



**VAT
NEWS**

Changes to the
United Arab Emirates (UAE)
Decree-Law on
Value Added Tax (VAT)

The UAE has issued Federal Decree-Law No. 18 of 2022 to amend a number of provisions of the Federal Decree-Law No. 8 of 2017 on Value Added Tax (the VAT Decree-Law). The amendments do not make fundamental changes to the way VAT operates in the UAE, and will not affect the way most businesses administer their VAT affairs. Nonetheless, the changes are important as this is a full update of the VAT Decree-Law, and a number of important points are refreshed and clarified.

The changes are listed below in the order they appear in Decree-Law No. 18. Please note, we have not included minor changes to wording that will not affect most taxpayers.



CLAUSE AMENDED	EFFECT OF THE CHANGE
<p>Article 1 - Definitions</p>	<p>The following definitions have been added: Relevant Charitable Activity, Pure Hydrocarbons, Tax Evasion, Tax Audit, Tax Assessment, and Voluntary Disclosure. These definitions have been added to assist and clarify the interpretation of other clauses in the VAT Decree-Law.</p>
<p>Article 5</p>	<p>The phrase two or more was added to clarify that entering into a contract for future supplies by two or more parties shall also qualify as a supply of goods. The article previously limited this to a contract between two parties only.</p>
<p>Article 7</p>	<p>A new clause (3) provides that the Executive Regulations may specify supplies that are outside the scope of VAT, in addition to the sale or issue of vouchers and the transfer of a business, which are already listed in Article 7 as not constituting a supply.</p>
<p>Article 15</p>	<p>The exception from VAT registration will now be available to taxable persons who are registered for VAT and make zero-rated supplies. Previously, only unregistered persons could apply for the exception.</p>
<p>Article 21</p>	<p>Provides additional rights to the Federal Tax Authority (FTA) in connection with deregistration, including confirming the right to claim tax due and levy penalties after deregistration.</p>
<p>Article 26 (1)</p>	<p>The date of supply in special cases (contracts with periodic payments or consecutive invoices) has been amended to add a date of supply which occurs one year after the date on which the goods or services are provided.</p>

CLAUSE AMENDED**EFFECT OF THE CHANGE****Article 27**

A minor change to clarify the place of supply of goods under contract involving periodic or consecutive payments.

Article 30 (8)

The place of supply of transport-related services will be the place where the transportation starts.

Article 33

The place of residence of a principal shall be considered to be the place of residence of the agent.

Article 36

The exception to the valuation provisions in Articles 34 and 35 has been extended to Article 37, pertaining to deemed supplies. The value of the import or supply of goods or services between Related Parties (in certain circumstances) will be the open market valuation, which was earlier limited to the cost incurred for facilitating such supplies.

Article 45

The following imports will now be zero-rated:

- Means of transportation
- Goods related to means of transportation
- Rescue planes and ships
- Crude oil and natural gas
- Investment in precious metal

CLAUSE AMENDED**EFFECT OF THE CHANGE****Article 48 (3)**

The domestic reverse charge will apply to Pure Hydrocarbons. Note: Pure Hydrocarbons is one of the new definitions introduced by Decree-Law No. 18 of 2022. Furthermore, a new sub-article 48 (8) is added which empowers the Cabinet to issue decisions specifying other goods and/or services which shall be subjected to reverse charge mechanism along with conditions and provisions.

Article 55

Two additional clauses have been added, which set out a requirement for the Taxable Person to retain specified invoices and import documents in relation to imported goods, and specified invoices in relation to imported services.

Article 57

Explicit confirmation that Government Entities can recover input VAT incurred for the purposes of their Sovereign Activities, and charitable organisations can recover input VAT incurred for the purposes of Relevant Charitable Activities.

Article 61 (1)

Article 61 (1) sets out the circumstances in which a tax credit note can be issued. Sub-clause (e) has been amended to add the words in red as follows: **'If the Tax was charged in error or if the tax treatment is applied incorrectly'**. This clarifies that if all other details in the invoice are correct, but the tax treatment is incorrect (for example applying the zero-rate rather than the standard-rate), a tax credit note can be used to correct the error. It is likely that previously many taxpayers would have assumed an incorrect tax treatment was an 'error' and issued a tax credit note in any case. This change clarifies that that is the correct approach going forward.

CLAUSE AMENDED**EFFECT OF THE CHANGE****Article 62 (2)**

Confirmation that a tax credit note issued under Article 61(1) should be issued within 14 days from the date when the situation giving rise to the need for a tax credit note arose.

Article 65 (4)

If any person receives tax or issues a tax invoice, the tax amount shall be paid to the Federal Tax Authority, and will be treated as tax due under the Decree-Law.

Article 67 (1)

Confirms that a tax invoice must be issued within 14 days of the date of supply arising under Article 26 (periodic or consecutive payments).

Article 79

This is a new article setting out how the VAT statute of limitations will be applied in certain circumstances. It confirms that:

- The normal 5 years will not apply if the FTA has notified the taxable person of the commencement of an audit and the audit is completed within 4 years from the notification.
- The statute of limitation will be extended by one year if the Taxable Person submits a voluntary disclosure in the fifth year.
- A Taxable Person cannot file a voluntary disclosure more than five years after the end of the relevant Tax Period.

Our Comments

Taken individually, the changes introduced by Decree-Law No. 18 of 2022 are not major, and for most taxpayers will make little difference to the way they deal with the tax. However, taken as a whole, this is a very important update of the VAT legislation. For example, considering open market value in place of cost for deemed supplies. This may affect the value on which VAT liability is discharged on deemed supplies; possibly recognising the implementation of domestic transfer pricing regulations. Also, for voluntary disclosure, businesses will be required to take immediate action for errors occurred for the tax period ending in 2018, as beyond five years, the option to file voluntary disclosure will not be available. The amendment also clarify several issues and remove potential gaps in the VAT Decree-Law. In some cases, they also formalise some common practices that previously were not explicitly covered by the legislation. We assume it is based on the Federal Tax Authority's experience over the past five years since VAT was introduced, and on feedback from the UAE's tax community. As such, it should be viewed most positively.

If you have any queries regarding this or any other tax matter, please get in touch with our tax team or your dedicated BDO contact.

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