26 August 2015

Global Tax Alert

UAE’s Ministry of Finance makes official announcement regarding introduction of Value Added Tax and Corporate Tax

Executive summary

On 18 August 2015, the UAE’s Ministry of Finance (MoF) released an official statement addressing the progress it has made in respect of the Gulf Cooperation Council (GCC) Value Added Tax (VAT) proposal and the potential UAE Corporate Tax (CT) introduction. This announcement comes after months of increasing press speculation and an International Monetary Fund (IMF) report released at the beginning of August 2015 advising the UAE that “Expenditure-containing measures and revenue-raising options need to be considered to reduce fiscal vulnerabilities and ensure intergenerational equity.”

Detailed discussion

GCC VAT

The announcement provides official confirmation that the UAE MoF has been conducting studies in relation to the implementation of VAT in the GCC along with its fellow GCC member states (Bahrain, Kuwait, Oman, Saudi Arabia and Qatar), and also confirms the following:

- The UAE has made an agreement to implement VAT simultaneously along with the other GCC member states
- The draft UAE VAT law remains under negotiation due to the absence of a final agreement between the respective GCC member states over elements of the GCC VAT framework, including the VAT rate and exemptions
The UAE will make an immediate announcement once a final agreement on the content of the UAE VAT law has been reached.

Businesses will be given approximately 18 months from the date of this announcement to prepare for the implementation, and before being required to fulfil their UAE VAT obligations.

This announcement appears consistent with the initial expectation that the UAE will not implement VAT alone, and that the eventual UAE VAT regime will fall under a common GCC VAT framework agreement.

Given the reported lack of agreement among the GCC member states over fundamental elements of the VAT framework, such as the VAT rates and exemptions, an official announcement as to the actual implementation date may be some way off, and is unlikely to come before 2016. In addition, the announcement of the 18 month period from the finalization of the VAT law to actual implementation appears to reinforce the UAE’s commitment to ensure businesses have adequate time to prepare for the VAT implementation, and to follow international best practices in relation to the implementation of VAT.

**UAE CT**

In addition to the information in relation to the GCC VAT implementation, the announcement provides a brief update on the UAE’s progress in respect of CT confirming that a draft UAE CT law is being studied in relation to the eventual CT regime to be implemented. The MoF confirms that it will make an announcement once the law has been finalized, and that businesses will be given no less than 12 months from the date of this announcement to prepare for the implementation, and before being required to fulfil their UAE CT obligations.

There is no further information in relation to when taxpayers can expect an announcement in respect of the CT law. However, this update clearly indicates that a federal UAE CT introduction is firmly on the MoF’s agenda.

**Implications**

The introduction of the GCC VAT and federal UAE CT regimes has been discussed and speculated upon for a number of years. Many commentators maintain a sense of skepticism around whether actual implementation will eventually materialize, particularly in the short to medium term. However, the UAE MoF’s announcement, along with the obvious concerns over oil prices and the recent recommendations by the IMF, provide more support than ever before that tax changes in the UAE are imminent.

Businesses should remain mindful of the potential introduction of both direct and indirect taxes, particularly in the case of medium to long term investments in the UAE and the negotiation of the legal and economic impact of the provisions of long term contracts, and that they keep up-to-date with developments.
For additional information with respect to this Alert, please contact the following:

**Ernst & Young (Qatar), GCC VAT introduction, Doha, Qatar**
- Finbarr Sexton +974 4457 4200, ext. 4200 finbarr.sexton@qa.ey.com

**Ernst & Young Middle East, GCC VAT introduction, Dubai, United Arab Emirates**
- Nicola Butt +971 4 7010100, ext. 853 nicola.butt@ae.ey.com

**Ernst & Young Middle East, UAE CT introduction, Abu Dhabi, United Arab Emirates**
- Tobias Lintvelt +965 2 2955000, ext. 5308 tobias.lintvelt@ae.ey.com

**Ernst & Young Middle East, UAE CT introduction, Dubai, United Arab Emirates**
- Venice Segarra +971 4 7010100, ext. 412 venice.segarra@ae.ey.com
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited.
All Rights Reserved.

EYG No. CMS718

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com