



## What is Value Added Tax?

Value Added Tax (VAT) is a general, indirect, consumption tax. It is imposed on supply of goods and services. VAT is charged at each step of the 'supply chain' with consumers bearing the VAT cost. Businesses act as collectors of the tax on behalf of the government.

A business pays to the government the difference between VAT charged on Sales to its Customers (Output tax) and the VAT paid on its Supplies from its Suppliers (Input tax). That method is called Tax Credit Method.

Positive difference is paid to the State, whereas negative difference is carried forward to the next period or claimed as refund.

### Example:

	Sales	5% charged on the sales	VAT recovered on the purchases	Net VAT payable to tax authorities
<b>Manufacturer</b>	1,000	50	nil	50
<b>Distributor</b>	1,500	75	50	25
<b>Retailer</b>	2,000	100	75	25
Total VAT paid by the end user				100

1. The manufacturer sells raw material and charges 5% (50 AED) on the sale price as output tax to the distributor. Assuming that the manufacturer has not incurred any input tax on his purchases, he has a net VAT payable to the tax authority of 50 AED (50 AED output tax – 0 AED input tax=50 AED payable to tax authorities)

2. The next person in this supply chain is a distributor who has incurred input tax of 50 AED on his purchase from the manufacturer, and charges 5% (75 AED) on his selling price as output tax to the retailer. The distributor therefore has a net VAT payable of 25 AED (75 AED output tax – 50 AED input tax =25 AED payable to the tax authorities)

3. The retailer has incurred input tax of 75 AED on his purchase from the distributor, and charges 5% (100 AED) on his selling price as output tax to the final consumer. The retailer therefore has net VAT payable of 25 AED (100 AED output tax – 75 AED input tax = 25 AED payable to the tax authorities)

4. The final consumer bears the full burden of the tax paid to the tax authorities, 100 AED

## What will be the VAT rates?

Goods and Services are to be taxed as follows:

**Standard Rate:** 5% across GCC.

**Zero Rate:** 0% - The tax payer still has the right to claim for refund of input tax paid on supplies purchased or services hired in relation to preparation of zero rated supplies; like export of goods and services will be charged at 0%.

**Exempt:** Supplier of certain products and services will not be able to recover input tax paid on supplies; like healthcare, education, certain food items etc.

**Out-of-scope:** staff salaries etc.

The VAT rate in UAE is considered low in comparison with worldwide VAT levels ranging from 5% (Japan) to 27% in Hungary and on global average 15.64%.

## Compliance Requirements:

- ✚ Mandatory VAT Registration Limit: More than AED 375,000 in 2017.
- ✚ Voluntary VAT Registration Limit: More than AED 187,500.
- ✚ Registration will open in Q3-2017 and will become compulsory in Q4-2017.
- ✚ VAT returns will be filed Quarterly and paid by the 28<sup>th</sup> of the coming month. Monthly submission for certain companies under consideration by Federal tax Authority (FTA).
- ✚ Registration and filing electronically only.
- ✚ Record keeping in respect of all business transactions including:

– Tax invoices – Debit or credit notes – Import and export records – Records of goods/services provided for free or allocated for private use – Zero rated or VAT exempt supplies and purchases



## Things to do in advance:

In the countdown to VAT implementation, companies should consider taking some simple steps now to keep abreast of their obligations:

- ✚ Plan ahead in commercial contracts – consider whether there are any provisions in your new commercial contracts which should reflect the imposition of VAT, especially if they will run past 1 January 2018. In particular, clauses related to pricing should contemplate whether those prices are quoted exclusive or inclusive of VAT, and the basic mechanism for VAT recovery.
- ✚ Existing contracts and terms of business – perform some due diligence on your existing contracts. Which contracts may be ongoing on 1 January 2018? Do you need to consider an amendment to any provisions in these contracts, and to any standard terms of business?
- ✚ M&A/JV transactions - consideration should be given as to whether relevant agreements should now include specific obligations, warranties and indemnities, in relation to VAT.
- ✚ Take professional advice – for example, if you are a supplier of potentially exempt or zero rated products or services, or in a sector likely to be affected the most by VAT (such as retail), take advice on how to mitigate the impact of VAT on your business.
- ✚ Think about your invoicing systems – do they enable the addition of VAT to the invoice price to form a valid record of the payment of VAT?
- ✚ Resourcing – do you need to hire additional staff to maintain VAT records and to take responsibility for VAT filings? As most parts of a business will be impacted by VAT, consider whether a committee or task force should be constituted, with representatives from each relevant part of the business, to focus on how best to manage the change in systems, processes and procedures.
- ✚ Keep in touch with official announcements – the UAE Ministry of Finance's website is updated when new official information becomes available. It states that detailed information on VAT implementation will be available in the near future.