⁹

A Taxable Person may not elect to apply the Scheme in respect of Eligible Goods if the Person issues a Tax Invoice or other document for that supply which reflects the amount of VAT imposed on that supply.³⁰

28 Article 29(6) of the VAT Executive Regulation. 29 Article 29(7) of the VAT Executive Regulation. 30 Article 29(3) of the VAT Executive Regulation. VAT Guide | Profit Margin Scheme | VATGPM1
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gistrant
selling the Good to the Reseller.

5.2.

Invoicing Requirements for the Reseller

When the Scheme is applied, the Tax Invoice issued by the Reseller for the supply of the Eligible Good must clearly state that VAT was charged with reference to the Profit Margin, in addition to all the information required to be reflected on a full Tax Invoice, except the amount of VAT.²⁹

A Taxable Person may not elect to apply the Scheme in respect of Eligible Goods if the Person issues a Tax Invoice or other document for that supply which reflects the amount of VAT imposed on that supply.³⁰

28 Article 29(6) of the VAT Executive Regulation.

29 Article 29(7) of the VAT Executive Regulation.

30 Article 29(3) of the VAT Executive Regulation.

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6. Reporting requirements

The Reseller applying the Scheme must inform the FTA that it has opted to account for VAT with reference to the Scheme via its VAT return. 6.1. Election to apply the Scheme

VAT return form 201 provides a specific checkbox as shown below, which needs to be answered with “Yes” if the Scheme is applied by the Reseller. If the Scheme is not applied, then “No” should be selected. For more information on the VAT Returns form, please refer to the EmaraTax VAT201 - VAT Returns form – User Manual. 6.2. Selling Price

Resellers using the Scheme must include the following in Box 1 of the VAT Return covering the Tax Period in which the supply was made:

- Amount Column – Selling Price less VAT imposed on the Profit Margin.
- VAT Amount Column – VAT imposed on the Profit Margin.

This information should be identified per the Emirate in which that supply was made. For Businesses with a Place of Establishment and/or Fixed Establishments in the UAE, the supply should be reported in the Emirate where the Establishment most closely connected to the supply is located.

Businesses that are not established in the UAE

and do not have a Fixed Establishment in the UAE should report the supply in the Emirate where the supply was received.³¹

6.3. Purchase Price

Resellers using the Scheme must include the Purchase Price of the Goods intended to be sold under the Scheme in the “Amount” column of Box 9 in the Tax Period these Goods are acquired. No VAT related to this purchase should be included in the “VAT Amount” column. 31 Article 72 of the VAT Executive Regulation. VAT Guide | Profit Margin Scheme | VATGPM1

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mirate in which that supply was made.

For Businesses with a Place of Establishment and/or Fixed Establishments in the UAE, the supply should be reported in the Emirate where the Establishment most closely connected to the supply is located. Businesses that are not established in the UAE and do not have a Fixed Establishment in the UAE should report the supply in the Emirate where the supply was received.³¹

Resellers using the Scheme must include the Purchase Price of the Goods intended to be sold under the Scheme in the “Amount” column of Box 9 in the Tax Period these Goods are acquired. No VAT related to this purchase should be included in the “VAT Amount” column.

31 Article 72 of the VAT Executive Regulation.

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Example – Reporting in the VAT Return: Company O buys a mobile phone (AED 1,500) from Mrs. E in January 2025 and

Example – Reporting in the VAT Return: sells the mobile phone to Mrs. K in March 2025 for AED 1,710. Company O is

Example – Reporting in the VAT Return: filing its VAT Returns on a monthly basis.

Example – Reporting in the VAT Return: Company O should report the purchase of the mobile phone in the “Amount”

Example – Reporting in the VAT Return: column of Box 9 of its VAT Return for January 2025, i.e. AED 1,500. The supply

Example – Reporting in the VAT Return: of the mobile phone should be reporting in the relevant Box 1 its VAT return for

Example – Reporting in the VAT Return: March 2025 Tax Period, i.e. AED 1,700³² in the “Amount column” and AED 10³³

Example – Reporting in the VAT Return: in the “VAT Amount” column.

Example – Goods sold at a loss/break-even: Company N is a used car dealer in Dubai that purchased the following cars in

Example – Goods sold at a loss/break-even: July 2025 and sold them in October 2025. Company N has monthly Tax Periods

Example – Goods sold at a loss/break-even: and applied the Scheme on all of them. The Profit Margin and related VAT are as

Example – Goods sold at a loss/break-even: follows:

Selling Price | Purchase Price | Profit Margin | VAT
(AED) | (AED) | (AED) | (AED)

Example – Goods sold at a loss/break-even: Car 1

Example – Goods sold at a loss/break-even: Car 2

Example – Goods sold at a loss/break-even: Car 3

Example – Goods sold at a loss/break-even: Car 4

Example – Goods sold at a loss/break-even: Total

Example – Goods sold at a loss/break-even: July 2025 Tax Period

Example – Goods sold at a loss/break-even: Report the total Purchase Price for all the cars acquired during the Tax Period that

Example – Goods sold at a loss/break-even: are intended to be sold under the Scheme in the “Amount” column of Box 9 of the

Example – Goods sold at a loss/break-even: VAT Return, i.e. AED 60,000.

Example – Goods sold at a loss/break-even: October 2025 Tax Period

Example – Goods sold at a loss/break-even: Step 1: Calculate the total Selling Prices for cars sold under the Scheme during

Example – Goods sold at a loss/break-even: the Tax Period. (i.e. 10,000 + 20,000 + 25,000 + 5,000 = 60,000)

32 Selling price (AED 1,710) less VAT on the Profit Margin (AED 10) = AED 1,700.

33 VAT on the Profit Margin = Profit Margin (AED 1,710 – AED 1,500 = AED 210)/21 = AED 10.

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port the total Purchase Price for all the cars acquired during the Tax Period that

Example – Goods sold at a loss/break-even: are intended to be sold under the Scheme in the “Amount” column of Box 9 of the

Example – Goods sold at a loss/break-even: VAT Return, i.e. AED 60,000.

Example – Goods sold at a loss/break-even: October 2025 Tax Period

Example – Goods sold at a loss/break-even: Step 1: Calculate the total Selling Prices for cars sold under the Scheme during

Example – Goods sold at a loss/break-even: the Tax Period. (i.e. 10,000 + 20,000 + 25,000 + 5,000 = 60,000)

32 Selling price (AED 1,710) less VAT on the Profit Margin (AED 10) = AED 1,700.

33 VAT on the Profit Margin = Profit Margin (AED 1,710 – AED 1,500 = AED 210)/21 = AED 10.

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Step 2: Determine which cars were sold for profit. (Car 1 and 2): Step 3: Calculate the profit margin in respect of the cars identified in Step 2. Step 2: Determine which cars were sold for profit. (Car 1 and 2): (Car 1: AED 5,000 and Car 2: AED 10,000)

Step 2: Determine which cars were sold for profit. (Car 1 and 2): Step 4: Calculate the VAT included in the Profit Margins (15,000/21 = 714.29)

Step 2: Determine which cars were sold for profit. (Car 1 and 2): Step 5: Deduct the VAT included in the Profit Margins from the total Selling Price

Step 2: Determine which cars were sold for profit. (Car 1 and 2): of cars sold during the Tax Period. (60,000 – 714.29 = 59,285.71)

Step 2: Determine which cars were sold for profit. (Car 1 and 2): Step 6: Include the following amounts in Box 1b of the October 2025 VAT Return:

Step 2: Determine which cars were sold for profit. (Car 1 and 2): • “Amount” column: 59,285.71

Step 2: Determine which cars were sold for profit. (Car 1 and 2): • “VAT Amount” column: 714.29

Step 2: Determine which cars were sold for profit.

(Car 1 and 2): Note that the Selling Prices of the cars that were not sold for profit (Car 3 and 4)

Step 2: Determine which cars were sold for profit. (Car 1 and 2): are also included in the “Amount” column but are not reflected in the “VAT Amount”

Step 2: Determine which cars were sold for profit. (Car 1 and 2): column as no Profit Margin was realised on these cars.

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[recovered from the vector store — VAT_Guide_Profit_Margin_Scheme_Jan2026.pdf p.22]

2: Determine which cars were sold for profit. (Car 1 and 2): Step 6: Include the following amounts in Box 1b of the October 2025 VAT Return:

Step 2: Determine which cars were sold for profit. (Car 1 and 2): • “Amount” column: 59,285.71

Step 2: Determine which cars were sold for profit. (Car 1 and 2): • “VAT Amount” column: 714.29

Step 2: Determine which cars were sold for profit. (Car 1 and 2): Note that the Selling Prices of the cars that were not sold for profit (Car 3 and 4)

Step 2: Determine which cars were sold for profit. (Car 1 and 2): are also included in the “Amount” column but are not reflected in the “VAT Amount”

Step 2: Determine which cars were sold for profit. (Car 1 and 2): column as no Profit Margin was realised on these cars.

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7. Updates and Amendments

Date of amendment: January 2026 | Amendments made: • First version

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