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VAT in the UAE

Indirect tax

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As announced earlier
this year, the UAE will
be implementing VAT
at a rate of 5% from
1 January 2018.

Following the announcement earlier this year confirming that the UAE will implement VAT at a rate of 5% from 1 January 2018, the Ministry of Finance (MoF) have just released additional details on the impending introduction.

They have confirmed that the UAE is implementing VAT to generate a new source of income to aid and further improve public services in the 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.

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 rate has been confirmed at 5% which is within the lower tier, with the implementation date reconfirmed at 1 January 2018. As it is a general consumption tax, it will be applied to the majority of transactions in goods and services which may see the cost of living increase slightly, however should consumers be purchasing items which are exempt (approximately 100 food items, bicycles, healthcare and education), they will see minimal, if not no increase. Tourists will also be expected to pay the VAT at the point of sale.

The MoF has confirmed that organisations will be responsible for documenting their business income, costs and associated VAT charges. They stated that "registered businesses and traders will charge VAT to all of their customers at the prevailing rate and incur VAT on goods / services that they buy from suppliers. The difference between these sums will be reclaimed or paid to the government¹."

In support of entrepreneurship and small businesses, the MoF has confirmed that not all businesses will need to register with the government for VAT. They state that "only businesses that meet a certain minimum annual turnover requirement will have to register for VAT," meaning that many small businesses "will not need to register for VAT". They confirm that this "decision has been made to safeguard small businesses from the extensive documentation and reporting that a system like VAT requires". They continued "businesses may not need to register with the government if they only provide goods and services which are not subject to VAT¹." The minimum turnover amount has not yet been finalised nor have the specific conditions, although an announcement is expected soon.

"To fully comply with VAT, businesses will need to make changes to their core operations, their financial management and book-keeping, their technology, and perhaps even their human resource mix (i.e. accountants and tax advisors)¹."

The MoF has re-confirmed the grace period of 18 months to implement VAT. During this time, businesses will be required to meet the requirements to fulfil their tax obligations.

All businesses that meet the minimum annual turnover requirement (as confirmed by their financial records) will be required to register for VAT. In order to do so, business in the UAE should record their financial transactions and “ensure their financial records are accurate and up to date.” The MoF has also stated that businesses who “do not think they should be VAT registered should maintain their financial records in any event!” should they be required to register in the future, whilst the MoF establish whether they should be registered.

Businesses which are registered:

- must charge VAT on taxable goods or services they supply;
- may reclaim any VAT they've paid on business-related goods or services;
- keep a range of business records which will allow the government to check the accuracy

Businesses which have registered must report the amount of VAT that they have charged and the amount that will be paid to the government on a frequent basis. Should a business charge more VAT than they've paid, they will need to pay the difference to the government, likewise if they have paid more VAT than charged, they can submit a VAT reclaim. The reporting is expected to be made available online and submission will be formalised for ease.

Foreign businesses will be permitted to recover the VAT they incur when visiting the UAE. This has been enabled as it encourages and promotes international businesses to do business in the Emirates without stipulating additional taxes that were not historically applied. Given that a number of key economies have a VAT system in place, it will also protect the “ability of UAE businesses to recover VAT when visiting other countries (where the rates are a lot higher)¹.”

The MoF has re-confirmed the grace period of 18 months to implement VAT. During this time, businesses will be required to meet the requirements to fulfil their tax obligations. They have stated that “to fully comply with VAT, businesses will need to make changes to their core operations, their financial management and book-keeping, their technology, and perhaps even their human resource mix (i.e. accountants and tax advisors)”. The MoF continued that “it is essential that businesses try to understand the implications of VAT once the legislation is finalised and make every effort to align their business model to government reporting and compliance requirements”. The MoF will provide businesses with “guidance on how to fully comply with VAT once the legislation is finalised¹”, however the “final responsibility and accountability to comply with the law” must lie with the business.

Businesses must comply with the rules and guidelines surrounding VAT, should they fail to do so they will need to pay a penalty and fee for non-compliance. The exact amount has not yet been confirmed and will be announced in due course.

The reporting is expected to be made available online and submission will be formalised for ease.

The MoF will be establishing a new online channel in 2016 to share further details on the impending introduction of VAT and the elements that surround the introduction. They have also confirmed that “the UAE is exploring other tax options as well. However, these are still being analysed and it is unlikely that they will be introduced in the near future”. They also stated that the “UAE is not currently considering personal income taxes¹.”

Further announcements and details are expected to be made this summer.

“Further clarity surrounding the introduction of VAT, provides UAE businesses the opportunity to look at their internal systems and processes to ensure they can prepare and effectively manage this change. As historically illustrated in other key economies who have adopted VAT, the introduction of such aids in promoting a maturing economy and sustained long term growth.”

- Hisham Farouk, CEO, Grant Thornton

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To discuss how this update may implicate your business or to have a related discussion, contact us:

Hisham Farouk
CEO
E: hisham.farouk@ae.gt.com

Atul Varma
Director
E: atul.varma@ae.gt.com



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