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VAT Alert

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UAE's Value Added Tax (VAT)

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Based on the recent information from the UAEs Ministry of Finance, VAT is likely to be introduced across the country on January 1, 2018 and its rate is likely to be 5%. It is expected that 100 food items, healthcare and education will be exempted from the VAT.

Only businesses that meet a certain minimum annual turnover requirement will have to register for VAT and the specific conditions (such as the minimum annual turnover) have not been finalised. The latest information from the press is that Companies in the UAE that record annual revenues over Dh3.75 million will be obliged to register under a VAT system.

Registration for VAT is expected to be made available to businesses that meet the requirement criteria 3 months before its launch. Businesses will be able to register through the online eService portal.

Insight: GCC Macroeconomics

With regards to the VAT in the GCC, the "VAT agreement" under consideration sets a single tax rate of 5 percent and harmonises its main features, but leaves significant discretion for member countries to set their respective tax base.

The Agreement also allows member countries to zero-rate certain domestic food items from a common list of about 100 items drawn up using customs Harmonised System (HS) codes.

VAT Concepts: Mechanics

VAT is structured to be paid by end consumers and is a tax applicable on spending on goods and services ("Consumption Tax").

VAT is 'self-enforcing', in a way that other indirect taxes are not. It is paid at each production stage in order to claim credit for its inputs against the VAT received on its outputs.

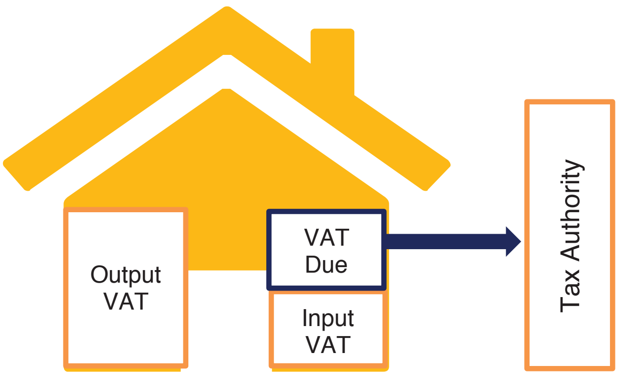
VAT is an Indirect tax for the business as the businesses act as the tax collectors. This means that:

How VAT works can be illustrated as follows

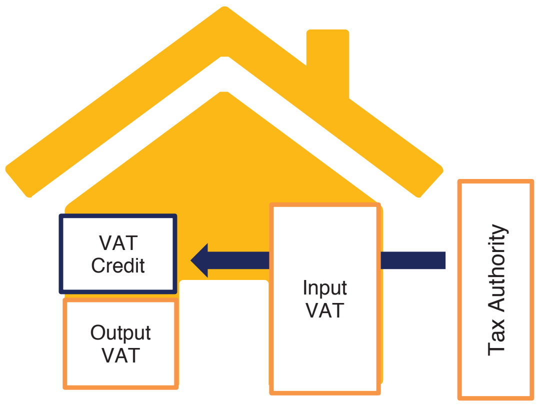
Tax rate = 5% All are VAT registered businesses	**Price**	**Tax on Sales (Output VAT)**	**Credit (Input VAT)**	**Payable Tax**
Producer 1	1,000	50		50
Producer 2 purchased from producer 1	2,000	100	50	50
Wholesaler purchased from producer 2	3,000	150	100	50
Retailer purchased from Wholesaler	4,000	200	150	50
Total		**500**	**300**	**200**

It is expected that no accumulation occurs for the businesses, because the total tax remitted to the revenue equals the statutory rate applied to the final consumer price. (5% x 4,000 = 200).

- When the Output VAT is higher than the Input VAT, there will be VAT payable to the tax authority.



- When the Output VAT is lower than the Input VAT, there will be VAT refundable/receivables from the tax authority.



VAT Registered Business

Registration for VAT is usually optional for businesses with sales below certain turnover threshold. Businesses choosing not to register do not remit taxes on their sales, nor can they reclaim on their input purchases, so they are in effect VAT exempt.

However, many firms with turnover below the threshold choose to register, because if they don't, they cannot reclaim VAT paid on inputs.

For businesses selling mostly to VAT registered businesses, any output VAT charged is unimportant because their customers can reclaim it anyway, whereas irrecoverable input VAT could be a significant extra cost.

So voluntary registration can often make sense for such businesses—although they must also take account of the compliance costs entailed by being registered for VAT.

VAT Exempt and Zero-Rating

Zero-rating allows VAT registered business to reclaim the VAT on any inputs used in the production process. Goods and services that are exempt are not subject to VAT when sold, but the producer of an exempt product cannot reclaim the VAT paid on purchases of inputs.

VAT Documentation and Formalities

One-Off

- Register with the tax authority within a given period either after the company is established or after the last day of the quarter where the conditions to be a VAT registered business are fulfilled.
- If the return needs to be done electronically, it is important to obtain the relevant login details and instructions to the tax electronic portal.
- Reregister with the tax authority within a given period, either after the start of the liquidation or after the last day of the quarter where the conditions to be a VAT registered business are no longer fulfilled
- Registration fee may be due at the time a VAT registered business is registering or re-registering its entity with the tax authority.
- It is expected that fees will be charged at the time of tax deregistration or requesting for tax clearance certificate.

Regular Basis (Quarterly and/or annually)

- To File VAT Return

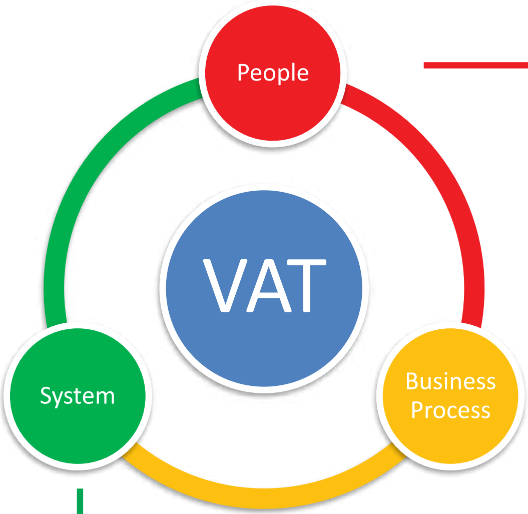
  The return can be a quarterly and annual return which consist of the reconciliation of all quarterly returns, including possibility to have the corrections of the previous quarterly returns during the year.

  The following factors need to be considered:

  - Deadline of the VAT return. It can be within few calendar or working days after the last day of the quarter or of the calendar year
  - Method of VAT return submission.
- To pay VAT due

  Payment deadline and method shall be considered. The payment and the VAT return deadline may not be the same.
- To issues VAT invoice or other document which serves as sales invoices in respect of all goods and services
- To keep books and records

Factors that businesses need to considered for their readiness for VAT



- Experience level of finance professionals & staff
- Awareness & its effect on non-VAT departments
- Whether professional advisors need to be hired
- Knowledge customer and vendors
- Training

- Policies guides & manuals
- Group VAT registration
- Contracts & other business documents
- Workflow processes of non-financial departments such as:
- Sales & Marketing
- Administration
- Operations
- Legal
- Logistics

- Accounting Systems & related technologies to manage VAT calculations & returns.
- VAT filing compliance management
- Whether ERP systems are flexible to integrate changes post VAT implementation
- Pricing & Budgeting
- Internal control system

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Contact

- **Markus Susilo**
  Partner
  VAT Service Team Leader – UAE
  +971 4 8879058
  markus.susilo@crowehorwath.ae
- **Zayd Maniar**
  International Liaison Partner
  Crowe Horwath in UAE
  + 971 4 447 3951
  zayd.maniar@crowehorwath.ae
- **Dr. Robert van Brederode**
  Chairman – Crowe Horwath International
  Indirect Tax Steering Committee
  +1 404 442 1612
  robert.vanbrederode@crowehorwath.com

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