



The Institute of Chartered Accountants of India  
(Dubai) Chapter NPIO



UAE  
**TAX UPDATE**  
NEWSLETTER

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**FTA Link :** For full information on UAE Corporate Tax, refer to - <https://tax.gov.ae/en/legislation.aspx>  
and for the FTA Guides, refer to - <https://tax.gov.ae/en/taxes/corporate.tax/corporate.tax.guides.references.aspx>

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## MANAGING COMMITTEE 2024-25



**CA Rajesh Somani**  
Chairman  
+971 50 645 2187



**CA Jai Prakash Agarwal**  
Vice Chairman  
+971 52 906 9179



**CA Rishi Chawla**  
Secretary  
+971 50 394 6911



**CA Dheeraj Ranasaria**  
Treasurer  
+971 55 195 0580

## EXECUTIVE MEMBERS



**CA Aashna Mulgaonkar**  
+971 55 552 0871



**CA Balamram Vuchidi**  
+971 50 986 6466



**CA Amit Khaitan**  
+971 55 557 5049



**CA Sanjay Gagarani**  
+971 50 189 2115



**CA Dixit Kumar Jain**  
+971 55 752 1929



## From the **CHAIRMAN**

Dear Esteemed Members,

As we continue our journey through 2024, I am pleased to bring you the August edition of our monthly tax updates newsletter. The engagement and insightful feedback from our community have been instrumental in shaping this publication, and it remains our priority to deliver timely and relevant content to support your professional needs.

This month, we delve into topics that are critical for navigating the evolving tax landscape in the UAE and the GCC region. Our feature articles include:

- **UAE Corporate Tax – Determining Taxable Income:** A detailed exploration of the mechanisms and key considerations for calculating taxable income under the UAE Corporate Tax regime, providing guidance to ensure compliance and accuracy.
- **VAT Impact on Education-Related Transactions in the UAE:** An in-depth analysis of how VAT is applied to education-related services and transactions in the UAE, including recent updates and practical implications for institutions and service providers.
- **GCC Updates:** A roundup of the latest tax and regulatory developments across the GCC region, highlighting significant changes and their potential effects on businesses.

These articles reflect the commitment and expertise of our editorial team, along with the valuable contributions from our members. Our goal remains to equip you with the knowledge and insights needed to navigate the complexities of the tax environment with confidence.

I encourage you to continue engaging with this newsletter through your feedback and contributions. Together, we are fostering a culture of continuous learning and professional development within our community.

Thank you for your continued support of the ICAI (Dubai) Chapter. Let's work together to strengthen our platform for knowledge sharing and collaboration.

Warm regards,  
CA Rajesh Somani  
Chairman,  
ICAI (Dubai) Chapter NPIO



## 3 UAE TAX UPDATES

### 3.1 UAE Corporate Tax – Determining Taxable Income

#### UAE Corporate Tax Newsletter

The Federal Tax Authority (FTA) has issued guide on determination of taxable Income as per the Federal Decree Law No. 47 of 2022 concerning the Taxation of Corporations and Businesses.

This guide particularly focuses on the below aspects:

A. Key Concepts for Taxable Income and Corporate Tax Calculation

B. Adjustments to Accounting Income such as unrealised gains/losses, exempt income, deductible & non-deductible expenses,

C. Other Adjustments such as Interest deduction, Tax losses, Tax Credits and Taxation for Non-Residents

This guide covers the above key concepts along with case studies to further illustrate them.

#### **A. Key Concepts for Taxable Income and Corporate Tax Calculation**

The starting point for determining Taxable Income is the Accounting Income. This is the accounting net profit or loss for a relevant Tax Period, based on the Financial Statements prepared in accordance with IFRS, or IFRS for small and medium-sized entities (IFRS for SMEs) or as per the income and expenditure statement maintained by Taxable Persons that follow the Cash Basis of Accounting.

Taxable Persons that earn Revenue that does not exceed AED 3 million in a Tax Period may use the Cash Basis of Accounting.

Once a Taxable Person's Revenue exceeds AED 3 million in a Tax Period, they must prepare Financial Statements using the Accrual Basis of Accounting, except under exceptional circumstances and following the FTA's approval.

#### **Calculation of Tax Payable**

Once the Taxable Income for the relevant Tax Period has been determined, it is subject to Corporate Tax at the following rates:

- 0% on the portion of the Taxable Income not exceeding AED 375,000.
- 9% on the portion of the Taxable Income exceeding AED 375,000.

A Qualifying Free Zone Person is subject to Corporate Tax at the following rates:

- 0% on the Qualifying Income.
- 9% on the Taxable Income that is not Qualifying Income.

#### **Tax Period**

The Tax Period for a Taxable Person (other than a natural person) is their Financial Year, or part thereof, for which a Tax Return is required to be filed.

This usually means the 12-month period for which they prepare their Financial Statements. The Tax Period of a Taxable Person that is a natural person is always the Gregorian calendar year, i.e. 1 January to 31 December.

#### **B. Adjustments to Accounting Income**

##### **1. Unrealised Gains and Losses:**

Businesses that prepare Financial Statements using the Accrual Basis of Accounting may elect to take into account gains and losses in case of assets and liabilities on a realisation basis.

If the Taxable Person does not make the election to apply the realisation basis in their first Tax Period, then this will be considered an irrevocable election in itself.

Any realised or unrealised gains and losses that are reported in the Financial Statements, insofar as they would not be subsequently recognised in the statement of income, must also be taken into account in the determination of Taxable Income



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## 2. Exempt Income

- **Domestic Dividends:** Dividends, and other profit distributions, received from a juridical person that is a Resident Person are exempt from Corporate Tax with no additional conditions.

- **Participation Exemption:** Dividends and other profit distributions received from foreign juridical persons are exempt from Corporate Tax if the recipient has a Participating Interest in a foreign juridical person.

If a Taxable Person holds a Participating Interest and the relevant conditions continue to be met, it will be exempt from Corporate Tax on:

- gains or losses on the transfer, sale, or other disposition of the whole or part of the Participating Interest,
- foreign exchange gains or losses in relation to the Participating Interest, and
- impairment gains or losses in relation to the Participating Interest.

Only income received by the Taxable Person in their capacity as a shareholder (i.e. as an owner of the ownership interest) can be exempt. Other income earned from the Participation from other relationships, such as that of a debtor-creditor (for example, Interest income received) or service provider (for example, service fee received), will remain subject to Corporate Tax unless exempt under other applicable provisions.

- **Foreign Permanent Establishment Exemption:** a Resident Person can make an election to have the income and associated expenditure derived from Foreign Permanent Establishments exempted from Corporate Tax in the UAE. Where such an election is made, the Resident Person shall not include losses, income, and associated expenditure in any of its eligible Foreign Permanent Establishments.

- **Income attributable to Permanent Establishment**

- A Permanent Establishment has the meaning contained in Article 14 of the Corporate Tax Law. A Person and its Permanent Establishment are Related Parties and should be **treated as separate and independent entities**. This approach is known as the "separate entity approach".

- **The separate entity approach:** Non-Resident Person is required to attribute the appropriate amount of income and associated costs to its Permanent Establishment in accordance with the arm's length standard. The arm's length standard requires treating a Permanent

Establishment as if it is a separate entity that operates independently from the parent entity to which the Permanent Establishment belongs (i.e. its head office), and also to the other entities of the group.

- In order to accurately attribute the profit between the Permanent Establishment and its parent, a two-step analysis is required:

- **Step one:** Conduct a functional analysis to identify the functions performed by the Permanent Establishment on one side, and the head office on the other side, treating each as separate to the other. This analysis should also take into account the assets used and the risks assumed by the Permanent Establishment and the head office, respectively.

- **Step two:** Determine the compensation relating to arrangements or dealings between the Permanent Establishment and the head office, commensurate with their respective functions performed, assets deployed, and risks assumed.

## 3. Deductible & Non-Deductible Expenditure

- The general rule is that expenditure must be incurred wholly and exclusively for the purposes of the Taxable Person's Business and must not be capital in nature for the expenditure to be deductible for Corporate Tax purposes.

- Employee costs are generally considered to be wholly and exclusively incurred for Business purposes provided that they are not excessive. As such, it is not relevant whether an employee is paid wholly in cash or also receives other benefits, such as a car for personal use.

- Expenditure incurred in relation to deriving Exempt Income is not deductible when determining Taxable Income.

- If expenditure is incurred for more than one purpose, the portion of the expenditure which can be deducted must be identifiable part or proportion of the expenditure incurred wholly and exclusively for the purposes of deriving Taxable Income and an appropriate proportion of any unidentifiable part or proportion of the expenditure incurred for the purposes of deriving Taxable Income that has been determined on a fair and reasonable basis.

Allocation keys are criteria used to determine how expenses can be assigned or distributed across different departments, products, services, or divisions within a Business. These keys can be applied to factors such as headcount, floor space, usage, time spent, or any



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other measurable and reasonable basis. The allocation key chosen must be logical and must fairly represent the benefit that the expense generates for each income component and also be used consistently for each Tax Period

- Payments or benefits provided by a Taxable Person to its Related Parties and/or Connected Persons would be deductible only to the extent that the payment or benefit corresponds with the Market Value of the service or benefit provided.

- Capital expenditure is not deductible when determining Taxable Income. This is in contrast to revenue expenditure, which supports the day-to-day operations of the Business.

While capital expenditure is not deductible, when determining Taxable Income, the depreciation of the cost of capital assets is a deductible expense for Corporate Tax purposes.

Article 7 of Ministerial Decision No. 134 of 2023 states that the depreciation/ amortisation charge which relates to such non-deductible expenditure will also not be allowed as a deduction for the purpose of determining Taxable Income.

- Certain expenditure may be incurred before the Business is officially incorporated, which are typically associated with the process of setting up a Business. Any such expenditure incurred wholly and exclusively for the Business that is not capital in nature would be allowed as a deduction.

A Taxable Person may also incur pre-trading expenses i.e. expenditure incurred after a Business is incorporated or set-up, but before it starts generating revenue or conducting its normal trading operations. Where such pre-trading expenditure is recorded as an expense in the Financial Statements, it will be allowed as a deduction in the Tax Period when it is incurred, subject to meeting the general deduction criteria under the Corporate Tax Law

- If a Taxable Person records a **provision** in its Financial Statements in accordance with the relevant Accounting Standards, the provision will be allowed as a deduction. If such a provision is released or reversed in a subsequent Tax Period, there are no specific adjustments required to be made to the release or reversal. In instances where a provision was recorded before a Taxable Person's first Tax Period and then reversed after the Person becomes subject to Corporate Tax, the reversal is taxable when the credit is recorded in the Financial Statements. Therefore, the relevant credit to the Financial Statements will be

treated as Taxable Income for Corporate Tax purposes.

- The following are other non deductible expenses:
  - Donation or Zakat, grant or gift made to an organisation that is not a Qualifying Public Benefit Entity
  - Fines and penalties, other than amounts awarded as compensation for damages or breach of contract
  - Bribes or other illicit payments
  - Corporate Tax & recoverable input Value Added Tax
  - Dividends, profit distributions & amounts withdrawn from the Business by a natural person subjected to Corporate Tax.
  - Tax on income imposed outside the UAE
  - Contributions made by employers to a private pension fund in respect of its employees which are not paid in the Tax Period or are **in excess of 15%** of the employee's total remuneration in the relevant Tax Period.
  - Local taxes that are not in the nature of Corporate Tax, such as municipal and property taxes, will be deductible. However, a tax under an Emirate Law, such as that paid by branches of foreign banks in the UAE is not allowed as a deduction
  - 50% deduction for entertainment expenditure is allowed for Corporate Tax purposes. Where a Taxable Person provides **commercial hospitality** as part of their Business or Business Activity, such expenditure **would not be considered as entertainment expenditure**. The 50% deduction rule **does not apply** to other **marketing expenditure**, such as advertising, online promotion, attending trade shows or direct marketing campaigns, which is deductible in line with the general principles of the Corporate Tax Law. Sponsorship costs (for example, sponsoring an event) will be deductible where such costs are incurred for marketing purposes. However, to the extent that benefits are received as part of that sponsorship (for example, tickets to a sporting event) and the benefits are used to entertain business partners and/or customers. Any expense incurred which is **incidental to a Business purpose** shall not be considered as entertainment expenditure.

## C. Other Adjustments

### General Interest Deduction Limitation Rule

A Taxable Person's Net Interest Expenditure is subject to the General Interest Deduction Limitation Rule. The Net Interest Expenditure is the difference between the amount of Interest expenditure incurred and the Interest income derived during a Tax Period. Where the Net Interest Expenditure exceeds AED 12 million in a Tax Period, the amount of deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA (earnings before the deduction of Interest, tax, depreciation and amortisation)



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- The de minimis threshold of AED 12 million.

The General Interest Deduction Limitation Rule **does not apply to** Banks, insurance Providers & natural persons undertaking business.

The finance element of finance lease and non-finance lease payments shall be considered as Interest for the purposes of the General Interest Deduction Limitation Rule. All foreign exchange gains and losses accruing from Interest shall also be considered as Interest for the purposes of the General Interest Deduction Limitation Rule.

Where an amount that is deemed to be Interest is capitalised in the accounts of the Taxable Person, the income and expenditure attributable to such capitalised Interest amount shall be subject to the General Interest Deduction Limitation Rule.

### Specific Interest Deduction Limitation Rule

No deduction is allowed for Interest expenditure incurred on a loan obtained, directly or indirectly, from a Related Party in respect of any of the following transactions:

- Dividend or profit distribution to a Related Party,
- a redemption, repurchase, reduction or return of share capital to a Related Party,
- a capital contribution to a Related Party, or the acquisition of an ownership Interest in a Business that is, or becomes, a Related Party following the acquisition.

The purpose of this provision is to prevent the Corporate Tax base from being eroded by transactions and arrangements between Taxable Persons and their Related Parties.

### Tax loss

- A Taxable Person that has incurred a Tax Loss will be able to use the Tax Loss to reduce its Taxable Income in future Tax Periods.
- A single Taxable Person may transfer their Tax Losses to more than one Taxable Person provided that in each case the relationship of the recipient Taxable Person with the Taxable Person transferring their Tax Losses meets the relevant conditions.
- The Tax Loss carried forward can be used to reduce the Taxable Income in the subsequent Tax Periods by a maximum of 75% of that Taxable Income. A Taxable Person must first utilise its own brought forward Tax Losses before it can utilise a Tax Loss transferred to it.

### Tax credits

- Taxable Persons may be entitled to credits which they can use to offset against their Corporate Tax liability. These credits arise if they have paid tax on the same income already, either in the UAE or in a foreign country.

The UAE has introduced a Withholding Tax that applies to certain categories of income paid to a Non-Resident Person to the extent the income is not attributed to a Permanent Establishment in the UAE. No such categories have been prescribed so far and the rate of this tax is 0%, meaning that, currently, no tax is to be withheld.

### Foreign Tax Credit

- Foreign Tax Credit is the amount of foreign taxes paid on foreign source income which has not been exempted. A Foreign Tax Credit under Article 47 of the Corporate Tax Law is allowed even if foreign tax is paid in a jurisdiction with which the UAE does not have a Double Taxation Agreement.
- To claim a Foreign Tax Credit, the pre-tax foreign source income must be included in the Taxable Income of the Taxable Person.
- An unutilised Foreign Tax Credit will be forfeited. Further, a Corporate Tax deduction for the unutilised Foreign Tax Credit is not possible. No refund will be given for unutilised Foreign Tax Credit.
- Foreign Tax Credit can only be applied after any Withholding Tax Credit has been applied

### Taxation of Non-Resident Persons

- A Non-Resident Person is subject to Corporate Tax in the UAE if it conducts Business in the UAE through a Permanent Establishment or derives State Sourced income from the UAE or derives income through a nexus (i.e. Immovable Property situated in the UAE) in the case of a juridical person.







## 4 OTHER TAX UPDATES

### 4.1 GCC Updates

The recent tax updates from the GCC region include key developments from the Kingdom of Saudi Arabia (KSA), United Arab Emirates (UAE), Oman, and Bahrain.

Following are the key updates:

#### **Kingdom of Saudi Arabia (KSA)**

##### **VAT Amendments**

Saudi Arabia is seeking public input on proposed amendments to its VAT Implementing Regulations until 19 September 2024. The revisions aim to refine VAT application across several areas, including tax groups, refunds, economic zones, and electronic marketplaces. Key changes include stricter rules for VAT groups, such as banning members in special zones from joining multiple groups and requiring a formal agreement for group formation. Authorities will gain the power to dissolve VAT groups retroactively if tax benefits conflict with legal intent. Businesses must notify the authority within 30 days of transferring economic activities, and the new owner must retain relevant tax records.

The amendments also update the valuation process for deemed supplies, introduce zero-rating for goods in customs duty suspension within special zones, and expand VAT compliance obligations for electronic marketplaces. Furthermore, the VAT refund process will see new categories, stricter documentation requirements, and a revised system for tourist VAT refunds.

##### **Investment Law**

On August 11, 2024, the Kingdom of Saudi Arabia introduced a new Investment Law, effectively repealing the existing Foreign Investment Law. This New Investment Law is designed to bolster the Kingdom's appeal to

international investors by ensuring greater equality between domestic and foreign investors. Scheduled to take effect six months after its publication in the official gazette, in February 2025, the New Investment Law is part of a comprehensive suite of regulatory reforms aimed at fostering a more investment-friendly environment.

These reforms include the Civil Transactions Law, the 2022 Companies Law, the establishment of Special Economic Zones, and adjustments to merger control notification thresholds. The implementing regulations for the New Investment Law are expected to be released within the same period, further clarifying its application and impact.

The Zakat, Tax, and Customs Authority (ZATCA) has launched a public survey on proposed amendments to the VAT Implementing Regulations, available on the Istitlaa platform. The survey, open until 17 September 2024, aims to gather feedback and suggestions from the public and interested parties. This initiative is part of ZATCA's commitment to transparency and stakeholder engagement in shaping laws that impact the business environment. The draft amendments can be reviewed on the Istitlaa Platform, where participants are encouraged to contribute their insights.

#### **Oman**

##### **Launch of Capital Market Incentive Program**

The Muscat Stock Exchange (MSX) has unveiled its new Capital Market Incentive Program, which seeks to attract private companies to list on the exchange through three distinct pathways, each supported by a dedicated incentive package. This initiative is a pivotal component of the National Program for Fiscal Sustainability and Financial Sector Development, "Etidamah," and is



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closely aligned with Oman Vision 2040's goals to empower the private sector, enhance market efficiency, and expand the capital market.

The first pathway offers a substantial incentive package for private companies with a market value exceeding 10 million Omani Riyals to list on the main market. This package is available for a five-year period from the decision's issuance and aims to attract established companies to the primary market, facilitating their growth and capital-raising efforts.

The second pathway introduces the MSX-AIM (Muscat Stock Exchange - Alternative Investment Market), specifically designed for emerging companies with a market value above 500,000 Omani Riyals. This market features flexible listing requirements and reduced costs, catering to startups, small and medium-sized enterprises, and family-owned businesses. The MSX-AIM aims to support these high-growth companies in their transition to the main market and is intended for sophisticated investors due to the associated risks.

The third pathway encourages Limited Liability Companies (LLCs) to transition to Closed Joint-Stock Companies (SAOCs). This incentive supports a gradual implementation of governance requirements, preparing companies for an eventual transition to Public Joint-Stock Companies (SAOGs). This pathway ensures a robust legal framework, promoting long-term sustainability and mitigating internal conflicts.

Overall, the program provides several benefits, including diversification of funding options through IPOs, enhanced company credibility via improved transparency and governance, and expanded investor bases. Companies will also benefit from increased visibility and strengthened market positions, which can attract new investors and support business development. For more information and guidance on participating in the program, companies are encouraged to visit the MSX website or contact relevant authorities.



## Bahrain

The Kingdom of Bahrain has announced the introduction of a Domestic Minimum Top-up Tax (DMTT) for Multinational Enterprises (MNEs), as outlined in Decree Law No. 11 of 2024. This new tax framework, set to take effect on January 1, 2025, aligns fully with the guidelines of the Organisation for Economic Co-operation and Development (OECD).

To date, over 140 jurisdictions have committed to this international tax reform. As part of this initiative, the OECD established a Global Minimum Corporate Tax, ensuring that large MNEs pay a minimum tax rate of 15% on profits in each country where they operate.

By introducing the DMTT, Bahrain underscores its dedication to international cooperation and creating a fairer global tax landscape. The law aims to ensure that MNEs pay at least a 15% tax on profits generated within the Kingdom. This legislation applies specifically to large MNEs operating in Bahrain with global revenues exceeding the Pillar Two threshold of EUR 750 million. Eligible businesses are required to register with the National Bureau for Revenue (NBR) by the deadline outlined in the relevant legislation.





## 5.1 VAT Impact on Education-Related Transactions in the UAE



CA Neetu Jose

### 1. VAT Treatment of Tuition Fees

Educational services are generally zero-rated under UAE VAT laws if they meet the following criteria:

- Provided by educational institutions approved by relevant authorities and following a recognized curriculum (e.g., nurseries, preschools, schools).
- For higher education institutions (e.g., colleges, universities), they must either be government-owned or receive more than 50% of their funding from the local or federal government.

If these criteria are not met, educational services are subject to VAT at the standard rate of 5%.

### 2. Extracurricular Activities

Extracurricular activities, when charged separately from tuition fees, are subject to VAT at the standard rate of 5%.

### 3. Student Organization Membership

Membership fees for student organizations are taxable at the standard rate of 5%.

### 4. Student Accommodation

The supply of student accommodation, except for the first supply of a new residential building, is VAT-exempt. However, educational institutions providing accommodation cannot recover VAT on expenses directly related to the provision of accommodation.

### 5. Grants and Sponsorship Income

The VAT treatment of grants and sponsorship income depends on whether the institution provides benefits in return for the funding. If there is a benefit, such as naming rights or discounted tickets, the supply may be taxable. If no significant benefit is provided, the income is outside the scope of VAT.

### 6. Books and Educational Materials

Goods and services directly related to zero-rated educational services, such as books and digital materials, are also



zero-rated. However, if the educational service is taxable, the related materials will be taxed at the standard rate of 5%.

## 7. Uniforms and Clothing

Uniforms or other required clothing, even if part of the educational service, are taxable at the standard rate of 5%.

## 8. Electronic Devices

Electronic devices used in educational services, even when supplied as part of the service, are subject to VAT at the standard rate.

## 9. Food and Beverages

All food and beverage supplies, including those from vending machines or provided through vouchers, are taxable at the standard rate.

## 10. Field Trips

Field trips are taxable at the standard rate unless they are directly related to the curriculum and are not primarily recreational.

## 11. Research Funding

The VAT treatment of research funding can be complex. If the educational institution provides deliverables or intellectual property in exchange for the funding, it may be taxable. If the funder receives no significant benefit, except for incidental updates or progress reports, the funding is outside the scope of VAT.

## 12. Transportation Services

Transportation services provided to students between their homes and the educational institution, do not meet the conditions to be treated as a qualifying means of transport for the zero-rating provisions. Such means of transport shall therefore be subject to the standard VAT rate. ( Public Clarification VAT P007)

## Input VAT Recovery for Educational Supplies

Educational institutions that supply standard-rated or zero-rated services can recover input VAT related to these supplies. However, VAT incurred on exempt supplies is not recoverable. When an institution provides both taxable and exempt supplies, input tax apportionment is required, which can be complex. The recoverable VAT is determined based on the proportion of taxable supplies to total supplies.

This overview provides insight into the VAT implications for educational institutions in the UAE, assisting them in understanding their VAT liabilities and recovery options.





## 5. INVITATION TO WRITE ARTICLES FROM MEMBERS

Dear Members,

We invite contributions from Chartered Accountants who are members of the Chapter to share insightful articles on Corporate Tax, Value Added Tax and Excise Tax matters for our newsletter.

Please submit your articles by clicking on the link <https://icaidubai.org/articles>

Kindly adhere to the following guidelines:

**Intellectual Property Responsibility:** The articles/ writeups/ views shared are from your own research and you should take full responsibility that it does not breach any copyright, patent or any other IP or any other types of rights.

**Content Guidelines:** The article should not contain any objectionable contents including but not limited to such as taboo topics like religion, politics, culture and sex.

**Editorial Modification:** The author should not have an objection if the Managing Committee makes any changes to the shared articles/ writeups/ views to make it fit for the purpose of inclusion in the Journal/ Newsletter/ Publication of the ICAI Dubai Chapter.

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**Publication Decision:** The submission of articles/ writeups/ views does not create an/any obligation on/to the Managing Committee of the ICAI Dubai Chapter to publish it or to make it as part of their any publication. The decision of the Managing Committee will be final and binding on the author.

**Submission Deadline:** Submit the complete article with relevant information by the 25<sup>th</sup> of the month to be considered for publication in the upcoming newsletters.

We look forward to receiving your contributions, which will enrich our newsletter with valuable insights and updates. Please use the above mentioned link for submitting your article. For any clarifications please contact below persons,

### CONTACT PERSONS

CA Balam Vuchidi  
[balaram.vuchidi@icaidubai.org](mailto:balaram.vuchidi@icaidubai.org)

CA Aashna Mulgoankar  
[aashna.mulgaonkar@icaidubai.org](mailto:aashna.mulgaonkar@icaidubai.org)





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ICAI (Dubai) Chapter NPIO UAE TAX UPDATE Newsletter Team

### EDITORIAL TEAM

CA Balam Vuchidi  
+971 50 986 6466

CA Aashna Mulgaonkar  
+971 55 552 0871

CA Dixit Kumar Jain  
+971 55 752 1929





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