

A man wearing a white ghutra and a brown thobe is sitting at a desk, looking at a laptop. He is smiling slightly. The background is a blurred office environment with shelves and other people.

sage

# VAT in the GCC

VAT simplified for your business

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# 1. What is VAT?

Value-added tax (VAT) is a tax on the consumption of goods and services.

VAT has been set at 5% across GCC countries and comes into effect from 1 January 2018 for the first time in the United Arab Emirates.

VAT should not be seen as a business expense but a cost that is paid by the consumer and collected by businesses on behalf of the Federal Tax Authority (FTA).

If your business has an annual turnover of 375,000 AED (or the equivalent in other GCC states), you will need to register as a VAT vendor. If you generate 50% of this threshold (187,500 AED), you can voluntarily register as a VAT vendor.

VAT is levied at each stage of the supply chain, from the farmer, to the manufacturer, to the wholesaler, to the retailer, taxing the 'value added' by businesses at each point in the chain.

For example, raw cotton becomes more valuable as it moves along the supply chain to eventually be manufactured into a T-shirt, or the end-product.



## Key points



VAT starts  
**Jan 1st 2018**



**5%**  
percentage of VAT



Mandatory Registration  
Threshold **AED375,000**  
annual turnover



Borne by the  
**Final Consumer**

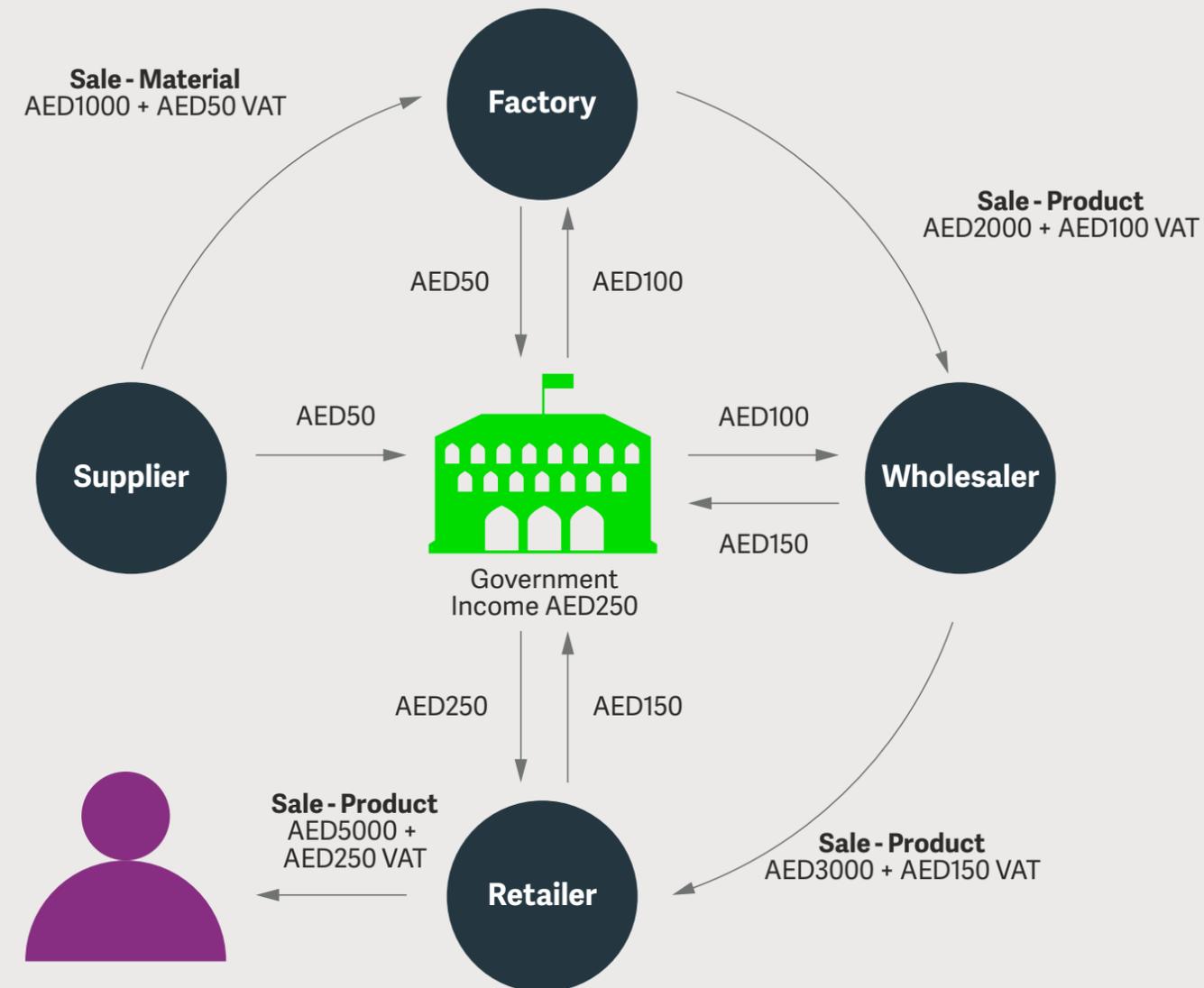
**28** DAYS

Return Filing  
**28 days**  
from the tax period

**5**

Retain VAT invoices  
for **5 years**

## How VAT works



\*The example is calculated using a VAT rate of 5% on a taxable supply.

## 2. How to register your business as a VAT vendor

Registration is free of charge and can be done online via the FTA's e-Services portal: <https://eservices.tax.gov.ae>

Deadline for registration is 1 January 2018.

You will need:

- Applicant details (entity and activity details, trade license(s) and manager details)
- Contact information (address, contact details)
- Authorised signatory documents (including scanned copies of your Emirates ID and passport)

Bear in mind that full transition can take between 9 and 12 months.



### 3. Tax rates

Certain sectors will be exempt from paying VAT but these may differ between member countries. While each country will issue specific exemptions, the VAT law makes the following provisions for goods and services that are taxable, exempt or zero-rated.

Taxable	Exempt	Zero-rated
General insurance	Life insurance	Supplies of crude oil and natural gas
Fee-based financial services	Residential properties	Exports of goods and services
Commercial properties	Bare land	Supply of services to GCC countries that have not implemented VAT law
Imports	Local passenger transport	Margin-based financial services
All other goods and services not listed under 'Exempt' or 'Zero-rated'		International transportation
		Supplies of identified sea, air and land means of transportation
		Newly constructed residential properties
		Certain education services
		Certain healthcare services
		Supply or import of investment-precious metals

#### Exempt vs zero-rated: What's the difference?

**Exempt** goods and services do not incur output tax or input tax, which means you do not have to issue a VAT invoice for the sale or purchase of these goods and services because they do not form part of your taxable turnover. If you only deal with exempt goods and services, you do not need to register as a VAT vendor.

**Zero-rated** goods and services incur an output tax of 0% (instead of 5%) but you can claim input tax on expenses incurred in the supply of these goods and services. This means you need to issue a tax invoice (stipulating the rate of 0%). Zero-rated goods and services do form part of your taxable turnover, which means you need to register as a VAT vendor, if you meet the stipulated turnover threshold. The amount you pay to the government is calculated as:



\*If you've charged more VAT than you've paid, you have to pay the difference to the government. If you've paid more VAT than you've charged, you can reclaim the difference.

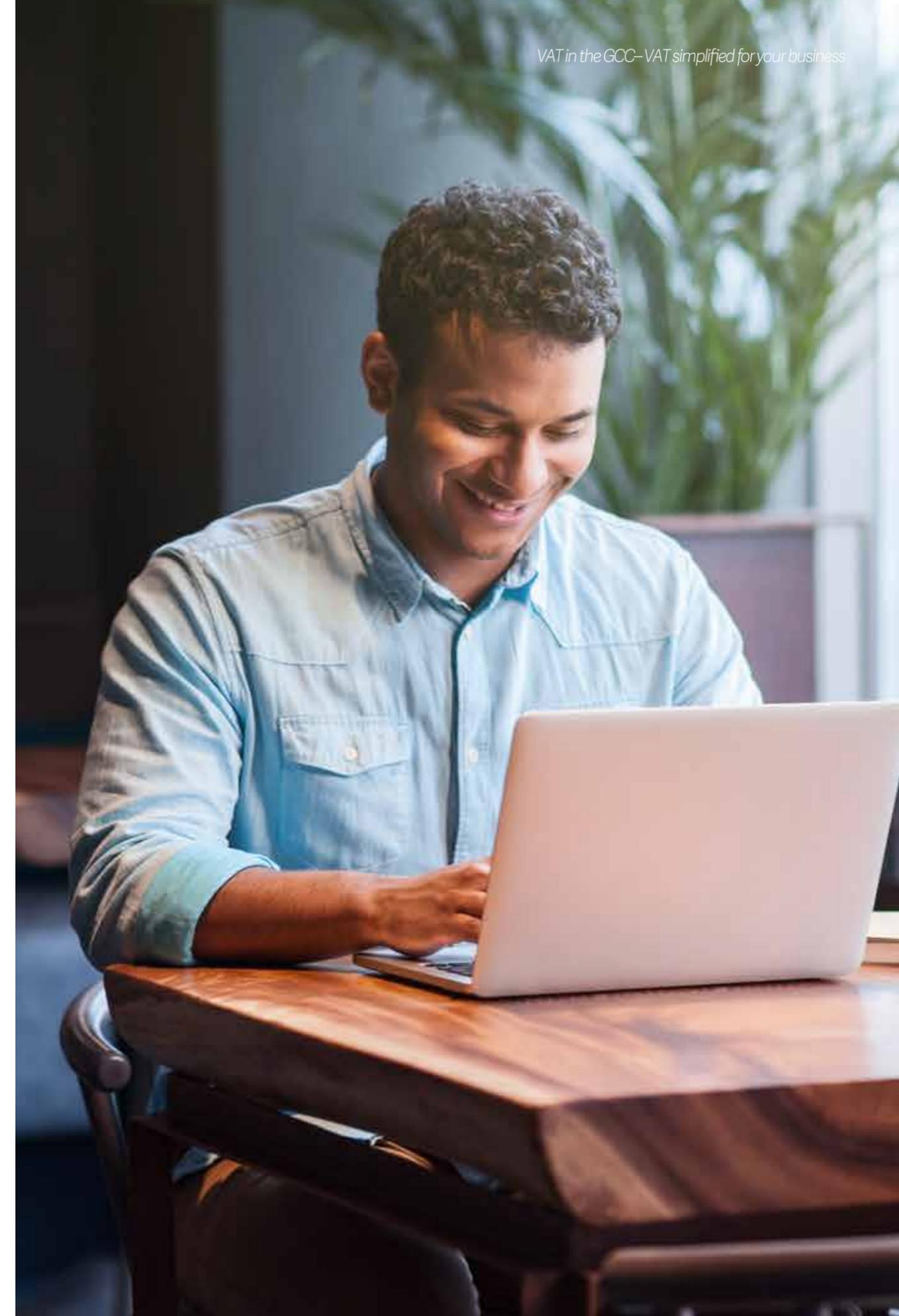
## 4. Staying compliant

You will need to regularly file a VAT return with the FTA (quarterly or for a shorter period, should the FTA decide so) within 28 days from the end of the tax period. You can submit your returns online, via the FTA's e-Services portal.

To submit accurate returns, you will need to start keeping records of all your transactional data – for up to five years.

You may need to make some changes to your core operations, financial management and bookkeeping, your technology and perhaps your human resource mix. This could affect your pricing, cash flow, financial reporting, tax accounting, supply chain and compliance processes. This suggests that proper accounting systems and processes will form the foundation of compliance.

The VAT law requires registered companies to keep account records for a specified period (usually up to five years) and to ensure that all sales invoices are VAT compliant.



### **A VAT compliant invoice must:**

- Be in Arabic
- Have the words 'Tax Invoice' prominently displayed
- Be in UAE Dirham. If the amount is in another currency, it must be converted to UAE Dirham
- Be issued within 14 days of the date of supply of goods or services
- Include:
  - o the name, address and tax registration number of the supplier
  - o date of issue
  - o description of goods or services
  - o total amount payable and total VAT chargeable

### **The law sets administrative penalties for businesses that:**

- Fail to register as a VAT vendor;
- Fail to submit a tax return or other required information when requested by the FTA;
- Deliberately provide false information;
- Fail to keep records of transactions for the stipulated period. This includes general ledgers, invoices issued and received, credit notes, debit notes and annual accounts, as well as information pertaining to imported and exported goods and services, and goods and services that have been disposed of.
- Deliberately destroy documents they were meant to send to the FTA.

Penalties are set at a minimum of AED 500 and up to five times the amount of VAT that would have been payable for the period in question.

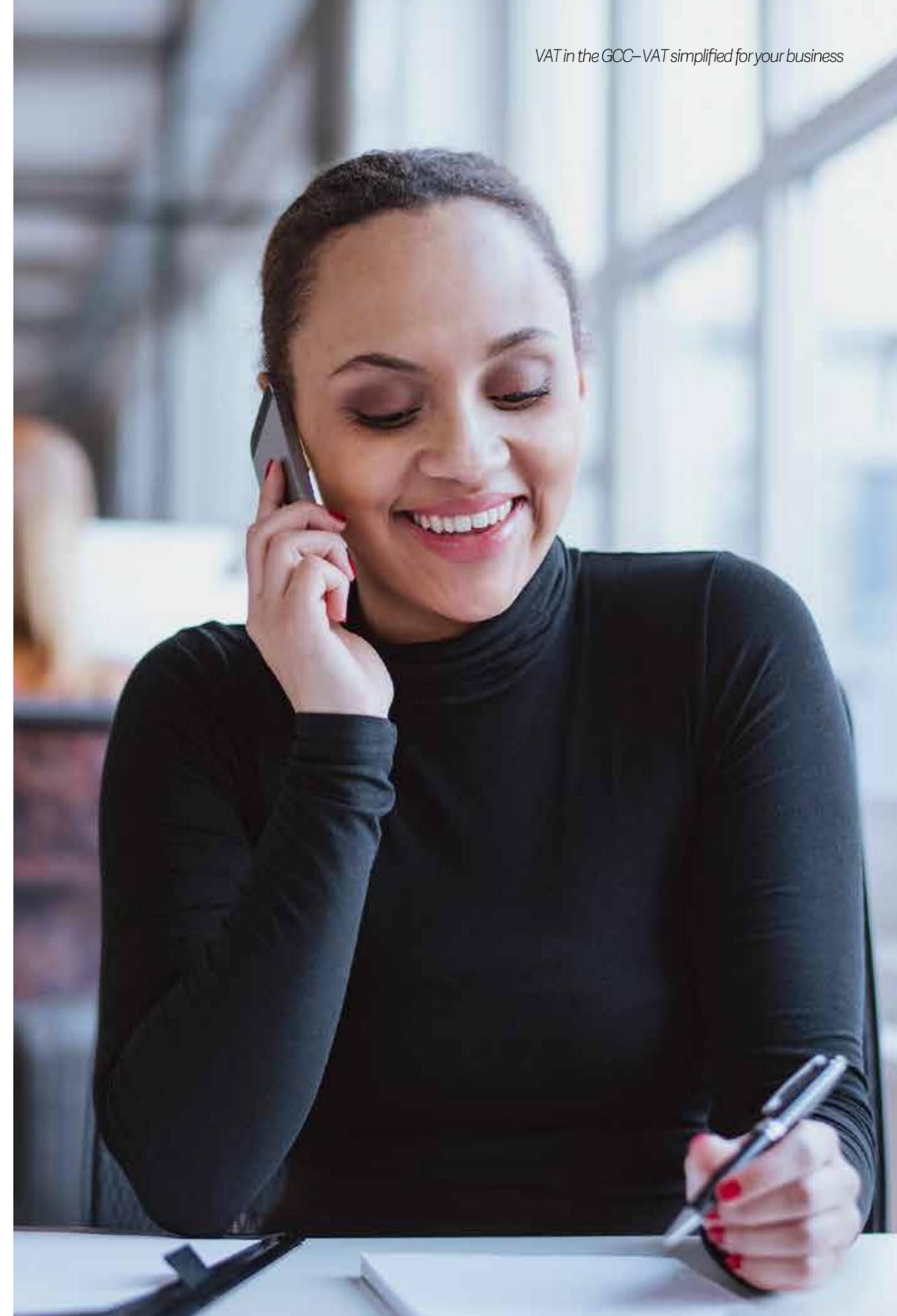
At 5% VAT, this puts your maximum risk at 25% of turnover.

## 5. Advantages of voluntary compliance

Small businesses that earn below the mandatory threshold of 375,000 AED could be tempted to delay becoming a VAT vendor for as long as possible. But there are advantages to registering as a voluntary vendor (if you earn more than 187,500 AED). Even if you earn below the voluntary threshold, it's a good idea to get your financial records in order anyway, in case the FTA requires proof.

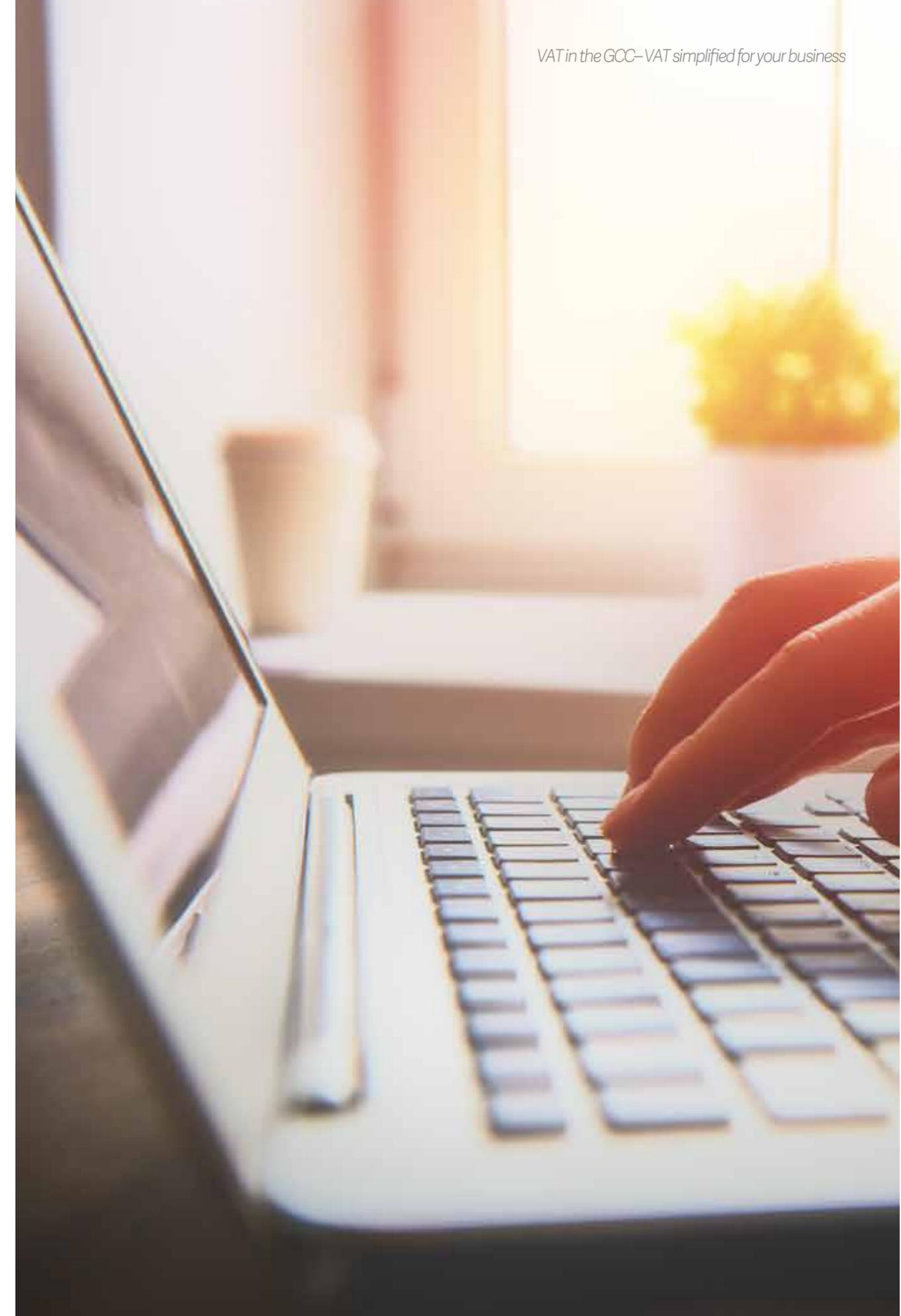
### Advantages of voluntary compliance:

- As your business scales, you might not notice when your revenue crosses the threshold for mandatory compliance. If this happens, and you're not registered as a VAT vendor, you could be liable for penalties. By the time you do reach the threshold, VAT processes will be entrenched in your business, which is one less thing to worry about.
- Medium-sized and large businesses that are legally required to register as VAT vendors will require VAT invoices from their suppliers for their own records. Because of this, they may decide not to transact with businesses that are not VAT registered. Voluntarily registering as a VAT vendor secures your place in the supply chain and contributes to a healthy cash flow.
- VAT-registered businesses may be perceived as being more professional and, therefore, more appealing to partners and customers.
- If the goods or services you supply are zero-rated, you could qualify for a tax refund at the end of the reporting period.
- There's a definitive learning curve involved with becoming a VAT vendor. By upskilling your team before you are legally required to collect tax, you not only future-proof your business but also empower your team with new knowledge and skills, giving them an opportunity to familiarise themselves with the processes and requirements of compliance.
- You'll need a robust accounting solution that not only automates processes like VAT invoice and credit note production, but that also keeps a record of all transactions for reporting purposes. Now is as good a time as any to prepare your systems.



## 6. Glossary of VAT terms

Term	Explanation
<b>VAT</b>	Value-added tax
<b>FTA</b>	Federal Tax Authority
<b>Accounting period</b>	See tax period
<b>Input tax</b>	The VAT you pay on your purchases
<b>Output tax</b>	The VAT you charge on your sales
<b>Supply</b>	Selling or otherwise providing goods or services, including barter and some free provision.
<b>Supply of goods</b>	When exclusive ownership of goods passes from one person to another.
<b>Taxable person</b>	Any business entity that buys or sells goods or services and is required to be registered for VAT.
<b>Taxable supplies</b>	All goods and services sold or otherwise supplied by a taxable person that are liable to VAT at the standard, reduced or zero rate.
<b>Taxable turnover</b>	The total value - excluding VAT - of the taxable supplies you make in GCC.
<b>Tax period</b>	The period of time covered by your VAT return, usually quarterly.



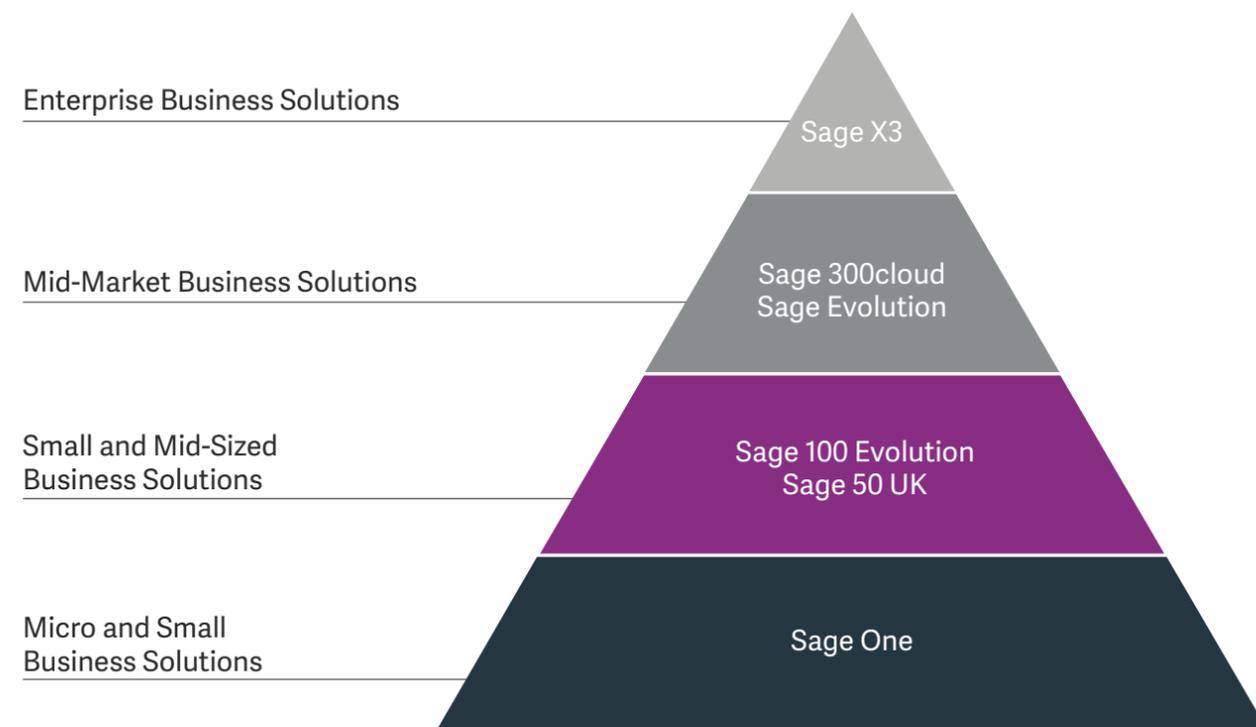
## 7. Need help getting your business VAT ready?

With more than 30 years' experience, Sage is the global leader in accounting, people & payroll and payment solutions. With unrivalled experience and know-how, we help companies—just like yours—come to grips with the complexities of VAT by simplifying systems and processes with next-generation software solutions that ensure full compliance.

All latest versions of Sage products are VAT enabled and fully localised to UAE and Saudi tax laws.

Sage can assist with the mandatory recordkeeping of:

- Tax invoices
- Debit and credit notes
- VAT exempt and zero-rated supplies



All latest versions of Sage products are **VAT enabled**  
Fully **localized** to UAE & Saudi tax laws

Including but not limited to:

**Compliant Tax invoices**

**Upload VAT Returns**

**VAT refund reconciliation**

**Tax Audit Files for FTA**

**Clear VAT Implementation guidelines**

**Accelerated Implementation Methodology**

We're looking forward to discussing your business needs with you.

Call us on:

800 SAGE (7243)

or +97143900180

For more information about the new GCC VAT law, visit the FTA's website at

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

