



Public Clarification on the conditions for input tax recovery in the UAE

Sunday 2 February 2020

The Federal Tax Authority (FTA) has issued Public Clarification VATP017 on the timeframe for input tax recovery in the UAE.

The Public Clarification may have a significant impact for businesses to determine the tax period when input tax is recoverable. It also discusses the corrections mechanisms if input tax is not recovered in the correct tax period.

1. Input tax recovery conditions

One of the core principles of the VAT system in the UAE is that a taxable business is able to recover input tax on expenses in their VAT return.

The input tax recovery conditions in the UAE are as follows:

1. The expenses are used for activities of the taxable person that give the right to recover input tax.
2. A taxable person must have received a tax invoice from its supplier.
3. The taxable person pays the consideration or intends to make the payment within six months after the agreed date for the payment of the supply.

The Public Clarification is issued by the FTA about the condition that the taxable person must have the “intention” to make a payment of the supply within six months period.

2. Public Clarification VATP017

FTA clarifies that input tax is only recoverable in the first tax period when the tax payer has satisfied all conditions for recovery.

FTA states that the input tax recovery condition for the intention to make the payment within 6 months is satisfied when the intention for the payment is “formed” by the taxable person.

The intention could be formed through internal payment approvals and once the approval is completed, the intention should be considered as formed.

This means that if a tax invoice is received, but the intention for payment is not formed, the input tax is not recoverable until the intention to make payment within the prescribed period is formed by the taxable person.

FTA reiterates that the taxable person should substantiate that he formed the intention to make payment within a prescribed period. FTA does not mention how the proof for the intention of payment can be provided by businesses.

If a tax invoice is received in a tax period and the intention to make the payment has taken place in the subsequent tax period, the input tax is recoverable in the subsequent tax period when the intention for payment is formed.

3. Correction mechanisms

If the input tax is not claimed on time

Where the input tax is not recovered in the tax period in which all conditions are met, the taxable person can claim in the subsequent tax period. If the taxable person has not claimed input tax in the first two tax periods where the conditions are satisfied, a voluntary disclosure is required.

If the payment is not made within 6 months

If the payment is not made by the taxable person within 6 months after the prescribed period, the input tax should be reduced in the VAT return after the expiry of the six-month period.

After the payment is made to the supplier, the input tax claim can be included again in the VAT return of the taxable person.

4. What to do next?

We recommend VAT registrants in the UAE to review their internal payment processes to determine when the intention to make payments to suppliers is formed and how proof can be provided to the FTA. It should be concluded whether the registrant recovers input tax in the tax period in which the conditions are met.

If the internal payment process is not aligned with the input tax recovery conditions, amendments to your internal payment processes or historical VAT returns may be considered.

If you require any support reviewing your internal accounts payable policies and to determine the impact of the Public Clarification on your business, please contact us.

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