

VAT in the UAE

VAT in the UAE: Series Two

This series will explore the fundamentals of value-added tax ("VAT") in the United Arab Emirates ("UAE") and consider the legal impact of the regime, as well as the effect on businesses and residents.

Introduction:

In February 2016 the Ministry of Finance announced the introduction of VAT in the UAE. The tax-free status of the UAE has previously been a major appeal to foreign investors and individuals. However, the well-known benefits afforded by this largely tax-free status are soon to change with the introduction of a VAT regime.

At present, it is uncertain exactly which VAT model will be implemented in the UAE. However, there is little time for businesses to consider the implications of VAT being introduced into the UAE and to make the necessary changes to their commercial contracts and current terms and conditions of sale in order to comply with the new regime.

Potential Impact and points of consideration: Residents and Businesses:

Residents: Residents will need to consider the following:

- A low consumption tax may do little to deter from the "tax free" environment and is less of a disincentive than imposing corporate or income tax in the region;
- Those who are prone to luxury spending i.e. cars, real estate etc. could feel the impact much more than the "common man". For example, the potential impact of tax on property transactions;
- Some vital expenditure items are exempt from VAT, which could lessen the impact on the "common man";
- VAT is considered a regressive tax, which could impact those on lower salaries and tourists;
- Since the rate of VAT is 5% its impact could be negligible and not impact consumer spending greatly. However, it is also arguable that VAT will have an impact on nearly all residents and tourists, as only few items are exempt;
- Goods and services will be more expensive, which could impact the ability to save; and
- This consumption tax may reduce consumption, which, in turn could reduce the UAE's carbon footprint.

Businesses: Businesses will need to consider the following:

Requirement to amend systems, processes and procedures to ensure they comply with the requirements. For example, charging VAT at the correct rate, calculating VAT on deductible on purchases and calculating the overall amount of VAT payable/refundable;

- Business plans and opportunities should be revisited. For example, in the event capital purchases are anticipated it should be considered if these should be made before the introduction of VAT;
- Introducing internal processes to ensure documents are in correct format i.e. supplier's VAT number and amount of VAT charged to enable offset of VAT received, from VAT paid where applicable.
- Those businesses that supply goods and services that are subject to VAT (including at the zero rate) will be entitled to reclaim VAT incurred on cost. Businesses engaged in activities that are exempt from VAT cannot reclaim VAT incurred on costs – this will be a cost to the business;
- VAT is a tax on consumption and levied on the price charged to the customer. Therefore, prices should increase by the amount of VAT and suppliers will need to determine the price of goods and services, which will need to account for this VAT;

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- Registered businesses will need to file VAT returns on a regular basis. It is anticipated that VAT returns may be submitted electronically;
- Registered businesses will have to keep full and detailed records of business transactions that affect their VAT liability; and
- Businesses that apply VAT incorrectly, ignore regulations, and file late or incorrect VAT returns may face penalties.

Next time:

We assess businesses potential to mitigate VAT and review legal considerations for those party to existing supply contracts, as well as those due to undertake the supply of goods and services in the UAE.

Who we are and how we can help:

The Gateley Dubai Corporate team is one of the leading corporate teams in the MENA. We can assist our clients with a range of tax structuring issues. We understand local laws and customs and can help our clients overcome any issues they might experience undertaking business in the UAE, as well as internationally.

Once implemented, VAT will likely affect all functions within a business. There is little time for companies to consider the implications of VAT being introduced into the UAE and to make the necessary changes to their commercial arrangements, current terms and conditions of sale and internal procedures and processes to ensure compliance with the new regime. It is essential to consider the impact now and for businesses to determine their ability to accommodate the introduction of VAT.

For further information please get in touch with Jonathan Burton at JBurton@gateleyae.com or Tania Diab at TDiab@gateleyae.com.