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Tax Alert
United Arab Emirates

December 2015

This alert follows on from the update in September 2015 and is intended to provide a brief synopsis of the impending Corporate Tax and Value Added Tax (VAT).

GCC states move closer to implementing VAT as they agree key issues.

Although, the date of imposing corporate tax and value added tax (VAT) has not yet been confirmed, the GCC states have moved one step closer to fiscal reform. “The draft of the corporate tax law and the value-added tax law has been discussed with the local and federal governments,” Younis Haji Al Khouri, an undersecretary at the Ministry of Finance said[1]. Currently, the UAE and Bahrain are the only corporate tax free countries in the GCC.

News reports have suggested that “the Ministry of Finance, in coordination with the UAE’s local entities, have already prepared draft laws on creating a federal tax authority, a draft law for tax procedures and a draft law for VAT, which include the components agreed upon in the GCC draft law[2].”

Key issues surrounding the notion of value added tax have been resolved, which sees the region moving closer to introducing direct taxation in the GCC for the first time, given volatility within the oil & gas sector has furthered the need to generate additional sources of income.

The introduction of VAT would be a key fiscal reform for the GCC and one which looks set to take place within the next three years[3]. Younis Haji Al Khouri, an undersecretary at the Ministry of Finance has said not all goods and services will be taxed, he stated “we agreed on key issues to apply zero tax on healthcare, education, social services sectors and exempt 94 food items [3]”, the committee is still in discussion to agree the imposition of taxation for other sectors including financial services. Khouri said he expected a final agreement to be reached in three years, after which it would take 18 to 24 months to implement VAT across the region.

The rate of VAT has not yet been confirmed, however a report by the IMF has recommended that this should be set at approximately 5 per cent, with 10 per cent for corporate income tax and 15 per cent to be excised on automobiles[4]. The bilateral move towards fiscal reform which would see the introduction of VAT across the GCC, would support in generating additional government income. In a report issued by the International Monetary Fund (IMF) in August 2015, it was highlighted that the UAE could generate up to 7.4 per cent[5] in extra revenue by introducing VAT and corporate tax.

Additional details will be shared as further developments are announced.

Contact us
Once the law has been approved, we can use a combination of reason and instinct, to work with you to develop a strategy that helps you both understand and manage your tax liability in a transparent and ethical way.

To discuss how this update may implicate your business or to have a related discussion, please do not hesitate to contact us.

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References:
1. UAE Government draws up sales and corporation tax plans (The National)
2. UAE studying implementation of VAT, corporate tax (Emirates 7/24)
3. VAT in GCC: Gulf states agree on key issues, says UAE official (Emirates 7/24)
4. UAE says VAT plan delayed by disagreement in region (Arabian Business)
5. UAE said to press ahead with VAT, corporation tax plans (Arabian Business)