



VAT IN UAE



A man in a white thobe is shown from the chest up, holding a mobile phone to his ear. He is looking slightly to the right. The background is a blurred city skyline with tall buildings. The overall image has a soft, professional feel.

A

INTRODUCTION

GCC (Gulf Cooperation Council) that comprises six States UAE, Oman, Qatar, Kuwait, Bahrain and Saudi Arabia, has so far been known for its no tax, zero rate or very low taxation policy. Now, it is all set and ready for the adoption of VAT policy that is being introduced first by UAE from January 1, 2018 and is likely to be followed by other GCC nations before January 1, 2019 as per the GCC VAT Framework Agreement



VAT IN UAE

Oil and Gas industry is the main source of revenue for the economy of GCC countries and with the introduction of VAT, the dependency on the oil and gas sector will reduce and it will herald a major shift in the tax policy of GCC countries. Thus, evidently VAT is going to impact every segment of the economy of GCC countries.

“ Worldwide more than 150 countries have adopted VAT as a main source of tax for revenue collection. Today, value added tax accounts for a large share of tax revenue and its rate generally ranges from 5% to 25%. If calculated globally, the average rate is 12%, while in low income countries of Africa average rate is 15.5%.

”

VAT / GST RATES GLOBAL COMPARISON



WHAT IS VAT



VAT is an indirect tax levied upon the supply of goods and services. It is levied at every stage of the supply process and all registered businesses collect it in order to pay it to the government (unless supply is exempt from VAT). It is the consumer that incurs and pays the VAT eventually. It can be called a tax on the value addition on the product and often referred as a 'tax on consumption'.

VAT is considered as the main source of revenue by most of the countries because it helps in attaining following objectives:

- Easy to calculate and understand
- Ensures transparency
- Increased tax base
- Uniform Tax structure
- Generates more revenue for social spending
- Avoids double taxation

VAT is calculated by taking out the difference of output VAT amount and the creditable input VAT amount. And another way of calculating is by multiplying the VAT rate to the added value of sold goods and services.

2 METHODS FOR CALCULATING VAT

CREDIT METHOD

PAYABLE
VAT AMOUNT

=

OUTPUT
VAT AMOUNT

-

CREDITABLE INPUT
VAT AMOUNT

DIRECT METHOD

PAYABLE
VAT AMOUNT

=

ADD VALUE OF
SOLD GOODS OR
SERVICES*

*

VAT RATE

INPUT VAT AND OUTPUT VAT

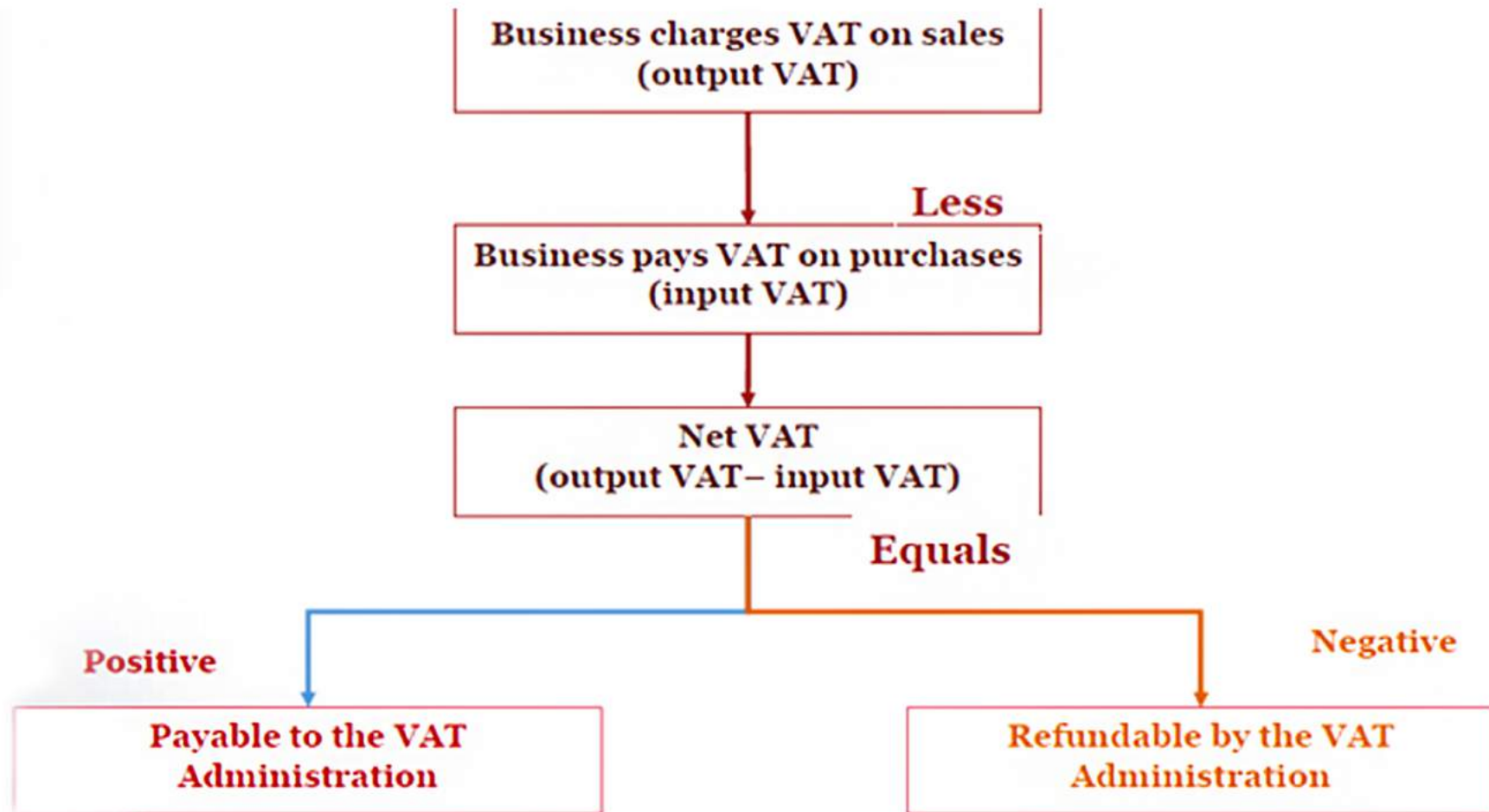


INPUT VAT: Input VAT is the sum paid by the buyer as a percentage of the gross cost price of goods or services. Simply, it is the value added tax which is included in the price while purchasing the goods or services covered under the ambit of VAT. If the buyer is registered under VAT, then he can reduce the amount of VAT paid on purchases from its output VAT liability.

OUTPUT VAT: It is the value added tax that is levied and calculated on the supply of goods and services, if the business is registered under VAT. It is calculated on supply to businesses and to ordinary consumers.

“ The manner, in which, the Businesses will make use of Input and output VAT, to claim the credit for tax paid on the expenditures related to their business, has been illustrated below. ”

INPUT VAT AND OUTPUT VAT



OPERATIONAL MECHANISM OF VAT



All the businesses of GCC States will start charging and collecting VAT on every supply of goods and services unless exempt. The phase of VAT collection by businesses will be followed by the deposition of taxes with the government, after claiming the deduction of VAT paid on procurements, subject to prescribed rules. The working of VAT and its different transitional phases has been illustrated below.

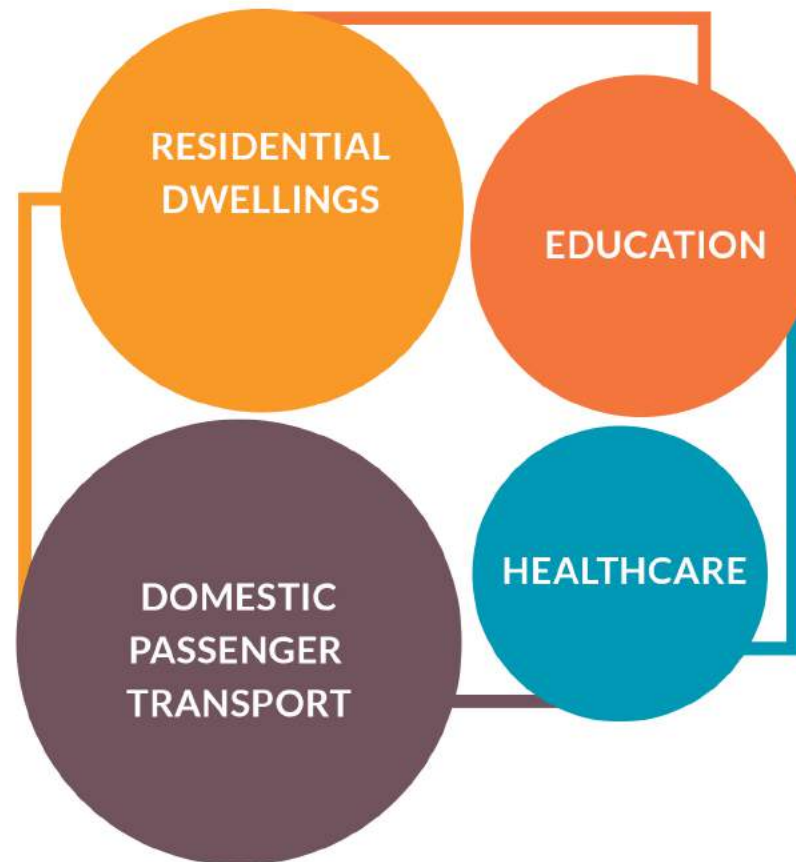
Vat Registration

it is all set and ready for the adoption of VAT policy that is being introduced first by UAE from January 1, 2018

GET STARTED

There are certain goods and services which will be VAT exempt. Sectors which serve the essential purpose of the livelihood will be spared and thus come under exempted category. And other sectors will be covered under VAT. It has been described below more clearly.

EXEMPTED SUPPLIES: It includes the category that will attract no tax and related input tax is not deductible for such supply. Exempted supplies may cover some part of basic financial services and services like residential accommodation services, healthcare, education, local transportation etc



OPERATIONAL MECHANISM OF VAT

VAT@5%

Price: BD 100
VAT:BD 5



Tax remitted to the government

Output tax = **BD 5**

Price: BD 200
VAT: BD 10



Output tax = **BD 10**

Input tax = BD 5
BD 5

Price: BD 300
VAT: BD 15



Output tax = **BD 15**

Input tax = BD 10
BD 5

**Consumer
pays 5%
VAT only**



Total amount [**1** + **2** + **3**]

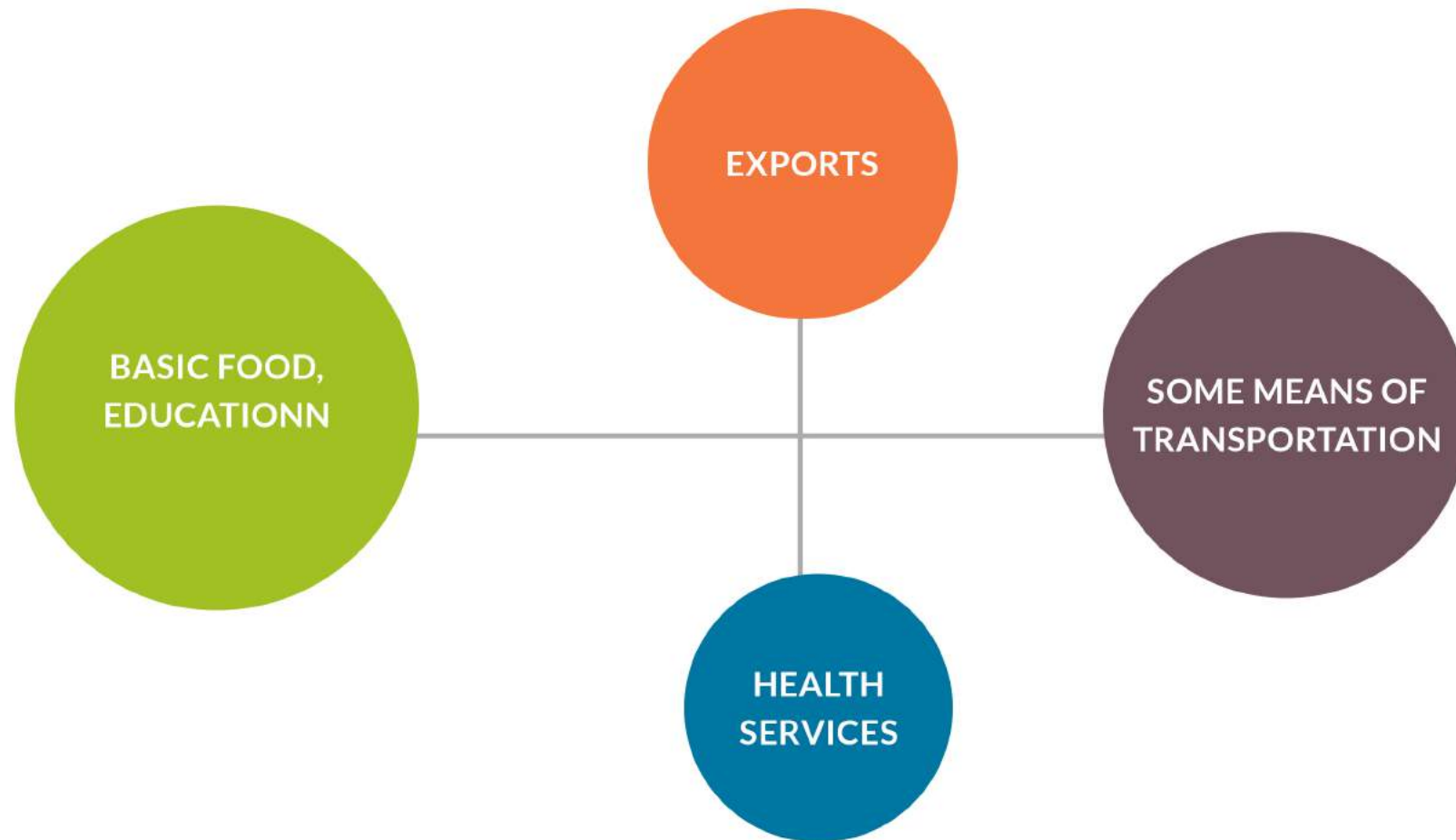
Remitted to tax **BD 15**
authority =

1

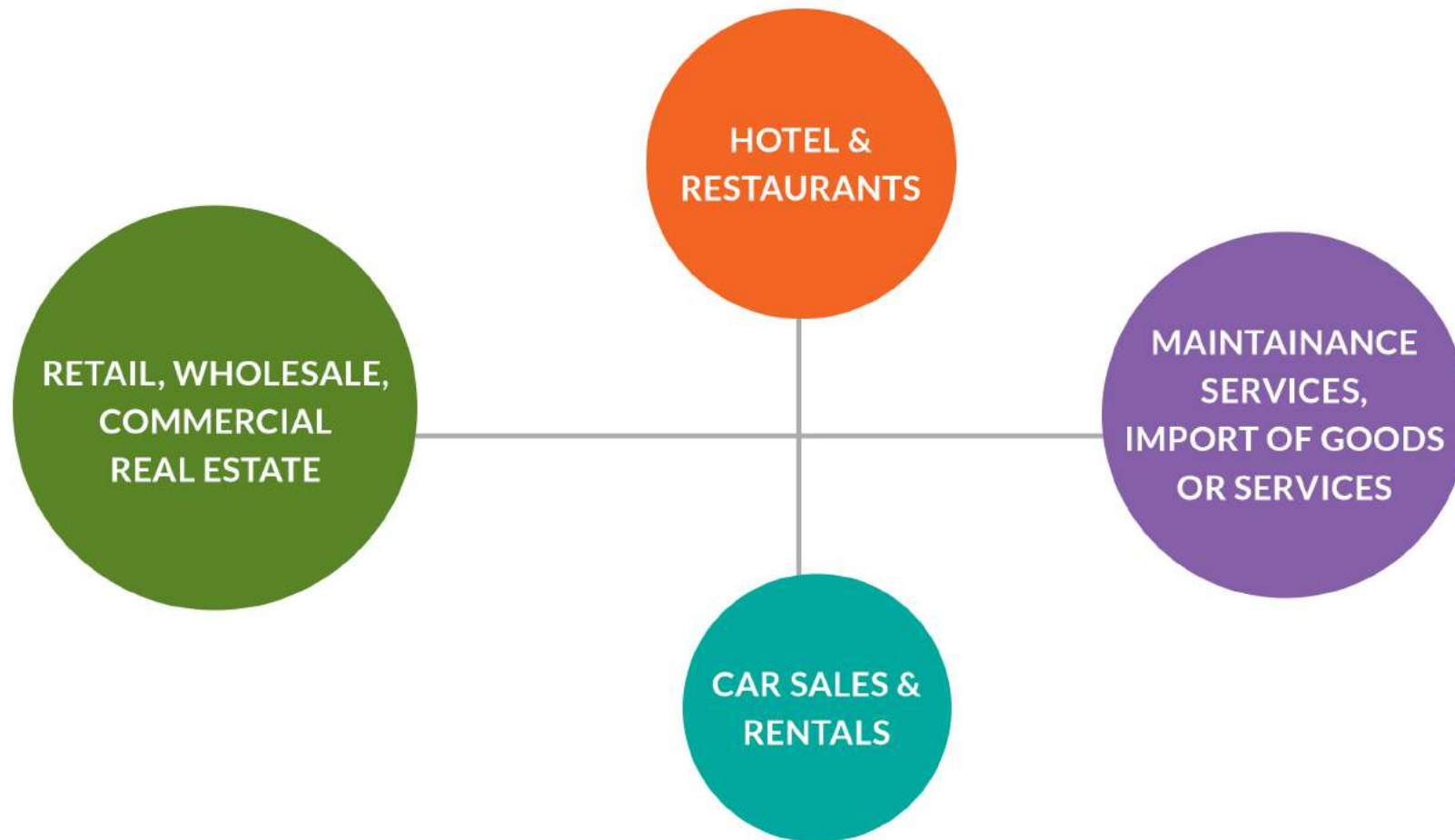
2

3

ZERO RATED SUPPLIES: It includes supplies, that will attract VAT on Zero rate and for which the related input tax is refundable . Essential and basic facilities like food, education and health etc. will get covered under it.



NON - EXEMPTED / TAXABLE SUPPLIES: Goods or services that do not fall under the category mentioned above, will come under ambit of taxable or non-exempted supplies.



VAT RATE, REGISTRATION AND APPLICABILITY



From January 1, 2018, VAT is expected to get introduced in UAE prescribed at 5% of the value of supply of un-exempted goods and services. Every business now will have to register for VAT in the last quarter of this year i.e., 2017 and the registration will be an online process. Following criteria has to be adhered to by the businesses for the VAT registration

- Vat registration is compulsory, if the annual turnover in
 - previous calendar year or
 - current year or
 - within next 30 days
 - exceeds AED 375,000/. E.g. if turnover for year 2016 was AED 3,76,000, VAT registration is mandatory.
- It is optional to register, If the annual turnover from
 - previous calendar year or
 - current year
 - within next 30 days
 - is between AED 187,500 to AED 375,000/.

- A firm or business need not register, if the annual turnover of any business falls or remain less than AED 187,500/ during year 2016.
- If any business has more than AED 187,500/ of VAT attracted expenses, then it must get itself registered.

VAT registration process will be followed by the submission of VAT returns by the businesses on a quarterly basis, where the VAT filing process will be completely online. The Federal Tax Authority will evaluate the activities of businesses by making use of the transaction records maintained by the businesses.

According to The Ministry of Finance, VAT registration is optional in the third quarter, but compulsory for all the businesses in final quarter, that fulfill the criteria of turnover threshold, as per, laid down in list above.





REGISTRATION PROCEDURE

One can go through the online portal provided by the Ministry of Finance i.e. eservices.mof.gov.ae. Businesses, companies or commercial authorities can register for VAT using online e-services, since, the procedure is similar for all entities except the documents required. Proof of business, transactions and request letter signed by the authority of the company or individual are some of the documents required. Further queries related to in-depth knowledge of VAT can be resolved by visiting the website link





VAT RETURNS IN UAE

VAT return is done to show the summary of output and input VAT activities that give rise to the net payable. Businesses will have to regularly submit a VAT return to the Federal Tax authority. VAT returns can be filed with the Federal Tax Authority by visiting its online portal www.tax.gov.ae. Returns should be filed with the FTA on a regular basis i.e. for a shorter period or quarterly, as per the decision of FTA, within 28 days from the end of the tax period, in accordance with the procedures specified in the VAT legislation. Failing or delaying in doing so, will attract penalties.



VAT RETURN IN UAE

VAT Return

For the period	31-Jan-18	
VAT on Sales	1	x
VAT due on acquisitions from other Members States	2	x
TOTAL VAT Due (sum of Boxes 1 and 2)	3	x
VAT reclaimed on purchases and other inputs (including acquisitions from the GCC)	4	x
NET VAT to be paid to Tax Authority	5	x
Total value of sales and all other outputs excluding any VAT	6	x
Total value of purchases and all other inputs excluding any VAT	7	x
Total value of supplies of goods and related costs, excluding any VAT, to other GCC Member States	8	x
Total value of acquisitions of goods and related costs, excluding any VAT, from other GCC Member States	9	x

INVOICE FOR VAT IN UAE



Businesses are supposed to issue tax invoices for charging VAT on goods and services. VAT invoice act as documentary evidence for the businesses to support their credit claims. A normal VAT invoice looks like the one shown below

VAT INVOICE						
Invoice Serial Number			Date			
Name of Taxable Person			Name of Customer			
VAT Registration Number			VAT Registration Number			
Address and Contact Details			Address and Contact Details			
Ref Number	Description	Quantity	Unit Price exclusive of VAT	Unit Price Inclusive of VAT	Total exclusive of VAT	Total inclusive of VAT
						Total
						Applicable VAT rate
						VAT amount
						Subtotal

Signature of the supplier with stamp is also required to be inserted above

As per Federal Tax Authority, two types of VAT invoices will be there in UAE. First is, VAT invoice for supply less than the specified amount and second is, VAT invoice for supply more than the specified amount

i) VAT invoice for Supply less than the specified amount(specifically made for Retail and Supermarkets): It will include the following:

- Name and address of supplier
- TRN(Temporary reference number) of the supplier.
- "Tax invoice" in a prominent place
- Date of issue
- Date of Supply
- Description of Goods and services
- Total payable amount
- Total chargeable VAT



ii) VAT invoice for supply more than the specified amount: It will include the following things described below.

- Name of recipient
- Address of the recipient
- TRN(Temporary reference number) of the recipient (if registered)
- TRN of the supplier,
- Unique identification number
- Date of issue
- Date of supply
- Description of Goods and Services
- Unit price
- Volume or number of quantity supplied
- Rate of tax payable in AED
- Amount of tax payable in AED
- Discount offered (if any)
- Gross value payable in AED
- Tax amount payable in AED



ARE YOU VAT READY?



According to UAE, Ministry of Finance " it is essential that businesses try to understand the implications of VAT now and once the legislation is issued, make every effort to align their business model to government reporting and compliance requirements".

VAT BUSINESS LIFE CYCLE DIAGRAM CAN ALSO BE SHOWN AS FOLLOWS:

STEP 1 BUSINESS REVIEW

STEP 2 GETTING VAT TRAINING

STEP 3 IMPLEMENT SOFTWARE OR OUTSOURCING

STEP 4 VAT REGISTRATION

STEP 5 RECORD KEEPING

STEP 6 VAT COMPLIANCE

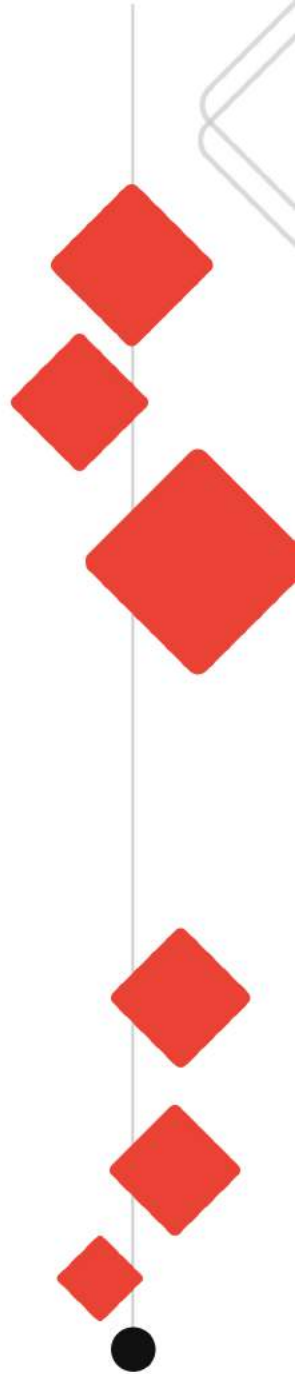
STEP 7 VAT RETURNS

STEP 8 VAT ASSESSMENT AND PENALTIES

Given the Zero tax regime culture of UAE, it is essential that businesses stay ready and fully prepared to cope up with the policy shift mechanism i.e. VAT, in order to function and flourish to their level best. A system has to be built to for the purpose of effective accounting. There should be adequate understanding of the concerned documents and legislation process. And last but not the least, the clock is ticking and there is shortage of timing for the effective implementation of the VAT.

Gulf VAT solution is the one point solution, fully equipped to provide services concerned with VAT implementation. The expertise of our professionals can be counted on by the businesses for their rescue.

We understand and very well can predict the problems likely to be faced by the businesses, such as, due to Zero tax policy, there is lack of any past experience , audit accounting and minimal documentation was required. Now, there will be liability for tax payment and VAT compliant suppliers will be in demand by the companies. There will be a wide-organizational impact in every wing of the business such as legal, finance, sales, marketing and procurements etc. Gulf VAT solution will take care of all.



ARE YOU READY FOR VAT

