

# ALPHA MANAGEMENT LIMITED

*Corporate Advisors, Consultants and Administrators for Offshore Companies, Trusts and Free-Zones*

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## VAT UPDATE – NOVEMBER 2017

With the 1<sup>st</sup> January 2018 implementation date for VAT in the UAE fast approaching, on 8<sup>th</sup> November 2017 the Federal Tax Authority published a draft of the Executive Regulations setting out Government policy on a raft of issues, clearing up many uncertainties and enabling companies to prepare for VAT. Failure to prepare and register will lead to **severe fines and penalties**. Below, we examine some of the matters addressed in the [draft] Executive Regulations:

- Whilst it was previously announced that certain food items will be exempted, we now know that all food items will be standard rated at 5%.
- Tuition fees / books at schools sanctioned by the Ministry of Education offering approved curriculums will be zero rated. No clarification on the fate of school uniforms, transport, canteen supplies and extracurricular activities. Higher education institutions such as Universities will only be exempt if owned by Federal or local Government and receiving more than 50% of their annual funding from the State.
- All medical treatments and medicines prescribed by registered professionals will be zero rated.
- Gold jewellery will be standard rated whilst investment grade pure gold and loose diamonds will be exempted.
- Public transport (taxis, metro, buses) and commercial airlines will be zero rated for VAT purposes. Petrol will attract VAT at 5%.
- Tourists coming from outside of the GCC will be permitted to recover VAT on departure, based on a set of rules that will be published later.
- All businesses with turnover in excess of Dhs 375,000pa (US\$102,000) (in the previous 12 months) are required to register, whilst those with turnover in excess of Dhs 187,500pa (US\$51,000) may voluntarily register. All eligible businesses must be registered by 1<sup>st</sup> January 2018. Due to the time taken to register we recommend submission of the application by 3<sup>rd</sup> December 2017 to avoid penalties.
- All businesses with annual turnover in excess of Dhs 10 million per annum (US\$ 2.72m) must be registered by 30<sup>th</sup> November 2017.
- Several businesses with common shareholdings may register as a "Tax Group". The advantage of registering as a Tax Group will be the submission of one Tax Return for the Group and intra-group transactions being dis-regarded.
- All prices quoted / displayed must include VAT.
- All goods exported will be zero rated.
- All goods and services imported will be subject to a reverse charge mechanism if such goods and services were liable to VAT if supplied by a registered person within the UAE.
- We finally get some clarity on Designated Zones which are considered to be outside of the scope of VAT. These have been defined as those with "a specific fenced geographic area" with security and Customs measures in place to monitor entry and exit of individuals and goods. The [draft] Executive Regulations do not specify or confirm which FreeZones will qualify. Most FreeZones will not be exempted. There is still uncertainty on the position of RAK + JAFZA offshore companies. We are recommending a precautionary registration until the Regulations are clarified.
- Contracts in existence before the implementation of VAT will be deemed to comply with VAT rules effective 1<sup>st</sup> January 2018 and so all contractual references to income and expenses will be deemed to include VAT. We suggest an immediate review of contracts and discussion with counterparties on the effects of VAT.

The above points are only a representative sample of the new rules. The full text of the [draft] Executive Regulations will shortly be available on the UAE Ministry of Finance's website [www.mof.gov.ae](http://www.mof.gov.ae) and the Federal Tax Authority's website [www.tax.gov.ae](http://www.tax.gov.ae). The rules are quite complicated and the cost of non-compliance is severe. The date for publication of the final Executive Regulations is not certain. Please do not delay the application process any further.

### What can Alpha Management offer?

With less than seven weeks to go before the implementation of VAT it is clear that immediate action is required to register [singly or as a "Tax Group"], review contracts, amend systems, advise staff, prepare management accounts and implement adequate accounting systems. Quarterly VAT payments will impact cash flows and so proper systems need to be in place to collect debts on a timely basis and accurately account for input tax. We have a range of services on offer with the most immediate being:

- We will register your company for a fee of Dhs 1,000 and de-register offshore companies without a charge if subsequently required. Please request a quote for registration of a "Tax Group" for all related companies together. The registration process requires the submission of financial statements or related management information.
- Thereafter we will review your business activities and advise the cost of quarterly accounting, preparation of VAT Returns and compliance with the [draft] Executive Regulations.
- Where Alpha Management provides directors, company secretary or shareholders, we need to review our position to ensure the company is compliant with the [draft] Executive Regulations.

Please call Ahmad Khawar on 04 354 4433 to discuss your requirements and ask for a fee quote.