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ICC UAE WORKSHOP

Practical Issues of VAT Implementation
&
Preparation for the Tax Year End

22nd October 2018
Abu Dhabi Chamber of Commerce & Industry

TAX YEAR END PREPARATIONS

TAX YEAR

YEAR END DATE	TAX PERIOD
31st December 2018	• 1 month
31st January 2019	• Quarters ending January, April, July and October
28th February 2019	• Quarters ending February, May, August and November
31st March 2019	• Quarters ending March, June, September and December
Same as tax period	• 12 months

FINANCIAL TAX CLOSURE

- Tax Closure – Net Tax Payable/Recoverable
- Records – Original Records/Digital Copies
- Reconciliation – Monthly/Quarterly
- Details/schedules – supporting the VAT Return
- Finalisation – Freezing of the year end

FREEZING OF BOOKS ON YEAR END

VAT Software Requirement:

- System should have the capability to generate configured reports on the following basis:
  - ✓ Weekly
  - ✓ monthly
  - ✓ quarterly
  - ✓ annually
- System should freeze the books at the year end so that further entries are not made to tamper with the figures

RECONCILIATION OF FINANCIAL BOOKS AND VAT RETURNS

- Monthly reconciliation of the Financial Books with the VAT Return

- Year end process to recheck all the monthly reconciliations to ensure that the differences are clearly explained

RECONCILIATION OF STOCK

- Proper inventory records showing receipts, issues and balance of stock
- Reconciliation of stock
- Physical Verification Sheets
- Explanation on how the discrepancies were handled

DISCREPANCIES IN STOCK

- Unaccounted items will be taxable under 51(8)(b) of the E.R., if the goods are in Designated Zone
- If the goods are in Mainland, it will be taxed as Deemed Supply under Article 11(1) of D.L. as the unaccounted items can be treated as supply made without consideration

DEEMED SUPPLY

DEEMED SUPPLY

Supply of goods or services made **without consideration**

Transfer of business assets from the state to another Implementing state or vice versa except when considered temporary or made as part of another taxable supply

Goods or services on which input tax maybe recovered but is **used partly or fully for non business purposes**

Goods or services owned at the date of **deregistration**

EXCEPTIONS TO DEEMED SUPPLY

Where the **Input Tax on the relevant** Goods or Services is not recovered.

Where the supply is exempted.

Where the refunded Input Tax on Goods and Services is amended according to the **Capital Assets Scheme**.

Where the value of the supply of the Goods, for each Recipient of Goods within a 12-month period, **does not exceed AED 500**, and the supply made is to be used as **samples or commercial gifts**.

Where the total Output Tax payable on all the **Deemed Supplies for each Person** for a 12-month period is less than AED 2,000.

VALUE OF DEEMED SUPPLY

Under Article 37 of the DL:

Goods and services procured for taxable supply but not used for that purpose will be valued as deemed supply at the total cost incurred for making the deemed supply

APPORTIONMENT OF INPUT TAX

DETERMINATION OF INPUT TAX RECOVERABLE

STEP 1: Apportion the input tax based on

- Wholly relates to taxable supply → Recoverable in full
- Does not relate to taxable supply → Not recoverable
- Partly relates to taxable supply → Part relating only to taxable supply recoverable

DETERMINATION OF INPUT TAX RECOVERABLE

STEP 2:
Calculate the amount recoverable from the input tax relating to both taxable and non taxable supply

$$\text{Percentage of recoverable input tax (to be rounded to the nearest whole number)} = \frac{\text{Recoverable tax}}{\text{Recoverable tax} + \text{Non recoverable tax}}$$

Apply the percentage obtained above to the input tax amount relating to both taxable and non taxable supply

DETERMINATION OF INPUT TAX RECOVERABLE

Wholly relating to taxable supply

+

Amount obtained after applying percentage

→

Total input tax recoverable

EXAMPLE

PARTICULARS	AMOUNT IN AED	AMOUNT IN AED
Total Input Tax incurred (A)		200,000
Directly attributable to Taxable Supplies	50,000	
Directly attributable to Exempt Supplies	30,000	
SUB-TOTAL (B)	80,000	(80,000)
Residual Input Tax (A-B)		120,000
Recoverable Residual Input Tax Percentage = 50/80 = 62.5%		
Recoverable Residual Input Tax = 120,000 X 62.5%		(75,000)
Total Recoverable Input Tax for the period = 50,000 + 75,000		125,000

EXAMPLE

PARTICULARS	Q 1 AED	Q 2 AED	Q 3 AED	Q 4 AED	Full Year AED
Inputs for Taxable Supplies	600	400	1000	400	2,400
Inputs for Exempt Supplies	400	500	300	300	1,500
Common Inputs	200	100	200	500	1,000
Apportionment = Taxable/(Taxable + Exempt)	**200*600/1000**	**100*400/900**	**200*1000/1300**	**500*400/700**	**1000*2400/3900**
Input Tax recoverable for Taxable Supplies	120	**44**	**154**	**286**	**615**
Total Input Tax recoverable (Direct Inputs + Apportioned amount)	720	444	1154	686	3,015 (3,004)

ADJUSTMENTS FOR APPROTIONMENT

- The apportionment for the whole year should be calculated to check with the actual recovery made in each tax period and an adjustment to recoverable tax, if any shall be made in the first Tax Period of the subsequent Tax year
- If the difference is **more than AED 250,000** then it shall be adjusted in the first tax period of the subsequent tax year
- If the difference is any other amount then the tax authority may accept an alternate mechanism for apportionment of input tax

ADJUSTMENTS UNDER CAPITAL ASSET SCHEME

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Input tax to be distributed over a period of

- 10 years in case of buildings
- 5 years in case of any other capital asset

ADJUSTMENTS UNDER THE CAPITAL ASSET SCHEME

- The Tax Year in which the Capital Asset is acquired will be year 1 for the Capital Asset Scheme

- The Capital Asset Scheme adjustment will cease in the Tax year in which the asset is destroyed, sold or disposed off.

CALCULATION OF CAPITAL ASSET SCHEME ADJUSTMENT

$$\frac{\text{Total input tax on capital item}}{\text{Adjustment Period}} \times \text{(Original taxable use\% - actual taxable use\%)} = \text{Additional VAT recoverable/ payable}$$

EXAMPLE

ASSET	VALUE (AED)	YEAR	W (AED)	X	Q	R (AED)	Z (AED)	INPUT TAX RECOVERY - AED
Building	5,000,000	1	250,000	60%				150,000 in Year 1
		4			70%	17,500	15,000	Recover AED 2,500 more each year from year 4 to year 10
Other Asset	6,000,000	1	300,000	80%				240,000 in Year 1
		3			60%	48,000	36,000	Decrease the Input Tax by AED 12,000 each year from year 3 to year 5

ADJUSTMENT FOR BAD DEBTS

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Registrant Supplier may reduce the Output Tax in a current tax period to adjust the Output Tax paid for any previous tax period relating to bad debts on satisfaction of the conditions specified in Article 64:

a. Goods and services have been supplied and the Due Tax has been charged and paid
b. Consideration for the supply has been written off in full or part as bad debts in the accounts of the supplier
c. More than six months has passed from the date of supply
d. The registrant **supplier has notified the recipient of the goods** and the recipient of the services of the amount of **consideration** for supply **that has been written off**

ADJUSTMENTS FOR BAD DEBTS

The registrant Recipient of Goods or Recipient of Services shall reduce the Recoverable Input Tax for the current tax period related to a supply received during any previous tax period where consideration has not been paid and all the following conditions are met:

a. The registered supplier reduced the output tax and the recipient of goods and recipient of services has received notification from the supplier that the consideration is written off
b. The recipient received the goods or services and has deducted the relevant input tax
c. The consideration was not paid in full or in part for the supply for over six months

RECTIFICATION OF ERRORS

IDENTIFICATION OF ERRORS

Perform a reconciliation of accounts on year end (crucial to identify errors in filed VAT returns) and based on the same:

Errors less than AED 10,000 payable tax	Rectify in the subsequent return
Errors more than AED **10,000** payable tax	To be brought under Voluntary Disclosure Scheme

PENALTY FOR ERRORS BROUGHT UNDER VOLUNTARY DISCLOSURE SCHEME

First time	AED 3,000 + Floating penalty
Repetition	AED 5,000 + Floating penalty

Floating penalty percentage

- 50% if no voluntary disclosure or disclosure after being notified of tax audit process or information relating to tax audit
- 30% if voluntary disclosure after being notified of tax audit but before the start of the same
- 5% before being notified of the tax audit

MAINTENANCE OF RECORDS

TYPES OF RECORDS TO BE MAINTAINED

Records relating to the following are to be maintained:

- All supplies and imports
- All tax invoices and credit notes received and issued
- Goods & services disposed or used for matters not relating to the business
- Exported goods and services
- Any adjustments or corrections made to tax invoices
- Due tax on taxable supplies
- Due tax after error correction or adjustment
- Recoverable tax for supplies or imports
- Recoverable tax after error correction or adjustment

TIMEFRAME FOR RECORDS MAINTENANCE

In case of real estate

15 years after the end of the tax period

In case of assets under CAS

At least 10 years

In all other cases

At least 5 years after the end of the tax year

RESPONSIBILITIES OF TAXABLE PERSON

RESPONSIBILITIES

- Self Assessed Tax
- Onus to prove that the tax has been correctly charged and settled with FTA
- Issue proper Tax Invoice for supplies and collect proper Tax Invoice for Inputs
- Ensure proper accounting of blocked input tax and not claim the same (Article 53 specific disallowances)
- Maintain proper books and records
- Strictly comply with the Law and Executive Regulations
- Be ready to show the books and records to FTA when an audit is conducted (FAF File)
- Ensure there are no errors in the VAT Return filed with FTA
- File Tax Return within the timeline and also settle the dues with FTA on a timely basis

PENALTY

DESCRIPTION OF VIOLATION	ADMINISTRATIVE PENALTY IN AED
Failure to keep required records and other information	First time 10,000; Repetition 50,000
Failure to submit data, records and documents in Arabic, when requested	20,000
Failure to submit deregistration application within the timeframe	10,000
Failure to inform Authority of any amendment required in information pertaining to tax record	First time 5,000; Repetition 15,000
Failure to submit Tax Return within timeframe	First time 1,000; Repetition within 24 months 2,000
Failure to settle Payable Tax within the timeframe	Late Payment penalty of 2% of unpaid tax and 4% of the unpaid tax from 7^{th} day and 1% per day for delay beyond one calendar month with upper ceiling of 300%
Failure to account for any tax on import of goods as required by Tax Law	50% of the unpaid or undeclared tax

PRACTICAL ISSUES OF VAT IMPLEMENTATION

PRACTICAL ISSUES ON VAT

- Unregistered entities
- Correctness of the Tax Invoice
- What to Invoice – Taxable Supplies
- Out of Scope supplies – third port
- Reimbursement/Disbursement
- Claim for Input Tax – late claim?
- International Movement of Cargo
- Supplies to Ships/Floating Objects

PRACTICAL ISSUES ON VAT

- Temporary Admission of goods
- Director's Fees
- Designated Zones – movement of cargo within and outside
- GCC movement of Cargo
- Refund Process
- Credit Note adjustment
- VAT Return errors

Q & A

THANK YOU

T.P.ANAND, CHIEF STRATEGIST,

LEAP BUSINESS EXCELLENCE ADVISORY FZE

Email: tpanand@leapexcellence.com