

الهيئة الاتحادية للضرائب
FEDERAL TAX AUTHORITY



VAT Awareness Session: Banking industry

Introduction



Update on current progress

- Successful roll out of general VAT awareness sessions took place in March - May 2017
- Phase 2 of the awareness sessions, targeted at specific industries is currently underway
- Federal Law No. 7 of 2017 on Tax Procedures
- Federal Decree-Law No. 8 of 2017 on VAT
- Cabinet Decision No (36) of 2017 on Executive Regulation of Federal Law No (7) of 2017 on Tax Procedures.
- Cabinet Decision No (39) of 2017 on FTA fees & Cabinet Decision N0. (40) of 2017 on Administrative Penalties
- VAT Executive Regulations will follow
- VAT registration portal is open



The FTA – who are we?


Federal Tax Authority


- Formed by the Government to administer VAT and Excise Taxes, plus any future taxes, introduced in the UAE.
- Responsible for collecting taxes and reviewing Taxable Person compliance.
- Available to provide guidance and direction to Taxable Persons in order to support them in meeting their tax compliance obligations.
- Decision making capacity in areas of tax technical complexity.
- Responsible for conducting tax audits and administering penalties.




Getting assistance from the FTA

The FTA is committed to helping Taxable Persons learn about VAT in an easy, accessible and straightforward manner. As a result, the following options are available:

- 

Publications, Notices, VAT Taxable Person Guide will be freely accessible at any time on the FTA website when launched
- 

E-learning modules will provide guidance on the basics of VAT and available on the FTA website
- 

VAT helpline can be used for general enquiries about the application of VAT



VAT Implementation

- **Implementation:** GCC vs UAE
- **GCC VAT AGREEMENT** is a framework agreement signed by all six GCC countries:
 - Broad framework that mainly states provisions for intra GCC trade
 - Gives countries discretion to choose treatment in certain sectors where it does not affect intra-GCC trade
 - Mutual agreement on some provisions such as the standard rate of VAT and the registration threshold
- **Federal Laws in the UAE:**
 - **TAX PROCEDURES LAW** governs the general rules and procedures relating to all taxes within the UAE
 - **VAT LAW** sets out the application of VAT within the UAE
- **VAT registration**

The GCC VAT Framework agreement is applicable to all GCC member states ...



The UAE's Federal VAT Law builds on the GCC Framework and applies to the UAE ...



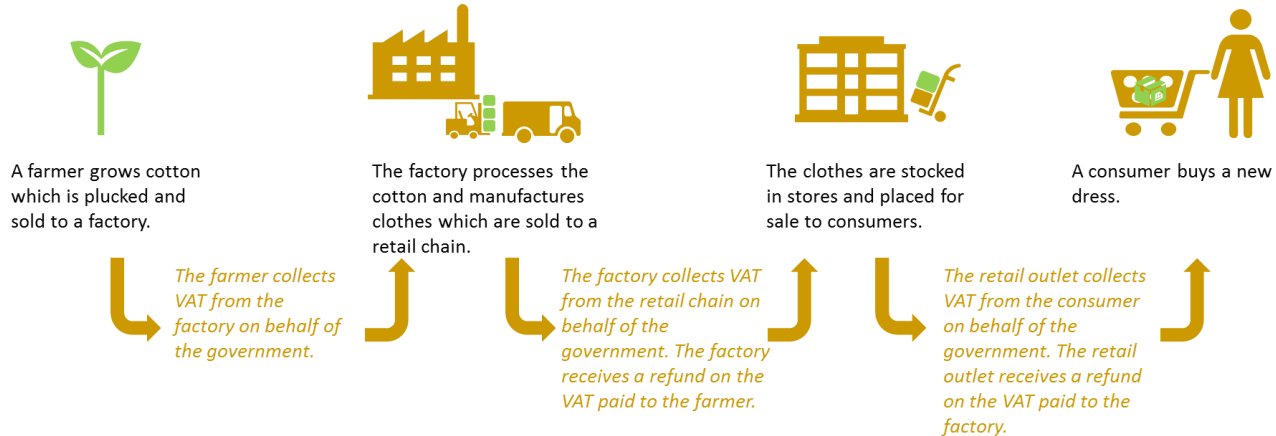
And is further detailed in VAT Executive Regulations.





Mechanics of VAT

A Worked Example



	Sales	5% VAT charged on Sales	VAT recovered on purchases	Net VAT payable
Farmer	AED 1,000	AED 50	AED 0	AED 50
Factory	AED 3,000	AED 150	AED 50	AED 100
Retailer	AED 5,000	AED 250	AED 150	AED 100
Total VAT paid by final consumer:				AED 250

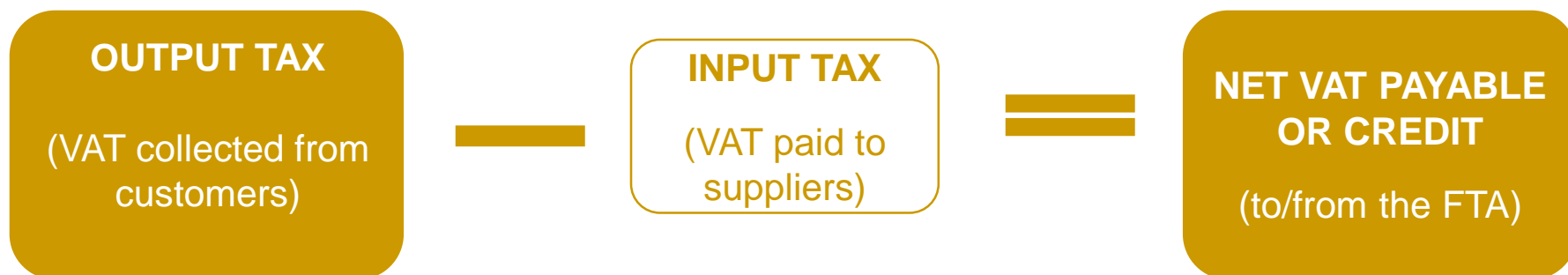
Net result = VAT is collected through the chain and the end-consumer bears the cost.



Mechanics of VAT

Output – Input VAT

- VAT-registered businesses will submit a “VAT return” document to the FTA on a periodic basis mentioning all output tax due and input tax recoverable for the period
- Net VAT payable or credit recoverable will be calculated as the following:



- “Final consumers” (i.e. persons not registered for VAT) do not submit VAT returns and cannot recover the VAT they are charged

VAT Registration



Registration: Who is required to register for VAT

- **Every taxable person resident** of a member state whose value of annual supplies in the member state exceeds or is expected to exceed the mandatory registration threshold
- The **threshold** for registration will be:
 - Mandatory registration threshold: **AED 375,000**
 - Voluntary registration threshold: at least **AED 187,500**
- The **mandatory** threshold will be **calculated** as follows:
 - Total value of supplies made by a taxable person for the previous 12 months; or
 - Total value of supplies of the subsequent 30 days exceed AED 375,000.
 - Value of exempted supplies will not be considered for computing the annual supplies
- The **voluntary** threshold will be **calculated** as follows:
 - At the end of any given month the total value of supplies or expenses subject to tax during the previous 12 months has exceeded AED 187,500.
 - At any time that he/she anticipates the total value of supplies or expenses subject to tax that will be incurred will exceed AED 187,500 during the coming 30 day period.



No threshold applies to **non established taxable persons** – they may be required to register



VAT Registration Turnover Calculation

“Taxable Supplies” include:

- Standard rated supplies
- Zero-rated supplies
- Reverse charged services received (provided the taxable person is responsible for accounting for the tax); and
- Imported goods (provided the taxable person is responsible for accounting for the tax).



How to register for VAT

- Where an entity is required to register for VAT, or would like to voluntarily register for VAT, it should complete a VAT registration form
- The VAT registration form is available via the FTA's online portal
- The VAT registration portal is open and available for both single VAT registrations and VAT group registrations
- During the application process, various documents will be requested to validate the information provided. It is advisable to have these to hand prior to starting the application and copies of the documents should be uploaded with the application.
- Supporting documents will include such items as:
 - Documents identifying the authorized signatory e.g. passport copy, Emirates ID
 - Trade license
 - Other official documents authorizing the entity to conduct activities within the UAE
- Following approval of the application a Tax Registration Number will be issued



The VAT registration form

- Simple process – approximately 15 minutes to complete the form
- The form should be completed by a person who is an authorized signatory of the business e.g. a Director, owner, someone holding Power of Attorney to sign on behalf of the business etc.
- Prior to completing the form ensure you have considered the following:
 - Are you required to register for VAT or are you registering voluntarily?
 - Are you applying for a single VAT registration or for registration as a VAT Group?
 - Have supporting documentation & information on hand to upload e.g. trade license, certificate of incorporation, Emirates ID, Articles of Association, bank account details etc.
- The VAT registration form will also ask you to provide details about your business, such as:
 - Description of business activities
 - Last 12 months turnover figures
 - Projected future turnover figures
 - Expected values of imports and exports
 - Whether you expect to deal with GCC suppliers or customers
 - Details of Customs Authority registration, if applicable



The FTA registration portal

The first time you access the portal you will be required to register your details

Monday 18 Sep 2017

eservices.tax.gov.ae/en-us

فربي Login Sign up

الهيئة الاتحادية للضرائب
FEDERAL TAX AUTHORITY

امارات العربية المتحدة
United Arab Emirates

-A | A | A+

Create user account
Sign up

Login to User Account
Login

Contact us
600 599 994 info@tax.gov.ae

Happiness Indicator

Best viewed with screen resolution of 1024 x 768 Supports the following browsers: Internet Explorer 10+, Firefox 23+, Chrome 35+, Safari 8+



The FTA registration portal

You will be required to create an account in order to gain access to the portal

The screenshot shows a web browser window with the URL `eservices.tax.gov.ae/en-us/signup`. The page title is "Sign up" and the subtitle is "Welcome to the Federal Tax Authority". The form contains the following fields and elements:

- Email address:** A text input field.
- Password:** A text input field with a strength indicator below it. A blue tooltip above the field states: "Password must be 6-20 characters long with at least one numeric, one alphabetic and one special character such as @, #, \$, %, &.".
- Confirm password:** A text input field.
- Enter security code:** A text input field with a CAPTCHA image showing the code "2872069".
- Select security question:** A dropdown menu.
- Answer:** A text input field.
- Hint:** A text input field.
- Agreement:** A checkbox labeled "I agree to Terms & Conditions of FTA".
- Sign up button:** A dark grey button with the text "Sign up" and a link "Already registered? Sign here" below it.



The FTA registration portal

As part of the account creation process, you will be required to verify your e-mail address. An email will be sent to your registered e-mail address with a link which you can click to verify your details and activate your account.



Thank you for signing up. Please follow the instructions sent on your email to verify your account.



Verify your email



Your account is enabled.
You can login on [this page](#)



Thank you for signing up. Please follow the instructions sent on your email to verify your account.

Contact us

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Happiness Indicator



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The FTA registration portal

After the first time accessing the portal, you will simply be required to login using your user details

The screenshot shows a web browser window with the URL `eservices.tax.gov.ae/en-us/login`. The page header includes the date "Monday 18 Sep 2017", a search bar, and navigation links for "Login" and "Sign up". The main content area features the FTA logo and the UAE coat of arms. A central "Login" form is displayed, containing the following fields and elements:

- Title: "Login"
- Welcome message: "Welcome to the Federal Tax Authority"
- Input field for "Email address"
- Input field for "Password"
- Text: "Enter security code:"
- Input field for the security code, with the value "904217" displayed.
- Text: "Forgot Password?"
- Dark "Login" button
- Text below the button: "If you are not registered, [register here](#)"



The FTA registration portal

Once you have logged in, you will need to navigate to the VAT registration form

DASHBOARD MY PROFILE DOWNLOADS

-A | A | A+

VAT

Excise tax

TAX

Register for VAT

Register for Excise Tax

Contact us

600 599 994 info@fta.com

Best view with screen resolution of 1024 x 768 Supports the following browsers: Internet Explorer 9+, Firefox 23+, Chrome 35+, Safari 8+

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<http://eservices.tax.gov.ae/en-us/user/dashboard>



The FTA registration portal

You will then be asked to complete the VAT registration form

The screenshot displays the FTA registration portal interface. At the top, there are navigation links for 'DASHBOARD', 'MY PROFILE', and 'DOWNLOADS'. Below this is a progress bar with eight steps: 1. About the applicant, 2. Details of the applicant, 3. Contact details, 4. Banking details, 5. Business relationships, 6. About the VAT registration, 7. Declaration, and 8. Review & submit. Steps 2, 3, and 4 are marked with green checkmarks, indicating they are completed. The current step is 'About the applicant', which is highlighted in a light blue box. Below the progress bar, the 'About the applicant' form is visible. It contains the following questions and options:

- On what basis are you applying for registration? *
Legal person - Public Joint Stock Company (PJSC) (selected)
- Do you hold a Trade License in the UAE?
 Yes No
- Are you also applying to create or join a VAT group?
 Yes No
- Are you registering mandatorily or voluntarily?
Mandatorily (selected)

At the bottom right of the form, there is a 'Save and next' button with a right-pointing arrow.



The FTA registration portal

If you require assistance during completion of the form, user guides and help sections will be available on the portal. Once you have completed the form and have checked that all of the details are accurate, you should click submit to send the form to the FTA. The FTA will then process the application and will respond to confirm your Tax Registration Number.



Downloads

Registration User Guide – Excise Tax

دليل المستخدم للتسجيل في الضريبة الانتقائية

Contact us

600 599 994 info@tax.gov.ae

Happiness Indicator



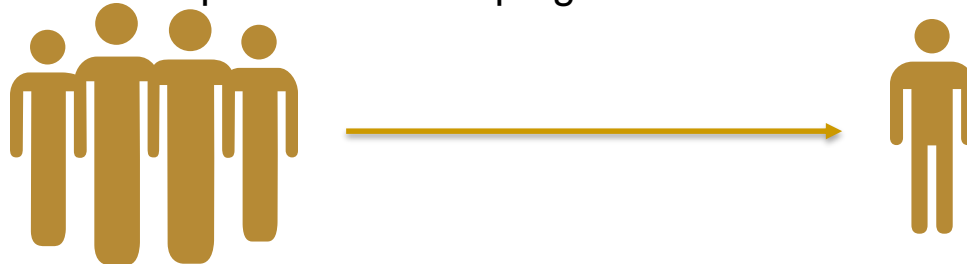
Best viewed with screen resolution of 1024 x 768 Supports the following browsers: Internet Explorer 10+, Firefox 23+, Chrome 35+, Safari 8+

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VAT Groups - Registration

- Each Member State may treat the Tax Group as a single Taxable Person
- Two or more persons carrying on a business are able to apply for a single “Group” VAT registration where:
 - Each person has a place of establishment or a fixed establishment in the UAE
 - The persons are “related parties”, and
 - Either one person controls the others, or two or more persons form a partnership and control the others
 - NB: there are special Tax Grouping rules for Government Entities - coming up.



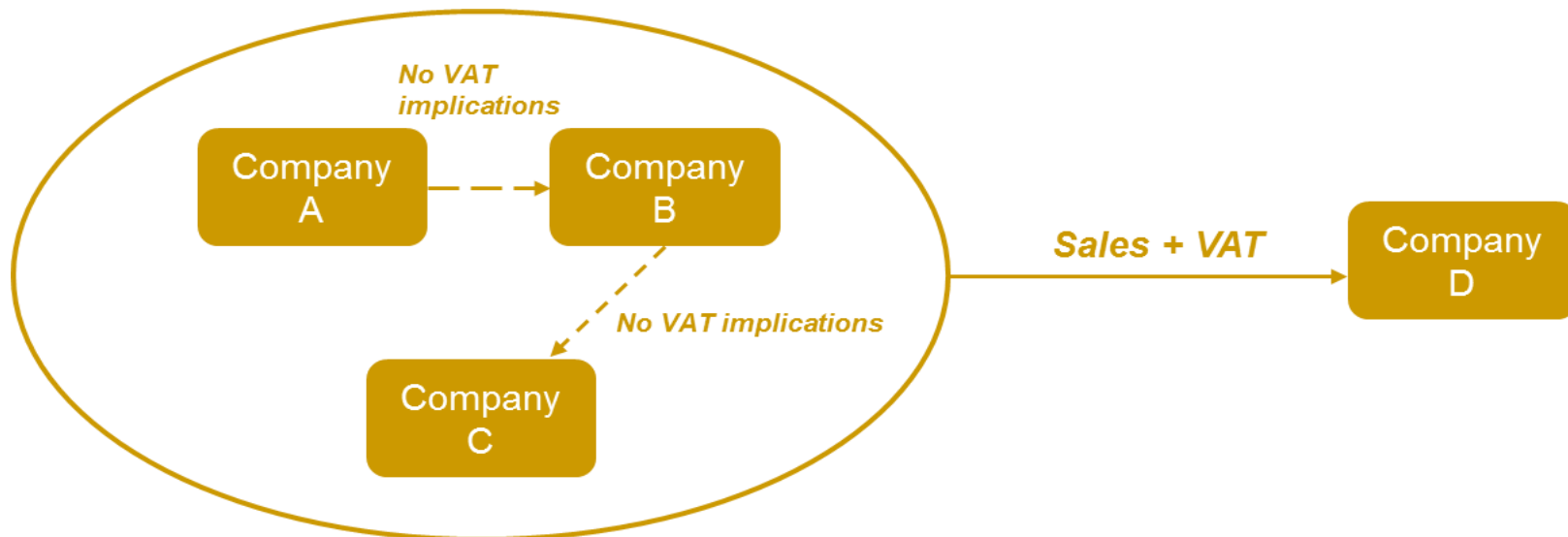
Two or more persons carrying
on a business (subject to
grouping conditions)

VAT group – for VAT purposes
the persons are now treated as
a single taxable person



VAT Groups - Registration

- **Effect:** entities within the VAT group are treated as one entity for VAT purposes
- **Results:**
 - supplies made between members of a VAT group are disregarded from VAT (i.e. no VAT is due on the supplies)
 - Supplies made by the VAT group to an entity outside the VAT group are subject to normal VAT rules





VAT obligation - Tax Return filing & Payment



- Submission **online**
- Deadlines for submission and payment:
 - the due date will be 28 days following the end of the return period
 - where the due date falls on a weekend or national holiday, the deadline shall be extended to the first following working day



- Late submission or payment can result in a penalty levied by the FTA



Record-keeping

The following records are required to be kept to ensure accurate tax compliance:

1

Books of account and any information necessary to verify entries, including, but not limited to:

- annual accounts;
- general ledger;
- purchase day book;
- invoices issued or received;
- credit notes and debit notes.

2

Additional records required for specific taxes

Different taxes may require different records to be kept in order for taxpayers to be compliant, for example, a VAT account.

3

Any other information as directed by the FTA that may be required in order to confirm, the person's liability to tax, including any liability to register.



Record-keeping

Taxable persons for VAT must in addition retain the following records for **at least 5 years**:

Invoices, credit/debit notes	Records of:	VAT account
<ul style="list-style-type: none">❖ All tax invoices and alternative documents related to receiving the goods or services❖ All received tax credit notes and alternative documents received❖ All tax invoices and alternative documents issued❖ All tax credit notes and alternative documents issued	<ul style="list-style-type: none">❖ All supplies and imports of goods and services❖ Exported goods and services❖ Goods and services that have been disposed of or used for matters not related to business❖ Goods and services purchased for which the input tax was not deducted	<ul style="list-style-type: none">❖ VAT due on taxable supplies (incl. those related to the reverse charge mechanism)❖ VAT due after error correction or adjustment❖ VAT deductible after error correction or adjustment❖ VAT deductible for supplies or imports



VAT invoices

VAT Invoice

- 'Tax Invoice' clearly displayed
- Name, address and TRN of supplier
- Name, address and TRN of recipient (if recipient is also registered for VAT)
- Sequential Tax Invoice number, or a unique number which enables identification of the Tax Invoice and the order of the Tax Invoice in any sequence of invoices
- Date of issuance
- Date of supply (if different from date of issuance)
- Description of goods or services supplied
- The unit price, quantity or volume, rate of tax and amount payable expressed in AED for each good or service
- The amount of discount offered
- Gross amount payable in AED
- Tax amount payable expressed in AED together with rate of exchange applied
- Where the recipient is required to account for tax, a statement that this is the case and reference to the relevant provision of the law (Article 48).

Simplified VAT Invoice

When can a simplified VAT invoice be issued?

A simplified tax invoice may be issued if:

- The recipient of goods or services is not a registrant.
- The recipient of goods or services is a registrant and the consideration for the supply does not exceed AED 10,000.

What should a simplified VAT invoice include?

- 'Tax Invoice' clearly displayed
- Name, address and TRN of supplier
- Date of issuance
- Description of goods or services supplied
- Total consideration and tax amount charged



Not less than 500 dirham
and not more than 3 times
the amount of tax for which
the penalty was levied



Penalties

Administrative Penalties - Examples

- Administrative penalties are intended to address non-compliance, and encourage compliance.
- The FTA has the power to waive or reduce penalties at its discretion (e.g. taxable person has a reasonable excuse for the error).
- Some **examples** of administrative violation:
 - ❖ If the person conducting a business fails to keep the required records and other information;
 - ❖ If the person conducting a business fails to submit the data, records and documents related to tax in Arabic language when requested by FTA;
 - ❖ If the taxable person fails to submit a registration application within the period required.



Up to five times the
relevant tax at stake and
a prison sentence



Penalties

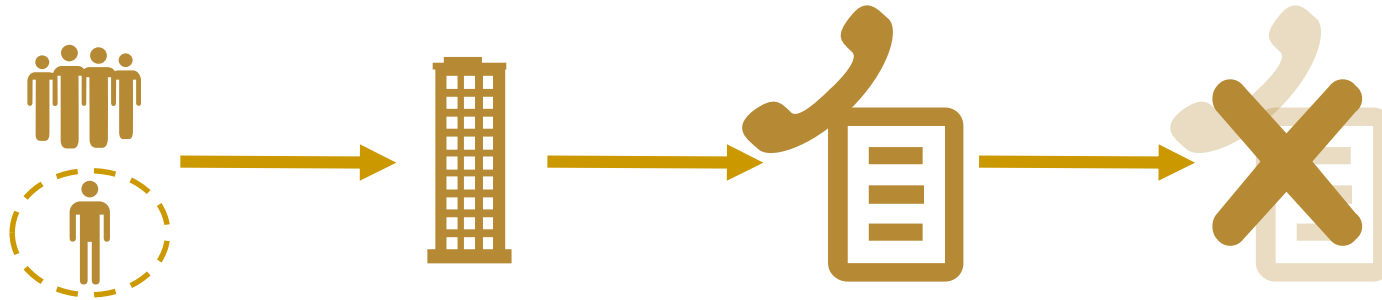
Tax Evasion Penalties - Examples

- The FTA can issue penalties for tax evasion.
- Tax evasion is where a person uses illegal means to either lower the tax or not pay the tax due, or to obtain a refund to which he is not entitled under law.
- The imposition of a penalty under tax law does not prevent other penalties being issued under other laws.
- Few **examples** of instances of tax evasion:
 - ❖ Where a person deliberately provides false information and data and incorrect documents to the FTA;
 - ❖ Where a person deliberately conceals or destroys documents or other material that he is required to maintain and provide to the FTA.



Audits

The FTA can visit businesses to inspect records and make sure persons are paying or reclaiming the right amount of tax, and are able to check whether businesses are liable to be registered where they are not.



1

FTA will **apply risk based selection criteria** to determine whom to audit

2

FTA will usually conduct the audit at the **person's place of business** or at the FTA offices

3

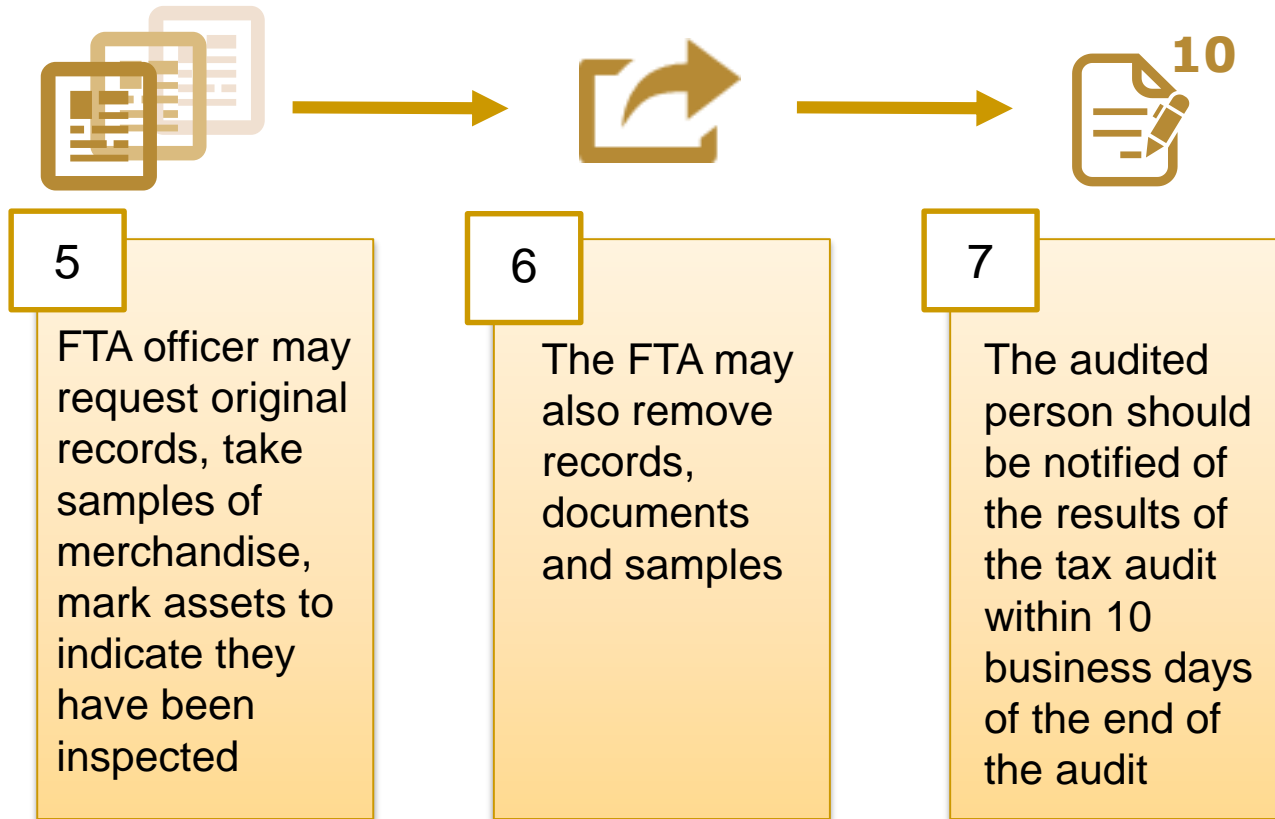
If audit at the person's place, must be informed at least **5 business days** prior to the audit

4

FTA can close the place of business for up to 72 hours (e.g. suspect tax evasion)



Audits



Overview of VAT



Special attention points in the financial services industry

1. What are financial services?
2. How are financial services defined?
3. How will financial services be treated under VAT?
4. What is the VAT liability on key activities in the financial services industry?
5. What are the issues around banks issuing invoices?
6. What are the rules around Islamic finance?
7. What is the process around registering and linking your online bank account to your TRN?
8. How might the financial industry be affected by the capital assets scheme?
9. What are the rules and processes around partial exemption?
10. What are the anti-avoidance measures in place?





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

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 of goods – 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



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

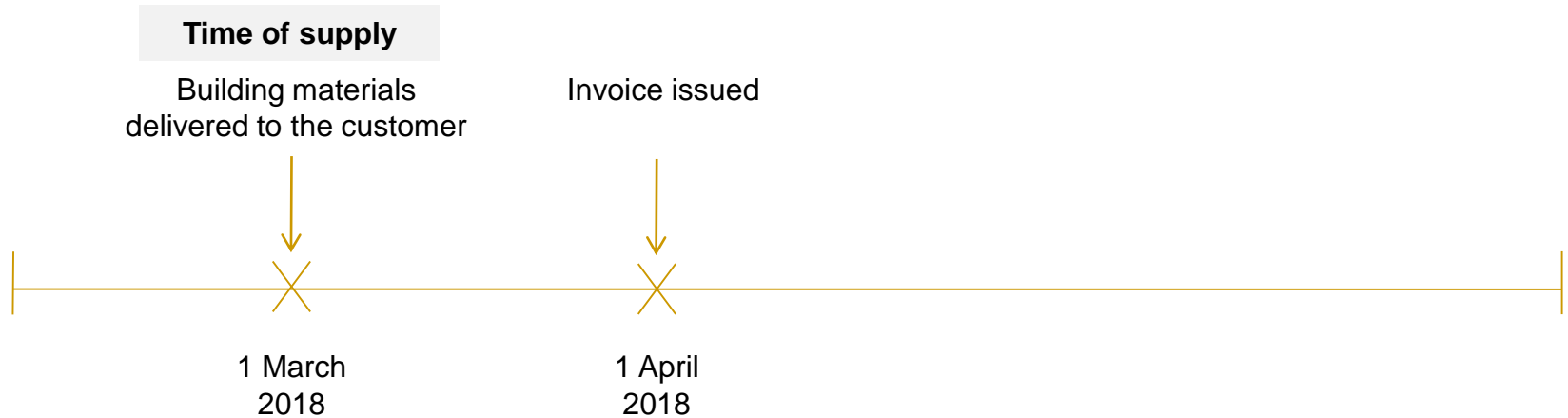
Continuous supplies & stage payments

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

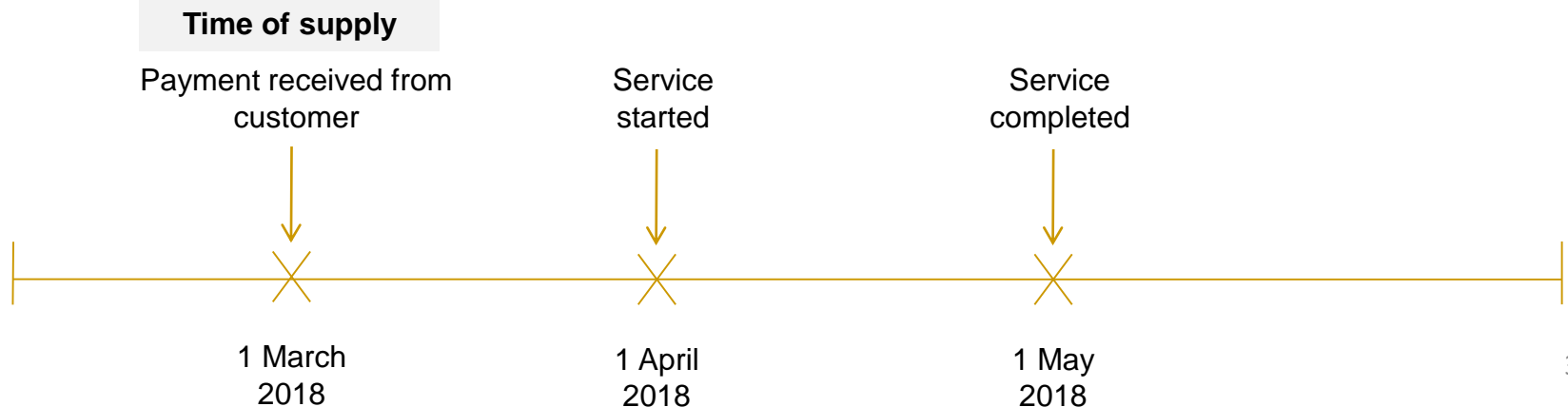


Date of Supply: Examples

Example 1



Example 2





VAT liability

Zero-rated supplies in the UAE (1/2)

- Zero - rated supplies are not subject to VAT – right to an input tax deduction on the corresponding expenses
- Should be applied **strictly** as they are an exception to the normal rule that VAT should be charged.
- Examples of zero- rated supplies include:



International transport of passengers and goods, and services related to such transport



Certain supplies of means of transport, and related goods and services



New residential buildings



VAT liability

Zero-rated supplies in the UAE (2/2)

Examples of zero-rated supplies include:



Newly converted
residential
buildings



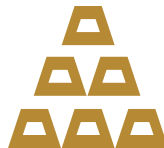
Charity related
buildings



Educational
services, in most
cases



Exported
goods and
services



Investment
precious metals



Healthcare
services, in most
cases



VAT Liability

Exempt supplies in the UAE

- Exempt supplies are not subject to VAT – no right to an input tax deduction on the corresponding expenses.
- Exemptions should be applied **strictly** as they are an exception to the normal rule that VAT should be charged.
- Examples of exempt supplies include:



Some specific
financial
services



Local
passenger
transport



Residential
buildings (other
than zero-rated
supplies)



Bare land



What are financial services?



Financial services are generally directly related to **money, dealings in money or its equivalent**, or the **provision of credit**.

Specialist types of finance:

- Hire-purchase, instalment credit finance, shares or loan stock.

Peripheral activities:

- Investment brokerage and the underwriting of securities.

VAT should be charged on financial services where practicable to do so.

Where fees or similar readily identifiable charges are made, these fees will generally be liable to VAT at the **standard rate**.



How are financial services defined(1/2)?

Currency exchange: Whether effected by the exchange of bank notes or coin, by crediting or debiting accounts, or otherwise.

Cheque or letter of credit: The issue, payment, collection, or transfer of ownership.

Debt security: The issue, allotment, drawing, acceptance, endorsement, or transfer of ownership around any interest in or right to be paid money that is, or is to be, owing by anyone, or any option to acquire any interest or right.

Providing any **loan, advance** or **credit**.

Debt security, equity security* or credit contract: The renewal or variation.

A guarantee, indemnity, security, bond: The provision, taking, variation, or release regarding the performance of obligations under a cheque, credit, equity security, debt security; and regarding activities listed for the points above.

*Equity security: interest or right to a share in the capital of a body corporate, or any option to acquire an such interest or right.



How are financial services defined (2/2)?

Bank accounts: The operation of any current, deposit or savings account.

Derivatives, options, swaps, credit default swaps and futures: The provision of transfer of ownership of these financial instruments.

Interest, principal, dividend: The payment or collection and also the payment and collection of any other amount regarding any debt security, equity security, credit or contract of life insurance.



Please note: Agreeing to do, or arranging financial services also counts as the provision of financial services.



How will financial services be treated under VAT? Standard rated services

Generally, financial services will be subject to **5% VAT** where they are supplied for:

- An explicit fee;
- discount;
- commission;
- rebate; or a
- similar type of charge.



These fees and charges are subject to VAT to the **extent** of the amount of that separately identifiable charge.



VAT incurred on costs wholly attributable to the standard rated supply can be **fully recovered**.



Examples of standard rated services

Types of financial service	Examples of fees liable to standard rate VAT
Operation of a bank account	<ul style="list-style-type: none"> • subscription fee • transaction services fee • account opening or closing fee • withdrawal fee • deposit fee • replacement card fee • cheque book fee • bank statement fee • maintenance fee
Money transfers	<ul style="list-style-type: none"> • transfer fee • Swift transfer fee
Cash	<ul style="list-style-type: none"> • cash handling fee • cheque cashing fee • fee for provision of change
Mortgages	<ul style="list-style-type: none"> • application fee • valuation fee • early repayment fee • administration fee • variation fee • sales agent commission fee • refinancing fee • mortgage statement fee • processing fee



Examples of standard rated services cont'd

Types of financial service	Examples of fees liable to standard rate VAT
Investment banking	<ul style="list-style-type: none"> • sales commission • participation fee • advisory fee • agency fee • administration fee
Card-related services	<ul style="list-style-type: none"> • card fee • authorization fee • cash withdrawal fee • ATM transaction fee • cardholder fee • statement fee • lost card fee • commission fee • overdraft fee • balance transfer fee
Currency exchange	<ul style="list-style-type: none"> • exchange fee • handling fee
Provision of safe custody facilities	<ul style="list-style-type: none"> • safety deposit box fee
Loans, advances or credit	<ul style="list-style-type: none"> • set up fee • documentation fee • renewal fee



How will financial services be treated under VAT?

Zero rated and exempt services

Zero-rated services

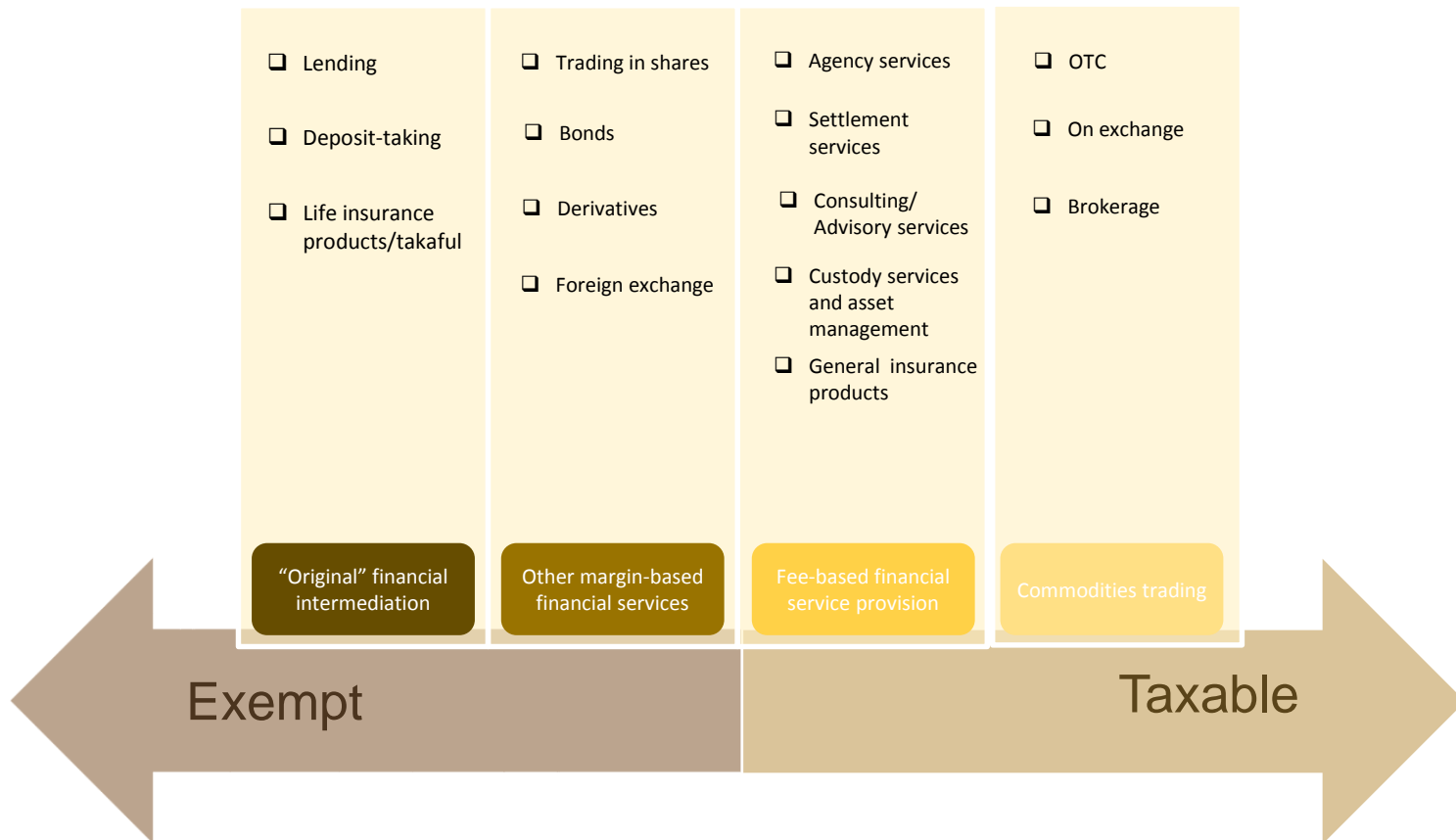
- Supply of financial services to a *recipient established outside the GCC*.
- Supply of *investment grade precious metals* (gold, silver, platinum at purity level of 99.9% and tradeable in global bullion markets).

Exemption

- Financial services if *remunerated* by way of an implicit margin.
- Examples: Equity security and life insurance contracts or the provision of re-insurance for life insurance.
- VAT cannot be recovered.



Examples of typical categorization of transactions





What are the rules around Islamic finance?

Islamic financial arrangement: A written contract which relates to a supply of financial in accordance with the principles of Shari'ah.

Generally, VAT will be applied in the **same way** to an Islamic financial arrangement as a non-Islamic financial product that is intended to achieve the **same result** as a non-Islamic financial product.

Note

The Regulations allow flexibility to ignore supplies only made for financing purposes or to redirect the person to whom a supply is deemed to be made in order to simulate the Western equivalent treatment

What about non-equivalent products?

The underlying purpose, features and circumstances of the product **must** be taken into account when determining the appropriate VAT treatment.



Islamic finance: An example of Murabaha

A commodity Murabaha entered into for lending purposes will be treated as a **loan** for VAT purposes. The Regulations allow FTA to ignore the underlying commodity trade and treat it as a direct sale to the borrower from the vendor.



Explicit fees = **taxable**



Fees made in accordance with Shar'iah law and considered to be the equivalent of non-Islamic products = **exempt**



Profit on deferred payment terms = **exempt**



Tax invoices



Article 65 of the UAE VAT law states that a taxable person making a taxable supply needs to issue an original tax invoice and deliver it to the recipient of goods or services.



Banks providing taxable financial services will need to ensure they have the capabilities in place to issue invoices and ensure they keep appropriate records around these transactions for five years.



Certain simplifications around the issuing of tax invoices will exist:

- Where the supply is made to a non-registered person, you may choose to issue a simplified invoice regardless of the value of the supply
- Where the supply is made to a registered person, you may issue a simplified invoice if the value of the supply is less than 10,000 AED
- Monthly invoicing is currently envisaged also



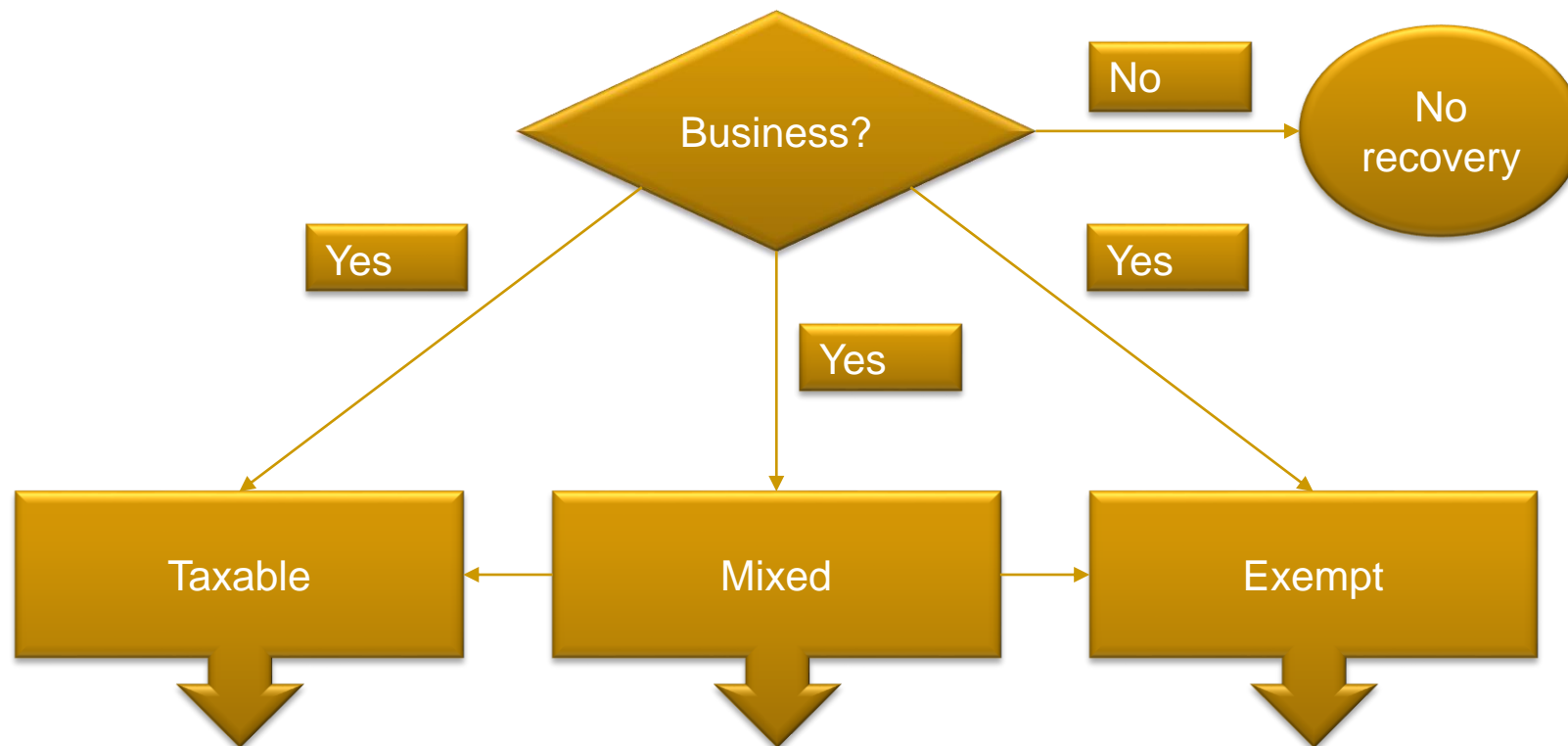
Input Tax Recovery | Conditions

In order for input tax to be deductible by a person, a number of conditions must be satisfied by the recipient of the supply:

- 1) Recipient must be a **taxable person** and must be registered for VAT
- 2) VAT on the purchase must have been **correctly charged** by the supplier
- 3) The goods or services have been acquired for an **eligible purpose**
- 4) Recipient must received and retained a tax invoice **evidencing the transaction**
- 5) The amount of VAT which the recipient seeks to recover must **have been paid** in whole or in part, **or intended to be paid** in whole or in part
- 6) Certain incurred VAT **is specifically blocked** from being recoverable as input tax regardless of whether the above conditions have been met



Input tax apportionment



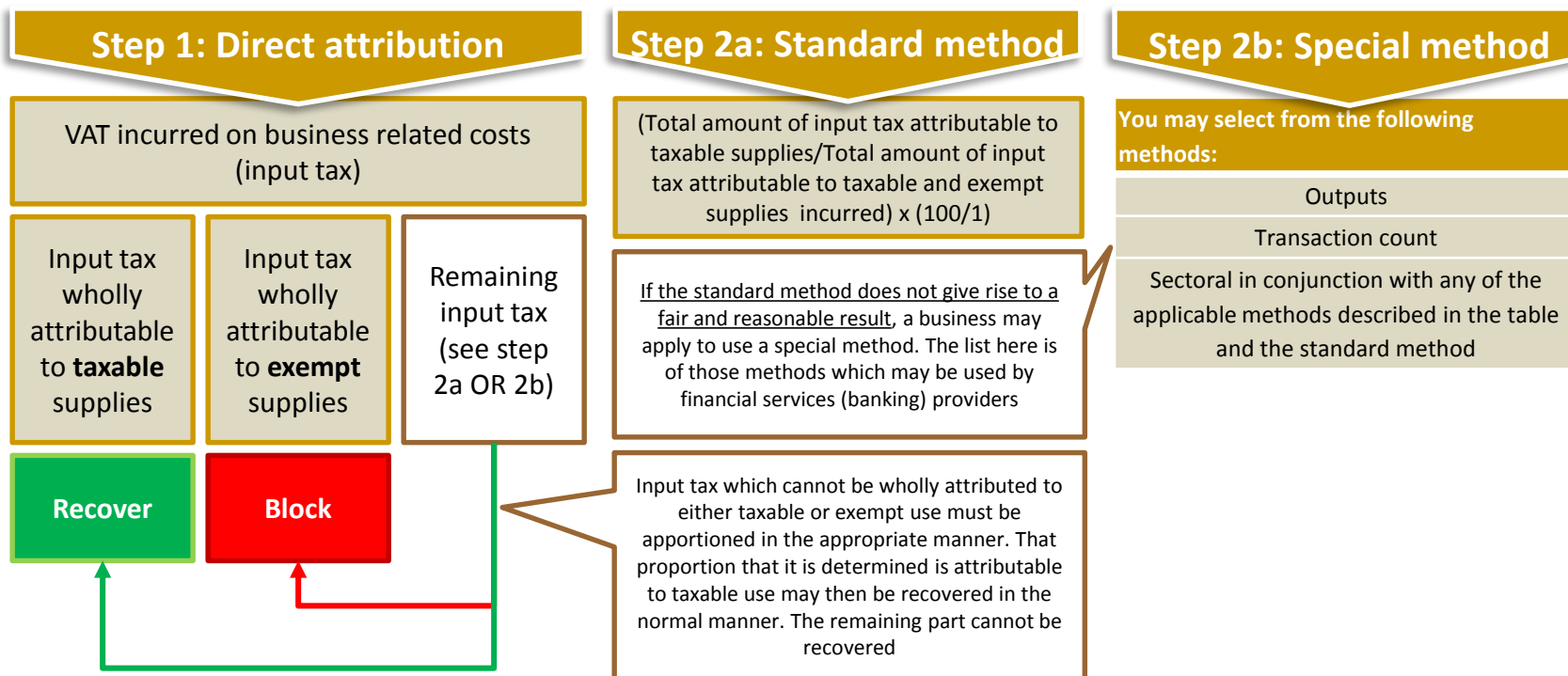
Calculate recoverable portion of 'mixed' input tax by reference to the ratio of: input tax relating to taxable supplies (T) to the sum of the input tax relating to taxable supplies (T) plus the input tax relating to exempt supplies (E)

$$\text{Recoverable 'mixed' input tax} = \frac{T}{T+E}$$



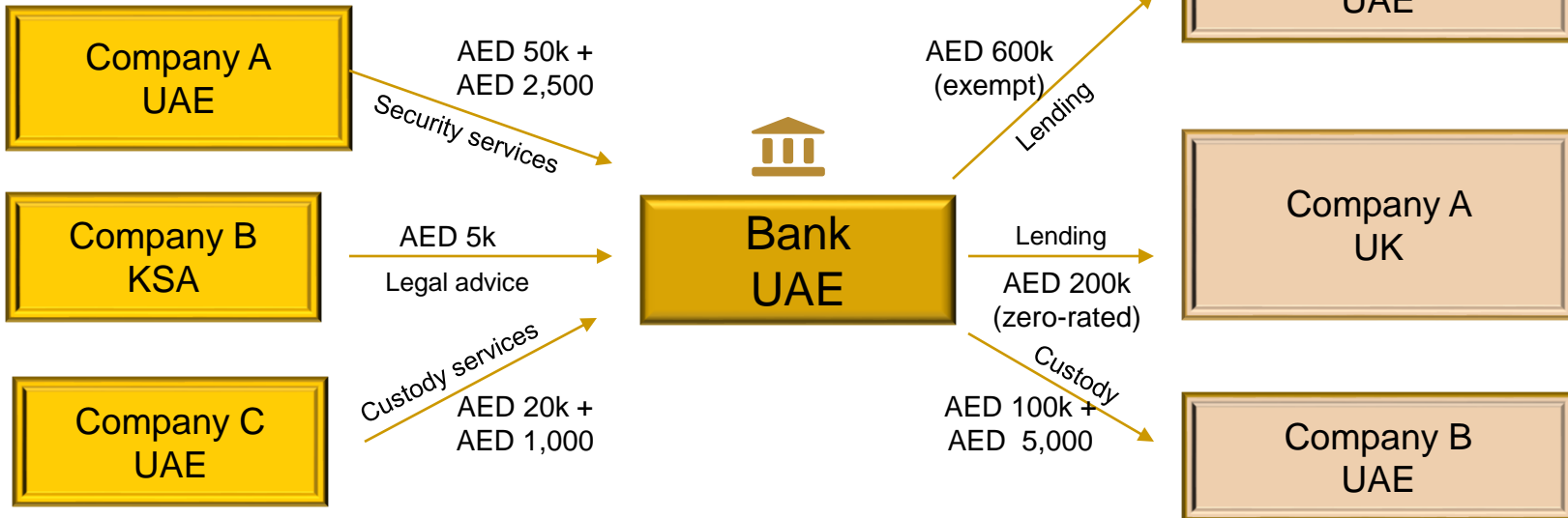
Partial exemption

Financial service providers will be required to **apportion VAT incurred on costs (input tax)** in accordance with use. Input tax that is used in the making of taxable supplies can be recovered in full. Input tax that is used in the making of exempt supplies cannot be recovered. An **apportionment of input tax is required where the VAT incurred it is used to make both taxable and exempt supplies** (e.g. overheads):





How a bank may apportion input tax



Transactions	Input VAT	Output VAT	Nature activity	VAT recovery right / method
Security services	2,500 AED	-	NA	Mixed activities - apportionment
Legal advice	250 AED	TBC	NA	Mixed activities - apportionment
Custody services	1,000 AED	-	NA	Taxable activity – fully recoverable
Lending	-	-	Exempt	NO
Lending (non-GCC)	-	-	Zero-rated	YES
Custody	-	5,000 AED	Taxable	YES



Special methods for partial exemption explained

Please note: Written approval from FTA must be obtained in advance of the use of any special method. An annual adjustment must also be carried out under the method.



Outputs based method

Simple

Easily distorted and can generate unreasonable results

$$\frac{\text{Taxable supplies}}{\text{Taxable and exempt supplies}} \times (100/1) \times \text{Residual input tax}$$

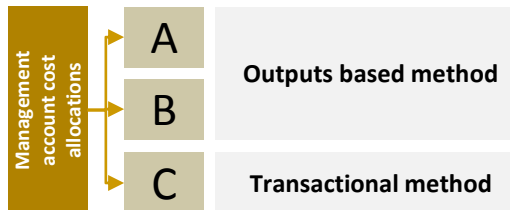


Sectoral method*

Flexible
Resists distortions

Can be complex to administer and audit

Commonly used by major banks



*A business can be "sectorised" in the sense that its constituent parts can be separately identified, costs (and VAT thereon) allocated to each sector in accordance with agreed accounting principles, with each sector potentially operating its own special method



Transactional method

Simple

Presumes similar "use" of input tax per transaction

$$\frac{\text{Taxable transaction count}}{\text{Total transaction count}} \times (100/1) \times \text{Residual input tax}$$

Commonly used by fund management companies, funds, and leasing companies



Anti-avoidance measures around partial exemption methods

The **use of a special partial exemption method is not guaranteed**; permission for its use on a prospective basis must be obtained from the FTA prior to its use. **Special methods will only take effect in the tax year following the tax year in which approval was obtained.** Any of the proposed **special methods will be subject to verification by the FTA, and confirmation from the proposer that:**

1 It produces a fair and reasonable result given the circumstances of the taxpayer. An applicant must provide the FTA with an illustrative example of the results obtained under each method as well as its proposed method.

2 The data used in the calculation is verifiable by the FTA and cannot be manipulated artificially

3 The method will be reviewed every 2 years and immediately upon the method generating an improved recovery of more than 10% compared to its first use

4 The method is subject to being overridden where it is obviously distorted in respect of any transaction(s) or more generally

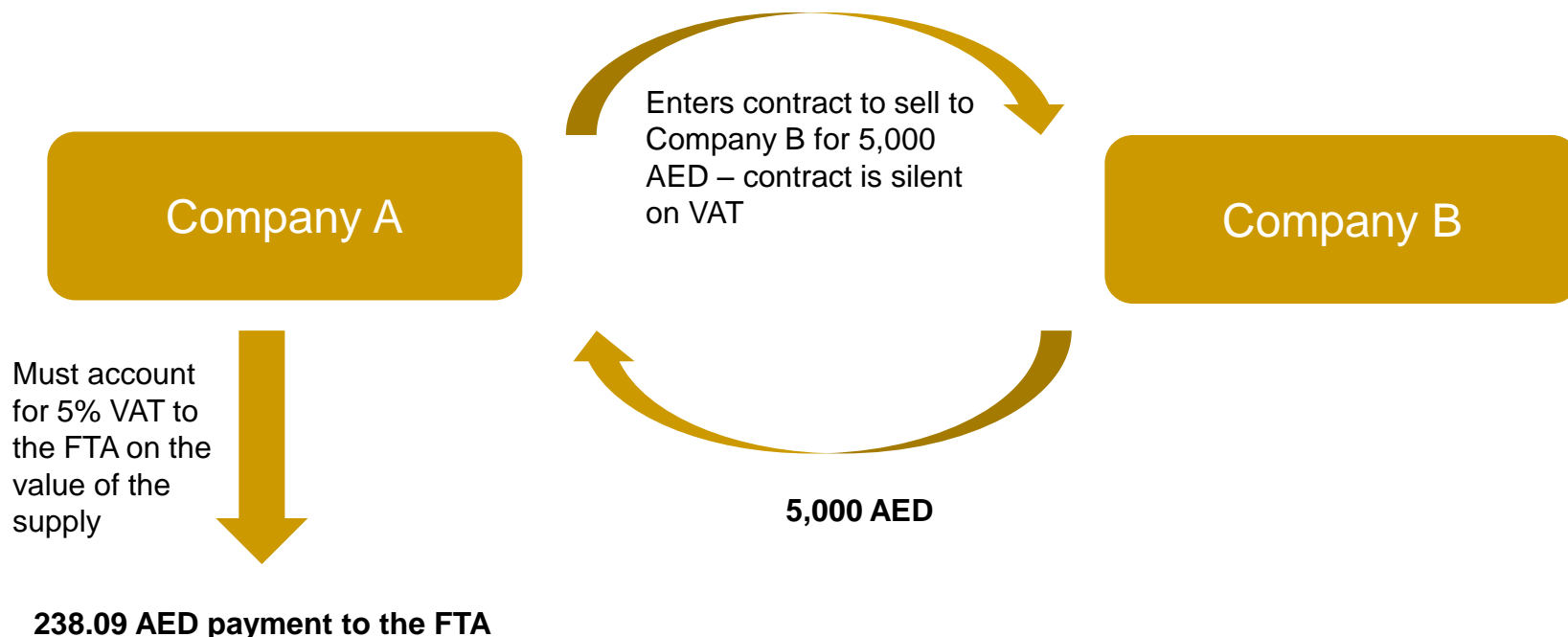
5 It is accepted that permission for its use may be withdrawn by the FTA at any time where it considers it necessary for the protection of public revenue



Transitional Rules - Contracts

Where a contract is entered into prior to the effective date of the VAT law which concerns a supply made wholly or partly after the effective date of the VAT Law, VAT will be due on the supply taking place after the effective date of the VAT Law.

If the contract does not mention VAT, the value of the supply stated in the contract shall be treated as **inclusive of VAT**.





Transitional Rules - Contracts

However, where Company B is registered for VAT and is entitled to full VAT recovery on costs incurred, Company A can treat the contract as if the price stated was exclusive of VAT and is able to charge VAT to Company B in addition.





Transitional Rules – Early invoicing or payment

Where an invoice is issued or payment is received prior to the date the VAT Law comes in to effect, the value of the payment/invoice will be subject to VAT where the following takes place **after the date the VAT Law comes in to effect:**

- Transfer of goods under the supplier's supervision
- Goods are placed in the possession of the recipient of the goods
- Completion of assembly of the goods
- A customs statement is issued
- The customer accepts the supply of goods

The rules above are intended to avoid invoices being issued or payments being made prior to the effective date of the VAT law for supplies of goods which effectively take place after the effective date of the VAT law, for the purposes of avoiding tax.



Capital assets scheme

- Adjustment of VAT recovery on costs incurred relating to large value capital assets with a long useful life.
- Intended to reflect the use of the asset for taxable or exempt purposes over its useful life – intended use of the asset may change over time and VAT recovery based on intended first use may not fairly reflect its use over time.

WHAT?

Qualifying assets > 5,000,000 AED on which VAT was payable:

- Building or a part thereof: useful life > 120 months
- Other than building or parts thereof (e.g. computer): useful life > 60 months

ON WHAT PERIOD?

- Building or a part of a building – 10 years
- Assets other than a building – 5 years



Capital assets scheme: Adjustment calculation

Year 1: Recover input tax incurred on the purchase of the asset based on the expected taxable use of the asset e.g. 100% taxable use, therefore recover all input tax incurred in full.

Year 2 – 10: Adjust input tax recovery for that year based on that year's taxable use e.g. total input tax incurred / 10 years = input tax for year 2 x difference between initial recovery percentage and actual taxable use.

Total input tax on capital item

Adjustment period

X

(Original taxable use % – actual taxable use %)

=

Additional VAT recoverable from FTA / additional VAT payable to FTA



Capital assets scheme: Example

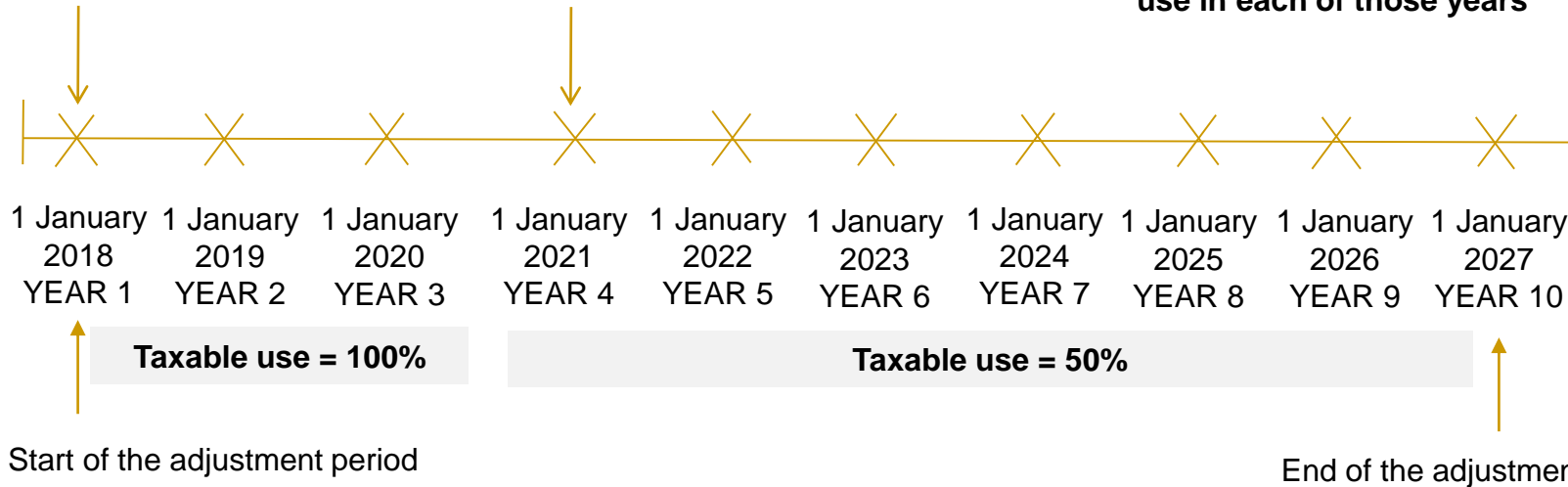
Acquisition of the high value item

VAT recovery = 250,000 AED

$(250,000/10) \times 50\% =$
12,500 AED due to the FTA



The bank must repay 12,500 AED of input VAT to the FTA each year in Years 4 – 10 on the basis that the building is used for 50% taxable use in each of those years



NOTE: No capital asset adjustment is required in Years 2 & 3 as the taxable use of the building remains the same as the taxable use in Year 1 i.e. 100%