

الهيئة الاتحادية للضرائب  
FEDERAL TAX AUTHORITY



United Arab Emirates

# VAT Awareness Session: Free Zone Companies

# 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



## When will VAT be implemented?

- **Implementation date:** 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

### 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:

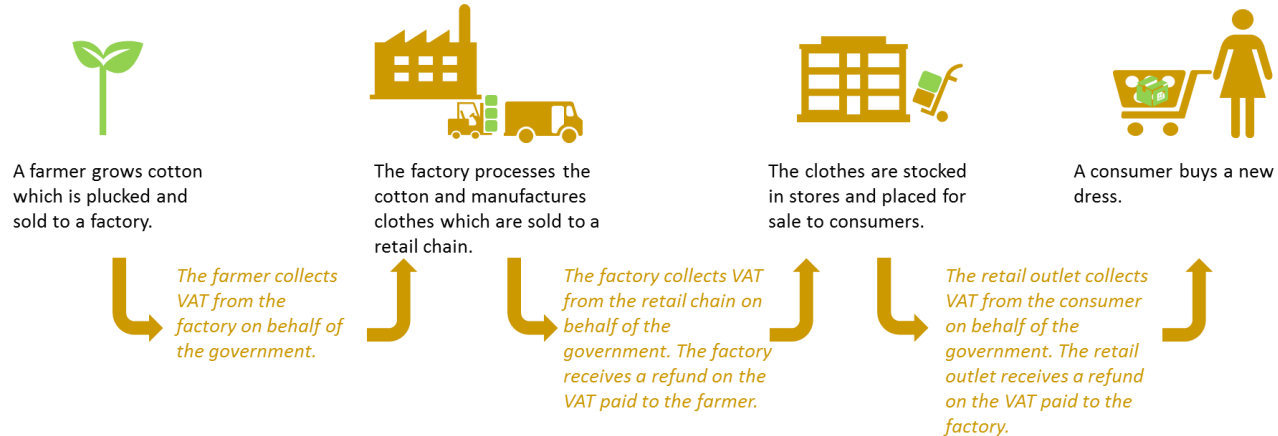


- “Final consumers” (i.e. persons not registered for VAT) do not submit VAT returns and cannot recover the VAT they are charged



# 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.**





## 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

# 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**
- 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
  - Value of exempted supplies will not be considered for computing the annual supplies

 **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.
- 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, 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

العربي Login Sign up

الهيئة الاتحادية للضرائب  
FEDERAL TAX AUTHORITY

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 header includes the date "Monday 18 Sep 2017", the FTA logo, and the UAE coat of arms. The main content is a "Sign up" form with the following fields and options:

- Email address:** A text input field.
- Password:** A text input field with a strength indicator below it. A blue tooltip states: "Password must be 6-20 characters long with at least one numeric, one alphanum 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 number "2872069".
- Select security question:** A dropdown menu.
- Answer:** A text input field.
- Hint:** A text input field.
- I agree to [Terms & Conditions of FTA](#)
- Sign up:** A grey button.
- Already registered? [Sign here](#)





## 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

600 599 994 | [info@tax.gov.ae](mailto:info@tax.gov.ae)

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

Federal Tax Authority

Federal Tax Authority

Monday 18 Sep 2017

eservices.tax.gov.ae/en-us/login

الهيئة الاتحادية للضرائب  
FEDERAL TAX AUTHORITY

الإمارات العربية المتحدة  
United Arab Emirates

### Login

Welcome to the Federal Tax Authority

Email address

Password

Enter security code:

904217

Forgot Password?

Login

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. The main content area is titled 'About the applicant' and contains the following form fields:

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

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



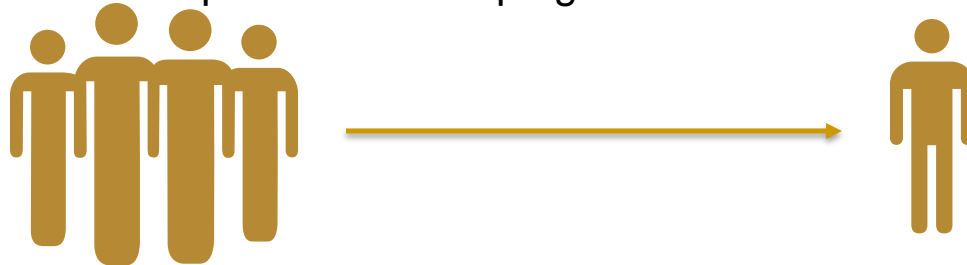
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## VAT Groups - Registration

- 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.



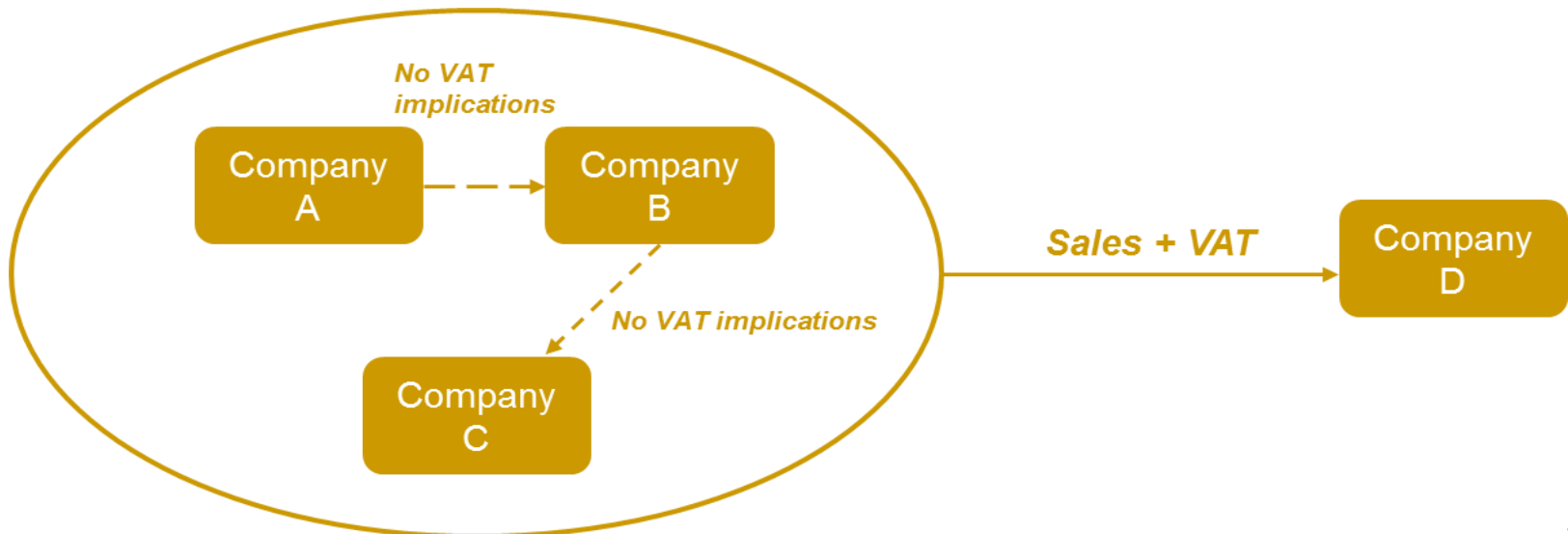
Two or more persons carrying  
on a business (subject to  
grouping conditions)

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



## 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

- '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).
- Few **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

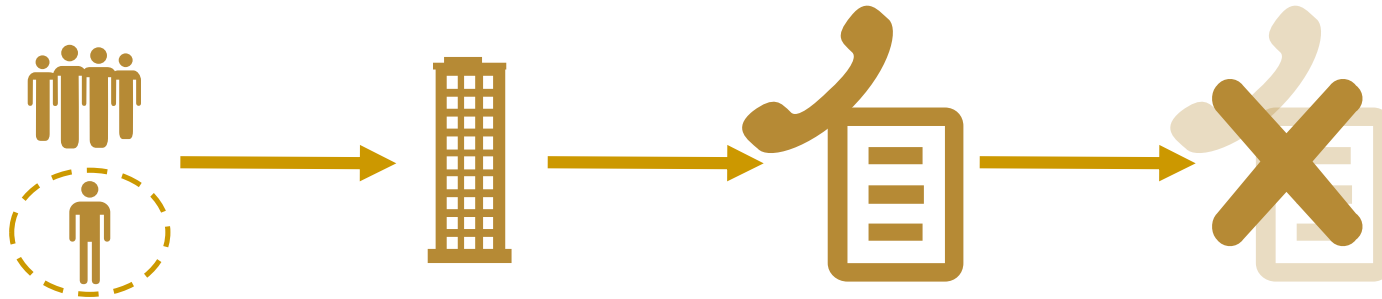
### Tax Evasion Penalties - Examples

- 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

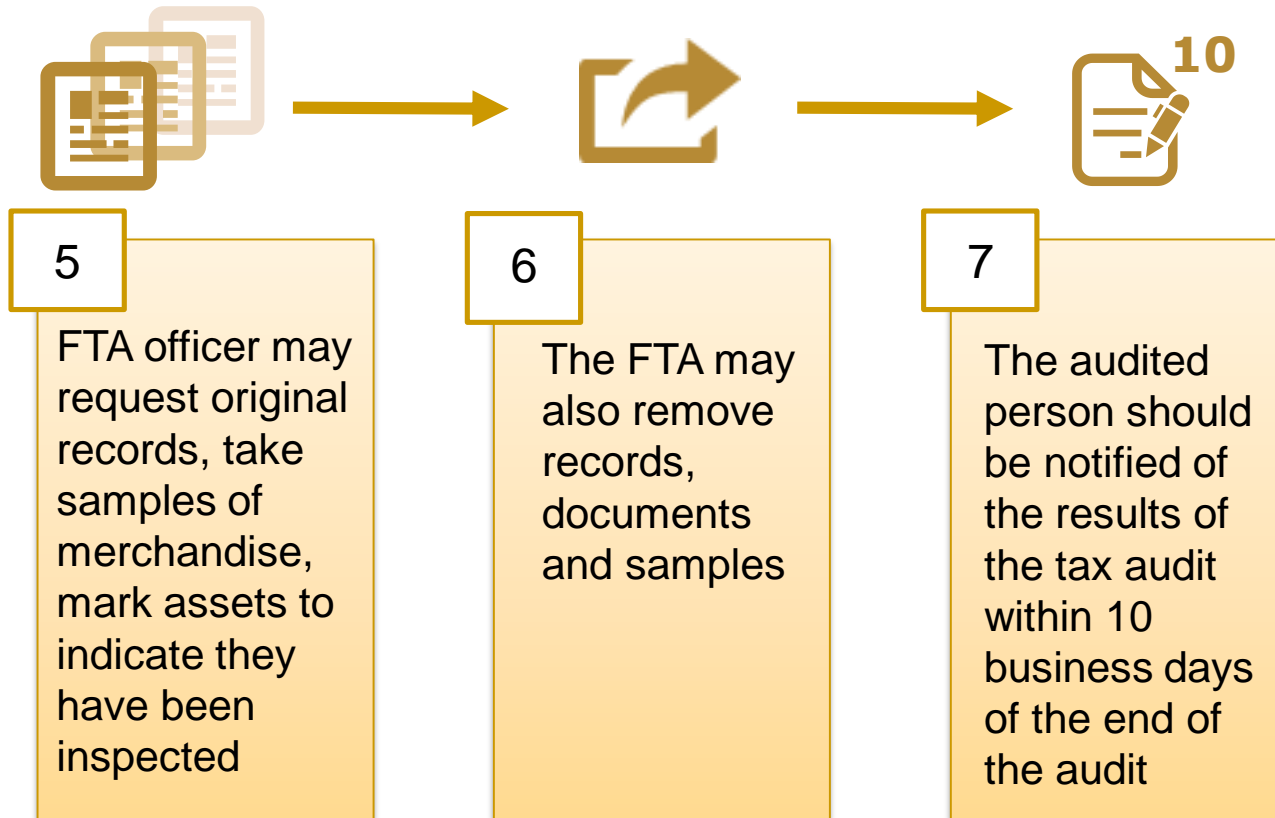
If audit at the person's place, must be informed at least **5 business days** prior to the audit

4

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



## Audits





## 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

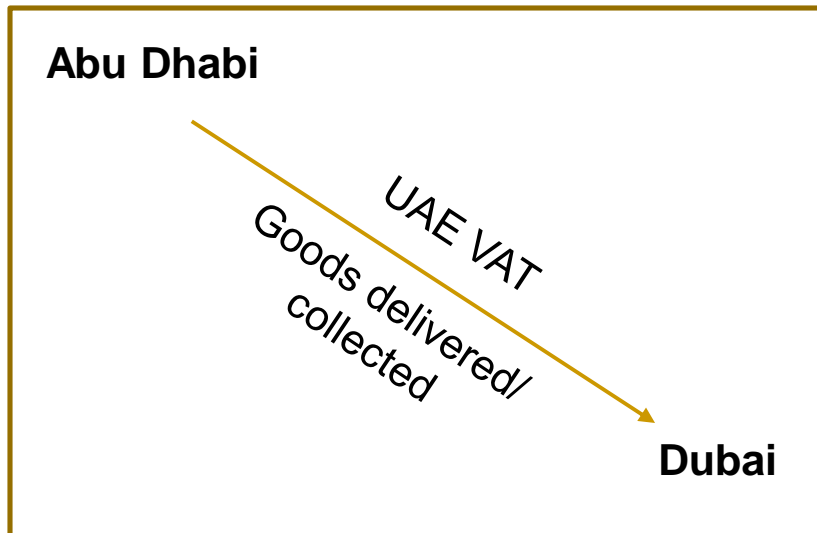
- **Basic rule:** the place of supply is where the supplier has the place of residence
- **Special rules**, for example:
  - ❖ Cross-border supplies of services between businesses
  - ❖ Electronically supplied services – where services are used or enjoyed



## Place of supply | Goods | Basic rule examples (1/3)

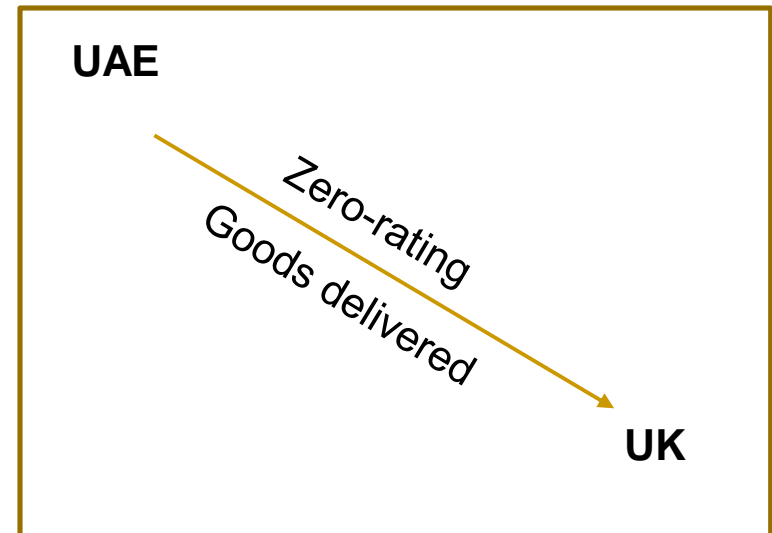
### — Domestic Supplies —

- 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

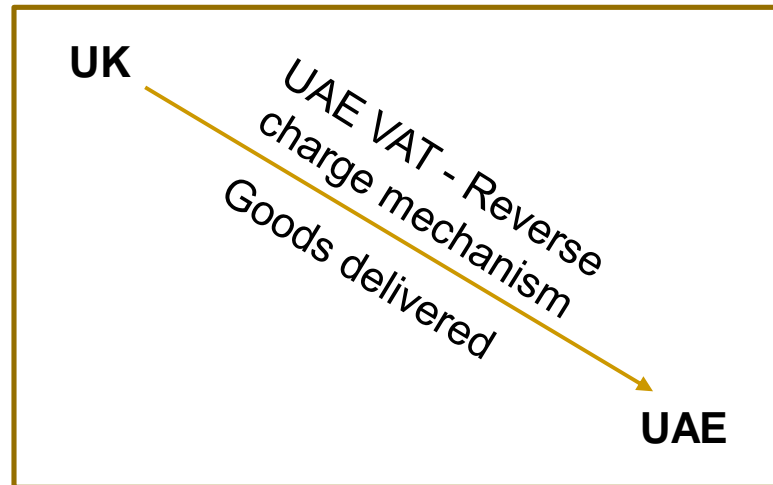




## Place of supply | Goods | Basic rule examples (2/3)

### B2B Import into UAE from outside 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





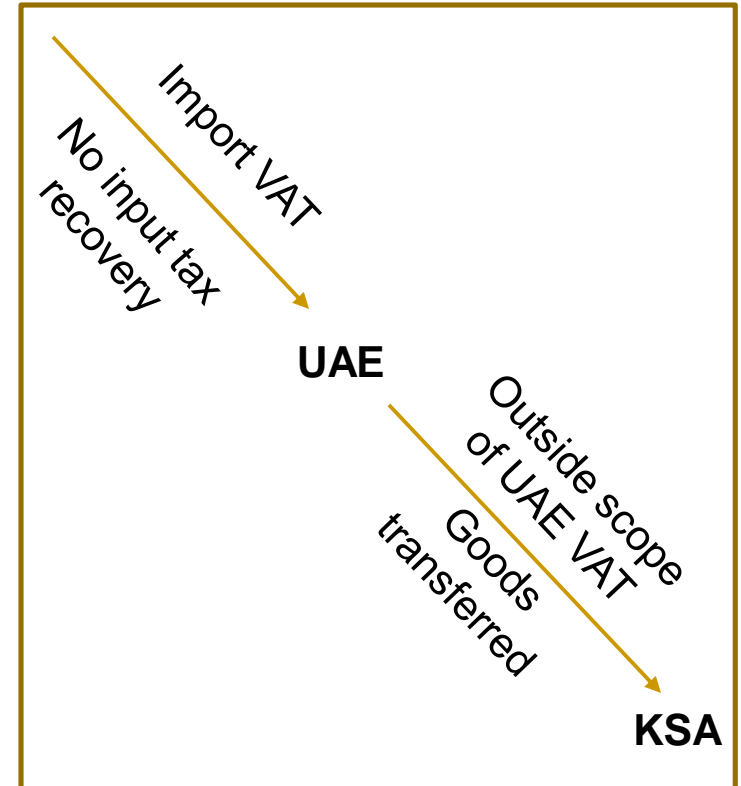
## Place of supply | Goods | Special rules for GCC (1/3)

### — Arrival of goods followed by movement of goods within GCC —

**A** Where at the time of arrival the intention is that 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 (no recovery)
- This import VAT should be recoverable in the GCC State to which the goods are transferred

**B** Where import VAT is paid and recovered (on the basis of no intended movement), the importer will be required to “repay” the import VAT by treating the transfer as a deemed supply subject to VAT.



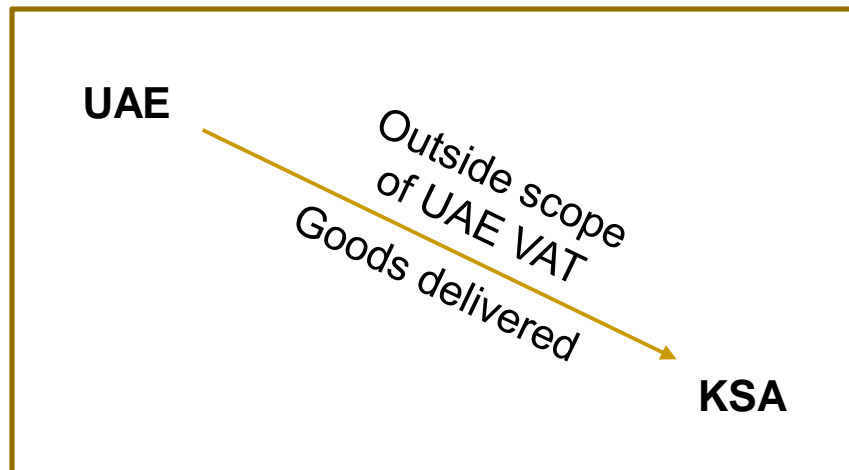


## Place of supply | Goods | Special rules for GCC (2/3)

### — 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 the GCC State where the goods are delivered; and
- the goods are exported outside the UAE

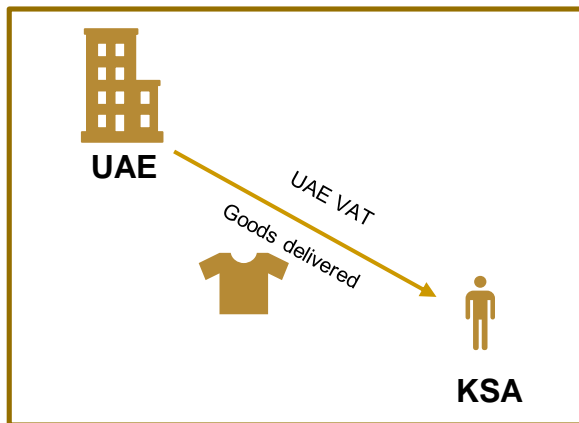




## Place of supply | Goods | Special rules for GCC (3/3)

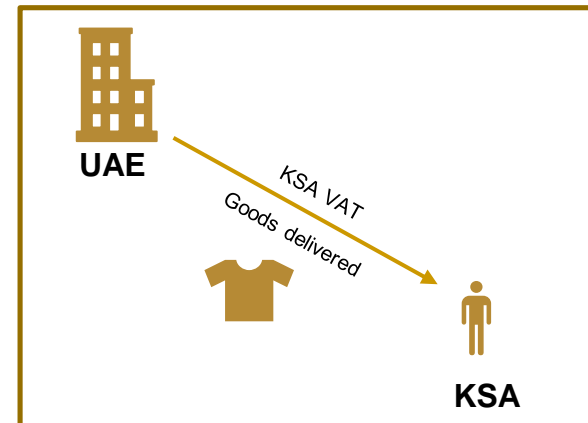
### Below threshold

- 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







## Place of supply | Services | Key rules (1/3)

### 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 supplied services – where services are used or enjoyed

**IMPORTANT:** the basic rule always applies unless overridden by a special rule

1

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

Offshoring

2

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

Onshoring

3

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

Installation



## Place of supply | Services | Key rules (2/3)

### 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

**IMPORTANT:** the basic rule always applies unless overridden by a special rule

4

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

Hotels etc

5

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

Land-related

6

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

Transportation



## Place of supply | Services | Key rules (3/3)

### 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

**IMPORTANT:** the basic rule always applies unless overridden by a special rule

7

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**

Vehicle rentals

8

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

Telecoms; e-serv

9

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

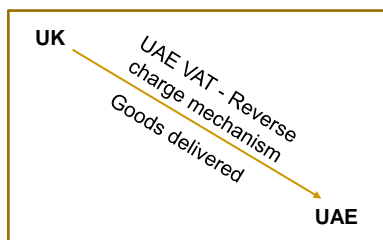
Cultural etc



## Place of Supply | Reverse charge

### B2B Import into UAE from outside 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



### 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

**IMPORTANT:** the basic rule always applies unless overridden by a special rule

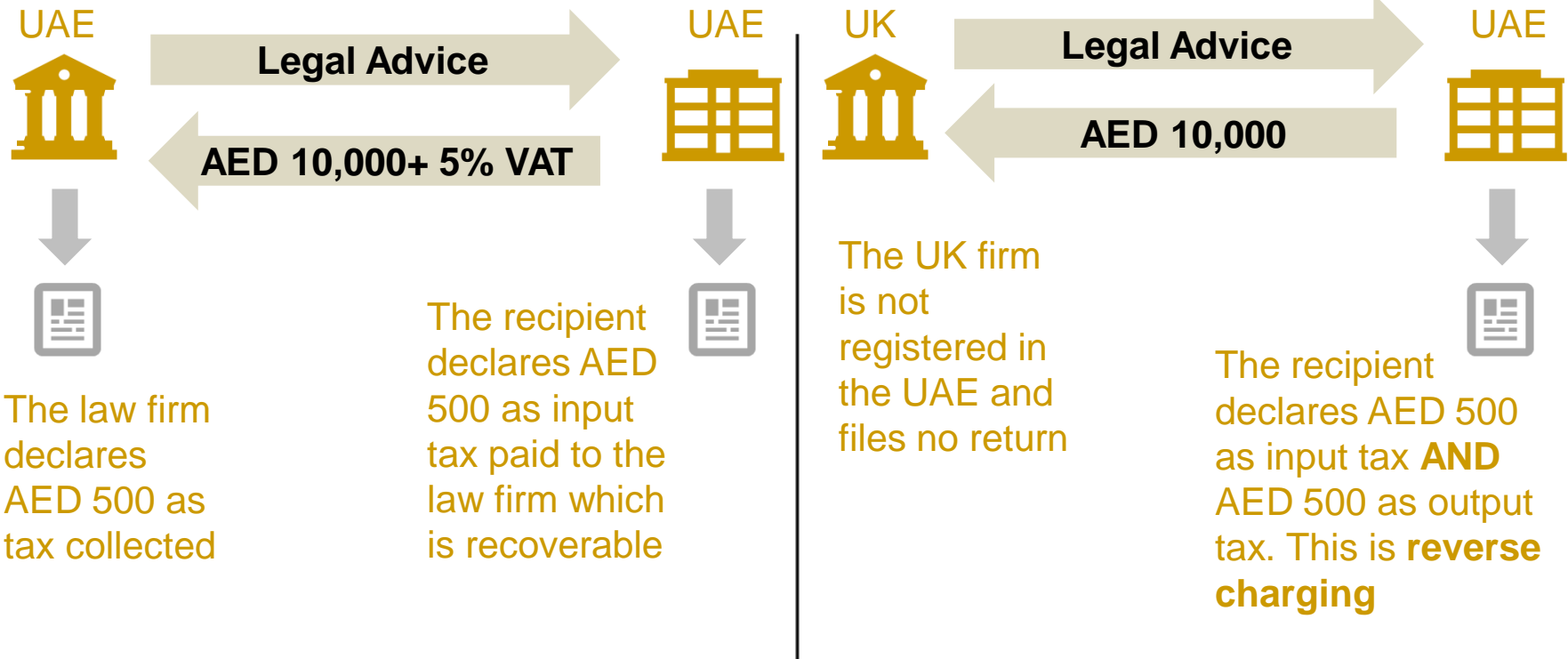


## Requires use of the reverse charge mechanism

- In situations where a VAT registered person imports goods or 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



## Place of Supply | Reverse Charge | Example



This approach puts local and international suppliers on the same footing



# 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

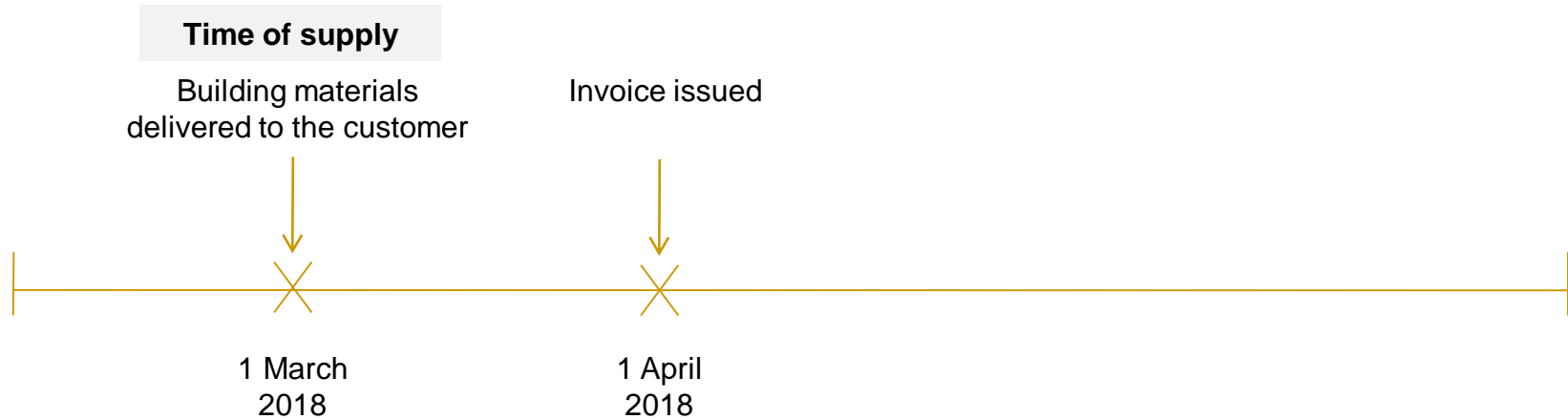
### Continuous supplies & stage payments

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

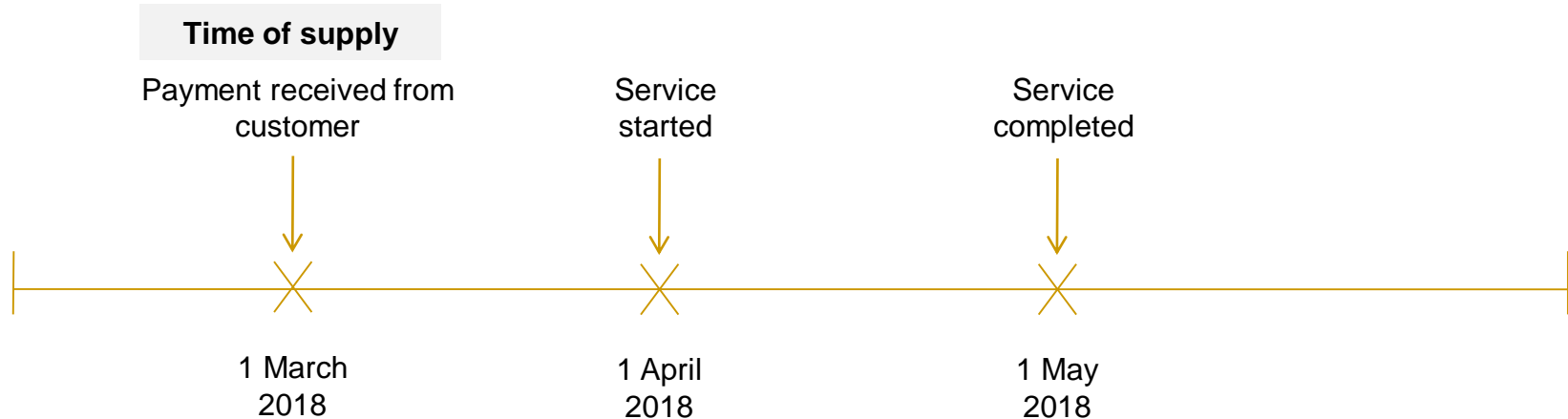


## Date of Supply: Examples

### Example 1



### Example 2

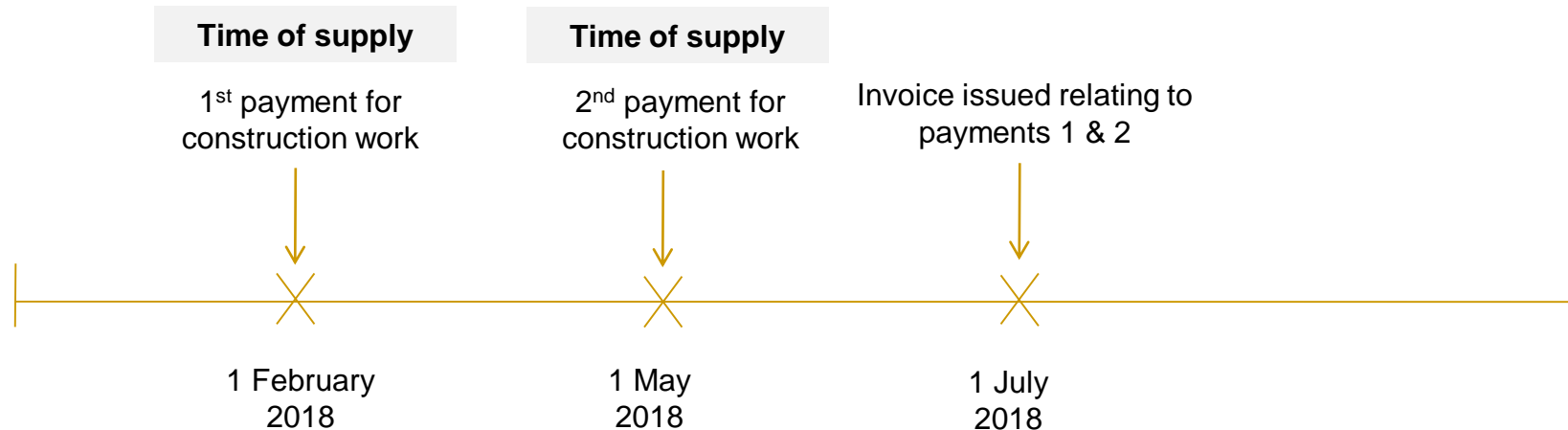




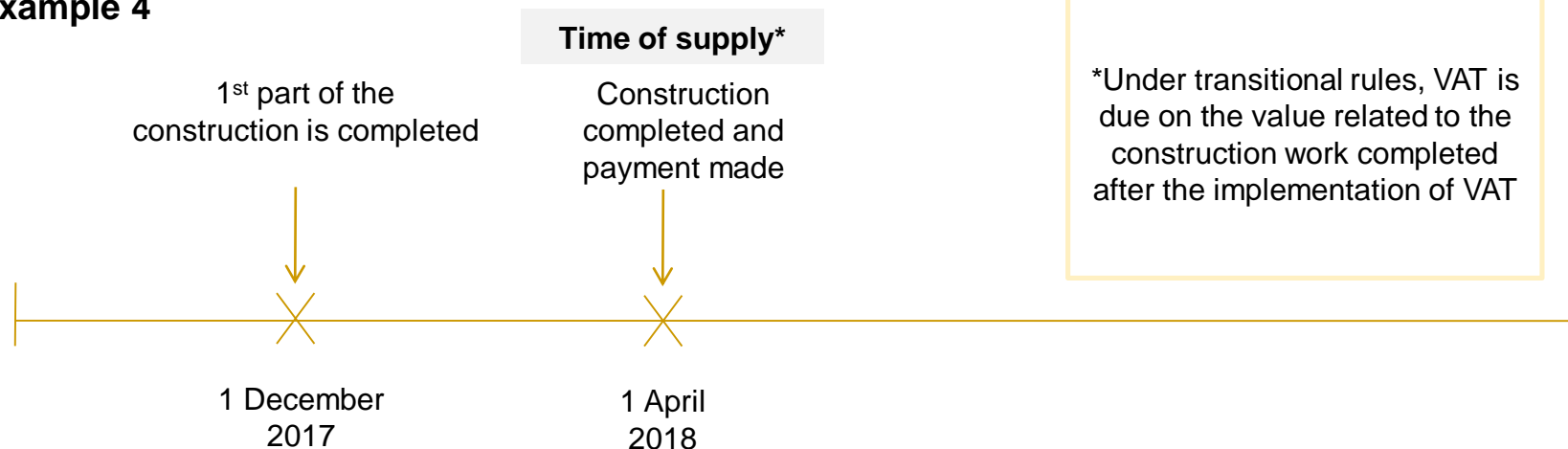


## Date of Supply: Examples

### Example 3



### Example 4





## 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



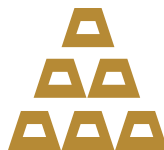
Charity related buildings



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



## 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 have 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 Recovery | Conditions | Repayment returns

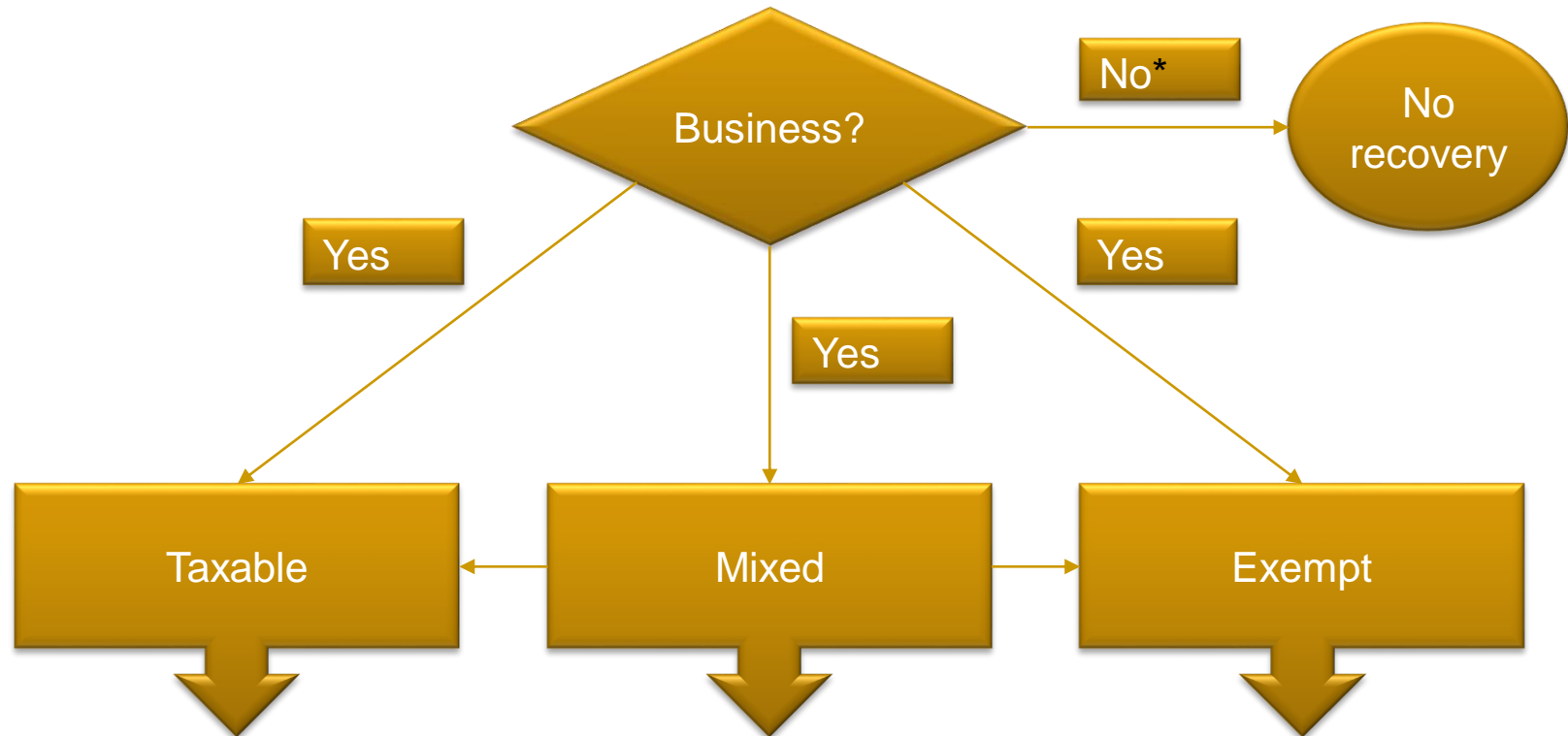
- Businesses making primarily zero-rated supplies will normally be in a repayment position i.e. they may be due a net refund of VAT from the FTA
- Businesses in a repayment position will make a **claim for repayment of the input tax via the VAT return**
- ✓ The FTA will **approve refund claims or notify the taxable person of a rejection of the refund claim within 20 working days**
- ✓ The FTA may also notify the taxable person that consideration of the claim will take longer than 20 working days

VAT RETURN	Net value	Output tax due on sales	Input tax recoverable on purchases	Total
Sales of goods exported outside the GCC	100,000	0	-	0
Local purchase of goods & services	60,000	-	3,000	(3,000)
Net VAT payable (recoverable) from FTA				<b>(3,000)</b>

Illustration



## Input tax apportionment



Calculate recoverable portion of 'mixed' input tax by reference to the ratio of input tax relating to taxable supplies to the total input tax incurred



## 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 %)

=

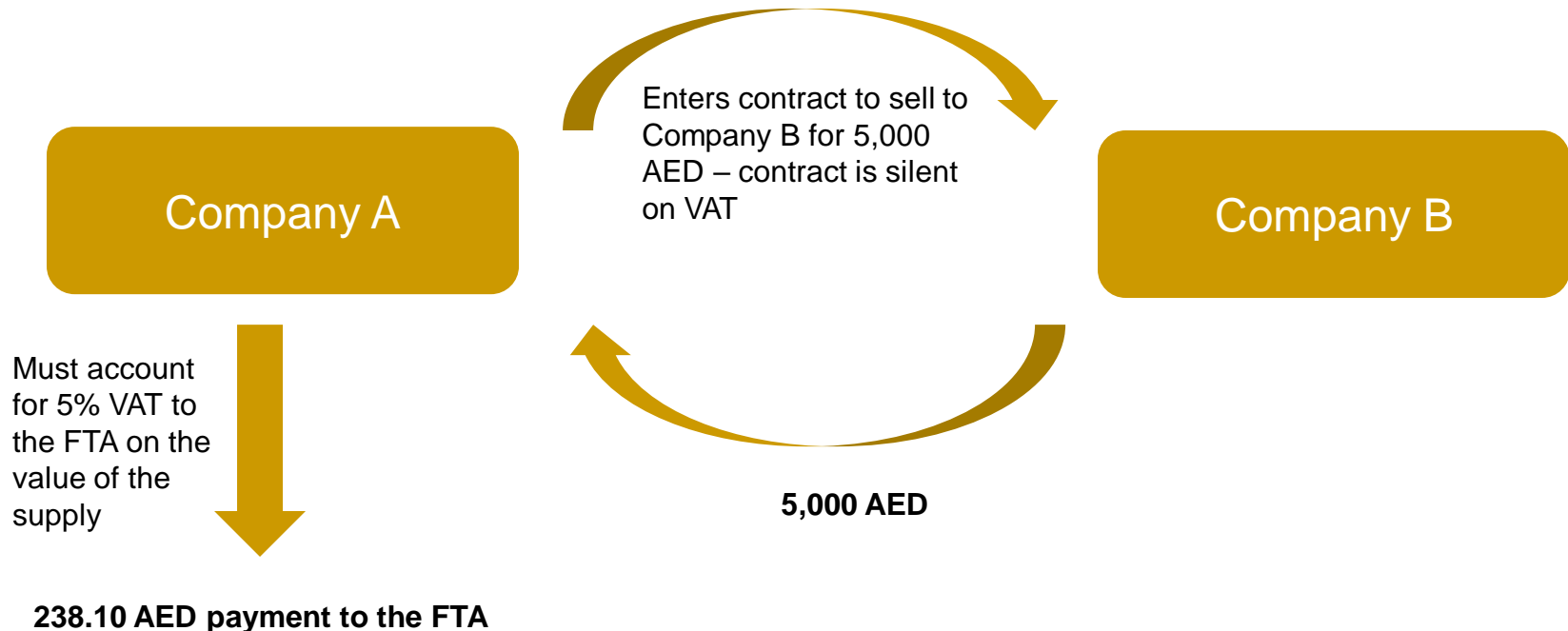
Additional VAT recoverable from FTA /additional VAT payable to FTA



## 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**:

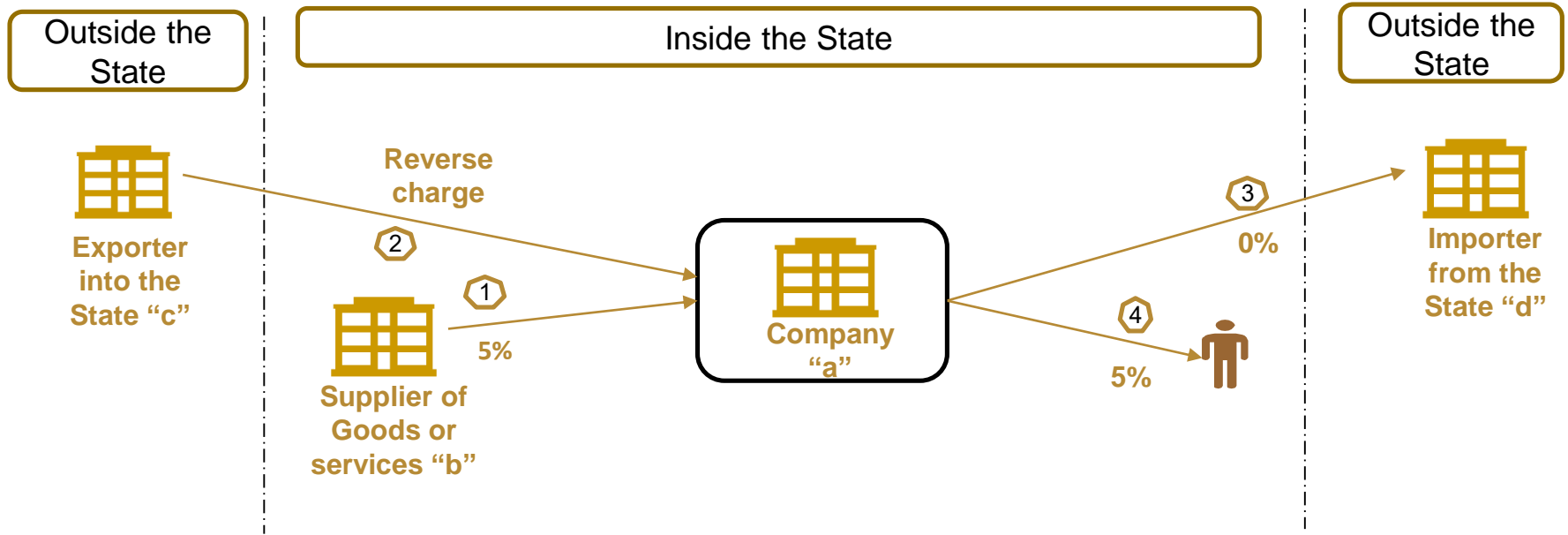
- Transfer of goods under the supplier's supervision
- Goods are placed in the possession of the recipient of the goods
- Completion of assembly of the goods
- A customs statement is issued
- The customer accepts the supply of goods

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.

# Free Zones



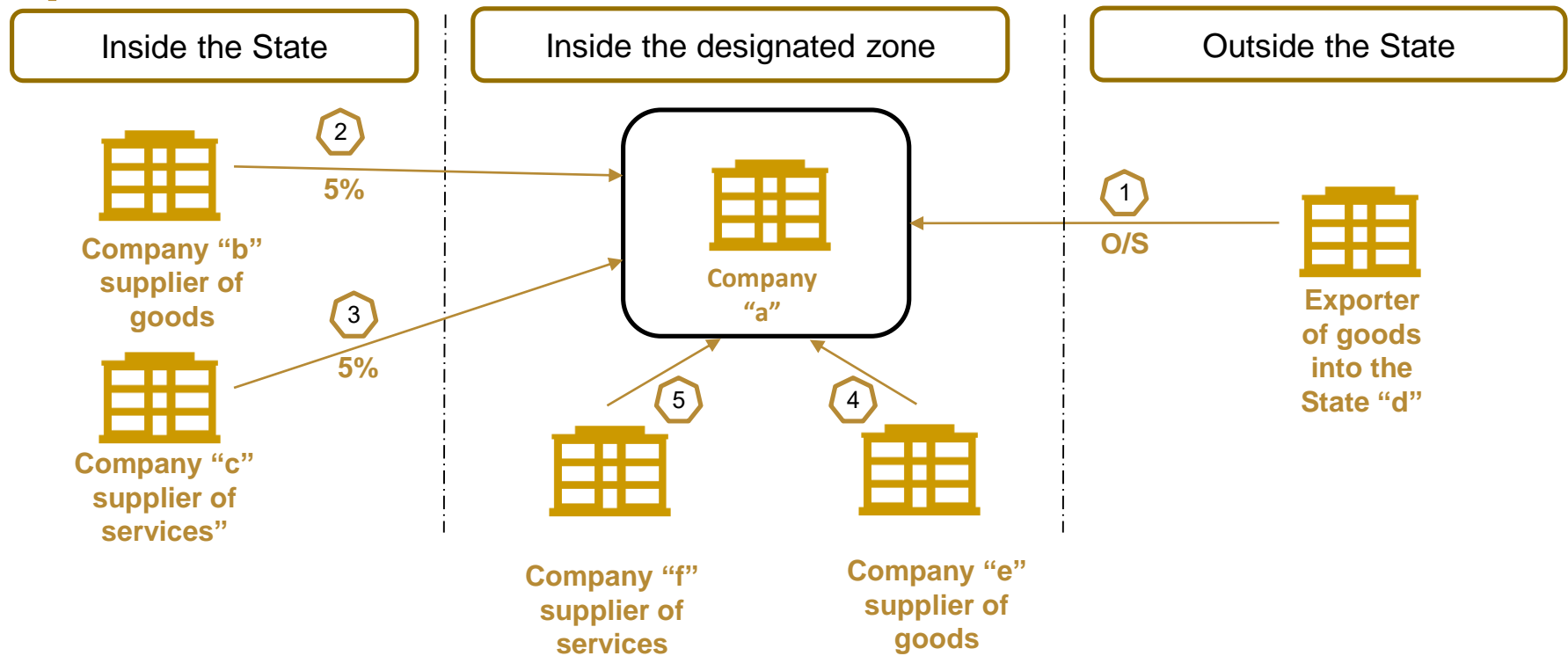
## Tax Treatment for Companies inside the State



No	Event	Impact on "a"
1	Supplier "b" inside the State makes supplies to company "a" and charges 5% VAT that will be paid by company "a"	No impact, if A is registered. 5%, if A is not-registered.
2	Exporter into the State "c", is outside the State, makes supplies to company "a" inside the State. Company "a" accounts for VAT and deducts the same via its tax return according to the reverse charge mechanism.	-
3	Company "a" exports goods or services to Company "d" located outside the State. This supply is zero-rated.	-
4	Company "a" made supplies inside the State and charges 5% VAT and collect tax on behalf of government.	-



# Tax Treatment for Designated Zone Companies - Company Inputs





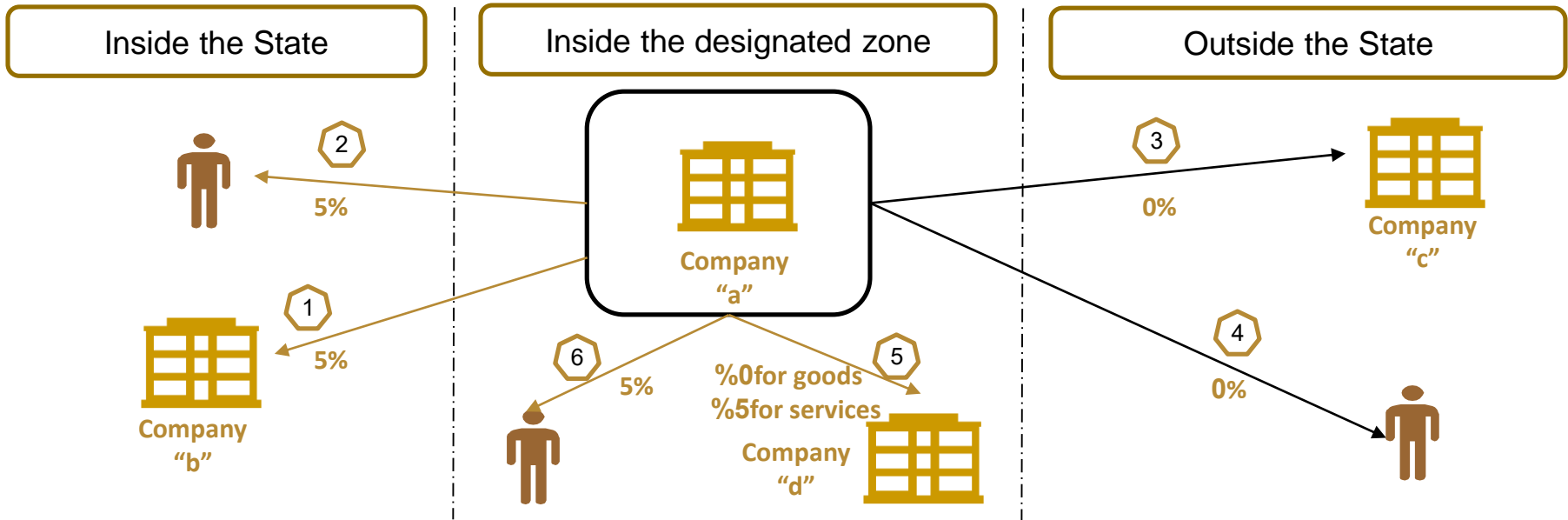
## Tax Treatment for Designated Zone Companies - Company Inputs

No.	Statement	Impact on "a"
1	Exporter "d" from outside the state, makes supplies of goods to company "a" located in the designated zone without charging for VAT. Transaction is deemed performed outside the State.	-
2	Company "b", a supplier of goods inside the State, makes supplies to company "a" located in the designated zone. Company "b" charges 5% VAT to company "a" and collects tax on behalf of the government.	No impact, if the company is registered. 5%, if the company is a not-registered.
3	Company "c" makes supplies of services that will be used inside the State, to company "a" located in the designated zone (e.g.: insurance). Company "c" charges 5% of VAT to company "a".	No impact, if the company is registered. 5%, if the company is a not-registered.
4	Company "e" supplies goods to company "a" inside the designated zone. No VAT is charged.	-
5	Company "f" supplies services to company "a" inside the designated zone. Company "f" charges 5% of VAT to company "a" .	No impact, if the company is registered. 5%, if the company is a not-registered.





# Tax Treatment for Designated Zones - Company Outputs





No.	Statement	Impact on "a"
1	Company "a" makes supplies of services to company "b", then 5% VAT is charged Company "a" makes supplies of goods to company "b", then the importer of record into the State from the designated zone to the State accounts for the VAT	-
2	Company "a" makes supplies of goods or services to individual, (i.e. recipient who is not registered inside the State): If Company "a" is registered: it charge 5% of VAT to the individual. If Company "a" is not registered: tax shall be charged at customs point for goods by importer of record.	-
3	Company "a" in the designated zone made supplies to company "c" outside the State. No VAT shall be charged.	-
4	Company "a" in the designated zone makes supplies to consumer outside the State. No VAT shall be charged.	-
5	Company "a" in the designated zone makes supplies of goods in the designated zone to company "d" located inside the designated zone without charging VAT. Company "a" in the designated zone makes supplies of services in the designated zone to company "d" located inside the designated zone and charges 5% VAT on behalf of government.	-
6	Company "a" in the designated zone makes supplies into the designated zone to a consumer. The company charges 5% VAT and collects it on behalf of government.	-

**Q&A**

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# Thank You



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