The UAE Ministry of Finance (MoF) hosted a value added tax (VAT) briefing session for advisors on 21 March 2017. The session aimed to send a clear message to the market, which is that VAT is coming and businesses must begin to prepare immediately.

The following new information was confirmed:

• The UAE (and some unnamed other Gulf Cooperation Council (GCC) Member States) is still on track to implement VAT from 1 January 2018, and it expects to release its domestic VAT Law before the end of the first half of 2017, with detailed Executive Regulations to follow shortly after. Under the GCC VAT Framework Agreement Member States who do not commence on 1 January 2018 will have up to one year to introduce VAT.

• A zero rate of VAT will be applied to both healthcare and education services. Both services were previously expected to be exempt from VAT, meaning that input VAT would have been a cost to businesses making such services. The zero rate will allow such businesses to recover input VAT.

• An as yet to be agreed by the GCC list of medicines and medical equipment will also be zero-rated.

• Supplies of commercial property (sales and leases) will be subject to the standard rate of VAT.
• Supplies of residential property (sales and leases) will be exempt from VAT, with the exception of the first sale of new residential property, which will be subject to the zero rate of VAT.

• Supplies of bare land will be exempt from VAT.

• Financial services will be subject to a narrow exemption model. Fee-based financial services will generally be subject to the standard rate of VAT.

• Life insurance will be exempt from VAT but all non-life insurance products will be subject to the standard rate of VAT.

• Islamic financial products will be treated equivalent to other financial products under VAT.

• Investment gold, silver and platinum will be zero-rated.

• Although VAT is a federal tax, taxpayers will be required to report sales and purchases on an Emirate level basis on their UAE VAT returns. This will represent an additional compliance burden to businesses operating across the Emirates.

• Imports of goods into the UAE will be subject to the reverse charge, meaning that businesses will not have to physically pay VAT at the point of import.

• Imports of goods into other GCC Member States, transshipped through the UAE will not be eligible for the reverse charge, and import VAT will be due on such imports at the first point of entry into the GCC Customs Union. If imported through the UAE there will be no entitlement to recover the import VAT paid as input VAT in the UAE. The input VAT will have to be sought from the final destination Member State.

• If a business has previously imported goods into the UAE under the reverse charge mechanism, and then subsequently moves the goods to another GCC Member State, it will be required to pay back the input VAT it initially recovered under the reverse charge to the UAE Federal Tax Authority.

• At a GCC level, a list of basic food items have been agreed to be subject to the zero rate of VAT. The UAE does not have to apply this zero rate, and it advised that it intends to subject these food items to the standard rate of VAT.

• Supplies of local transport, such as taxis, buses, trains, etc. will be exempt from VAT.

• The VAT treatment of supplies made within free zones and by free zone entities is still under final consideration and be will confirmed within the UAE VAT law and the Executive Regulations.

• Supplies to the Government and Government bodies will be subject to VAT in the normal way, with Government having to manage any reclaim or refunds.

• A margin scheme will be available for second hand goods.

• The feasibility of a Tourist Refund Scheme is being considered.

• Special relief rules for transfers of going concerns will be included in the UAE VAT law.

• The standard VAT rate across the GCC will be 5%.

• The mandatory registration threshold will be US$100,000 and the voluntary threshold will be US$50,000. Meaning businesses with turnover below $50,000 cannot voluntarily register. Registration will open towards the end of Q3 2017.

• There will be quarterly returns with filing and payments due within a month after the quarter.

• Tax invoices will be required to be issued within 14 days and up to 12 items will be specified as required on a Tax invoice.

• Cash refunds (as well as carryover) will be available with no time period specified as of yet.

• Registration, filing and payments will all be conducted electronically, with detailed specifications to follow later in the year.

• Records, including tax invoices, must be retained for five years.

• There will be a three-tier appeal process.

• Employees of the new UAE Federal Tax Authority will be judicial officers.

• Audits will generally be conducted only after five days advance notice, except where fraud is suspected. Where fraud is suspected a business may be closed down for 72 hours and penalties of up to 500% may be applied on top of the primary VAT owing.
Next Steps

The message conveyed by the MoF was clear, that businesses need to prepare for VAT to be introduced in the UAE from 1 January 2018.

Businesses should initiate a VAT impact assessment immediately in order to determine the impact that VAT will have across their operations. This assessment should consider the impact of VAT on the following key areas:

- Finance and accounting
- IT and systems
- Tax and compliance
- Supply chain
- Contracts
- Sales and marketing
- Legal structure
- Human resources

The impact assessment should be used to develop a clear plan as to the steps that must be taken to be ready for VAT from 1 January 2018.

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