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1. Introduction

This is the Taxable Person Guide for Value Added Tax (VAT) in the United Arab Emirates (UAE). You might also hear or see it referred to as the VAT Guide 1 or the VATG001. 1.1. Purpose of this guide

This guide is the main reference guide to VAT in the UAE. It provides you with:

☐ an overview of the main VAT rules and procedures in the UAE and how to

comply with them; ☐ assistance with the more likely questions that businesses might have; and
☐ references to more specialised publications where they have been published. Not everything within this guide will apply to every business and so it is not expected that you will have to read it completely. The guide and its contents are not legally binding; it is also subject to change. 1.2. Changes to the previous version of the guide

Any changes made to this guide shall be identified and explained in brief in Appendix 1 of this guide. 1.3. Who should read this guide

Anyone that is carrying on a business and is, or thinks that they should be registered for VAT in the UAE, should read this guide.

If you are carrying on a business and are not registered for VAT, or if you are not in business but are interested in the subject you may also find this guide helpful by way of a reasonably detailed overview of the subject. 1.4. How to use this document

This guide is split into chapters by topic. This includes an initial chapter in respect of where to seek further assistance should you have questions based on the content of this guide, or areas that are not specifically dealt with here. Subsequent chapters are organised by subject matter to cover the fundamentals involved in the VAT compliance process which should be generally applicable to VAT registered persons, from registering, invoicing and record keeping, through to submitting returns and making payments. Each chapter is divided into sub-sections, some of which will have a more narrow focus aimed for example at VAT registered persons carrying out certain types of activity. Where a section has a narrower focus or applicability this will be identified at the outset of the chapter. Furthermore, the last chapter of this guide contains a list of key terms as defined in the VAT legislation.

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this guide, or areas that are not specifically dealt with here.

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Each chapter is divided into sub-sections, some of which will have a more narrow focus aimed for example at VAT registered persons carrying out certain types of activity. Where a section has a narrower focus or applicability this will be identified at the outset of the chapter. Furthermore, the last chapter of this guide contains a list of key terms as defined in the VAT legislation.

Occasionally we will publish other documents intended to help you further, or to promulgate useful information or a change in the way that we are approaching the administration of the affairs of taxpayers. These publications will be in the form of:

Purpose

Publication: type | Series: reference

Publication: Guide | Series: VATG[00X]

Publication: Business

Bulletin | Series: VATB[00X]

Publication: Public

Clarification | Series: VATP[00X]

VATP[00X]

A document summarizing a detailed tax technical or administrative position which has been determined by the FTA

In all cases these publications will be available on the Federal Tax Authority's (FTA) website. Only the latest, approved version of the relevant publication will be displayed on our website.

It is important that taxable persons ensure they keep up to date with any changes, otherwise they may find that they are not accounting for VAT correctly.

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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1.6.

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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2. Getting Additional Help

2.1. Chapter summary

In the event that a business needs more information about VAT or needs assistance with their VAT affairs, they can choose to contact the FTA for guidance or to seek support from an external agent or adviser. 2.2. FTA support channels

The FTA is committed to supporting businesses in learning about tax in an easy, accessible and straightforward manner. In addition to the Guides, Business Bulletins and Public Rulings which can be freely accessed online, e-learning modules are also available on the FTA website. 2.2.1. E-Learning

E-learning modules are designed to assist businesses to learn about the fundamentals of the VAT system and can be used as a means of training relevant staff on the business' compliance obligations in respect of VAT. 2.2.2. VAT Helpline

A VAT Helpline (available on 600 599 994 or info@tax.gov.ae) run by trained staff is available to all businesses. The helpline allows businesses to:

- ☐ ask for information on or request links to FTA publications; and
- ☐ to report any technical issues with accessing the FTA's e-Services.

The VAT Helpline will not be able to give advice on case specific transactions or specialised topics. These matters will be handled through alternative channels and the VAT Helpline will direct businesses to them if it is appropriate to do so. 2.3. Receiving support from external agents and advisers

A business may decide to obtain help or advice about their VAT obligations from members of the tax accountancy profession. They will also be able to appoint such professionals to act as their agent when dealing with the FTA provided they have been approved by the FTA to do so and the business has told us of their appointment. It is not a requirement of VAT registration that a business must employ an accountant or external adviser. However, if they choose to do so, please remember responsibility for the accuracy of a business' VAT affairs remains with the business. 7

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3. Explaining VAT

3.1. Chapter summary

The purpose of this chapter is to give a brief overview of the principles which govern VAT as a tax, in order to provide a foundation for the information given in further chapters. 3.2. What is VAT?

VAT is a transaction-based indirect tax. Occasionally it is referred to as a type of general consumption tax. In a country which has VAT, it is imposed on most supplies of goods and services that are bought and sold. VAT is charged and collected at each stage of the supply chain by businesses which meet the requirements to be registered for VAT (see Chapter 4 for further details). Final consumers generally bear the VAT cost while businesses collect and account for the tax. 3.3. How does VAT work?

Businesses that are registered, or required to register, for VAT (known as 'taxable persons') charge VAT to their customers on supplies of goods or services made in the course of business. Taxable persons are then required to collect the VAT which they have charged to their customers and, on a periodic basis, pay this over to the FTA, accompanied by the submission of a tax return.

More details of tax return filing and

payment deadlines can be found in Chapter 11. VAT which businesses charge to their customers is also known as 'output tax'. Businesses will also be charged VAT by their suppliers when they acquire goods and services. In general terms, taxable persons are able to recover the VAT they are charged by their suppliers, subject to certain conditions. VAT which is incurred on expenses is also known as 'input tax'. Where the conditions to allow recovery of input tax are met, the taxable person is able

to deduct the input tax recoverable from the value of output tax it is due to pay. This results in the net VAT payable to the FTA in each tax return period. Persons which are not entitled to register for VAT are not able to recover any VAT they incur, except in certain specified cases. As a result, incurred VAT becomes a cost to the final consumer. 8

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Businesses will also be charged VAT by their suppliers when they acquire goods and services. In general terms, taxable persons are able to recover the VAT they are charged by their suppliers, subject to certain conditions. VAT which is incurred on expenses is also known as 'input tax'.

Where the conditions to allow recovery of input tax are met, the taxable person is able to deduct the input tax recoverable from the value of output tax it is due to pay. This results in the net VAT payable to the FTA in each tax return period.

Persons which are not entitled to register for VAT are not able to recover any VAT they incur, except in certain specified cases. As a result, incurred VAT becomes a cost to the final consumer.

A furniture manufacturer purchases wood from a forester, which it uses to produce furniture. This furniture is sold to a private customer.

The furniture manufacturer purchases wood from the forester for AED 10,000 + VAT at 5%. The manufacturer pays the forester AED 10,500 in total, AED 500 of which is input tax.

The furniture manufacturer then sells furniture to the individual customer for AED 30,000 + VAT at 5%. The manufacturer receives a total payment of AED 31,500 from the customer, of which AED 1,500 is output tax.

When the furniture manufacturer completes their tax return for the period, they must declare output tax of AED 1,500 to the FTA. However, they are entitled to deduct the AED 500 of input tax incurred on purchases. This means that the net VAT payable to the FTA is AED 1,000.

The individual customer is not entitled to recover the AED 1,500 charged by the furniture manufacturer. Therefore the cost of the VAT is borne by the customer.

The image below depicts a typical supply chain.

A farmer grows cotton
which is plucked and sold

cotton and manufactures
clothes which are sold to a

The farmer collects
VAT from the factory

The retail outlet collects
VAT from the consumer on

from the retail chain on
behalf of the government.

behalf of the government.
The retail outlet receives a

The factory receives a
refund on the VAT paid to
Sales: AED 1,000 | 5% VAT charged on
Sales: AED 50 | VAT recovered on
purchases: AED 0 | Net VAT payable: AED 50
Sales: AED 3,000 | 5% VAT charged on
Sales: AED 150 | VAT recovered on
purchases: AED 50 | Net VAT payable: AED 100
Sales: AED 5,000 | 5% VAT charged on
Sales: AED 250 | VAT recovered on
purchases: AED 150 | Net VAT payable: AED 100

Net VAT payable: r: AED 250

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

The retail outlet collects
VAT from the consumer on

from the retail chain on
behalf of the government.

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Sales: AED 50 | VAT recovered on
purchases: AED 0 | Net VAT payable: AED 50
Sales: AED 3,000 | 5% VAT charged on
Sales: AED 150 | VAT recovered on
purchases: AED 50 | Net VAT payable: AED 100
Sales: AED 5,000 | 5% VAT charged on
Sales: AED 250 | VAT recovered on
purchases: AED 150 | Net VAT payable: AED 100
Net VAT payable: r: AED 250

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

There will be two VAT rates applicable within the UAE:

- ☐ the standard rate of VAT – 5%; and
- ☐ the zero rate of VAT – 0%.

In addition, a certain category of supplies will be “exempt” from VAT.

Although VAT is not accounted for in respect of both zero-rated and exempt supplies, there is an important distinction between the two.

VAT is not accounted for on zero-rated supplies (since the applicable rate is 0%), but such supplies are still treated as “taxable supplies” in all other respects. As a result, the person making the supply has the right to recover the VAT incurred on their own business expenditure in the same way as they would if they made standard-rated supplies.

A full list of zero-rated supplies is included in Chapter 6.

Similar to zero-rated supplies, no VAT is collected in respect of exempt supplies. However, since those supplies are not “taxable supplies”, the supplier cannot normally recover any of the VAT on expenses incurred in making exempt supplies.

Incurred VAT therefore will represent a cost to businesses involved in making supplies which are wholly or partly exempt from VAT.

A full list of exempt supplies is included in Chapter 6.

VAT is charged on the value of goods and services.

When adding VAT to the price of goods or services, the business should multiply the amount by the applicable VAT rate (e.g. 5%).

If the price already includes VAT, divide the price by 1.05 (for the 5% VAT rate) to find out the VAT amount. Subtracting this amount from the VAT-inclusive price, will give the VAT-exclusive value of the supply.

le supplies”, the supplier cannot normally recover any of the VAT on expenses incurred in making exempt supplies.

Incurred VAT therefore will represent a cost to businesses involved in making supplies which are wholly or partly exempt from VAT.

A full list of exempt supplies is included in Chapter 6.

3.5.

Adding VAT to goods and services

VAT is charged on the value of goods and services.

When adding VAT to the price of goods or services, the business should multiply the amount by the applicable VAT rate (e.g. 5%).

If the price already includes VAT, divide the price by 21 (for the 5% VAT rate) to find out the VAT amount. Subtracting this amount from the VAT-inclusive price, will give the VAT-exclusive value of the supply.

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4. Registration

4.1. Chapter summary

The purpose of this chapter is to provide an overview of who needs to register for VAT, the tests which apply to determine when a business must register for VAT and the process to follow to become VAT registered. 4.2. Why registration is important?

VAT is a transaction based tax which is imposed on most supplies of goods and services. However, the obligation to charge VAT only extends to persons who are registered for VAT or are required to register for VAT. These persons are known as “taxable persons”. A taxable person who is registered for VAT receives a tax registration number (‘TRN’) and is referred to as a “registrant”. It should be noted that the definition of a ‘person’ is very wide and includes any legal or natural person. As such, all types of persons – including individuals, companies, partnerships, clubs, associations, and so forth – may be able, or be required, to register for VAT and charge tax on their supplies. In addition to the obligation to charge VAT on applicable supplies, taxable persons may also be able to recover VAT incurred on their expenses.

This ensures that in the majority of situations, VAT is not a cost to registered businesses. A person may either be required to register mandatorily, or may do so voluntarily. In addition, two or more legal persons may be registered as a tax group under a single VAT registration. These options are discussed below. 4.3. Mandatory registration

If a person is resident in the UAE or any other GCC state that has implemented VAT in accordance with the Common VAT Agreement of the States of the Gulf Cooperation Council, the person is required to register for VAT if:

☐ the total value of their taxable supplies and imports made within the UAE

exceeds the Mandatory Registration Threshold of AED 375,000 over the previous 12-month period; or

☐ the person anticipates that the total value of their taxable supplies or imports

will exceed AED 375,000 in the next 30 days. This means that businesses must monitor the value of their supplies and imports on

an ongoing basis to understand whether they are required to register for VAT.

If the person is not a resident in any GCC country that has implemented VAT, they

may be required to register for VAT if the person makes any taxable supplies or

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☐ the total value of their taxable supplies and imports made within the UAE

exceeds the Mandatory Registration Threshold of AED 375,000 over the previous 12-month period; or

☐ the person anticipates that the total value of their taxable supplies or imports

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This means that businesses must monitor the value of their supplies and imports on an ongoing basis to understand whether they are required to register for VAT.

If the person is not a resident in any GCC country that has implemented VAT, they may be required to register for VAT if the person makes any taxable supplies or

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imports in the UAE, unless there is another person in the UAE who is responsible for accounting for VAT on such activities.

The main categories of supplies and imports that need to be taken into account for the purposes of VAT registration thresholds are:

1. Supplies of goods or services made in the UAE in the course of business.
2. Any goods or services that the person has imported into the UAE that would

have been subject to VAT had they been supplied in the UAE. The person should not include the value of any supplies which are exempt from VAT

in this calculation. The person should also not include the value of any one-off supply of a capital asset

when calculating the total value of taxable supplies for VAT registration purposes. Example 2

On 15 January, ABC LLC, a business resident in the UAE, made AED 275,000 of taxable supplies and AED 135,000 of exempt supplies in the previous 12-month period. Since the total value of their taxable supplies is less than the Mandatory Registration Threshold, they would not be obliged to become VAT registered. On 20 January ABC LLC sold additional AED 200,000 of taxable supplies. As

the combined value of their taxable supplies in the previous 12-month period exceeds the Mandatory Registration Threshold, ABC LLC is required to register for VAT. ABC LLC exceeds the Mandatory Registration Threshold of AED 375,000 and they would be required to notify the FTA of their requirement to register for VAT.

Example 3

On 1 March, XYZ LLC, a business resident in the UAE, is not required to register for VAT since the value of their supplies and imports over the previous 12-month period does not exceed the registration threshold. On 1 March, they enter into a contract to provide AED 5,000,000 of taxable supplies on 15 March. As XYZ LLC expects to receive supplies in excess of the Mandatory

Registration Threshold within the next 30 days, they have an obligation to notify the FTA of their requirement to register for VAT. 12

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As XYZ LLC expects to receive supplies in excess of the Mandatory Registration Threshold within the next 30 days, they have an obligation to notify the FTA of their requirement to register for VAT.

As mentioned above, the registration requirements differ depending on whether or not the person is resident in the GCC Implementing States.

A person may be resident in a country if:

1. the business is legally established in the country;
2. the business' significant management decisions are taken, and central

management functions conducted in the country; or

3. the business has a fixed place of business in the country through which it regularly or permanently conducts business and where sufficient level of human and technology resource exist to enable the supply or receipt of goods and services (e.g. a branch).

If a person has made taxable supplies with a value exceeding the Mandatory Registration Threshold over the previous 12 months, the person must notify the FTA within 30 days of exceeding the threshold. The VAT registration will take effect from the start of the month following the month in which the person is required to register.

If a person anticipates making taxable supplies with a value exceeding the Mandatory Registration Threshold in the next 30 days, the person must notify the FTA that they are required to be registered within 30 days starting on the date that the expectation arises. The VAT registration will take effect from the day on which the person had reasonable grounds for believing that they would exceed the Mandatory Registration Threshold.

Finally, if the person is not a resident of the GCC Implementing States and they are required to register for VAT, the registration will be effective from the date on which the person started making supplies in the UAE.

In all of the above situations, the FTA may agree that the registration is effective from an earlier date.

Example 4

On 1 June, a person exceeds the Mandatory Registration Threshold for the prior 12 month period. The person must inform the FTA that they are required to be registered by 30 June. The VAT registration will take effect from 1 July.

Example 5

A person enters into an agreement on 15 August to supply taxable goods worth AED 400,000 to a customer on 1 September. The person must notify the FTA that they are required to be registered by 13 September. The VAT registration will take effect from 15 August.

ter for VAT, the registration will be effective from the date on which the person started making supplies in the UAE.

In all of the above situations, the FTA may agree that the registration is effective from an earlier date.

Example 4

On 1 June, a person exceeds the Mandatory Registration Threshold for the prior 12 month period. The person must inform the FTA that they are required to be registered by 30 June. The VAT registration will take effect from 1 July.

Example 5

A person enters into an agreement on 15 August to supply taxable goods worth AED 400,000 to a customer on 1 September. The person must notify the FTA that they are required to be registered by 13 September. The VAT registration will take effect from 15 August.

If a person exceeds, or anticipates exceeding, the Mandatory Registration Threshold, they may request to be excluded from the requirement to register if their taxable supplies are exclusively zero-rated. However, the FTA is not obliged to accept such requests and acceptance is at the FTA's discretion.

If a request for exception from registration is accepted, then the person must inform the FTA if they start making any supplies which are subject to VAT at the standard rate. A failure to do so could result in the FTA raising a tax assessment and imposing penalties.

Voluntary registration is an option available to businesses which do not have a turnover in excess of the Mandatory Registration Threshold but would still like to be registered for VAT. There are a number of reasons why a business may choose to voluntarily register for VAT, for example:

- ☐ to be able to recover VAT on their expenses;
- ☐ to ensure that any incurred VAT does not become embedded in their pricing,

therefore forcing the business to increase prices because they cannot recover the VAT incurred; and

- ☐ to obtain the TRN to obtain cash flow advantages when purchasing goods from

outside the UAE (by being able to use the reverse charge).

A person can voluntarily register for VAT if:

- ☐ at the end of any month, the total value of the person's taxable supplies and imports, or their expenses which were subject to VAT, in the previous 12 months exceeds the Voluntary Registration Threshold of AED 187,500; or
- ☐ the total value of the person's taxable supplies and imports, or their expenses

which are subject to VAT, in the next 30 days is expected to exceed the Voluntary Registration Threshold of AED 187,500.

A voluntary registration is effective from the first day of the month following the month in which the application is made, or from such earlier date as may be requested by the person and agreed by the FTA.

outside the UAE (by being able to use the reverse charge).

A person can voluntarily register for VAT if:

- ☐ at the end of any month, the total value of the person's taxable supplies and imports, or their expenses which were subject to VAT, in the previous 12 months exceeds the Voluntary Registration Threshold of AED 187,500; or
- ☐ the total value of the person's taxable supplies and imports, or their expenses

which are subject to VAT, in the next 30 days is expected to exceed the Voluntary Registration Threshold of AED 187,500.

A voluntary registration is effective from the first day of the month following the month in which the application is made, or from such earlier date as may be requested by the person and agreed by the FTA.

XYZ LLC is setting up in business as a sports shoe retailer. They have not yet begun trading but are in the process of fitting out the retail premises and purchasing stock prior to the opening of their first store. They begin incurring costs on 1 February and intend to begin trading on 1 April.

They expect to incur VAT-bearing costs of AED 200,000 prior to starting business on 1 April and therefore may apply to be voluntarily registered. As XYZ LLC's expected taxable expenditure in the following 30 days will exceed the Voluntary Registration Threshold, they may apply to be registered for VAT.

Two or more persons carrying on a business are able to apply for a single tax group registration, and therefore be treated as a single taxable person by the FTA. In order to be a tax group:

- ☐ each member of the Group must be a legal person (that is, not a natural person);
- ☐ each member must have a place of establishment or a fixed establishment in the UAE;
- ☐ the members must be related parties; and
- ☐ one or more persons conducting business in a partnership must control the

As seen from the above conditions, each member must be related to the other to a sufficient extent. In this context, "related" is taken to mean they share economic, financial and organisational ties (either in law, shareholding or voting rights). One person must be able to control the members. For further information regarding tax group eligibility criteria, please refer to the Tax Groups VAT Guide (VATG101). The effect of a tax group registration is that the members of the tax group are treated as a single taxable person for VAT purposes. This means that:

- ☐ supplies made between members of the tax group will be disregarded for VAT purposes and therefore no VAT is chargeable on intra-group transactions;
- ☐ only one VAT Tax Registration Number is issued for use by the group;
- ☐ the tax group submits only one tax return which summarises all supplies and purchases made by group members over the tax period concerned; and
- ☐ one member of the tax group will be appointed as its 'representative member'.

All of the VAT obligations of the tax group, and all supplies made and received by it, are carried out in the name of the representative member.

Please note that the members of a tax group are jointly and severally liable for any and all VAT debts and other such obligations of the group for the period during which

they were members. That means that even when a business has left a tax group, they remain liable for VAT and penalties for the period of membership.

The VAT registration form and tax group registration form are available via the online portal on the FTA website. This can be completed by the taxable person or their appointed tax agent.

4.7.

Failure to notify of the requirement to register

If a taxable person fails to notify the FTA of a requirement to register for VAT within the specified timeframe, the FTA may register the person from the date they were required to be registered. The taxable person will remain liable for any VAT due to be accounted for on taxable supplies made since the effective date of the registration, and will be subject to applicable penalties.

A taxable person must notify the FTA of the requirement to deregister within 20 business days from the end of the month in which any of the following occurs:

- ☐ the taxable person ceases making taxable supplies; or
- ☐ the value of the taxable person's taxable supplies in the preceding 2 calendar

months is less than the Voluntary Registration Threshold.

The FTA will deregister the taxable person if they are satisfied that:

- ☐ the taxable person no longer makes taxable supplies and does not intend to

make any taxable supplies in the next 12 months; or

- ☐ the value of the taxable person's taxable supplies or taxable expenses over the previous 12 month period is less than the Voluntary Registration Threshold and the taxable person does not anticipate making taxable supplies or incur taxable expenses in excess of the Voluntary Registration Threshold in the next 30 days.

The taxable person will be deregistered with effect from the last day of the tax period during which they met the conditions for deregistration, or from any other date as may be determined by the FTA. In order to be deregistered the person must be up to date with their tax returns and associated payments.

Where a taxable person is not required to deregister, the person may apply for a voluntary deregistration if the total value of their taxable supplies in the previous 12 months was less than the Mandatory Registration Threshold. However, if the person has voluntarily registered for VAT, voluntary deregistration will not be possible until 12 months have elapsed since the date of registration.

Requests for deregistration should be made via the online portal available on the FTA website.

[recovered from the vector store – VAT_Guide_Taxable_Person_General.pdf p.18]

4.9.

Failure to notify of the requirement to deregister

A person may be subject to an administrative penalty if they fail to deregister within the timeframes specified above.

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Where a taxable person is not required to deregister, the person may apply for a voluntary deregistration if the total value of their taxable supplies in the previous 12 months was less than the Mandatory Registration Threshold. However, if the person has voluntarily registered for VAT, voluntary deregistration will not be possible until 12 months have elapsed since the date of registration.

Requests for deregistration should be made via the online portal available on the FTA website.

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4.9.

Failure to notify of the requirement to deregister

A person may be subject to an administrative penalty if they fail to deregister within the timeframes specified above.

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5. Taxable supplies

5.1. Chapter summary

Most business transactions involve supplies of goods or services. Where a taxable person makes a “taxable supply” of goods and/or services, it will typically be required to account for VAT to the FTA (if the supply is subject to the standard rate of VAT). This chapter will consider a number of issues related to taxable supplies, in particular the following:

- ❑ what types of supplies are taxable supplies; ❑ the cases where a taxable supply is deemed to take place; and
 - ❑ the distinction between a single composite supply and multiple supplies.
- ### 5.2. What is a taxable supply?

A taxable supply is defined in the VAT legislation as a “supply of goods or services for a consideration by a person conducting business in the UAE, and does not include an exempt supply”. As a consequence, for a supply to be a taxable supply, the following conditions would generally need to be met:

- ❑ there needs to be supply of goods or services; ❑ the supply has to be for consideration; and
- ❑ the supply has to be made by the person who is conducting business in the

UAE. Taxable supplies may either be subject to the standard rate or zero rate of VAT.

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supply cannot be a taxable supply if it is an exempt supply. Where a supply is neither a taxable supply nor an exempt supply, it will be outside the scope of UAE VAT.

5.2.1. A supply of “goods and services”

As a first step, it is necessary to establish whether a person is supplying goods or services. This determination is important because some VAT rules apply differently to goods and services – for example, the date of supply and the place of supply rules. Broadly, a supply will be of goods if there is a transfer of the ownership of any property or assets, or the transfer or granting of the right to use the property or assets as the owner. Some supplies are expressly treated in the legislation as a supply of goods – for example, a supply of water, energy or real estate will be treated as a supply of goods. A supply of services is the supply of anything other than a supply of goods. 18

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Broadly, a supply will be of goods if there is a transfer of the ownership of any property or assets, or the transfer or granting of the right to use the property or assets as the owner. Some supplies are expressly treated in the legislation as a supply of goods – for example, a supply of water, energy or real estate will be treated as a supply of goods.

A supply of services is the supply of anything other than a supply of goods.

5.2.2. A supply has to be for “consideration”

For a taxable supply to exist, the supply must be made in return for consideration. “Consideration” is a defined term in the VAT legislation and includes anything that is received or expected to be received for the supply of goods or services, whether in money or other forms of payment.

As a consequence, the supplier of any goods and services has to carefully consider what it receives in return for any supply made by it. In doing so, the supplier should not only consider any monetary benefit being received, but also any goods or services that that it may be receiving in exchange.

5.2.3. A supply has to be by a person conducting business in the UAE

The next requirement for a taxable supply is that the supply has to be made by the person who is conducting business in the UAE.

It is important to understand the difference between business and non-business activities. The definition of “business” is very broad and includes any regular or ongoing activity conducted independently by a person. As such, a person may be conducting business irrespective of the industry or location of the activities, as long as the activity has a degree of independence and recurrence or continuity.

Due to the requirement that a business must be an independent activity, activities of employees will not be treated as being in the course of business. As such, employees will not charge VAT in respect of their employment. In contrast, activities of independent contractors would be in the course of business and therefore can give rise to the requirement to charge VAT.

The second part of the test is that the business has to be conducted in the UAE. For VAT purposes, this requirement will be met if the place of supply is in the UAE. Please refer to Chapter 7 regarding the place of supply rules.

Typically, VAT is charged on a taxable supply. As discussed above, for a taxable supply to exist, a number of conditions have to be met.

Sometimes, an activity may take place which does not satisfy the requirements of a taxable supply. For example, a person may do something with the goods which does not involve making them available to another party, or goods or services may be provided to another person without any consideration.

To ensure that VAT rules are not circumvented by conducting activities in a manner which would not give rise to a taxable supply, the VAT legislation deems a supply to take place in certain situations. These are known as “deemed supplies”.

er 7 regarding the place of supply rules.

5.3.

Deemed supplies

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To ensure that VAT rules are not circumvented by conducting activities in a manner which would not give rise to a taxable supply, the VAT legislation deems a supply to take place in certain situations. These are known as “deemed supplies”.

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Where a deemed supply takes place, a taxable person may be required to account for VAT as though they have made a taxable supply of goods or services.

There are a number of situations that give rise to a deemed supply:

1. Where a taxable person supplies goods or services which formed part of their

assets for no consideration.

2. Where a taxable person transfers goods that form part of their business assets

from the UAE to another GCC Implementing State, or from the taxable person's business in another GCC Implementing State to the UAE, unless:

☐ the transfer is treated as a temporary transfer in accordance with the

Customs legislation; or

☐ the transfer is made as part of another taxable supply of these goods.

3. Where a taxable person deducts input tax in respect of goods or services but

then uses them for non-business purposes.

4. Where a person deregistered from VAT, there is a deemed supply of goods and

services that the person owns at the date of deregistration. The above rules mean, for example, that gifts or the private use of business assets may give rise to a liability to account for VAT. It should be noted that there are a number of exceptions that prevent the deemed

supply rules from being triggered. For example, there will be no deemed supply in respect of any goods or services if no input tax was ever recovered in respect of those goods and services, or where the supply would be an exempt supply (e.g. a supply of a residential building). Furthermore, no deemed supply will exist where the value of the supply of goods (e.g. gifts) for each recipient does not exceed AED 500 within a 12-month period, or where the total of output tax which would be payable by a person on all deemed supplies made by them is less than AED 2,000 for a 12-month period. Example 7 A furniture distributor purchases a dining table with the intention of selling it on to a customer. The distributor is charged VAT on the purchase of the dining table, which they recover as input tax.

At a later date, the furniture distributor decides to give the dining table away to a staff member for free in recognition of good service from the member of staff. This is a deemed supply and the distributor is required to account for output tax on the deemed value of the supply and pay the output tax over to the FTA. 20

recipient does not exceed AED 500 within a 12-month period, or where the total of output tax which would be payable by a person on all deemed supplies made by them is less than AED 2,000 for a 12-month period.

Example 7

A furniture distributor purchases a dining table with the intention of selling it on to a customer. The distributor is charged VAT on the purchase of the dining table, which they recover as input tax.

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5.4.

Multiple supplies versus a simple composite supply

In some situations, a supplier may make a supply of a number of goods and services as part of the same transaction.

Where there is such a supply of different goods and/or services, the supplier has to determine whether they are making a single composite supply of those goods and/or services, or multiple supplies of goods and/or services.

Where a person makes multiple supplies, the person must determine the correct VAT treatment of each of the supplies that it makes.

This means that potentially different supplies made as part of the same transaction can be subject to different VAT treatments. In such circumstances, where a single consideration was paid for multiple supplies that are subject to different VAT rates, the supplier must determine the value of each supply and apply the correct VAT treatment to that value.

Example 8

A tourist visitor from the UK is booking a hotel room in Dubai using the hotel's website for AED 1,000. While booking the room, the person added an optional extra of being picked up by the hotel from the airport. This optional airport pick-up costs an additional AED 150.

The hotel accommodation and the transportation service are two different supplies for VAT purposes. These services are clearly independent of each other and both are subject to separate charges.

As a consequence, the hotel charges VAT on the hotel room at 5% and treats the airport pick-up service as an exempt local transportation service.

A single composite supply is a single indivisible supply of a mixture of goods and/or services. By being treated as a single supply, all of the goods and/or services which form part of the supply will be subject to the same VAT treatment. A single composite supply may exist, for example, where there is a principal component and incidental components in a supply for which a single price is payable.

Example 9

An airline provides free access to a lounge for all business class passengers on international flights.

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Example 9

An airline provides free access to a lounge for all business class passengers on international flights.

Since the lounge access is incidental to the provision of the supply of the international flight, both components will be treated as a single composite supply subject to VAT at 0%.

If a person charges a service charge to their customers, it is further consideration for the principal supply (e.g. catering services) and follows the same VAT liability as that supply. If the customer, however, freely gives a tip over and above the total charge, no VAT is due on the tip and it is outside the scope of VAT.

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n a supply for which a single price is payable.

Example 9

An airline provides free access to a lounge for all business class passengers on international flights.

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Since the lounge access is incidental to the provision of the supply of the international flight, both components will be treated as a single composite supply subject to VAT at 0%.

5.5.

Service charges and tips

If a person charges a service charge to their customers, it is further consideration for the principal supply (e.g. catering services) and follows the same VAT liability as that supply. If the customer, however, freely gives a tip over and above the total charge, no VAT is due on the tip and it is outside the scope of VAT.

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6. Zero-rated and exempt supplies

6.1. Chapter summary

The purpose of this chapter is to give an overview of the supplies which will be subject to VAT at the zero rate and supplies which will be exempt from VAT. More detailed Guides will be provided separately on some of the areas below.

6.2. Zero-rated supplies

Zero-rated supplies are taxable supplies of goods or services which are subject to VAT at 0%. The following broad categories of supplies are zero-rated:

☐ A direct or indirect export of goods or services to outside the GCC Implementing

States. ☐ International transport of passengers and goods which starts or ends in the

UAE or passes through the UAE's territory, including services related to such transport. ☐ Goods and services consumed or used during the international transportation

of goods or passengers. ☐ Air, sea and land means of transport intended for the transportation of

passengers or goods, and goods and services supplied for the purpose of the operation, repair, maintenance or conversion of these means of transport. ☐ Aircraft or vessels designated for rescue and assistance by air or sea. ☐ Certain investment precious metals.

☐ The first supply of a newly constructed or converted residential building within

3 years of the completion of the construction or conversion. ☐ The first supply of a building specifically designed to be used by charities. ☐ Crude oil and natural gas. ☐ Educational services and related goods and services for nurseries, preschool,

and elementary education; and higher educational institutions owned or funded by Federal or local Government. ☐ Preventive and basic healthcare services and related goods and services. As mentioned above, although VAT charged on a zero-rated supply is nil, the supply is still treated as a taxable supply in all other respects – including the right of the person making the supply to recover the VAT on expenses incurred in making the zero-rated supply.

6.3. Exempt supplies

The following supplies are exempt from VAT:

⌚ Financial services which are not conducted for an explicit fee, discount,

commission, rebate or similar type of consideration, including life insurance and reinsurance of life insurance. ⌚ Residential buildings, other than the residential buildings which are specifically

zero-rated. 23

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or funded

by Federal or local Government.

☐ Preventive and basic healthcare services and related goods and services.

As mentioned above, although VAT charged on a zero-rated supply is nil, the supply is still treated as a taxable supply in all other respects – including the right of the person making the supply to recover the VAT on expenses incurred in making the zero-rated supply.

The following supplies are exempt from VAT:

☐ Financial services which are not conducted for an explicit fee, discount,

commission, rebate or similar type of consideration, including life insurance and reinsurance of life insurance.

☐ Residential buildings, other than the residential buildings which are specifically

☐ Bare land.

☐ Local passenger transport.

Exempt supplies are not taxable supplies for VAT purposes. Therefore, VAT is not charged on exempt supplies and the supplier is prevented from recovering any VAT on expenses incurred in making those exempt supplies.

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the supply to recover the VAT on expenses incurred in making the zero-rated supply.

6.3.

Exempt supplies

The following supplies are exempt from VAT:

☐ Financial services which are not conducted for an explicit fee, discount,

commission, rebate or similar type of consideration, including life insurance and reinsurance of life insurance.

☐ Residential buildings, other than the residential buildings which are specifically

zero-rated.

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☐ Bare land.

☐ Local passenger transport.

Exempt supplies are not taxable supplies for VAT purposes. Therefore, VAT is not charged on exempt supplies and the supplier is prevented from recovering any VAT on expenses incurred in making those exempt supplies.

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7. Place of supply

7.1. Chapter summary

A taxable supply needs to take place in the UAE in order to fall within the scope of UAE VAT. If a supply takes place outside the UAE, the supply is treated as outside the scope of UAE VAT and therefore UAE VAT will not apply. In order to assist businesses in determining where a supply takes place, the VAT

legislation provides a number of “place of supply” rules. These rules are different for goods and services, and may vary depending on a set of specific facts. Therefore, businesses need to familiarize themselves with the rules to ensure that the VAT is accounted for in the correct jurisdiction. 7.2. Goods

For goods, the basic rule is that if the goods are located in the UAE when supplied, then they are treated as supplied in the UAE. Similarly, if the goods are located outside the UAE when they are supplied, the place of supply is outside the UAE. The rules are, however, modified when the supply of goods involves transportation, or installation or assembly of the goods. The table below provides an overview of the special place of supply rules for goods.

Where: ...the supply is of installed or assembled

goods... | Then the supply takes place: ...in the place where the assembly or installation of goods takes place. Where: ...the supply involves export of goods from the UAE to a place outside the

GCC Implementing States... | Then the supply takes place: ...in the UAE. Where: ...the supply involves export of goods

from one GCC Implementing State to another GCC Implementing State to a recipient resident in that second Implementing State and the following conditions are met:

☐ the recipient is not registered for VAT or liable to be registered for

VAT in their State; and
the total value of exports by the
supplier to the recipient's
Implementing State does not
exceed the mandatory registration
threshold in the State of the
recipient... | Then the supply takes place: ...in the supplier's Implementing State. Where: ...the supply
involves export of goods
from one GCC Implementing State to | Then the supply takes place: ...in the recipient's Implementing State.

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Implementing States... | Then the supply takes place: ...in the UAE.

Where: ...the supply involves export of goods from one GCC Implementing State to another GCC Implementing State to a recipient resident in that second Implementing State and the following conditions are met:

❑ the recipient is not registered for VAT or liable to be registered for VAT in their State; and

❑ the total value of exports by the supplier to the recipient's Implementing State does not exceed the mandatory registration threshold in the State of the

recipient... | Then the supply takes place: ...in the supplier's Implementing State.

Where: ...the supply involves export of goods

from one GCC Implementing State to | Then the supply takes place: ...in the recipient's Implementing State.

Where: another GCC Implementing State to a recipient resident in that second Implementing State and the following conditions are met:

❑ the recipient is not registered for VAT or liable to be registered for VAT in their state; and

❑ the total value of exports by the supplier to the recipient's Implementing State exceeds the mandatory registration threshold in the State of the recipient...

Where: ...the supply involves export of goods from one GCC Implementing State to another GCC Implementing State to a recipient who is registered for VAT in the second Implementing State... | Then the supply takes place: ...in the recipient's Implementing State.

Where: ...the supply is of water or energy through a distribution system by a taxable person who is resident in the UAE to a taxable person resident in another GCC Implementing States whose main activity is the distribution of water or energy... | Then the supply takes place: ...in the place where the recipient has their place of residence.

Where: ...the supply is of water or energy through a distribution system by a taxable person

to a person who is not a taxable person... | Then the supply takes place: ...in the place of actual consumption.

It should be noted that there is no special place of supply rule for goods imported into the UAE from outside the GCC Implementing States. Such imports will be subject to UAE VAT on importation. Please refer to Chapter 9 for more information regarding imports.

The default rule for the place of supply of services is that services are deemed to take place where the supplier has their place of residence.

Where the supplier has multiple potential places of residence (e.g. the business is incorporated in one country and has branches in other countries) the place of residence will be the place that is most closely connected with the supply being made. For example, where a UAE branch of a UK company provides services under the contract signed by the branch, the supply will be most closely connected with the UAE.

There are a number of exceptions to the default place of supply rule for services:

Where: ...services are supplied by a supplier who is resident in one GCC Implementing

State to a recipient who is resident in another GCC Implementing State and the recipient is registered for VAT in the

second Implementing State... | Then the supply takes place: ...in the recipient's Implementing State. Where:

...services are supplied by a supplier who is resident outside the GCC Implementing

States to a business recipient who is

resident in the UAE... | Then the supply takes place: ...in the UAE. Where: ...services are supplied that relate to

goods, such as the installation of goods... | Then the supply takes place: ...where the services are performed. Where: ...there is supply of a means of transport

to a lessee who is not a taxable person in the UAE and is not registered for VAT in

any GCC Implementing State... | Then the supply takes place: ...where the means of transport are

placed at the disposal of the lessee. Where: ...there is a supply of restaurant, hotel,

and catering services... | Then the supply takes place: ...where the services are performed.

Where: ...there is a supply of any cultural, artistic,

sporting, educational or similar services... | Then the supply takes place: ...where the services are

performed. Where: ...there is a supply of services related to

real estate... | Then the supply takes place: ...where the real estate is located. Where: ...there is a supply of transportation

services... | Then the supply takes place: ...where the transportation starts. Where: ...there is a supply of telecommunications

services or electronic services... | Then the supply takes place: ...where the use and enjoyment takes place, to the extent of such use and enjoyment.

In certain situations a non-resident supplier of goods or services may be treated as making a supply in the UAE. As a consequence, the non-resident may be required to register for VAT and charge UAE VAT.

The "reverse charge mechanism" is a simplification measure to avoid the need for non-resident suppliers who are resident outside the UAE to register for VAT when they make a supply of goods or services in the UAE to registered persons.

Where the reverse charge mechanism applies, the non-resident supplier will not charge VAT to the recipient. Instead, the recipient must self-account for the VAT in respect of the goods and services received. This means that the recipient must record the VAT on the acquisition as output tax at the applicable rate in their system and

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The “reverse charge mechanism” is a simplification measure to avoid the need for non-resident suppliers who are resident outside the UAE to register for VAT when they make a supply of goods or services in the UAE to registered persons.

Where the reverse charge mechanism applies, the non-resident supplier will not charge VAT to the recipient. Instead, the recipient must self-account for the VAT in respect of the goods and services received. This means that the recipient must record the VAT on the acquisition as output tax at the applicable rate in their system and

declare it in their VAT return. It should be noted that this “self-accounted” VAT may be able to be recovered by the recipient as input tax in accordance with the normal input tax recovery rules (see Chapter 10).

The reverse charge mechanism applies where:

- ☐ the place of supply is in the UAE;
- ☐ the supply would be subject to VAT in the UAE;
- ☐ the supplier's place of residence is outside the UAE;
- ☐ the recipient's place of residence is in the UAE; and
- ☐ the recipient is VAT registered in the UAE.

In addition to the conditions set out above, the reverse charge mechanism also applies where a registered person imports goods from outside the UAE. Please see Chapter 9 on imports for more information.

The purpose of the reverse charge mechanism is to reduce compliance and the administrative burden of collecting VAT from non-resident suppliers. Furthermore, it puts the recipient in the same position as they would have been if they acquired the goods or services from a domestic supplier, thereby ensuring that domestic UAE suppliers are not disadvantaged by VAT not being collected from purchases from abroad.

XYZ LLC is a VAT registered business in the UAE. They purchase consultancy services from a law firm located in the UK for AED 30,000.

The UK supplier will not charge UK VAT to XYZ LLC but will issue an invoice for AED 30,000.

Since the place of supply is in the UAE and the consultancy services would be subject to UAE VAT at 5%, XYZ LLC must calculate the VAT due on the acquired services ($\text{AED } 30,000 \times 5\% = \text{AED } 1,500$). This VAT must be declared by XYZ LLC as output tax in their tax return, as if they had made the supply themselves.

XYZ LLC can also consider whether or not they can recover this VAT incurred as input tax in accordance with the normal VAT recovery rules.

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by VAT not being collected from purchases from abroad.

Example 10

XYZ LLC is a VAT registered business in the UAE. They purchase consultancy services from a law firm located in the UK for AED 30,000.

The UK supplier will not charge UK VAT to XYZ LLC but will issue an invoice for AED 30,000.

Since the place of supply is in the UAE and the consultancy services would be subject to UAE VAT at 5%, XYZ LLC must calculate the VAT due on the acquired services (AED 30,000 x 5% = AED 1,500). This VAT must be declared by XYZ LLC as output tax in their tax return, as if they had made the supply themselves.

XYZ LLC can also consider whether or not they can recover this VAT incurred as input tax in accordance with the normal VAT recovery rules.

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8. Date of supply

The date of supply (also known as the 'time of supply' or a 'tax point') rules dictate the time when the liability to charge and account for VAT arises in respect of any supply of goods and services. The rules differ between a supply of goods and a supply of services. The date of supply is the earlier of the date of:

If a person: supplies

If a person: Goods...

If a person: Services...

than 12 months after the date on which the goods were transferred or placed at the client's disposal if the supply was on a returnable basis; ☐ receipt of payment; or ☐ issue of a tax invoice. Services...

☐ completion of the service; ☐ receipt of payment; or

☐ issue of a tax invoice. Example 11

ABC Co. sells goods to BCD Co. and the following events occur:

☐ ABC Co. raises a tax invoice for the sale of the goods on 14 March; ☐ ABC Co. delivers the goods to BCD Co's premises on April; ☐ BCD Co. pays for the goods on 2 April. The date of supply for the sale of the goods is 14 March as this is the earlier of the events which trigger the time of supply. ABC Co.

must account for the VAT

on the supply in the tax return that relates to the tax period that covers the

month of March. 8.1.1. Special rules

In addition to the standard date of supply rules, there are a number of rules which deal with specific situations. 29

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ice.

Services...

- ☐ completion of the service;
- ☐ receipt of payment; or
- ☐ issue of a tax invoice.

Example 11

ABC Co. sells goods to BCD Co. and the following events occur:

- ☐ ABC Co. raises a tax invoice for the sale of the goods on 14 March;
- ☐ ABC Co. delivers the goods to BCD Co's premises on April;
- ☐ BCD Co. pays for the goods on 2 April.

The date of supply for the sale of the goods is 14 March as this is the earlier of the events which trigger the time of supply. ABC Co. must account for the VAT on the supply in the tax return that relates to the tax period that covers the month of March.

In addition to the standard date of supply rules, there are a number of rules which deal with specific situations.

If a person supplies: ...goods or services under a contract that includes periodic payments or consecutive invoices... | The date of supply is:: ... the earlier of:

- ☐ issue of a tax invoice;
- ☐ the due date of payment as shown on the invoice; or
- ☐ receipt of payment.

The date of supply cannot be more than one year from the date the goods or services were provided.

If a person supplies: ...vouchers... | The date of supply is:: ...issuance or supply thereafter.

If a person supplies: ...goods where payment is made through a vending machine... | The date of supply is:: ...when the funds are collected from the machine.

If a person supplies: ...a deemed supply of goods or services... | The date of supply is:: ...the supply, disposal, change of usage or deregistration, as the case may be.

...the supply, disposal, change of usage or deregistration, as the case may be.

9. Import of goods

9.1. Chapter summary

The purpose of this chapter is to outline the specific rules that apply to goods imported into the UAE, including goods which enter designated zones and the rules which apply when such goods leave those zones. 9.2. How is import VAT accounted for?

VAT is due on the import of goods into the UAE where those goods, if otherwise supplied in the UAE, would be taxable at the standard rate. This means that no import VAT will be due in respect of goods which would ordinarily be zero-rated or exempt from VAT. The manner in which this import VAT should be paid, and the timing of payment, is dependent on the status of the importer. 9.2.1. Imports made by non-registered persons

Where the import is made by an individual or a business which is not registered for VAT in the UAE, VAT is due to be paid in respect of the import at the point of importation. As such, VAT must be paid prior to the goods being released to the importer. Import VAT is calculated on the value of the goods inclusive of any customs duty and excise tax that may also be due.

Payment of VAT will need to be made directly to the FTA, separately from any payments which are due to the Customs authorities (for example, customs duties). VAT payment will be made to the FTA using the FTA's payment portal. Once the VAT is paid, the importer will be able to proceed with the customs clearing process in respect of the goods. It should be noted that where an unregistered person imports goods using a VAT-registered agent, such as a courier company, the agent will be responsible for paying import VAT to the FTA on behalf of the unregistered person. This agent needs to account for the relevant import VAT on their own tax return, and is not able to recover the VAT accounted for as input tax. The agent will also be required to issue a statement to the unregistered importer with details of the import and the VAT paid. 9.2.2. Imports made by VAT registered persons

Where the import is made by a VAT registered person, the import VAT should be accounted for on the person's tax return using the reverse charge mechanism.

As a consequence, a VAT registered person may clear the goods through customs and be able to use the goods in the UAE even before the import VAT is accounted for to the FTA. 31

agent will be responsible for paying import VAT to the FTA on behalf of the unregistered person. This agent needs to account for the relevant import VAT on their own tax return, and is not able to recover the VAT accounted for as input tax. The agent will also be required to issue a statement to the unregistered importer with details of the import and the VAT paid.

9.2.2. Imports made by VAT registered persons

Where the import is made by a VAT registered person, the import VAT should be accounted for on the person's tax return using the reverse charge mechanism. As a consequence, a VAT registered person may clear the goods through customs and be able to use the goods in the UAE even before the import VAT is accounted for to the FTA.

In order to benefit from the ability to defer the payment of VAT in this way, the importer must:

☐ be able to demonstrate that they are registered for VAT at the time of import of

the goods;

☐ provide the FTA with their own Customs registration number issued by the

competent Customs authority for that import; and

☐

co-operate with the FTA and comply with any other rules which may be imposed by the FTA in respect of the import.

Where the payment of the import VAT is accounted for on the tax return, the VAT registered importer must declare the import VAT as output tax in the tax return covering the period of importation.

Where permitted under the normal VAT recovery rules, the importer may also recover the import VAT incurred as input tax in their tax return. Where the business is entitled to recover the input tax in full, this import VAT will not represent a cost to the business.

Certain categories of goods are relieved from import VAT. In some cases, these categories mirror reliefs which are available in respect of customs duties, therefore allowing certain goods not to be subject to both VAT and customs duties. Import VAT relief will be available in the cases outlined below.

Where goods are under customs duty suspension arrangements in accordance with the GCC Common Customs Law, the imposition of import VAT will also be suspended in the following cases:

1. goods enter the UAE under temporary admission;
 2. goods are placed in a customs warehouse;
 3. goods are in transit; and
 4. goods are intended to be re-exported by the same person who imported them.
- The FTA may require the importer to provide a financial guarantee or a cash deposit equal to the value of the VAT which would be due on import before allowing the goods not to be treated as imported in the UAE in respect of above categories.

In addition to the above, goods will not be treated as imported into the UAE if they are imported from outside the UAE to a UAE designated zone.

It should be noted that where any of above rules apply, the movement of goods into the UAE is not treated as an import, and therefore not subject to import VAT. If any conditions for the VAT suspension are subsequently broken, the goods may be treated as having been imported into the UAE and the VAT will become due on the import on the date the goods were originally imported.

The second type of goods which are relieved from import VAT are goods which are exempt from customs duties in accordance with the GCC Common Customs Law. These are:

1. goods imported by the military forces and internal security forces;
2. personal effects and gifts accompanied by travellers;
3. used personal effects and household items transported by UAE nationals living abroad on return or by expats moving to live in the UAE for the first time; and
4. returned goods.

Goods falling under any of these categories are treated as having been imported into the UAE but are exempt from the imposition of VAT.

Certain free zone areas in the UAE will be selected as “designated zones”. Such areas are treated as outside the UAE for the purposes of supplies of certain goods.

In summary, the following rules apply to supplies related to designated zones.

Type of supply: A supply of goods within one designated zone. | VAT treatment: The supply is treated as made outside the UAE, unless one of the exceptions in this table apply.

Type of supply: A supply of goods within a designated zone to be used by the recipient or by another third person, unless the goods are to be incorporated into, attached to or otherwise form part of or are used in the production or sale of another good located in the same designated zone which itself is not consumed. | VAT treatment: The supply is treated as made in the UAE.

Type of supply: A transfer of goods between two different designated zones. | VAT treatment: Treated as a supply outside the UAE if all of the following conditions are met:

- ☐ the goods, or any part of the goods, are not released into free circulation during the transfer;
- ☐ the goods, or any part of the goods, are not used or altered in any way during the transfer; and
- ☐ the transfer is undertaken in accordance with the rules for customs suspension according to the GCC Common Customs Law.

VAT treatment: The FTA may request a financial guarantee in respect of any such movement of goods.

Type of supply: A supply of water or any form of energy in a designated zone. | VAT treatment: The supply is treated as made in the UAE.

Type of supply: A supply of any service in a designated zone. | VAT treatment: The supply is treated as made in the UAE.

Type of supply: Movement of goods from a designated zone to another part of the UAE which is not a designated zone. | VAT treatment: The movement is treated as an import of goods into the UAE.

Type of supply: Movement or supply of goods from a part of the UAE which is not a designated zone into a designated zone. | VAT treatment: The movement or supply is treated as a normal movement or supply within the UAE (not as an export).

The movement or supply is treated as a normal movement or supply within the UAE (not as an export).

It should be noted that a company established within a designated zone is treated like any other company established in the UAE. Therefore, for example, a supply of services by a designated zone company to a company established in the UAE outside designated zones will be treated as a supply between two UAE companies. Similarly to any other UAE company, companies established in designated zones are required to register for VAT if the value of their taxable supplies exceeds the mandatory registration threshold of AED 375,000.

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It should be noted that a company established within a designated zone is treated like any other company established in the UAE. Therefore, for example, a supply of services by a designated zone company to a company established in the UAE outside designated zones will be treated as a supply between two UAE companies. Similarly to any other UAE company, companies established in designated zones are required to register for VAT if the value of their taxable supplies exceeds the mandatory registration threshold of AED 375,000.

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10. VAT recovery

10.1. Chapter summary

In conducting their business activities, a taxable person will incur expenses which are subject to VAT. This VAT can be recovered by a taxable person, subject to certain conditions being met. This ensures that VAT will not normally be a cost to such a taxable person. Where the taxable person is not able to recover the VAT incurred in respect of goods or services, the person is, in effect, treated as the end-consumer for those goods or services. The purpose of this chapter is to set out the circumstances in which taxable persons are entitled to recover input tax and the process they must follow to do so. 10.2. What is input tax?

When a person purchases goods or services, the VAT incurred on the purchase or expense is called "input tax". In other words, VAT charged by the supplier is input tax of the recipient. 10.3. Entitlement to recover input tax

If the purchaser is a taxable person and is registered for VAT then they may be able to recover the amount of VAT incurred. Purchasers who are not taxable persons are not, generally, entitled to recover any VAT on their purchases. A taxable person is able to recover input tax incurred on the purchase of goods and services in the course of business, subject to certain conditions. The recovery of input tax will be permitted where acquired goods and services are used, or intended to be used, in making any of the following:

☐ taxable supplies; ☐ supplies that are made outside the UAE which would have been considered

taxable had they been made in the UAE; and

☐ supplies of financial services which would have been treated as exempt if made

in the UAE, but which are provided to a person who is outside the UAE and are treated as taking place outside the UAE. Where any acquisition by a taxable person relates solely to the supplies indicated

above, the person will, in principle, be able to recover the input tax incurred in full. In contrast, where an acquisition is directly linked solely to non-business or exempt supplies made by the person, the person will not be able to recover any of the input tax incurred.

It is important to note that it is not necessary to link every purchase with the onward supply in the business' accounting system – particularly, as some purchases may be consumed by the business or used in the day-to-day running of the business, rather than being supplied on. Instead, the business must be able to identify expenses which

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treated as taking place outside the UAE. Where any acquisition by a taxable person relates solely to the supplies indicated

above, the person will, in principle, be able to recover the input tax incurred in full. In contrast, where an acquisition is directly linked solely to non-business or exempt supplies made by the person, the person will not be able to recover any of the input tax incurred. It is important to note that it is not necessary to link every purchase with the onward supply in the business' accounting system – particularly, as some purchases may be consumed by the business or used in the day-to-day running of the business, rather than being supplied on. Instead, the business must be able to identify expenses which

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are directly attributable to activities of the business that give rise to VAT recovery and expenses that are attributable to activities which do not allow for VAT recovery. Example 12

A law firm only provides services which are subject to VAT. The firm purchases new office desks for their employees.

Since the desks will be used by the law firm for the purpose of conducting their taxable activities, the law firm will be able to recover the VAT incurred on the purchase of the desks. In certain circumstances, goods or services will be used partly in the course of making

supplies that allow for the recovery of input tax and partly for making supplies for which VAT is not recoverable. Where an expense is used for making such mixed supplies, the taxable person must determine the portion of the input tax that can be recovered. 10.4. Input tax apportionment

Input tax which is incurred in respect of goods or services which are used partly for making supplies that allow for VAT recovery and partly for making supplies for which VAT is not recoverable is known as "residual" or "overhead" input tax. This residual input tax must be apportioned between those activities. Recovery will be restricted to the proportion relating to supplies that allow for VAT recovery. In order to determine the proportion of recoverable residual input tax, a calculation must be performed to determine the extent to which purchases are used to make recoverable supplies.

The percentage resulting from the calculation is then applied to the residual input tax to determine the actual amount of the input tax that can be recovered. 10.4.1. Input tax apportionment calculation

In order to determine the value of input tax which is recoverable by the business, the taxable person should use the following default calculation:

1. Calculate the total value of input tax which is directly attributable only to supplies for which VAT may be recovered.

2. Calculate the total value of input tax which is directly attributable only to supplies for which VAT cannot be recovered.

3. Calculate the percentage to be applied to the residual input tax by dividing the total value of input tax identified under Step 1 by the sum of the input tax identified under Step 1 and Step 2. The percentage should be rounded to the nearest whole number.

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nt of the input tax that can be recovered.

10.4.1. Input tax apportionment calculation

In order to determine the value of input tax which is recoverable by the business, the taxable person should use the following default calculation:

1. Calculate the total value of input tax which is directly attributable only to supplies for which VAT may be recovered.
2. Calculate the total value of input tax which is directly attributable only to supplies for which VAT cannot be recovered.
3. Calculate the percentage to be applied to the residual input tax by dividing the total value of input tax identified under Step 1 by the sum of the input tax identified under Step 1 and Step 2. The percentage should be rounded to the nearest whole number.

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4. Multiply the total value of residual input tax by the percentage calculated under Step 3. The resulting amount is the amount of residual input tax which can be recovered by the taxable person.
5. The total input tax that will be recoverable by the person for the period is the input tax calculated in Step 1 and Step 4.

Example 13

ABC LLC is a VAT registered business which makes taxable supplies and exempt supplies. ABC LLC must perform an input tax apportionment calculation to determine how much VAT is eligible for recovery for the period covering July – September. During the period ABC LLC has incurred a total of AED 300,000 of VAT.

1. Total value of input tax directly attributable to taxable supplies: AED 75,000.
2. Total value of input tax directly attributable to exempt supplies: AED 50,000.
3. Total residual input tax: AED 175,000 (300,000 – 75,000 – 50,000).
4. Residual input tax recovery percentage: 60% (75,000 / (75,000+50,000)).
5. Recoverable residual input tax: AED 105,000.
6. Total recoverable input tax: AED 180,000 (75,000 + 105,000).
7. Total irrecoverable input tax: AED 120,000 (50,000 + 70,000).

AED 180,000 is the total input tax which may be recovered by ABC LLC for the tax period.

It should be noted that the FTA has discretion to allow taxable persons to use an alternative method of input tax apportionment from a list of methods it makes available, if the default method does not provide an outcome which is reflective of the actual use

of the acquired goods or services. Such approval will be granted from the second year following the implementation of VAT in the UAE. Where the FTA has approved the use of an alternative method, the taxable person must continue using it for at least two years from the date of approval.

10.4.2. Annual wash-up calculation

At the end of every “tax year”, a taxable person must perform a wash-up calculation to determine whether the overall recovery percentage calculated over the course of the year corresponds with the recovery percentages calculated for tax periods during that tax year.

The tax year of a taxable person is dependent on the person’s tax periods.
Specifically:

1. For a taxable person registered for VAT on a quarterly tax period basis, the tax year is identified as follows:

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☐ where the taxable person's tax period ends on 31 January and quarterly

thereafter, the tax year ends on 31 January;

☐ where the taxable person's tax period ends on last day of February and

quarterly thereafter, the tax year ends on the last day of February; and

☐

where the taxable person's tax period ends on March and quarterly

thereafter, the tax year ends on 31 March.

2. For a taxable person registered for VAT on a monthly tax period basis, the tax year

ends on the last day of the calendar year. The annual wash-up calculation requires the taxable person to:

☐ calculate the residual input tax which would have been recoverable if the

residual input tax calculations were done for the whole tax year; and

☐ compare the residual input tax calculated for the entire year with the residual

input tax actually recovered in all the tax periods throughout the tax year. If the above comparison

shows a difference, a corresponding adjustment must be

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

will result in either additional recoverable input tax or a reduction in the input tax

already recovered. 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 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 than AED 250,000, no adjustment is required to be made. 10.5. Conditions

to be met to allow recovery of input tax

A taxable person is able to recover input tax in the first tax period in which both of the following conditions are met:

☐ the taxable person has received and retained a tax invoice or other

documentation evidencing the supply or import; and

☐ the amount of VAT in question has been paid in whole or in part (in which case

the amount of recoverable input tax shall be limited to the equivalent amount). If the taxable person has

not recovered input tax in the tax period in which the

conditions have been met, the person will be able to recover this input tax in the

following tax period. 38

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

10.5. Conditions to be met to allow recovery of input tax

A taxable person is able to recover input tax in the first tax period in which both of the following conditions are met:

❑ the taxable person has received and retained a tax invoice or other

documentation evidencing the supply or import; and

❑ the amount of VAT in question has been paid in whole or in part (in which case

the amount of recoverable input tax shall be limited to the equivalent amount).

If the taxable person has not recovered input tax in the tax period in which the conditions have been met, the person will be able to recover this input tax in the following tax period.

10.5.1. The recipient must hold the required evidence of their purchase

Input tax can only be claimed by the recipient of goods or services if the recipient holds the required evidence in respect of the supply.

The required evidence takes several forms, the most common of which is a tax invoice. A tax invoice is a document which must satisfy certain conditions (see Chapter 12 for further details regarding tax invoices).

In some situations, the recipient will not be able to obtain a valid tax invoice – for example, if the supply is made by a non-resident and was subject to the reverse charge in the UAE. In these circumstances, the recipient is able to evidence the supply by obtaining and retaining the following documents:

❑ the supplier's invoice showing details of the goods and services;

❑ in the case of imported goods, a statement from the relevant Customs authority

If the taxable person has not received the tax invoice or other acceptable documentation in the tax period when the supply was made, they may deduct the input tax in the tax period in which the tax invoice or the alternative documents are received.

10.5.2. The person must have paid or intend to pay for the supply

The amount of input tax that can be reclaimed by a taxable person is the amount of input tax that relates to the portion of consideration for the supply that has already been paid. However, the condition will also be met if the person intends to make the payment within six months of the due date of payment.

For example, if the supplier has only issued a partial invoice for the supply and the recipient made the payment, the recipient can only recover VAT for the payment made. The recipient cannot recover VAT in respect of the portion of consideration which has not yet been invoiced or paid.

Input tax on certain expenses incurred by a person is specifically blocked from being recoverable. Such expenses are:

❑ entertainment expenses;

❑ motor vehicles used for personal purposes; and

❑ employee-related expenses.

A business is generally prohibited from recovering input tax on expenses incurred in respect of the provision of entertainment to anyone not employed by the business, including customers, potential customers, officials, shareholders, owners, and investors in the business.

de the payment, the recipient can only recover VAT for the payment made. The recipient cannot recover VAT in respect of the portion of consideration which has not yet been invoiced or paid. 10.6. Blocked input tax

Input tax on certain expenses incurred by a person is specifically blocked from being recoverable. Such expenses are:

- ❑ entertainment expenses; ❑ motor vehicles used for personal purposes; and
- ❑ employee-related expenses. 10.6.1. Entertainment expenses

A business is generally prohibited from recovering input tax on expenses incurred in respect of the provision of entertainment to anyone not employed by the business, including customers, potential customers, officials, shareholders, owners, and investors in the business. 39

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The type of entertainment expenses which are covered by the restriction include hospitality (e.g. accommodation, food and drinks) which are not provided in the normal course of a meeting, access to shows or events, or trips provided for the purposes of pleasure or entertainment.

This means that where a business incurs any such expenses, the business will not be able to recover VAT incurred on the expenses. 10.6.2. Motor vehicles

Typically, a taxable person is able to recover VAT incurred on the purchase, lease or rental of a motor vehicle which is used for their business activities and which give right to input tax recovery. However, where the motor vehicle is available for the personal use of any person, the taxable person will lose the right to recover the VAT incurred. For the purpose of this rule, the “motor vehicle” is any road vehicle which is designed or adapted for the conveyance of no more than 10 people, including the driver. “Motor vehicle” does not include a truck, forklift, hoist or other similar vehicles. This ensures that VAT on essentially commercial vehicles is not blocked due to incidental private use. A motor vehicle will not be treated as being available for private use if it is within any of the following categories:

- ❑ a taxi licensed by a competent authority; ❑ a motor vehicle registered as, and used as an emergency vehicle, including by

the police, fire brigade, paramedics, or similar emergency services; and

- ❑ a vehicle which is used in a vehicle rental business where it is rented to a

customer. 10.6.3. Employee-related expenses

The third category of expenses which do not give rise to VAT recovery are certain expenses incurred by a business for the purposes of their employees. VAT on employee-related expenses will not be recoverable by the business where goods or services are purchased to be used by employees for no charge to them and for their personal benefit. There are, however, certain exceptions from the above rule. Thus, the rule will not apply in the following situations:

1. Where the employer has a legal obligation to provide those goods or services

to the employees under any applicable UAE labour law.

2. Where it is a contractual obligation or documented policy of the employer to

provide those goods or services to employees to enable them to perform their role and where it can be proven to be normal business practice to do so in the course of employment.

for the purposes of their employees.

VAT on employee-related expenses will not be recoverable by the business where goods or services are purchased to be used by employees for no charge to them and for their personal benefit.

There are, however, certain exceptions from the above rule. Thus, the rule will not apply in the following situations:

1. Where the employer has a legal obligation to provide those goods or services

to the employees under any applicable UAE labour law.

2. Where it is a contractual obligation or documented policy of the employer to

provide those goods or services to employees to enable them to perform their role and where it can be proven to be normal business practice to do so in the course of employment.

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3. Where the provision of goods or services is a deemed supply. As a consequence, determination regarding whether input tax can be recovered in

respect of an employee-related expense has to be made on a case by case basis. For example, where a business incurs compulsory medical insurance or visa costs to enable their employees to perform their duties, such costs will not be blocked under the rule. In contrast, where an employer buys a gift for the employee in appreciation for their good service, the employer would be prevented from recovering VAT on the purchase of the gift, unless it is also treated as a deemed supply. It should be noted that even if input tax on the employee-related expense is not

blocked under the rule described in this section, it does not follow that the business can definitely recover the VAT incurred. Input tax recovery can only be made if the normal conditions for input tax recovery are met – for example, the expense must be related to business activities that allow for the recovery of VAT. 10.7.

Special refund schemes

In keeping with other global VAT regimes, the UAE will allow certain parties who have incurred VAT in the UAE to recover this VAT, even if they are not taxable persons in the UAE. Special refunds will be available to the following categories of persons:

☐ UAE citizens in respect of the construction of residences; ☐ business visitors; ☐ tourist visitors; ☐ foreign governments, diplomatic bodies and missions, and some other

international organizations; and

☐ any other persons or classes of persons listed in a Cabinet Decision issued at

the suggestion of the Minister. Since this guide concerns taxable persons, it does not cover these special refund

schemes in detail. Detailed information regarding these schemes will be available in separate guides. 41

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Special refunds will be available to the following categories of persons:

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- ☐ business visitors;
- ☐ tourist visitors;
- ☐ foreign governments, diplomatic bodies and missions, and some other

international organizations; and

- ☐ any other persons or classes of persons listed in a Cabinet Decision issued at

the suggestion of the Minister.

Since this guide concerns taxable persons, it does not cover these special refund schemes in detail. Detailed information regarding these schemes will be available in separate guides.

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11. Returns and payments

11.1. Chapter summary

This chapter provides information necessary to allow taxable persons to meet their compliance obligations in respect of tax return filing, payments of tax and obtaining VAT refunds. The intention of the FTA is to automate these processes using information technology as much as possible. It should be noted that the VAT-specific compliance matters addressed in this chapter

are closely linked to, and work in conjunction with, the more general powers of the FTA to administer, collect and enforce tax as laid out in Federal Law No 7 of 2017 on Tax Procedures. This Law addresses more generic tax compliance issues, and amongst other things, details other penalties and administrative surcharges which can be applied for VAT compliance failures, and which are also relevant to other taxes. 11.2. Understanding tax liability

The below summarises the key terms explained in earlier chapters with respect to the operation of VAT, and how these impact a taxable person's tax liability. 11.2.1. Output tax

'Output tax' is the VAT a taxable person calculates and charges on their own supplies of goods and services once they are registered for VAT. Output tax must generally be calculated on supplies to other persons; however, in certain situations VAT might be required to be charged on supplies which were deemed to occur for VAT purposes or on expenses which are subject to a reverse charge. The obligation to account for output tax arises at the tax point for the supply, i.e. at the date of supply. Once the date of supply has taken place, the taxable person must account for the output tax in the tax return covering that tax period. 11.2.2. Input tax

From the recipient's point of view, 'input tax' is the VAT added to the price by the supplier when the recipient purchases goods or services which are subject to VAT. If the recipient is registered for VAT then they may be able to recover this input tax from the FTA, subject to the conditions set out in Chapter 10 above.

In general, a taxable person is able to recover input tax in the first tax period in which both of the following conditions are met:

- ☐ the taxable person has received and retained a tax invoice or other

documentation evidencing the amount of VAT on the supply or import; and

date of supply has taken place, the taxable person must account for the output tax in the tax return covering that tax period.

From the recipient's point of view, 'input tax' is the VAT added to the price by the supplier when the recipient purchases goods or services which are subject to VAT. If the recipient is registered for VAT then they may be able to recover this input tax from the FTA, subject to the conditions set out in Chapter 10 above.

In general, a taxable person is able to recover input tax in the first tax period in which both of the following conditions are met:

1 the taxable person has received and retained a tax invoice or other

documentation evidencing the amount of VAT on the supply or import; and

2 the amount of VAT has been paid, or is intended to be paid, in whole or in part

(in which case the amount of input tax recoverable shall be limited to the equivalent amount).

Once the ability to recover input tax has been confirmed, the person is able to include the amount in the relevant tax return as an input tax deduction.

A registered person's tax liability is simply the difference between the output tax payable for a given tax period and the input tax which is recoverable for the same tax period.

Where the output tax exceeds the input tax amount, a payment of the difference must be made to the FTA.

Where the amount of input tax exceeds the amount of output tax, a taxable person is entitled to a refund of VAT from the FTA.

For each tax period, a taxable person will be required to submit a tax return which contains details regarding the supplies made or received by the taxable person.

With respect to sales and other outputs, the taxable person will need to report:

1. supplies of goods and services made which are subject to the standard rate of
2. supplies of goods and services made which are subject to the zero rate of VAT;
3. supplies of goods and services made to the taxable person which are subject
4. tax refunds provided to tourists under the Tax Refunds for Tourists Scheme, in

case the taxable person is a retailer and provides tax refunds to tourists in the UAE under the official tourists refund scheme;

5. supplies made which are exempt from VAT; and
6. where applicable, amendments or corrections required from previous periods

With respect to purchases and other inputs, the taxable person should report:

1. purchases and expenses for which the taxable person would like to recover
2. where applicable, amendments or corrections required from previous periods

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3. supplies of goods and services made to the taxable person which are subject
4. tax refunds provided to tourists under the Tax Refunds for Tourists Scheme, in case the taxable person is a retailer and provides tax refunds to tourists in the UAE under the official tourists refund scheme;
5. supplies made which are exempt from VAT; and
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With respect to purchases and other inputs, the taxable person should report:

1. purchases and expenses for which the taxable person would like to recover
2. where applicable, amendments or corrections required from previous periods

The amounts of VAT charged by the taxable person and input tax recoverable by the person would then need to be netted off in the tax return. The resulting amount is the net VAT payable to, or to be refunded by, the FTA.

11.3.1. Due date for submitting tax returns

The due date for submitting tax returns and making a payment of payable tax to the FTA is the 28th day following the end of the tax period to which the tax return relates. It should be noted that where a payment is due to the FTA, it must be received by the FTA by the deadline.

Where the due date for the submission of the tax return and the corresponding payment falls on a weekend or a national holiday, the deadline for filing the tax return or making a payment is extended to the first working day following this.

Submitting a tax return or making a payment of tax late will result in a penalty levied by the FTA.

All tax returns should be submitted online using the FTA portal. The return can be submitted by the taxable person, or another person who has the right to do so on the taxable person's behalf (for example, a tax agent or a legal representative).

Where a taxable person has made an error (for example, calculated output tax incorrectly or recovered the incorrect amount of input tax), then the person is required to correct this error.

Where the correction is required in respect of a tax return or a tax assessment, and the total value of the error is less than AED 10,000, the taxable person may correct the error on the tax return for the tax period in which the error was discovered. In all other cases, the taxable person must disclose the error to the FTA within 20 business days of becoming aware of the error, and request the FTA to correct the error.

By making a voluntary disclosure the taxable person may be eligible for a reduction in any applicable penalty. However, where a voluntary disclosure is submitted to the FTA after the taxable person has received notice of a tax audit or while a tax audit is in progress, the voluntary disclosure will either reduce penalties to some extent or not at all.

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12. Tax invoices

12.1. Chapter summary

The purpose of this chapter is to outline the guidance surrounding the requirement to issue a tax invoice.

A tax invoice is a written paper or electronic document which records the details of a taxable supply which has been made.

The issue of a valid tax invoice is important for suppliers as it may be used to dictate the date of supply, and therefore determines the tax period in which the output tax should be accounted for. For further information on the date of supply please refer to Chapter 8. The receipt of a valid tax invoice is important for recipients of supplies as it is the primary documentary evidence used to support the recovery of VAT incurred as input tax. For further information on input tax recovery please refer to Chapter 10. 12.2. Requirement to issue a tax invoice

12.2.1. When must a tax invoice be issued?

A VAT registered person must issue a tax invoice (also known as “VAT invoice”) and deliver it to the recipient when it makes a taxable supply of goods or services. Furthermore, a VAT registered person making a deemed supply must issue a tax invoice and either deliver it to the recipient (if there is a recipient) or retain it as part of their records (if there is no recipient). There are a number of situations when a tax invoice is not required to be issued:

❑ When the supply is subject to VAT at 0% and there are or will be sufficient

records available to establish the particulars of the supply. ❑ Subject to conditions that may be imposed by the FTA, where the FTA has

determined that it would be impractical to require a tax invoice to be issued by the taxable person.

It should be noted that exempt supplies and supplies that are not subject to UAE VAT are not considered taxable supplies, and therefore do not require a tax invoice. A person making a supply to another GCC Implementing State where the place of supply is in that state must, however, issue a document which contains most requirements of the tax invoice (please refer to section 12.3 of this Chapter). 45

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☐ When the supply is subject to VAT at 0% and there are or will be sufficient

records available to establish the particulars of the supply.

☐ Subject to conditions that may be imposed by the FTA, where the FTA has

determined that it would be impractical to require a tax invoice to be issued by the taxable person.

It should be noted that exempt supplies and supplies that are not subject to UAE VAT are not considered taxable supplies, and therefore do not require a tax invoice. A person making a supply to another GCC Implementing State where the place of supply is in that state must, however, issue a document which contains most requirements of the tax invoice (please refer to section 12.3 of this Chapter).

A tax invoice must normally be issued, or arranged to be issued, by a supplier of goods or services. However, in certain situations a tax invoice may either not be required or may be issued by another person.

In certain commercial situations, it may be easier for a recipient of goods or services to identify the particulars of what has been supplied, and therefore to issue a tax invoice. For example, where scrap metal is sold to a scrapyard, the details of the supply (e.g. the quality and value of scrap metal) might not be known until the scrap is received and valued at the scrapyard. In these situations, the supplier and the recipient may agree that the recipient will issue the tax invoice instead of the supplier. Such a tax invoice would then be treated as if it had been issued by the supplier and therefore conditions for issuing a tax invoice have been met.

A buyer-created tax invoice may be issued where:

☐ the recipient is registered for VAT; and

☐ the supplier and the recipient agree in writing that the supplier will not issue a

tax invoice in respect of any supply to the recipient.

Where the conditions above are met, the recipient will be able to issue a tax invoice for a purchase. Such a tax invoice must contain all the particulars normally required in a tax invoice and must be identified by the words "buyer-created tax invoice".

Where a buyer-created tax invoice is issued, the supplier should not issue a separate tax invoice. In such cases, any document issued by the supplier purporting to be a tax invoice will not be a valid tax invoice.

Where a VAT-registered agent makes a supply of goods or services on behalf of the principal supplier of those goods or services, the agent may issue a tax invoice in relation to that supply with the particulars of the agent (such as name, address and TRN) – as if that agent had made the supply of goods or services itself. The invoice should, however, contain a reference to the principal supplier (including the supplier's name and TRN) somewhere on the invoice.

If the agent issues an invoice on behalf of the principal supplier, the principal supplier should not issue their own tax invoice.

Where the invoice is issued by the agent, the supply is still treated as being made by the principal supplier to the recipient of the supply. As a consequence, the supplier has to account for the relevant VAT and must comply with all the record-keeping requirements in respect of the supply.

A tax invoice must be issued within 14 calendar days of the date of supply. For further information on the date of supply please refer to Chapter 8.

The only exception to this rule is a summary tax invoice that may be issued by a taxable person. Where a taxable person makes more than one supply of goods or services to the same recipient during a month, the taxable person may issue a single tax invoice for these supplies in the same calendar month as the supplies took place. In these circumstances, the summary tax invoice will be treated as issued on time, even if it is issued more than 14 day from the date of supply of any supply covered by the tax invoice.

12.3.1. Full and simplified tax invoices

In order for a tax invoice to be valid it must contain the following particulars:

- ☐ the words "Tax Invoice" clearly displayed on the invoice;
- ☐ the name, address, and TRN of the supplier;
- ☐ where the recipient of the supply is registered for VAT, the name, address, and

TRN of the recipient;

- ☐ a sequential tax invoice number or a unique invoice number;
- ☐ the date of issuing the tax invoice;
- ☐ the date of supply (where different from date of issue of the tax invoice);
- ☐ a description of the goods or services supplied;
- ☐ for each good or service, the unit price, the quantity or volume supplied, the rate of VAT and the amount payable expressed in AED;
- ☐ the amount of any discount offered;
- ☐ the gross amount payable expressed in AED;
- ☐ the tax amount payable expressed in AED together with the rate of exchange

applied; and

- ☐ where the invoice relates to a supply under which the recipient is required to

account for VAT, a statement that the recipient is required to account for VAT, and a reference to the relevant provision of the Law.

In addition to a 'full' tax invoice, in certain situations a person may issue a 'simplified tax invoice'. A simplified tax invoice may be issued in the following two situations:

- ☐ where the recipient is not registered for VAT; or
- ☐ where the recipient is registered for VAT and the consideration for the supply

The information required to be stated on a simplified tax invoice is not as extensive as for the full invoice, and includes:

- ☐ the words "Tax Invoice" clearly displayed on the invoice;
- ☐ the name, address, and TRN of the registered supplier;

- ☐ the date of issuing the tax invoice;
- ☐ a description of the goods or services supplied; and
- ☐ the total consideration and the VAT amount charged.

It should be noted that issuing a simplified tax invoice instead of a full tax invoice is optional – for example, the supplier may choose to issue a full tax invoice even when the recipient is not registered for VAT and a simplified tax invoice is therefore available. Where a VAT registered person makes a cross-border supply of goods or services with the place of supply taking place in another GCC Implementing State, the person must issue a document with specific particulars, being:

- ☐ the usual information that must be included in a tax invoice, but without the label

“Tax Invoice” and without charging any VAT;

- ☐ the tax registration number of the recipient in the Implementing State; and
- ☐ a statement that the supply is a cross-border supply between the UAE and

The supplier does not need to issue any other tax invoice for such intra-GCC supplies.

The currency stated on a tax invoice must be the UAE Dirham.

In the event that a supply is made in a currency other than the UAE Dirham, the amount must be converted into and stated in UAE Dirham on the tax invoice. The invoice may still contain information regarding prices in the original currency.

When converting the foreign currency into the UAE Dirham, the exchange rate used must be a rate approved by the UAE Central Bank.

Where the invoice amount is a fraction of a fil, the amount should be rounded to the nearest fil (that is, to two decimal places) on a mathematical basis, being:

- ☐ rounded up if the fraction is a half or more; and
- ☐ rounded down if the fraction is less than a half.

A tax group is a single entity for VAT purposes meaning supplies between members of the same tax group are disregarded for VAT purposes. As such, there is no need to account for VAT or issue tax invoices in respect of intra-group supplies.

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- ☐ rounded up if the fraction is a half or more; and
- ☐ rounded down if the fraction is less than a half.

A tax group is a single entity for VAT purposes meaning supplies between members of the same tax group are disregarded for VAT purposes. As such, there is no need to account for VAT or issue tax invoices in respect of intra-group supplies.

12.4. Adjusting output tax on tax invoices

There may be instances where output tax originally charged on a supply has to be adjusted – for example, due to an adjustment of the price or due to a mistake.

In such instances, the supplier must account for the correct amount of VAT, and must issue a document recording the correction.

Thus, where the output tax charged is less than the output tax that should have been charged following the adjustment (i.e. there has been a price increase), the supplier must issue a tax invoice for the difference and provide it to the recipient, with the following effects:

- ☐ the supplier has to account for the additional output tax to the FTA on the tax

return that relates to the tax period in which the adjustment is made; and

- ☐ the recipient can treat the additional VAT incurred as input tax subject to the

normal input tax recovery rules in the tax return for the tax period in which the tax invoice is received.

In contrast, where the output tax charged is more than the output tax that should have been charged following the adjustment (i.e. there has been a price decrease), the supplier must issue, and provide to the recipient, a tax credit note, with the following effects:

- ☐ the supplier can recover from the FTA the output tax which was previously accounted for in respect of the amount of reduction, by reducing the output tax in the tax return for the tax period in which the adjustment is made; and
- ☐ the recipient must reduce their input tax by the amount of VAT related to the

reduced amount in the tax return for the tax period in which the tax credit note is received.

12.4.1. Key requirements of a tax credit note

In order for a tax credit note to be valid, it must reflect the error in the original tax invoice. Therefore, a credit note should contain the following:

- ☐ the words “Tax Credit Note”;
- ☐ the name, address, and TRN of the supplier;
- ☐ where the recipient is registered for VAT, their name, address, and TRN;
- ☐ the date of issuing the tax credit note;
- ☐ the value of the supply shown on the tax invoice, the correct amount of the

value of the supply, the difference between those two amounts, and the VAT charged that relates to that difference in AED;

- ☐ a brief explanation of the circumstances giving rise to the adjustment; and

information sufficient to identify the supply to which the adjustment relates.

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Similar to tax invoices, the FTA has the ability to determine situations when tax credit notes are unnecessary or can contain different particulars. Similarly, a tax credit note

may be issued by a VAT registered agent of the taxable person making a supply or by the recipient of the supply with the agreement of the supplier (with words “buyer-created tax credit note” clearly displayed on the credit note).

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value of the supply, the difference between those two amounts, and the VAT charged that relates to that difference in AED;

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may be issued by a VAT registered agent of the taxable person making a supply or by the recipient of the supply with the agreement of the supplier (with words "buyer-created tax credit note" clearly displayed on the credit note).

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13. Record keeping

13.1. Chapter summary

In order to properly facilitate the administration of VAT, all taxable persons are required to maintain certain business records for a specified period of time. The purpose of this chapter is to summarize which records must be maintained and the time periods for which they must be retained. The retention of records is essential and enables businesses to pay the correct amount

of tax. It also provides a framework through which the FTA can collect VAT revenue, monitor a taxable person's compliance and make assessments for additional tax payable where required. 13.2. General requirements

13.2.1. What records must be kept?

A VAT registered person is required by law to keep all of the following records:

☐ records of all supplies and imports of goods and services; ☐ all tax invoices and alternative documents received; ☐ all tax credit notes and alternative documents received; ☐ all tax invoices and alternative documents issued; ☐ all tax credit notes and alternative documents issued; ☐ records of goods and services that have been disposed of or used for matters

not related to the business, detailing the VAT paid on those goods and services; ☐ records of goods and services purchased for which the input tax was not

deducted; ☐ records of exported goods and services; and

☐ records of adjustments or corrections made to accounts or tax invoices. In addition to the above, a VAT registered person must keep a VAT record or account which includes the following information:

☐ output tax due on taxable supplies; ☐ output tax due on taxable supplies accounted for via the reverse charge

mechanism; ☐ output tax due after the correction of any errors or adjustments; ☐ input tax recoverable on supplies or imports; and

☐ input tax recoverable after the correction of any errors or adjustments. In addition to the above VAT-specific record-keeping requirements, all businesses have to keep accounting records and documents that relate to their business activities. Such records and documents, include:

☐ balance sheet and profit and loss accounts; ☐ records of wages and salaries; 51

[recovered from the vector store – VAT_Guide_Taxable_Person_General.pdf p.53]

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- ☐ output tax due on taxable supplies;
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mechanism;

- ☐ output tax due after the correction of any errors or adjustments;
- ☐ input tax recoverable on supplies or imports; and
- ☐ input tax recoverable after the correction of any errors or adjustments.

In addition to the above VAT-specific record-keeping requirements, all businesses have to keep accounting records and documents that relate to their business activities. Such records and documents, include:

- ☐ balance sheet and profit and loss accounts;
- ☐ records of wages and salaries;
- ☐ records of fixed assets;
- ☐ inventory records and statements (including quantities and values) at the end

of any relevant tax period and all records of stock-counts related to inventory statements.

The above requirements exist in order to demonstrate a sufficient audit trail such that a VAT amount can be traced from a source document, for example an invoice, through to the final tax return.

13.2.2. For how long should records be kept?

In general, a taxable person must keep the required records for a minimum of 5 years after the end of the tax period to which they relate. Before the expiration of the 5-year term, the FTA may, however, require the person to retain the records for a further period not exceeding 4 years, in the following cases:

- ☐ if the taxable person's tax obligations are subject to a dispute with the FTA;
- ☐ if the person is subject to an ongoing tax audit; or
- ☐ if the FTA has given a notice to the person that it intends to conduct a tax audit

before the expiry of the 5-year record retention period.

Where the taxable person owns real estate, the taxable person should retain the required records relating to the real estate for a period of 15 years after the end of the tax period to which they relate.

13.3. Archiving and retrieval requirements

Businesses do not have to keep their records in any specific way or format. However, they must be kept in a way which will allow the FTA to easily check the information which has been used to complete the tax return. Furthermore, regardless of whichever way a taxable person chooses to store their archived records, they need to be made readily available in a legible format on request by the FTA.

Examples of the manner in which records can be archived include:

- ☐ Retention of the original documents (e.g. in paper or electronic form);
- ☐ Creating photocopies of the original documents; and
- ☐ Other ways of recording and preserving the information or data contained in

A taxable person is not required to keep records on their premises. However, as pointed out above, the records must be readily available when requested by the FTA. For example, where the FTA attends your business premises to conduct a tax audit, businesses need to be able to provide the FTA with access to the relevant records in a timely and efficient manner.

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- ☐ Other ways of recording and preserving the information or data contained in

the original document.

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14. Account management

14.1. Chapter summary

The purpose of this chapter is to provide information in relation to what taxable persons should do in the event they experience a change of circumstances which could affect their VAT registration. 14.2. Changing account details

The taxable person must notify the FTA in writing in the event that any of their account details change such that an amendment to their VAT registration is required. Examples of changes which should be notified to the FTA include:

- ☐ the name or trading name of the business; ☐ the composition of a partnership; ☐ the address of the principal place of business; ☐ the primary business activity or activities; ☐ the bank account details of the business; or
- ☐ details of Customs registration. 14.3. Change in circumstances

A taxable person's VAT registration is based entirely on the information provided to the FTA. It is the taxable person's responsibility to ensure that the information, on which their entitlement to be VAT registered is based, is accurate and up to date. In the event that business circumstances materially change in a manner which could affect the VAT registration the taxable person must notify the FTA in writing immediately. Certain changes which occur may result in an amendment or a cancellation of the VAT registration, or a requirement to register for VAT where a requirement did not previously exist. In the event that a change in circumstances is not notified to the FTA, a penalty could be levied. Examples of material changes which should be notified to the FTA include:

- ☐ the business ceases to be eligible for an exception from registration; ☐ the business ceases trading;
- or
- ☐ certain taxable activities cease for any reason. 53

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In the event that business circumstances materially change in a manner which could affect the VAT registration the taxable person must notify the FTA in writing immediately.

Certain changes which occur may result in an amendment or a cancellation of the VAT registration, or a requirement to register for VAT where a requirement did not previously exist.

In the event that a change in circumstances is not notified to the FTA, a penalty could be levied.

Examples of material changes which should be notified to the FTA include:

- ☐ the business ceases to be eligible for an exception from registration;
- ☐ the business ceases trading; or
- ☐ certain taxable activities cease for any reason.

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15. FTA compliance checks

15.1. Chapter summary

The FTA has the right to establish or verify a person's VAT liability by way of a tax audit. Under the tax audit process, the FTA is entitled to examine the records required to be preserved by a taxable person under the law and to generally inspect the circumstances of their business. A tax audit may be carried out at the taxable person's business premises (i.e. a "field tax audit") or in the offices of the FTA. Generally, prior notification of a tax audit will be given. In the process of carrying out a tax audit, the FTA may make copies of, take extracts from, or samples of any information or goods as it may deem necessary. 15.2. Why is a tax audit necessary?

VAT is a self-assessment tax, meaning that taxable persons themselves declare the amount of tax payable to or recoverable from the FTA on their tax returns. The tax audit provides the FTA with a mechanism for checking whether such a declaration is correct. If as a result of the audit an underpayment of VAT is discovered, the FTA can issue an assessment to require payment of the relevant VAT, together with issuing penalties. 15.2.1. How often will a business be audited?

Not all taxable persons will be audited with the same frequency. The FTA will determine which persons should be audited and with what regularity – based on the risk to the public revenue. Examples of factors that are likely to be taken into consideration include:

- ☐ how large or complex the business is; and
- ☐ past compliance history (for example, whether any returns have been submitted

late, or have been incorrect). For example, a large business selling a large volume of goods, and having a poor compliance record, is more likely to be subject to a tax audit than a small business with a strong compliance record, as the risk to the public revenue is greater. 15.2.2. Where and when will the audit take place?

The FTA will normally perform the tax audit at its own offices or the place of business of the person subject to the tax audit. This can include any place where the person conducts business or keeps records. Where the audit takes place at the person's place of business, it will usually be during the FTA's normal business hours. Where necessary, the tax audit may be

exceptionally conducted outside of these times.

For example, a large business selling a large volume of goods, and having a poor compliance record, is more likely to be subject to a tax audit than a small business with a strong compliance record, as the risk to the public revenue is greater.

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Where the audit takes place at the person's place of business, it will usually be during the FTA's normal business hours. Where necessary, the tax audit may be exceptionally conducted outside of these times.

15.2.3. Will businesses be informed of the audit before it takes place?

The FTA will usually inform the taxable persons of the audit 5 business days in advance, however no notice will be given in cases of suspected tax evasion, or if to do otherwise would hinder the conduct of the audit.

15.3. What can a business expect to happen during a tax audit?

The relevant FTA officer(s) can inspect the taxable person's documents, assets and/or premises with a view to confirming the taxable person's VAT position.

The tax auditor may want to talk to persons from various parts of a business, for example this could be members of the finance team to confirm how the tax return is calculated, or a person in logistics to confirm the process for importing goods, etc. The tax auditor may also remove documents, items, or samples for further review.

The amount of time required for the audit will depend on the size of the business and the complexity of the tax affairs. The results of the audit shall be notified to the taxable person within 10 business days of the end of the audit.

15.3.1. What level of conduct is required from the taxable person?

Any person subject to a tax audit (including their tax agent, or legal representative), must offer full facilities and assistance to the tax auditor in order for the auditor to carry out the audit.

For example, upon receiving notice of a scheduled audit, the taxable person should ensure:

- ☐ the relevant premises are accessible;
- ☐ tax records are accessible; and
- ☐ relevant staff are present (for example the person responsible for compiling the

If the taxable person fails to provide adequate facilities and assistance they may be subject to penalties.

15.4. What powers will the FTA have during a tax audit?

In order to confirm the taxable person's VAT position, the tax auditor may, subject to certain rules and restrictions:

- ☐ request original records or copies of documents (or request records or

information from third parties in respect of checking the person's tax position);
and

- ☐ take samples.

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- ☐ the relevant premises are accessible;
- ☐ tax records are accessible; and
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and

- ☐ take samples.

For example, the tax auditor could require copies of invoices, accounting records or calculations which support the tax return.

It may be that a request is made through a written notice to provide records (for example, where the audit is undertaken at FTA offices). Where such a notice is received the taxable person is required to provide the requested information or records within a reasonable period (subject to any specified date), and produce them for inspection to the FTA.

15.5. What rights will a taxable person have during a tax audit?

Where records, items, or samples are removed in the course of an audit they will be returned as soon as reasonably possible, in the same condition (subject to the item being perishable etc). In addition, a receipt can be provided for any item removed.

Taxable persons will also be allowed supervised access to records removed by the FTA.

The FTA will communicate the results of the audit to the taxable person following its conclusion. Should the audit result in a tax or administrative penalty assessment, the normal appeals procedures will apply. Details of the appeals process and what a taxable person can do if they disagree with the result of a FTA audit will be provided in a separate Guide.

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Taxable persons will also be allowed supervised access to records removed by the FTA.

15.6. Result of a tax audit

The FTA will communicate the results of the audit to the taxable person following its conclusion. Should the audit result in a tax or administrative penalty assessment, the normal appeals procedures will apply. Details of the appeals process and what a taxable person can do if they disagree with the result of a FTA audit will be provided in a separate Guide.

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16. Key terms

Term: Concerned goods | Definition: Goods that have been imported, and would not be exempt if supplied in the UAE

Term: Concerned services | Definition: Services that have been imported, where the place of supply is in the UAE, and which would not be exempt if supplied in the UAE

Term: Consideration | Definition: Anything received or expected to be received for a supply, whether in money or other acceptable forms of payment

Term: Exempt supply | Definition: A supply of goods or services for consideration in the course of conducting business in the UAE, where no VAT is due.

No input tax may be recovered in respect of an exempt supply, unless expressly allowed in the VAT legislation

Term: Fixed establishment | Definition: Any fixed place of business, other than the place of establishment, in which the person conducts his business regularly or permanently and where sufficient human and technology resources exist to enable the person to supply or to acquire goods or services, including the person's branches

Term: FTA | Definition: Federal Tax Authority

Term: GCC States | Definition: All countries that are full members of the Cooperation Council for the Arab States of the Gulf pursuant to its Charter

Term: Goods | Definition: Physical property that can be supplied, including real estate, water, and all forms of energy

Term: Import | Definition: The arrival of goods from abroad into the UAE or receipt of services from outside the UAE

Term: Implementing States | Definition: The GCC States that have implemented a value added tax as per the provisions of the Common VAT Agreement of the States of the Gulf Cooperation Council

Term: Input tax | Definition: VAT paid by, or due from, a person when goods or services are supplied to the person.

Also includes VAT paid on imports

Term: Mandatory Registration

Threshold | Definition: AED 375,000. Where the value of relevant supplies or imports of a person exceeds this threshold, the person must apply for VAT registration

Term: Non-resident | Definition: Any person who does not own a place of establishment or fixed establishment in the UAE and usually does not

reside in the UAE

Term: Output tax | Definition: VAT charged on a taxable supply and any supply treated as a taxable supply

Term: Payable Tax | Definition: Tax that has become due for payment to the FTA

Term: Place of residence | Definition: The place where a person has a place of establishment or fixed establishment, in accordance with the provisions of the Decree-Law

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to the person. Also includes VAT paid on imports

Term: Mandatory Registration

Threshold | Definition: AED 375,000. Where the value of relevant supplies or imports of a person exceeds this threshold, the person must apply for VAT registration

Term: Non-resident | Definition: Any person who does not own a place of establishment or fixed establishment in the UAE and usually does not reside in the UAE

Term: Output tax | Definition: VAT charged on a taxable supply and any supply treated as a taxable supply

Term: Payable Tax | Definition: Tax that has become due for payment to the FTA

Term: Place of residence | Definition: The place where a person has a place of establishment or fixed establishment, in accordance with the provisions of the Decree-Law

Term: Related parties | Definition: Two or more persons who are not separated on an economic, financial or regulatory level, where one can control the others either by law, or through the acquisition of shares or voting rights

Term: Refundable Tax | Definition: Amounts that have been paid and that the Authority can refund in whole or in part to the taxable person; or amounts which the Authority can use for payment of amounts due or administrative penalties; or amounts which the Authority may require the taxable person to carry forward to future tax periods depending on the nature of the refund according to the Tax Law

Term: Services | Definition: Anything that can be supplied other than goods

Term: Tax Assessment | Definition: A decision issued by the FTA relating to payable tax or refundable tax

Term: Taxable Person | Definition: Any person registered or obligated to register for VAT

Term: Taxable supply | Definition: A supply of goods or services for consideration by a person in the course of conducting business in the UAE. It does not include exempt supplies

Term: Taxpayer | Definition: Any person obligated to pay tax in the UAE, irrespective of whether they are a taxable person or end-consumer

Term: TRN | Definition: A unique tax registration number issued by the FTA for a person registered for tax in the UAE

Term: UAE | Definition: United Arab Emirates

Term: Value Added Tax (VAT) | Definition: A tax imposed on the import and supply of goods or services, and includes deemed supplies

Term: Tax period | Definition: A specific period of time for which the payable tax has to be calculated and paid

Term: Tax return | Definition: Information and data specified for tax purposes and submitted by a taxable person in form determined by the FTA

Term: Voluntary Disclosure | Definition: A form prepared by the FTA where the taxpayer notifies the FTA of any errors or omissions relating to tax returns, tax assessments or tax refund applications

Term: Voluntary Registration

Threshold | Definition: AED 187,500. Where the value of relevant supplies or taxable expenses of a person exceeds this threshold, the person may apply for VAT registration