N R DOSHI & PARTNERS
Auditors Business Consultants Tax Advisors

UAE VAT

- Attaining an Effective Transition

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UAE VAT: *Attaining Effective transition*

1. Adoption & Regulatory Environment

A significant milestone in the GCC was achieved when UAE along with Saudi Arabia, Bahrain, Qatar, Kuwait, and Oman announced the adoption of indirect tax system, namely VAT (Value Added Tax).

The GCC countries under the GCC VAT Agreement have aiming to adopt 5 %VAT from 1st January, 2018. for countries that are VAT prepared and 1st January, 2019 for GCC countries that are not VAT prepared.

The VAT is the largest-ever tax reform in the fiscal history of UAE. It charts a new course for indirect tax system in UAE. UAE declared the adoption of VAT from 1st January, 2018.

UAE will introduce two laws and one guidance regulation

Tax Procedures Law

Will govern the general rules and procedures relating to all taxes in the UAE.

VAT Law

Will govern the application of VAT in UAE. This is built on the GCC VAT Framework.

VAT Executive Regulations

Will support the VAT law and give clarifications.

UAE VAT: *Attaining Effective transition*

2. Scope of VAT

"VAT is a tax on consumption of goods and services levied at the point of supply. VAT is not tax on profits."

<u>VAT is imposed on</u>

i. The supply of goods and services in UAE and
ii. The importation of goods into UAE

<u>VAT to be chargeable on a supply of goods and services, the following four conditions must be satisfied</u>;

i. The supply must be made in UAE
ii. The supply is a taxable supply
iii. The supply is made by a taxable person and
iv. The supply is made in the course or furtherance of any business carried on by taxable person

A "supply" includes anything done for consideration. It can be in the form of provision of tangible goods or provision of services

There are "transactions" treated as supplies for VAT purpose even though there is no consideration involved. These supplies are known as deemed supplies e.g. Private use of goods.

<u>**VAT Basic Concepts**</u>

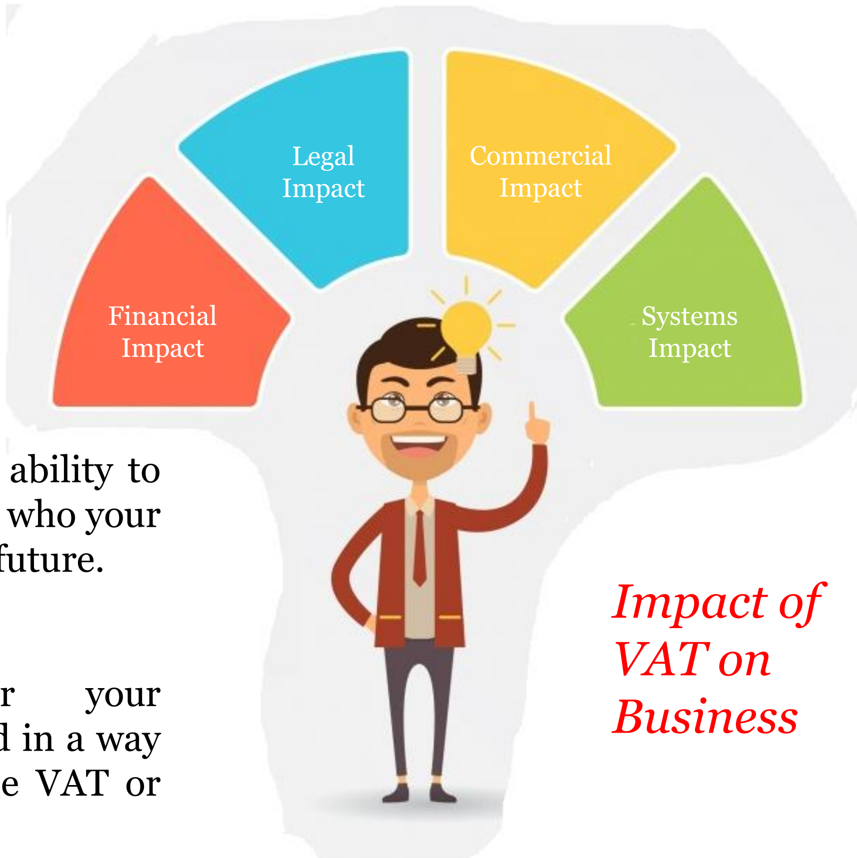
1	Type of Supply	• Are the outputs taxable? (Standard Rated, Zero Rated, Exempt) • Is my input recoverable?
2	Place of Supply	• Is the supply made in UAE or outside UAE?
3	Time of Supply	• When do I account for VAT?
4	Value of Supply	• At what value should I charge VAT?

3. *Summary of Key Provisions*

AREA	SUMMARY
Taxable Person	Under VAT rule, Taxable person includes persons within UAE or outside UAE or GCC
Registration Threshold	Mandatory for businesses with taxable supplies over AED 375,000/- per annum Voluntary for business with taxable supplies between AED 187,500/- and AED 375,000/- per annum
Registration	Commences from Q3 of 2017
VAT Rate	5% for standard rated supplies
VAT groups	It allows to register multiple companies with same shareholder with one VAT number. It generally allows to ignore the supply or transactions that usually takes place between those companies.
Categories under VAT	• Standard rated • Zero Rated • Exempt Supplies
VAT Invoices	• Only a VAT registered business can issue VAT invoice • Invoice should be issued within 14 calendar days of the taxable supply • Invoices to be rounded off to the nearest Fils
Filing	• Filing of returns to be made every quarter • VAT returns to be filed online
Record Keeping	Invoices issued and received should be kept for a minimum of 5 years
Reporting of transactions at an Emirates Level	Taxable businesses will be required to report details of the value of supplies made in each Emirate on their VAT returns
Audits by Federal tax Authority	Audits may be conducted to inspect records and make sure persons are paying or reclaiming the right amount of tax

4. How should companies prepare for the rollout of VAT?

The following summarizes the four cornerstone issues to be considered



Impact of VAT on Business

Financial Impact:
Understand how the introduction of VAT can affect your business. There are two main challenges to consider, which is how the charge of VAT may increase the burden of the customer and how the ability to recover VAT may affect who your suppliers will be in the future.

Legal Impact :
Understand whether your contracts are structured in a way to allow you to charge VAT or not.

Commercial Impact
Understand how receivers will react to the need to pay 5% VAT, which is often viewed as creating a tax burden. For suppliers who are unable to charge the VAT for commercial reasons, the reform is costly as the tax is borne as a cost which decreases the top-line profit.

Systems Impact:
The issuance of the special VAT invoice, the resulting VAT reporting obligations, should be automated. The ERP will need to be adapted to cater for the requirements of VAT.

5. Practical Implications

Businesses that are VAT registered will be able to recover input tax, it is financially more beneficial for them to contract with other providers who are also VAT registered.

Contracting with a party who will charge VAT, which is now deductible, is clearly more advantageous than contracting with providers that are not VAT registered but would have paid VAT on their purchases and hence contracting with such providers VAT not deductible .

The first important step for businesses is to understand whether goods that they sell or services they offer tantamount to taxable supplies or are exempt.

Secondly businesses need to ascertain whether they are required to register or will voluntary registration be beneficial.

Taxpayers need to revisit their pricing policies for identification of potential benefits. For e.g. Should businesses charge VAT to their customers on the goods they sell or services they provide? Would the price still be competitive? Or should they absorb VAT to remain competitive?

It is equally important for business to review its current business processes and systems. Whether the existing processes and systems are capable to handle the added administrative tasks that will come with implementation of VAT.

In short it is getting business ready for VAT should not be left until last minute. The sooner business puts things in place the more easier it is administratively from 1st January 2018.

"Getting your company prepared for VAT by understanding its implications"

6. *Ensuring Readiness*

Careful planning can help minimize the impact of the VAT and ensure identified opportunities are realized. Benefits of Companies in being prepared can be summarized as follows:

- Pro-activeness facilitates efficient business
- Planning effective Cash-flow & working capital management
- Issues are addressed in advance
- Vendors classification
- Avoid costly penalties
- Smooth functioning of overall operations

Conversely, a failure to appropriately plan for any changes may result in an overpayment of tax, VAT reclaim opportunities being missed, or penalties imposed by the tax authorities arising from incorrect disclosures.

Accordingly, Companies must include a number of aspects while evaluating their VAT readiness. The following VAT implementation roadmap can serve as a general guidance.

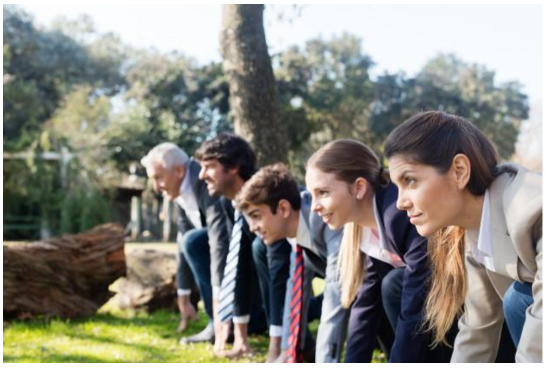
VAT *Implementation Roadmap*

7. Conclusion

As the changes can have wide-ranging implications, companies should act now to assess the impact on their business.

A methodological approach along with the assistance of experienced consultant can help ensure readiness, minimize the risk of non-compliance, and ensure any benefits that have been identified are realized.

Updating systems and compliance processes represents a part of the readiness exercise.



" By failing to prepare you prepare to fail"
-Benjamin Franklin

Questions?

We have launched our exclusive email portal for all your VAT related queries. If you have any questions please drop an email at vat@nrdoshi.ae

