

## FREQUENTLY ASKED QUESTIONS

### Introduction of UAE Value Added Tax

#### 1. Why is VAT being introduced?

In 2015, the six Gulf Cooperation Council (GCC) countries, Kingdom of Saudi Arabia (KSA), Kuwait, the United Arab Emirates (UAE), Qatar, Bahrain, and Oman agreed a Unified Value Added Tax (VAT) Agreement. The backdrop to this change was the desire for a new source of income and a reduction of many GCC countries' dependence on hydrocarbon-related revenue.

#### 2. Which countries are introducing VAT?

All six GCC countries are introducing VAT.

#### 3. Is there a UAE Regulation published on VAT?

Yes. The UAE Executive Regulation (Cabinet Decision no. 52) was issued on the 28th November 2017 ([click here to view](#)). External useful web links to the main laws and regulations are provided at the end of the document.

#### 4. What is the rate of VAT?

VAT is being launched at a rate of 5%, exempt or zero-rated in the UAE.

#### 5. When will VAT become applicable?

Legalisation has been issued in KSA and UAE with the expectation to commence VAT on 1<sup>st</sup> January 2018. The remaining four countries still have to issue their respective laws. Timings cannot be confirmed at this stage.

#### 6. What services are in scope of VAT?

The standard VAT rate of 5% has been agreed by all Member States of the GCC, and will be applied on goods and services (e.g. food, consulting services, maintenance works etc.) that are not VAT exempt or zero-rated. The Federal VAT Law subjects a number of specific transactions to the zero rate or designates them as exempt from VAT, meaning VAT will not be accounted

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for on these supplies. Companies are advised to contact their tax advisors for specific advice on which services are categorised at which rate.

## **7. Does my organisation have to register for VAT?**

Yes. During October 2017, the Federal Tax Authority (“FTA”) opened the registration process for companies. Full details can be found at <https://www.tax.gov.ae/index.aspx>.

There is a registration threshold of AED 375,000 a year. Companies can voluntarily register beyond a threshold of AED 187,000 a year. Companies operating in the UAE with revenues above the threshold should immediately register.

## **8. What do I need to do now?**

Companies need to work with qualified tax advisors to understand the implications for their organisation, the registration process and implement internal processes to account for and settle VAT.

## **9. What are some of the implications for my organisation?**

Companies will have to implement end to end processes to account for and settle VAT. Whilst not exhaustive, considerations include Finance, I.T., Compliance and Operations.

## **10. How will my organisation pay VAT?**

At this stage we understand that settlement will be permissible via the UAE e-Dirham service. Citi is in contact with the UAE Government and the relevant advisors to clarify this aspect of VAT as we recognise the importance and implications on clients given their existing accounts payable process. Information will be provided as soon as confirmation is received.

## **11. Can my organisation pay VAT in another currency or is AED the settlement currency?**

Settlement of VAT will only be permissible in AED.

## **12. Is a separate VAT account required to register with the Federal Tax Authority?**

We are not aware of any requirement to open a designated VAT account. As part of the registration process, companies are required to provide their bank account details. Further details will be provided as the UAE release settlement process details.

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### **13. Is there any special reference to be used? (e.g. to match VAT payment with particular VAT return)**

Whilst not confirmed, Citi anticipates that your organisation's unique FTA account reference and/or the relevant tax return reference number will need to accompany any electronic settlement with the FTA.

### **14. Can my organisation pay VAT from an overseas account?**

Whilst not confirmed by the FTA at this stage, we expect that settlement of VAT will only be permissible from a UAE account in AED. Further clarity is expected.

### **15. Are non-UAE registered entities required to obtain TRN?**

VAT will not be applicable to non-UAE registered entities.

### **16. Will VAT impact my bank fees?**

Citi's understanding is that bank fees will not be exempt from VAT. All the bank account fees charged by Citi are exclusive of taxes. Companies are advised to work with their tax advisors to confirm which fees are exempt, zero-rated or will attract VAT.

### **17. a) How will the VAT charges appear on my bank statement?**

The VAT charges on bank fees will be included in your monthly statement as a separate line item.

### **17. b) Will you be providing me with a separate tax invoice?**

Yes, you will be provided with a separate tax invoice document, which will detail the VAT charges on bank fees for the respective period.

### **Useful External Links:**

<https://www.tax.gov.ae/index.aspx>

<https://www.mof.gov.ae/En/lawsAndPolitics/govLaws/Pages/default.aspx>

<https://www.mof.gov.ae/En/lawsAndPolitics/govLaws/pages/EstablishmentFederalTaxAuthority.aspx>

<https://www.mof.gov.ae/En/budget/Pages/VATQuestions.aspx>

<https://www.mof.gov.ae/En/lawsAndPolitics/govLaws/Pages/VAT-law.aspx>

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