EXCISE TAX IN THE UAE

Excise tax in the UAE - overview

Introduced with effect from 1 October 2017, Excise Tax applies to specific goods harmful to health or the environment, with the objective of reducing their consumption.

When is excise tax applicable?

Excise Tax is levied when specific Excise Goods are:

- Imported into the UAE
- Produced within the UAE
- Released for consumption from a Designated Zone
- Stockpiled in the UAE (where Excise Tax has not previously been paid and stockpiling is for Business purposes)

Who is liable to pay excise tax?

Excise Tax is payable by:

- Importers
- Producers
- Stockpilers
- Warehouse keepers (in certain cases)

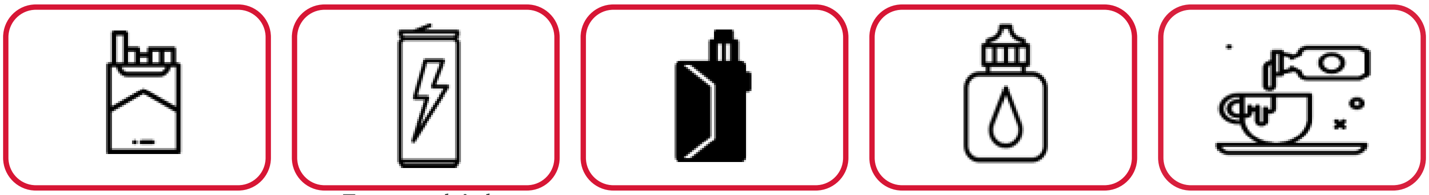
Excise Tax is a **single-stage tax**, typically due at import, production, release or stockpiling, and is generally embedded in the product price.

Excise goods and applicable rates

Excise Tax applies to specific categories of Excise Goods, with rates determined based on the nature and composition of the product. The following Excise Goods are subject to Excise Tax in the UAE :

Excise Tax Rate of 100%

Tiered Volumetric Rate



Tobacco and tobacco products

Energy drinks

Electronic smoking devices and tools

Liquids used in electronic smoking devices and tools

Sweetened drinks

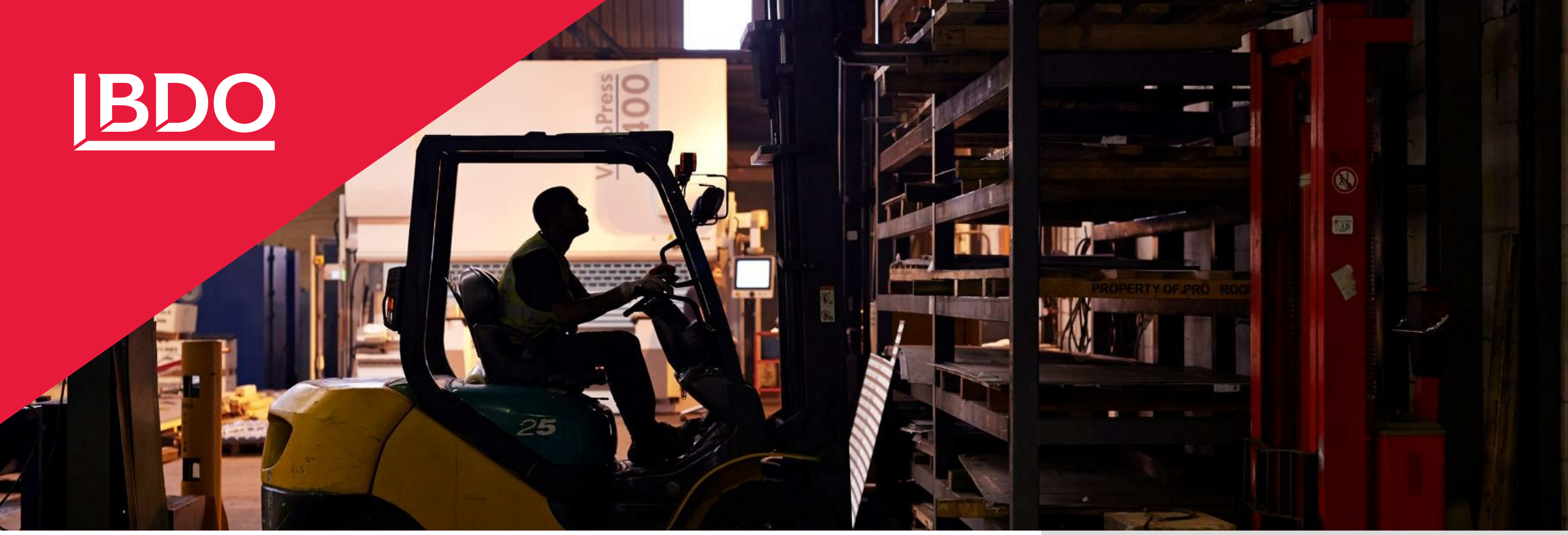
Sweetened drinks are subject to a tiered volumetric Excise Tax regime, reflecting their sugar content, **introduced with effect from 1 January 2026**:

- Drinks containing **≥ 8 g of sugar per 100 ml** -> **AED 1.09 per litre**
- Drinks containing **5-7.9 g of sugar per 100 ml** -> **AED 0.79 per litre**
- Drinks containing **< 5 g of sugar per 100 ml or only artificial sweeteners** -> **0%**

This replaces the previous **ad valorem rate of 50%** which was applied until **31 December 2025**.

This tiered regime applies to qualifying sweetened drinks, with certain products excluded, such as:

- 100% natural juices (no added sugar)
- Milk and dairy products
- Infant formula and baby food
- Special dietary/medical beverages
- Drinks prepared for immediate consumption (e.g., restaurants)



Tax suspension and designated zones

The Excise Tax regime allows a **tax suspension mechanism**, under which tax is not due while Excise Goods are held within a **Designated Zone**.

A **Designated Zone** is a fenced and secured area approved by the Federal Tax Authority (FTA), subject to specific control and supervision requirements.

Goods held, processed, or transferred within or between Designated Zones are **not treated as released for consumption**, provided prescribed conditions are met.

Each Designated Zone must be operated by an approved **Warehouse Keeper**, responsible for: Control and supervision of Excise Goods, Maintaining records and stock registers, Tracking movements and transfers under suspension

Excise Tax becomes due only upon release for consumption in the UAE.

Registration and compliance requirements

Any Person involved in:

- Import
- Production
- Stockpiling
- Release for consumption

must register with FTA for Excise Tax and comply with applicable legislation.

Registered Persons are required to:

- Submit Excise Tax returns within prescribed timelines
- Settle Excise Tax liabilities
- Maintain books and records in accordance with the Law
- Ensure proper classification and reporting of Excise Goods

Non-compliances may result in **administrative penalties**.

Practical challenges for businesses - Excise tax

Businesses commonly face challenges in:

- Product classification (especially under the sweetened drinks regime)
- Tracking movement of goods under tax suspension
- Reconciling physical stock with declared quantities
- Documenting natural shortages in line with regulatory conditions
- Assessing recoverability of Excise Tax (often limited)
- Ensuring accurate and timely reporting and declarations
- Identifying and addressing operational gaps leading to tax exposure

Excise Tax is suspended on goods held within a Designated Zone until such goods are released for consumption.

Excise Tax returns are filed monthly, with tax liabilities payable within 15 days from the end of the tax period.

Failure to comply with Excise Tax obligations may result in administrative penalties and increased tax exposure.

How BDO can support you

BDO offers end-to-end support to help organisations effectively manage Excise Tax obligations in the UAE.

1. **Advisory & structuring**
   - Advisory on Excise Tax regulations and obligations
   - Product classification and tax treatment
   - Impact assessment of regulatory changes

2. **Registration & setup**
   - Excise Tax registration and deregistration
   - Registration of excisable products
   - Warehouse Keeper registration
   - Designated Zone registration

3. **Compliance & reporting**
   - Preparation and review of Excise Tax returns
   - Periodic compliance reviews
   - Guidance on record-keeping and documentation

4. **Operational support**
   - Assistance with natural shortage claims
   - Tracking and compliance within Designated Zones
   - Identification of operational gaps and risk areas

5. **Disputes & audit support**
   - Clarification requests and reconsideration applications
   - Support during FTA audits
   - Dispute resolution with authorities

6. **Training & health checks**
   - Excise Tax health checks and diagnostics
   - Tailored training programmes for teams

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