

# VALUE ADDED TAX

Awareness Seminar for Mashreq  
Business Banking customers

SUPPORTED BY:



Morison MJS  
Tax Consultancy

Entity of *Morison Menon*

# AGENDA

BASICS OF VAT AND ILLUSTRATIONS

PRINCIPLES AND CONCEPTS OF VAT

OTHER ASPECTS

# WHAT IS VAT ?

- VAT is an indirect tax. Occasionally you might also see it referred to as a type of general consumption tax.
- In a country which has a VAT, it is imposed on most supplies of goods and services that are bought and sold.
- VAT is one of the most common types of consumption tax found around the world. Over 150 countries have implemented VAT (or its equivalent, Goods and Services Tax).
- VAT is charged at each step of the 'supply chain'. Ultimate consumers generally bear the VAT cost while Businesses collect and account for the tax, in a way acting as a tax collector on behalf of the government.

# VAT RATES

All supplies made shall be standard rated supplies unless they are Exempt supplies, Zero rated Supplies or Out of scope of VAT

<p><b>Standard rate - 5%</b></p>	<p><b>Zero rate - 0%</b></p>
<p>Deduction of input VAT is allowed</p>	<p>Deduction of input VAT is allowed</p>
<p><b>Zero rate - 0%</b></p>	<p><b>Exempt</b></p>
<p>Example: Exports Deduction of input VAT is allowed</p>	<p>Specifically exempt Deduction of input VAT is not allowed</p>
<p><b>Exempt</b></p>	<p><b>Taxable @ 5%</b></p>
<p>Life Insurance, Interest/ Part of profits Sale and leasing of residential property, Bare land , Local passenger transport (Metro, Buses)</p>	<p>All other goods and services not specifically zero rated or exempt</p>

Difference

# ZERO RATED SUPPLIES



A direct or indirect Export to outside GCC



International transport of passengers and goods.

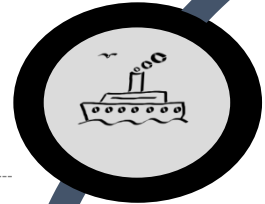


Supply of crude oil and natural gas



Supply or Import of Investment precious metals

Supply of Air, Sea & Land transport for transportation of passengers and goods



Residential buildings (within 3 years of completion)  
Buildings designed for charities.



Supply of educational and related services for institutions owned or funded by Government








Supply of Preventive and basic Healthcare services and related goods and services



# HOW VAT WORKS ?

VAT is calculated on the value added to goods & services by a trader at each stage of the production and distribution chain.

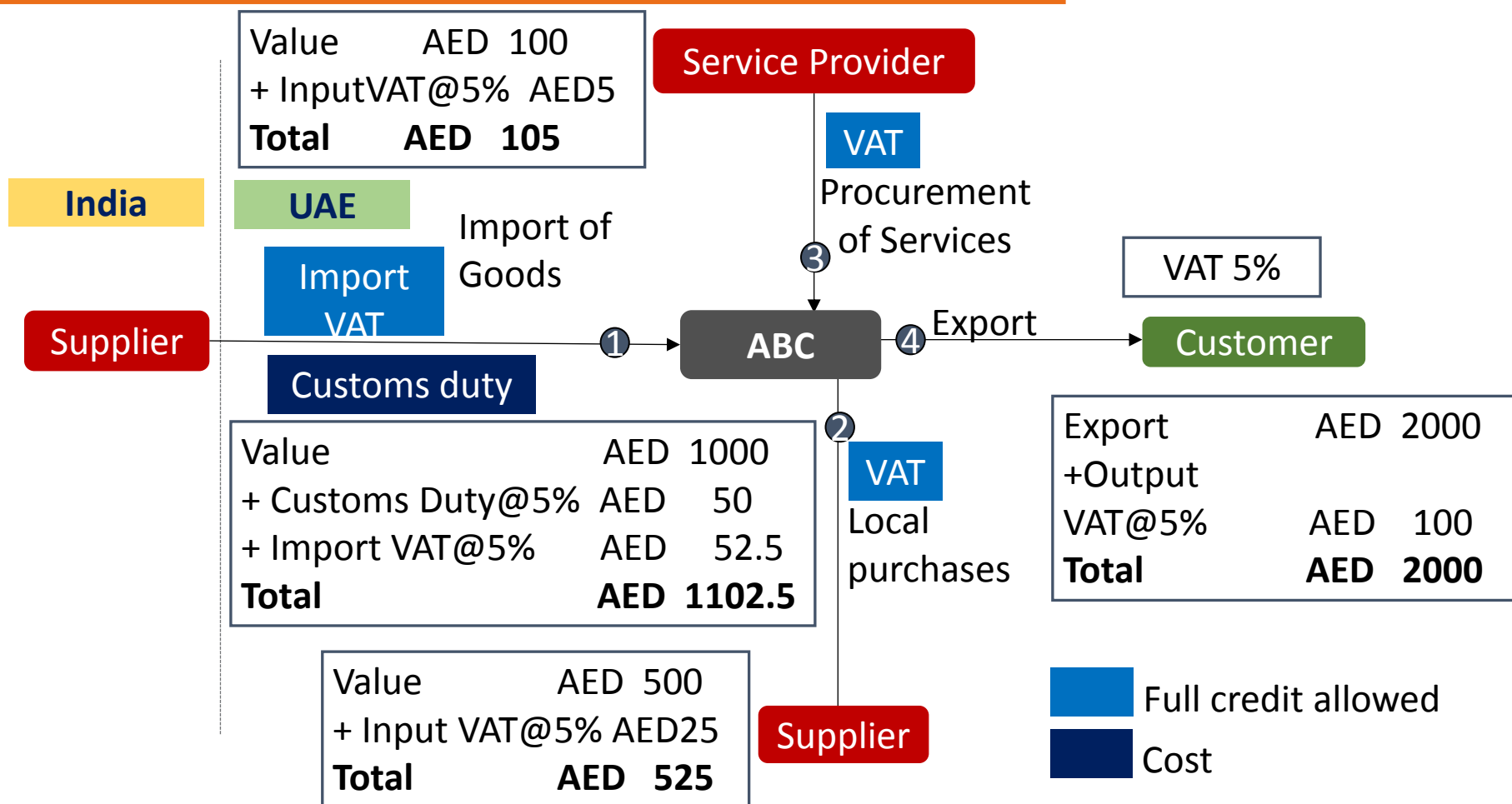
*Example: 5% VAT would apply to the production and sale of a furniture.*

	Step 1	Step 2	Step 3	Step 4
	 Farmer sells Cotton to manufacturer for AED 100	 Manufacturer makes Ready made T-shirts and sells to wholeseller for AED 200	 Wholeseller stores and sorts them and sells to retailer for AED 400	 Retailer sells to the customer for AED 500
<b>Sales price with VAT</b>	<b>AED 105</b>	<b>AED 210</b>	<b>AED 420</b>	<b>AED 525</b>
<b>VAT collected by seller</b>	<b>AED 5</b>	<b>AED 10</b>	<b>AED 20</b>	<b>AED 25</b>
<b>Credit for VAT paid in previous stage</b>	<b>NA</b>	<b>AED 5</b>	<b>AED 10</b>	<b>AED 20</b>
<b>Net VAT</b>	<b>AED 5</b>	<b>AED 5</b>	<b>AED 10</b>	<b>AED 5</b>
<b>Total VAT</b>				<b>AED 25</b>

# REAL TIME ILLUSTRATIONS



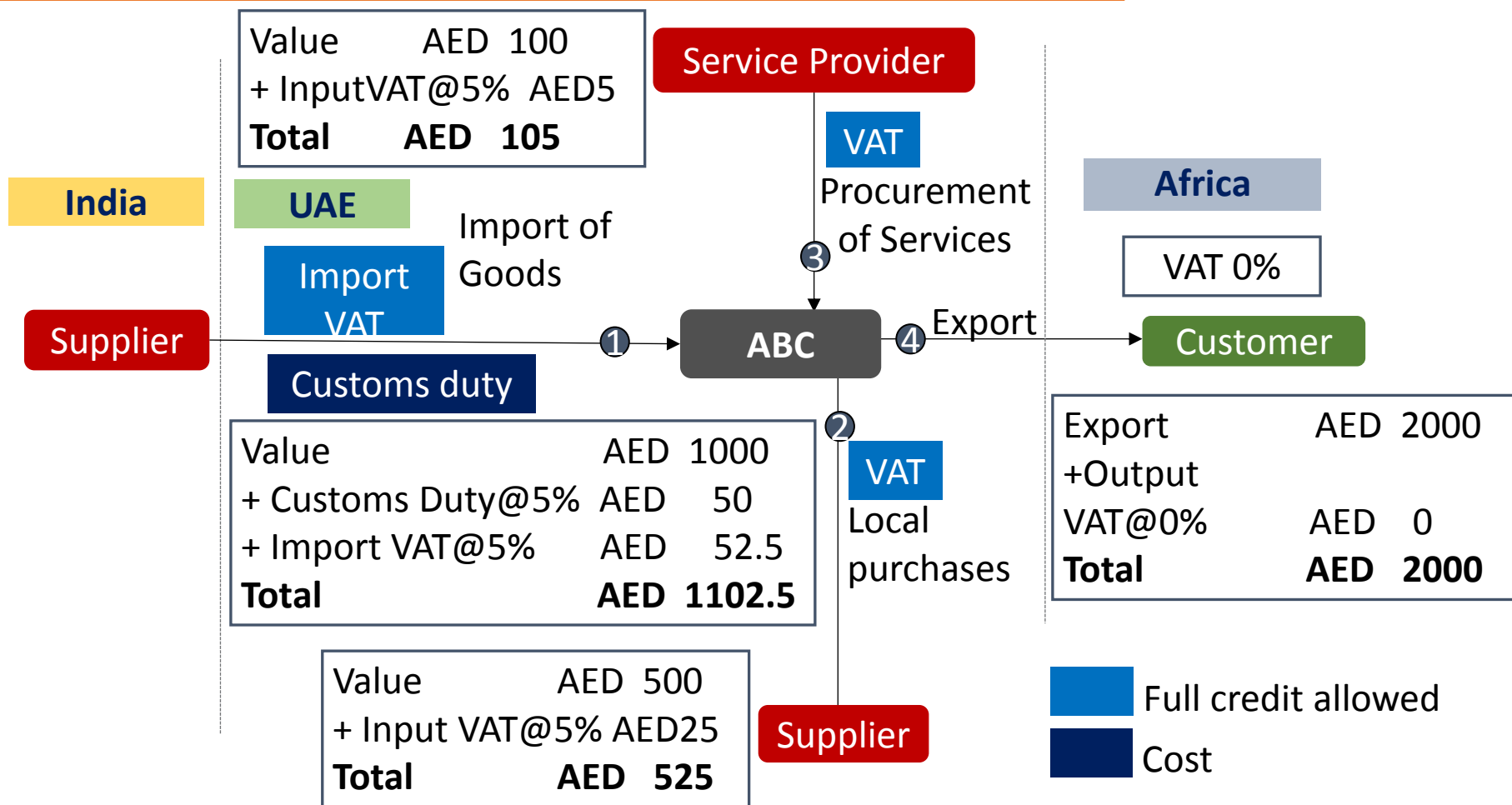
# HOW VAT WORKS – STANDARD SUPPLY



Month / Quarter End position	Amount	
Output VAT (Total VAT collected on Sales)	100	(A)
Input VAT (Input VAT 52.5 + 25 + 5)	82.5	(B)
Net VAT Refundable	17.5	(A-B)

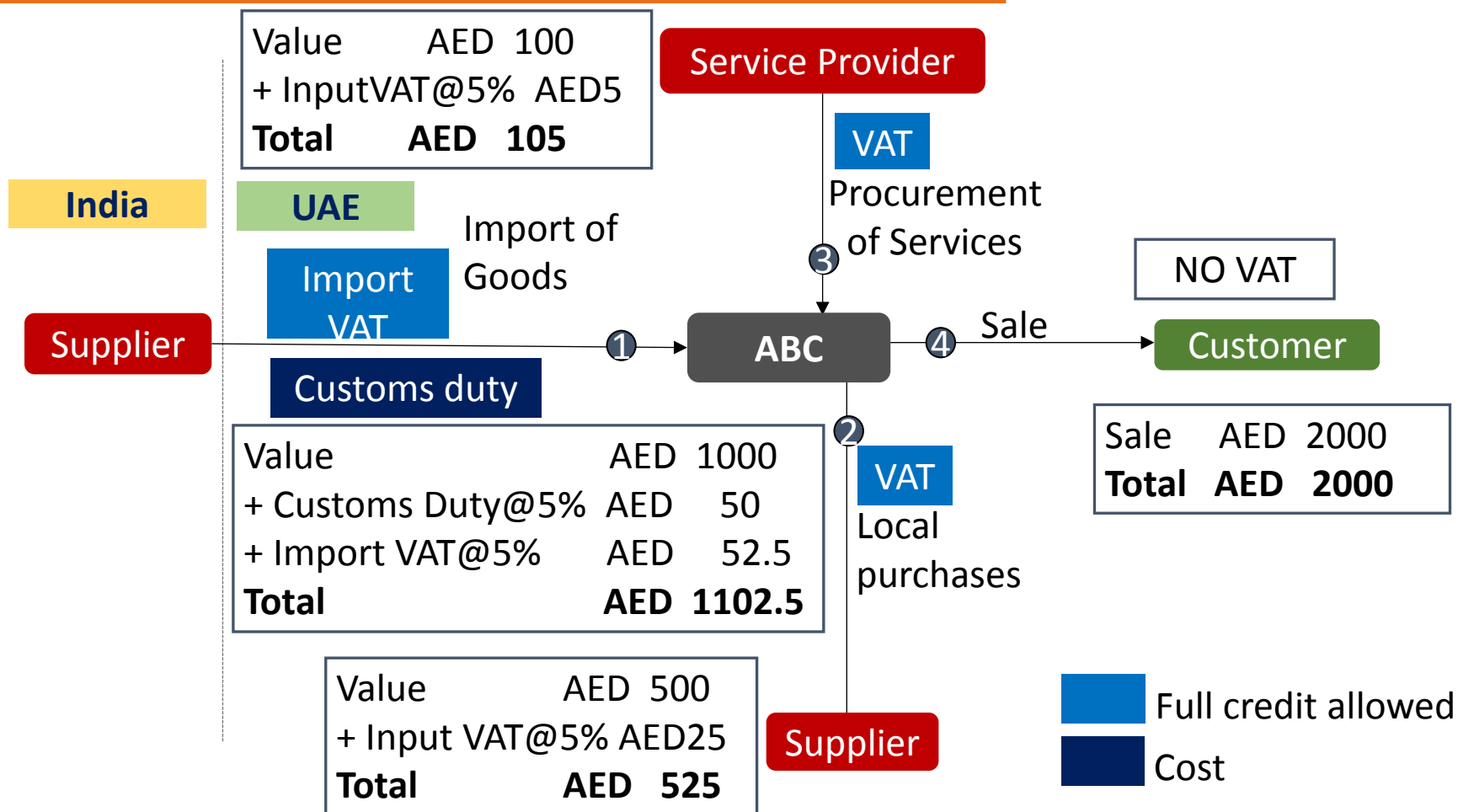


# HOW VAT WORKS – ZERO RATED SUPPLY



Month / Quarter End position	Amount	
Output VAT (Total VAT collected on Sales)	0	(A)
Input VAT (Input VAT 52.5 + 25 + 5)	82.5	(B)
Net VAT Refundable	82.5	(A-B)

# HOW VAT WORKS – EXEMPT SUPPLY



Month / Quarter End position	Amount	
Output VAT (Total VAT collected on Sales)	Nil	(A)
Input VAT (Input VAT 52.5 + 25 + 5)	Nil	(B)
Increase in cost (P/L Impact)	82.5	(A-B)

# PRINCIPLES OF VAT



# IMPORTANT VAT CONCEPTS

## ON WHAT

- Supply of Goods and Services (including deemed supply)

## WHEN

- Time of Supply

## WHERE

- Place of Supply

## RCM

- Where customer is liable to pay VAT

## WHO

- Person liable to pay VAT-Supplier/ customer ?

## DEDUCTION

- Allowed? Full or Partial? Restrictions? Conditions ?

## COMPLIANCES

- Registration, Tax Invoice, Returns, payment , Refunds , Accounting

# ON WHAT

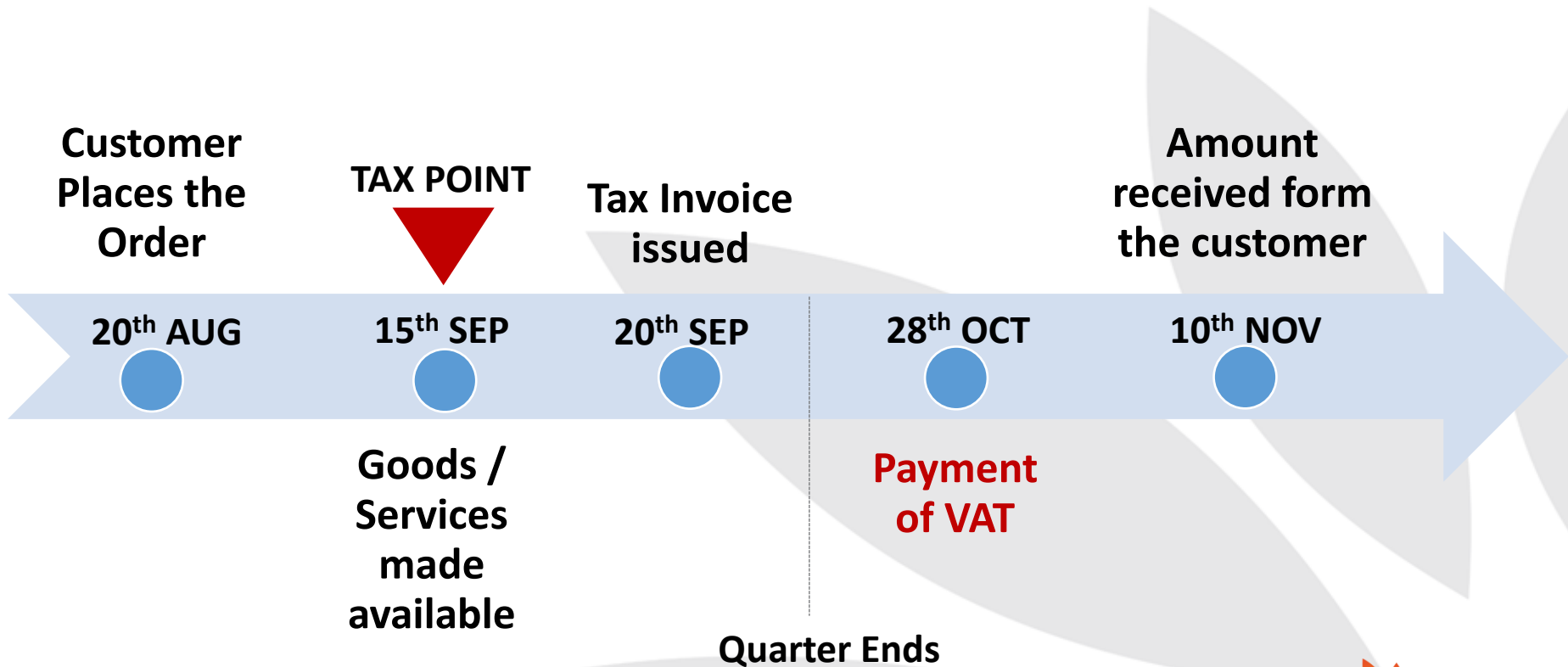
VAT is levied **on** any taxable supply of goods and services made by a taxable person in the course or furtherance of any business carried on by him.

<b>Supply</b>	Supply usually mean anything done for consideration.
<b>Taxable supply</b>	All goods and services supplied in a country will be taxable supplies unless specifically exempt or fall outside the scope of VAT.
<b>Deemed Supply</b>	Free of cost supplies, supply not for business use.
<b>Goods</b>	All types of physical property/assets including Capital assets- Tangible and intangible assets for long term use.
<b>Services</b>	Any supply transaction which doesn't constitute supply of goods shall be considered as a supply of services.
<b>Taxable Person</b>	Taxable person is one who meets the conditions of registration. Activity done in ordinary course of business.
<b>Consideration</b>	Consideration is what is paid or payable under the contract, it maybe monetary or non- monetary.

# DATE OF SUPPLY

Point of taxation determines WHEN liability to pay VAT arises. It is **earlier** of

1. Goods made available for sale or removed / Services Performed Or
2. Tax Invoice is issued Or
3. Consideration is received (partial or full)

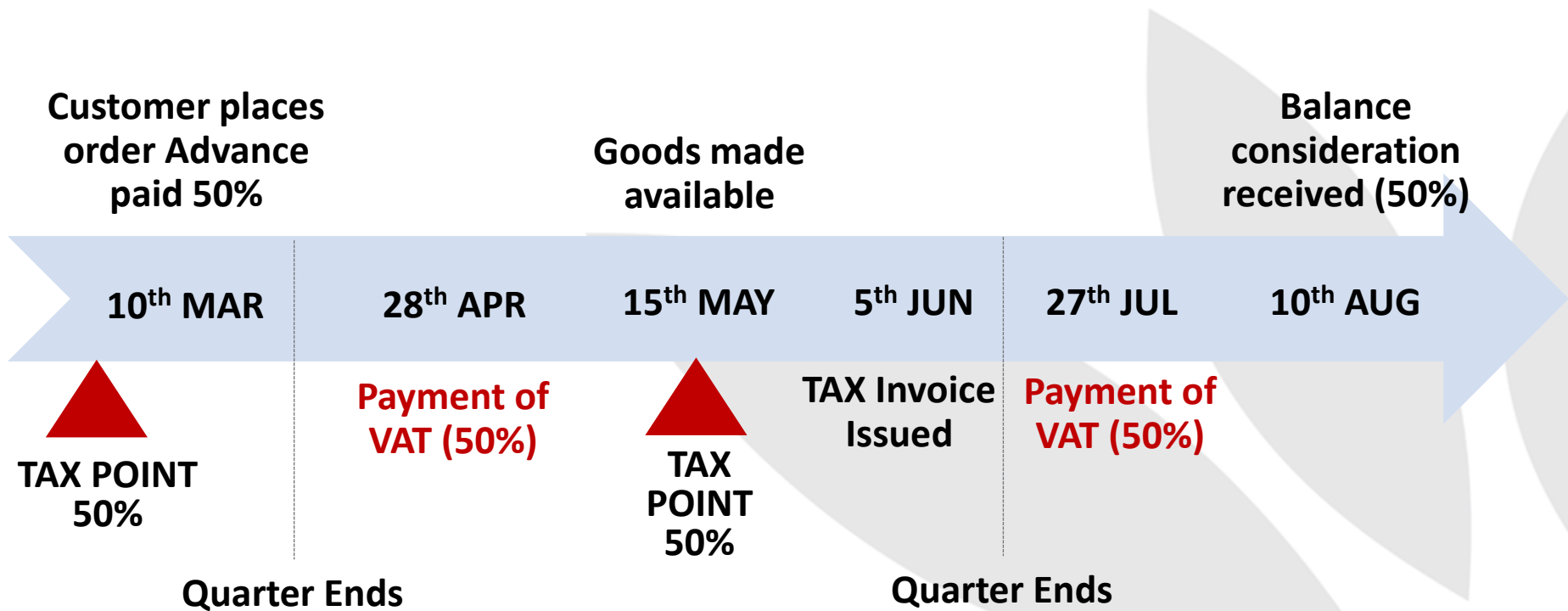


\* Assuming 28<sup>th</sup> of every quarter being the date of payment of VAT and return filling.

# DATE OF SUPPLY (CONT)

Point of taxation determines WHEN liability to pay VAT arises. It is **earlier** of

1. Goods made available for sale or removed / Services Performed Or
2. Tax Invoice is issued Or
3. Consideration is received (partial or full)



- Assuming 28th of every quarter being the date of payment of VAT and return filling.
- Tax point for balance 50% would be date when goods made available since invoice not issued in time.

# WHERE ? – PLACE OF SUPPLY

## **INSTALLATION AND ASSEMBLY**

POS-State where it is performed



## **SUPPLY TO UNREGISTERED DEALERS AND EXPORTS**

> AED 375,000- Outside UAE

< AED 375,000- UAE



**SUPPLY OF GOODS WITHIN THE STATE - POS : UAE**



## **SERVICES**

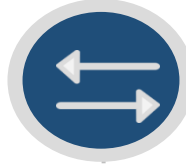
B2B- Recipient's residence

B2C- Supplier's residence



## **SUPPLY OF GOODS WITH EXIT AND RE-ENTRY INTO THE STATE**

POS : Outside UAE



## **EXPORTS**

Outside GCC (UAE)

Within GCC (Outside UAE)





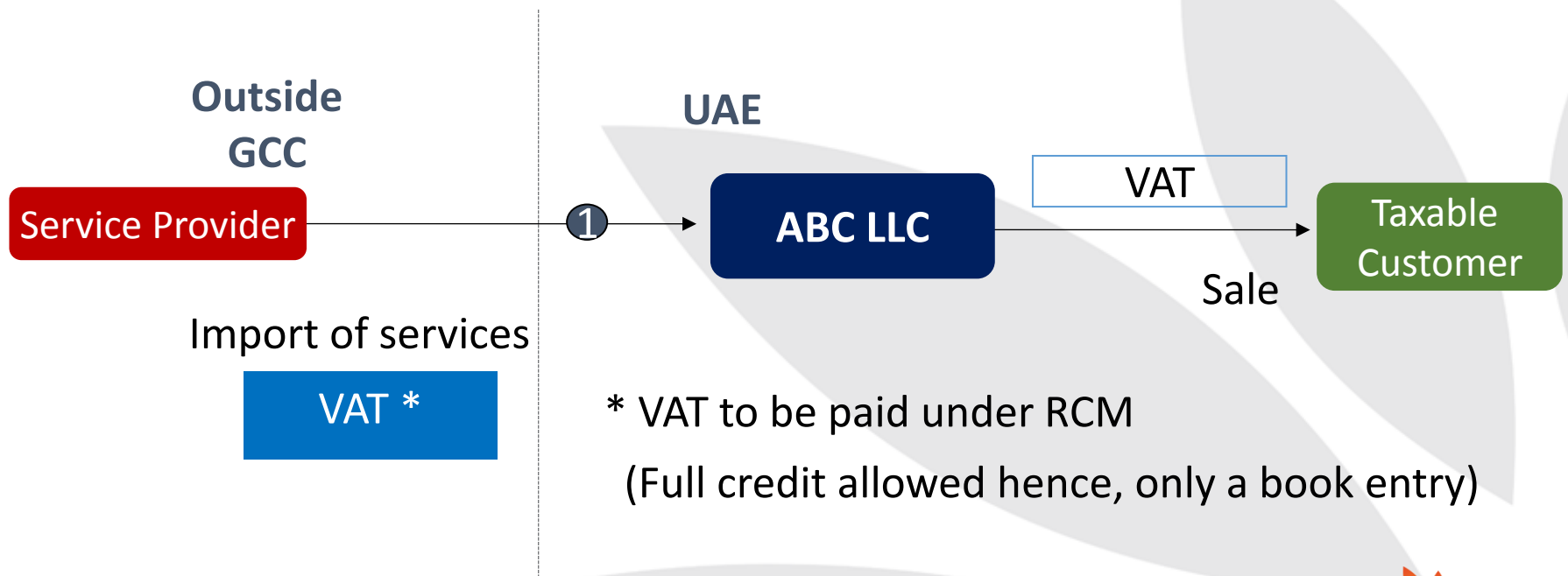
# WHAT IS REVERSE CHARGE (RCM)

- ✚ As name suggests, it's inverse of what is normal.
- ✚ Normally supplier charges the VAT to customer however under RCM, its the customer who applies VAT on its purchases (Goods or Services)
- ✚ Under this Mechanism, the buyer steps in the shoes of the seller and discharges the seller's liability. Hence, buyer charges VAT to itself.
- ✚ As Clarified by Ministry of Finance, in UAE, Import VAT shall be accounted under Reverse Charge Mechanism.
- ✚ Accounting Entry for RCM (for businesses making standard or zero rated supplies) would be:

Particulars		Amount	Classification
VAT Input Receivable A/c	Dr.	XXX	Current Assets
VAT Output Payable A/c	Cr.	XXX	Current Liabilities

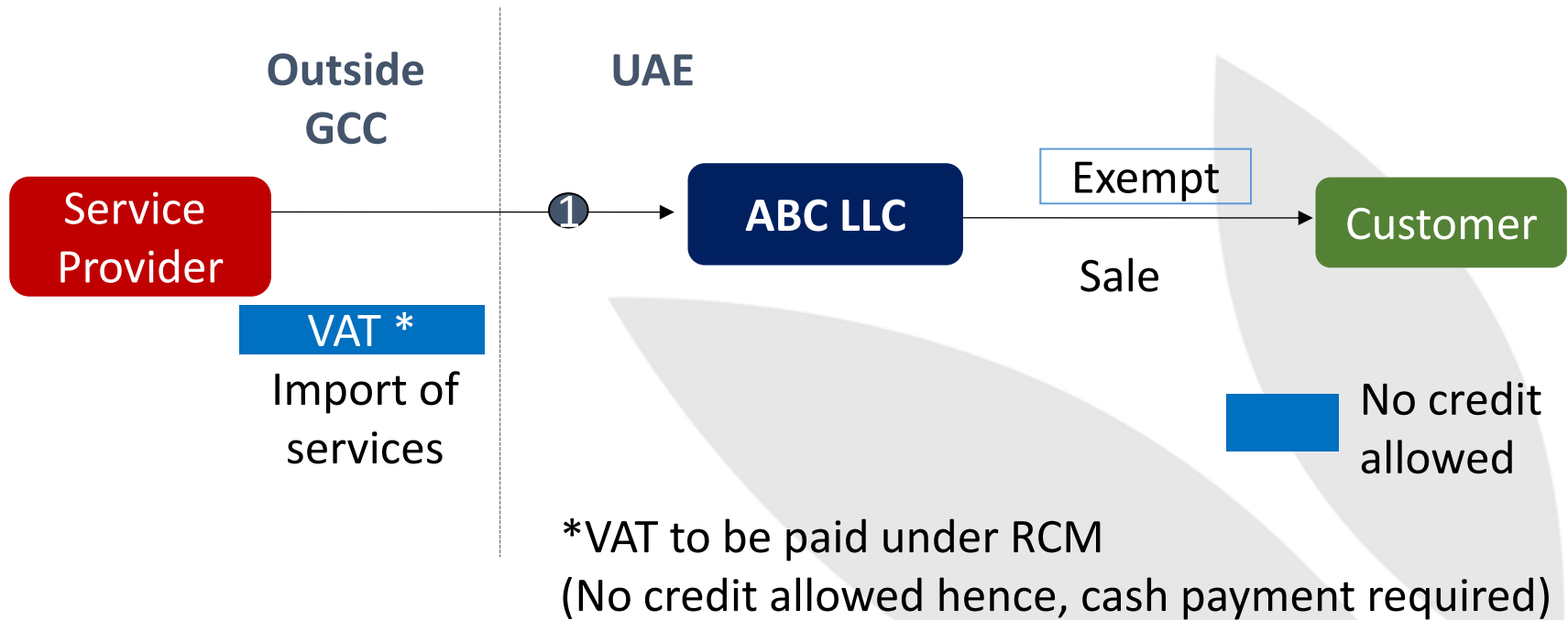
# RCM IMPACT ON TAXABLE BUSINESS

- ❑ If the buyer makes a taxable supply (Standard rate or Zero rated), then buyer of the goods or services makes the declaration of purchase (input VAT) and shows sales (output VAT) in their VAT return.
- ❑ The two entries cancel each other from a cash payment perspective in the same return. Below diagram illustrates the case.



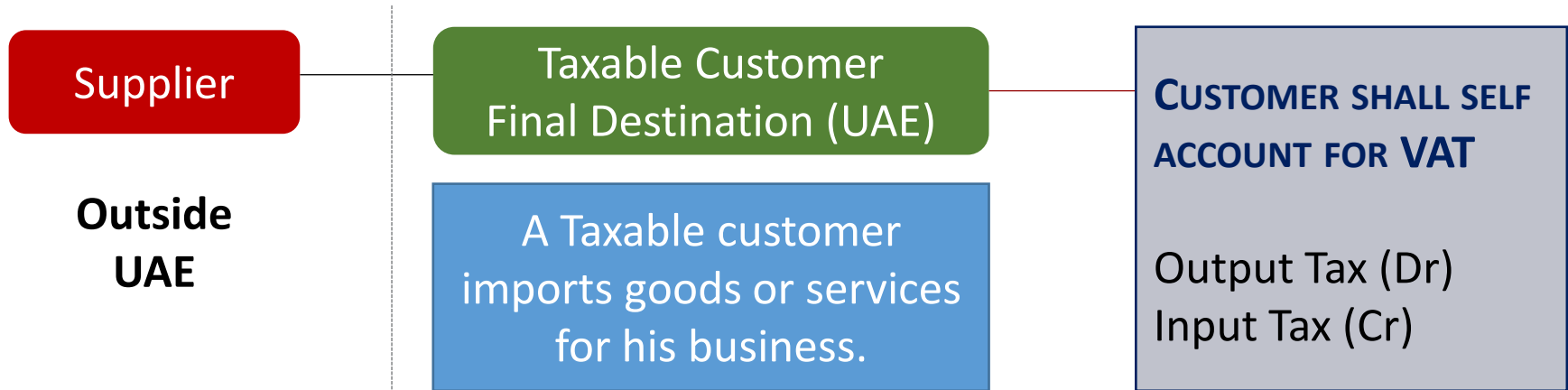
# RCM IMPACT ON EXEMPT BUSINESS

If the buyer makes an exempt supply, then amount of VAT under RCM becomes a cost for the business.

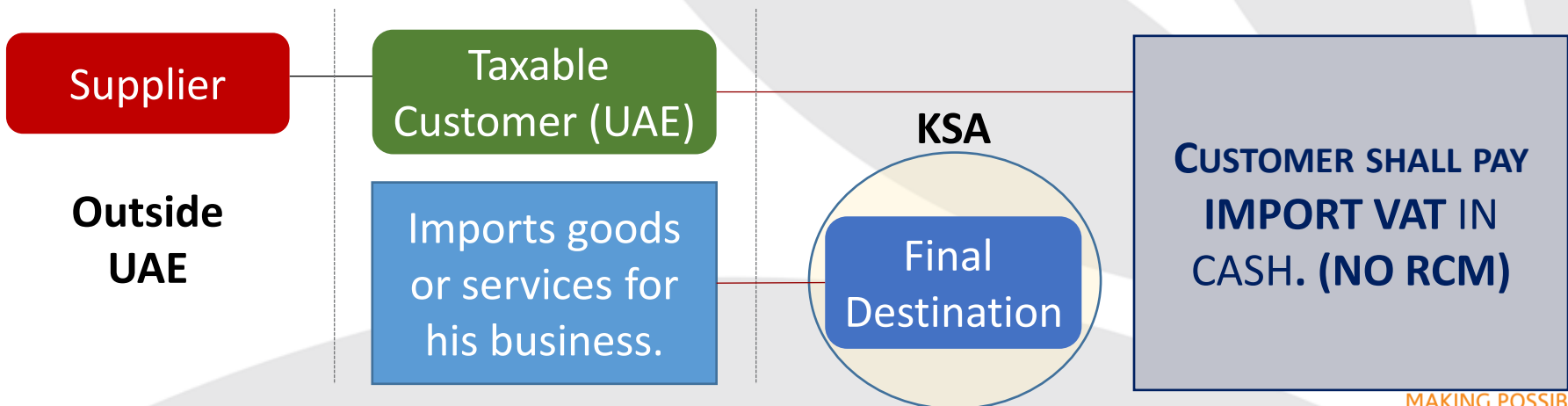


# RCM – IN UAE

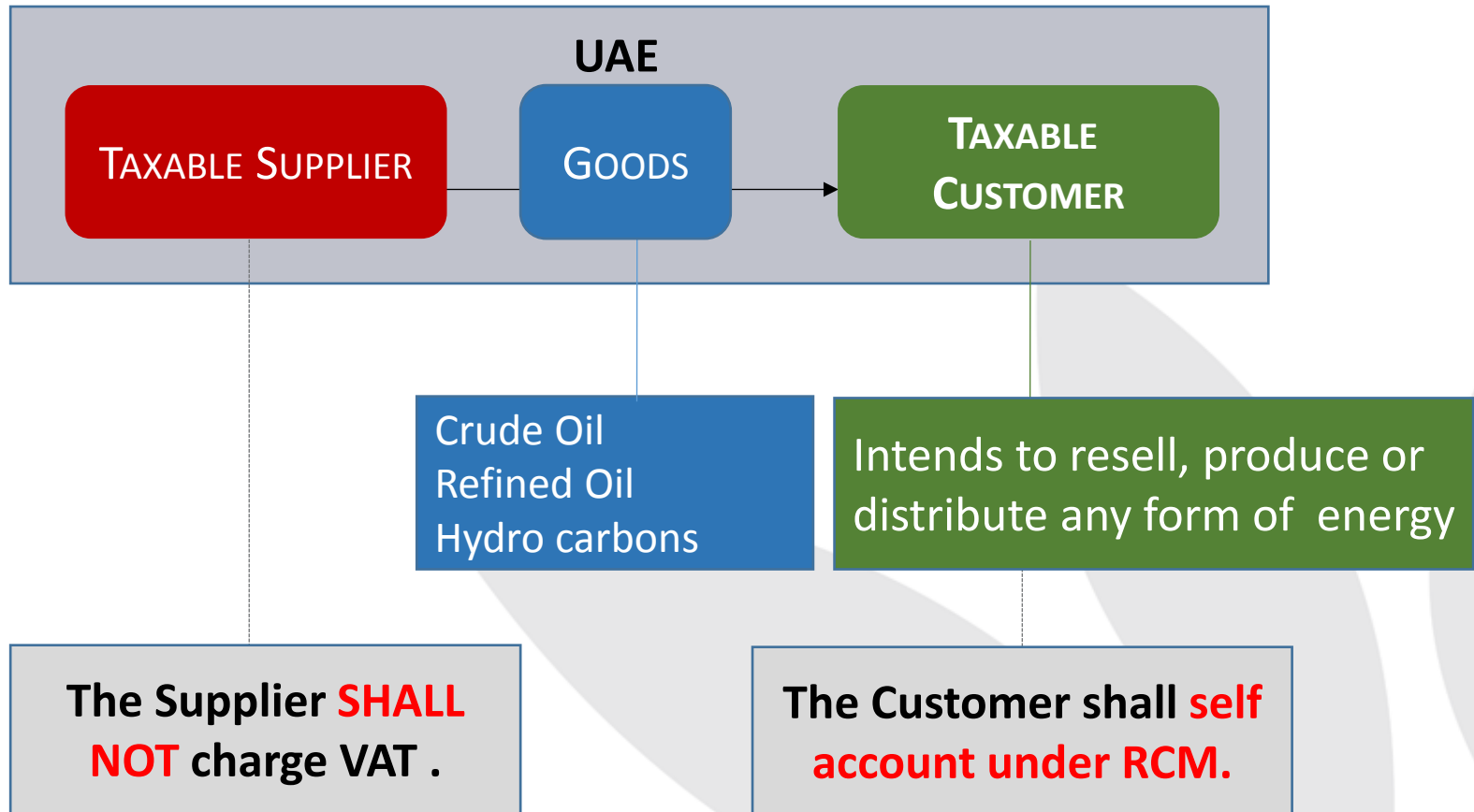
## ▪ Case 1: Import- Final Destination UAE



## ▪ Case 2: Import- Final Destination another GCC country



# RCM- SPECIFIC CASE



This treatment shall apply only if the customer provides the supplier with a **WRITTEN CONFIRMATION** that this purchase is for the purpose of resale and he is registered for VAT. The treatment shall not apply if the supply is zero rated.

# DEDUCTION OF INPUT TAX

**1** Deduct tax in relation to Taxable supplies

**5** In UAE- Ratio of Input Tax recoverable to total

**2** Deduction claimed on amount paid (before 6 months expiry)

**6** Adjustments in Input tax credit w.r.t reduction in value etc. shall be allowed.

**3** Person paying tax on Reverse charge basis can deduct the tax

**7** Tax Invoice or Custom document required as a proof of importer

**4** **No deduction of VAT for:**  
Not for economic activity,  
Prohibited items  
VAT Charged incorrectly

**8** If Goods/ services not supplied prior to reg. then tax may be deducted.

# COMPLIANCE REGISTRATION

1. Businesses in a UAE whose annual supply and imports exceeds **Dh. 375,000** (or equivalent) has to get itself registered.
2. Businesses can voluntarily apply for registration if its supplies are between Dh. 187,500 & Dh. 375,000 excluding supply of Capital Assets belonging to the person
3. A business may register voluntarily if their expenses exceed the voluntary registration threshold. (For example, a start up business with no revenue initially)
4. If two or more companies are resident in the UAE they have an option to register as a VAT group provided each have a place of establishment in UAE and related persons control both the companies.

# COMPLIANCE RETURN FILLING

1. Every qualified business would have to file a return quarterly (or for a shorter period ('Tax Period' if authority decides so)
2. Prospective due date of filling: within 28 Days from end of the Quarter or tax Period
3. Preparation for return filling:-
  - Extraction of sales, purchase & expenses data
  - Calculation of Input Tax credit
  - Checking cut off date
  - Collating data in return format
  - Invoice and Credit notes sequence numbers
4. Reconciliation return data with book of accounts.
5. Supplies reported in the to return to be bifurcated into each emirate wise supplies.
6. There may be some threshold of amount of error for which return needs to be revised or can be declared in subsequent return.
7. Revision of Return provision would exists.



## 1. Records to be maintained :-

- Tax Invoices for purchases
  - Tax Invoices issued for sales
  - Custom clearance documents
  - Import of Services documentation
  - Vendor payment records
  - Returns filled and back up data
- Contracts
  - Calculation of Input tax credit
  - Stock Records
  - Evidence of VAT payment
  - Reconciliations of accounts

## 2. Maintenance of Records – Minimum 5 years

## 3. Tax invoice needs to be issued by a registered business

4. Special provision available for a taxable customer to issue a “self-invoice” with approval from the relevant tax authority provided that the taxable supplier consents.

5. In Certain situation supplier may be able to issue a simplified tax invoice

# COMPLIANCES TAX INVOICE

A valid Tax invoice is required to capture the following :

- Customer Name and address
- Customer VAT Tin No.
- Mandatory to mention “ TAX INVOICE “
- Invoice should be serially numbered
- Date of issuance of invoice
- Companies VAT Tin No.
- VAT to be calculated on Net Consideration
- Amount to be converted into Local currency for VAT calculation.  
(in AED)

# VAT ON GOVERNMENT TRANSACTIONS



Private Businesses

VAT 5% to be charged



Government company



Government company

VAT 5%

When Government is not the sole provider of such goods/ services

No VAT

When Government is providing in sovereign(sole component) capacity of such goods/ services (E.g. Visas etc.)



Private Businesses

# VAT PENALTIES



**Does not display prices inclusive of Tax**



**Does not notify Authority when applying Tax based on Profit**



**Fails to goods in a Designated Zone**



**If the Taxable Person fails to issue a Tax Invoice**



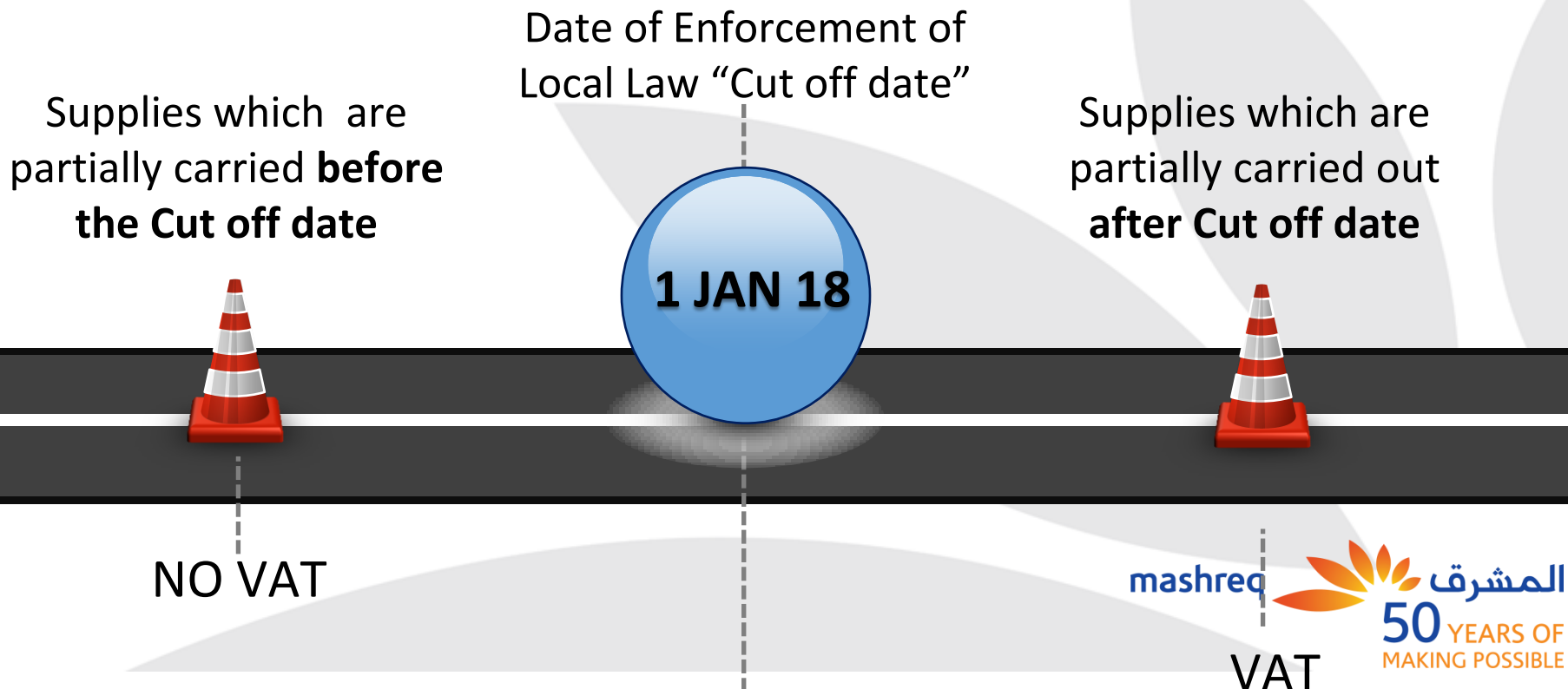
**Does not issue a Tax Credit Note.**



**Does not issue of E- Tax Invoice or E- Tax Credit Notes.**

# TRANSITIONAL PROVISIONS

- Taxes shall be effective starting from the date of the enforcement of the local law in UAE.
- For silent ongoing contracts concluded prior to the introduction of VAT deemed inclusive of VAT.



# BAD DEBTS/ REDUCED SETTLEMENTS

## NOTE

- Goods and Services have been supplied and Due Tax has been charged and paid.
- Consideration for the supply has been written off in full or part as a bad debt.
- More than 6 months has passed from the date of supply.
- The Recipient of Goods has been notified of the amount of consideration for the supply that has been written off.

**TAX INVOICE  
#103**

Sale AED100  
VAT AED 5

**Credit Note  
Ref#103**

Amount 100  
VAT AED 5

Assuming entire amount goes bad  
AED 5 would be reduced from  
Output tax Liability.

Upon issuing a credit note giving  
reference to Tax invoice issued during  
sale of the products.

## Post VAT accounting entries

Particulars		Amount
Purchase Account / Service (Expense)	Dr.	(Value of Purchase)
VAT Input Account	Dr.	( VAT on Purchase)
Bank/ Name of Creditor Account	Cr.	(Value of Purchase + VAT input)
Cash or Bank or Name of Customer Account	Dr.	(Value of Purchase + VAT output)
Sale Account	Cr.	(Value of Sale)
VAT Output Account	Cr.	(VAT on Sale)

Month end/ Period End	Amount	
Output VAT	XXX	(A)
Input VAT	YYY	(B)
Net VAT Payable	ZZZ	(A-B)

Particulars		Amount
VAT Output Account	Dr.	YYY
VAT Input Account	Cr.	YYY
Net VAT Payable Account	Dr.	ZZZ
Bank Account	Dr.	ZZZ

# ACCOUNTING FOR VAT

## Classification

Particulars		Amount
Purchase Account / Service (Expense)	Dr.	(Value of Purchase)
<b>VAT Input Account</b>	Dr.	(VAT on Purchase)
Bank/ Name of Creditor Account	Cr.	(Value of Purchase + VAT input)
Cash or Bank or Name of Customer Account	Dr.	VAT (output)
Sale Account	Cr.	(Sale)
VAT Output Account	Dr.	(Sale)

**Current Assets**

Month end/ Period End	Amount	
Output VAT	XXX	(A)
Input VAT	YYY	(B)
Net VAT Payable	ZZZ	(A-B)

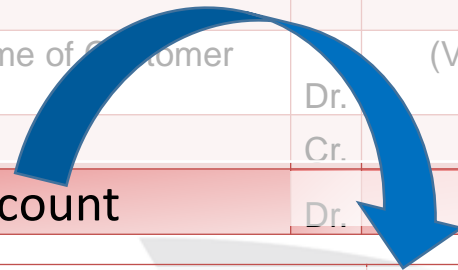
Particulars		Amount
VAT Output Account	Dr.	YYY
VAT Input Account	Cr.	YYY
Net VAT Payable Account	Dr.	ZZZ
Bank Account	Dr.	ZZZ



# ACCOUNTING FOR VAT

## Classification

Particulars		Amount
Purchase Account / Service (Expense)	Dr.	(Value of Purchase)
VAT Input Account	Dr.	( VAT on Purchase)
Bank/ Name of Creditor Account	Cr.	(Value of Purchase + VAT input)
Cash or Bank or Name of Customer Account	Dr.	(Value of Purchase + VAT output)
Sale Account	Cr.	(Value of Sale)
<b>VAT Output Account</b>	Dr.	(VAT on Sale)



**Current Liabilities**

Month end/ Period End	Amount
Output VAT	(A)
Input VAT	(B)
Net VAT Payable	(A-B)

Particulars		Amount
VAT Output Account	Dr.	YYY
VAT Input Account	Cr.	YYY
Net VAT Payable Account	Dr.	ZZZ
Bank Account	Dr.	ZZZ

# IMPACT ON ACCOUNTING

Month/Quarter end



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Particulars		Amount
Purchase Account / Service (Expense)	Dr.	(Value of Purchase)
VAT Input Account	Dr.	( VAT on Purchase)
Bank/ Name of Creditor Account	Cr.	(Value of Purchase + VAT input)
Cash or Bank or Name of Account	Cr.	(Value of Purchase + VAT output)
Sale Account	Cr.	(Value of Sale)
VAT Output Account	Dr.	(VAT on Sale)
<b>Month end/ Period End</b>		
Output VAT		(A)
Input VAT		(B)
<b>Net VAT Payable</b>		ZZZ (A-B)

**Current liabilities**  
-VAT payable

**Current Assets**  
-Input VAT refund

Net VAT payable +VE

Net VAT payable -VE

Particulars		Amount
VAT Output Account	Dr.	YYY
VAT Input Account	Cr.	YYY
Net VAT Payable Account	Dr.	ZZZ
Bank Account	Dr.	ZZZ

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# IMPACT ON BUSINESSES



WHAT  
CAN YOU  
DO NOW

Assigning a person to work under the guidance of VAT consultants

01

IDENTIFYING PERSONNEL

Tax, IT, supply chain, Pricing, topline & bottom-line, Cash flow, Transactions

02

IMPACT ANALYSIS

Identify critical issues for discussion and conclusion

03

IDENTIFYING CRITICAL ISSUES

04

IMPLEMENTATION

Make changes to legal structure, processes, IT systems, pricing  
Communicate with vendors, customers  
VAT rollout

05

TRAINING

Trainings to all the relevant departments

06

POST IMPLEMENTATION & GO-LIVE

VAT registrations, payments and returns  
Resolve transition related issues

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# THANK YOU

## Q&A

*What can we make possible for you today?*