



## Introduction of Value Added Tax in the United Arab Emirates

Recently, the six member states of the Gulf Cooperation Council, including the United Arab Emirates ("UAE"), have agreed on the introduction of Value Added Tax ("VAT"). The UAE intend to officially implement VAT as from 01.01.2018. Even though VAT laws have yet to be released in the UAE, businesses operating in the UAE are well advised to commence the preparation for VAT in order to be able to adapt their internal processes in a timely manner. Hence, we hereby like to inform you on some VAT-related issues currently being discussed.

### **What will VAT be charged on and what will be the applicable rates?**

The standard VAT rate is likely to be 5%. It will be charged on most goods and services as from 01.01.2018.

However, in order to avoid a significant increase in the cost of living, it is intended for some goods and services to be exempted from VAT.

In addition, other goods and services will most probably be subject to a reduced rate of taxation of currently 0%. It is anticipated that such rate will inter alia apply to education-related services.

### **Where will VAT be introduced?**

VAT is expected to be introduced across all seven Emirates of the UAE.

It is yet to be determined whether businesses which are incorporated in UAE free zones will have to impose VAT on their goods and services. The sale of goods might be exempted from VAT as long as the goods do not cross the borders of an entirely enclosed free zone.

### **How will VAT be collected?**

Being an indirect tax, VAT will have to be collected by the businesses. Hence, they will act as a tax collector on behalf of the UAE government.

Businesses registered for VAT will have to charge VAT on taxable sales ("output VAT") and pay invoiced VAT quarterly to the competent authority - which will most likely either be the Ministry of Economy or the recently established Federal Tax Authority. However, businesses registered for VAT will be entitled to deduct VAT paid to other businesses for supply ("input VAT") from the amount of VAT charged. It should be noted that businesses will probably only be able to reclaim VAT if the goods and services provided by the business are subject to tax at either the standard rate or a reduced rate.

In the event that the output VAT is higher than the input VAT, a business registered for VAT will have to pay the balance to the competent tax authority. If the output VAT is lower than the input VAT, VAT will be refunded by the tax authority to the

business. It is of importance for businesses registered for VAT to keep in mind that they most likely will only be entitled to tax refund if they keep up-to-date and complete records on all revenues and expenditures.

### **Which businesses will need to register for VAT?**

It is assumed that registration for VAT will be mandatory for businesses with annual revenues above AED367,000. Such businesses will be required to register online using e-services. Registration is estimated to open three months before the implementation of VAT. Hence, businesses will probably be able to register for VAT from October 2017. Furthermore, it is anticipated that businesses with annual revenues below the above-mentioned threshold of AED367,000 but with annual revenues exceeding AED183,000 may opt for VAT registration. The same might hold true for businesses with even lower annual revenues - however may be only at a later stage.

Upon registration, businesses will be issued a VAT registration number. Such number will have to be mentioned on any tax invoice along, inter alia, with the applicable VAT rate as well as the total amount of VAT charged.

It should be taken into account that upon implementation of VAT, businesses are well advised to settle only such tax invoices which meet the legal requirements for invoicing as it is presumed that businesses will only be entitled to VAT credit in case they hold such valid tax invoice.

### **How should businesses get prepared for the implementation of VAT?**

Even though clarity on the implementation of VAT is still required, businesses should now begin to prepare for the introduction of VAT.

First of all, businesses should ensure that they maintain proper accounting books and records. In addition, they should adapt their IT systems in a way that allows them to access daily updated information on their revenues and expenditures.

Furthermore, businesses should identify all those processes and procedures within their organisation that will be impacted by the introduction of VAT. Businesses might consider seeking advice of an accountant or auditor on this respect. They should



also find means on how to provide for ongoing cash flow, particularly with respect to the regular deadlines for transferring payable VAT to the relevant authority.

As soon as the VAT registration number becomes available, businesses registered for VAT should display such number on their invoice templates.

In addition, businesses should review whether existing contractual agreements, especially those having a duration exceeding 31.12.2017, as well as standard contracts and general terms and conditions already provide for a clause on VAT. If changes are required, businesses are strongly encouraged to amend their legal documents as soon as possible.

#### Where can you learn more about current developments on VAT?

Further information on the introduction of VAT is provided by the Ministry of Finance on its website <https://www.mof.gov.ae/En/budget/Pages/VATQuestions.aspx>.

Moreover, in order to educate businesses on the collection of VAT, the Ministry has recently launched an awareness campaign including seminars held at regular intervals. Registration can be done online by visiting the webpage <https://mof.gov.ae/en/pages/workshops.aspx>.

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#### Do you have questions? - We would be glad to answer them!

From our office located in the heart of Dubai, our team of German attorneys has been advising small and medium-sized companies, corporations and individuals on the laws of the United Arab Emirates for more than a decade. Our areas of expertise include corporate and commercial law (in particular business set ups), commercial agency law, employment law as well as tenancy and real estate law. We would be happy to attend to your questions as well. Contact us!

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