



CASE STUDY

VAT Audit: Fixed the errors
in VAT implementation &
VAT registration

Overview

VAT (Value Added Tax) system was introduced in the United Arab Emirates on 1st January 2018. As per the rules and regulations, every company whose annual turnover is above AED 375,000 must implement VAT without choice.

For implementing VAT, a company first needs to perform VAT registration. There is a standard format for creating invoice which every company needs to follow. Also, one needs to file a return carefully.

There are two types of supplies in the UAE VAT viz., Exempted Supplies and Taxable Supplies.

For Taxable Supplies with Standard/Full Rate, 5% VAT is charged. Zero Rate Supplies are charged 0% Tax Rate, and Exempted Supplies are exempt from Taxes. It is important for assesses to classify supplies correctly to apply the correct rate of tax.

In this current case study, the reader will find out about the various VAT related issues experienced by the company which deals with gas distribution. They reached us in January 2019, one year after the VAT implementation in the UAE. This case study explains how N R Doshi and Partners solved those issues, saving the company from huge penalties. The whole process is performed within a time-bounded period providing the results as soon as possible.

Challenge

The group companies include three entities, out of which only two are registered under **group registration**. The third entity was not registered under VAT. Out of these two registered entities, one entity was registered under **individual registration** too. However, a single entity cannot be registered twice.

Vendors who were dealing with the company were providing non-compliant invoices. Moreover, even the company's invoice format was not as per the VAT rules and regulations.

Out of all the suppliers with which the company deals, some were not reported under VAT, although they didn't appear under exempted goods and items list.

When the company filed a return, for the same entity, it claimed the tax amount twice; first, from the group registration and second from the individual registration.

The company received an advance amount before 2018 from its customers to whom the service was provided after 2018. In this sort of transactions, VAT must be implemented and to be paid on 1st January 2018.

As you can check, there are several issues which required to be solved before authority detects and notifies it to the company. In case the authority would have recognized it before us, the company needs to pay penalties, which could have cost it a fortune. Fortunately, the company reached us before the authorities would have reached them. We accepted the challenge and conducted one by one process to make them compliant with the UAE VAT system.

Challenge Accepted

First, the structure of the company was required to be understood. We initiated the registration process of the third entity under the group VAT registration. Also, the deregistration process was started for the entity which was registered under group as well as individual registration. The entity needs to be deregistered from the individual registration and continue its presence under the group registration.

We checked the invoices sent by various vendors and found the following information missing:

- The exchange rate was not mentioned
- No rate of tax was found
- The quantity of each line item was missing.

N R Doshi's VAT Consulting Service

VAT registration becomes facile if you have VAT registration consultants to rely on. N R Doshi & Partners owns a team that has helped numerous businesses in getting started with VAT implementation. We, as the registered tax agent with the federal tax authority, provide you all types of assistance in VAT related matters.

We make sure that VAT implementation is done on every aspect of your business with ease. We provide VAT training to employees, prepare VAT report, and file returns for your company.

Remain VAT compliant and save yourself from penalties

We assure the correct VAT implementation on every aspect of your business

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Challenge Accepted (cont.)

This makes the invoices non-compliant as per the article 59 of executive registration number 52 of 2017. Therefore, we suggested the company to ask the respective vendors to provide compliant invoices.

Similarly, the invoices which they were producing while delivering their service to their customers were not as per the authority's instructions. All the invoices were required to be reissued before filing the return. These were the errors detected while going through the invoices:

- No exchange rate mentioned
- No TRN number of customers
- Exchange rate which the backend team used was wrong
- The exchange rate was not as per the one notified by the Central Bank of UAE

As they have claimed tax for one entity twice, and several other related issues appeared, we required to calculate and revise the VAT to be charged and VAT to be claimed.

We advised the client to report outward standard-rated supplies based on the establishment from which supplies made instead of customer emirates.

Adjustments were required to be made on the Import of goods as custom has considered VAT as part of CIF value.

We suggested that the client should offer VAT on the difference in income as per the working of Reconciliation of VAT return with books of account. We also put our advice forward to account Reverse charge transactions in books of account, which was not accounted for earlier.

We had noted that a particular employee was on the payroll of tax group member, but he was exclusively working for a non-tax group company. The tax group member was not charging VAT for the supply of manpower to the non-tax group member. We found that out and asked them to make necessary changes.

Similarly, the tax group member was paying some expenses on behalf of a non-tax group member and claiming the input tax credit. There was no corresponding VAT invoice being created by the tax-group member and hence VAT was not being recovered from the non-tax group member. We asked the client to rectify the mistake.

Total advance amount obtained from the customers before 2018 was found. Then total VAT on the amount was calculated. This made an increment in the total VAT output which was added to the total liability.

After this, we filed a voluntary disclosure informing the authorities about the errors and omissions made.

Conclusion

In the end, the company was provided with a proper registration under a single group registration, where there are three different entities. The correct invoices are obtained from the vendors. Also, the detected errors in the invoice format used by the company are rectified. The voluntary disclosure is submitted, which saved the company from various penalties that Federal Tax Authority could have charged if they would have discovered the non-compliance.

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The company has travelled a thirty four years-long journey of experiences and reached to a height where the name itself has a branding symbol. N R Doshi & Partners, headquartered in Dubai, holds offices at seven different locations in the UAE. As we are affiliated with DFK International, we get the expertise of various local markets. This provides support to our global clients who wish to start their businesses at the locations where our DFK associates are situated.

We enable business owners focus on the core/sole aspects of their business. We are here to handle the core business processes which are present in any business you own. If our client offers us an opportunity to serve them, we will make sure that their burden gets lower down.

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 **N R Doshi & Partners**
608, Mankhool Building,
Khalid Bin Walid Street,
Bur Dubai, P.O. Box: 13742,
Dubai, United Arab Emirates

 contact@nrdoshi.ae
 +971 4 352 8001
+971 50 3989560
 <https://www.nrdoshi.ae>

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- Dubai • JAFZA • Sharjah
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