

Tax Alert

FTA Decision No. 6 of 2025

Introduction & contents



With effect from 1 July 2025, the Federal Tax Authority (FTA) has introduced a significant regulatory development via Decision No. 6 of 2025, addressing a long-standing grey area in the treatment of natural shortages of excise goods within designated zones in the UAE. In this context, this Decision represents a much anticipated and pivotal step in bringing clarity, structure, and legal certainty to the issue.

The Decision introduces a formal framework to recognize natural shortages of excise goods caused by inherent characteristics.

We have broken down the key elements of the Decision as follows for your reference:

1. Existing framework for natural shortages of Excise Goods within Designated Zones	02
2. Key definitions	03
3. Standards & controls	04
4. Documentary requirements	05
5. Impact on various excise industries	06
6. Next steps and way forward	07

Existing framework for natural shortages of Excise Goods within Designated Zones

Background

Article 2(2) of the UAE Excise Tax Law along with Article 12 of the UAE Excise Tax Executive Regulations provides that excise goods that are found to be deficient or there is a shortage in their quantity from a Designated Zone...” shall be treated as released for consumption i.e., **subject to excise tax, unless the responsible person notifies the FTA of such shortages within 30 days from date of discovery.**

An inevitable nature of the production process in the tobacco industry, specifically cigarette manufacturing, includes generation of production waste, most commonly in form of physical tobacco dust that falls within the scope of the above. Also, production waste includes commonly in form of moisture loss / evaporation of tobacco dust that falls within the scope of the above.



History

- ▶ Prior to September 2019, there was no formal guidance nor mechanism in notifying the FTA for such shortages
- ▶ In September 2019, the FTA released the updated Excise Tax Returns User Guide which introduced form EX203B – Lost & Damaged Declaration which allowed reporting of such shortages – this was after the road show conducted by FTA
- ▶ On 21 June 2022, the FTA released Public Clarification EXTP007 on Wastage of excise goods, which provides detailed procedures & guidance on reporting of waste
- ▶ FTA updated the Excise Tax ER on 6 November 2023, introducing Clause 5(b) under Article 12 which provides that ‘natural shortages’ fall within the scope of the exception (from being treated as released for consumption), subject to conditions

We understand that most players in the tobacco industry started reporting for physical waste from ~September 2019 onwards. Most started reporting for moisture loss from ~March 2021 onwards based on industry feedback.

The first semblance of guidance for requiring moisture loss reporting came in the Public Clarification released by FTA in June 2022.



Key definitions

► Natural Shortage

A reduction in the quantity of Excise Goods occurring during production, storage, or transportation within a Designated Zone, caused by the inherent nature of the goods (e.g. evaporation, leakage) and beyond the control of the Taxable Person. These goods cannot be released for consumption.

► Independent Competent Entity

Authorized laboratories approved by the Authority. Taxable Persons or Warehouse Keepers may request these entities to determine permissible Natural Shortage levels.

► Report

A document issued by the Independent Competent Entity, detailing:

- The Excise Goods examined
- Permissible, expected, or actual Natural Shortage % for each excise good

► Declaration

A formal submission by the Warehouse Keeper or Taxable Person via the Authority's system, reporting Natural Shortage as determined in the Report.

Standards and controls



Goods-Level Assessment

Natural Shortage must be assessed **per Excise Good, per Designated Zone**, for each Taxable Person or Warehouse Keeper.



Initial Report & Inspection

An initial Report is issued based on:

- ▶ Field inspections by the ICE of production/storage
- ▶ Actual data from **a minimum** of the past 6 months (as available)
- ▶ If production is newly established or under 6 months, the Report will be based on inspection + available actual data.
- ▶ Any Report issued within 6 months of 1 July 2025 is considered valid from 1 July 2025. This Report will remain **valid for 1 year** from 1 July 2025.



Report Validity

Reports are valid for **1 year**. A new Report must reflect:

- ▶ Actual shortage data from the past 12 months
- ▶ Expected shortage for the next 12 months



Change Notification

Any changes (e.g. in storage or production) that may impact shortage levels must be reported **within 20 business days** for a revised Report.



Declaration Consistency & Pre-Condition

The percentage of Natural Shortage declared must not exceed the percentage stated in the valid Report. The Declaration can be submitted for multiple Tax Periods, up to 6 months. A valid Report is mandatory before submitting any Natural Shortage Declaration.



Authority Oversight

Unannounced inspections may be conducted by the Independent Competent Entity. FTA may also perform verification visits post-Report issuance or during audits to validate reported shortages.

Documentation requirements



Detailed Explanation of the Manufacturing Process

Requirement: A comprehensive description of the manufacturing process, identifying the stages at which Natural Shortage may occur (e.g., evaporation, spillage, leakage).



Production Formula with Expected Shortage

Requirement: A production formula that indicates the expected shortage, both natural and non-natural, based on historical data and manufacturing practices.



Expected Percentage of Natural Shortage

Requirement: The expected percentage of Natural Shortage typically incurred, supported by documentation from previous periods (at least 6 months).



Manufacturing Equipment Data & Operating Manuals

Requirement: Documentation on the manufacturing equipment used, including operating manuals, to show how the equipment may contribute to or mitigate Natural Shortage.



Report & Data from the Last 6 Months

Requirement: Submit the Report issued by the Independent Competent Entity, along with actual data for a period of no less than 6 months.

Andersen Insights:

We have observed that each factory or warehouse holds unique conditions, all of which may potentially affect the natural shortages. It becomes imperative to maintain a documented process flow / Standard Operating Procedure (SOP) to explain how the company's unique production or storage processes naturally lead to such losses.

Further, on a high-level basis, companies must outline their formula or calculation by which waste is monitored & accounted for. This holds implications on ensuring that the accounting of the entire production cycle & related waste recorded in the system / financials is aligned with the lab reports.

Implications on various excise industries



Cigarette Industry

In the cigarette industry, moisture loss is generally observed during primary processing (tobacco conditioning) and secondary manufacturing (cigarette making and packing).

Implications:

- ▶ Moisture loss must now be quantitatively validated on a **batch-wise level** i.e., through pre- and post-curing moisture levels, backed by tobacco processing logs and lab data.
- ▶ Losses due to environmental factors (like storage temperature or air flow) must be supported with equipment specifications, climate control data, and regular calibration records.
- ▶ The company must be able to segregate natural from non-natural loss, as FTA scrutiny will no longer accept general assumptions.
- ▶ Different cigarette sizes and formats (e.g. king-size vs slim) must have separate shortage records, reflecting format-specific loss.
- ▶ Production day spillovers must be tracked distinctly to avoid over or understating natural shortage.



Shisha (Molasses) Industry

We generally observe that in the shisha industry, there is excess moisture content due to the inherent nature & production process of molasses (a sticky, semi-solid substance). Further, residual waste is flushed during washing and cleaning of equipment (mixers, tanks, transfer lines).

Implications:

- ▶ Precise measurement and justification of moisture-related weight differences are now essential. Simply stating "excess moisture" won't suffice - detailed production process logs, including initial and post-process moisture testing, must be documented.
- ▶ Waste that is flushed must be quantified, and its occurrence tied clearly to specific production stages. This should be supported by equipment cleaning SOPs and evidence of standard loss during rinse cycles.
- ▶ Robust documentation, such as lab reports, SOPs, explanatory notes etc., must be maintained for both the moisture levels throughout the production cycle, as well as the residual waste that is washed away.



Beverage & Vape Liquid Industry

It is generally seen that in the beverage & vape liquids industry, natural shortage occurs due to spillage of syrups, concentrates, or vape liquids during filling/bottling processes. Further, there may be flush loss during tank cleaning or when storage is not feasible (e.g. expiry of mix within holding tanks).

Implications:

- ▶ All spillage and flush loss must now be tracked in real-time using production control systems or waste logs. Manual estimations are not sufficient.
- ▶ Companies must retain **batch-level data** showing the quantity produced vs. filled, and precisely where loss occurred (e.g. valve spillage, residue in pipelines).
- ▶ Inability to store liquid (due to product sensitivity or expiry) must be proven with storage SOPs, shelf-life data, and drain logs, linking every disposal action to a production record.
- ▶ Any percentage of recurring spillage or drain loss must be reflected in the Independent Competent Entity's Report and can only be acceptable if it aligns with historical data and inspected findings.

Next steps & way forward

We have outlined a 5-point action plan that companies may keep in mind in light of this FTA Decision:



Assess Current Practices:

Identify gaps in shortage tracking, documentation, and reporting based on new FTA requirements.



Collation & Preparation of Required Information:

While the list of approved Independent Competent Entities is currently awaited, companies should consider preparing, sanitizing and collation of the information related to natural shortages, for a minimum of 6 prior months, along with the related explanatory notes, SOPs etc.



Train Staff on Updates:

Educate production and compliance teams on the new rules and standardize procedures for shortage recording and declaration.



Enhance Data Capture & Recordkeeping:

Implement systems to log waste, moisture loss, spillage, rejects in every stage of the operations cycle.



Monitor & Renew Annually:

Review actual vs. declared shortages regularly and renew the Report yearly with updated 12-month data.



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