

## **VALUE ADDED TAX (VAT) CONSULTING & REGISTRATION WITH TAX AUTHORITY – MINISTRY OF FINANCE, UAE**

The UAE Ministry of Finance has released the information on the new tax in UAE, which will be applied starting from January 2018. The below question and answer section gives a brief overview that provides a practical guidance on VAT and explains how it applies.

With regard to this new implementation of VAT in UAE, FAR – Farahat Office & Co. offers VAT Accounting and Consulting Services.

The following points are the services that we offer in regards to VAT:

- VAT perspective structuring (consists of contract and transaction review; schemes for supply chain optimization)
- Confirmation of VAT optimization by reviewing of the company's compliance practice (with VAT recovery opportunities, cash flow planning, mitigation of potential VAT exposures)
- VAT issue and interest advice for the company
- VAT registration and VAT compliance
- Refunds for VAT for businesses that are resident and non-resident
- Simplifications of VAT and incentives for VAT for big investors
- Consultancy on industry-focused VAT (e.g., retail/ marketing, financial services, real estate)
- Implementation of e-invoicing and e-archiving; ERP reviews
- VAT audits and litigation support assistance
- General and industry-specific VAT issues training for ease

### **1. General questions & answers**

#### **1.1 When will VAT be implemented and what will be the rates?**

VAT will go into effect across the UAE on 1 January 2018. A standard rate of 5% will be applied.

#### **1.2 How will the government collect VAT?**

It is an accountability of the companies to document thoroughly their business revenue and expenses along with associated VAT charges. A prevailing VAT rate will be applied by registered businesses and traders to all of their customers to bear the VAT costs on goods and services bought from suppliers. The difference between these figures can be reclaimed or paid to the government.

#### **1.3 Will VAT be applicable to all products and services?**

VAT is a consumption-based tax, therefore will be applied to the most of the transactions of goods and services except those that are exempt by law.

### **2. VAT for Businesses – Questions & Answers**

#### **2.1.1 Who will be able to register for VAT?**

Businesses with taxable supplies worth more than AED375,000 need to register for VAT. Moreover, businesses with taxable supplies worth more than AED187,500 and less than the mandatory registration threshold of AED375,000 may opt for voluntarily registration for VAT. This option is developed to give the opportunity for start-up businesses to register for VAT whilst they still haven't generated the revenue.

### **2.1.2 What are the VAT-related responsibilities of businesses?**

All businesses in the UAE will be required to keep an accurate and up-to-date record of their financial transactions. It's mandatory to register for VAT for businesses that meet the minimum annual income requirement based on their financial records. Businesses that fall under the category of "VAT- registered" must retain their financial records in case if their registration is required in the future.

The general responsibilities of VAT- registered businesses are the following:

- VAT- registered businesses should collect VAT on taxable goods or services they provide;
- VAT- registered businesses are entitled to reclaim any VAT paid on their business- associated goods or services; and
- VAT- registered businesses should maintain their business records for the relevant government departments to verify the accuracy of VAT calculation.

If your company is registered for VAT, you must notify the concerned government department on regular basis on what amount of VAT was charged and paid by your company to the government. It will be an online process to simplify a formal submission.

If there is a difference in VAT amount you've charged and paid, you have to clear the outstanding amount in the relevant government department or reclaim the difference in case if you've paid more VAT than you've been charged.

### **2.1.3 What does a business need to do to prepare for VAT?**

VAT will be applied starting from January 2018. Thus, concerned businesses will be given the opportunity to prepare beforehand as online registration for VAT will be launched in the 3rd quarter of 2017. This time frame allows the companies to align their business model with the government platform specifically created for the collection of VAT. Businesses have to ensure that they meet all compliance requirements to get ready for taxation. To follow VAT compliance standards, businesses may require restructuring their divisional system in Accounts, IT, and HR departments opening new positions such as accountants and tax advisers. Businesses have full accountability for VAT compliance obligations. A complete guidance on VAT compliance will be provided once the legislation is released.

### **2.1.4 When will registration for VAT start?**

VAT will come into effect on 1 January 2018. All relevant businesses should be registered prior to this date. To avoid last minute hassle, the online registration for VAT will be launched in the 3rd quarter of 2017 for those who are willing to register voluntarily beforehand. Early registration will give an advantage to the businesses to prepare thoroughly for compliance with VAT obligations.

### **2.1.5 When are registered businesses required to file VAT returns?**

According to VAT legislation procedures, VAT-registered businesses are required to file VAT returns consistently with Federal Tax Authority on a quarterly basis (during 28 days from the end of the taxation period). To simplify the process, VAT returns filing can be done online through e-Services implemented by the UAE government.

### **2.1.6 How long should taxpayers keep track of VAT invoices for?**

Taxpayers should keep a track of issued and received VAT invoices for a minimum of five years.

### **2.1.7 Will businesses be able to offset customs duty against VAT payments?**

VAT will be calculated additionally to the value which already includes the customs duties paid by the importer. Thus, the value-added tax will be paid in addition to the customs duties of the goods, and it cannot be offset.

### **2.1.8 Will VAT be applicable to real estate sector?**

VAT in real estate sector will be applicable only for commercial properties. All commercial properties transactions, sales, and leases alike will be subject to 5% VAT. Residential properties are exempt by law for the time being to offset additional amount to the irrecoverable cost paid by the buyers upon acquiring a new property.

Real estate developers will be zero-rated for a period of three years of residential property construction. It will allow securing the market on the residential side. Zero-rated goods and services are VAT taxable but the actual tax charges are zero.

### **2.1.9 What sectors will be zero-rated?**

VAT will be applied at 0% rate in the below supply categories:

- Exports of items and services to the markets outside of GCC region;
- International transportation and other relevant goods and services;
- Aircrafts, ships, and other air, sea, and land means of transportation;
- Investment grade precious metals such as gold, silver of 99% purity;
- New residential properties for the period of three years of their construction supplied for the first time;
- Education services and other related goods and services; and
- Healthcare services and other related goods and services.

### **2.2.0 What sectors will be exempt by law?**

The following sectors will be exempt from VAT:

- Financial services listed in VAT legislation;
- Residential properties;
- Land without any assets; and
- Local passenger transport.

### **2.2.1 In what cases will penalties be imposed?**

Noncompliance will lead to the imposition of penalties. Penalties may be caused by the following actions:

- Failing to register for VAT if required;
- Failing to submit a VAT return or settle a payment before the deadline;
- Failing to retain the records required by the legislation; and
- Tax evasion offenses caused by the intention to violate the terms of the tax legislation.

### **2.2.2 Will VAT be applied on financial services?**

Fee-based financial services will be subject to VAT with the exception of margin-based products.

## **3. VAT for Tourists – Questions & Answers**

### **3.1 Will tourist be subject to paying VAT?**

Tourists will pay VAT at the point of sale. 5% VAT will be applied to perfumes, makeup, luxury bags and big-ticket items additional of the sale price.