

VAT IN THE UAE

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01. Background VAT

- UAE Federal Decree Law no. 8 of 2017 (“VAT Law”).
- Cabinet Decision No. 52 of 2017 on the Executive Regulations of Federal Decree Law no. 8 of 2017
 - VAT rate has been set at 5% starting from 1st January 2018 (Art.3 VAT Law).
- VAT timeline has been as follows:
 - GCC framework was introduced from May 2017
 - UAE Tax procedures were issued in July 2017
 - UAE VAT law introduced August 2017
 - VAT registration has opened starting October 1st 2017
 - Executive Regulations issued November 28th 2017
 - VAT goes live January 1st 2018



01. Background VAT

Art. 2 VAT Law: scope of law: tax to be imposed on every *“taxable supply and deemed supply made by taxable person, and import of concerned goods...”*

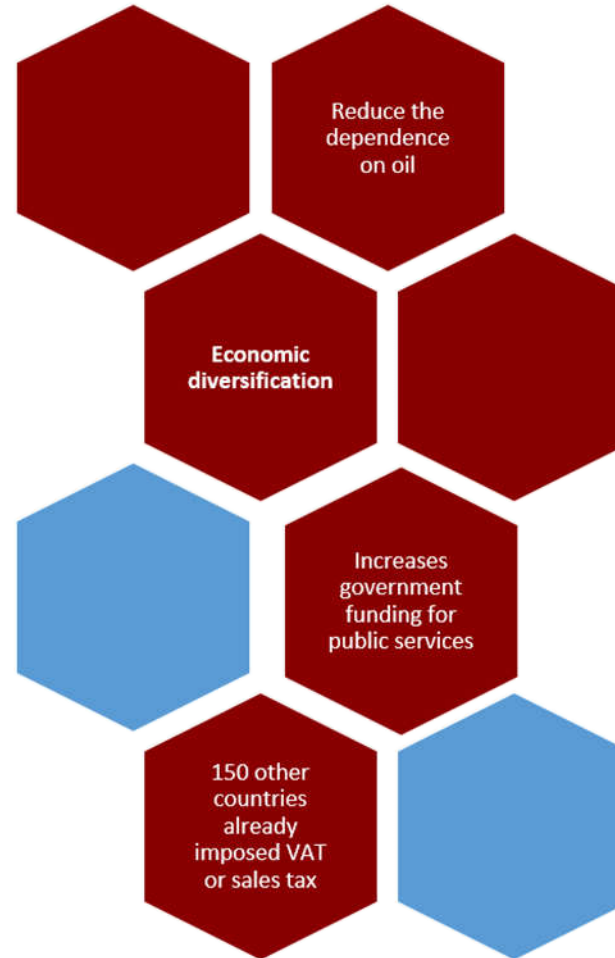
General Information:

- Indirect tax on transactions not on profits
- Intended to be borne by the final consumer
- Business will charge VAT on goods and services (supplies), collect this from the customers to then pay the government (output VAT)
- Businesses will also deduct VAT incurred on purchases and expenses (input VAT)



01. Background VAT

Rationale for Imposing



02. Registration Requirements

Threshold For Registration:

- Art. 7 of Executive Regulations: mandatory registration threshold: 375,000 AED
- Art. 8 of Executive Regulations: voluntary registration threshold: 187,500 AED
- According to the Federal Tax Authority (FTA):
 - Turnover of over AED 150 million- October 31st 2017
 - Turnover of over AED10 million -Nov. 30th 2017
 - All other businesses - December 4th 2017

Mandatory Threshold (Art. 7 Executive Regulations)

- Taxable supplies in the previous 12 months
- Taxable supplies for the next 30 days
- This will include zero-rated supplies, but excludes exempt supplies and non-business

02. Registration Requirements

Place of Supply (Art.27-31 VAT Law)

- Place of supply of goods is the location of goods when the supply takes place
- Place of supply for services differs depending on the services
- Art. 29 of VAT Law place of supply of services shall be place of residence of the supplier

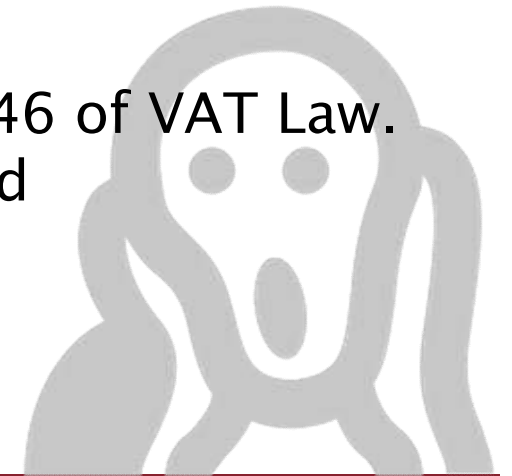
Place of Supply For Services – Special Cases (Art.30 VAT Law)

- For telecommunications and electronic services: where the services are used and enjoyed (Art. 31 VAT Law)
- Transportation services: where the transportation starts (Art. 30(8) VAT Law)
- Restaurants, hotels, catering services: where the services are being performed (Art.30(5) VAT LAW)

03. Zero Rated and Exempt

ZERO RATED AND EXEMPTIONS (Art. 44-52 VAT Law)

- Zero-Rated: supply and import of goods and services specified in Art. 45 of VAT Law is zero-rated. The rate of tax is 0. Taxes incurred in zero rated services can be re-claimed. Companies must still register
- Exempt: supplies exempt from tax are specified in Art. 46 of VAT Law. Taxes incurred for exempt supplies cannot be re-claimed



03. Zero Rated and Exempt

ZERO RATED (Art. 45 VAT Law)

- International transportation of passengers and goods- including transport related services
- Supply of air, sea and land means of transport for the transportation of passengers and goods
- Supply of aircrafts and vessels designated for rescue and assistance by air or sea
- Some educational and healthcare services
- Direct/indirect exports outside the GCC
- Executive Regulations (Art. 34-35) have elaborated on the following:
 - Supply of air crafts, ships, boats or floating structures that is designed or adapted for use for commercial purposes and not for recreation or pleasure or sports
 - Goods and services related to the supply of the means of transport if they are goods supplied in the course of operating, maintaining or converting the means of transport



03. Zero Rated and Exempt

EXEMPT (Art. 46 VAT Law)

- Financial services elaborated on in the Executive Regulations (Art. 42):
 - Services connected to “dealings in money”, and the provision of credit; further include: exchange of currency, issue, operation of any current, deposit or savings account, etc.
 - Financial services shall be subject to tax where the consideration payable in respect of a supply of service is an explicit fee, commission, discount, rebate etc.
- “Local passenger transport services” elaborated on in the Executive Regulations (Art. 45):
 - Motor vehicle, taxis, bus, railways, ferries, or other vessels designed for transport of passengers
 - However: “transport of passengers” shall not include pleasure trips, or if its objectives may be sightseeing or other forms of pleasure or entertainment



03. Designated Zones

Executive Regulations (Art. 51)

- Designated zone is a “fenced geographic area” and has security measures and customs controls in place, as well as internal procedures set by the authority
- Transfer of goods between designated zones shall not be subject to tax (with some exceptions)
- Supply of services shall be considered in the UAE if the supply of services are within the designated zone
- Any person established, registered, or has a place in the designated zone shall be deemed to have a place of residence in the UAE



03. VAT Preparations

HOW TO PREPARE:

- ✓ Every transaction will need to be recorded for VAT reporting
- ✓ Capture the VAT rate and type (exempt, zero rated)
- ✓ Review your agreements, accommodate for VAT on transactions in order to avoid facing issues
- ✓ VAT invoices should include names, addresses, tax registration numbers
- ✓ Seek legal advice to avoid liability and fines



03. VAT Preparations



FINES AND PENALTIES:

- Failure to keep adequate records: 10,000 AED (first time)
– 50,000 AED (repeated offence)
- Failure to submit data in Arabic: 20,000 AED
- Failure to register timely: 20,000 AED
- Failure to comply with conditions and procedures related to keeping the goods in a designated zone or moving them to another designated zone: the higher of 50,000 AED or 50% of the tax
- Failure by the taxable person to issue a tax invoice or an alternative document when making a supply: 5,000 AED for each tax invoice or document

Questions?



Thank you

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