

## “UAE Hogging in the Limelight of VAT - 1<sup>st</sup> January 2018”

– Priyanka Verma\*

Finance Lecturer & Trainer, EIBFS, Sharjah, UAE

 [pv12kumar@gmail.com](mailto:pv12kumar@gmail.com)  <https://orcid.org/0000-0003-2933-0911>

– Sugandha Agarwal

Research Scholar at AKTU, Lucknow

 [sugandhapti23@gmail.com](mailto:sugandhapti23@gmail.com)  <https://orcid.org/0000-0002-8324-8575>

– Deepa Gupta

Professor & Head, MBA-G L BAJAJ Institute of Management and Research, Greater Noida

 [deepa.gupta@glbimr.org](mailto:deepa.gupta@glbimr.org)  <https://orcid.org/0000-0003-4991-2601>

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### EDITORIAL BOARD EXCERPT

The editorial viewpoint is of an observation that article had a successive close watch by the blind reviewer's which at later stages had rectified and amended by authors in various phases as and when requisite to do consequently. The reviewers had in a beginning stages mention with minor revision with a following statement which at a small duration streamlined by authors (Priyanka, Deepa and Sugandha). The comments related to this manuscript are tremendously perceptible related to exponential organization both subject wise and research wise by the reviewers during evaluation and further at blind review process too. The authors are commendable of appreciation for writing this paper. The authors of this article have thrown a light on an arrival of VAT in UAE. Through this article they have attempted to give an overview, benefits and applications of VAT concept with an illustration and also explained the features along with positive impact of its implementation in UAE. To highlight the impact of VAT in UAE the authors has focused on certain sectors like education sector, financial institution also its effect on the common people. The study is totally based on secondary data and the source of data is reliable enough. The objective of this article clearly justifies the topic. Even the authors commented on the challenges faced at an initial implementation. The objective of the paper is clear and discussion is well placed and open up avenues for future studies. All the comments had been shared as mixtures of dates by the authors in due course of time. By and large all the editorial and reviewer's comments had been incorporated in a paper at the end and further the manuscript had been earmarked and decided under “**Student Research Initiative**”.

### ABSTRACT

**Purpose:** This paper is an attempt to presents an overview, benefits and applications of VAT concept with the illustration, explains its features along with positive impact of its implementation in UAE. The paper is more focused guidance for industries like education, financial institutions and end users.

**Design /Methodology/Approach-** VAT studies covering GCC region is very limited so the research paper is conducted on the comparative, exploratory basis and qualitative method

**Findings:** The study concludes that VAT implemented in UAE will have a positive effect on economic development and competitiveness. The tax system which is introduced for first time in UAE is very transparent and it opens new sources of income for UAE which they will use of high-quality public services. Originality/Value-Value added tax; VAT is one of the tax implementation system in UAE, which was implemented from 1 January 2018 onwards. It is estimated that UAE government stands to earn approximately AED 12 billion in the first year of VAT's implementation. Value added Tax is implemented on goods and services which is the source of economic revenue for government which will stimulates the GDP growth. This is a kind of general consumption charge, gathered steadily dependent on the expansion in estimation of an item or administration at each phase of generation or circulation.

**KEYWORDS** Value added Tax | Impact | Guidance

### \*Corresponding Author

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The Government of UAE ministers in February 2017 signed an agreement to introduce a 5 percent tax on consumption to be implemented across the region by January 1, 2018<sup>2</sup>. Among the GCC countries, UAE and Saudi Arabia are first countries which has implemented VAT by beginning of 2018 and also they are the first to implement excise duty on tobacco products and sugary drinks, whereas rest of the countries are planning to implement VAT during 2019 financial year, since economic outcome of VAT is an economic accelerator of GDP. This paper is an attempt to clear the VAT concept and positive impacts of implementation of VAT on some important sectors along with end users.

VAT in UAE applies to all goods and services except few merit goods and services and on transaction below threshold limit of standard rate categories such as education sector (higher education) retail industry, automobile (Car sales and Rentals), hospitality industry, real estate (Commercial property) etc. Zero evaluated classifications incorporate International transport of travelers and merchandise and ventures identified with such transport, certain provisions of methods for transport and related products and enterprises, new private structures, Charity related buildings, health care services, education services, Investment precious metals, Exports of goods and services,

Crude oil and natural gas industry. Exempted categories includes some specific financial services, Local passenger transport, Bare land, Residential buildings (other than zero- rated supplies)<sup>3</sup>.

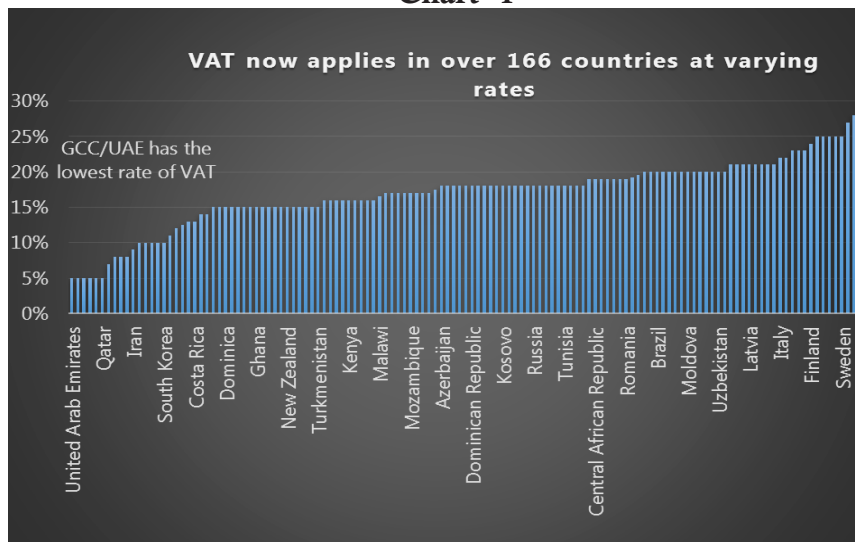
### Background and Economic facts.

The Value Added Tax system was initiated by the Joint Director of the tax authority of France, Maurice Laure and came into effect for the first time on 10<sup>th</sup> April 1954. Though this tax system was introduced first in France, the other European and Asian countries soon adopted it. A German Industrialist Wilhelm Van Siemens was the first person who proposed the concept in 1918. The value added tax system has been adopted by different nations across the world. Six European countries – France, Germany, Italy, Belgium, the Netherlands, and Luxembourg –started the process that would lead to the creation of a European Common Market in 1957; they signed the Treaty of Rome<sup>4</sup>.

At present, VAT practices are followed by more than 166 countries, contributing 20% of worldwide tax revenues. Average standard rate in EU (excluding new members) almost 20%. Revenues 7.5% of world GDP<sup>4</sup>.

Map as shown in the chart 1below clear the picture of countries applying VAT at varying rates<sup>4</sup>

Chart- 1





## The study has following objectives:

1. To cognize the concept and features of VAT in UAE
2. To explain scope of VAT implementation in UAE
3. To evaluate the benefits of VAT in UAE
4. To extract the positive impact of VAT on various sectors
5. To understand the Challenges of initial implantation issues.

## Overview of VAT

It is the assessment forced on the import and supply of Goods and Services at each phase of

creation and dissemination, including the Deemed Supply. It is multi-point tax system but without the effect of double taxation. It is a kind of general utilization charge gathered steadily dependent on the esteem included at each phase of generation or conveyance/deals. It is otherwise called merchandise and services charge (VAT) in a few nations. A dealer enrolled for VAT successfully pays VAT just at one phase when he sells his products. This duty is the main sum affects his selling value, which incorporates VAT. His suppliers charge the VAT that he has paid as a part of his purchase price on him <sup>5</sup> (**Input tax**). This is not a cost to him because he gets it back by deducting it from tax on his sales (**Output Tax**). Therefore, VAT should have a minimum impact on his selling prices based on the following illustration chart-2 and table-1

Chart-2

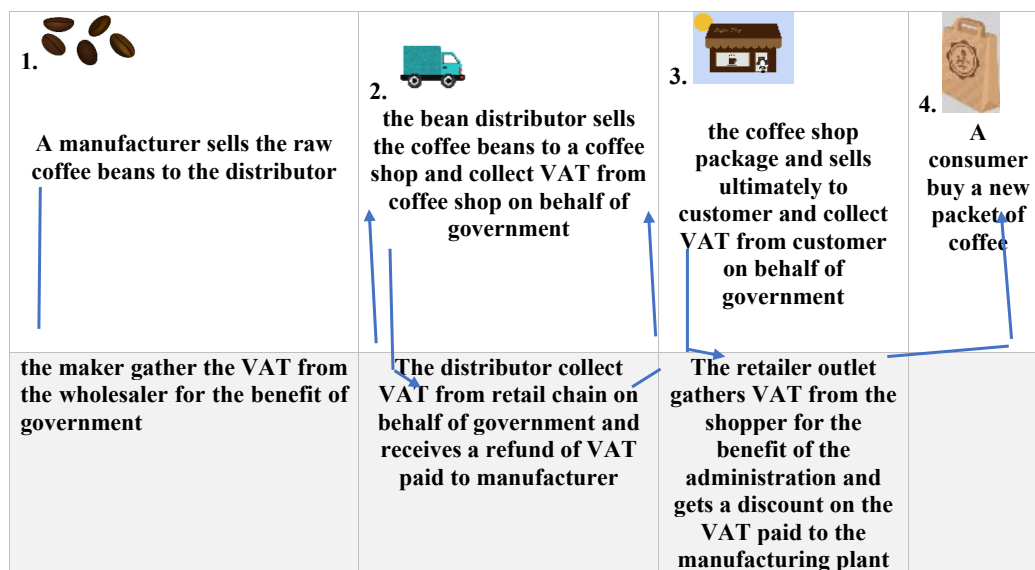


Table-1

Details	Sales	5% vat charged On sales	VAT recovered on purchase	VAT payable
Coffee bean Manufacturer	AED 100	AED 5	AED 0	AED 5
Factory	AED 300	AED 15	AED 5	AED 10
Retailor	AED 500	AED 25	AED 15	AED 10
Total VAT paid by final consumer				AED 25

At every stage of chain VAT is collected and remitted to the Government and at the end it is charged to end user

## Features of VAT in UAE

### 3.1.1 VAT simplified structure

VAT implementation date was 1<sup>st</sup> January, 2018. VAT was implemented to the supplies of merchandise and enterprises and this is at a standard rate (5%) or at a zero rate (0%). These are called 'assessable supplies'. Input tax credit will be conceded to the

taxpayers giving assessable supplies (standard or zero-appraised). Organizations having absolved supplies will not be qualified for case input charge credit. Unregistered organizations can't charge VAT on deals and can't guarantee input VAT on their buys<sup>6</sup>

The implementation of practices and procedures of VAT along with the input and output credit are illustrated with the following illustrated Table-2 series sections:

**Table-2**

Product description	Value (In AED)	Full rated purchase Value (In AED)	Zero rated purchase Value (In AED)	Exempt purchases Value (In AED)
Product 1	100	100		
Product 2	150	150		
Product3	250			250
Product4	400	400		
Product5	200		200	
Product6	120			120
Product7	300		300	
Product8	50		50	
<b>Total</b>	<b>1570</b>	<b>650</b>	<b>550</b>	<b>370</b>

#### Purchase Ledger

**Table 2.1**

Product description	Value (In AED)	Zero rated VAT sales Value (In AED)	Full rated sales Value (In AED)	Exempted sales Value (In AED)
Product 1	250		250	
Product 2	200		200	
Product3	300			300
Product4	450		450	
Product5	250	250		
Product6	180			180
Product7	350	350		
Product8	150	150		
<b>Total</b>	<b>2130</b>	<b>750</b>	<b>900</b>	<b>480</b>

#### Sales Ledger

**Table 2.3**

Description	Sales value	Purchase value	Vat rate	Output VAT	Input VAT	VAT liability/claim
Full rated VAT sales	900	650	5%	45	32.5	12.5
Zero rated VAT sales	750	550	0%	-	-	-
VAT exempt sales	480	370	-	-	-	-
<b>Total</b>	<b>2130</b>	<b>1570</b>		<b>45</b>	<b>32.5</b>	<b>12.5</b>

### Date of supply rule

DATE OF SUPPLY - when to account for output vat on supplies. Time of supply is the tax trigger point i.e. when the tax on the transaction become due to be paid.

### Tax Trigger point for Goods:

1. Date of removal of goods (in case of supply of good with transporter);
2. Date on which goods made available to customer (in case of supply not involving transportation);



3. Date of assembly/ installation (if goods

### Tax Trigger point for Services:

1. Date on which service is delivered or performance of service is completed.
2. Others If payment is received or tax invoice is issued before tax trigger point, it will be considering as tax trigger point for accounting of VAT.
3. In case of continuous services over a period of several months or year, time of supply will be either - Receipt of payment or Issuance of tax invoice.

### Place of supply rule

he spots of supply will verify that whether a supply is made inside UAE or outside UAE for VAT applications.

1. In the event that the supply is made outside UAE, no VAT will be charged.
2. In the event that the supply is made in UAE, VAT will be charged.

### Place of Supply for Goods-

In case of supply of goods, the place of supply should be the location of goods when the supply takes place with special rules categories of supplies (e.g. water and energy, cross border supplies).

### Place of Supply for Services-

For the supply of services, the place of supply should be where the supplier is established with special rules for certain categories of supplies (e.g. cross border supplies between businesses)<sup>7</sup>

### Place of Supply - Reverse Charge Mechanism

In UAE, the *Reverse Charge Mechanism of VAT* is applicable while importing goods and services from outside the GCC countries. This mechanism is

to make ensure that the government do not make companies expensive within GCC countries as compared to outside the GCC based companies. Company will calculate the tax on the material procured within the GCC region and take credit immediately in the same quarter. Thus, it becomes a mere book entry and the movement of goods within GCC country remain tax-free. Under this, the businesses will not have to pay VAT at the point of import. Reverse *Charge Mechanism eliminates the commitment for the abroad merchant to enroll for VAT in UAE. Following outline is an endeavor to clear Reverse Charge for Import Transaction*<sup>8</sup>

### Case: Import VAT Reverse Charge Transaction

Seller: ABC LLC based in Germany & not registered under Federal Tax Authority (FTA) in UAE sells goods worth AED 1000 to

Buyer: XYZ LLC in Dubai & registered under Federal Tax Authority (FTA) in UAE

In this case, Seller is not based & registered in UAE, he is not eligible to pay VAT, it is the responsibility of the Buyer to show VAT entry in his books as per the mandatory regulations.

The entry in the books of buyer XYZ LLC based in Dubai & registered under Federal Tax Authority (FTA) in UAE will be as under:

Cost of Goods imported :	AED 1000
Minus Input VAT@ 5%:	AED 50
Net Cost of Import:	AED 950
Plus Output VAT @ 5%:	AED 50
Gross Cost of Goods:	AED 1000

Therefore, this is a quarterly entry in the books of Buyer to show that his net Liability will be Nil for the import of goods

After this entry the price at which he sells to any buyer, he will collect VAT separately and pay to the government. (Then it becomes a normal VAT transaction for local registered companies)

## Scope of VAT implementation in UAE

His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of UAE and Ruler of Dubai approved the distribution of revenue from value-added tax (VAT). According to UAE government local government would receive 70 per cent of the revenue. This would be used to improve local services, community development, and wider support of UAE residents and the remaining 30 per cent would go into the federal budget. The Dubai Ruler also announced the appointment of the administrative board of the Federal Authority for Nuclear Regulation (FANR). UAE is proud to be the first Arab country to produce energy from nuclear reactors, adding that the first reactor will get into service in 2018.

Government target is to establish many great developing and services projects to increase the standard of living and also to be esteemed about the nature of those projects, and will strictly monitor the markets to prevent inflation and it will keep educating the people to improve all what provides them and their families with good living.<sup>9</sup>

## Benefits of VAT implementation in UAE

1. VAT generates economic growth, which help the government to provide better infrastructure, health care facilities, transportation etc.
2. Retailers have to keep proper records of all invoices in order to claim VAT and also government can now easily track business activities
3. No impact on exports of goods and services

outside GCC countries as they are zero rated

4. It avoids tax evasion i.e. intentionally non-payment or under payment of tax to the government.

## Impact of VAT on UAE.

### Effects on common person's life

According to the research analyst at international Middle East Consumers look very pessimistic and scared but when, actually VAT came into play consumers find there is not much increase in the prices except for the big appliances, which they will go to buy but the impact, will only be in the first quarter of the year. According to Jihad Azour, Director of the IMF's Middle East and Central Asia Department The impact of VAT on inflation and government revenue will vary depending on the proportion of consumption in the economy and how much of the consumption base is captured by VAT. They expect a portion of VAT to be absorbed by the supply chain, by including a large number of items consumed by the public in the zero-rated or exempt category, the inflationary impact of the new tax has been largely muted.

According to a, Chief Economist of MENA, Institute of International Finance (IIF) one-off inflationary impact is expected from VAT. In UAE, authorities estimate that excise taxes and VAT will add one percentage point to headline inflation, lower either than their estimates, as number of products and ventures are zero-evaluated or in excluded classification in UAE, decreasing the by and large inflationary effect. In any case, the facts demonstrate that VAT will lessen the acquiring intensity of UAE inhabitants in extent to impose payed on utilization<sup>10</sup>

In Food and Grocery, 100 items are exempted. Partial exemption is on luxury dining. Transportation Vehicle, entertainments, utilities, rent, Electronics, Car, Jewelry, dinning out and Property are not



exempted whereas school education is exempted from VAT. Tourist Tax in country of origin 100% excise duty on tobacco and fizzy drinks would lead to healthy cut off harmful habits.

### Impact on education sector

Impact on education sector can be categorized as table-5 given below for the VAT impact:<sup>11</sup>

Impact of VAT on education sector can be categorized as below:

1. Private and public school education (excluding higher education) related goods and services provided by the education institution are zero rated.
2. Advanced education given by the organizations possessed by government or half percent funded by government and related goods and services are zero rated.
3. education provided by the higher education institutions and related goods and services are subject to standard rate of 5%
4. Nursery education and preschool education are zero rated.
5. School uniform, Stationery, Electronic equipment's (laptop, Tabs etc.) are subject to standard rate of 5 %
6. After school, activities for extra fees and renting of school ground for events are standard rated at 5% but after school, activities supplied by teachers not for extra charge are zero rated.
7. Educational school trips within curriculum are zero-rated but School trip for recreation not within curriculum are subject to Standard rate

### Impact on financial services in financial institution

Financial institutions can be categorized as below for the impact of VAT:<sup>12</sup>

1. Acceptance of deposit, Provision of loan or granting of credit, operating of any current, saving or deposit accounts, Issue, transfer or disposal of securities, any services provided by a person acting in intermediary capacity to facilitate the making of a financial supply, are exempted from VAT.
2. Advisory fees, debt factoring services, managing and safekeeping of physical securities are subject to standard rate of 5%.

### New challenges for business

1. Companies need to update accounting software.
2. Company need to take decision how much tax burden can be shifted to the consumer depending upon price elasticity of the goods and services.
3. Companies need to ensure robust internal documentation process (for example invoicing) to correctly calculate and capture necessary information required for VAT implementation and compliances.
4. Training needs for personnel to understand and operate effectively under VAT regime in UAE
5. Changes in Cash flow, pricing of products and services, cost of capital, financial reporting, tax accounting, supply chain, procurement and contracting <sup>13</sup>

### Conclusion

- In UAE, the introduction and implementation of VAT has brought UAE into a more sophisticated regulatory and fiscal framework. It can be concluded that VAT implementation is simplified, user friendly and transparent tax system designed which will provide a new source of income that will help in achieving goal of non- reliance on oil and other hydro-carbon products for revenue. It will have a positive effect

on economic development and competitiveness. VAT will contribute in building knowledge-based economy for the future generation, as tax will provide additional financial resources and enable UAE Government to realize its strategy and guarantee a prosperous future.

- No doubt, VAT in UAE has given excellent tax system by grabbing different treatment to goods and services. The tax system will result in adopting innovative administrative procedures to keep pace with latest developments; however, there are not many difficulties in method for VAT usage as talked about above in paper, they need increasingly systematic research to determine the doing combating enthusiasm of different partners and achieve the dedication for a cardinal change of assessment structure in UAE.

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### Blind Reviewers Comment

This article is totally based on secondary data. Through this article the authors has just given an overview, benefits and applications of VAT concept with an illustration and also explained the features along with positive impact of its implementation in UAE. To highlight the impact of VAT in UAE the authors has focused on certain sectors like education sector, financial institution also its effect on the common people. Even they also mentioned what all challenges they faced at an initial implementation.

### GJEIS Prevent Plagiarism in Publication

The Editorial Board had used the turnitin plagiarism [<http://www.turnitin.com>] tool to check the originality and further affixed the similarity index which is 6% in this case (See Annexure-I). Thus the reviewers and editors are of view to find it suitable to publish in this Volume-8, Issue-1, Jan-Mar, 2019





# Annexure 1

ORIGINALITY REPORT

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<b>10</b>	<b>Sean Brodie, Gabrielle Dillon. "Value Added Tax, Finance Act 2010 June 2010", 978-1-84260-221-8, June 2010</b> <small>Publication</small>	<b>&lt;1%</b>

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