
ASHOK
PRANSHU
& CO.

CHARTERED
ACCOUNTANTS

**VALUE
ADDED
TAX**

United Arab
Emirates



VAT in United Arab Emirates

Value added tax (VAT) made its debut, in United Arab Emirates from January 1, 2018, where most of the goods and services are now chargeable to VAT at the rate of 5%.

VAT *inter-alia* is levied on electronics, smart phones, cars, jewellery, watches, books, eating out, and entertainment. However, the government of UAE has provided relief to the public by keeping certain sectors such as food items, health, education, bicycles, and social services, out of the purview of VAT.

The VAT rate of 5% seems to be quite nominal, considering the purchasing power of people in UAE and the fact that certain food items will remain tax-free.

HH Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi issued the Federal Decree Law No. (8) of 2017 on Value Added Tax on August 28, 2017. Further on November 28, 2017, UAE Cabinet issued Decree No. (52) of the year 2017 concerning the executive regulation of the Federal Law No. 8 of 2017 on value added tax. Both were notified in the official gazette and came into effect on January 1, 2018.



VAT in Free Zones

The concept of free zones in UAE has been attracting international companies and home-grown start-ups looking to get a foothold in the country's burgeoning economy. These zones offer members a plethora of advantages that enables such companies to thrive, including a tax-free environment and 100 per cent foreign ownership.

However, the VAT decree law has considered majority of the free zones as part of the state of UAE for VAT purposes and have only provided some relief to twenty free zones named as "designated zones".

Free Zones other than designated zones are considered to be a part of the mainland of UAE for the purpose of VAT.

Furthermore, any supply of goods between two designated zones is only exempt from VAT subject to certain conditions. Any transfer from mainland to designated zone or any supply of services between two designated zone is not exempt from VAT.

For the aforesaid purposes, UAE Cabinet vide its decision number (59) of 2017 has identified 20 zones as the designated zones. UAE cabinet has the power to amend the said list if the designated zones does not comply with the conditions prescribed in the federal law.



VAT on Supply of Goods

UAE Federal law and Executive Regulations provides a distinction between taxability of goods and services. As per the Executive Regulations, Goods are defined to mean any physical property that can be supplied and it includes real estate, water and all forms of energy.

VAT is leviable on transfer of ownership of the goods or the transfer of right to use them to another person. Further, some deemed supply transactions have also been taken within scope of supply for levy of tax. Federal Law also provides for zero rating and exemption of certain supply of goods such as healthcare, education, oil and gas etc.

Tax has to be paid by the supplier making taxable supplies of goods. In some cases, the liability has been cast on the recipient of goods, commonly called as Reverse Charge Mechanism. The person liable to pay tax is required to get itself registered under the Law to fulfil its obligations.

Further, tax would be levied in UAE only when the place of supply falls within UAE. The Place of Supply provisions have been defined for "Supply of Goods".

In case of supply of goods, the place of supply of goods is the location of the goods when the supply is made. There are also specific provisions for determination of place of supply in case of exports and imports of goods and transfer of goods from designated zones to mainland and vice versa.

Further, the law also provides for the time of supply of goods, suggesting the time/moment at which VAT has to be charged and tax invoice has to be raised. The law have encapsulated and have considered the consignment model and provides for changeability of VAT only on ultimate sale to the consumer and not at the time of supply of goods on consignment.



VAT on Supply of Services

Albeit, VAT rate on both supply of goods and supply of services is same at the rate of 5%, UAE Federal Law and Executive Regulations, provide for the difference in the treatment of supply of goods and services because of the inherent difference in the nature and characteristic of both of them.

Since goods are tangible, it is easier and possible to identify their movement, time of supply, place of supply and so on. However, in case of services, being intangible in nature it is easier to alter their time of completion, the manner of supply etc.

In UAE VAT, services are defined as 'anything that can be supplied other than goods'. In other words, any Supply that does not constitute a Supply of Goods under VAT shall be considered a Supply of Services including the provision of services.

Furthermore, Executive Regulations have also detailed and provided certain specific supplies which are deemed to be supply of services rather than supply of goods.



Export and Import

Import and Export is integral to the businesses in UAE. The presence of free zones, which has led the people around the world to establish businesses in UAE, have enhanced the imports and exports of products through UAE. UAE is the largest exporting State among all the GCC States and 29th largest export economy in the world.

When goods or services are supplied from UAE to a person located outside UAE, the supply is called an export. Exports are considered as taxable supplies. However, they are zero rated, i.e. tax at 0% is applicable on exports.

Further, since exports are considered as taxable supplies, input tax can be recovered on VAT paid on inputs used to make exports.

On the other hand, any goods which are imported into the mainland of UAE are chargeable to VAT on reverse charge basis. That is, the importer has to pay the VAT to the UAE government on the imports made. The rate of VAT applicable on imports is kept same as the VAT rate applicable on domestic supplies, in order to ensure that imports are taxed equally as domestic supplies.



Reverse Charge Mechanism

Reverse charge mechanism (RCM) is a mechanism under which, the recipient or the buyer of goods or services is required to discharge VAT on certain supplies instead of the supplier. The key change is the shift in the responsibility of payment of VAT to the Government, which is shifted from the supplier to the recipient of goods or services.

The concept of RCM has been introduced in order to ensure that VAT is collected on supply of goods or services where the supplier is not a taxable person and the supply has been made in the State of UAE. Under RCM, the recipient or the buyer is treated as a person making taxable supplies to himself and is thereby responsible to discharge VAT to the Government.



Registration

All businesses are not required to register with UAE Federal Tax Authority (FTA). Only those businesses which crosses statutory threshold of amount of taxable supplies are only allowed and required to register with the UAE FTA. Further the Federal Law also provides an option to voluntary register with the UAE FTA, however, a minimum statutory threshold of supply for the same is also prescribed.

Registration under the Vat law means that a business is acknowledged by the FTA, as a supplier of Goods and Services and is authorised to collect VAT from customers and remit the same to the government. Also, all the registered businesses have to comply with the other necessary conditions provided under the Federal Law and should have proper books of accounts, tax invoices, debit/credit notes, records of receipt of goods and services, etc.

Therefore, it would be important for businesses operating in UAE and other GCC states to understand the fundamentals of VAT law, of which obtaining VAT registration will be the first step towards transiting the businesses from an era of no tax to the VAT era.



Return Filing

All businesses registered under VAT have to file their periodic tax return with the FTA. For the said purposes, FTA has prescribed specific format of the VAT return form and the same has to be filed periodically as per the Federal Law and Executive Regulations.

The standard VAT return filing period is on a quarterly basis. However, FTA has also notified certain type of businesses to file the VAT return on monthly basis to reduce the risk of tax evasion.

The VAT return has to be filed online at the portal of FTA in the VAT return form named 'VAT 201'. The Form VAT 201 is broadly categorized into 7 sections as mentioned below:

- Taxable Person Details
- VAT Return Period
- VAT on sales and all other outputs
- VAT on expenses and all other inputs
- Net VAT Due
- Additional reporting requirements
- Declaration and Authorized Signatory

Each of these sections contain various boxes in which the taxpayer needs to furnish the details in order to complete the VAT Tax return filing.

ASHOK PRANSHU & CO. Chartered Accountants

+91 9811 311 668

pranshu.goel@apcoindia.co.in

ASHOK PRANSHU & CO.

A-29, Swasthya Vihar,
New Delhi 110 092

+91 11 455 11664

5A/3A, Ansari Road, Darya Ganj,
New Delhi 110 002

+91 11 435 07915

Ashok Pranshu & Co. is a chartered accountancy firm, offering specialised professional services to the clients across the globe. Our areas of service includes auditing, taxation (domestic and international), money laundering laws, benami laws, corporate and exchange control laws.

Being a part of the global business community, we recognize that optimal results are driven by a spirit of collaboration and an optimistic approach to service. With this understanding, we collaborate with clients to assist them in setting up their business in India and outside India; handling their complex strategic transactions; rendering expert advisory on tax, money laundering, benami, corporate and exchange control matters; ensuring legal compliances, and providing representation services, where required.

Our team of experienced professionals is passionate and honest in their approach in providing solutions to the clients' problems and queries. We believe and strive to provide timely, efficient and practical legal solutions and outcomes to our clients to help them in taking an informed decision.

©2018 Ashok Pranshu & Co. All rights reserved

For private circulation only

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, Ashok Pranshu & Co., its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. Without prior permission of Ashok Pranshu & Co., this publication may not be quoted in whole or in part or otherwise referred to in any documents.

© 2018 Ashok Pranshu & Co. All rights reserved.