



VAT Law – Executive Summary

The UAE released its domestic VAT Law, on 27 August, 2017 which has confirmed the standard rate of VAT at 5%, which will be imposed on goods and services that are not otherwise zero-rated or exempt.

The implementing regulations which govern the law are expected imminently. Both the law and its regulation will need to be reviewed in correlation in order to fully appreciate the impact of VAT on businesses.

This summary aims to provide the key take-aways from the law, which include:

Registration - Any person (natural or legal) who supplies goods or services in the UAE would be required to register for VAT provided the value of supplies in the previous 12 month period exceeds a specified threshold, which will be prescribed in the regulations.

Furthermore, where it is anticipated at any given point that the threshold will be exceeded in the next thirty days, registration would be required. Specific provisions have been introduced to permit a business to apply for voluntary registration where the requirements of mandatory registration are not met. A specific article has been incorporated to determine the supplies which are required to be considered for determining the threshold.

Time of supply –The time of supply for goods will be the date on which the goods were transferred, and for services, the date on which the service was completed. Both of these however will be overridden by the earlier of the date of receipt of payment or the date on which the Tax Invoice was issued.

Place of supply for services – The place of supply of services shall be where the supplier belongs. The B2B rule for the supply of services is that the supply is made where the customer belongs, subject to certain exceptions.

Place of supply for goods - The place of supply for goods will be the UAE provided the supply is made inside the UAE. Special provisions have been introduced where the supply involves export or import of goods.

Single and multiple supplies - The concept of single and multiple supplies involving both the supply of goods and services has been recognised in the UAE VAT Law. However, the tax treatment will be set out in the Executive Regulations.

Deemed supply - The concept of deemed supply has been introduced under the VAT Law where certain supplies will be considered 'deemed supplies' provided the supply was made without consideration, or for non-business purposes.

Input tax credit – The provisions in relation to input tax credit are in accordance with the GCC VAT framework. A taxable person would be entitled to claim input tax credit in respect of goods and services procured provided the same are attributable to making taxable supplies.

Input tax recovery before registration – The UAE Law sets out situations where input tax can be recovered before Tax registration, provided the goods and services were used to make taxable supplies.

Bad debt relief - Relief has been granted to a taxable person by way of a bad debt relief scheme, whereby a taxable person is entitled to reduce output tax in the current period to adjust the tax paid previously on a supply whose consideration has become a bad debt. The scheme will be subject to certain conditions such as:

- Tax has been charged and paid
- Consideration for the supply has been written off as a bad debt in the books of account
- More than six months has passed from the date of supply, and
- The customer has been duly notified

Designated Zone – The concept of designated zones or free-zones has been clarified in the UAE Law. The designated zone will be treated as outside the UAE for VAT purposes, however, the transfer of goods within designated zones will be disregarded for VAT purposes. The regulations will specify more details in this regard.

Transitional rules – Supplies made after the effective date will be subject to VAT even if the invoicing has been done and/or consideration has been received prior to the implementation date. For contracts which span over the implementation date and do not have tax clauses the consideration will be deemed to be inclusive of VAT. The regulations will set forth special provisions for contracts concluded prior to the implementation date for the supplies made wholly or partly after the said date.

Zero rated supplies – The supplies which have been confirmed as zero rated according to the VAT Law are as follows:

- The first supply (sale or lease) of residential buildings within three years of its completion
- The first supply (sale or lease) specifically designed to be used by charities
- The first supply of buildings converted from non-residential to residential through sale or lease
- The supply of educational services and related goods and services for nurseries, preschool, elementary education, and higher educational institutions owned or funded by Federal or local Government
- The supply of preventive and basic healthcare services and related goods and services
- The supply of crude oil and natural gas
- Export of goods or services outside GCC Member States
- International transport of passengers and goods

Exempt supplies – The supplies which have been confirmed as being exempt from VAT are:

- Supply of Financial services
- Supply of residential buildings through sale or lease, other than those specifically construed as zero-rated supplies
- Supply of bare land
- Supply of local passenger transport

Tax Groups - Businesses can apply to register as a Tax group providing the following conditions have been met:

1. Each business should have a Place of Establishment (where the business is legally established) or Fixed Establishment (any fixed place of business, other than the Place of Establishment) in the State.
2. The relevant persons shall be Related Parties, and
3. One or more persons conducting business in a partnership shall control the others

The Tax Authorities may however reject or deregister Tax groups. The Tax Authorities has the power to assess businesses that meet the criteria of Tax grouping but who have chosen not to do so, and register them as a Tax group based on their economic, financial and regulatory practices. The Tax Authorities may also add or remove members of a Tax Group.

The VAT Law within the UAE can be summarised as practical, however the details in the regulation will be essential in order to ascertain the real-impact on businesses.

Contact our team for any queries:

T +971 (0)4 388 9925

E grantthornton@ae.gt.com

Audit . Advisory . Tax
www.grantthornton.ae

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