



Cabinet Decision No. (35) of 2018 on Designated Zones

Value Added Tax (VAT) was effected within the United Arab Emirates (UAE) on 1 January 2018, under the provisions of the UAE VAT Decree-Law and Executive Regulations. These legal documents contain the rules and regulations which govern the implementation of VAT in the UAE and can be relied upon to determine the VAT treatment of supplies in the majority of circumstances.

The Decree-Law and Executive Regulations contain instances where details of the application of certain rules were dependent on a Cabinet Decision. One of these instances was confirmation of the areas which will be specified as 'Designated Zones' for VAT purposes and therefore subject to special rules for the supply of goods located within the Designated Zone in certain cases.

The Federal Tax Authority (FTA) has recently amended Cabinet Decision No. (59) of 2017 on Designated Zones for the purposes of the Federal Decree-Law No. (8) of 2017 on Value Added Tax ('the Cabinet Decision'), which gave much-awaited relief to major free zone players. The list of 'Designated Zones' is referred to later.

It is important to note that the Cabinet Decision has been given with retrospective effect from 1 January 2018 and where businesses have treated transactions as subject to VAT, where they should correctly have been zero-rated or outside the scope, businesses should issue credit notes to reverse the VAT incorrectly charged under Article 61 (1)(b) and Article 62 of the VAT Decree-Law.

As per Article 51 of the Executive Regulations, the following specific rules will be applicable to any Designated Zone specified by the Cabinet Decision:

- a) A Designated Zone shall be treated as being outside the UAE;
- b) The transfer of goods between Designated Zones shall not be subject to Tax, subject to fulfillment of prescribed conditions;
- c) The place of supply of services is inside UAE, if the place of supply is in the Designated Zone;
- d) Any person established, registered or which has a place of residence in a Designated Zone shall be deemed to have a place of residence in the UAE.

In accordance with Article 51 of the Executive Regulations (read with other provision of the UAE VAT Decree-Law and the Executive Regulations), the FTA has released the following summary with respect to the VAT implications on transactions with a Designated Zone:

1) On the outward supplies by a taxable registered person in a Designated Zone

Nature of Supply	Nature of Transaction	VAT Applicability
Supply of Service	Designated Zone to Designated Zone	Standard Rated
	Designated Zone to Mainland	Standard Rated
	Designated Zone to Outside UAE	Zero rated subject to other conditions being satisfied for export
Supply of Goods	Designated Zone to Designated Zone	Out of Scope subject to other conditions being satisfied
	Designated Zone to mainland	VAT @ 5% (To be accounted for under Reverse Charge Mechanism by the recipient on the mainland, if he is registered under VAT)
	Designated Zone to outside UAE	Out of Scope

2) On the inward supplies by a taxable registered person in a Designated Zone

Nature of Supply	Nature of Transaction	VAT Applicability
Supply of Service	Designated Zone to Designated Zone	Standard Rated
	Mainland to Designated Zone	Standard Rated
	Outside UAE to Designated Zone	Standard Rated under Reverse Charge Mechanism
Supply of Goods	Designated Zone to Designated Zone	Out of Scope subject to other conditions being satisfied
	Mainland to Designated Zone	Standard Rated
	Outside UAE to Designated Zone	Out of Scope

We await the practical implementation by both the Customs and the FTA, given there are currently many practical challenges being faced by importers and free zone players.

Further, businesses which have not registered for VAT on the understanding that their activities would be outside the scope of UAE VAT, as a result of being wholly conducted within a Designated Zone, should instantly assess their options. Failure to charge VAT where required could lead to administrative penalties being levied by the FTA.

List of Designated Zones as per the Cabinet Decision

Abu Dhabi

- Free Trade Zone of Khalifa Port
- Abu Dhabi Airport Free Zone
- Khalifa Industrial Zone
- Al Ain International Airport Free Zone
- Al Butain International Airport Free Zone

Dubai

- Jebel Ali Free Zone (North-South)
- Dubai Cars and Automotive Zone (DUCAMZ)
- Dubai Textile City
- Free Zone Area in Al Quoz
- Free Zone Area in Al Qusais
- Dubai Aviation City
- Dubai Airport Free Zone
- International Humanitarian City, Jebel Ali

Sharjah

- Hamriyah Free Zone
- Sharjah Airport International Free Zone

Ajman

- Ajman Free Zone

Umm Al Quwain

- Umm Al Quwain Free Trade Zone in Ahmed Bin Rashid Port
- Umm Al Quwain Free Trade Zone on Sheikh Mohammed Bin Zayed Road

Ras Al Khaimah

- RAK Free Trade Zone
- RAK Maritime City Free Zone
- RAK Airport Free Zone

Fujairah

- Fujairah Free Zone
- FOIZ (Fujairah Oil Industry Zone)

How can Grant Thornton help:

Grant Thornton's tax team take a rigorous approach to helping you meet the VAT obligations and requirements set across the GCC, whatever challenges you may face along the way. Using our finely tuned local knowledge and global experience, we help you understand and comply with often complex and time-consuming changes which are required.

Our team of specialists have worked with businesses which range in size and industry, alongside supporting government entities in order to support the transition from Phase 1 to full VAT compliance.

Contact the VAT team

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