

VAT Session

International Onshore Advisory Panel

January 2018



Building a better
working world

Agenda

Part 1 Conceptual Understanding of VAT

Part 2 VAT treatment of supplies

Part 3 Time of supply

Part 4 Compliance requirements

Part 5 Q & A

Background on GCC VAT



A GCC value-added tax (VAT) framework agreement has broadly been accepted and agreed by GCC Finance Ministry representatives and was announced in December 2015.



The principles of the GCC VAT system are likely to follow a modified version of the European Union model to reflect that the new VAT regime will follow the direction of the GCC Customs Union – a single economic zone for the movement of goods and services.



The GCC VAT and Excise Tax Framework was released by the KSA in April and by the UAE in July 2017. The UAE Excise Tax law is released by the end of September 2017. Excise tax commenced in Q4 of this year (1 October 2017). The first return for Excise Tax was due on 15 November 2017. KSA already implemented excise taxes.



The KSA approved and published its final VAT Law on 28 July 2017. On 30 August 2017, the KSA published its final VAT Implementing Regulations on its website. This confirms that VAT will become effective both in the KSA and UAE on 1 January 2018.



The UAE Ministry of Finance (MoF) updated its website (FAQs) at the beginning of July 2017 to confirm that the UAE is on track to implement VAT from 1 January 2018.



The UAE MoF has issued the law on tax procedures which sets the foundations for the planned UAE tax system, regulating the administration and collection of taxes and clearly defining the role of the Federal Tax Authority. Large taxpayers must register for VAT online, by the 31st October 2017.



The UAE VAT Law was released on 27 August 2017. The VAT Executive Regulations were released 28 November 2017. Monthly returns will be required for large VAT taxpayers.



Immediate commencement of preparations for the potential implications and opportunities is paramount to ensure smooth transition and minimization of costs.

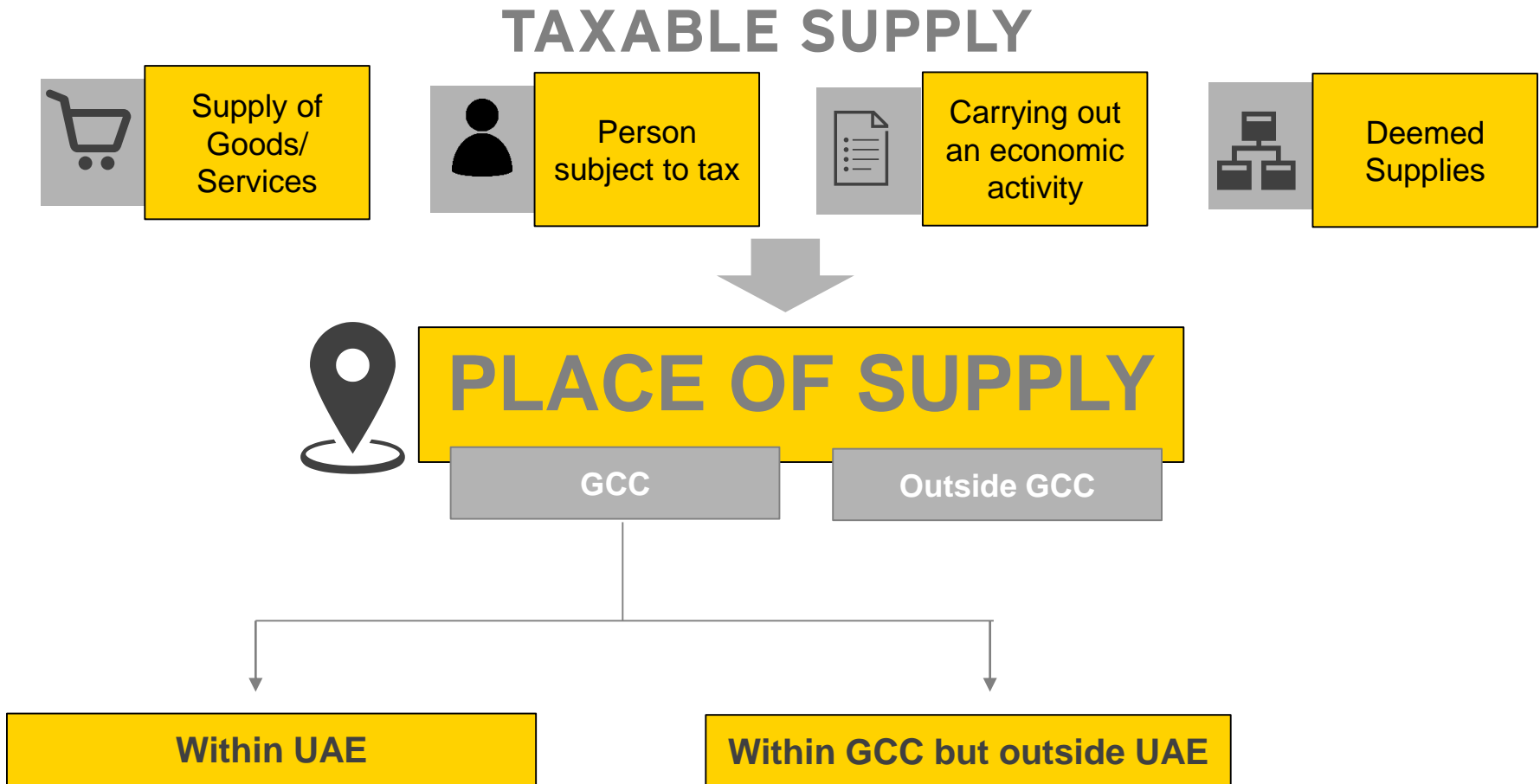
What is VAT?

- ▶ VAT is a tax imposed on the supply of goods as well as services, at each stage of the supply chain process, and includes deemed supply
- ▶ Collected by suppliers on behalf of the Government
- ▶ Ideally, VAT is not meant to constitute an additional cost to businesses, however, businesses are required to collect and remit VAT to the Government
- ▶ Businesses providing taxable supplies of good and services within UAE must register for VAT (annual turnover USD100,000 or AED 375,000 in UAE)
- ▶ VAT-registered businesses are required to submit periodic VAT returns
- ▶ Most VAT-registered businesses are able to deduct the input tax incurred as long it relates to the making taxable supplies

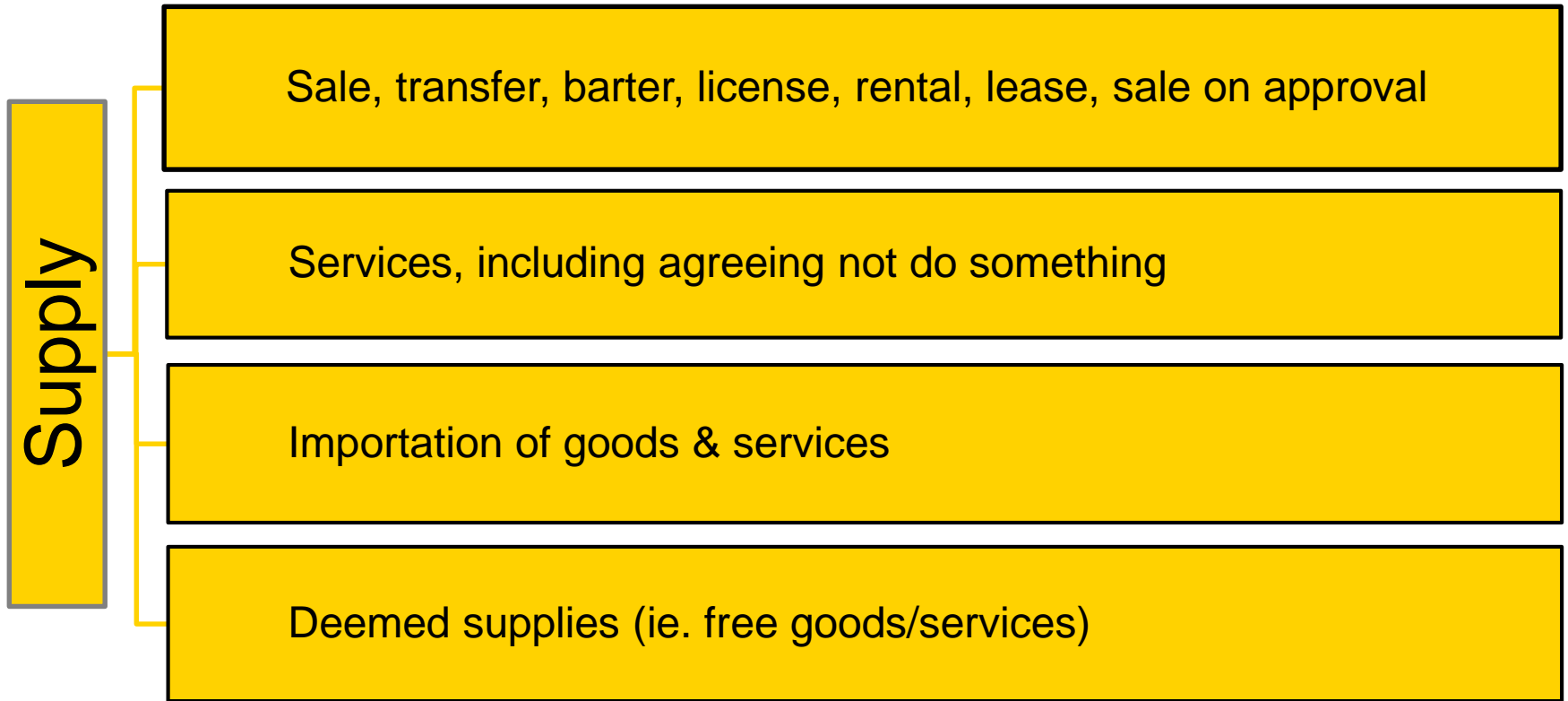
Main Characteristics of the UAE VAT system

Emirates level Reporting	Standard Rate at 5%	Online Submission
Compliance Requirements	Supplies to Governments are taxable	Self assessment system
Penalties for non-compliance	Registration Threshold Dhs 375,000 By 31 st October 2017!	Consumption Tax
Monthly Returns	Transactions are: - Taxable (SR & ZR) - Exempt - Out of scope	Go-live date 1 st Jan 2018

Levy of VAT



“Supply”



Goods & Services

Goods

- ▶ All types of tangible goods (tangible assets)
- ▶ Includes water, all kinds of energy such as electricity, gas, lightening, heating, cooling, and air-conditioning

Services

- ▶ Any supply not considered goods, is considered a service



Place of supply rules - where is VAT due?

- ▶ The “**place of supply**” rules determine the country in which the VAT is due

Supply of goods:

- ▶ Generally, VAT *follows the movement* of goods:
 - a) Where goods are not dispatched or transported, the place of supply shall be deemed to be the place where the goods are located at the time when the supply takes place
 - b) Where goods are dispatched or transported by the supplier, or by the customer, or by a third person, the place of supply shall be deemed to be the place where the goods are located at the time when dispatch or transport of the goods to the customer begins

Place of supply rules - where is VAT due? (cont'd)

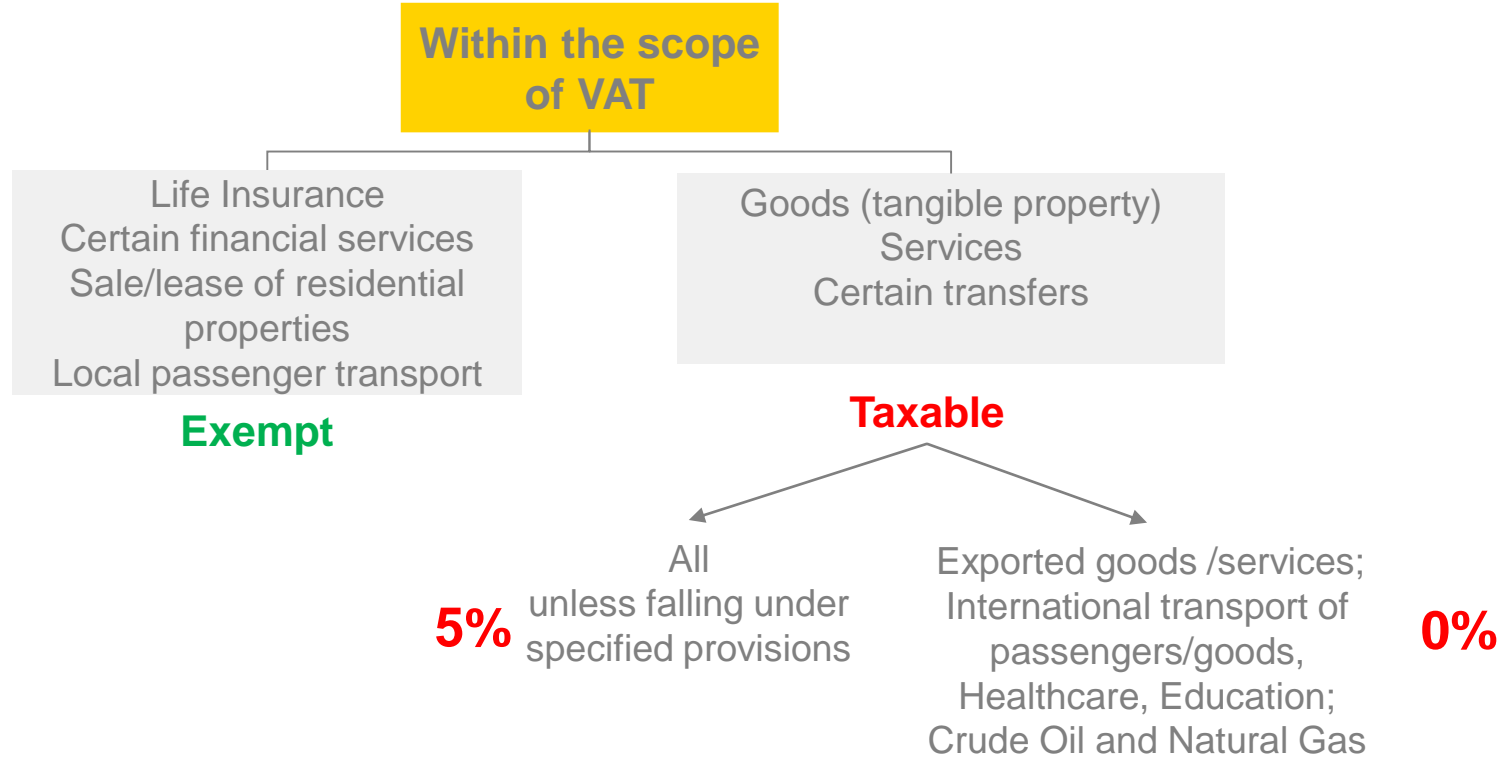
Supplies of services:

- ▶ Generally, the starting point in assessing the place of supply of services is the customer's status:
 - a) **B2B supplies of services:** VAT is due in the **customer's country** under the reverse-charge mechanism
 - b) **B2C supplies of services:** generally VAT is due in the **supplier's country**. However, special rules may require the supplier to register in the customer's country subject to meeting a specified threshold.

- ▶ *However, for certain services, there are special place of supply rules, for example:*
 - a) **Services closely connected to land / immovable property:** VAT is due where the land is physically located
 - b) **Other services (e.g. accommodation, events, catering):** VAT is due where the services are actually provided

Taxable supplies - What is subject to VAT?

- ▶ In principle, every supply of goods and services provided by a business is subject to VAT, unless:
 - ▶ There is a specific exemption, or
 - ▶ The transaction is considered falling outside the scope of the VAT system



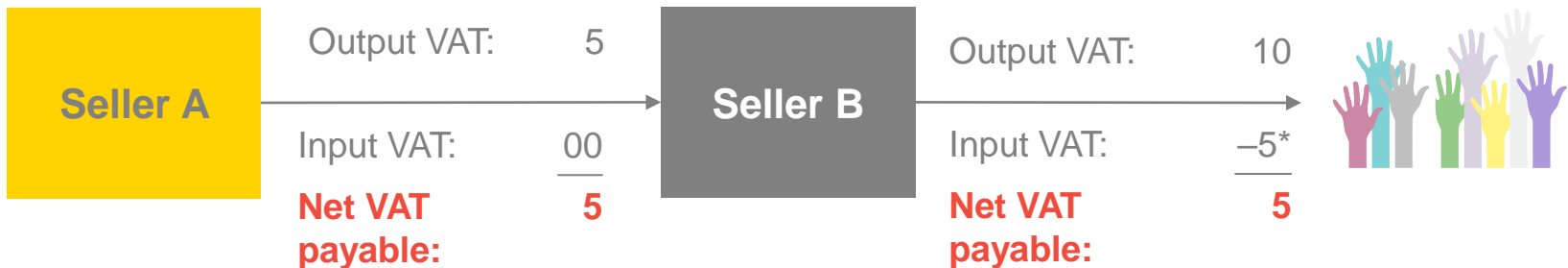
Mechanics of VAT

- ▶ Businesses will:
 - ▶ collect the VAT on their sales (**output tax**) and
 - ▶ pay it on purchases (**input tax**) from other businesses.
 This effectively turns them into tax-collecting agencies.
- ▶ The VAT moves up the value chain until the customer ultimately pays the entire cost of the VAT.

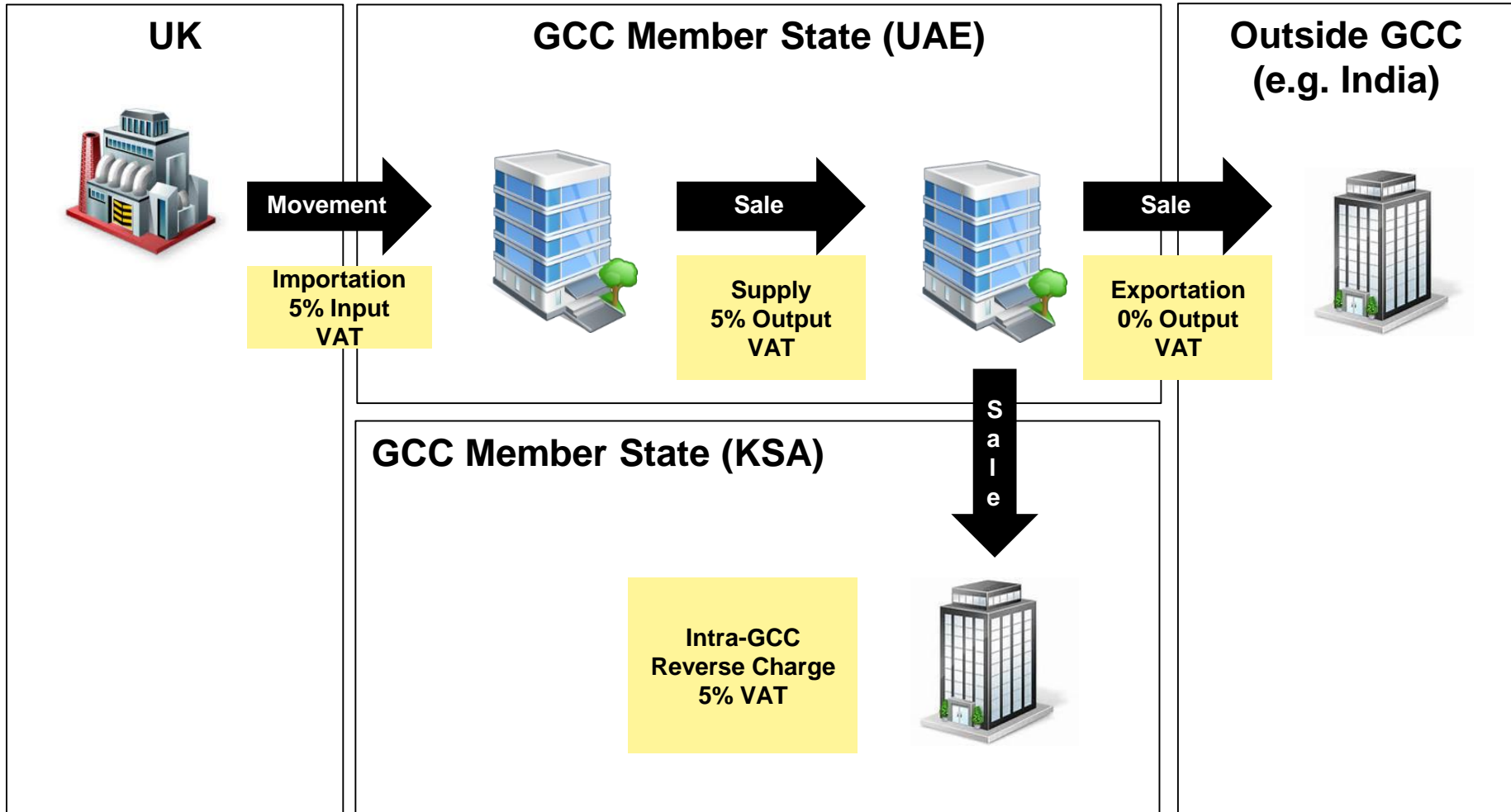
Producer:
 US\$100
 VAT (5%): US\$5

Retailer:
 US\$200
 VAT (5%): US\$10

Consumer pays:
 US\$200 + **US\$10**
 (5% VAT on the final price)



Illustrative overview of VAT in the GCC



Agenda

Part 1 Conceptual Understanding of VAT

Part 2 VAT on Transactions and relevant VAT treatment

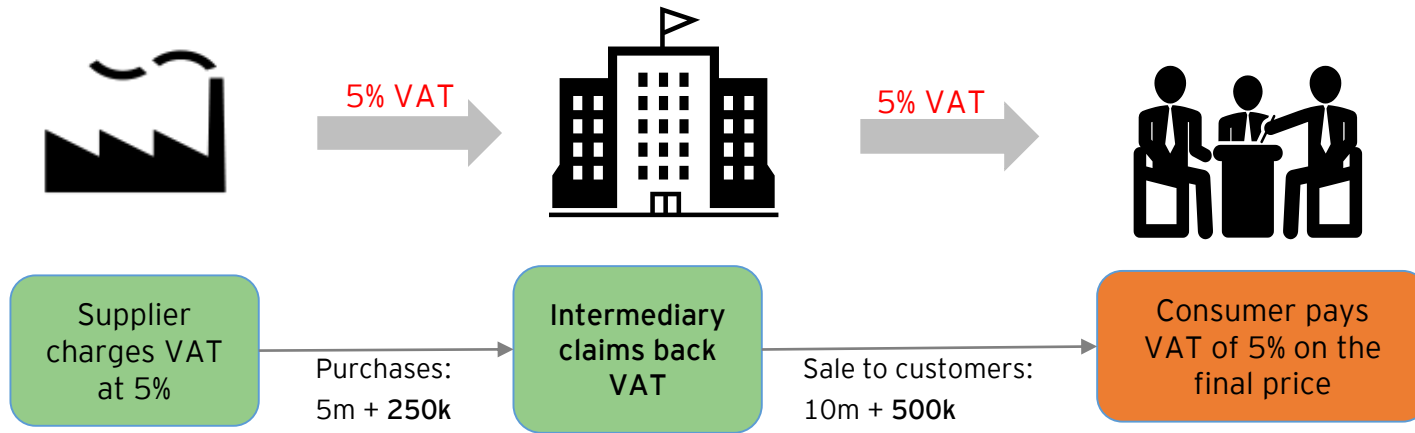
Part 3 Time of supply

Part 3 Compliance requirements

Part 4 Q & A

Taxable supplies – The standard rate of VAT

Sale of goods to customers
based in the same member
state as the supplier



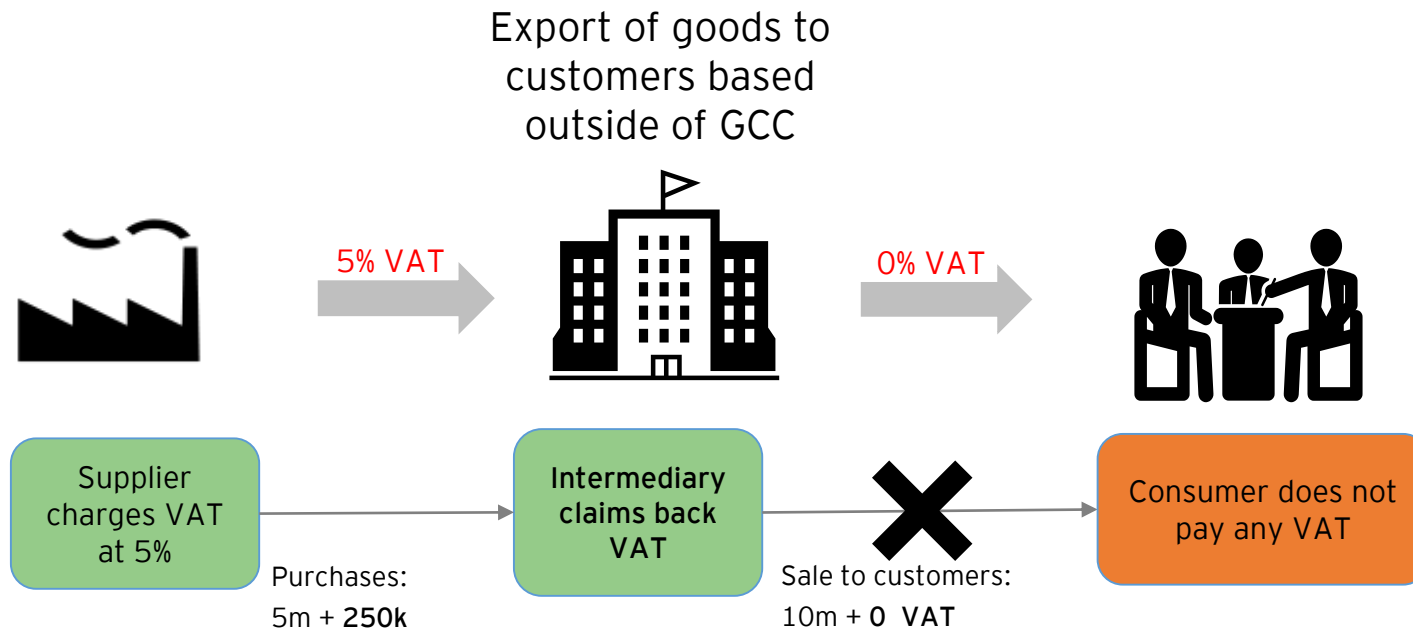
VAT return:

VAT on sales: 500k

VAT on purchases: - 250k

Net VAT payable: 250k

Taxable supplies – The zero rate of VAT



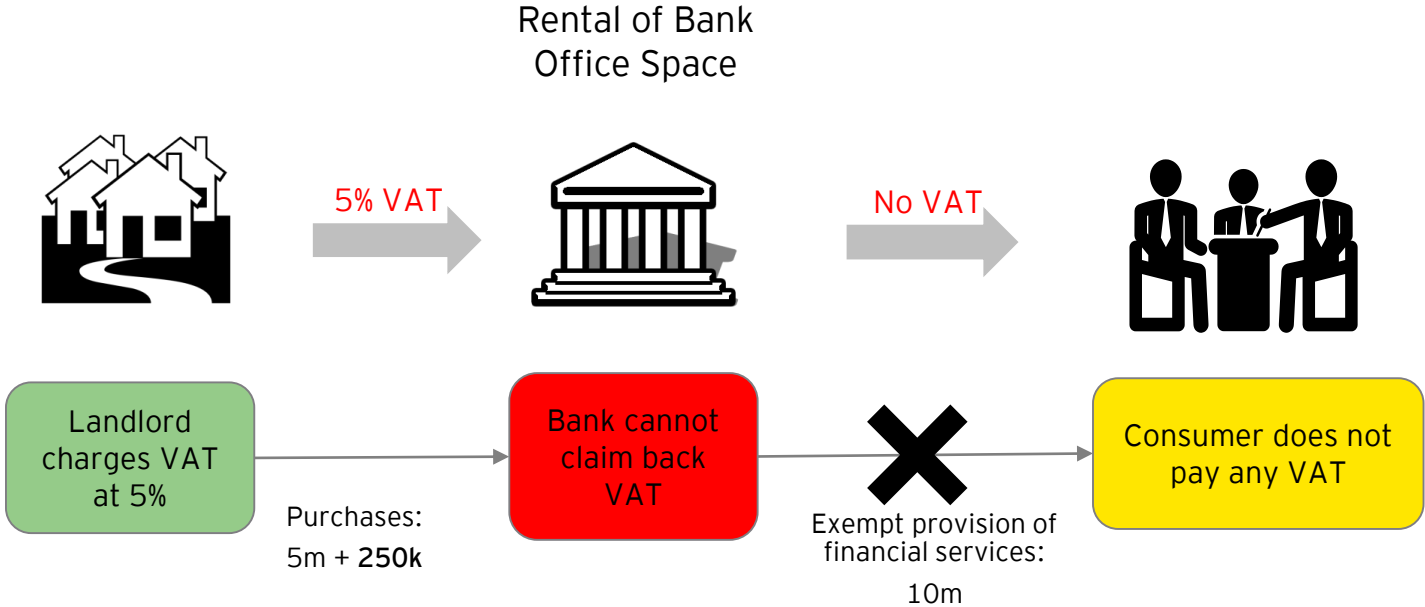
VAT return:

VAT on sales: 0

VAT on purchases: - 250k

Net VAT refundable: 250k

Exempt supplies



250K is not refundable and is a cost for the bank

GCC imports

- ▶ **VAT due at point of entry:**
 - ▶ payment to Customs upon customs clearance
 - ▶ postponed accounting - through VAT return

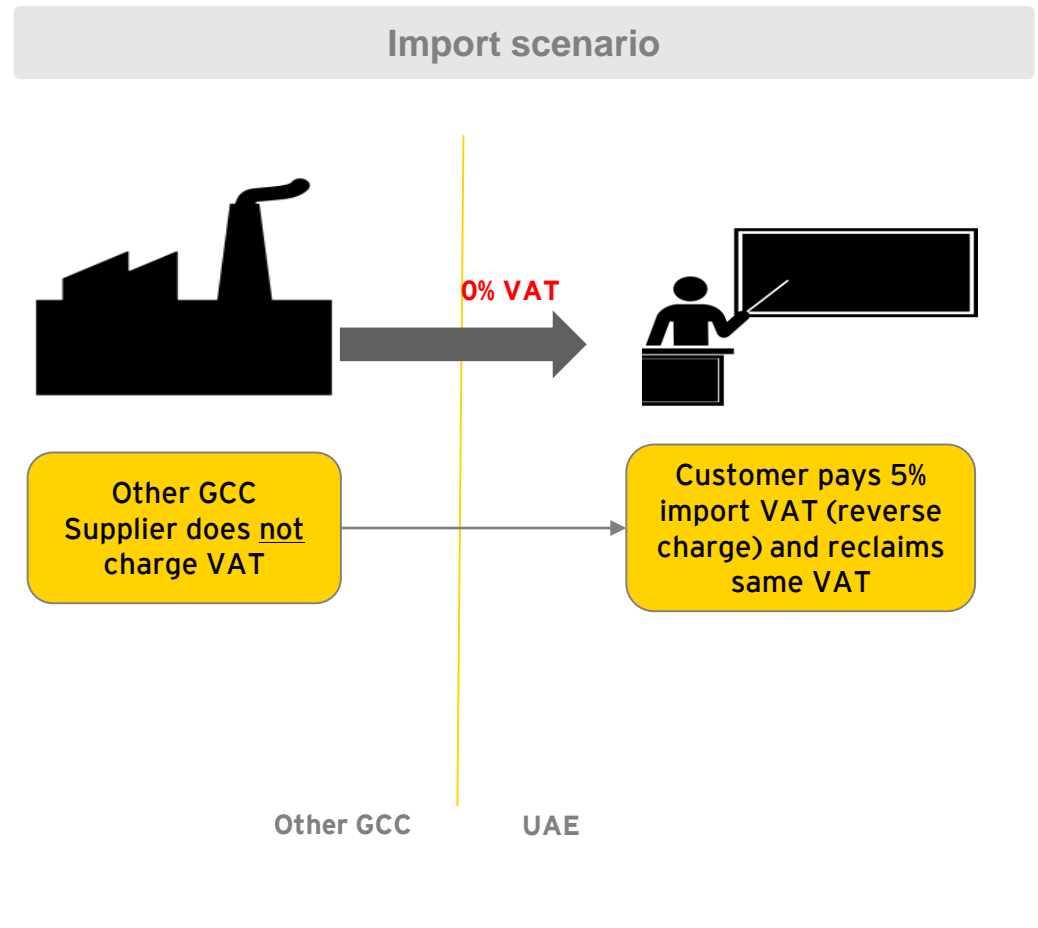
- ▶ **Valuations:**
 - ▶ Customs Duty Value; plus
 - ▶ Duty or any other tax (excluding VAT); plus
 - ▶ Any transport, handling and insurance costs between point of entry into GCC and the Member State; plus
 - ▶ Onward transportation costs to the place of final destination

GCC exports

- ▶ Goods must be transported to outside the GCC
- ▶ **0% rate** on all goods and related services
- ▶ Records / Evidence of export

Intra-GCC - Reverse Charge Mechanism

- ▶ VAT is generally remitted by the supplier; however under the reverse charge mechanism, the responsibility for recording the VAT shifts from the seller, to the buyer of the goods or service.
- ▶ With the reverse charge, the buyer is deemed to have supplied the goods and services to himself i.e. he must account for Output VAT and also account for a corresponding Input VAT on the supply
- ▶ This output tax is deductible as input tax, on the same months' VAT return, subject to the usual rules
- ▶ Reverse charge involves no more than equal and opposite accounting entries for fully taxable customers



VAT Status of Designated Free Zones

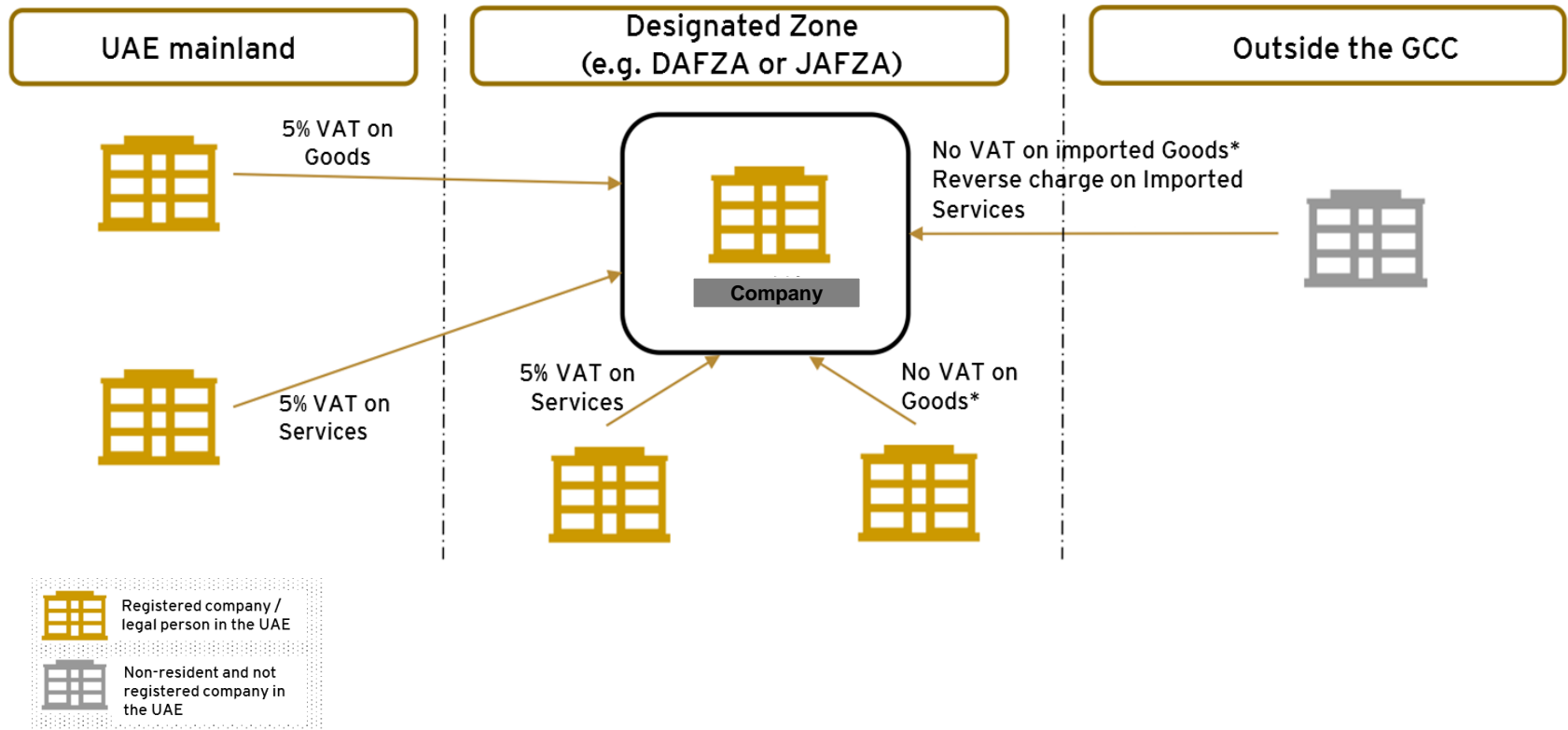
- ▶ Import from outside the country to DFZ is out of the VAT scope.
- ▶ Transfer goods from one DFZ to another is out of the VAT scope (financial guarantee might be required)
- ▶ Sale of goods in the same DFZ is out of the VAT scope provided the goods are not intended to be consumed within the DFZ.
- ▶ Services subject to the normal VAT rules.
- ▶ Export from DFZ to out of the country is subject to VAT at 0%
- ▶ Goods transferred from mainland to DFZ is **NOT** treated as export unless the goods are intended to transit in the DFZ then leave the country.

VAT Status of Designated Free Zones

- ▶ Import VAT is applicable when goods are imported from DFZ to the mainland, and the **importer of records** would account for VAT in his VAT return i.e. reverse charge mechanism is applicable.
- ▶ VAT payment would be required if Client is importing on behalf of VAT non-registered importer, and Client cannot claim this VAT as its input, rather, it would just push it to the customer as disbursement.

VAT Status of Designated Free Zones

VAT Status of Free Zones



*Supply of goods made within a designated zone, which will be consumed in the designated zone by the recipient, is subject to VAT as the place of supply is considered to be the UAE mainland, unless the goods are to be incorporated into, attached to or otherwise form part of or are used in the production or sale of another good located in the same designated zone which itself is not consumed.

Agenda

Part 1 Conceptual Understanding of VAT

Part 2 VAT on Transactions and relevant VAT treatment

Part 3 Time of supply

Part 3 Compliance requirements

Part 4 Q & A

Time of Supply - Basic tax point

What is a tax point? It is the time of supply for VAT purposes:

- ▶ It determines **when output tax is liable**
- ▶ It determines **when input tax is recoverable**
- ▶ It is used in calculating **penalties and interest** by the Tax Authorities

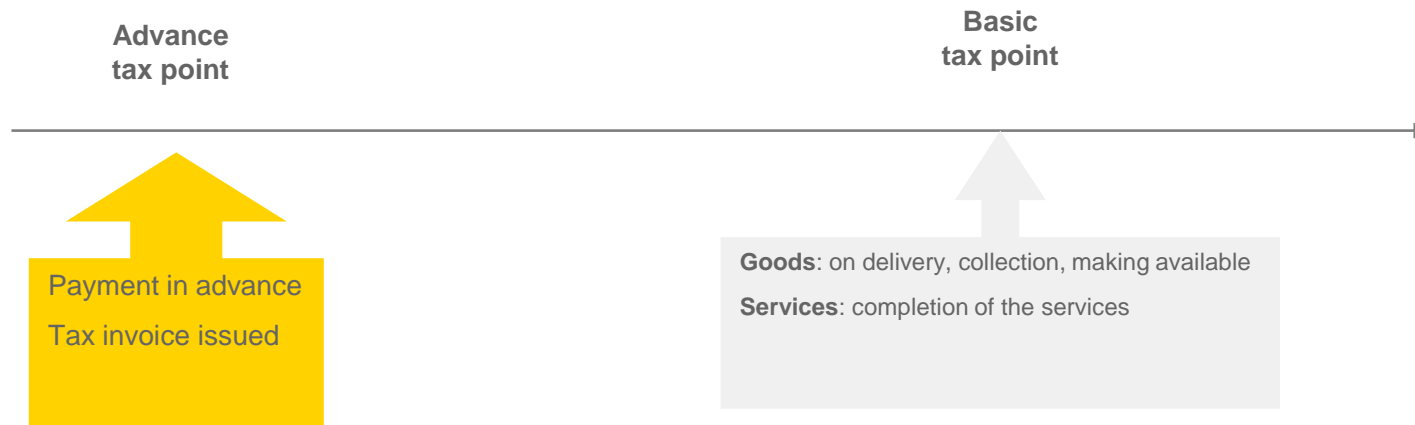
Generally, the time of supply is the earlier of:

- ▶ Date of removal of goods (supply with transportation)
- ▶ Date on which goods are made available to customers (supply not involving transportation)
- ▶ Date of assembly or installation (goods involving assembly or installation)
- ▶ Date on which performance of service is complete (unless it is a continuous supply of services)
- ▶ The date of receipt of payment or the date on which the tax invoice was issued.

Time of Supply – other tax points

For example, if a service is completed on 15 February 2018, but payment is received on 3 January 2018, then the time of supply is 3 January 2018.

If a tax invoice is issued on 31 January 2018 in respect of a supply of goods which are due to be delivered to the customer on 16 February 2018 then the time of supply is 31 January 2018.



Time of Supply – Continuous services

The date of supply of goods or services for any contract that includes periodic payments or consecutive invoices is the earlier of any of the following dates*:

- ▶ The date of issuance of any Tax Invoice
- ▶ The date payment is due as shown on the Tax Invoice.
- ▶ The date of receipt of payment

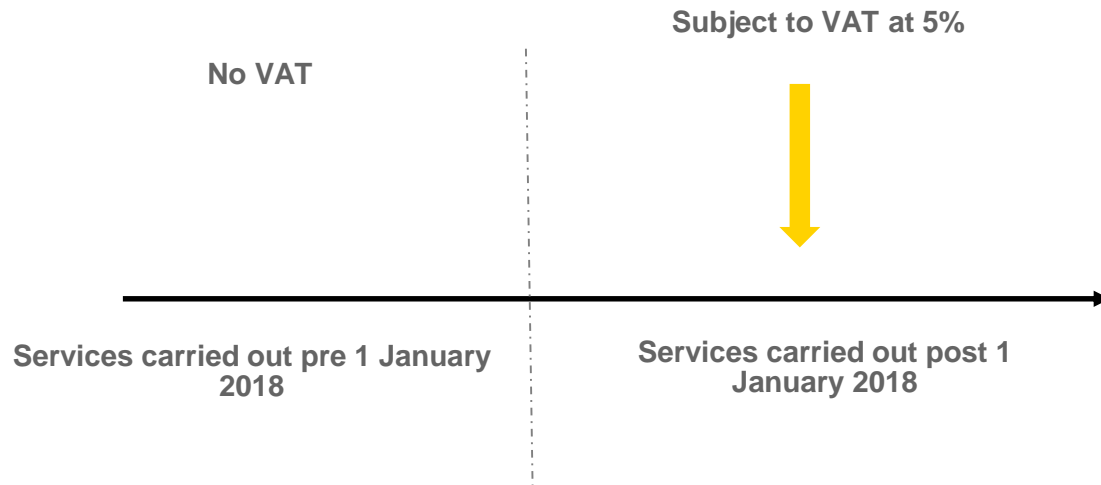
**This is subject to the above dates not exceeding a period of one year from the date of the provision of Services.*

Example: a milestone contract



Time of supply – Transitional rules

- ▶ VAT is due on the supply to the extent that the supply takes place after 1 January 2018, regardless of the invoice date or date of receipt of payment.
- ▶ For continuous supplies of services (such as milestone contracts), VAT is only chargeable on the portion of the consideration of the supply which relates to a supply made post 1 January 2018.



Agenda

Part 1

Conceptual Understanding of VAT

Part 2

VAT on Transactions and relevant VAT treatment

Part 3

Time of supply

Part 3

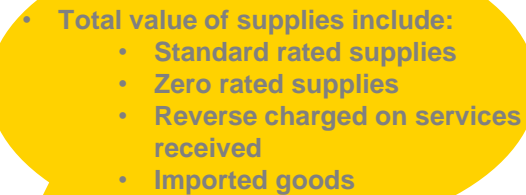
Compliance requirements

Part 4

Q & A

VAT registration

- ▶ The threshold for registration will be:
 - ▶ Mandatory - AED 375,000
 - ▶ Voluntary - at least AED 187,500
- ▶ Threshold will be calculated as follows:
 - ▶ **Total value of supplies** made by a taxable person for the previous 12 months; or
 - ▶ Total value of supplies of the subsequent 30 days
 - ▶ Value of exempted supplies will not be considered for computing the annual supplies
- ▶ No threshold applies to non established taxable persons – they may be required to register immediately

- 
- Total value of supplies include:
 - Standard rated supplies
 - Zero rated supplies
 - Reverse charged on services received
 - Imported goods

VAT registration - Grouping

- ▶ Ordinarily, each taxable person must register for VAT separately.
- ▶ GCC law allows for tax grouping:
 - ▶ This allows a number of independent, but closely linked, persons to be treated as a single taxable person.
- ▶ Article 14 of the UAE VAT law provides two or more persons conducting businesses may apply for tax registration as a tax group if all of the following conditions are met:
 - ▶ Each shall have a place of establishment or fixed establishment in the UAE
 - ▶ The relevant persons shall be related parties
 - ▶ One or more persons conducting business in a partnership shall control the others.

VAT registration - Grouping (Cont'd)

Consequences of VAT grouping

- ▶ There is a reduced compliance burden:
 - ▶ A single VAT registration, single VAT return, etc.:
 - ▶ Although there may be practical difficulties in compiling the information required for returns, etc.
- ▶ Intra-group supplies are not subject to VAT:
 - ▶ Minimizing risk of errors on intercompany activities
 - ▶ Reducing irrecoverable input tax where members make exempt supplies
- ▶ Input tax deduction is determined by the VAT group's activities.
- ▶ Group members are joint and severally liable for any VAT due.

VAT compliance - Invoicing

- ▶ A VAT registered supplier must issue tax invoices in respect of its taxable supplies.
- ▶ A simplified invoice can be issued to non-VAT registered businesses or where the supply does not exceed 10,000 AED.
- ▶ In instances where the value of the supply is in a currency other than UAE Dirham, the amount must be converted to Dirham using the exchange rate approved by the UAE Central Bank on the date of supply.
- ▶ Electronic invoices can also be issued, provided that:
 - ▶ The Taxable Person must be capable of securely storing a copy of the electronic Tax Invoice in compliance with the record keeping requirements: and
 - ▶ The authenticity of origin and integrity of content of the electronic Tax Invoice should be guaranteed.

VAT compliance - Invoicing (Cont'd)

1. The words "Tax Invoice" clearly displayed
2. Name, address and TRN of supplier
3. Name, address and TRN of customer (if registered for VAT)
4. A sequential Tax Invoice Number or a unique number which enables identification of the Tax Invoice and the order of the Tax Invoice in any sequence of invoices
5. The date of issuing the Tax Invoice
6. The date of supply if different to the date of issue of the Tax Invoice
7. A description of the Goods or Services supplied
8. For each good or service:
 - the unit price
 - the quantity or volume
 - the rate of VAT
 - the amount payable expressed in AED
9. The amount of any discount offered
10. The gross amount payable expressed in AED
11. The VAT amount payable - expressed in AED together with the rate of exchange applied (Must be the daily rate issued by the Central Bank of UAE)
12. Where the Recipient/Customer must pay the VAT: a statement that the Recipient is required to account for the Tax in terms of Article 48 of the Federal Decree-Law No 8 of 2017

VAT compliance - VAT records

- ▶ VAT records must be kept for a minimum of **five years** from the date of the supply and **fifteen years** if related to the real estate.
- ▶ The records must be kept and retained in sufficient detail to enable the Goods and Services, the suppliers, and agents (if applicable) to be readily identified by the Federal Tax Authority (FTA).
- ▶ The records must be made available upon request by the FTA, who may request for the records to be translated into Arabic.
- ▶ VAT records should also be able to identify the Emirate in which the place of supply of the goods or services was treated as taking place.

VAT compliance - VAT records (Cont'd)

- ▶ In addition to the general tax and accounting records the Tax Procedures Law, expressly includes the obligation for a Taxable Person to keep the following records for VAT:
 - ▶ Records of all supplies and Imports of Goods and Services
 - ▶ All Tax Invoices and alternative documents related to receiving Goods and Services
 - ▶ All Tax Credit Notes and alternative documents received
 - ▶ All tax invoices issued.
 - ▶ All Tax Credit Notes and alternative documents issued
 - ▶ Records of Goods and Services purchased and for which the input Tax was not deducted
 - ▶ Record of exported goods and Services
 - ▶ Records of Adjustments or corrections made to accounts or tax invoices
 - ▶ Records of any taxable supplies made or received subject to the reverse charge mechanism rules.

VAT compliance - VAT returns

- ▶ VAT returns to be submitted on a monthly or quarterly basis.
- ▶ Entities with taxable turnover greater than AED 150m would be required to submit VAT returns on a monthly basis.
- ▶ The due date for the submission and payment is the 28th day following the end of the relevant Tax Period.
- ▶ We understand from the Executive Regulations that the following information will be required to be included on the UAE VAT return:
 - ▶ The name, address and the TRN of the Registrant;
 - ▶ The Tax Period to which the Tax Return relates and the date of submission.
 - ▶ The value of Taxable Supplies made by the Person in the Tax Period and the Output Tax charged.
 - ▶ The value of Taxable Supplies subject to zero rate made by the Person in the Tax Period.
 - ▶ The value of Exempt Supplies made by the Person in the Tax Period.
 - ▶ The value of expenses incurred in respect of which the Person seeks to recover Input Tax and the amount of Recoverable Tax;
 - ▶ The total value of Due Tax and Recoverable Tax for the Tax Period.
 - ▶ The Payable Tax for the Tax Period.

The VAT Return (1)

Value Added Tax Return

Main

Form Type
Document Locator
Tax Form Filing Type
Submission Date

Prepopulated
Prepopulated
Prepopulated
Prepopulated

Taxable Person details

TRN
Taxable Person Name (English)
Taxable Person Name (Arabic)
Taxable Person Address

Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated
Prepopulated

Tax Agency Name
TAN
Tax Agent Name
TAAN

VAT Return Period

VAT Return Period

Tax Year

VAT Return Period Reference Number

e.g. Feb 2018 (or month of effective date of registration) - Jan 2019
e.g. 01 - 2019

VAT on Sales and all other Outputs

- 1 1a Standard rated supplies in Abu Dhabi
- 1b Standard rated supplies in Dubai
- 1c Standard rated supplies in Sharjah
- 1d Standard rated supplies in Ajman
- 1e Standard rated supplies in Umm Al Quwain
- 1f Standard rated supplies in Ras Al Khaimah
- 1g Standard rated supplies in Fujairah
- 2 Tax Refunds provided to Tourists under the Tax Refunds for Tourists Scheme
- 3 Supplies subject to the reverse charge provisions
- 4 Zero rated supplies
- 5 Supplies of goods and services to customers registered for VAT in other GCC implementing states
- 6 Exempt supplies
- 7 Goods imported into the UAE
- 8 Adjustments and additions to goods imported into the UAE
- 9 Totals

Amount (AED)	VAT Amount (AED)	Adjustment (AED)
Prepopulated	Prepopulated	

The VAT Return (2)

VAT on Expenses and all other Inputs

	Amount (AED)	Recoverable VAT amount (AED)	Adjustments (AED)
10 Standard rated expenses			
11 Supplies subject to the reverse charge provisions			
12 Totals			

Net VAT due

13 Total value of due tax for the period	
14 Total value of recoverable tax for the period	
15 Net VAT payable (or reclaimable) for the period	
16 Do you wish to request a refund for the above amount of reclaimable VAT?	Y/N

Additional Reporting Requirements

Profit Margin Scheme

Did you apply the profit margin scheme in respect of any supplies made during the tax period?	Y/N
---	-----

Transfer of own goods to other GCC implementing states

	Amount (AED)	VAT amount (AED)	Adjustments (AED)
Goods transferred to the Kingdom of Bahrain			
Goods transferred to the State of Kuwait			
Goods transferred to the Sultanate of Oman			
Goods transferred to the State of Qatar			
Goods transferred to the Kingdom of Saudi Arabia			

Recoverable VAT paid in other GCC implementing states

	Amount (AED)	VAT amount (AED)	Adjustments (AED)
Recoverable VAT paid in the Kingdom of Bahrain			
Recoverable VAT paid in the State of Kuwait			
Recoverable VAT paid in the Sultanate of Oman			
Recoverable VAT paid in the State of Qatar			
Recoverable VAT paid in the Kingdom of Saudi Arabia			

Declaration and Authorised Signatory

I declare that all information provided is true, accurate and complete to the best of my knowledge and belief.	tick-box
Name (Arabic)	
Name (English)	
Mobile number	
e-mail address	
Submission date	

Agenda

Part 1

Conceptual Understanding of VAT

Part 2

VAT on Transactions and relevant VAT treatment

Part 3

Compliance requirement

Part 3

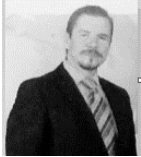
Transitional rules

Part 4

Q & A

Thank you

Contact details:



Gordan Rotkvic
Senior Manager
Indirect Tax Team
Email: Gordan.Rotkvic@ae.ey.com
Mobile: +971 50 679 6353

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

The MENA practice of EY has been operating in the region since 1923. For over 90 years, we have grown to over 6,000 people united across 20 offices and 15 countries, sharing the same values and an unwavering commitment to quality. As an organization, we continue to develop outstanding leaders who deliver exceptional services to our clients and who contribute to our communities. We are proud of our accomplishments over the years, reaffirming our position as the largest and most established professional services organization in the region.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/mena

