



VAT Workshop

Initiatives by FTA for VAT implementation and Way Forward for Industry and Tax consultants



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

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Initiatives by FTA for Implementation of VAT Law



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- Issuance of various Public Clarifications pertaining to contentious issues under the VAT legislation
- Issuance of multiple User Guides with respect to application of various aspects of VAT
- Conducting Tax Clinics, VAT Seminars and VAT training workshops attended by over 28,000 consultants and industry professionals across various sectors and all the Emirates of UAE.
- Handling over 500,000 queries relating to VAT over telephone and email

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- Launching E-learning programmes and short educational films on VAT in UAE to increase awareness
- Instigation of Tax Assessments
- Instigation of Tax Audits
- A very detailed assessment of all VAT Refund Claims and asking for details of sales invoices, purchase & expense invoices and other documentary proofs from the assesses.
- Requirements to do VAT Registration Updation on annual basis, with updated supporting documents.

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- Paying Random surprise visits to Tax Registrants, especially to those in Retail Sector.
- Levying of Fines and Penalties for non-compliance
- Updating the FTA website which is now equipped with Advanced Display Technology
- Initiative to start issuing VAT Refund to Tourists as well as Business Visitors in UAE and setting up self service kiosks for tourists to get their VAT Refunds.

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Updates on VAT Registration and VAT Refund Claims



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- Registration – Special emphasis by FTA on:
 - Turnover evidence
 - IBAN details
 - Preferred option of TRN as against TIN for Tax Group formations, in certain cases.
 - Common control for Tax Groups

- Registration Amendments – Requirements from FTA:
 - Updated formation documents
 - IBAN and Custom code updates

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- VAT Refunds – Process and Documentation requirement:
 - Streamlined process for processing the refund claims
 - Data in excel files and sample invoices reviewed, prior to approving VAT Refund claims
 - Specific emphasis of FTA on review of VAT Refund Applications is on Input Tax Credits claimed on disallowed expenses

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VAT Implementation Challenges and Way Forward



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➤ VAT Implementation Challenges

- Keeping updated with the New Cabinet Decisions, Public Clarification Guides and other Notices being issued by FTA from time to time over past 19 months.
- Continuously applying the provisions of VAT law incorrectly, due to wrong understanding/ interpretation of the provisions of VAT Law in UAE.
- No proper control being maintained on ensuring proper accounting for all Output VAT and Input VAT is being carried out by the designated staff/ accountants of the company.
- Ambiguously worded contracts with suppliers and customers, lead to stalemate on applicability of VAT amongst the parties.
- No Reconciliation on monthly/quarterly basis being carried out and retained for numbers appearing in Books of Accounts maintained in accordance with IFRS and the numbers reported in monthly/quarterly VAT Returns.

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➤ Challenges relating to Accounting Software

Mostly the Accounting Software used by the Entities have not been modified to meet requirements of VAT Law fully. For Example:

- Some Accounting Softwares recognize Revenue even in cases where Tax Invoices are raised for receipt of Advance payment.
- Chart of Accounts of most Accounting Softwares does not contain option to have separate account for recording Non- recoverable Input VAT.
- Most of Accounting Softwares don't have separate categories of account for Exempt and Out of Scope supplies.
- Zero Rated Tax Invoices generated from Accounting Softwares don't actually show VAT at zero percent rather leave it as blank.
- Most Accounting Softwares are not able to generate FTA Approved Audit Files (FAF) in format prescribed by FTA.

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➤ Challenges pertaining to Documentary Evidence to support Transactions:

- Export of Goods – Lot of Exporters are not able to get official and commercial evidence required under the VAT Law to take benefit of Export of goods to be zero rated.
- Tax Invoices from UAE suppliers are not being received on timely basis which lead to delay in claiming Input Tax Credit and in some cases, make the Input Tax Credit time barred.
- Bill of entries / Custom Declaration for import of goods are not being retained for claiming RCM and RCM being claimed blindly based on the pre-populated data on Import of Goods appearing in Box 6 of the VAT Return, without any reconciliation with underlying supporting documents.
- Proper Invoices from Overseas Suppliers not being received to report RCM on Import of Services and in some cases RCM on Import of Services is missed to be reported altogether.

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➤ Wrong practices with respect to VAT Implementation

- Charging VAT from Customers without being registered for VAT with FTA- Using someone else's TRN.
- Forming Company in UAE and obtaining a TRN- However, not Filing VAT Returns or not making VAT Payment to FTA.
- Wrongly treating certain transactions as zero rated, exempt or out of scope- when they should have been subject to Standard Rate of 5% Tax. For Example Medical Equipment, Lease of Vehicles with Chauffeur etc.
- Wrongly claiming Input Tax Credit when it is specifically disallowed- Entertainment Expenses, Expenses relating to Motor Vehicles and Other Company Assets not used fully for Business, Expenses pertaining to exempt supplies such as Local Passenger Transportation (including Passenger Transportation Services to Company employees for a consideration), Medical Insurance for Dependent Family Members of Company Staff etc.
- Foreign Companies or Individuals not Resident in UAE but making Taxable Supplies in UAE, not registering for VAT in UAE.

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Way Forward for Industry for proper VAT Implementation:

- Keep themselves updated with public clarifications and guidelines released by FTA
- Ensure that Accounting Software used by Entities should provide all details as required in FAF files
- Expenses and Incomes reported in books of accounts and as those disclosed in VAT returns can be segregated in the following categories
 - Taxable supplies – standard rate
 - Taxable supplies – Zero rated
 - Taxable supplies – Exempt
 - Taxable supplies – out of scope
 - Taxable expenses – Standard rate – recoverable
 - Taxable expenses – standard rate – Non –recoverable
 - Taxable expenses – zero rated
 - Exempt expenses
 - Out of scope expenses

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Way Forward for Industry for proper VAT Implementation:

- Do a Monthly / Quarterly Reconciliation of Revenues and Costs reported in their Books of Accounts as per IFRS with Revenues and Costs reported in VAT returns
- Maintain and preserve all supporting documents such as Tax Invoices, Purchase Orders, Contracts with customers and suppliers in a safe and proper condition for the prescribed period under the VAT Law.
- Modify/ Replace the Accounting Software in case the Accounting Softwares are not able to generate the FTA Approved Audit Files (FAF) in the prescribed format.
- Get a periodic VAT Health Check/ VAT Transaction Audit carried out by specialist VAT Consultants.
- Making Voluntary Disclosures to FTA, in case there are any significant errors reported in the VAT Returns already filed with FTA, where required.

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Way Forward for Tax Consultants:

- Keep themselves updated all the time with all the VAT updates, New Guides, Public Clarifications, User Specific Clarifications etc, issued by the FTA and share the same with their respective clients.
- Participating in VAT knowledge sharing sessions, VAT workshops, VAT Seminars etc, with other fellow Tax Consultants on a periodic basis, to discuss and share the new scenarios and challenges with respect to VAT.
- Engaging in interactive sessions with clients on an on-going basis, to understand VAT implementation challenges being faced by them, and suggesting them the solutions on the same.
- Keeping abreast with provisions, updates, legislative changes, clarifications etc. issued by the Tax Authorities of other GCC countries.
- Assisting the Clients in submitting User Specific Clarifications and Re-Consideration Applications to FTA.

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