

UAE VAT Guide

By TheDubaiNavigator.com

VAT REGISTRATION

The UAE has a 5% VAT rate.

VAT Registration Obligations:

If your global revenue over the past 12 months is

- below AED 187,500 in the past 12 months, you CANNOT register for VAT
- Is between AED 187,500 and 375,000, VAT registration is voluntary
- Exceeds AED 375,000, VAT registration is mandatory within 20 days, or a AED 10,000 fine may apply.

>> Please inform us if you are expecting your supplies to exceed AED 375,000 in a year.

>> The threshold covers global revenues (excluding transactions that are VAT-exempt or outside the scope of VAT; see below)

>> We will pro-actively register your company for VAT

VAT CHARGES

Once your company is registered for VAT, you have to include 5% VAT in all your invoices to clients except in the following cases:

- **VAT-Exempt Supplies (do NOT allow for recovery of input VAT, NOT reportable!)**
 - The following supplies are exempt from VAT (no VAT charged, and no input VAT recovery).
 - Financial services including life insurance and reinsurance of life insurance as well as financial services that are not conducted for an explicit fee, discount, commission, rebate or similar type of consideration.
 - Residential buildings, other than the residential buildings which are specifically zero-rated.
 - Bare land.
 - Local passenger transport.
- **Zero-Rated Supplies (allow for recovery of input VAT, reportable!)**
 - Exports of goods and services outside the GCC
 - Exports to GCC countries are outside the scope of UAE VAT (see below)
 - Services are considered exports, if the service is delivered aboard, including electronically (via email, Zoom).
 - International transport of goods and passengers.

- Certain means of transport, such as trains, trams, vessels, airplanes.
 - First sale/rent of residential buildings.
 - Aircraft or vessels designated for rescue and assistance by air or sea.
 - Certain investment precious metals.
 - Certain healthcare services and related goods and services.
 - Certain educational services and related goods and services.
- **The Transactions Are Outside the Scope of VAT (NOT reportable, input VAT recoverable in most cases)**
 - Salaries paid to employees.
 - Transfer of a business as a going concern (under certain conditions).
 - Exports to GCC countries
 - Dividends paid to shareholders.
 - Personal gifts not connected to the business.
- **The two companies (supplier and customer) are part of a VAT group**
 - A VAT group allows multiple legal entities under **common control** to be treated as **one taxable person** for VAT purposes.
 - Common control is achieved if the same UBOs have
 - voting interest in those companies of at least 50% when added together; or
 - a market value interest in each of those companies of at least 50% when added together
 - Supplies between members of the group are **outside the scope of VAT**.
 - To establish the VAT group, the group has to meet standard registration thresholds
 - Details: <https://tax.gov.ae/-/media/Files/EN/PDF/Guides/Tax-Groups-Guide.pdf>
- **If one or more of the involved companies are located in a Designated Zone**
 - Some UAE free zones are “designated zones”; see list [here](#)
 - Supply from **one designated zone to another** = **outside the scope of VAT**
 - Supply from a **non-designated zone to a designated zone** = **Zero-rated**
 - Supply from a **designated zone to any a non-designated zone** = **Standard 5% applies**

VAT FILINGS

After you are VAT registered, your company has to file:

- Quarterly VAT returns
- Monthly VAT returns - only if annual turnover is above AED 150 million, or if specifically requested by the FTA

Filing deadline: Returns have to be filed within 28 days after the end of your tax period (quarter or month). The exact tax period will depend on your company, and is shown on your VAT registration certificate.

If the 28th falls on a weekend or public holiday, the deadline shifts to the next working day.

VAT PAYMENTS AND REFUNDS

As part of your VAT returns you will:

- Need to pay the FTA for “output-VAT”
- And will get refunds on “input-VAT”

Input-VAT may exceed output-VAT, leading to a net VAT refund for your business.

REVERSE CHARGE MECHANISM

- **The reverse charge mechanism is only used for zero-rated exports**
- **In EU countries the reverse charge mechanism can also be used for transactions between two domestic businesses; however, in the UAE this is currently NOT the case**

If your client is VAT-registered in the UAE, do not include VAT on the invoice, and instead mention on the invoice that the reverse charge mechanism applies

Your client self-reports the VAT on their own VAT return.

Reverse Charge Mechanism Example

Company A and Company B are VAT registered in the UAE.

Company A sells AED 200,000 worth of services to company B.

Company B has just the 200,000 AED expense, but no revenue or other expenses.

Who pays how much VAT?

Short Answer

Company A does NOT charge VAT to Company B (because both companies are VAT registered).

Instead, Company B acts as both the supplier and the buyer for VAT purposes and pays the VAT directly to the Federal Tax Authority (FTA).

Detailed Step-by-Step Explanation

Step 1: The Invoice (Company A to Company B)

Company A issues an invoice to Company B for AED 200,000 for the services.

On this invoice, Company A does NOT add 5% VAT.

The invoice must clearly state that the Reverse Charge Mechanism applies.

The invoice will show:

Total Amount: AED 200,000

VAT: AED 0

Total Due: AED 200,000

Step 2: The VAT Treatment (Company B's Responsibility)

Since both companies are VAT registered in the UAE, the Reverse Charge Mechanism is applied.

Here's what Company B must do in its next VAT return:

Calculate the VAT: Company B calculates the VAT that would have been charged on the purchase.

$\text{AED } 200,000 * 5\% = \text{AED } 10,000$

Report as VAT Due (Output Tax): Company B declares this AED 10,000 as "VAT Due" in Box 1 of its VAT return. This is the tax it is liable to pay to the FTA.

Report as VAT Recoverable (Input Tax): Simultaneously, Company B declares the same AED 10,000 as "VAT Recoverable" in Box 4 of its VAT return. This is the tax it can claim back.

Step 3: The Net VAT Payment

Company B's VAT Return Calculation:

VAT Due (Box 1): AED 10,000

VAT Recoverable (Box 4): AED 10,000

Net VAT Payable to the FTA: AED 0

Even though the net payment is zero, Company B must still report this transaction in its VAT return. The transaction is legally recorded, and the VAT is settled within the system.

No money changes hands for VAT between the companies or to the FTA in this specific scenario.

This ensures that only the final consumer ultimately bears the cost of the VAT.

In your specific scenario, since Company B has no other revenue, its VAT return will show a net payable of AED 0, but the transaction must still be reported correctly to be compliant with FTA regulations.

Reverse charge,

Backcharge recovery for things before registration

Details: <https://mof.gov.ae/vat/>

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Registration thresholds

VAT in Austria