

CHARTEREDHOUSE  
TAX CONSULTANCY



# TAX AUDIT INSIGHTS

Understanding of Transaction Basis- **Anurag Chaturvedi | Manoj Agarwal**



# TODAY'S PRESENTATION

## TALKING POINTS

- Audit Focus
- Insights to Preparedness
- Common Mistakes
- Key Considerations
- Reconciliations
- Whats Next with ESR
- Questions



# AUDIT FOCUS

## INSIGHTS TO DETAILS

BEFORE COMMENCING AUDIT,  
TAX AUDITORS TAKE FULL  
UNDERSTANDING OF YOUR  
BUSINESS.



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# Refund Claim Verification Vs Tax Audit



## REFUND CLAIM VERIFICATION

Refund claim verification is not an audit and its merely a verification of genuineness of the refund claim.



## FTA AUDIT

The Authority may perform a Tax Audit on any Person to verify the extent of that Person's compliance with the provisions of this Law and the Tax Law.



## DIFFERENCE

Tax audit outcome is a detailed tax audit report identifying the observations and tax positions adopted by FTA with estimated tax liability/refund.



AS PER OUR RECENT  
SURVEY

7 OUT OF 10

BUSINESSES DO NOT HAVE  
READINESS TO FTA AUDIT

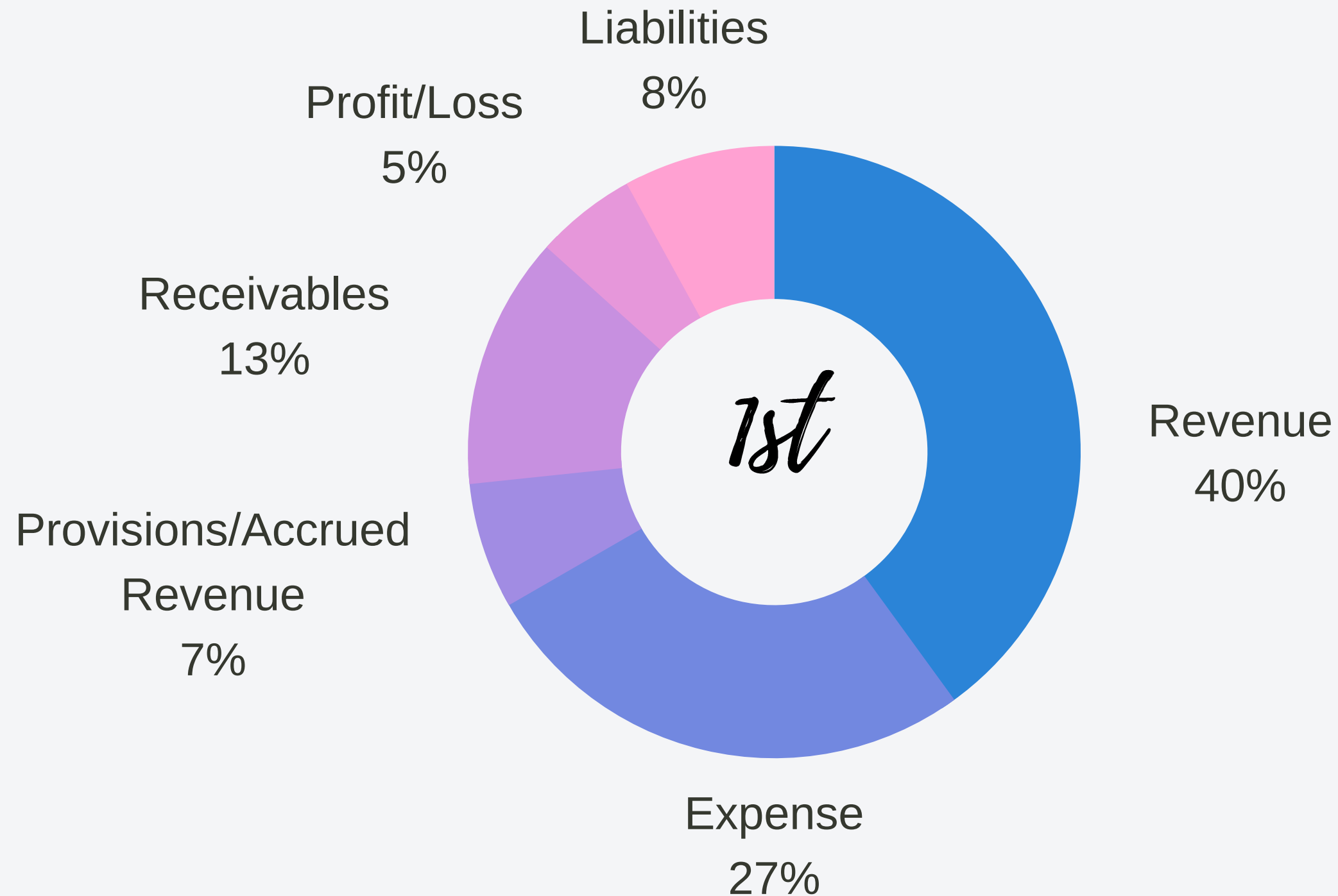
## WHATS VAT AUDIT FILE

It lists the following,

- Sales- 5%
- Sales- 0%
- Sales-OOS
- Expenses Subject to 5%
- Reverse Charge transactions
- Unclaimed expenses
- Details of capital asset transactions
- Details of deemed supplies
- Detail on apportionment method
- Date of payment for settlement of bills.

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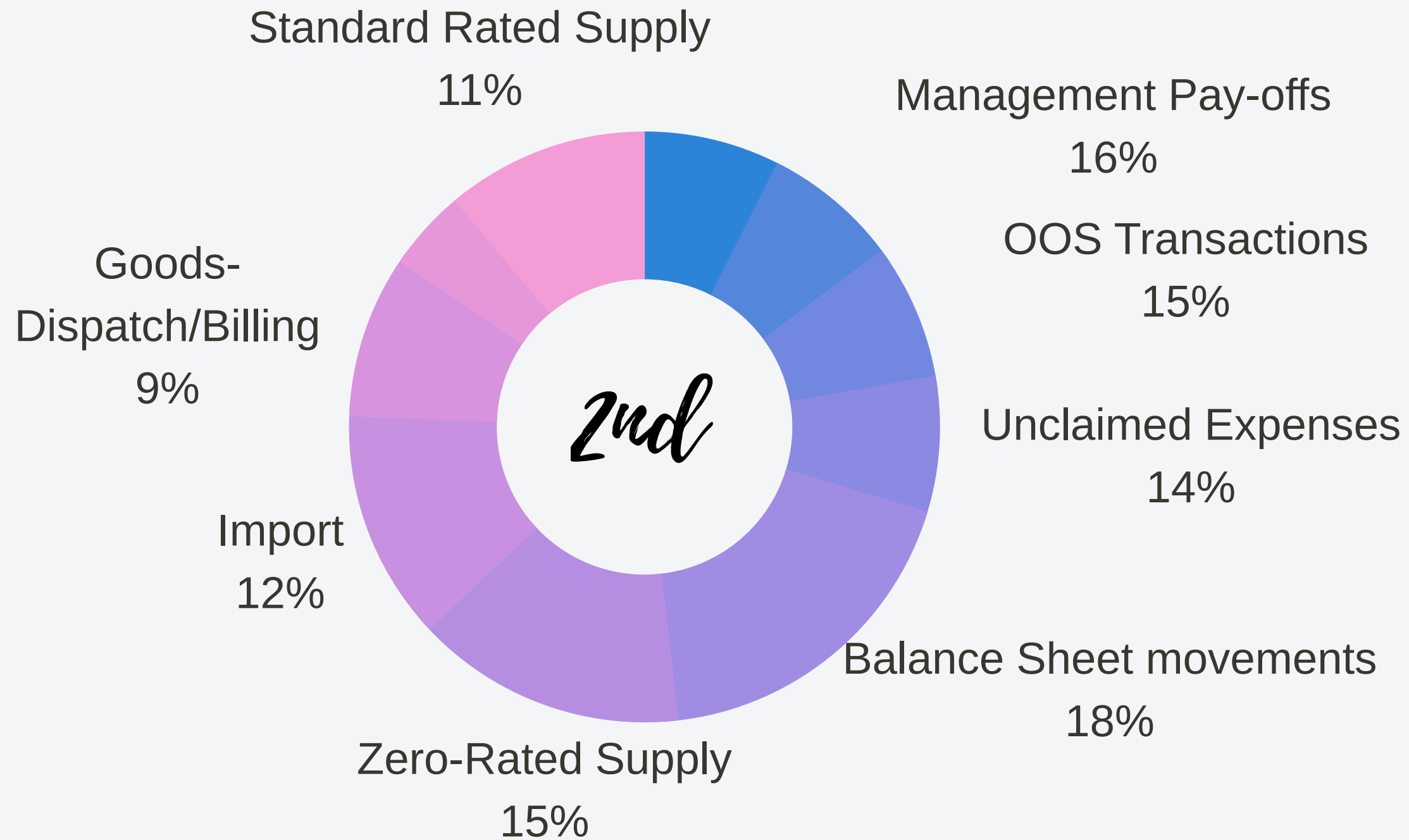
# AUDIT FOCUS AREAS



FINANCIAL STATEMENTS

Disclaimer: These info are based on recent audits handled.

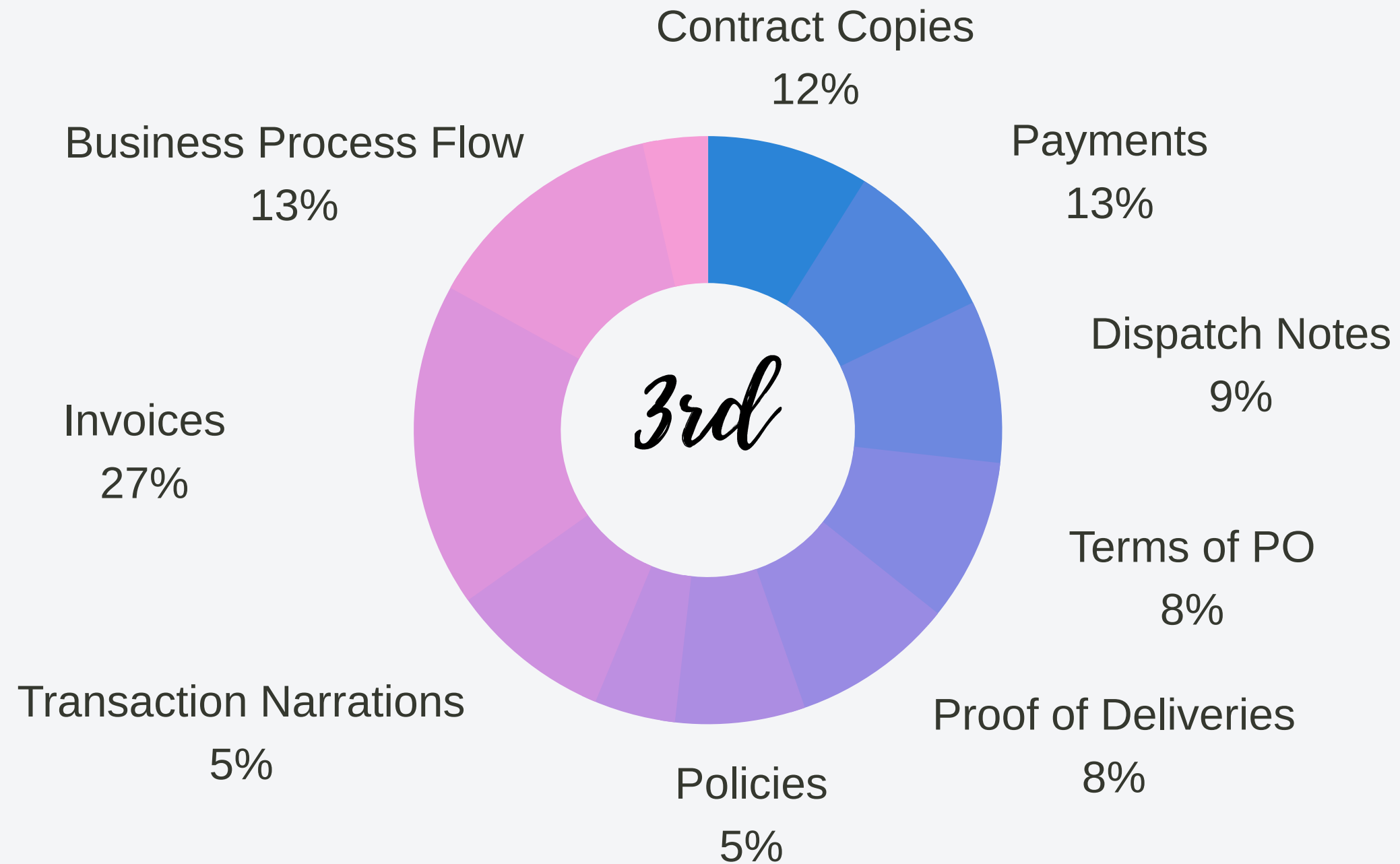
# AUDIT FOCUS AREAS



TRIAL BALANCE

Disclaimer: These info are based on recent audits handled.

# AUDIT FOCUS AREAS



## VAT RETURN AUDIT DATA

Disclaimer: These info are based on recent audits handled.



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# LET'S CHECK YOUR PREPAREDNESS

GENERAL QUESTIONS  
FTA ASK IN AUDIT  
NOTICE

الهيئة الاتحادية للضرائب FEDERAL TAX AUTHORITY		VAT Audit Questionnaire	
Question number	Question	Answer	

# PRE-AUDIT CHECK



1

## NO. OF ESTABLISHMENT

How many establishments you have across UAE? Are they branches or individual establishments?

2

## NO. OF EMPLOYEES

Number of employees across group entities and WPS file per entity

3

## GROUP COMPANIES

For identifying transactions not at arms-length/adjustments at BS level.

4

## FREE SUPPLIES

Discounts/Samples/Free supplies/ Barter, etc.

5

## CAPITAL ASSETS

Expense on Capex as per Capital Asset scheme

6

## BUSINESS PROMOTIONS

Yearly limit of AED 40K and 500 per taxable person

7

## IMPORT

Reconciliation of Box 6 and Box 3 with custom and books

8

## POLICIES

HR Policies and Accounting policies to identify tax point.

9

## MANAGEMENT

List of Directors/MD/Investors



# FUNDAMENTAL QUESTIONS



## PROFIT & LOSS

Do you maintain reconciliation between financial and tax supply?



## SUPPLY VS. INVOICE

Do you track your supply and invoice and what point you consider for SUPPLY?



## NATURE OF EACH SUPPLY

How you do treat them?  
What rate you charge and why?

# RECONCILIATIONS



## INVENTORY

Its a must for businesses dealing in goods & specially those who deals in HSS transactions.

## CUSTOM RECORDS

Its critical for businesses to track Auto-populated transactions in Box 6 and maintain reconciliation for price and quantity with books.

## CONTRACTS COVERAGE

Many businesses remain ignorant about contract terms are observed to be overlooking "timing and purpose while calculating Taxable Revenue"

## ACCRUED VS REALISED

Many businesses do not pay tax on accrued income overlooking associated terms of contract and tax timing.

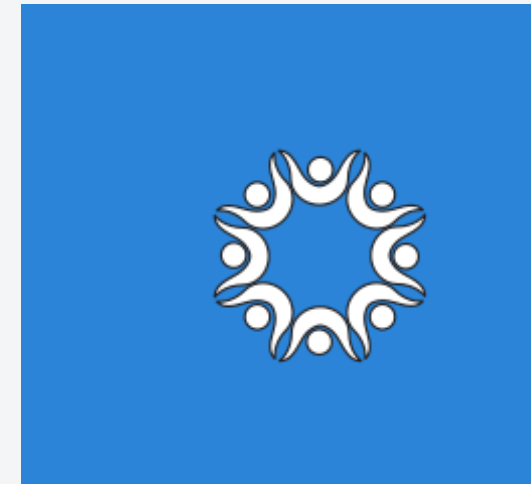
# EASY PICKS



Management  
Remuneration/Staff  
Loaning



Fuel/Car



Food/entertainment/  
staff welfare



Export  
Documentation





# COMMON MISTAKES

## KNOWINGLY NON-DISCLOSURE

Often we see clients believe that since clarity wasn't there initially, we can go away with this. FTA stand is clear as soon as you realised an issue you shall DISCLOSE.

## INDUSTRY TREND TOWARDS COMMON ISSUES

FTA recently answered to a client rejecting major INPUT Claim explaining despite of it being an industry issue, if it doesn't fulfill tax conditions, you can't claim input.

## TRANSACTION TREATMENT

Each transaction can have different tax implications.

1

### KNOWING YOUR BUSINESS

We have been instances where they ask registrants to explain their business and transaction flow.

2


### CONFIRMATION

FTA confirm your understanding of transaction and why you applied a rate before starting the audit.

3

### DOCUMENT ARCHIVAL

FTA takes understanding of your ERP system to understand how you maintain records and is how secure is your system.



**Key  
Information  
you shall have  
maintain**



## **TAX IS MATTER OF SUBSTANCE**

There are commonalities  
between disclosures  
between the two  
regulations!

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# **WHATS CONNECTION BETWEEN VAT & ESR**

# GETTING TO ECONOMIC SUBSTANCE



## WHAT IS IT?

to **determine** the requirements & **set out the criteria** that confirms that licensee is carrying out an activity in the state that **achieves** economic substance interest

On 30 April 2019, the UAE Cabinet issued Resolution No.31 of 2019 Concerning Economic Substance Regulations in the UAE, requiring all “**Relevant Entities**” that carry on “**Relevant Activities**” to have demonstrable Economic Substance in the UAE **from 30 April 2019**.

”

## **APPLICABILITY**

To all UAE Companies,  
including those  
incorporated in Free Zones,  
that generates income from  
conducting “**Relevant  
Activity**”.

NO EXCEPTIONS



# RELEVANT ACTIVITY

- Banking business
- Insurance business
- Lease finance business
- Investment fund management business
- Headquarters business
- Holding company business
- Intellectual property business
- Shipping business
- Distribution & service center business.

## EXCEPTION

Any commercial company in which the Government of the State, or any governmental authority or body has any direct or indirect ownership in its share capital.

# SUBSTANCE TEST

## A LICENSEE MUST SATISFY TO MEET ECONOMIC SUBSTANCE TEST,

A licensee meets the test if,

- if licensee conducts state core income generating activity in the state.
- licensee is directed & managed in the state in relation to that activity.





# CONNECTING POINTS

- Head Office Transactions
- Under valuation of imports (Services/Goods)
- Over valuation of exports (Services/Goods)
- SPVs for transaction routing
- Outsourcing transactions
- Investment income/foreign remittances
- Board/management transaction



# REPORTING AS PART OF ESR TEST & VAT AUDITS

## YOUR NEXT STEPS

### **BALANCE SHEET**

Capitalisation and De-capitalisation, Funds movements (Loan to related parties with interest bearing)

### **PROFIT & LOSS**

As per ESR you have to show **ADEQUATE** Income and expense from the relevant activity.

### **TRIAL BALANCE**

Transaction timing and its recording should be as per the law.

### **BANK STATEMENTS**

Its essential to sense check bank transactions as per tax eturns



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# QUESTIONS?



## HEALTH CHECK UP

We assist our clients in to validate your past returns identifying gaps and provide recommendations to limit exposure!

## COMPLIANCE

Our regular compliance review point outs errors in time and avoid incorrect reporting.

## TRANSACTION ADVISE

We advise contracts to advise on tax substance, timing and rate of tax applied.

## TAX STRUCTURING

We help our clients to simply tax structure and make compliance easy.

## AUTOMATION

Our professionals have experience on all leading ERPs in automating VAT compliance (i.e. reports, return and FTA audit file).

## FTA AUDIT ASSISTANCE

As Tax Agent, we can assist you in your tax audits by representing and communicating to FTA.

**This is what we do!**