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Federal Tax Authority Releases Updated UAE VAT Profit Margin Scheme Guide

January 2026

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The FTA has issued an updated guide on the UAE VAT Profit Margin Scheme, bringing welcome clarity on when the scheme can be applied, how VAT should be calculated and what the FTA expects to see in practice.

This update is particularly relevant for businesses dealing in used goods and for businesses disposing of assets where input VAT was blocked.

In the right scenarios/ when conditions are met, VAT is not charged on the full selling price. Instead, VAT is calculated only on the profit margin.

This can significantly change the VAT outcome of a transaction and if applied correctly, can reduce cash flow strain while remaining fully compliant with UAE VAT regulations.

What the Profit Margin Scheme actually does

Under the Profit Margin Scheme, VAT is calculated on the difference between the selling price and the purchase price of eligible goods. The margin is treated as VAT inclusive, i.e, the VAT is a part of the profit margin recognized from the taxable supply.

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In audits, the FTA is less concerned with the concept and more focused on whether the scheme has been applied correctly in day-to-day operations.

When the scheme can be applied

The guide confirms that the scheme may be applied where eligible goods are purchased from a non registrant, such as an individual and then resold. It can also apply where goods are purchased from a VAT registered supplier who applied the Profit Margin Scheme on their sale.

Importantly, the guide also highlights that the scheme may be relevant when selling assets where input VAT was blocked under Article 53 of the Executive Regulation. A common example is the disposal of certain motor vehicles where VAT recovery was restricted.

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This is not limited to second hand dealers. Corporate groups may apply the scheme when selling blocked input assets held by them, for example, motor vehicles available for personal use.

What goods are covered

The scheme applies to specific categories of goods including second hand goods, antiques (more than 50 years old) and collectors' items (coins, post stamps etc) subject to conditions.
The guide further clarifies that refurbished goods can still qualify, provided the refurbishment does not change the basic nature or function of the item.

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Where refurbishment significantly alters the item, applying the scheme can be difficult to defend. This should be reviewed alongside how the supply is described commercially and on the invoice.

A key condition that requires evidence

The goods must have been previously subject to VAT at some point in the supply chain. This condition is critical and is closely linked to documentation.

Where goods are purchased from a non registrant, the reseller should retain a purchase document capturing the seller's name and address, date of purchase, description of the goods, consideration paid and the seller's signature. The FTA also expects businesses to retain evidence showing that VAT was previously imposed on the goods such as the original tax invoice issued when the goods were acquired.

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In practice, many challenges arise not because the scheme was unavailable but because businesses cannot evidence that the conditions were met.

How VAT is calculated in practice

The profit margin is calculated as the selling price minus the purchase price. The purchase price includes costs incurred to acquire the goods, such as transport and installation. The selling price includes amounts directly linked to the sale of the goods.

For example, if goods are purchased for AED 2,500 and sold for AED 3,340, the profit margin is AED 840. VAT is calculated on the AED 840 margin (VAT is considered as inclusive of the total profit margin) not on the full selling price.

What happens if goods are sold at a loss?

If goods are sold at cost or at a loss, no VAT is due under the scheme for that item. Losses cannot be offset against profits on other items.

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This makes item level tracking particularly important for businesses with high volume resale models.

Invoicing rules are strict

Where the Profit Margin Scheme is applied, the tax invoice must clearly state that VAT has been charged under the Profit Margin Scheme. The VAT amount must not be shown on the invoice.

If an invoice or any other document shows VAT for that supply, the scheme cannot be applied to that transaction.

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Invoice templates are often the weakest link. A single incorrect template can undermine an otherwise valid scheme position.

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How it should be reported in the VAT return

- When the scheme is applied, the business must indicate its application in the EmaraTax Portal at the time of filing the tax return.
- For purchases, the purchase price is reported in Box 9 in the taxable amount column only, with no corresponding VAT amount as input tax can not be claimed for goods sold under the profit margin scheme.
- For sales, the transaction is reported in Box 1 of the VAT return. The taxable amount column reflects the selling price net of VAT on the profit margin and the VAT amount column reflects the VAT amount inclusive in the profit margin.
- By way of example, if a business purchases a used item from a non-registrant for AED 2,500 and later sells the item for AED 3,340 under the Profit Margin Scheme, the profit margin is AED 840. VAT is calculated on this margin only, resulting in VAT of AED 40.
- At the time of purchase, the business should report the purchase price of AED 2,500 in Box 9 of the VAT return in the taxable amount column only. No VAT amount is reported, as no input VAT is recoverable on the purchase.
- At the time of sale, the business should report the transaction in Box 1 of the VAT return. The taxable amount column should reflect the selling price net of VAT on the margin, being AED 3,300, and the VAT amount column should reflect the output VAT due on the margin, being AED 40.

  **The VAT amount must not be shown on the invoice.*
- The supply should be attributed to the Emirate of the establishment most closely connected with the sale.
- This reporting approach ensures that VAT is correctly accounted for on the profit margin, rather than on the full selling price and aligns with the FTA's expectations under the Profit Margin Scheme.

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System configuration and manual return preparation processes should be reviewed to ensure this reporting is applied consistently.

How we support

Andersen supports businesses across the full lifecycle of applying the Profit Margin Scheme, including:

- Assessing whether transactions qualify for the scheme
- Designing documentation process for purchases from non registrants
- Reviewing and updating invoice templates
- Aligning ERP systems and VAT return reporting

For more information on profit market scheme applicability for your business reach us at info@ae.andersen.com

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Get in touch

info@ae.andersen.com

800 2829

803, New Global Tower, Electra Street, Abu Dhabi
402, Arenco Tower, Dubai Media City, Dubai
AB 1002, Jafza One, Jebel Ali Free Zone, Dubai

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