

VAT in UAE

Introduction

Generally, there are two types of taxes: Direct and Indirect taxes. VAT falls under the indirect tax regime.



VAT (Value Added TAX), also called as 'tax on consumption' by some economists, is simply a tax that is payable while purchasing any product. VAT is a particular percentage of the cost of goods and services, hence it can not be considered as a charge on companies. It is a general tax amount, which is added by the producer to the inputs before they are sold as new offerings. VAT is levied at each stage in the supply chain and is collected by businesses on behalf of the Government and it will be ultimately incurred and paid by the end consumer.

The implementation of VAT is an important step to strengthen the indirect tax structure of any country. As announced earlier this year, the UAE will be implementing **VAT at a rate of 5%** from 1st January 2018.

Benefits to The Government

To further promote collaboration within the region in relation to fiscal reform in the GCC, the UAE is part of the 'Economic Agreement between the GCC States' and the 'GCC Customs Union', who are working together to design and implement new public policies to further strengthen and promote diversification across the region. The representatives of the Member States of the Gulf Cooperation Council (GCC) have now all signed the Unified VAT Agreement for the GCC ("GCC VAT Treaty") and each of the six States will draft its own VAT legislation



The implementation of VAT will provide a new source of income to the government, which will contribute in providing high quality public services in future. The introduction of VAT also supports the government's diversification strategy and will aid the future nation to become less reliant on oil and hydrocarbons as a source of revenue.

VAT will establish a link between the government and citizens, adding a level of accountability in fiscal management.

VAT in UAE

Provisions of VAT



❖ The UAE's Federal Tax Authority has announced to levy 100 per cent tax on energy drinks and tobacco, 50 percent on carbonated beverages.

❖ As the sale and purchase of newly constructed real estate is likely to be "zero rated" and secondary market real estate transactions are likely to be "exempt", investors in residential property will not be required to pay VAT to the developer or a subsequent

seller. Similarly, residential landlords are not expected to charge VAT to tenants. However, investors are likely to have to pay VAT to providers of leasing or management services relating to the property and will not be entitled to recover this VAT.

❖ The first sale of a residential property is likely to be zero rated, it is expected that developers will not be able to charge VAT on such a sale, but will be able to claim back any input VAT paid to their suppliers in the course of developing the project. However, developers' management documentation should clarify that VAT will be payable by investors on any management service fees.



❖ Commercial tenants will be required to pay VAT. For most commercial tenants, this will not be a material issue as they will be able to set off this input VAT against output VAT that they are collecting on their supplies.

❖ Developers will be entitled to charge output VAT on the sale of commercial real estate and to set off such amounts against the input VAT they pay to their suppliers. Accordingly, developers should provide in their sale and purchase documentation that the purchase price will be "exclusive of VAT".

❖ Below is the list of those items that are zero rated and VAT exempt:

1. Zero-Rated: Exports outside of GCC, International Transportation
2. VAT Exempt: Some financial services, sale & purchase of bare land and local passenger services, healthcare and education.

VAT in UAE

VAT Registration Applicability

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. 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 exceeds 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.

The Government is intending to open VAT registrations from the third quarter of 2017 on a voluntary basis and from the final quarter of 2017 on a compulsory basis

