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Change to procedures with the introduction of VAT in UAE

As the date approaches for the introduction of VAT in UAE, many questions are still at the forefront in the minds of most business owners.

For companies new to VAT, this can be a difficult process to navigate through the legislation and impacts to your daily operations with many pitfalls.

In this article, we will be tackling some common issues that business professionals are dealing with from the introduction of new tax laws.

This list of question and answers can guide you and clarify the procedures on VAT Registration, subsequent processes and their impacts:

Q1. When are registered businesses required to file VAT returns?

All affected taxpayers must submit VAT returns with the FTA on a regular basis (quarterly or for a shorter period, should the FTA decide so) within 28 days from the end of the tax period following the procedures specified in the VAT legislation. Failure to do so will lead to penalties and interest.

Q2. Who will have to pay tax if I am importing goods or services from outside of UAE?

This is a typical situation faced by many retailers and business owners that are importing goods. Under the rules, companies must use The Reverse Charge Mechanism for goods or services imported from outside of GCC, and the businesses will not have to pay VAT at the point of import. This will apply mainly to services as VAT will be applied to goods subject to customs clearance and additional to duty.

The reverse charge moves the responsibility for the reporting of a VAT transaction from the seller to the buyer. So the buyer or the importer has to disclose the amount of VAT under the category of Input (VAT on purchase) and output (VAT on Sales) during the VAT return calculations. Under reverse charge mechanism, the overseas seller avoids the accountability of registering for VAT.

Q3. What kind of records are businesses required to maintain, and for how long?

Companies will be required to keep records which will enable the Federal Tax Authority to identify the details of the business activities and review transactions. The specifics regarding the documents which will be required and the period for keeping them will be stated in the relevant legislation, and this must be kept for five years.

Q4. How long must a taxable person retain VAT invoices?
Any taxable person must keep VAT invoices issued and received for a minimum of 5 years.

Q5. How should a business determine the place of supply?

This is specifically set out in the law and will determine how a company will treat VAT and in its FTA filing. The location of supply will determine whether a supply is made in the UAE (in which case the UAE VAT law will apply), or outside the UAE for VAT purposes.

Within the UAE, we expect specific procedures to be announced for businesses to report of sales and VAT by Emirates. This will be a mandatory obligation and will be one the biggest challenges to companies to manage.

For a supply of goods, the place of supply should be the location of goods when the supply takes place with special rules for certain categories of supplies (e.g., water and energy, cross-border supplies).

Q.6 Can businesses offset customs duty against VAT payments?

No, VAT shall be payable in addition to the customs duties paid by the importer of the goods and cannot be deducted. VAT shall is computed on the value that includes the customs duties.

Q7. How will real estate be treated?

The VAT treatment of real estate will depend on whether it is a commercial or residential property. Supplies (including sales or leases) of commercial properties will be taxable at the standard VAT rate (i.e., 5%).

On the other hand, supplies of residential properties will be exempt from VAT. This will ensure that VAT would not constitute an irrecoverable cost to persons who buy their properties. To make sure that real estate developers can recover VAT on a construction of residential properties, the first supply of residential properties within three years from their completion will be zero-rated.

Q8. What sectors will benefit from Zero% Tax?

VAT will be charged at 0% in respect of the following main categories of supplies:

- Exports of goods and services to outside the GCC;
- International transportation, and related supplies;
- Supplies of certain sea, air, and land means of transportation (such as aircraft and ships);
- Certain investment grade precious metals (e.g., gold, silver of 99% purity);
- Newly constructed residential properties that are supplied for the first time within three years of their construction.
- Supply of certain education services, and supply of relevant goods and services
- Supply of certain Healthcare services, and supply of relevant goods and services.

Q9. What sectors will be exempt?

The following categories of supplies will be exempt from VAT: The supply of some financial services (clarified in VAT legislation);

- Residential properties;
- Bare land; and
- Local passenger transport

Q10.Will there be VAT grouping?

Businesses that satisfy certain requirements covered under the legislation (such as being resident in the UAE and being related/associated parties) will be able to register as a VAT group.

For some businesses, VAT grouping will be a useful tool that would simplify accounting for VAT. For all other companies trading in the UAE, VAT must be charged at the market value of the good or services.

Q11. Will there be bad debt relief?

VAT registered businesses will be able to reduce their output tax liability by the amount of VAT that relates to a bad debt which has been written off by the VAT registered business. The legislation will include the conditions and limitations concerning the use of this relief.

Q 12. Will there be a margin scheme?

To avoid double taxation where second-hand goods are acquired by a registered person from an unregistered person for resale, the VAT-registered person will be able to account for VAT on sales of second-hand goods with reference to the difference between the purchase price of the goods and the selling price of the goods (that is, the profit margin).

The VAT which must be accounted for by the registered person will be included in the profit margin. The legislation will include the details of the conditions to be met to apply this mechanism.

We continue to clarify your doubts on VAT implementation in UAE, hence please check our next blog: 20 Questions on VAT for SME's.

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