
UAE VAT GUIDE

NVENTEQ SOLUTIONS FZC

www.NVENTEQ.COM

TABLE OF CONTENTS

BUSINESS IMPACT.....	3
VAT FLOW	4
ACCOUNTING TREATMENT.....	5
NATURE OF SUPPLIES.....	6
EXAMPLE OF VAT DUE CALCULATION.....	7
COMMON STANDARD RATED SUPPLIES	8
COMMON ZERO-RATED SUPPLIES.....	8
COMMON EXEMPT SUPPLIES	8
PLACE OF SUPPLY OF GOODS.....	9
PLACE OF SUPPLY OF SERVICES.....	9
EXCEPTIONS TO PLACE OF SUPPLY OF SERVICES	9
REVERSE CHARGE MECHANISM.....	10
IMPORT VALUE.....	11
EXPENSES TREATMENT.....	12
FILING.....	13
VAT RECORD KEEPING	14
APPENDIX.....	15
DISCLAIMER.....	19

Business Impact



MANAGEMENT

on company structure, market positioning and negotiation with customers and suppliers.



FINANCIAL

overall costs & cash flow. availability & cost of appropriate resourcing. Cost & business impact of major technology & process changes



OPERATIONAL

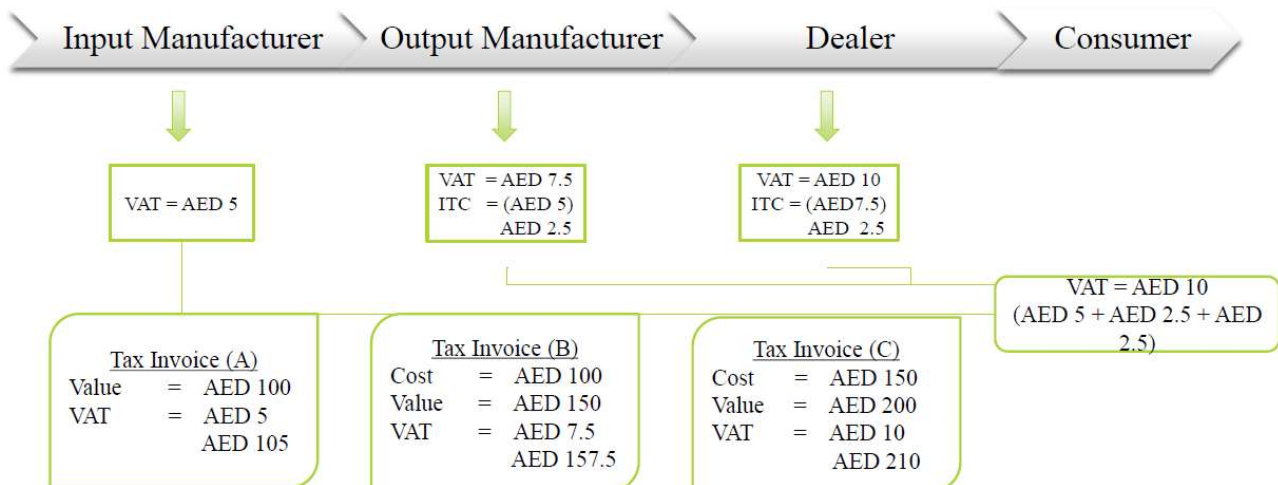
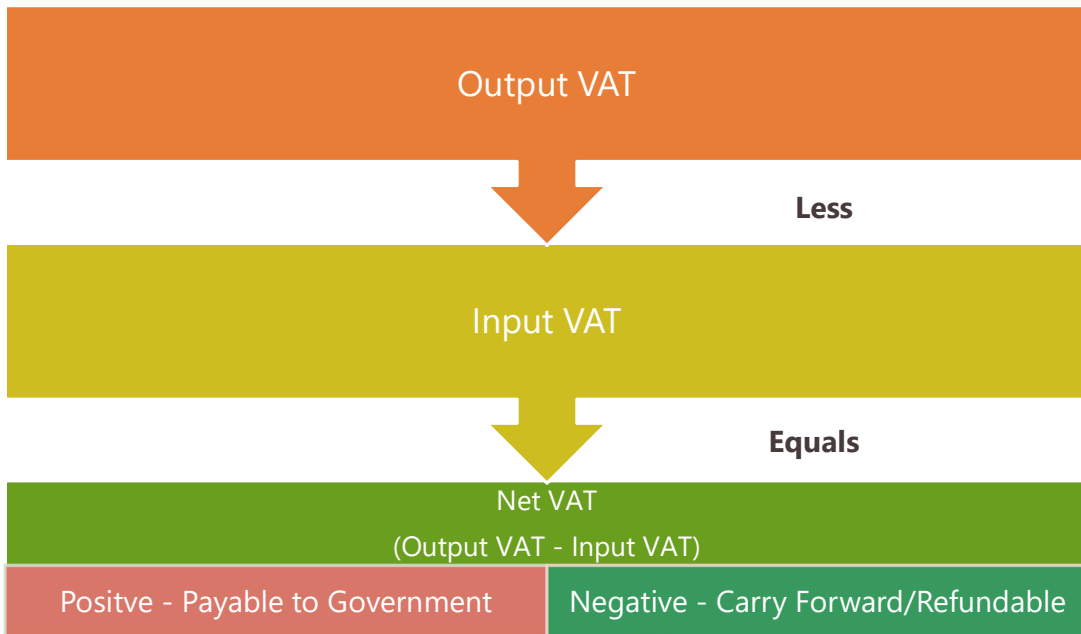
A wide range of business processes across all market-facing and business support functions will require review and potential Modification to become VAT-ready



ECONOMICAL

Business relationship with suppliers; pricing conundrum affecting customers loyalty

VAT FLOW



Accounting Treatment

Example

Contoso LLC purchased product of AED 50000 on which 5% standard VAT is applicable. VAT paid is AED 2,500 (Input VAT)

Contoso LLC sold product of AED 100,000 on which 5% standard VAT is applicable. VAT is AED collected is 5,000. (Output VAT)

Net VAT Payable by Contoso LLC to Government is AED 5,000 – AED 2,500 = AED 2,500.

Accounting Entries

In Contoso Books

<u>Purchase Transaction</u>		<u>Sales Transaction</u>	
Purchases A/c	Dr. 50,000	Customer A/c	Dr. 105,000
VAT Input Tax A/c	Dr. 2,500	To VAT Output Tax A/c	Cr. 5,000
To Supplier A/c	Cr. 52,500	To Sales A/c	Cr. 100,000
Entry to offset VAT			
	VAT Output Tax A/c	5,000	
	To VAT Input Tax A/c	5,000	

Nature of Supplies

Taxable Supplies

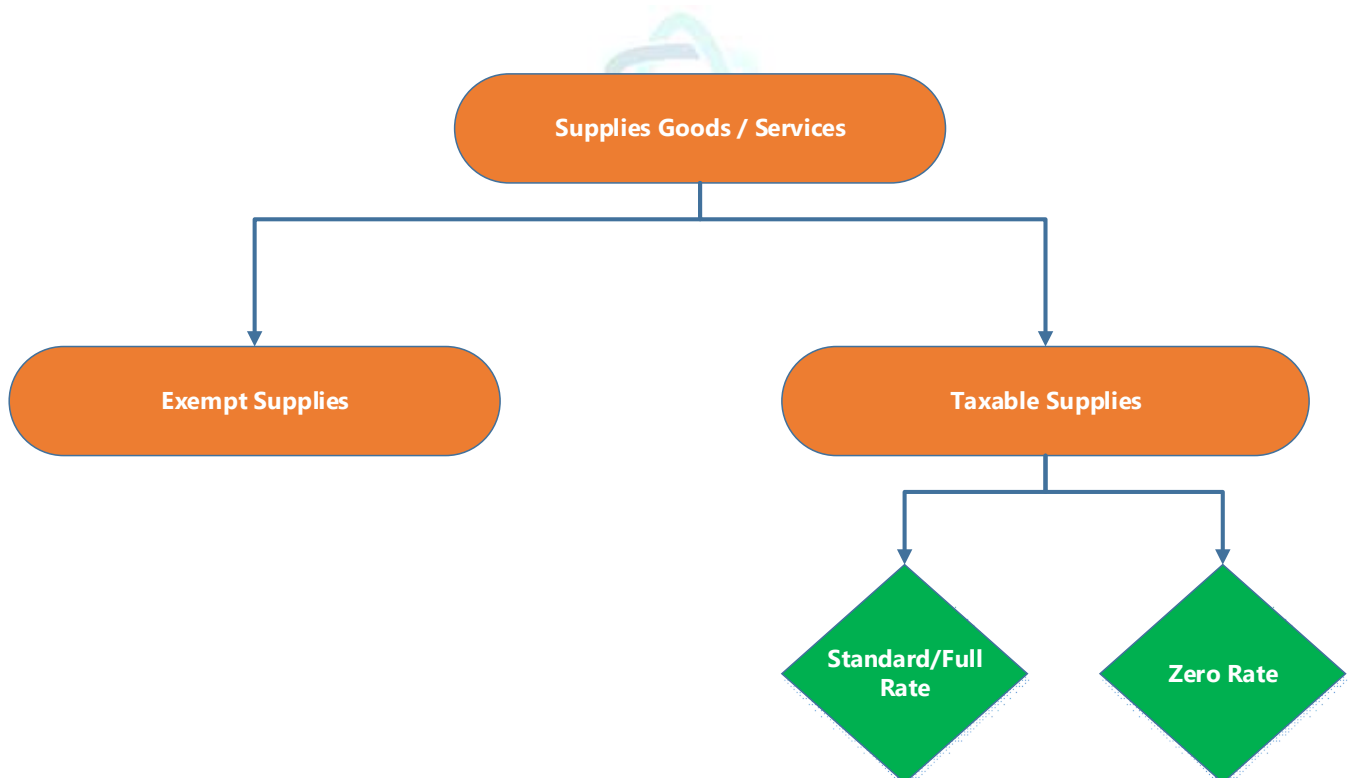
- Supply of Goods/Services for a Consideration conducting Business in the State, and does not include Exempt Supplies.
- Tax - 5% Rate
- Input Tax Recoverable
- Must register for VAT if threshold of turnover exceeds 375,000 or voluntary if exceeds 187,500

Zero Rated Supplies

- Taxable Supplies that are subject to Zero Rated VAT
- Tax - 0% rate
- Input Tax Recoverable
- Must register for VAT if threshold of turnover exceeds 375,000 or voluntary if exceeds 187,500

Exempt Supplies

- Supply of Goods/Services for Consideration conducting Business in the State, where no Tax is due
- Tax-EXEMPT
- No Input Tax Recoverable
- Registration not required if only exempt supplies are made



Example of VAT Due Calculation

M/s Contoso LLC made taxable sales of the following on which standard rate of 5% is applicable. All supplies are inclusive of VAT. Expenses (Purchases) incurred by the company in the making of total sales amounted to AED 65,000 inclusive of VAT. Let us see how the VAT due is calculated with different scenarios.

Details	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Standard Rate Sales	100,000	50,000	-	-
Zero-Rated Sales	-	30,000	100,000	-
Exempt Sales	-	20,000	-	100,000
Total Sales	100,000	100,000	100,000	100,000
VAT on Standard Rate Sales (100,000 * 5/105)	4,762	2,381	-	-
VAT on Zero-Rated Sales	-	-	-	-
VAT on Exempt Sales	-	-	-	-
A. Total Output VAT	4,762	2,381	-	-
Input VAT Recoverable (On Standard and Zero Rated)	65000*5/105 = 3095	65000*50%*5/105 + 65000*30%*5/105 = 2476	65000*5/105 =3095	-
B. Total Input VAT Recoverable	3095	2476	3095	-
C. Net Tax Payable/(Refundable) (A – B)	1,667	(95)	(3,095)	-

Output Tax Payable = Sales (Incl. of VAT) *5/105

Input Tax Recoverable = (Total Supplies – Exempted Supplies) *5/105

Net VAT Payable/(Refundable) = Output Tax – Input Tax

Common Standard Rated Supplies



Hotels



Retail Supplies



Car Rentals



Repairs



Commercial property

Common Zero-Rated Supplies



Certain Export Sales



Telecom Service Exports



Certain Transport



International Transportation



Education



Healthcare



Medicine/
Equipment



Oil/Gas



Investments Gold
Silver/Platinum

Common Exempt Supplies



Financial Services



Residential



Local Passenger
Transport



Charitable

Place of Supply of Goods

SNO	Dispatch	Receipt	Place of Supply	Remarks
1	UAE	UAE	UAE	Domestic Supply. Standard Rate 5% or Zero-Rated/exempt in UAE
2	UAE	UK	UAE	Goods departing the state or the provision of services to a person whose place of establishment is outside the state. Zero Rated in UAE
3	UK	UAE	UAE	Place of Import for Goods shall be the first point of entry. Reverse Charge in UAE
4	UAE -VAT Registered	KSA – VAT Registered	KSA	Reverse Charge in KSA
5	UAE – VAT Registered. Total Supply to KSA exceeds threshold SAR 375,000	KSA – VAT Non-registered	KSA	If exceeds threshold to a non-registered person in GCC Implementing states, the supplier of goods must register in destination state. Standard Rate 5% or Zero-Rated/Exempt in KSA
6	UAE – VAT Registered – Total Supply to KSA below 375,000 threshold	KSA – VAT Non-Registered	UAE	If below threshold to a non-registered recipient in GCC implementing state, place of supply is the originating state. Standard Rate 5% or Zero-Rated/exempt in UAE
7	Sharjah	Dubai	UAE	Standard Rate 5% or Zero-Rated/exempt in UAE

Place of Supply of Services

SNO	Residence	Recipient	Place of Supply	Remarks
1	UAE	UAE	UAE	Domestic Supply Standard Rate 5% or Zero-Rated/exempt in UAE
2	UAE	UK	UAE	Services outside GCC are Zero-rated
3	UK	UAE	UAE	Reverse Charge in UAE
4	UAE	KSA	KSA	Reverse Charge in KSA
5	Sharjah	Dubai	UAE	Standard Rate 5% or Zero-Rated/exempt in UAE
6	KSA	UAE	UAE	Reverse Charge in UAE

Exceptions to Place of Supply of Services

Domestic supplies

If the recipient is registered for VAT in another GCC state, then the place of supply for the service is the other GCC state.

Imports from outside GCC

If the supplier is a non-UAE resident who provides service to a VAT-registered resident in the UAE, then the place of supply is the UAE.

Installation

The place of supply for installation services is where the installation is done.

Real estate related services

This type of service includes:

- (i) Real estate experts and agent services
 - (ii) Granting the right to possess or use real estate
 - (iii) Services related to construction work
- The place of supply for real estate services is where the real estate is located.

Hotel and restaurant service

For restaurants, hotels, and catering services, the place of supply is where the services are performed.

Telecommunication and electronically-supplied services

The place of supply for wired and wireless telecommunication services and electronically-supplied services will be the location where the services are used or received.

Cultural services

For cultural, art, sports, educational, or similar services, the place of supply is where the services are performed.

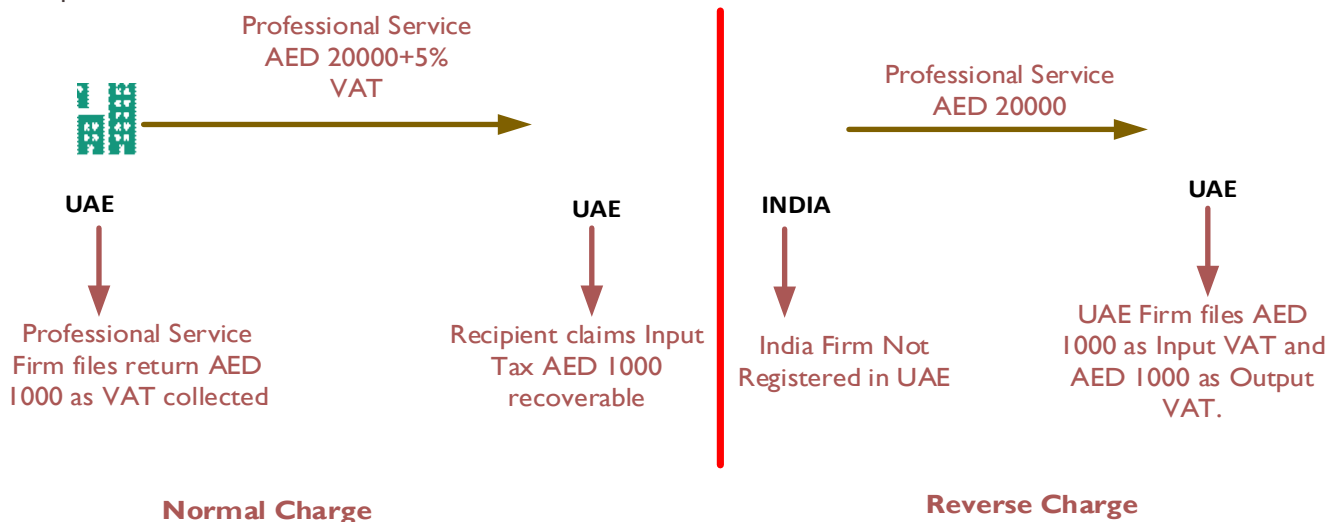
Passenger transportation services

The place of supply for passenger-related transportation services is the location where the transportation begins.

Reverse Charge Mechanism

A mechanism under which the recipient of goods or services is required to pay VAT instead of the supplier, when the supplier is not a taxable person in the member state where the supply has been made.

Example



Import Value

Import is defined as the arrival of Goods from abroad into the State or receiving Services from outside the State.

In case of Normal Import Transactions

Particulars	Value
Value of Import (FOB)	AED 100,000
Add: Freight and Insurance	AED 10,000
Total CIF Value	AED 110,000
Add: Customs Duty (on FOB)	AED 5,000
Total Value of Import	AED 115,000
Add: VAT on Total Import Value	AED 5,750
Total Value of Import	AED 120,750

In Case of Excise Duty Goods

Particulars	Value
Value of Import (FOB)	AED 100,000
Add: Freight and Insurance	AED 10,000
Total CIF Value	AED 110,000
Add: Customs Duty (on FOB)	AED 5,000
Total Value of Import	AED 115,000
Add: Excise Duty @100%	AED 115,000
Total Value of Import for Excisable Goods	AED 230,000
Add: VAT on Total Import Value	AED 11,500
Total Value of Import	AED 241,500

Expenses Treatment

Expense	VAT Treatment
Staff Allowances	Employee Allowance No VAT Implication
Asset Amortization	Amortization being accounting entry no VAT
Bad Debts	Bad debt relief in accordance with legislation
Audit Fees	VAT fully recoverable
Bank Charges	VAT fully recoverable
Staff Entertainment expenses	VAT Not recoverable
Payroll expenses	No VAT
General Maintenance	VAT Recoverable 5%
Office Premises Rent	VAT Recoverable 5% - Commercial
Air Tickets	Zero Rated
Computer Software	VAT Recoverable 5%
Related Party Expenses	No VAT if registered under same Tax group
Postage & Courier	VAT Recoverable 5%
Depreciation	May not be subject to VAT
Utility Bills	VAT Recoverable 5%
Visa Services	May not be subject to VAT but clarity needed
Health Insurance	VAT Recoverable 5%
Employee Gratuity	No VAT
Equipment Maintenance	VAT Recoverable 5%
Building Insurance	VAT Recoverable 5%
Gifts to External Guests	If gifts exceed threshold in 12 months deemed supply
Bank Loans Interest	Interest will be exempt
Statutory expenses	Decision expected if out of scope of VAT
Disposal of Fixed Assets	Disposal subject to VAT 5% on Sale proceeds
Marketing Costs	VAT Recoverable 5%
Printing and Stationery	VAT Recoverable 5%
Internet Advertising	VAT Recoverable 5%
Traffic Fines	Out of Scope for VAT being punitive in nature
Website expenses	VAT Recoverable 5%
Prepaid Expenses	Prepayment Recognition entry no VAT**
Leasehold Improvements	Subject to Capital Assets Scheme
Fixed Assets	Subject to Capital Assets Scheme
Capital WIP	No VAT if assets are merely transfer to this account

FILING

MONTHLY	QUARTERLY
SMALL – MEDIUM	LARGE BUSINESS

Filing Online through FTA Portal

Return filing Monthly / Quarterly

If last day is public holiday, deadline be extended to first business day after holiday

Return must contain details of all supplies bought and sold

Each Emirate wise break up of supplies may be required

Late filing may attract penalties

Any corrections for previous period can be made

VAT Record Keeping

Each company shall maintain its accounting books/records in its place of business for a period of at least 5 (five) years from the end of the financial year of the company.

Following record examples that shall be maintained by the business with accuracy, paper/electronic format, for specified period.

Sales Invoices

Purchase Invoices

Debit or Credit Notes

Import and Export Records

Accounting Books

Zero-Rated/exempt Supplies and Purchases

Records of goods issued free or allocated for Private use

APPENDIX

Value Added Tax: A tax imposed on the import and supply of Goods and Services at each stage of production and distribution, including the Deemed Supply.

Tax: Value Added Tax (VAT)

GCC States: All countries that are full members of The Cooperation Council for the Arab States of the Gulf pursuant to its Charter.

Implementing States: GCC States that are implementing a Tax law pursuant to an issued legislation.

Goods: physical property that can be supplied including but not limited to real estate, water, and all forms of energy as specified in this Decision.

Services: anything that can be supplied other than Goods.

Standard rate: the applicable VAT rate as specified in Article (3) of the Decree-Law.

Import: the arrival of Goods from abroad into the State or receiving Services from outside the State.

Concerned Goods: Goods that have been imported, and would not be exempt if supplied in the State.

Concerned Services: Services that have been imported where the place of supply is in the State, and would not be exempt if supplied in the State.

Person: natural or legal person.

Taxable Person: any Person registered or obligated to register for Tax purposes under the Decree-Law.

Taxpayer: any person obligated to pay Tax in the State under the Decree-Law, whether a Taxable Person or end consumer.

Legal Representative: the manager of a company or a guardian or custodian of a minor or incapacitated person, or any other Person appointed legally to represent another Person.

Tax Registration: a procedure according to which the Taxable Person or his Legal Representative registers for Tax purposes at the Authority.

Tax Registration Number (TRN): a unique number issued by the Authority for each Person registered for Tax purposes.

Registrant: The Taxable Person issued with a TRN.

Recipient of Goods: Person to whom Goods are supplied or imported.

Recipient of Services: Person to whom Services are supplied or imported.

Tax Return: information and data specified for Tax purposes and submitted by a Taxable Person in accordance with a form prepared by the Authority.

Consideration: all that is received or expected to be received for the supply of Goods or Services, whether in money or other acceptable forms of payment.

Business: any activity conducted regularly, on an ongoing basis and independently by any Person, in any location, such as industrial, commercial, agricultural, professional, service or excavation activities or anything related to the use of tangible or intangible property.

Exempt Supply: a supply of Goods or Services for Consideration while conducting Business in the State, where no Tax is due and no Input Tax may be recovered except according to the provisions of the Decree-Law.

Taxable Supply: a supply of Goods or Services for a Consideration by a Person conducting Business in the State, and does not include Exempt Supplies.

Deemed Supply: anything considered a supply and treated as a Taxable Supply according to the instances stated in the Decree-Law.

Input Tax: Tax paid by a Person or due from him when Goods or Services are supplied to him, or when conducting an Import.

Output Tax: Tax charged on a Taxable Supply and any supply considered to be a Taxable Supply.

Recoverable Tax: amounts that were paid and can be repaid by the Authority to the Taxpayer pursuant to the provisions of the Decree-Law.

Due Tax: Tax that is calculated and charged pursuant to the Decree-Law.

Payable Tax: Tax that is due for payment to the Authority.

Tax Period: the specified timeframe, for which Payable Tax shall be calculated and paid.

Tax Invoice: a written or electronic document in which the occurrence of a Taxable Supply is recorded with details pertaining to it.

Tax Credit Note: a written or electronic document in which the occurrence of any amendment to a Taxable Supply that reduces or cancels it is recorded and the details pertaining to it.

Government Entities: Federal and local ministries, government departments, government agencies, authorities and public institutions in the State.

Charities: societies and associations of public welfare not aiming to make a profit that are listed within a decision issued by the Cabinet upon the recommendation of the Minister.

Mandatory Registration Threshold: an amount specified in this Decision that if exceeded by the value of Taxable Supplies or is anticipated to be exceeded, the supplier must apply for Tax Registration.

Voluntary Registration Threshold: an amount specified in this Decision that if exceeded by the value of Taxable Supplies or taxable expenses or is anticipated to be exceeded, the supplier may apply for Tax Registration.

Transport-related Services: shipment, packaging and securing, preparation of Customs documents, container management, loading, unloading, storing and moving of Goods, or any another closely related services or services that are necessary to conduct the transportation services.

Place of Establishment: the place where a Business is legally established in a country pursuant to its decision of establishment, or in which significant management decisions are taken and central management functions are conducted.

Fixed Establishment: any fixed place of business, other than the Place of Establishment, in which the Person conducts his business regularly or permanently and where sufficient human and technology resources exist to enable the Person to supply or acquire Goods or Services, including the Person's branches.

Place of Residence: the place where a Person has a Place of Establishment or Fixed Establishment, in accordance with the provisions of the Decree-Law.

Non-Resident: any person who does not own a Place of Establishment or Fixed Establishment in the State and usually does not reside in the State.

Related Parties: two or more Persons who not separated in economic, financial or regulatory aspects, where one can control the others either by Law, or through the acquisition of shares or voting rights.

Designated Zone: any area specified by a decision of the Cabinet upon the recommendation of the Minister, as a Designated Zone for the purpose of the Decree-Law.

Export: Goods departing the State or the provision of Services to a Person whose Place of Establishment or Fixed Establishment is outside the State, including the Direct and Indirect Export.

Direct Export: An Export of Goods to a destination outside of the Implementing States, where the supplier is responsible for arranging transport or appointing an agent to do so on his behalf.

Indirect Export: An Export of Goods to a destination outside of the Implementing States, where the overseas customer is responsible for arranging the collection of the Goods from the supplier in the State and who exports the Goods himself, or has appointed an agent to do so on his behalf;

Overseas Customer: A Recipient of Goods who does not have a Place of Establishment or Fixed Establishment in the State, or otherwise resides in the State, and who does not have a Tax Registrations Number.

Voucher: any instrument that gives the right to receive Goods or Services against the value stated thereon or the right to receive a discount on the price of the Goods or Services. Vouchers do not include postage stamps issued by the Emirates Post Group.

Capital Assets: Business assets designated for long-term use.

Capital Assets Scheme: a scheme by which initially recovered Input Tax is adjusted based on actual use during a specified time.

Administrative Penalties: amounts charged to a Person by the Authority for a breach of the provisions of the Decree-Law or the Federal Law No. (7) of 2017 on Tax Procedures.

Tax Group: two or more Persons registered with the Authority for Tax purposes as a single taxable person in accordance with the provisions of the Decree-Law.

Notification: notification to the concerned Person or his Tax Agent or legal representative of decisions issued by the Authority through the means stated in the Federal Law No. (7) of 2017 on the Tax Procedures.

Tax Evasion: the use of illegal means by a Person resulting in lowering the amount of Due Tax, non-payment of the Due Tax or a refund of Tax that he does not have the right to have refunded under the Decree-Law.

DISCLAIMER

This document is prepared for general understanding of Value Added Tax (VAT) applicable to UAE region. The document may contain collection of information from various sources, application of our skills and expertise on the subject. The document is not created for any commercial purposes instead purely for knowledge sharing exercise among our internal employees, external clients or other public. Any words, sentences or content resembling other publications can either be coincidental or used solely for informative purposes only. If such publications wish to remove such content from this document, they may write to our company through Email info@nventeq.com and we'll review the objections and try to respond at the earliest.

THANK YOU

