

Update on Input Tax Apportionment Guide (VATGIT1)

The FTA has issued an updated Input Tax Apportionment Guide (VATGIT1), introducing key changes for businesses engaged in both taxable and exempt activities.



About SRP, its eligibility, and practicality

1. What is a Specified Recovery Percentage (SRP)?

SRP is a new mechanism introduced under the amended UAE VAT Executive Regulations, effective 15 November 2024. It allows businesses making both taxable and exempt supplies to use a fixed recovery rate, based on the prior year's actual recovery rate, for determining the input tax recovery rate in the following year. In simpler terms: instead of recalculating the recovery percentage for every Tax Period, a business can apply a single, pre-approved recovery rate across all Tax Periods in the new year (post receipt of FTA Approval).

2. Eligibility Criteria:

- ▶ Only Registrants who are registered for VAT for at least 12 months can apply.
- ▶ Applicants must have a mix of taxable supplies (where input VAT is recoverable) and exempt supplies (where Input VAT is non-recoverable), making them subject to Input VAT apportionment.
- ▶ Applications must be made by an authorised signatory, a Tax Agent, or a court-appointed representative. Importantly, tax consultants cannot apply on behalf of businesses unless legally appointed as Tax Agents.



3. How does SRP work in practice?

- ▶ The recovery percentage is locked based on the prior year's actual recovery rate.
- ▶ Where the Business is subject to a special apportionment method, the SRP shall be determined based on the prior year's recovery rate calculated under that method, even if FTA approval was not obtained for the use of such special method earlier.
- ▶ Businesses subject to the sectoral method will use a single recovery rate as the basis for their SRP calculation.
- ▶ If no special method applies, the standard apportionment method applies as a basis to determine SRP.
- ▶ Once approved, the SRP is valid for four years, and businesses are locked into the apportionment method for at least two years following approval.

Key Benefits and Considerations

1. Benefits for businesses:

- ▶ **Stability & predictability:** Businesses can forecast recoverable VAT with more certainty, aiding budgeting and cash flow planning.
- ▶ **Reduction in administrative burden:** Reduces the administrative burden of calculating apportionment for each period.
- ▶ **FTA certainty:** Pre-approval from the FTA provides comfort that the method used is acceptable, lowering the risk of disputes.
- ▶ **Strategic advantage:** Businesses with stable operations and consistent mixed supplies stand to benefit significantly.

2. Challenges & Considerations:

- ▶ **Sectoral method users:** For industries like banking, insurance, or real estate, where sectoral methods can apply, calculating and justifying a single SRP may be complex and require a robust analysis and evidence.
- ▶ **Variance reporting obligation:** If the actual recovery rate at year-end differs by more than 10%, businesses are obligated to notify the FTA within 20 business days. This requires strong monitoring and internal processes.
- ▶ **Fixed framework:** Once locked in, businesses cannot change the method for at least two years. This could pose challenges for businesses expecting shifts in their supply mix (e.g., scaling up taxable supplies).
- ▶ **Applications to the FTA:** Use of an SRP can only commence post receipt of FTA approval, which involves the preparation and submission of an application through the EmaraTax Portal. The applicant will need to include letters to the FTA, several historical calculations, and detailed workings in this application.
- ▶ **Timeframe:** The FTA may take up to 40 days (non-sectoral method) and 60 business days (sectoral method) to review applications. Furthermore, applicants must respond to any FTA requests (resubmissions, etc.) within 40 business days - failure to do so may result in automatic closure by FTA.

What this means for businesses:

The SRP mechanism can be valuable for businesses with stable and predictable operations, helping streamline compliance and reduce VAT uncertainty. However, it also increases the compliance responsibility, from proper monitoring of recovery rate variances to ensuring accurate and timely notifications to the FTA.

How Andersen can help:

The introduction of SRP brings new opportunities but also additional compliance responsibilities.

At Andersen, we partner with businesses to ensure they can maximise the benefits while staying fully aligned with FTA requirements. We support our clients to:

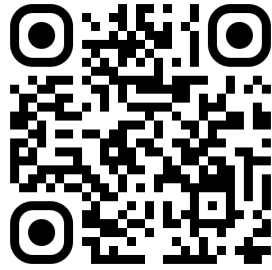
- ▶ **Evaluate suitability:** Assess whether SRP is the right approach based on business model, supply mix, and long-term plans.
- ▶ **Prepare strong applications:** Prepare comprehensive, FTA-ready applications supported by detailed workings and robust documentation.
- ▶ **Enhance compliance processes:** Implement effective controls to track recovery rates, manage variance reporting, and maintain audit readiness.
- ▶ **Provide ongoing advisory support:** Offer continuous VAT guidance, including sector-specific insights for industries such as financial services, insurance, and real estate.

With our complex VAT expertise and sectoral experience, Andersen helps businesses simplify compliance, reduce risks, and unlock strategic advantages.





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