

# FTA Audit

GT Checkup



## VAT in the UAE approaches its 5th birthday on 1 January 2023 – but what's next for VAT and the wider tax landscape?

The Ministry of Finance has announced the introduction of a 9% federal Corporate Tax in the UAE, effective from the financial year beginning 1st June 2023. Whilst Corporate Tax is high on businesses' agendas and rightly so, VAT should not be forgotten.

The UAE will shortly complete 5 successful years of VAT and whilst this is significant and something to celebrate, this will also bring into play rules and time limits around record-keeping, audits and pending refunds. For businesses that have been registered for VAT since its inception, tax periods for 2018 will begin to fall out of the scope for a Tax Audit undertaken by the Federal Tax Authority (FTA).

**Example:** A business with a monthly VAT return stagger, would have submitted its first VAT return for the period ended 31 January 2018, the first VAT return period will then expire on 31 January 2023, 5 years since the first VAT return was submitted.

In certain instances, the FTA can notify businesses of the intention to begin an audit before the expiry of a specific tax period with the audit taking place after the 5 year time limit has elapsed. Businesses will need to maintain their records for a longer period, not exceeding 9 years in total. This additional extension for keeping records will also apply to instances where there are disputes between a taxpayer and the Authority, when a tax audit has already been started but has not yet been completed or, notification of an audit has been given by the Authority.

### Good News?

Whilst this seems like good news that tax periods will begin to fall out of time for a tax audit we have seen a recent surge in FTA audits being issued to businesses with the most recent focus being on the Insurance Industry. Given that 2023 is fast approaching and the time left for tax audits to be notified is decreasing, we are expecting to see a significant increase in FTA audits for other industries as well.

Business who has not yet been audited or have refunds pending with the FTA should act now to ensure that they are ready for an FTA Audit and where VAT is owed to them from the FTA take proactive steps to claim any monies owing before the periods in question fall out of time.

## FTA Audit - Timing is everything

When an FTA audit occurs, it may not be at a convenient time for the business and typically the audit process can be time consuming for business. Given this and the imminent introduction of corporate tax, business should prepare for the worst-case scenario as it could be possible that the introduction of corporate tax and an FTA audit may run parallel, reducing available resources for both projects.

## Preparation is key

- Ensure that all of your books and records are in order
- Convert working files to FTA Audit standard files
- Conduct a review of the previously submitted returns to confirm they are error free
- Where errors are found, you should disclose these as soon as possible to the FTA by the appropriate method (on the next VAT return or by submitting a Voluntary Disclosure) before being notified of the FTA audit to benefit from early disclosure discounts on penalties.

## Early bird catches the worm

The benefits of preparing early are:

- You will be able to respond quickly to the FTA's documents requests and questions (typically only 5 working days are given to respond).
- Reduce time spent on preparing audit files to FTA requirements.
- Reduce the value of percentage-based penalties applicable by declaring errors in advance of FTA Audit. Penalties that can be applied for self-declaration range from 5% to 40% of the tax due depending upon how quickly one declares that. However, if the error is discovered as part of an FTA audit then penalties will be 50% of the tax due plus interest from the date the payment is due (the relevant tax period) until it is paid.
- Where errors are found disclose these early to the FTA by the appropriate method (on the next VAT return or by submitting a Voluntary Disclosure) before being notified of the FTA audit to benefit from early disclosure discounts on penalties.

Should you wish to prepare early for an FTA audit or the introduction of Corporate Tax, our team of experts would be happy to discuss your requirements with you.



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