



## The introduction of VAT in the UAE

### Where are we today?

The UAE is introducing VAT from 1 January 2018 onwards, and has now issued the Federal VAT Law (published 27 August 2017) establishing the domestic rules applying for VAT in the UAE. This adds to the Unified VAT Agreement for the Gulf Co-operation Council (GCC) signed by each of the Member States.

VAT Executive Regulations are in the process of being approved and it is hoped they will be enacted and made public shortly.

### 5%, VAT exempt or zero-rate transactions?

The standard VAT rate of 5% has been agreed by all Member States of the GCC, and will be applied on goods and services (e.g. food, consulting services, maintenance works etc.) that are not VAT exempt or zero-rated. The Federal VAT Law subjects a number of specific transactions to the zero rate or designates them as exempt from VAT, meaning VAT will not be accounted for on these supplies. The table below shows the main areas of these exemptions and zero-rates in the UAE (with a comparison to the corresponding treatment announced in Saudi Arabia for information).

	United Arab Emirates	Saudi Arabia
<b>Financial Services</b>	Fee based services: taxable Margin based services: exempt	Fee based services: taxable Margin based services: exempt
<b>Insurance</b>	All non-life insurance: taxable Life insurance: exempt	All non-life insurance: taxable Life insurance: exempt
<b>Food Items</b>	All taxable	All taxable
<b>Education</b>	Specified services: zero-rated	Taxable
<b>Health</b>	Specified services: zero-rated	Taxable
<b>Real Estate</b>	Residential rental: exempt Bare land: exempt New housing: zero-rated All other real estate: taxable	Residential rental: exempt All other real estate: taxable
<b>Local Transport</b>	Exempt	Taxable
<b>Oil and Gas</b>	Specified products zero-rated	All taxable
<b>International Transport</b>	zero-rated	zero-rated

The table shows that a number of sectors have specific supplies which qualify for different treatment in the UAE from the standard 5% rate. Further detail on the scope of these exemptions and zero-rates is expected to be issued in regulation and guidance.

### VAT recovery right

Any business will be able to recover VAT on purchases of goods and services, to the extent that those purchases are used for business purposes, and subject to certain conditions. The input VAT deduction adequate for a business depends ultimately on the activities performed by this taxable person, and whether those activities allow VAT recovery on related costs:

- Input tax can be fully recovered if it relates to a taxable supply made (5% or zero-rated supply).
- Input tax may not be recoverable if it relates to a non-taxable supply made (exempt supply) or if it is incurred for private purposes (e.g. personal use of a motor vehicles).
- In the event an expense relates to both taxable and non-taxable supplies made by a business, it will be expected to apportion input tax between the taxable and non-taxable supplies. In the first instance, this should be calculated using the ratio of recoverable input tax to total input tax incurred, although there will be the facility to use other methods where they are agreed and fair.

## Overview of expected special rules

Based on recent developments, we will expect the following special rules:

**Freezones:** The Ministry of Finance will issue further information on the treatment of freezones in due course.

**Bad debt relief:** For businesses that have charged VAT and paid it to the FTA but the customer has not paid the supplier, the VAT law includes special rules which enable them to make a claim for bad debt relief under specific conditions.

**Real estate:** The VAT treatment of real estate will depend on whether a business makes supplies, including sales or leases, of commercial properties (standard 5% VAT rate) or supplies of residential property (VAT exempt with a zero-rate for the first sale).

**VAT Group:** Two or more persons carrying on a business should in most cases be able to apply for a VAT Group regime and be treated as a single taxable person for VAT purposes, provided those persons are under common control.

**Insurance:** General insurance will be taxable but life insurance will generally be treated as an exempt financial service.

**Finance and Islamic Finance:** It is expected that fee-based financial services will be taxed but margin-based products are likely to be exempt. To avoid discrepancies in VAT treatment between internationally standard financial products and Islamic Finance products, the treatment of the latter is planned to be aligned with the treatment of similar standard financial services.

**Import of goods:** VAT will be payable by a VAT registered person on goods and services purchased from abroad, using a reverse charge mechanism. A non-registered person will pay VAT on import of any goods from a place outside the GCC. There will be special rules for goods destined for transshipment outside the UAE to another GCC country.

## VAT refund

Businesses established and VAT registered within the UAE may incur recoverable input VAT. The Federal Government will issue further guidance in due course regarding the period of time within which businesses will be reimbursed their recoverable input tax and regarding specific refund schemes in special cases. VAT refund requests received shall be subject to verification checks, with a particular focus on avoiding fraud.

It is expected that VAT incurred within the UAE will be refunded to non-resident businesses not registered or required to register for VAT within the UAE, which do not perform any supplies within the UAE. It is not currently anticipated there will be a tourist refund scheme but this may change in the future.

## Prepare soon: are you compliant?

Any business that is required to be VAT registered and charge VAT from 1 January 2018 must register for VAT purposes, in the manner specified by the Federal Tax Authority, prior to that date. Businesses will be able to register online for VAT purposes from the middle of September 2017.

In order to determine which businesses must be VAT registered, a VAT registration threshold shall apply for all **UAE-resident businesses**:

- A business **must register** for VAT if they make taxable supplies or imports that exceed the mandatory registration threshold of AED375,000.
- A business **may choose to register** for VAT voluntarily if their taxable supplies and imports are less than the mandatory registration threshold, but exceed the voluntary registration threshold of AED187,500.

- A person may register voluntarily if their expenses exceed the voluntary registration threshold (e.g. start-up businesses with no turnover).
- Exempt supplies and supplies outside the scope of VAT are not used in calculating the VAT registration thresholds.

No threshold applies to **non-resident businesses** but if they make taxable supplies within the UAE, they will be required to register for VAT (e.g. maintenance works on a building located within the UAE). However, in circumstances where any other UAE resident business is responsible for accounting for VAT on that supply (e.g. self-assess VAT under the reverse charge mechanism), the VAT registration shall not be required.

Businesses that satisfy certain conditions (such as being resident in the UAE, being related/associated parties and at least one business being VAT registered) will be able to **register as a VAT group**.

## Transitional periods and rules

It is expected that the Federal Government will issue special rules to cover various situations that may arise in respect of the introduction of VAT on 1 January 2018 in order to minimize VAT evasion. Such rules may cover, for example, recurring supplies or scenarios where a payment is received by a supplier prior to the introduction of VAT and goods are delivered after this date, or in the case of contracts which are silent in respect of VAT.

## Help needed?

The Federal Tax Authority (FTA) website has been launched and can be accessed on the following [link](#). FTA is the government entity responsible for the collection and management of federal taxes.

Deloitte has created a complete set of 'go to market' materials, and a tailored range of tested tools and enablers which will help you understand current state impacts and the extent of work required to meet the challenges of the implementation ahead. The full range of materials can be accessed on the following [link](#).

In addition, we highly recommend you download our 'VATintheGCC guide' mobile app to access all of our materials and get instant live push notifications of any VAT developments. The app is free of charge and is available for download on the [Apple Store](#) and [Google Play](#) stores.

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## Middle East VAT Services

Specialized VAT knowledge, coupled with a local team that have been involved in the GCC VAT proposals, allows us to provide you with specific insight relevant to the GCC VAT implementation.

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