

UAE to impose Value Added Tax (VAT) as of 1 January 2018

The United Arab Emirates (“UAE”) has recently issued its domestic VAT Law, Federal Decree-Law No. 8 of 2017 (“Decree Law”) to implement Value Added Tax (“VAT”) in the UAE by 1 January 2018.

The publication of the Decree-Law follows the signing of the GCC VAT Framework Agreement by each of GCC States to collectively implement VAT governed by common principles agreed between the countries.

What is VAT?

VAT is an indirect tax and is commonly referred to as a type of general consumption tax. In a country which has a VAT system, it is imposed on most supplies of goods and services that are bought and sold. VAT is one of the most common types of consumption tax found around the world. Over 160 countries have implemented VAT (or its equivalent, Goods and Services Tax), including all 29 European Union (EU) members, Canada, New Zealand, Australia, Singapore and Malaysia.

VAT is charged at each step of the ‘supply chain’. Ultimately, end-consumers generally bear the VAT cost while registered businesses collect and account for the tax, in a way acting as a tax collector on behalf of the government.

The registered business pays the government the tax that it collects from its customers, while it may also receive a refund from the government on tax that it has paid to its suppliers. The net result is that tax receipts to the government reflect the ‘value added’ throughout the supply chain.

The impact of VAT

As a regulatory requirement, Standard Chartered Bank will have to charge VAT where this is prescribed under the Decree-Law from 1 January 2018. The charges on which the bank will have to apply VAT are yet to be determined, as the UAE has not yet published its secondary law (“executive regulations”) with respect to VAT.

Financial services will be subject to a narrow exemption model. However, based on VAT awareness sessions hosted by the Ministry of Finance, it is now clear that VAT will be applicable on certain financial services. Where the Government has released more information in this respect, the bank will inform its customers accordingly.

Following the introduction of VAT, Standard Chartered Bank will also be obligated to issue tax compliant invoices to its customers. In this respect, the bank will start gathering additional VAT related information from its customers in order to produce compliant invoices (for example a VAT Registration Number, where this is applicable). Kindly note, that the Bank shall release communications outlining the specific information required from customers and suppliers shortly.

Where can I find more information on VAT?

Standard Chartered Bank will continue updating its website with new developments relating to the introduction of VAT in the GCC. In the meantime, for further information please visit the websites of the UAE Ministry of Finance and the UAE Federal Tax Authority (FTA). They contain information on the Decree-Law and some FAQ’s on the introduction of VAT. The latest announcements and information available will first be published on the sites below:

Federal Tax Authority: <https://tax.gov.ae/>

Ministry of Finance: <https://www.mof.gov.ae/En/>