



INDIRECT TAX UPDATES

June 2026

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Key Changes- VAT refunds- Effective from Jan 1, 2026

Excess recoverable VAT?
(input VAT > output VAT)



Refund must be applied (or used/offset) within **5 years**
from end of tax period

If credit arises late
After 5 years OR in last 90 days of
being time barred



FTA decision
Claim within 1 year

Other cases
Claim within 90 days

Miss the timeline? Right to refund/offset expires permanently

Key Changes- Transitional relief and statute of limitation

Transitional Relief

Period	Credit Status	Transitional Relief	Action Required
2018 – 2020	Expired	Eligible	File refund/offset the tax credit by 31 Dec 2026
2021 onwards	Within 5-year window	Not transitional; standard rules apply	File refund/offset the tax credit under normal timelines

Extension of Statute of Limitation



Key Changes- Tax Evasion Prevention Rule explained- Effective from Jan 1, 2026

Rule Purpose and Scope



The Tax Evasion prevention' provision requires businesses to exercise reasonable care to avoid VAT fraud related transactions.

01

Consequences of Non-Compliance



Rejection of Input tax credit availed

02

When...



1. *Shall Reject*- Taxable person is aware that supply was a part of tax evasion
2. *May Reject*- Taxable person "should have been" aware...

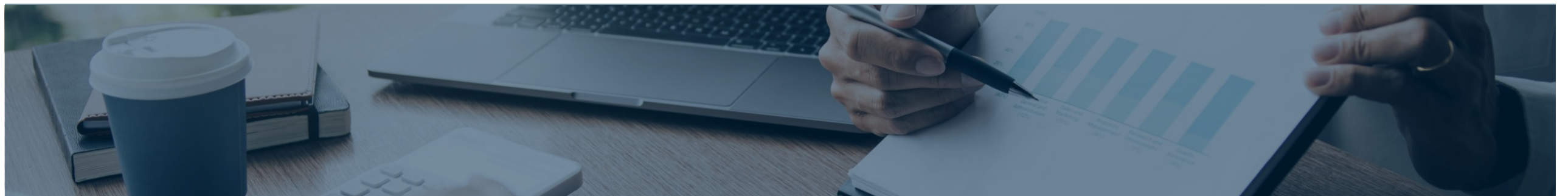
03

Detailed Due Diligence??



"Verify validity and integrity of supplies"

04



Key Changes- Tax Evasion Prevention Rule explained- Effective from Jan 1, 2026

Risk Based Vendor Categorization

- Low Risk (Long standing suppliers, regulated sector etc.)
- Medium risk (New suppliers etc.)
- High risk (Unorganized sectors etc.)

- Introducing a value based tiered due-diligence model



Red Flags and Checks

- Does anything look unusual?
- Prices far below market value
- Payment to unrelated account
- Issuing or altered documents
- Very new companies offering large deals



Actions

- Know your supplier procedures (Written vendor due diligence policy)
- Validate (annual review cycle) and update (TRN, license)
- Strong VAT & audit clauses in procurement contracts/ POs
- Keep evidence & train teams



Smart checks at the right time convert VAT risk into VAT protection.

New Penalty regime – Effective April 14, 2026

Violation	CD 108/2021	CD 129/2025	Comments
Arabic records not submitted	AED 20k	AED 5k	Reduced 
Tax records not updated	AED 5k / 10k	AED 1k (5k if repeat within 24 Month)	Reduced 
Appointing of Legal rep not notified	AED 10k	AED 1k	Reduced 
Late payment of tax	2% + 4% monthly	14% p.a. (~1.17% pm)	Reduced 
Incorrect tax return	AED 1k / 2k	AED 500 / NIL	Reduced 
Voluntary Disclosure submitted	5% to 40% of tax difference based on years of delay.	1% Monthly	Increased for most cases 
Failure to submit VD before audit notice	Fixed penalty of 50% + 4% monthly	Fixed penalty of 15% + 1% monthly	Reduced 
Failure to calculate tax on behalf of another person	2% + 4% monthly	14% p.a. (~1.17% pm)	Reduced 

New Penalty regime – Effective April 14, 2026

Audit Penalty Comparison (Old V/s New)

Tax period: January 2024 | Original due date: 28 February 2024

Tax difference: AED 100,000 | Audit Assessment Issued on: 1 July 2026 | No VD filed



Cabinet decision	Fixed Penalty	Variable Penalty	Total Penalty
Outgoing (CD 108/2021)	AED 50,000 (50% of 100,000)	AED 116,000 (4% × 29 months of 100,000)	AED 166,000/-
New Penalty (CD 129/2025)	AED 15,000 (15% of 100,000)	AED 29,000 (1% × 29 months of 100,000)	AED 44,000/-

VD Penalty Comparison (Old V/s New)



VD filing window (from original due date)	Outgoing (CD 108/2021)	New Penalties (CD 129/2025)
Within 1 year	5%	1% to 12%*
1 to 2 years	10%	13% to 24%*
2 to 3 years	20%	25% to 36%*
3 to 4 years	30%	37% to 48%*
4 to 5 years	40%	49% to 60%*

*Depending on when the error is corrected

New Penalty regime – Effective 14 April 2026 onwards

VD V/s Audit Penalty (New)

Tax period: January 2024 | Original due date: 28 February 2024

Tax difference: AED 100,000 | Audit Assessment Issued/ VD Filed : 1 July 2026



Scenario	Fixed Penalty	Variable Penalty	Total Penalty
VD	Not Applicable	AED 29,000 (1% × 29 months of 100,000)	AED 29,000
Audit (No VD Filed)	AED 15,000 (15% of 100,000)	AED 29,000 (1% × 29 months of 100,000)	AED 44,000

Filing a VD before audit avoids the 15% fixed penalty, reducing exposure by AED 15,000 for tax liability of AED 100,000.



Other VAT Updates

Profit Margin Scheme

- PMS applies to blocked-input assets, allowing VAT on profit margin only, with enhanced documentation requirements.



Input Tax Apportionment Guide

- Application for 'SRP' mechanism- allows fixed recovery percentages for partially exempt businesses, reducing recalculations and improving forecasting.



Reverse Charge on Scrap Metal

- RCM shifts VAT accounting to recipient with mandatory written declaration.
- Input tax credit denied if declaration is not issued.



Import Self-Invoicing

- Valid supplier invoices suffice for imports; self-invoicing is not a mandatory requirement.



Customs & Excise Tax Updates



Sweetened Drinks – Volumetric Model

- New Rates (per 100ml based on sugar content)
 - Low: ≤5g
 - Medium: >5g to ≤8g
 - High: >8g

No lab certificate → High tier applies

Key Points

- Transitional rules apply to stock held at 31 Dec 2025
- Refund possible for excess high tier rate until June 2026 (subject to conditions)

Action

- Confirm sugar reclassification + obtain lab certificates
- Assess exposure to stockpiler provisions



Designated Zones – Natural Shortage

- FTA-approved Independent Competent Entity (ICE) report now required
- Based on operational data + site inspection
- Shortage capped at approved %
- Ongoing notification required where conditions change

Key Points

- Increased FTA scrutiny on shortage claims
- Stronger governance and documentation expectations

Action

- Engage ICE early
- Prepare operational data and review internal controls



UAE HS Code Expansion

- Migration from 8-digit to 12-digit HS codes
- Transition deadline extended beyond January implementation

Key Points

- Greater classification granularity
- Potential impact on duty rates, FTA claims and permit controls
- Increased risk of declaration errors during transition

Action

- Review product classification mapping
- Update ERP and broker instructions
- Monitor final implementation deadline

Q&A



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