



## VAT Alert

Latest developments on Value Added Tax in GCC

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### Key takeaways from the Federal Law for VAT released by UAE’s Ministry of Finance

Moving towards implementation of VAT, the President of United Arab Emirates, His Highness Sheikh Khalifa bin Zayed Al Nahyan has issued the Federal Decree-Law No. (8) of 2017 on Value Added Tax (VAT) on Sunday, 27 August 2017. This Decree-Law (UAE VAT Law) will be published in the Official Gazette and will come into effect on 1 January 2018.

“The Federal Decree-Law issued by His Highness Sheikh Khalifa bin Zayed is the bedrock of UAE’s planned tax system which was designed to meet the most stringent of standards and best practices,” said His Highness Sheikh Hamdan bin Rashid Al Maktoum, Deputy Ruler of Dubai, UAE’s Minister of Finance and Chairman of the Federal Tax Authority.

This UAE VAT Law outlines the tax scope, rate, responsibility for tax and other aspects related to UAE VAT legislation. We have outlined some of the key procedures provided by the UAE VAT Law below:

- **The scope of tax:** Tax at the rate of 5% shall be imposed on every taxable supply and deemed supply made by the taxable person, including imports of concerned goods except as specified. The term ‘taxable supply’ is defined to mean the supply of goods or services for consideration by a person conducting business in UAE and would not include exempt supply.
- **Supply:** The scope of supply of goods and services is provided as follows, subject to as may be specified in the Regulation:

Supply of Goods (Article (5))	Supply of Services (Article (6))	Transactions not considered as supply (Article (7))
<ol style="list-style-type: none"> <li>1. Transfer of ownership of goods.</li> <li>2. Transfer of the rights to use goods.</li> <li>3. Entering in a contract between two parties entailing the transfer of goods at a later time subject to conditions.</li> </ol>	<p>Every supply that is not considered as a supply of goods, including any provisions of services as may be specified.</p>	<ol style="list-style-type: none"> <li>1. The sale or issuance of any voucher unless the received consideration exceeds its advertised monetary value as specified.</li> <li>2. The transfer of whole or an independent part of a business from a person to a taxable person for the purpose of continuing the business that was transferred.</li> </ol>

- **Deemed Supply:** The UAE VAT Law has also provided certain cases which shall be considered as 'deemed supply' transactions and accordingly, would attract VAT levy:

- A supply without consideration of such goods or services which cease to be the whole or part of the assets of a taxable person;
- Transfer of goods constituted as business assets from UAE to another implementing state or from taxable person's business in other implementing state to UAE except in cases:
  - o Where the transfer is considered as temporary under customs legislation; and
  - o Where transfer is made as a part of another taxable supply of these goods.

- **Registration:** Every person who has a place of residence in the UAE shall register if the value of supplies exceeds the mandatory registration threshold over the previous 12 month period or anticipated to exceed next 30 days. A taxable person may be permitted not to take registration if his supplies are only subjected to zero rate.

Supply of capital assets belonging to a taxable person shall be excluded while calculating the mandatory or voluntary threshold registration limit.

- **Tax group:** Two or more persons may apply for registration as a tax group provided that the following conditions are satisfied:

- Each shall have a place of establishment or fixed establishment in the state;
- The relevant person shall be related parties;
- One or more person conducting business in partnership shall control the others.

If the related parties do not apply for tax registration as tax group, then the authority may assess their relation based on their economic, financial and regulatory practices in business and register them as a tax group as per the specified regulation.

- **Place of Supply:** Generally, the place of supply of goods (excluding export or imports) shall be in the

UAE if the supply was made in the state. The place of supply for services shall be the place of residence of the supplier except otherwise specified.

- **Date of Supply:** The basic rule for the date of supply for goods or service shall be earliest of the following:
  - a) In case transfer was under supervision of supplier - Date on which goods were transferred;
  - b) In case transfer was not under supervision of supplier - Date on which the recipient of goods took possession of the goods;
  - c) In case of goods involving assembly or installation - Date of assembly/installation;
  - d) In case where supply was on returnable basis - Date on which the recipient of goods accepted the supply, or a date no later than 12 months after the date on which the goods were transferred or placed under the recipient of goods for disposal;
  - e) The date on which the services were completed;
  - f) The date of receipt of payment or the date on which the tax invoice was issued;
- **Valuation:** Value for the purpose of tax calculation shall be as follows:

Transaction type	Value
Consideration is monetary	Actual consideration paid less taxes
Consideration not fully monetary	Monetary part plus market value of non-monetary part less taxes
Import of goods	Value including insurance, freight, customs fees and excise tax paid on the import of goods
Supply to related party	Market value of supply if value charged is less than market value of such supply
Deemed supply	Total cost incurred to make such deemed supply

- **Zero rate supply:** The following shall be considered as zero rate supply as specified in the regulation of the UAE VAT Law:
  - i. Export of goods or services;
  - ii. International transport of passengers and goods which starts or ends in the state or passes through its territory, including services related to such transport. Also, includes on board consumption;
  - iii. Air passenger transport in the state if it is considered an 'international carriage';
  - iv. Supply of air, sea and land means of transport for the transportation of passengers and goods. Also, includes the related supply of goods and services;
  - v. Supply of aircraft or vessels designated for rescue and assistance by air or sea;
  - vi. The supply or import of investment precious metals;
  - vii. The supply of residential buildings within three years of its completion, either through sale or lease;
  - viii. The supply of buildings specifically designed to be used by charities for sale or lease;
  - ix. The supply of buildings converted from non-residential to residential through sale or lease;
  - x. The supply of crude oil and natural gas;
  - xi. The supply of educational services and related goods and services for nurseries, preschool, elementary education, and higher educational institutions owned or funded by the Federal or local government;
  - xii. The supply of preventive and basic healthcare services and related goods and services.
- **Exempt Supply:** The following supplies shall be exempt from tax:
  - i. Financial services that are specified in the executive regulation of the UAE VAT Law;
  - ii. Supply of residential buildings for sale or lease, other than that which is zero-rated;
  - iii. Supply of bare land;
  - iv. Supply of local passenger transport.
- **Import of concerned goods/services:** A person importing goods shall be liable to pay the tax due under reverse charge on such goods/services if such supply would have been taxable if supplied in the state.
- **Designated Zone:** A 'Designated Zone' shall be treated as being outside the state. Goods may be transferred from one designated zone to another designated zone without any tax becoming due. The cabinet will decide any area as a 'Designated Zone' subsequently at the suggestion of Ministers.
- **Tax Invoice:** A taxable person shall issue a tax invoice within 14 days as of the date of supply. If the supply is in a currency other than the UAE Dirham, then for the purpose of tax invoice, the amount stated in the tax invoice shall be converted into UAE Dirham according to the exchange rate approved by the Central Bank at the date of supply.
- **Record keeping:** Accounting records, books and tax related information is required to be kept and maintained by any person conducting any business.

### SKP's Comments

Pursuant to the release of tax procedure decree law in June 2017, as the next step towards implementation of VAT the UAE government has released the draft VAT law which not only outlines the framework of VAT legislation but also provides understanding to the taxpayers about their rights and obligations under the new tax regime.

The release of VAT law on Sunday, 27 August 2017 establishes a determined intent of the UAE government to introduce the new regime on 1 January 2018. It is expected that a detailed executive regulation would also be published by the UAE authority in the coming months.

With less than five months remaining for the implementation of UAE VAT, it is imperative that the businesses should commence preparation towards a smooth transition into the VAT era.

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