

# VAT Treatment on Export Goods



The introduction of VAT into the UAE will soon be completing 5 Years, however, many businesses have been unable to understand and appreciate the VAT zero-rating conditions for exports of goods.

The challenges faced by export businesses in this regard and how they can structure solutions around this are highlighted below:

## 1. Goods not being exported within 90 days from the supply date

For zero-rating benefits, it is vital to have evidence of goods leaving the country within 90 days from the date of issuing an invoice or receiving the payment, whichever is earlier, and there may be situations a business can face where goods are not exported within the prescribed time limit.

The prudent approach in this scenario should be to track the 90 days timeline and account for 5% VAT on the 91st day treating that day as the date of supply or to account for 5% VAT in advance and issue a tax credit note for VAT adjustment only after there is evidence to support the movement of goods outside the UAE, within 90 days from the date of supply.

Businesses can also request the FTA for an extension of the 90-day limit by submitting an administrative exception request.

## 2. “Bill To Ship To” Supply Model

In the UAE, “Bill To Ship To” transactions are a common occurrence. Businesses have been taking a position that since they have both ‘official’ and ‘commercial’ evidence as proof of movement of goods outside the UAE, the transaction should be treated as a zero-rated export.

The FTA has clarified against this position in its Automotive Guide that if an invoice is issued to a UAE buyer but goods are exported outside the UAE, then the sale to the UAE entity should be taxable at 5%, the reason being that the UAE supplier is acting as an agent to export the car on behalf of the UAE buyer.

### 3. Non-issuance of Exit Certificate by Customs department in case of Indirect exports

Many times suppliers are unable to obtain Exit certificates from the Customs authority as proof of “Official Evidence.” The FTA will request an Exit certificate as mandatory evidence for zero-rating.

In instances wherein Customs authorities are not issuing the Exit certificates, it is suggested to take an administrative exception from the FTA requesting to accept alternative evidence other than an Exit certificate such as goods receipt notes, declaration/ confirmation from the customer for goods received, cargo manifest, arrival notice at destination port, etc.

### 4. Export through an agent

For exporting goods through an agent it is important that the business should have a valid contract with the agent and all the ‘Official’ and ‘Commercial’ evidence are in the name of the business and not the agent.

Businesses should ensure that complete export documentation is readily available to obtain the zero-rating benefit at the time of FTA audits as during audit proceedings FTA expects that all the records and proofs are maintained by businesses during their regular course of business.

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.

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