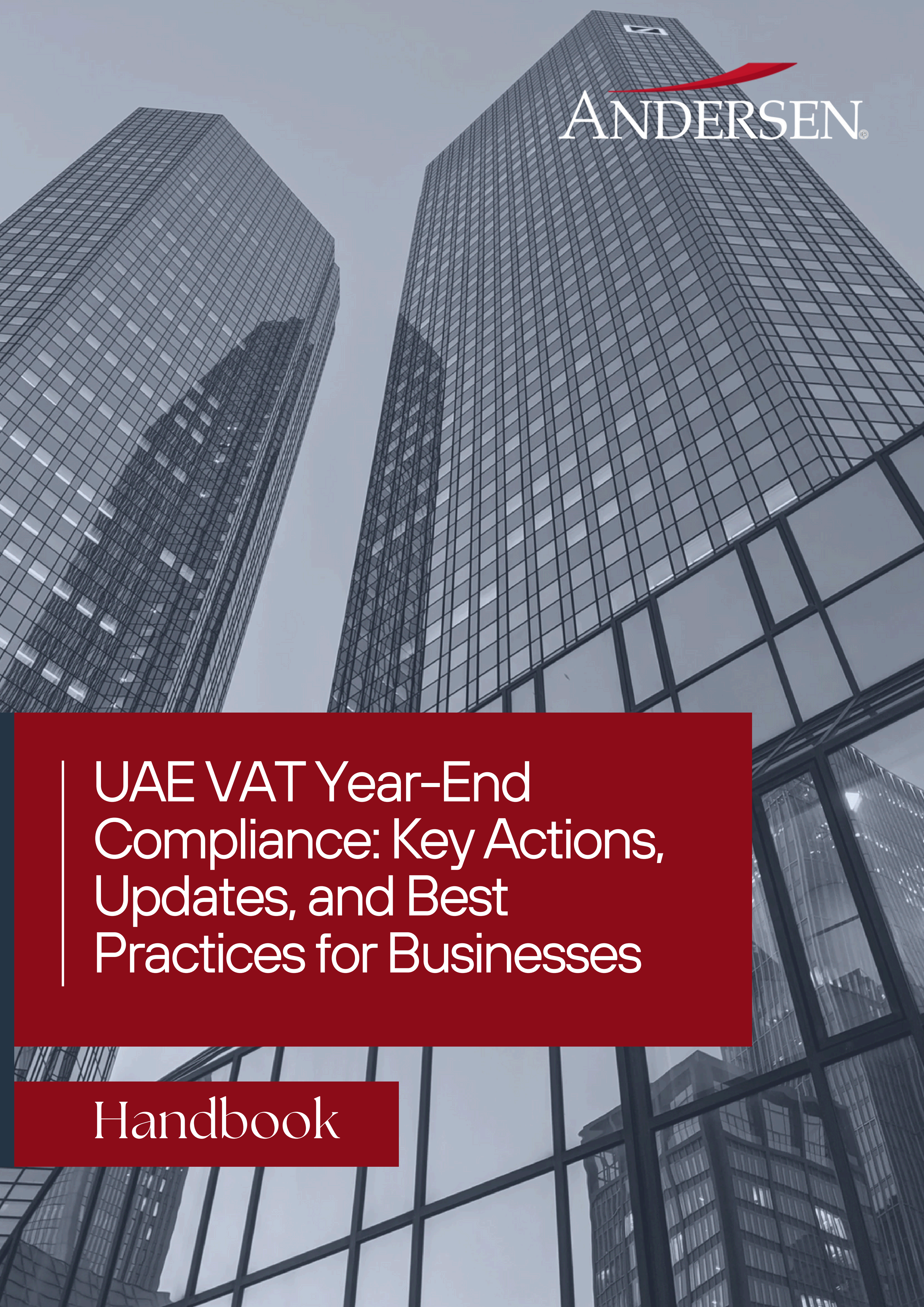

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UAE VAT Year-End Compliance: Key Actions, Updates, and Best Practices for Businesses

Handbook

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UAE VAT Year-End Compliance: Key Actions, Updates, and Best Practices for Businesses

The end of the fiscal year in the UAE marks a critical period for businesses to ensure VAT compliance and mitigate risks associated with tax reporting and error correction.

As VAT regulations evolve, companies must not only focus on the routine tasks of input tax adjustments, reconciliations, and filing but also stay up to date on key legislative changes that may impact their operations. This article provides a comprehensive breakdown of essential year-end VAT action points for businesses, drawing from real-world compliance experience to offer practical insights and guidance. Here's a more technical and professional breakdown of the essential VAT year-end action points for businesses in the UAE:

1. Annual Input Tax Adjustments

After the fiscal year ends, taxpayers must ensure accurate apportionment of input tax, particularly when dealing with mixed-use assets (used for both taxable and exempt supplies). Miscalculations can lead to penalties.

Standard Adjustment (Provisional vs. Actual Use):

- When input tax is provisionally apportioned throughout the year, businesses must perform a year-end "wash-up" calculation based on actual taxable, exempt supply, CAS, and blocked inputs figures for the fiscal year.
- Adjustments must be performed annually, with input tax recalculated for the entire tax year during the first tax period of the following year, making it particularly important for VAT returns due early in 2025.
- If the recoverable tax difference exceeds AED 250,000, further adjustments should be made.

Andersen Take: Many businesses overlook accurate tracking of exempt supplies, leading to over-recovery of input tax. Businesses can consider conducting a quarterly review to ensure accurate reporting and compliance with the provisions.

2. VAT Reconciliation and Error Correction

Maintaining accurate VAT reconciliation and promptly addressing any errors is crucial for businesses to ensure compliance with UAE VAT regulations. This involves aligning revenue, purchases, and financials with VAT filings, verifying adjustments for discounts, rebates, and bad debts, and adhering to the Federal Tax Authority (FTA) guidelines on error correction.

Revenue and Purchases Reconciliation:

- Ensure revenue and purchase reconciliations are maintained in the FTA-prescribed format to comply with VAT regulations.
- Align revenue declared for VAT purposes with audited financials. Identify and correct discrepancies such as unrecorded sales, missed output tax on employee benefits, or deemed supplies before filing the fiscal year's final VAT return.

Discounts, Rebates, and Bad Debts:

- Verify that adjustments for discounts, rebates, and bad debts have been accurately reflected in VAT returns, as per Articles 61 and 64 of the VAT Executive Regulations.

Error Correction:

- For errors resulting in a VAT amount exceeding AED 10,000, businesses must submit a Voluntary Disclosure to the FTA within 20 business days of identifying the discrepancy.
- If the error is AED 10,000 or less, the correction should be made in the next due Tax Return for a previous Tax Period or in the Tax Return for the period in which the error was discovered, whichever comes earlier.
- The FTA's Decision Number 8 of 2024, effective January 1, 2025, outlines the procedure for correcting VAT return errors or omissions, emphasizing compliance and accuracy.
- Errors that do not affect the tax due, such as misreporting taxable supplies between Emirates, incorrect reporting of zero-rated supplies, or exempt supplies, must now be rectified through a Voluntary Disclosure.

Andersen Take: Performing monthly reconciliations between your ERP system and VAT submissions helps minimize errors and reduces the need for disclosures. Proactive management of reconciliations and error corrections ensures VAT compliance while mitigating the risks.

3. Operational Review of Contractual and Import VAT Reconciliation

Review of Long-Term Contracts

For contracts subject to transitional rules under Article 70 of the VAT Executive Regulations, businesses must carefully monitor compliance and update agreements to reflect VAT obligations:

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- Transitional Provisions: Contracts predating VAT implementation must adhere to transitional rules to ensure VAT treatment aligns with legal requirements. Ensure addendums are in place where necessary.
- VAT Clauses: Explicitly state whether VAT is inclusive or exclusive in all contracts to avoid disputes and ambiguity.

Andersen Take: By conducting regular contractual reviews and ensuring VAT compliance, businesses can minimize risks and maintain smooth operational workflows.

Import VAT Reconciliation

Accurate reconciliation of import VAT is essential for compliance with UAE VAT laws. Businesses must ensure that the VAT301 Import Declaration Form aligns with customs documentation and accounts payable records to avoid discrepancies that could trigger audits or penalties. Key considerations include:

- **VAT301 and Customs Reconciliation**: Verify import VAT recorded in VAT301 matches customs documents and accounts payable. Discrepancies can result in penalties.
- **Cross-Checking of Key Information**: Ensure that cross-checks are regularly performed between the country of origin, quantity, HS codes, and value of goods. customs reconciliation is equally important to ensure that import VAT matches the customs documents and accounts payable records.
- **Avoiding Common Errors**: Ensure proper documentation of goods and correctly report deferred VAT in VAT returns (Box 6) as per FTA guidelines.
- **Audit Risk Mitigation**: Regular validation of import VAT and alignment minimizes audit risks and supports input tax recovery.

Andersen Take: Use automated tools for reconciliation, conduct periodic reviews, and ensure accurate customs codes to maintain compliance. Regular cross-checking between country of origin, quantity, weight, and value will further strengthen your import VAT processes, ensuring complete accuracy in VAT reporting.

4. Record-Keeping and Review of Tax Groups and Related Parties

Record Keeping

At year-end, businesses must ensure that all VAT-related records, including those for supplies, imports, tax invoices, credit notes, and adjustments, are properly maintained and archived in both physical and digital formats.

- **Document Retention**: As per Article 78 of the UAE VAT Law, taxable persons are required to maintain detailed records for 5 years. This includes records of supplies and imports of goods and services, tax invoices, credit notes, and adjustments if any. Additionally, for real estate records, the retention period is extended to 7 years from the end of the calendar year in which the document was created, as stipulated in Cabinet Decision No. 74 of 2023, Article 3.

- **Ensure Tax Invoices, Credit Notes, and Ledgers Are Systematically Archived (Physical and Digital Copies)**: As per Article 4(1), the documents must be preserved in a way that ensures the information is readily accessible and can be reproduced if requested by the tax authority. This includes digital copies or photocopies that replicate the original document's details for verification purposes during an audit or tax review.

- **Conduct Regular Internal Audits to Ensure VAT Compliance**: Businesses should perform regular internal audits to verify that their VAT obligations and the record keeping are being met, as the FTA may request data promptly. Being prepared with all necessary documents ensures that businesses can quickly respond to any requests and remain compliant.

Andersen Take: To streamline your document retention, archiving, and internal audit processes, consider implementing a digital document management system that automates record storage and retrieval. This will not only ensure compliance with the retention period but also make it easier to access tax invoices, credit notes, and ledgers during audits or reviews.

Review of Tax Groups and Related Parties

Confusion often arises regarding the transition of branches and members within tax groups. It's crucial to consistently revisit and adjust the structure to ensure it aligns with operational realities.

- **Review of Related Party Transactions**: Related party transactions are often closely examined by the FTA, particularly concerning input tax recovery on related party charges. To minimize the risk of discrepancies, businesses should ensure a thorough reconciliation between the related party (RP) ledgers and cross-check these against the invoices raised and tax claims. Additionally, it is crucial to carefully verify all transactions to classify them accurately as either reimbursements or disbursements, ensuring compliance with VAT regulations.

- **Validate Tax Group Structures to Reflect Operational Realities**: Often, when a member entity is added to a tax group, there may not be a clear transitional plan in place, leading to the non-reporting of actual VAT liabilities. Ensure that tax group structures are aligned with the business's operational structure and reflect its true nature to avoid such issues.
- **Audit Experience Insight**: Mergers, acquisitions, or corporate restructuring can lead to misaligned tax group registrations, which may cause input/output tax imbalances. To prevent this, businesses should perform annual health checks on their tax group entities, ensuring that all entities within the group are correctly registered and any operational changes are reflected accurately in the VAT filings.

Andersen Take: Implement a robust VAT health check system as part of your yearly review process. This includes reviewing related party transactions, verifying tax group structures, and checking for any potential issues caused by mergers or restructuring.

5. VAT Return Filing and Payment

- **Filing Deadlines and Penalties**: Businesses must ensure VAT returns are filed accurately and on time, adhering to the 28th of the following month's deadline after each tax period. Penalties for late filing include AED 1,000 for the first offense and AED 2,000 for repeated offenses within 24 months. Additionally, any payable tax must be settled promptly to avoid penalties, which start at 2% immediately, 4% monthly after one month, and can accumulate up to 200%.
- **Content Accuracy and Annual Checks**: To maintain compliance, businesses should verify that VAT returns include all required details, such as taxable supplies, exempt supplies, recoverable input tax, and due tax. Claims for recoverable tax should align with provisions in the VAT Decree-Law and Tax Procedures Law.
- Annual checks should ensure no discrepancies exist between declared and payable amounts, minimizing the risk of audits and penalties.

Andersen Take: Practical measures like integrating ERP systems for automated VAT filing and establishing workflows for pre-submission reviews can reduce manual errors. An annual review of filing accuracy, payment timeliness, and recoverable tax claims is crucial to mitigate compliance risks and maintain adherence to UAE VAT laws.

6. Annual Audit-Readiness and Penalty Mitigation Checklist

- **Risk Assessment – Mock Audit**: Businesses should conduct mock audits annually to identify potential weak points in VAT compliance, ensuring they are prepared for spontaneous FTA audits, which may require significant time and resources. The annual review should focus on critical areas such as employee benefits (deemed supplies), entertainment expenses, and the completeness of tax invoices. Additionally, businesses should revisit their tax positions to ensure they align with the latest VAT regulations and practices.
- **Penalty Mitigation**: If errors are identified during the annual review, businesses should promptly consider filing voluntary disclosures, especially for discrepancies exceeding AED 10,000. Proactive correction of errors can lead to FTA leniency in penalties, mitigating potential financial and reputational risks. Regular self-assessments and voluntary corrections help maintain compliance and reduce the likelihood of severe penalties during an audit.

7. Capital Asset Scheme (CAS) Adjustment:

The Capital Asset Scheme (CAS) is a critical VAT compliance requirement for businesses that own high-value assets, such as buildings or other capital assets costing AED 5 million or more.

Andersen Take:

Maintain dedicated asset registers linked to VAT ledgers to simplify the CAS process. Neglecting annual reviews could result in discrepancies during FTA audits.

Under the UAE VAT law, businesses must track the taxable use of these assets annually over an extended adjustment period, ensuring the accurate allocation of VAT input tax.

- For capital assets costing **AED 5 million** or more, businesses must track taxable usage annually over the adjustment period.
- Reclaimable **input tax** is adjusted based on the taxable vs. exempt usage ratio each year.
- If the **use of goods** or services changes, businesses must adjust input tax accordingly ensuring compliance with the specified conditions.
- Businesses must **monitor capital** assets for the required period, adjusting the input tax annually based on taxable usage.
- For **Buildings**, the adjustment period is 10 years, whereas for other capital assets, it's 5 years.

8. Legislative Updates
(Effective from Nov 15, 2024)

Key Changes:

I. Adjustments to Input Tax Apportionment Rules - Determining Recoverable Input Tax

To calculate recoverable Input Tax under the revised rules, the Taxable Person must apportion Input Tax as follows:

Updated Formula for Input Apportionment:
Recoverable Input Tax = A/F * D * 100

Where:

- A: Input Tax directly attributable to recoverable supplies
- B: Input Tax under the Capital Asset Scheme
- C: Input Tax related to exempt supplies
- D: Common/Residual Input Tax
- E: Blocked Input Tax
- F = A+B+C+D+E

ERP Configuration Updates:

The revised formula incorporates additional categories (Capital Asset Scheme and Blocked Input) to provide a comprehensive calculation for determining recoverable and non-recoverable Input Tax.

Previously, the denominator only considered recoverable and non-recoverable Input Tax, which has now been expanded to include all components (A through E).

Implementation Guidance:

Taxable Persons must reconfigure their ERP systems to align with the updated apportionment rules, ensuring accurate categorization and calculation of Input Tax in accordance with the amended formula.

II. New Thresholds for Exempt Supplies

Under the revised ER Clause 6 of article 8 of executive regulation, a person may only register for Tax voluntarily if they can demonstrate to the Authority that:

- They are carrying on a Business in the State, and
- They intend to make supplies as specified in paragraphs (a), (b), or (c) of Clause 1 of Article 54 of the Decree-Law.

Previously, voluntary registration was allowed if the person satisfied the Authority that they were carrying on a Business in the State.

Article 8 has been amended to require applicants for voluntary VAT registration to provide sufficient proof to the FTA of their intention to:

- Make taxable supplies,
- Make supplies outside the UAE that would be taxable if made within the UAE, or
- Make supplies outside the UAE that would be treated as exempt if made within the UAE.

III. Changes to Voluntary Disclosure Timelines and Penalty Structures

The FTA has released Decision Number 8 of 2024, outlining the Mechanism for the Correction of Errors or Omission in the Tax Return Submitted to the Federal Tax Authority for VAT.

The decision provides that if companies discover an error or omission in their VAT Returns where there is no difference in the Due Tax, they shall correct such errors by submitting a Voluntary Disclosure. It is pertinent to note that the cases of error or omission without a difference in Due Tax requiring such corrections are defined below:

- Misreporting standard-rated taxable supplies between Emirates.
- Incorrect reporting (understating or overstating) of zero-rated taxable supplies.
- Misreporting (understating or overstating) exempt supplies.

The decision was issued on November 1, 2024, and took effect from January 1, 2025.

IV. Grace Period for Tax Record Amendments

The FTA has introduced a grace period from January 1, 2024, to March 31, 2025, allowing registrants to amend their tax records without incurring administrative penalties.

Any penalties imposed for failing to update tax records after January 1, 2024, will be automatically reversed during this period, and amounts already settled will be credited to the registrant's EmaraTax account.

Registrants must update the FTA on events such as changes in name, address, contact details, trade license activities, legal entity type, partnership agreements, or business nature/location within 20 business days to avoid future penalties ranging from AED 1,000 to AED 10,000. The grace period offers businesses an opportunity to correct discrepancies, enhance compliance, and prevent penalties.

Andersen’s Key Insights

- To ensure seamless VAT compliance and mitigate potential risks, businesses in the UAE must focus on key year-end actions, including input tax adjustments, VAT reconciliations, error corrections, and operational reviews of contracts and imports.
- Staying updated with recent legislative changes, maintaining accurate record-keeping, and conducting periodic audits are vital to aligning with Federal Tax Authority (FTA) regulations.
- Proactive measures such as implementing ERP system updates, performing VAT health checks, and addressing discrepancies promptly can significantly reduce audit risks and penalties.

Practical VAT Compliance Checklist for Businesses

Ensuring VAT compliance is a critical component for businesses to avoid penalties and manage tax obligations effectively. A thorough review and update of business processes, systems, and staff training is required to stay aligned with the latest VAT regulations, especially in the context of UAE VAT law. The following checklist provides key focus areas for businesses to ensure comprehensive VAT compliance and preparedness for potential audits.

Sr. no	Checklist item	Key Focus Area
1	Annual Input Tax Adjustments	- Review input tax apportionment - Capital Asset Scheme (CAS) adjustments
2	VAT Reconciliation	- Reconcile VAT returns with financial records and address discrepancies
3	Error Corrections	- Identify and correct VAT return errors as per FTA regulations
4	Contractual Reviews	- Ensure VAT compliance in contracts and agreements
5	Import VAT Reconciliation	- Align VAT 301 forms with customs records and validate deferred VAT
6	Record-Keeping Compliance	- Maintain proper VAT-related documentations as required by FTA
7	Tax Group Review	- Evaluate the structure and compliance of tax groups, if applicable
8	ERP Updates	- Reconfigure ERP for revised input tax rules
		- Automate VAT calculations and reporting
		- Ensure accurate VAT codes for transactions
9	Audit Readiness	- Conduct mock audits to simulate FTA reviews
		- Review and document tax positions for key transactions
		- Validate supporting documentation for VAT returns
10	Staff Training	- Train staff on VAT update and ERP changes
		- Provide guidance on proper documentation for transactions
11	System Testing	- Test ERP systems to ensure seam less VAT calculation and reporting
12	Compliance Calendar	- Create a VAT compliance calendar for filling deadlines and periodic reviews
13	Tax Impact of Business Changes	- Assess VAT implications for mergers, acquisitions, or new business activities

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In 2024, our Director, Gaurav Chugani, was honored as the Tax Litigation & Disputes Advisory Rising Star by the International Tax Review (ITR). Additionally, Andersen UAE was proudly nominated for Tax Advisory Firm of the Year and Transfer Pricing Advisory Firm of the Year.

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IPEM Paris

Tax Seminar at the
University of Wollongong

IPEM China Private Equity
Conference

Contact us

Andersen can assist businesses in navigating these complexities by offering expert advisory services tailored to UAE VAT laws. Our team provides practical solutions for compliance, supports legislative transition requirements, and streamlines processes through automation and best practices, ensuring your VAT obligations are met efficiently and effectively.

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