

VATUae.me

The Introduction of VAT in UAE

These are some FAQs, which are not given in the public domain but are intentionally simplified here. If you are intended to know more detailed information, you just have to wait for further policy announcements by the Ministry of Finance (MoF). Let us see some FAQs to know VAT in UAE more better.



What is Tax?

Tax is an additional amount, which is payable by every individual to help the government in raising the revenue to pay for public services. These raised revenues will be used to pay for public services such as public hospitals, schools and universities, defence and other important aspects of daily life.

There are basically 2 type of taxes:

Direct Tax: The Tax collected by the government by the same person on whom it is imposed is called Direct Tax (Eg: income tax, corporate tax).

Indirect Tax: The Tax collected by an intermediate medium for the government from the same person that pays the tax is known as indirect tax (Eg: Retail Stores).

What is VAT?

VAT (Value Added Tax) is an indirect tax, which is imposed on most supplies of goods and services that are bought and sold. It is the most common type of consumption tax around the world and has already been implemented in over 150 countries, which include all 29 European Union (EU) members, Canada, New Zealand, Australia, Singapore and Malaysia.

It is charged at each and every step of the 'supply chain', which ultimately ends up to the consumer paying VAT, Businesses plays the role of a collector on behalf of the government.



	المبيعات Sales	5% ضريبة قيمة مضافة على المبيعات 5% VAT charged on Sales	ضريبة القيمة المضافة المسترجعة على المشتريات VAT recovered on purchases	صافي ضريبة القيمة المضافة مستحقة الدفع Net VAT payable
Farmer	AED 1,000	AED 50	AED 0	AED 50
Factory	AED 3,000	AED 150	AED 50	AED 100
Retailer	AED 5,000	AED 250	AED 150	AED 100
Total VAT paid by final consumer:				AED 250

النتيجة الصافية = يتم تحصيل ضريبة القيمة المضافة من خلال سلسلة التوريد ويتحمل المستهلك النهائي التكلفة
Net result = VAT is collected through the chain and the end-consumer bears the cost

What is the difference between VAT and Sales Tax?

There may not be any observable difference between a Sales Tax and a VAT for common people, but there are some key differences, which makes their working a bit different from each other. Sales tax only gets imposed on the final sale to the consumer, while VAT works for both Goods and Services. Moreover, Sales tax is only imposed to the final sale to the consumer.

Many countries chose VAT over Sales tax for many reasons, in which the most important reason is that VAT is considered as a sophisticated approach to taxation, because the whole system from consumer to the government work under this in a well arranged manner.

Why is the UAE implementing VAT?

The UAE government offers many public services to the residents such as hospitals, roads, public schools, parks, waste control, and police services, which are paid by government funds. VAT will provide an additional source of generating revenues for the government to provide high quality public services into the future.

Why does the UAE need to coordinate VAT implementation with other GCC countries?

The UAE is basically a part of a group of countries, which are connected through “The Economic Agreement Between the GCC States” and “The GCC Customs Union”. The GCC group has previously too worked together to implement new policies.

When will the VAT go in effect and what will be the rates?

VAT is said to be implemented across UAE on 1 January 2018, and the rate is likely to be equal or less than 5%.

How will the government collect VAT?

The businesses and retail stores will be responsible for documenting their business income and costs carefully along with the VAT charges. The registered businesses will charge VAT to their consumers on the goods or services they purchase from the suppliers. Then the difference between these sums is to be paid to the government. This is the way, government collect VAT.

Will VAT cover all product and services?

Except a limited number of reliefs, VAT will be applied to the majority of transactions in goods and services.

Will the cost of living increase?

Yes, the cost of living is expected to increase a little, but this will totally depend on the lifestyle of any individual. If you're spending on the things, which are affected by VAT then you will surely see the change in your cost of living.

What measures will the government take to ensure that businesses don't use the VAT implementation as an excuse to increase prices?

VAT is being implemented to improvise the economic base of the country. So, special rule should be implemented, which will make clear that how much VAT you are paying for each transaction.

When will more details on VAT be available?

We expect that more detailed information by the government will be revealed soon.

Will all the businesses need to register with the government for VAT?

No, not all the business will be required to register with the government for VAT. Only the businesses, which have a certain minimum annual turnover will be required to get registered for VAT. So, many small businesses will not need to get registered for VAT. This step has been taken to prevent small business holders from extensive reporting and documentation that VAT requires. The business which provides goods and services, which are not subject to VAT will also not have to register with the government. Notably, the government has not decided the minimum annual turnover, which will help in identifying businesses that do not need to register for VAT.

What are the VAT-related responsibilities of businesses?

All the business holders across the country will need to keep the record of their financial transactions accurate and up to date. The businesses, which meet the minimum annual turnover fixed by the government, will have to register for VAT.

VAT-registered businesses generally have to follow the given instructions:

They must charge VAT on all the taxable goods and services they provide.

They can reclaim any VAT they've paid on goods and services.

They have to maintain proper business records so that government can check that things are going in right direction.

VAT registered businesses must report the amount of VAT they've charged and the amount of VAT they've paid to the government on a regular basis. If the charged VAT is more than the VAT paid to the government then the business holders have to pay the difference to the government.

What does a business need to do to prepare for VAT?

The business organisations will have enough time to get prepared before the implementation of VAT. Business holders should the preparation as soon as possible so that they will be ready at the right time. Businesses will also need to make some changes in their basic operations, their financial management and book-keeping, their technology, and perhaps even their human resource mix (e.g., accountants and tax advisors). Businesses have to understand the implications of VAT and should make every possible effort to work honestly with the government after the implementation of VAT.

When are the businesses supposed to start registering for VAT?

The businesses that fulfill the requirement criteria will be able to register for VAT before three months of its launching via eServices.

How often are registered businesses required to file VAT returns?

Registered users are likely to submit VAT returns on a regular basis. The default time period for filing VAT returns is expected to be three months for a majority of businesses. Registered businesses will be capable of filling their returns using online eServices.

What kind of records are businesses required to maintain, and for how long?

Businesses will have to maintain genuine records so that government authorities will be able to

identify the details of the business activities and review transactions. The time period and more details regarding the documents will be announced in due course.

Will tourists also pay VAT?

Of course yes, tourists are a significant source of income for UAE and will pay VAT while buying anything. However, the authorities have already set the VAT rate very low, so that it will not be a burden for any consumer.

Will visiting businesses be able to reclaim VAT?

The government authorities will allow foreign businesses to recover the VAT they spend while visiting the UAE. This is believed to be an important step because it will encourage foreign industries to enhance their business in UAE and other countries also have VAT system

How can someone access UAE Tax Law?

UAE VAT tax is in its final stage of getting implemented, and all the announcements regarding new tax laws will be made clear in front of press and details will be published on the official Ministry of Finance website, which is the primary source of information regarding it. You can bookmark the page and check it out frequently to stay up to date on VAT related information.

How can someone join the Tax administration team in the UAE?

The people who are interested in working with the Tax administration team in the UAE are requested to visit <https://www.mof.gov.ae/En/Pages/Careers.aspx>, where he/she can see the list of jobs available and choose one of them as per the qualification. Desired applicants will have to fill have to complete all the required documents along with their CV and send it to fta_careers@mof.gov.ae.

What other taxes in the UAE considering?

The UAE is also practicing for other Tax reforms. However, they are still getting analysis and it is hard to say regarding the implementation of them in near future.

Will this impact economic growth of the UAE?

Yeah, the implementation of VAT is believed to strengthen the economy of UAE by diversifying revenues away from oil and will help government generate revenues from Tax regimes.

Where can I learn more about the UAE's plan to implement VAT?

The government will soon introduce awareness and education campaigns to spread awareness in the people of the UAE. The authorities are working with an aim to explain everyone the significance of VAT, and its working in the law.

Are there any groups (individuals or organisations) that will exempt from paying VAT?

VAT is a large level tax regime, which does not allow to offer special exceptions for individuals. Still, there are some rules on VAT for government entities and other organisations related to it and refunds available as well.

Changing my business systems for VAT reporting will cost money. Can the government help?

After implementing VAT, the government will offer information and education to the business holders to help them understanding new tax reforms. However, the government will not provide new technologies or hire tax specialists and accountants. But it will help in accessing the information regarding new tax regime.

What are the penalties for not complying with a business's VAT responsibilities?

Every business in the country is urged to comply with their upcoming VAT responsibilities. The government has still not fixed the exact fees and penalties for non-compliance.

For any further enquiries, please send an email on taxenquiries@mof.gov.ae

Thank Your