FAQs

What is VAT?

Value Added Tax (VAT) is a tax on consumption and it applies to most goods and services. VAT is levied at each stage of transactions, i.e. on goods and services supplied in the course of business.

VAT applies to most goods and services but there are usually some exceptions such as education and healthcare.

The Gulf Cooperation Council (GCC) States have adopted a standard VAT system with a single rate applying to most goods and services.

When will it be introduced?

The UAE and KSA have announced a 1 January 2018 implementation date although GCC countries have until 1 January 2019.

What rate will be charged?

The rate will be 5% which is low compared to most countries.

Who has to register for VAT?

Other than exempt entities all businesses with a turnover in excess of $100,000 have to register. Businesses with turnover between $50,000 and $100,000 have the option to register.

Who pays the VAT?

Ultimately the end user or consumer, however VAT is paid at various stages and claimed back as a VAT input credit.

What is a VAT input credit?

It is the tax that a manufacturer or service provider pays to his suppliers. This is offset against the VAT collected from his customer and the balance paid to the government. In order to support the claim, compliant VAT invoices need to be issued by your suppliers.

How will it impact my business?

Usually most costs are carried by the consumer, however if your turnover is below the threshold or you are supplying exempt goods or services you will carry the cost. This cost may or may not be passed on depending on market conditions. Even if you are recovering the input credit there will be a cash flow impact.

What is the difference between exempt and zero rated?
Exempt goods or services providers are not allowed to charge VAT. Zero rated goods or services are subject to VAT at a rate of zero. This is a very important distinction as suppliers of zero rated goods or services may claim the VAT input credit whilst exempt suppliers may not.

What about imports and exports?
VAT is expected to be charged on imports and is payable at the time of import. In the UAE VAT on both goods and services will be paid via the 'Reverse Charge Mechanism', a self-invoicing procedure which allows you to pay and claim the input via the Tax return (assuming you are entitled to the input).
Exports are zero rated.

Do I need to have audited financial statements?
No, however you will have to maintain reliable financial records which should be prepared using reliable software.

What if I don't register?
Tax authorities will be very strict on this and consequences will be severe. UAE MOF has recently announced a long list of penalties. If your turnover is above the threshold you should prepare your business and register accordingly.

What should I be doing now?

- Obtain advice on how your supplies and purchases are impacted by VAT
- Conduct a due diligence to assess the impact on systems, staff, cash flow, procedures, suppliers, customers etc
- Implement the systems, processes and procedures
- Train your staff
- Ensure your suppliers will be issuing compliant VAT invoices
- Prepare policies, procedures and processes for VAT

How can VSG help?
Our team have been through VAT implementations and all aspects of managing VAT for many years and can provide the necessary expertise to ensure a successful project and ensure ongoing compliance.