



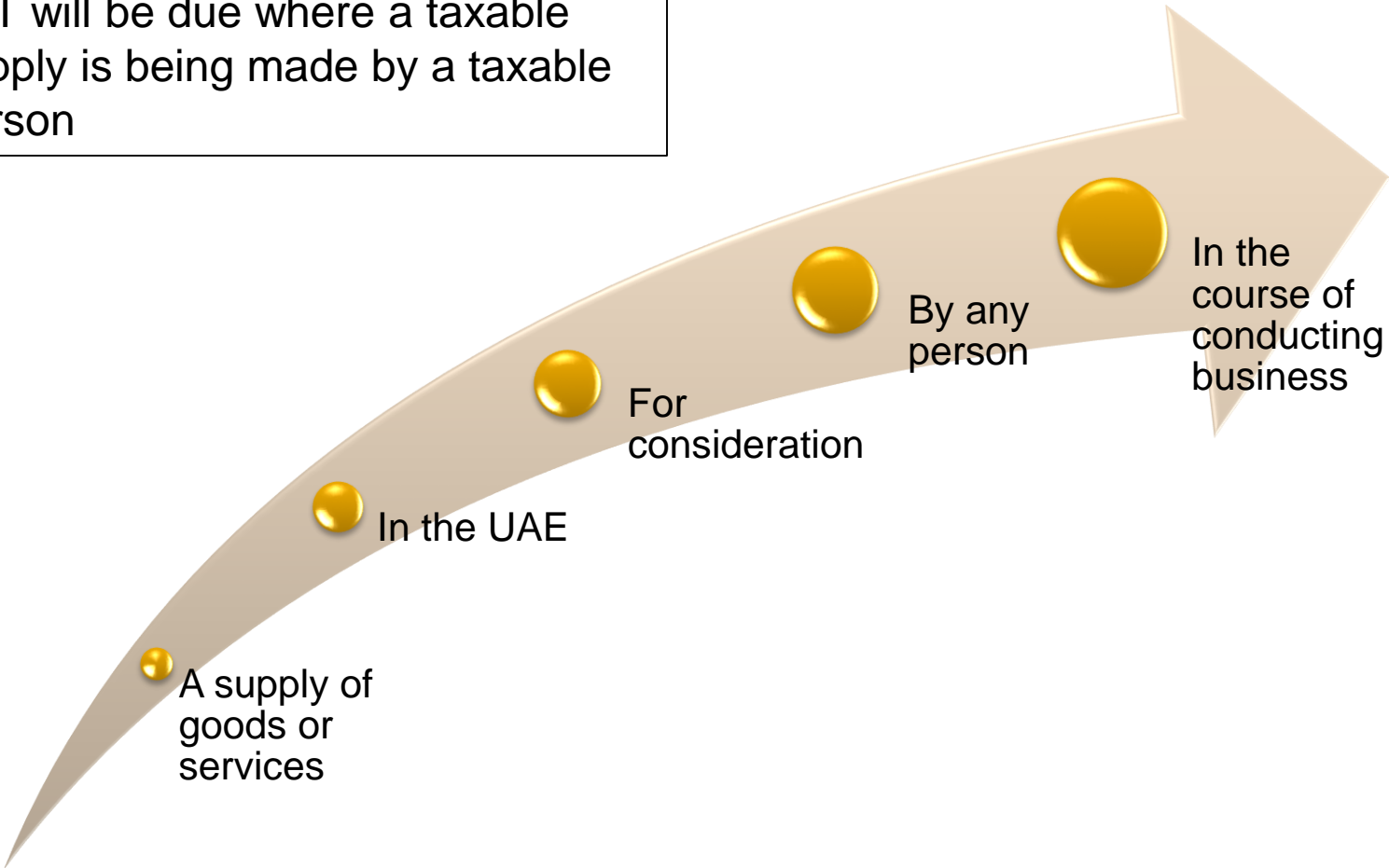
United Arab Emirates

الهيئة الاتحادية للضرائب  
FEDERAL TAX AUTHORITY

# Consumer Business

## What is a supply?

VAT will be due where a taxable supply is being made by a taxable person



A supply of goods or services

In the UAE

For consideration

By any person

In the course of conducting business

## Taxable supplies: breaking down the detail



### Goods vs. Services

- Goods = the passing of ownership of physical property or the right to use that property as an owner, to another person
- Services = anything which is not a supply of goods is a supply of services



### Consideration

- Consideration is anything received in return for a supply
- If the consideration is only money, the value of that supply is the amount of money received
- Consideration is treated as **VAT inclusive**, so the amount received in payment includes an element of VAT for taxable supplies



### In the UAE

- Place of supply rules determine where the supply is 'made' for VAT purposes
- Where the supply is made within the UAE, UAE VAT will be due
- There are different place of supply rules for goods and services

## Taxable supplies: breaking down the detail



### Made by a person

- Registered for VAT or required to be registered for VAT
- Businesses become required to be registered when their turnover reaches a certain threshold
- It is possible for businesses to voluntarily register for VAT before if they reach a lower voluntary threshold



### In the course of business

Business includes:

- Any activity conducted regularly, on an ongoing basis
- Independently by any person, in any location
- Including industrial, commercial, agricultural, professional, service or excavation activities or anything related to the use of tangible or intangible properties

## Place of supply

Place of supply rules will determine whether a supply is made in the UAE or outside the UAE for VAT purposes:

- If the supply is treated as made outside the UAE: no UAE VAT will be charged
- If the supply is treated as made in the UAE: VAT may be charged



### Goods

- **Basic rule:** the place of supply is the location of goods when the supply takes place
- **Special rules,** for example:
  - ❖ Cross-border supplies – that is supplies which involve parties in different countries
  - ❖ Water and energy
  - ❖ Real estate

### Services

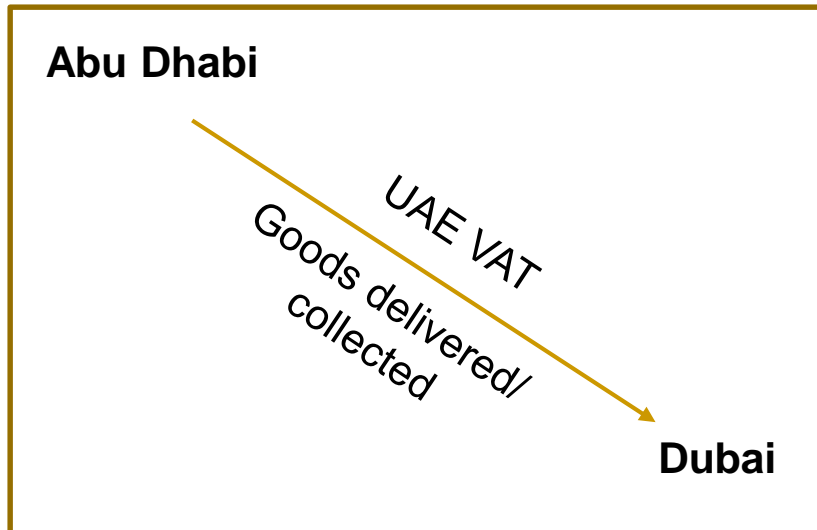
- **Basic rule:** the place of supply is where the supplier has the place of residence
- **Special rules,** for example:
  - ❖ Cross-border supplies of services between businesses
  - ❖ Electronically supplies services – where services are used or enjoyed



## Place of Supply – Goods (1/2)

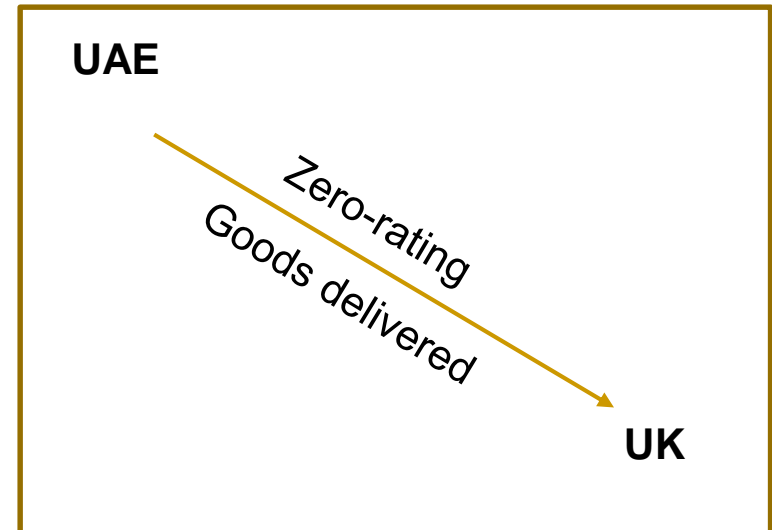
### — Domestic Supplies —

- No movement of goods outside the UAE
- Subject to the applicable VAT rate in the UAE – standard or zero-rated



### — Exports to outside the GCC —

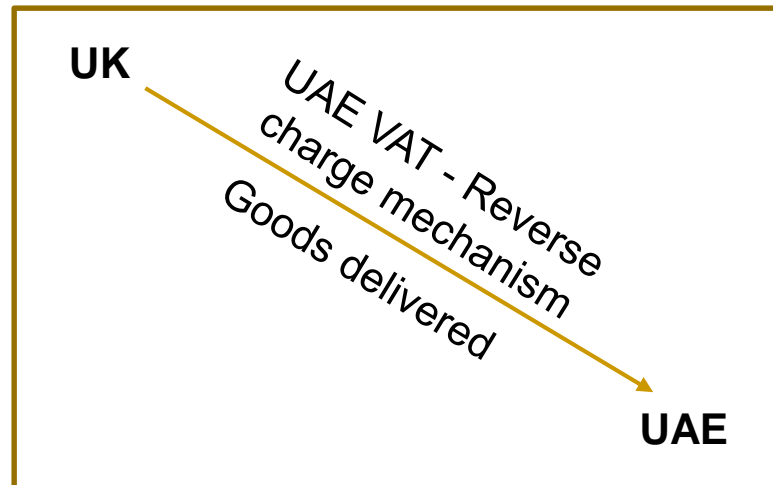
- Export of goods: place of supply is still the UAE



## Place of Supply – Goods (2/2)

### B2B Import into UAE from outside of GCC

- Import of goods: place of supply is the UAE
- The recipient accounts for VAT under the reverse charge mechanism **EXCEPT** where goods will be re-exported to another GCC State – see next page for details



# Place of Supply

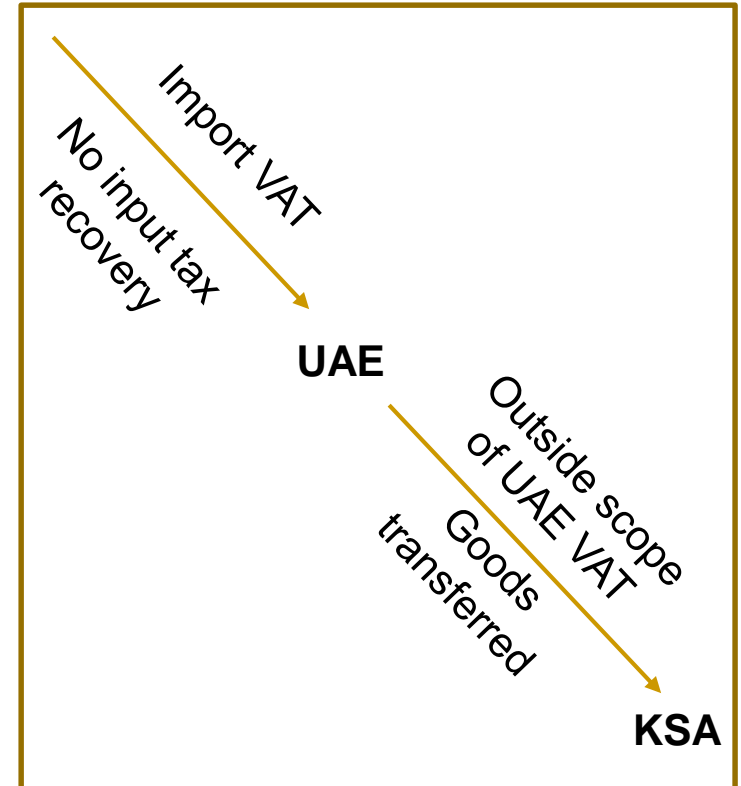
## Goods imported to the UAE & transferred to GCC

### Import followed by movement of goods within GCC

Where goods are imported into the UAE (i.e. released for consumption here) but the intention is that these goods will be transferred by the importer into another GCC State, the place of supply of import is still the UAE **BUT**...

- The importer must pay import VAT without using the reverse charge and cannot recover this VAT
- This import VAT should be recoverable in the GCC State to which the goods are transferred

Where import VAT was recovered in the UAE under the expectation that goods would not be transferred to another GCC State, but at a later date they are moved to another GCC State, the importer will be required to “repay” the import VAT by treating the transfer as a deemed supply subject to VAT.



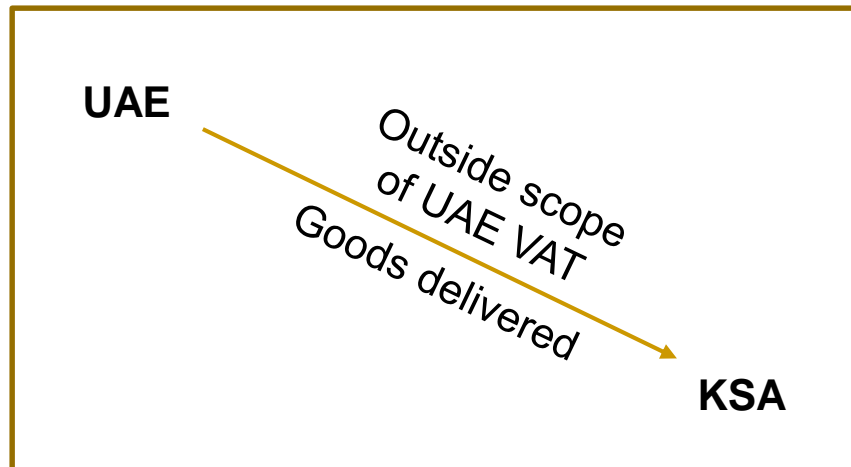


# Place of Supply

## Goods supplied within GCC

### — B2B Exports to GCC —

- Export of goods: place of supply is the other GCC State (e.g. KSA) provided the customer is registered for VAT in that GCC State, and the goods are exported outside the UAE



## Place of Supply Services (1/2)

**Basic rule** = where the supplier has their place of residence

**Specific rules** =



Place of supply of services supplied to recipients who are VAT registered in another GCC State **is that other GCC State** unless the place of supply is the UAE for another reason



Place of supply of services supplied by a person that is not resident in the UAE to a VAT registered business resident in the UAE **is in the UAE**



Place of supply of services relating to the installation of goods **is where the service is performed**



Place of supply of restaurant, hotel and catering services is **where they are performed**

## Place of Supply Services (2/2)

### Specific rules =



Place of supply of real estate services **is the location of the real estate**



Place of supply of transport services **is where the transport begins**



Place of supply of a means of transport to a person not registered for VAT in the GCC **is where the goods are put at the disposal of the recipient**



Place of supply of telecommunications and electronic services **is where the services are actually used and enjoyed by the recipient**



Place of supply of cultural, artistic, sporting, educational or similar services **is where they are performed**



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## Place of Supply Services - Reverse charge mechanism

- In situations where a VAT registered person imports services into the UAE which would be subject to VAT if purchased in the UAE, the VAT registered purchaser has to account for VAT in respect of those supplies
- Typically used for cross-border transactions to relieve a non-resident supplier from the requirement to register and account for VAT in the country of the purchaser
- The purchaser will account for VAT on its normal VAT return and he may be able to claim that VAT back on the same return, subject to the normal VAT recovery rules



# What rate is applicable for supplies in the Consumer Business sector?

**Supplies are in general subject to rate of 5%. There are exceptions:**



Retail

- The supply of goods and services in certain industries, such as Healthcare, Education, Real Estate and Transport, will be subject to either the zero-rate or exempted
- Note that this may differ throughout the GCC



Wholesale & Distribution

- The supply of goods outside the GCC are subject to the zero-rate
- The importation of goods are subject to the zero-rate in the case that the goods are exempted or zero-rated in the UAE



E-commerce

- The supply of e-commerce services will be subject to the zero-rate when supplied to a recipient who is not a resident nor present in the GCC at the time that the services are performed

## What rate is applicable for supplies in the Consumer Business sector?

**Supplies are in general subject to rate of 5%. There are exceptions:**



Transport of  
passengers and  
goods

- The supply of **international transportation of passengers and/or goods** including ancillary transport services is subject to **zero-rate**
- The supply of **local passenger transport** services in a qualifying vehicle, qualifying vessel or qualifying aircraft will be **exempt**



Hospitality

- Supplies within the hospitality sector such as hotel, restaurants, etc. will be subject to VAT at 5%
- This includes the organization of events such as exhibitions and conferences

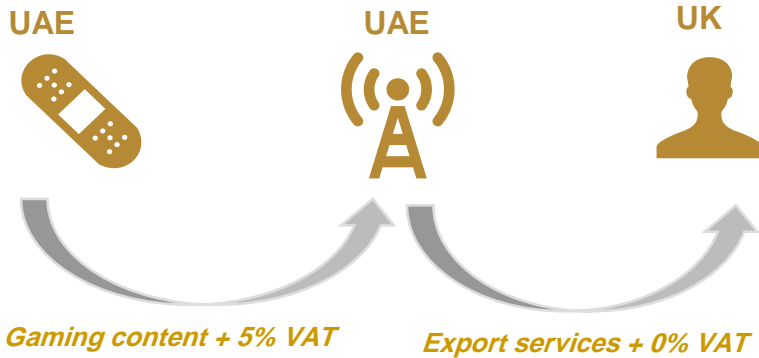


Leisure

- Supplies within the Leisure sector will in general be subject to VAT at 5%
- Services associated with facilitating outbound travel packages (to destinations outside the GCC) shall be zero-rated

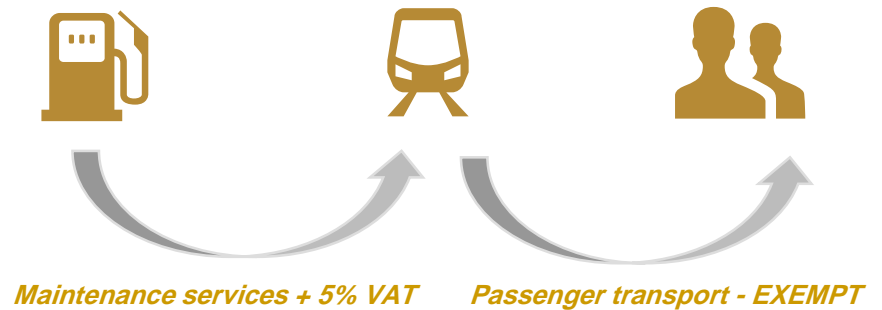
# VAT Liability

- 🕒 Where there is no taxable supply, the supply can be either exempt or outside the scope of VAT.
- 🕒 Therefore, whilst the effect of receiving a zero-rated supply or an exempt supply is the same for the customer, there is a significant difference for the supplier.
- 🕒 Examples zero-rated and VAT exempt supplies:



Int. roaming services are used & enjoyed outside UAE and **zero-rate** can be applied. Therefore the price is not increased by a positive amount of VAT.

Telecom provider incurs 5% VAT on purchases which it can recover in full.



The passenger receives **exempt** passenger transport services therefore VAT is not chargeable.

Transport provider incurs 5% VAT on purchases which it cannot recover.





## Composite supplies

“Single composite supply” means a supply of goods and/or services, where there is more than one component to the supply and taking into account the contract and the wider circumstance of the supply, the supply either:

- 1) includes a principal component, and component or components which either:
  - are necessary or essential to the making of the supply, including incidental elements which normally accompany the supply but are not a significant part of it; or
  - do not constitute an aim in itself, but is instead a means of better enjoying the principal supply;
- 2) the supply is of two or more elements so closely linked as to form a single supply which it would be impossible or artificial to split.

A composite supply is taxable at the **VAT rate applicable to the principal component.**

## Examples of composite supplies in Consumer Business

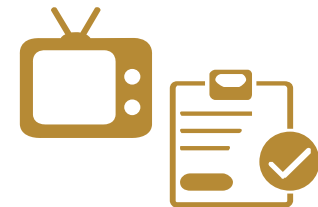
In order for a supply to be a single composite supply, taxable at the VAT rate of the principal component, the following characteristics must be present:

1. The price of the different components of the supply are not separately identified or charged by the supplier
2. Consideration payable by the recipient is not affected if the recipient were to purchase only one component of the supply
3. All components of the supply are supplied by a single supplier

Supply of a flight along with drinks and a meal on board



Supply of television including a warranty





# Date of supply: When to account for output VAT on supplies

## Basic tax point for goods

- Date of removal of goods (in case of supply of goods with transportation) [Article 23(2a); GCC VAT Agreement]
- Date on which goods made available to customer (in case of supply not involving transportation) [Article 23(2b); GCC VAT Agreement]
- Date of assembly/ installation (supply of goods involving assembly or installation) [Article 23(2c); GCC VAT Agreement]

## Basic tax point for services

- Date on which performance of service is complete [Article 23(2d); GCC VAT Agreement]



## Date of supply: When to account for output VAT on supplies

### Overriding the basic tax point

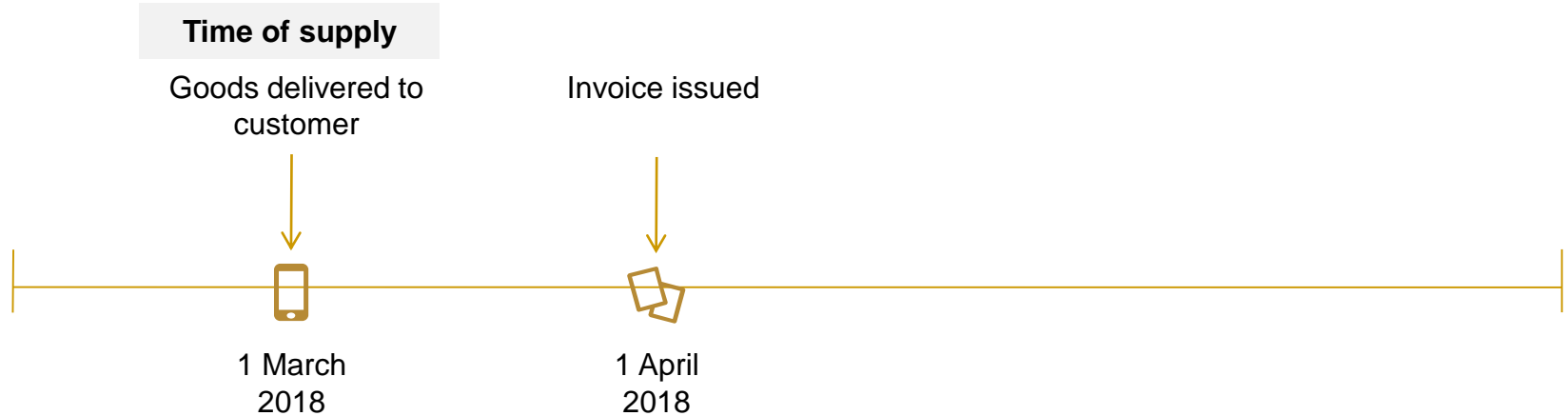
- Receipt of payment or the date of a VAT invoice if earlier than the basic tax point

### Continuous supplies & stage payments

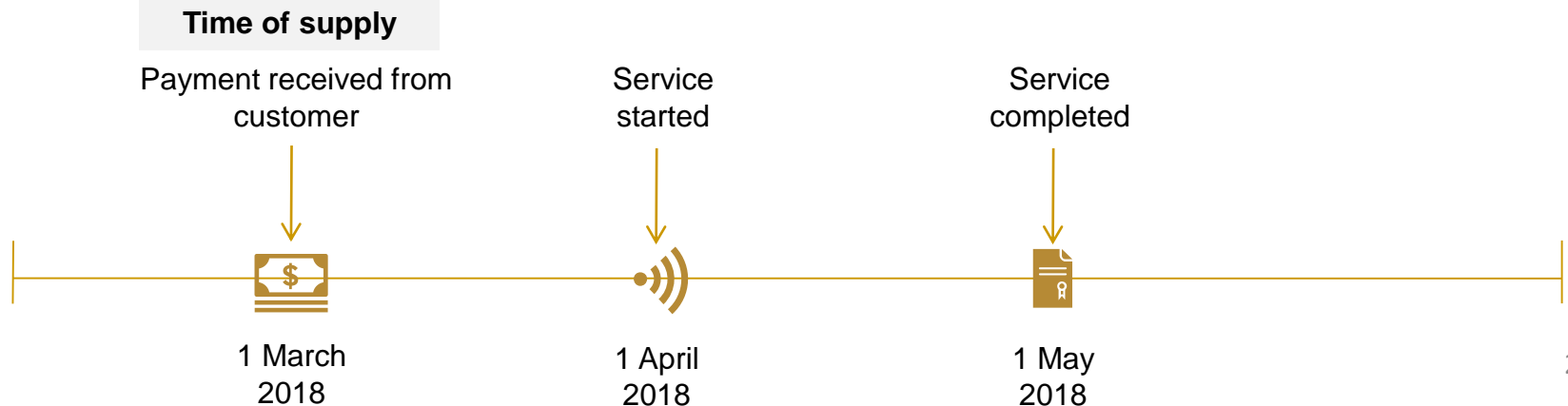
- The earlier of receipt of payment, the due date of payment shown on the VAT invoice or the date of the VAT invoice

# Specific examples in Consumer Business industry

## Example 1

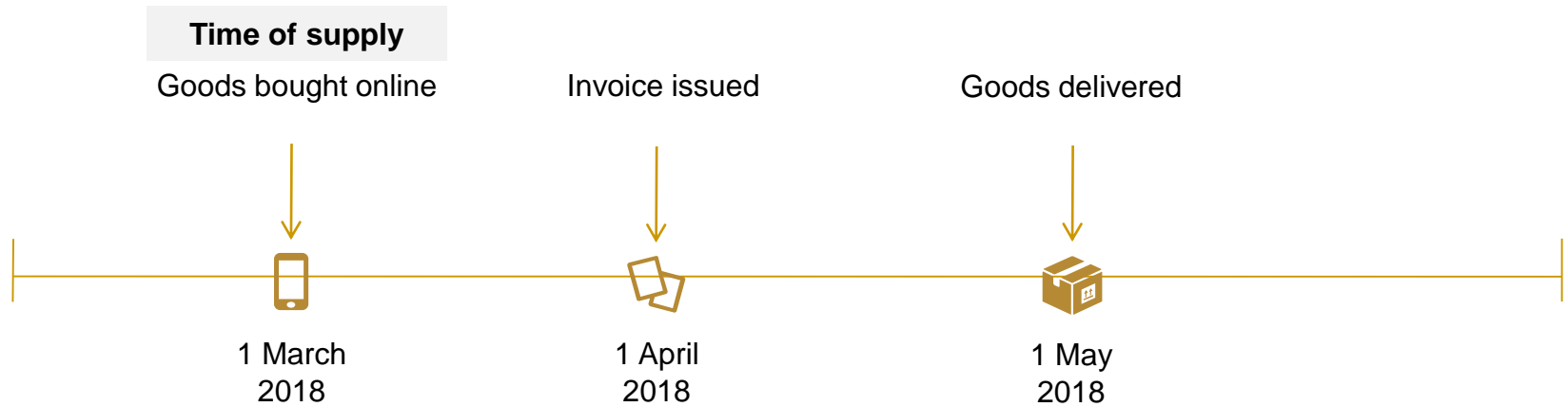


## Example 2

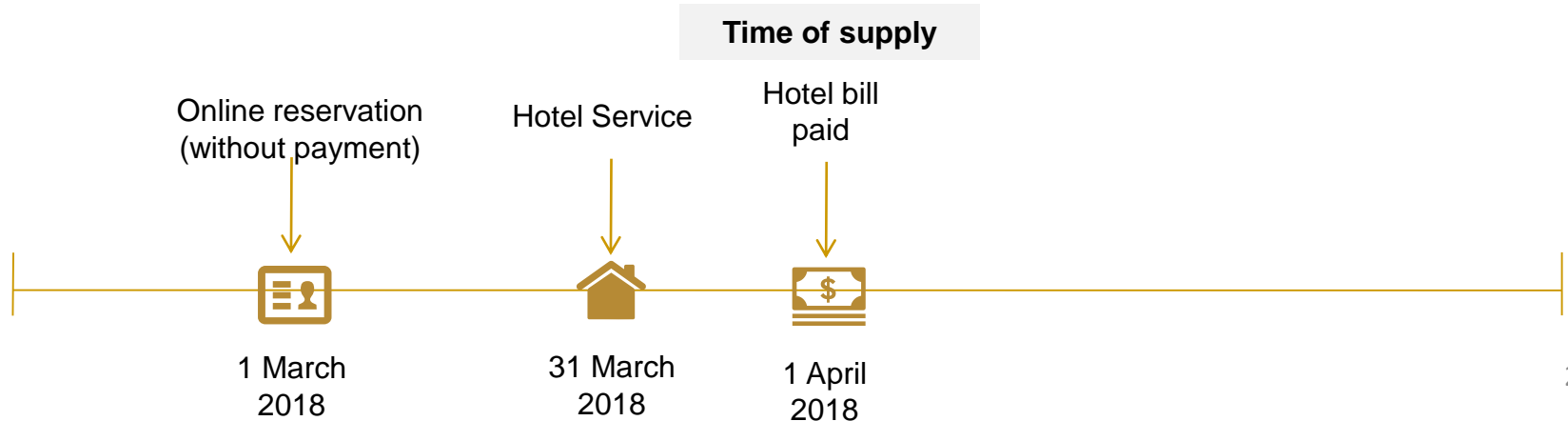


# Specific examples in Consumer Business industry

## Example 3



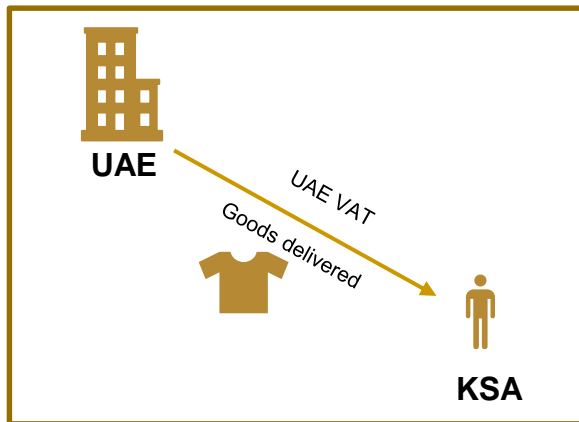
## Example 4



## Distance Sales

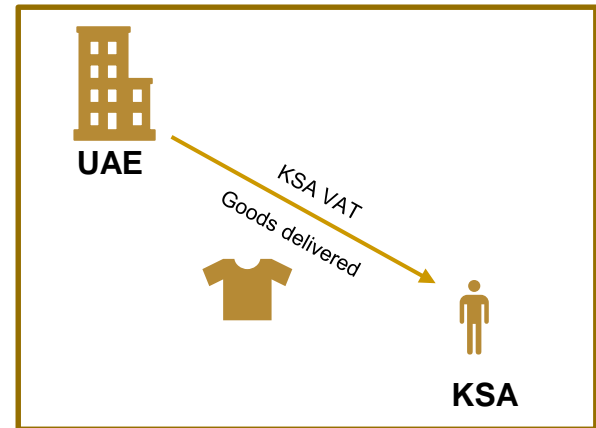
### Below threshold

- Supplier is registered in UAE and sells goods from UAE to KSA
- Customer in KSA is not registered for tax
- Total amount of exports by supplier **remains below** the mandatory registration threshold in KSA
- Place of supply is UAE and UAE VAT is due



### Exceeding threshold

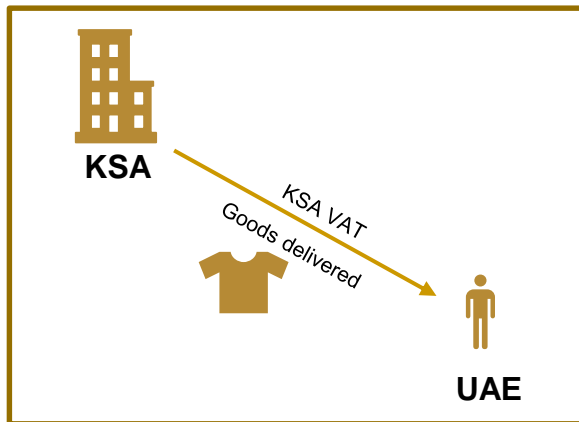
- Supplier is registered in UAE and sells goods from UAE to KSA
- Customer in KSA is not registered for tax
- Total amount of exports by supplier **exceeds** the mandatory registration threshold in KSA
- Place of supply is KSA and KSA VAT should be charged



## Distance Purchases

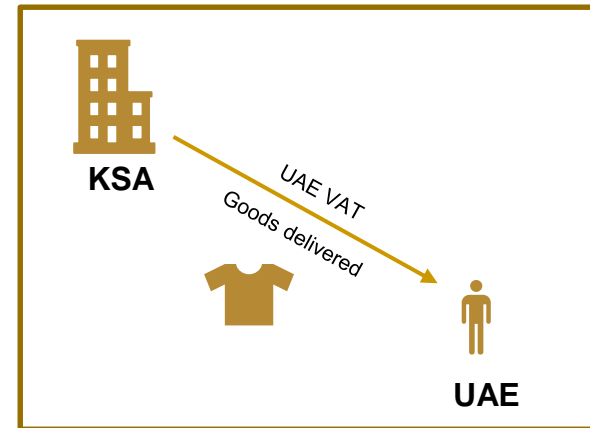
### Below threshold

- Supplier is registered in KSA and sells goods from KSA to UAE
- Customer in UAE is not registered for tax
- Total amount of imports by supplier **remains below** the mandatory registration threshold in UAE
- Place of supply is KSA and KSA VAT is due



### Exceeding threshold

- Supplier is registered in KSA and sells goods from KSA to UAE
- Customer in UAE is not registered for tax
- Total amount of imports by supplier **exceeds** the mandatory registration threshold in UAE
- Place of supply is UAE and UAE VAT should be charged





## Call off stock & consignment stock



**Call off stock** is where goods are already stored at the premises or warehouse of a potential customer, however the ownership remains with the seller until customer takes stock

**Consignment Stock** occurs when goods are sold to a customer but remain at the warehouse of the seller



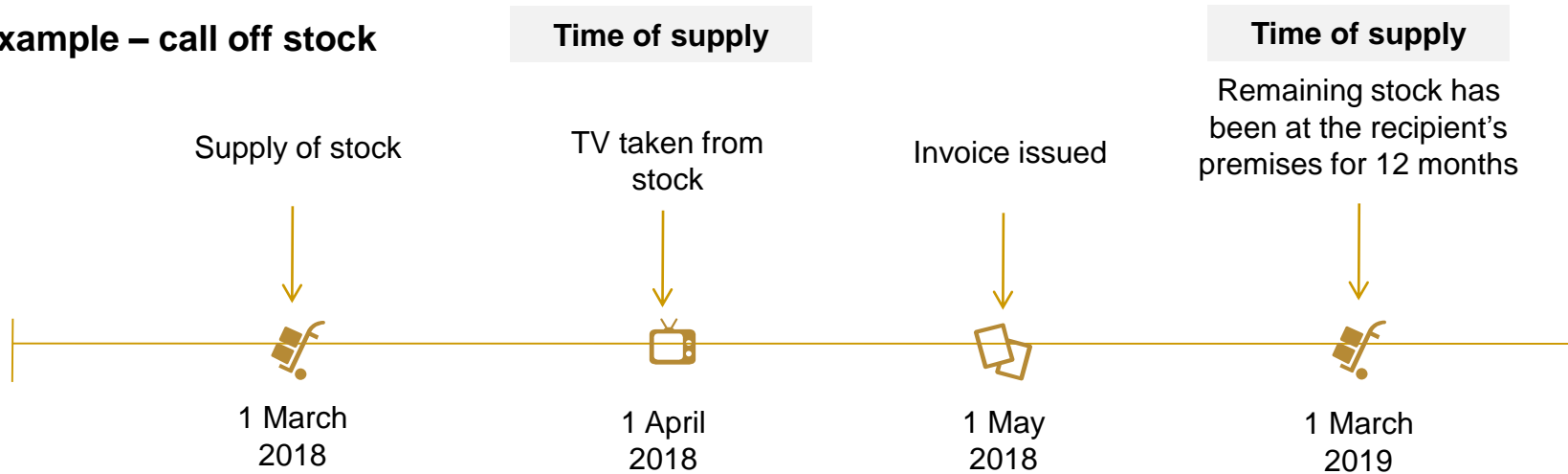
In both scenarios care must be taken to ensure VAT is accounted for at the correct time.



This can become increasingly complex where the supply involves the cross border transport of the goods.

## Call off stock & consignment stock

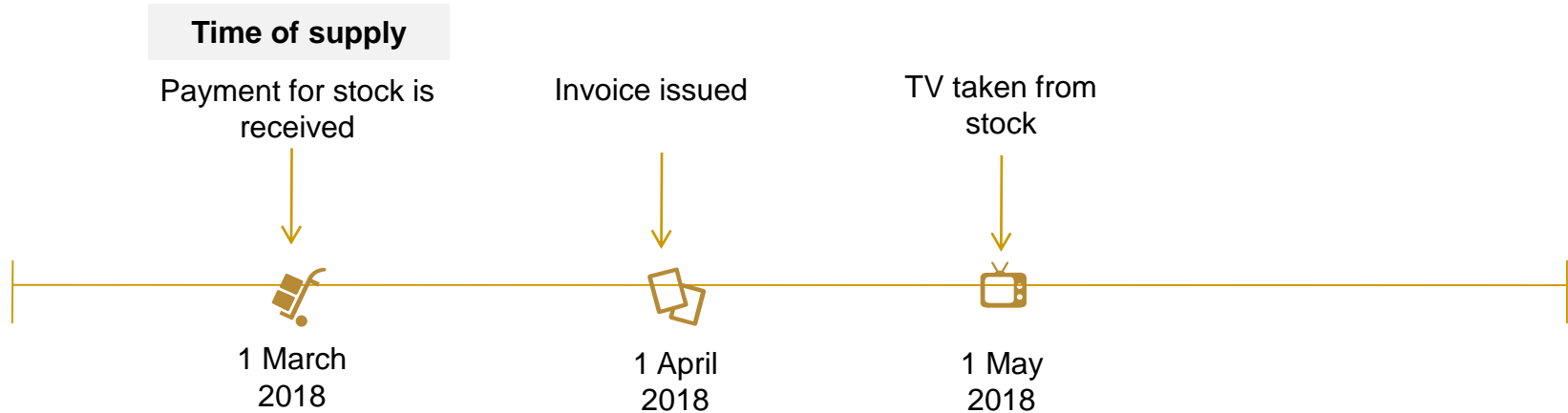
### Example – call off stock



- VAT is due at the point the recipient of the goods takes possession of the goods
- If stock has not been 'accepted' by the recipient within 12 months from the date it was placed at the recipient's premises, VAT becomes due on that stock at the 12 month mark

# Call off stock & consignment stock

## Example – consignment stock

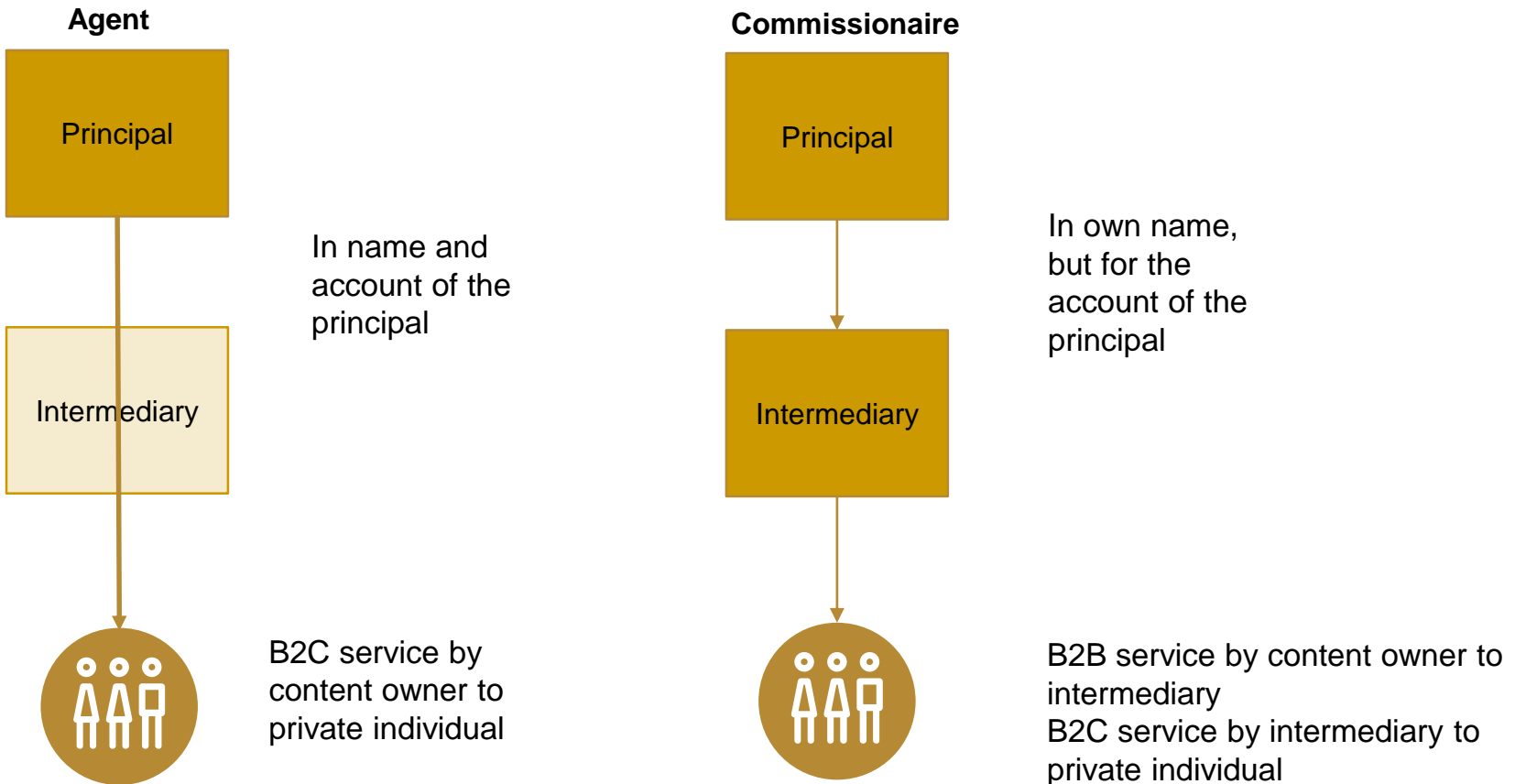


- VAT is due at the earlier of the receipt of payment or the date of an invoice
- Goods remain in the possession of the seller until a later date when the goods are required by the recipient
- Often such scenarios involve the movement of the goods to a warehouse close to the recipient's location prior to the date of sale – where this involves the intra GCC movement of goods the supplier may be required to make a deemed supply of the goods

## Intermediary structures

Agent & Commissionaire structures are common within the consumer business industry.

Example of common structures where electronic content is provided to private consumers:



## Warranties



Warranties are effectively a guarantee, issued to the purchaser of a good by its manufacturer or retailer, promising to repair or replace it if necessary within a specified period of time.

Two types of warranties are generally provided when goods are purchased – manufacturer/retailer warranties provided free of charge with the original purchase of the goods, and extended warranties purchased for an additional charge.

### Attention points:

- The supply of a manufacturer/retailer warranty for no extra charge is treated as a composite supply together with the goods sold and follows the VAT treatment of goods
- The supply of an extended warranty is a separate supply of insurance and is subject to VAT at 5%
- The supply of replacement goods or spare parts, provided they fall within the scope of the warranty, should not normally be a supply for VAT purposes.
- The charge by a business replacing goods under warranty, to a manufacturer or entity which is funding the warranty, is a charge for a supply of services which is subject to VAT.
- Where the manufacturer funding the warranty is located outside the UAE, the supply is nevertheless subject to VAT, as the place of supply is the place where work on the goods was performed i.e. the UAE.



## Gifts and Samples



Gifts and samples involve the disposal of business assets free of charge. They are considered to be a deemed supply for VAT purposes and the supplier will need to account for the output VAT on the value of the total cost incurred to make this deemed supply.

### Attention points:

- If the value of the supply of the Goods does not exceed a set value for each recipient of goods within a 12-month period, and the goods are used as samples or commercial gifts, no deemed supply occurs. The supply of the gift and/or sample will be ignored for VAT purposes.
- No gift or sample is recognized in the case of barter transactions, i.e. whereby the goods/services are exchanged and consideration is received in kind – however VAT should be accounted for on the value of the barter transaction
- In some cases no gift or sample is recognized if the gift is absorbed the main supply e.g. post paid plan with a “free” mobile phone

## Return of goods



Returns involve the supplier allowing a customer to return their purchases as a result of fault, inadequacy or in some cases where a purchaser has changed their mind

### Attention points:

- Qualification of supply: refund of original supply or exchange of goods?
- Fee or charge involved?
- Invoicing obligations
- Compliance obligations

## Telecom and electronic services



Services which are delivered over the internet, or an electronic network, or an electronic marketplace.

The place of supply is where service is used and enjoyed irrespective of contractual arrangements.

### Examples:

- website supply, web-hosting and distance maintenance of programs and equipment;
- the supply and updating of software;
- the supply of images, text, information and the making available of databases;
- the supply of music, films and games;
- the supply of political, cultural, artistic, sporting, scientific, educational or entertainment broadcasts (including broadcasts of events);
- the supply of distance teaching.



## Profit Margin Scheme



The Profit Margin Scheme allows that, in some cases, VAT is only charged on the profit margin achieved on the supply rather than the full value

Condition: the goods were purchased from a supplier who is not registered for VAT or the goods were purchased from a supplier who is a Taxable Person who accounted for Tax on the supply by reference to the profit margin

### Attention points:

- Type of goods:
  - **Second-hand goods**, i.e. tangible moveable assets that are suitable for further use as it is or after repair
  - **Antiques** (i.e. goods over 50 years old); and
  - **Collector's items** (e.g. stamps, coins and currency and other pieces of scientific, historical or archaeological interest)
- Calculation method: the **difference between the purchase price and the selling price** of the Goods and the profit margin shall be deemed to be inclusive of Tax.
- Specific conditions apply with respect to **administration & bookkeeping**



## Business Promotion Schemes



Business promotion schemes take many forms e.g. vouchers, discounts, loyalty programs etc. Where a business promotion scheme is operated, careful attention should be given to ensure the VAT treatment applied to the transaction is correct

### Attention points:

- There is no definition of a loyalty program. Generally, they are rewards programs offered by a company to its customers who frequently make purchases. A loyalty program may give a customer discounts, free goods or services, special treatments etc.
- Where a discount is granted, VAT should be accounted for on the discounted value
- A voucher is any instrument that gives the right to receive Goods or Services against a stated value, including the right to receive a discount on the price of the Goods or Services. A taxable event occurs when the voucher is redeemed.
- The issuance or sale of a voucher is not a taxable event unless the received consideration exceeds the monetary value mentioned on the voucher.
- The supply of goods and/or services without consideration may be considered to be a deemed supply for VAT purposes

## Hospitality – Hotels vs. Residential accommodation



The provision of hotel accommodation will be subject to VAT at the standard rate, whereas the provision of residential accommodation will be exempt from VAT.

There are some key distinctions which indicate a supply of accommodation for someone to occupy is not residential accommodation, and therefore should be classified as hotel accommodation or similar.

### Residential accommodation

- a building intended and designed for human occupation including:
  - A person's principal place of residence
  - residential accommodation for students or school pupils
  - residential accommodation for armed forces and police
  - orphanages, nursing homes, and rest homes

### Non-residential accommodation

- A residential building is not any of the following:
  - any place that is not a building fixed to the ground and can be moved without being damaged
  - any building that is used as a hotel, motel, bed and breakfast establishment, or hospital or the like
  - a serviced apartment for which services in addition to the supply of accommodation are provided
  - any building constructed or converted without lawful authority