Indirect Tax Insights

Q2 2025

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E-invoicing: UAE gears up for July 2026 roll out

The UAE is rapidly advancing toward the implementation of a nationwide e-invoicing system, with Phase 1 set to go live in July 2026. What began as a conceptual goal has now entered the execution phase, with significant regulatory and technical developments taking shape in Q2 FY2025. These steps mark a clear shift in the country's tax modernization journey, aligning with global best practices while tailoring the framework to suit UAE-specific business and VAT environments.

The Federal Tax Authority (FTA), in collaboration with the Ministry of Finance (MoF), is designing the e-invoicing regime based on a Decentralized Continuous Transaction Controls & Exchange (DCTCE) model, using the Peppol 5-corner architecture. This structure enables secure, real-time invoice exchange between suppliers, buyers, accredited service providers (ASPs), and the FTA, ensuring transparency, traceability, and automation in VAT compliance.

In Q2 FY2025, two critical releases moved the initiative forward. Ministerial Decision No. 64 of 2025 has been issued which outlined accreditation requirements for Service Providers establishing clear criteria for technical capabilities, security standards, and operational readiness. Additionally, the first version of PINT AE standard has been officially published based on the Peppol International Invoice (PINT) specification.

With the technical foundations now in place, businesses are encouraged to begin ERP system assessments, identify a suitable ASP, and start planning for internal readiness. The next 12 months will be critical in shaping a smooth transition to the UAE's digital invoicing era.

1. ASP Accreditation Requirements

19 March 2025

As part of the UAE's preparations for the 2026 e-invoicing rollout, the Ministry of Finance issued Ministerial Decision No. 64 of 2025 dated 19 March 2025 and officially launched the Accreditation Portal for ASPs. This decision outlines the eligibility and operational standards that service providers must meet to participate in the national e-invoicing ecosystem.

ASPs will play a pivotal role by acting as intermediaries between taxpayers and the FTA facilitating the secure exchange, validation, and reporting of structured e-invoices.

Key criteria to qualify as ASP are:

- **Legal and Regulatory Standing:** The solution provider should be a legally registered entity in the UAE, holding a valid trade license along with a UAE Corporate Tax and VAT Registration Certificate, where applicable.
- **Peppol Certification and Industry Experience:** Accreditation requires active Peppol certification and a minimum of two years of operational experience in electronic invoicing.

- **Technical and Operational Capability:** Applicants are expected to demonstrate the ability to process, validate, and transmit structured e-invoices in real time. Systems should support 24/7 availability, disaster recovery, and technical support, along with real-time audit trail and reporting functionalities.
- **Security & Data Integrity:** Robust data protection, encryption, and cybersecurity protocols must be in place, aligned with Peppol standards.
- **Governance & Risk Management:** The Solution Providers are required to maintain adequate insurance coverage and submit a formal declaration confirming compliance with all accreditation conditions.

Why it matters for businesses:

- ASPs will serve as mandatory gateways for e-invoicing compliance, responsible for invoice validation, exchange, and reporting to the FTA.
- With the accreditation framework now established, businesses can begin evaluating potential ASPs and planning for onboarding well ahead of the compliance deadline.
- For details read the Ministerial Decision No. 64 of 2025

2. Launch of first version of PINT AE Standards

10 June 2025

As part of the UAE's transition to a structured and standardized e-invoicing framework, the first version of the Peppol International Invoice specifications for the UAE (PINT AE) has been officially released. This specification defines the technical format and content requirements for electronic invoices, credit notes, and self-billing documents under the UAE VAT regime.

Developed in alignment with the global Peppol PINT standard, PINT AE has been tailored to reflect the specific legal, fiscal, and operational requirements of the UAE, ensuring both international interoperability and local compliance.

Key Features of the PINT AE Specifications:

- **Structured XML Format:** Built on Universal Business Language (UBL), the format supports machine-readable invoice exchange, reducing manual errors and supporting automation across systems.

- **UAE VAT Compliance**
  - Incorporates mandatory fields for Tax Registration Numbers (TRNs) and VAT treatment codes.
  - Supports UAE-specific VAT scenarios including standard-rated, zero-rated, exempt, and reverse charge transactions.
  - Aligns with local invoicing rules such as invoice sequencing, currency declarations, and tax point dates.

- **Expanded Data Requirements:** PINT AE introduces several fields that go beyond current VAT invoice requirements, including:
  - TIN (Tax Identification Number) fields to support future cross-border or non-resident transactions.
  - Banking Details such as IBAN, account identifiers, and payment terms to facilitate automated payment reconciliation.
  - Legal Entity and Address structuring for both buyer and seller, using standardized fields for names, registration numbers, and country codes.
  - Line-Level Tax Categorization, requiring detailed tax treatment, rate, and amount for each invoice line item.

  These enhancements are designed to support automation, validation, and integration with procurement, finance, and compliance systems.

- **Semantic Data Model:** Defines clear data types and relationships between fields (e.g., buyer/seller identifiers, line-item details, tax breakdowns), ensuring consistency and accuracy across platforms.

- **Validation and Error handling:** Includes Schematron rules (both UAE-specific and shared PINT rules) and code lists to validate invoice content before submission. This helps in preventing common errors such as missing TRNs, incorrect tax calculations, or invalid references.

- **Implementation Guidance:** Provides detailed documentation, examples, schemas, and conformance statements to support smooth adoption by ERP vendors, ASPs, and businesses.

Why it matters for businesses:

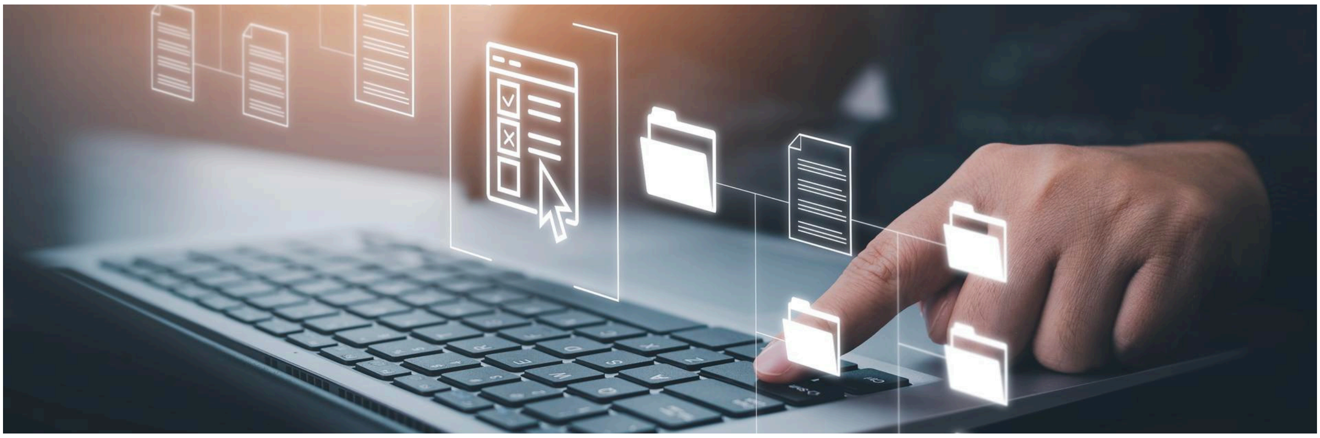
- PINT AE forms the technical foundation of the UAE's e-invoicing system.

- With the data structure and validation rules now published, businesses are advised to begin impact assessments to evaluate system readiness, identify gaps in data quality, and plan necessary ERP or billing system updates.

- Early alignment with the PINT AE standard will support smoother integration with ASPs and reduce the risk of invoice rejection or non-compliance.

Our team is actively supporting clients in navigating this transition. Feel reach out to us to discuss how we can assist with readiness assessments, data mapping, and implementation planning.

Records for Output Supplies subject to the Reverse Charge Mechanism (RCM)



FTA Clarifications VATP041 & VATP043: Practical Guidance for UAE Businesses

The Federal Tax Authority (FTA) has recently issued Public Clarifications VATP041 (Swift Messages) and VATP043 (Concerned Services – Accounting for Output Tax, Issuing Tax Invoices, and Input Tax Recovery). These clarifications reinforce the importance of proper documentation when accounting for supplies subject to the Reverse Charge Mechanism (RCM) under UAE VAT.

Given the UAE's position as a global logistics hub and its status as the regional base for numerous multinational corporations, businesses in the UAE are frequently engaged in a high volume of cross-border transactions with entities outside the country. As such, it is essential for UAE-based businesses to fully understand and effectively implement the guidance outlined in these clarifications to ensure VAT compliance and avoid potential penalties.

Common Challenges Faced by Taxpayers

Many businesses continue to face issues when reporting RCM transactions due to:

- Delayed receipt of invoices from foreign suppliers.
- Mismatch in timing between import recognition in accounting records and customs declarations.
- Inconsistent exchange rates used across books, customs documentation, and VAT returns.

Recommended Approach for Output Tax Documentation Compliance

A) Concerned Services

Where a taxable person receives Concerned Services*, the following documentation options (in order of preference) should be considered:

1. Supplier's Tax Invoice

Retain and obtain a proper invoice from the supplier detailing the service and the consideration paid.

2. Alternative Supporting Documents

If the tax invoice is unavailable, any combination of documents that provides all the above information will suffice.

- Supplier & recipient name and address
- Document date and service completion date
- Description of service

- Value and currency
- Payment terms

3. Decision for Administrative Exception or Self-Issuance

If neither of the above is feasible, and the quantum of invoices to be self-issued is high, apply to the FTA for an administrative exception.

B) Concerned Goods

As the clarifications are silent on issuing tax invoices for Concerned goods** under RCM and in the absence of an existing private clarification, taxpayers could:

1. Issue Tax Invoice to Self

This helps ensure VAT is correctly reported in the VAT return.

Note – this is in addition to having tax invoices/invoices and/or documents having all the prescribed information mentioned in the clarifications.

2. Apply for Administrative Exception

This is especially to be considered where the volume of transactions makes self-invoicing impractical.

Key Takeaways

- For the import of concerned services, proactively request a tax invoice/invoice from the supplier. If not available, ensure that alternative documentation includes all prescribed fields. Missing information can be supplemented through an addendum or supporting contract documentation.

- For importing concerned goods, consider self-invoicing or, in high-volume cases, apply for an administrative exception to streamline compliance.

- In the absence of or until the receipt of the administrative exception, it is recommended to self-issue invoices for both the import of goods and services.

- Taxpayers could be subject to the administrative penalty of AED 2,500 for each detected case for the failure to issue a tax invoice or alternative document when making the supply under these cases.

- As these public clarifications reflect the FTA's interpretation of the law from the date of its implementation, it is imperative that businesses conduct a thorough review of their documentation processes to ensure full compliance with the outlined requirements.

For assistance in reviewing your reverse charge documentation and evaluating eligibility for administrative exceptions, please contact our VAT advisory team.

Legal definitions

* Concerned Services - Services that have been imported, where the place of supply is considered to be in the State, and would not be exempt if supplied in the State.

** Concerned Goods - Goods that have been imported, and would not be exempt if supplied in the State.

Barter Transactions Under UAE VAT: Technical and Practical Perspectives

Barter transactions have always presented particular challenges within VAT systems, including the UAE regime. While the concept of exchanging goods or services without monetary payment is straightforward commercially, applying the VAT legislation requires careful consideration. The Federal Tax Authority (FTA) addressed these challenges in April 2025 through **Public Clarification VATP042**, which sets out clear guidance on how barter supplies must be valued, documented, and reported.

This article examines the technical treatment of barter arrangements, provides practical illustrations of compliance requirements, and highlights the key steps businesses should consider when entering into such transactions.

Understanding Barter Transactions

A barter transaction arises when one party agrees to supply goods or services in return for goods or services supplied by another party, rather than payment in cash. Under UAE VAT Law, each party is deemed to be making a separate and independent supply. This means that both supplies are treated as taxable transactions, and VAT must be accounted for accordingly.

For VAT purposes, the consideration for each supply is the fair market value of the goods or services received, reduced by the amount of VAT accounted for on the supply. The result is that the value must be determined as if each supply had been made in exchange for money, ensuring consistency in the application of VAT.

Technical Considerations

Valuation

According to VATP042, the value of a barter supply is based on the fair market value of the consideration received. In practice, this requires each party to assess what the supplied goods or services would have cost if purchased outright by the recipient. The supplier must then calculate VAT on this fair value.

For example, if Company A provides advertising services valued at AED 50,000 to Company B and receives in return design services valued at AED 48,000, each party will consider the fair market value of the services it receives as the taxable consideration. The taxable value of Company A's supply will be AED 48,000, and Company B's supply will be valued at AED 50,000. Each must account for VAT on the respective amounts.

Tax Invoicing

Each party must issue a tax invoice to the other, even if no cash payment takes place. The invoice must comply with all the requirements set out under the VAT legislation, including:

- A clear description of the goods or services supplied
- The date of issuance
- The consideration stated as the fair market value of the supply
- The applicable VAT amount

Failure to issue a proper invoice could lead to penalties or denial of input tax recovery.

Reporting

Both parties must record the output VAT in their VAT returns for the period in which the transaction takes place. They may also recover input VAT, subject to the usual rules regarding recoverability and evidence.

Practical Examples

Example 1: Goods for Services

A retailer supplies AED 100,000 worth of electronics to a marketing agency in return for advertising services. The fair market value of the advertising services is AED 90,000.

- The retailer must issue a tax invoice to the marketing agency reflecting the AED 90,000 value.
- The marketing agency must issue a tax invoice to the retailer reflecting AED 100,000.
- Each party reports output VAT on its supply and claims input VAT on the supply received, provided it is used for taxable activities.

Example 2: Service for Service

A legal consultancy provides AED 60,000 worth of advisory services to an IT firm, which in return develops a software module valued at AED 65,000.

- Both parties must issue tax invoices to each other stating the respective fair market values.
- VAT is accounted for by both parties on the value received.

These examples illustrate how barter transactions can lead to different valuation outcomes, with each side responsible for compliance irrespective of any netting-off arrangements.

Key Considerations for Businesses

- Ensure all barter arrangements are documented in formal agreements that describe the supplies exchanged and their fair market values.
- Establish processes for obtaining and verifying valuation evidence, such as third-party quotations or market comparisons.
- Issue tax invoices reflecting the fair market value of the supply provided, even if no cash changes hands.
- Reconcile barter transactions in the VAT return and ensure input tax recovery aligns with intended taxable use.
- Train finance teams to identify barter arrangements, as they may not always be labelled explicitly as such in commercial contracts.

Conclusion

The treatment of barter transactions under UAE VAT requires businesses to apply consistent valuation principles and maintain robust documentation. The recent FTA guidance clarifies expectations and increases the importance of process controls to ensure compliance.

At Andersen, we have supported clients in assessing their barter arrangements, preparing appropriate valuations, and implementing practical controls for recording and reporting these transactions. If you require assistance in reviewing your approach to barter or have questions about the implications for your VAT compliance, our team is ready to support you.

Value Added Tax (VAT)

The UAE continues to strengthen its VAT regime through targeted updates and clarifications issued by the Federal Tax Authority (FTA) and the Ministry of Finance (MoF). These updates are essential for businesses to remain compliant and to understand how VAT applies to evolving business models and cross-border transactions. In 2024 and 2025, several key developments have emerged including clarifications on tax invoices and input tax recovery, updates to voluntary disclosure procedures and sector-specific guidance for financial services. These changes aim to simplify compliance, reduce ambiguity, and align the UAE's VAT practices with international standards. Below are three more recent VAT updates issued through official channels each with practical implications for registrants and tax professionals.

1. VATP044: Tax Invoices and Input Tax Recovery for Concerned Services

Date of Update: 26 May 2025

Overview:

This clarification addresses how businesses should handle VAT when receiving services from abroad that are deemed to be supplied in the UAE. It emphasises the need for self-accounting under the reverse charge mechanism and outlines when a self-issued tax invoice is required. The update is particularly relevant for businesses importing consultancy, legal, or digital services aimed at ensuring correct accounting and recovery of VAT.

Key Updates:

1. **Clarification on VAT Obligations for Imported Services**

- VATP044 addresses situations where services are imported into the UAE but the place of supply is deemed to be within the UAE under Article 29(1) of the VAT Law.
- This typically applies to services such as consultancy, legal, digital, or marketing services provided by non-resident suppliers to UAE-based businesses.
- The update confirms that these services are subject to VAT in the UAE and the recipient must account for VAT accordingly.

2. **Requirement to Issue a Self-Tax Invoice**

- When a UAE VAT registered business receives such services, it must account for output VAT using the reverse charge mechanism (RCM).
- The recipient is required to issue a tax invoice to itself to document the transaction unless the FTA has granted an exemption from this requirement.
- This ensures that the transaction is properly recorded in the VAT return and supports audit readiness.

3. **Input VAT Recovery Conditions**

- The VAT accounted for under RCM may be recovered as input VAT but only if the imported service is used to make taxable supplies.
- Businesses must maintain adequate documentation, including:
  - The self-issued tax invoice.
  - Proof of the service received.
  - Evidence that the service supports taxable business activities.
- If the service is used for exempt or non-business purposes, input VAT recovery is not permitted.

4. **Compliance and Record-Keeping**

- The clarification emphasises the importance of accurate VAT accounting and record-keeping for imported services.
- Businesses must ensure that their accounting systems are capable of handling reverse charge entries and generating self-invoices where required.

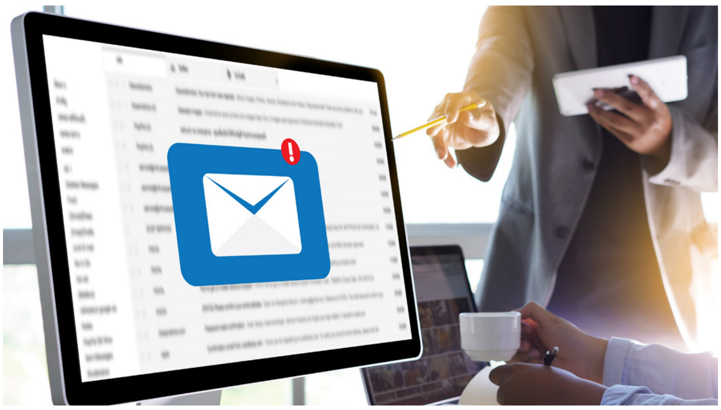
Read the full article to get a more detailed understanding of the amendments.

2. VATP041: VAT Treatment of SWIFT Messages

Date of Update: 11 April 2025

Overview:

This update replaces Public Clarification VATP036 and provides clarity for financial institutions on how to treat charges related to SWIFT messages. These are considered taxable services and when received from outside the UAE, they fall under the reverse charge mechanism. The FTA allows institutions to use SWIFT messages as evidence of supply thereby simplifying compliance in high-volume transaction environments.



Key Updates:

1. **SWIFT Message Charges as Taxable Services**

- The FTA confirms that charges related to SWIFT messages which are usually used for secure financial communications between banks and institutions are treated as a supply of services under UAE VAT Law.
- These services are not exempt and are generally subject to VAT at the standard rate (5%), unless a specific exemption applies under financial services provisions.

2. **Application of the Reverse Charge Mechanism (RCM)**

- When SWIFT services are provided by non-resident entities (e.g., foreign banks or financial networks), UAE based financial institutions must apply the reverse charge mechanism.
- Under RCM, the UAE recipient must self-account for VAT on the imported service, treating themselves as both the supplier and the recipient for VAT purposes.
- This ensures that cross-border services are taxed appropriately even when the supplier is not VAT registered in the UAE.

3. **Use of SWIFT Messages as Evidence**

- Due to the high frequency and automated nature of SWIFT transactions, the FTA allows financial institutions to use SWIFT messages themselves as valid supporting documentation.
- This removes the administrative burden of issuing or requesting traditional tax invoices for each transaction, provided the SWIFT messages contain sufficient identifiable details (e.g., transaction value, date, and service description).

4. **Input VAT Recovery**

- VAT accounted for under the reverse charge mechanism may be recovered as input VAT but only if the SWIFT-related services are used to make taxable supplies.
- Financial institutions must maintain robust documentation and internal controls to support the recovery, including proper VAT entries and evidence of the taxable use of the services.

Read the full article to get a more detailed understanding of the amendments.

Conclusion

These three updates demonstrate the UAE's commitment to refining its VAT framework through clear, practical guidance. From clarifying the treatment of imported services and financial transactions to establishing the value of supply in barter transactions, these changes help businesses navigate complex VAT obligations with greater confidence. Staying informed and adapting internal processes accordingly is essential for maintaining compliance and avoiding penalties in the evolving UAE tax landscape.

Excise Tax:
A Quarter of Clarification and Consolidation

As we step through the second quarter of 2025, the UAE's excise tax regime continues to evolve, not just in complexity, but in clarity. This quarter has marked a turning point in areas that were long awaited, particularly the pivotal treatment of natural shortages within Designated Zones. It has also seen a firm nod toward innovation and modernization, both in terms of regulatory scope and digital infrastructure.

From the anticipated official stance on excise-related inventory losses, to the rising prominence of nicotine alternatives like pouches, and an increasingly integrated product registration experience, businesses operating in excisable goods must keep pace with a regime that's becoming more responsive, structured, and forward-looking. In this edition, we unpack the most impactful developments in the second quarter of 2025 and share our insights from industry engagements and regulatory dialogues shaping the future of UAE excise tax.

1. Clarifying Natural Shortages in Designated Zones – FTA Issues Pivotal Decision No. 6 of 2025

Excise goods, especially tobacco and similar products, are subject to inherent losses due to factors such as evaporation, spoilage, or degradation during storage or handling. The treatment of natural shortages of excise goods within Designated Zones has long been one of the most controversial and scrutinized areas under the UAE's excise tax regime. Since the introduction of excise tax, businesses engaged in storing or manufacturing high-sensitivity goods such as tobacco products have grappled with the absence of a formal mechanism to justify product shortage due to natural or unavoidable causes.

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.

Key Requirements and Implications for Businesses:

- **Certified Assessment of Shortages:** Warehouse Keepers or Taxable Persons must obtain official lab reports from FTA-approved third-party entities to quantify natural losses, for each excise good subject to such natural shortages. These entities will validate whether observed shortages fall within industry-recognized thresholds and are indeed attributable to natural causes.
- **Robust Documentation Standards:** Companies must maintain comprehensive documentation in relation to these natural shortages, which include:
  - A clear explanation of the manufacturing process, indicating stages where natural shortages may occur
  - The production formula, including expected losses (natural or otherwise)

- Historical data showing typical natural shortage percentages, backed by supporting documents
- Manufacturing equipment specifications and operating manuals
- Lab report issued by the FTA-approved parties

- Prescribed Reporting Protocols: Natural shortages must be declared using the FTA's approved reporting format, with clear reference to the certified reports and supporting documentation. Any failure to follow these processes could result in denial of the shortage claim and a corresponding excise tax liability.
- Oversight and Audits: The FTA and authorized independent bodies will carry out regular inspections to verify compliance with the new framework.

Over the course of the UAE's excise tax regime, Andersen UAE has had the privilege of supporting a significant portion of the UAE's leading tobacco industry players in navigating complex excise tax matters.

Our involvement in these matters has given us unique visibility into the practical challenges that excise taxpayers, particularly those in high-risk sectors like tobacco, face when justifying inventory variances. In many cases, our clients have found themselves responding to assessments or penalties based on natural or unavoidable shrinkages.

Gaurav Chugani, Indirect Tax Director at Andersen UAE, shares his insights:

"The issuance of Decision No. 6 of 2025, while forward-looking in its application, raises an important question: What impact, if any, will this framework have on ongoing excise tax audits or historical disputes currently under litigation where natural shortages were at issue?"

This is a space to watch closely. The Decision establishes for the first time a recognized benchmark for permissible losses, one that could influence the reasoning of the FTA or the Tax Dispute Resolution Committee when evaluating similar fact patterns in the past. At the very least, it sets the tone for a more structured and defensible compliance framework moving forward.

As always, our team remains available to assist clients in assessing how this development could affect existing proceedings, audit positions, or future strategies, and in working proactively to align internal controls with the FTA's latest expectations.

2. Nicotine Products: The UAE Market Matures Amid Global Innovation

Across global markets, the nicotine product landscape continues to evolve rapidly, driven by consumer demand for alternative, smokeless options. From nicotine strips and lozenges to modern oral delivery systems, regulatory frameworks worldwide are being reshaped to accommodate the rise of next-generation nicotine products.

This global evolution was on full display at the World Vape Show 2025, where Andersen UAE had the privilege of participating. The event showcased groundbreaking innovations, including cutting-edge nicotine consumables, that reflect not just scientific advancement but also shifting consumer behaviors and public health narratives.

One of the most notable developments in the UAE market is the official recognition and retail availability of nicotine pouches, recently confirmed through local media channels. Unlike traditional tobacco products, nicotine pouches are smokeless, tobacco-free sachets typically placed under the lip to deliver controlled nicotine doses. Their growing visibility on UAE retail shelves, including duty-free locations, marks a significant shift in the government's regulatory posture toward modern oral nicotine products.

Given this formalization, there is a strong likelihood that the UAE's excise tax framework will soon be amended to include specific guidance on nicotine pouches. While the legislation is still awaited in clear and express terms, the classification of such products under Chapter 24 of the GCC Common Customs Tariff makes a compelling case for their inclusion under the scope of excise taxation. As such, businesses that import, distribute, or produce nicotine pouches should prepare for regulatory changes that could be imminent.

In anticipation of this, several compliance considerations should be top-of-mind. Firstly, registration of nicotine pouch products with the Federal Tax Authority (FTA) will likely become mandatory prior to their commercial release. Secondly, businesses should closely monitor potential updates around excise price regulations, as any prescribed minimum or reference pricing for these products will directly impact pricing models and tax liabilities. Moreover, manufacturers operating or planning to set up in the UAE must also consider whether raw materials used, such as nicotine powders, extracts, or pastes, might themselves be subject to excise tax or other customs controls, necessitating advance registration and periodic reporting.

More broadly, the introduction of nicotine pouches into the UAE market opens the door to wider regulatory, economic, and public health implications. The FTA is expected to monitor consumption trends and behavioral data closely, with the potential for such insights to influence not just excise tax policy but also broader socioeconomic regulations. Businesses operating in this space should stay alert to these trends, not just for tax compliance, but to remain commercially agile in a sector undergoing dynamic transformation.

As these developments unfold, Andersen UAE remains engaged with key stakeholders and industry leaders to anticipate and interpret regulatory changes. Our on-the-ground experience, both through our involvement in industry events and in advising market entrants, positions us well to support businesses navigating this rapidly maturing segment of the excise market.

3. Excise Product Registration – Centralization and Compliance Take Center Stage

Since the introduction of excise tax in the UAE, the process of registering excise goods has undergone notable evolution. What began as a relatively segmented exercise, often involving multiple portals and manual uploads, has steadily progressed toward a more integrated and technology-driven experience.

In line with this trajectory, the FTA is preparing to launch a new Single Sign-On (SSO) functionality, which will allow users to access excise goods registration services directly through the EmaraTax platform, eliminating the need to separately log in via the BrandSync portal.

This shift is aimed at streamlining the excise compliance journey by centralizing registration workflows, reducing administrative friction, and improving data visibility for both taxpayers and the FTA. With the EmaraTax ecosystem already serving as the main hub for tax returns, payments, and declarations, the consolidation of excise product registration into the same system is a logical and welcomed step forward. It also signals the FTA's broader push toward digitization and operational efficiency.

At the same time, the emergence of new and alternative excise products, such as nicotine pouches and other innovative consumables, underscores the importance of continuous registration compliance. Taxpayers must remain vigilant in ensuring that all newly launched products are registered promptly and accurately reflect their specifications. Likewise, any updates to existing product characteristics, such as packaging, pricing, or classification, must be proactively reported and amended within the registration system.

The FTA has reiterated its expectation that businesses routinely review and update their excise product records to ensure alignment with real-time market operations. In an environment of evolving regulation and expanding product categories, compliance is not a one-time obligation but a continuous responsibility. Businesses that adopt a proactive compliance posture, backed by robust internal controls and timely updates, will not only minimize risk but also position themselves to respond confidently to FTA reviews or audits.

4. Excise Tax in Review: 2024 Performance from the FTA Annual Report

The Federal Tax Authority's (FTA) Annual Report for 2024 reflects a pivotal year for the UAE's excise tax regime, one that not only advanced fiscal goals but also reinforced public health and policy alignment. As Andersen's own engagements across industries confirm, excise taxation in the UAE is evolving from a revenue-collection tool into a broader catalyst for behavioral, operational, and compliance transformation. From digitalization to enforcement intensity, the regime continues to deepen in sophistication.

A few standout metrics from the report illustrate the landscape's progression:

- 229 excise tax registration applications processed (↓ 23% YoY)
- 8,700 excise goods registered (↓15% YoY)
- 41 new designated areas registered (↑17%)
- 149 designated area renewals (↑26%)
- 31 new warehouse keepers registered (↑63%)
- 93,000 inspection visits (↑135%)
- AED 348M in dues and penalties uncovered
- 11M untaxed tobacco packs seized (↓from 21.3M)
- 3.9M illicit soft drink/energy drink packs seized (↑from 2.5M)

These numbers suggest a market reaching regulatory maturity but also reveal that the FTA's enforcement net is widening. Notably, the decline in product registrations may indicate reformulation efforts by FMCG manufacturers in response to sugar-content thresholds, highlighting how tax policy can drive healthier consumer products. The rise in designated areas and warehouse keepers contributes to more structured supply chains and greater inventory traceability.

A major enabler behind this evolution has been the FTA's push into AI-driven enforcement and zero-bureaucracy digital tools. The digitization of excise processes, from registration to inspection analytics, positions the UAE at the forefront of predictive tax compliance. This is a proactive shift, aiming not just to catch non-compliance, but to preempt it altogether. As these technologies mature, businesses should expect more seamless (but also more scrutinized) compliance interactions with the FTA.

As the excise regime matures, UAE businesses should not only comply with today's requirements but actively prepare for policy shifts that will redefine tomorrow's compliance benchmarks.

Conclusion

The developments of Q2 2025 demonstrate the UAE's ongoing commitment to refining its excise tax framework, balancing enforcement with enablement, and public policy with private sector practicality. Whether it's the formalization of excise rules for product shrinkage, the anticipated taxation of emerging nicotine formats, or the digitization of compliance touchpoints, the direction is clear: more clarity, stronger oversight, and smarter systems.

With ongoing industry participation, regulatory dialogue, and audit support, Andersen UAE remains at the forefront of this transformation. As always, we advise businesses to stay ahead - by reassessing internal controls, preparing for retrospective implications, and aligning with an increasingly data-driven FTA. The excise landscape may be stabilizing, but it's far from static.

For tailored guidance or assistance with how these changes may impact your operations, audit readiness, litigation strategies or any support on excise tax, our team is here to assist you.

UAE Economic Substance Regulations (ESR)

Although there have been no material legislative updates to the Economic Substance Regulations during the second quarter of 2025, businesses operating in relevant sectors are facing a markedly different enforcement landscape. In recent months, the Federal Tax Authority and regulatory authorities have significantly increased the frequency and depth of ESR audits, reflecting a clear shift toward stricter oversight and more robust verification of compliance.

In our experience, the volume of ESR reviews and enquiries has increased tenfold compared to prior years. Regulatory scrutiny is no longer limited to a basic assessment of whether a notification and report were filed on time. Instead, authorities are now conducting detailed evaluations of whether licensees can substantively demonstrate that core income-generating activities were performed in the UAE, that appropriate levels of management and decision-making took place locally, and that adequate expenditure and employee presence were maintained relative to the activities declared.

Businesses selected for review are often required to provide extensive supporting documentation, including:

- Detailed descriptions of day-to-day operational activities.
- Copies of board meeting minutes evidencing strategic decision-making within the UAE.
- Evidence of the qualifications and roles of employees carrying out the activities.
- Financial records showing the incurrence of adequate expenditure in relation to relevant income.

The experience of many licensees has underscored that ESR compliance is about far more than simply submitting the annual return. Regulators are increasingly focused on whether substance is demonstrable in practice, rather than only on paper. Particular attention is often directed toward entities in sectors with higher perceived risk profiles, including holding companies, intellectual property businesses, and distribution and service centres.

This evolving enforcement environment highlights the importance of reviewing ESR readiness on an ongoing basis. Businesses should consider whether their operating models, record-keeping practices, and internal governance arrangements can withstand a thorough regulatory examination. Inadequate preparation, incomplete documentation, or inconsistencies between declared activities and actual operations can significantly increase the risk of penalties or adverse determinations.

At Andersen, we have assisted numerous clients across industries in navigating ESR audits successfully. Our teams have supported businesses in preparing detailed submissions, collating substantiating records, and articulating clear, evidence-based positions in response to regulatory queries. In many cases, this has resulted in favourable outcomes and the acceptance of compliance without further escalation.

As enforcement continues to intensify, adopting a proactive and well-documented approach to ESR will be essential for managing risk effectively. Should you require assistance in assessing your ESR compliance or preparing for potential audit activity, our team is available to support you at every stage.

Customs & Global Trade

Mid-Year Strategic Update on Customs Innovation, Regulatory Evolution, and Trade Optimization Across the UAE and Beyond

Welcome to the Q2 2025 edition of Andersen's Customs and Global Trade newsletter. This issue highlights the latest advancements in regulatory frameworks, digital transformation, and strategic trade initiatives across the United Arab Emirates and the broader region.

Our goal is to provide forward-looking insights to help you navigate today's dynamic trade environment with confidence, compliance, and competitive advantage.

UAE Customs Update: Accelerating Innovation, Integration, and Trade Facilitation

The second quarter of 2025 has seen material advancements in the UAE's customs landscape, underpinned by a strong push toward digitalization, enhanced risk management, and regional harmonization.

- **Unified Digital Customs Platform:** Dubai Customs and the Federal Customs Authority have commenced pilot implementation of a unified digital customs system across strategic free zones and seaports. This platform supports fully automated import/export declarations, integrated risk analytics, and centralized data governance. Full-scale deployment is targeted for Q1 2026.

For Further Details: https://www.dubaicustoms.gov.ae/en/mobile/pages/newsdetails.aspx?itemid=2102

- **AI-Driven Risk Profiling:** Building on the deployment of the "Al Munasiq" AI classification engine, customs authorities have launched predictive risk profiling tools that streamline inspections, prioritize trusted traders, and improve clearance efficiency.

For Further Details: https://www.dubaicustoms.gov.ae/en/newscenter/pages/newsdetail.aspx?NewsId=2088

- **Expansion of the AEO Program:** Over 250 new entities have been certified under the UAE's Authorized Economic Operator (AEO) framework, enabling expedited processing, fewer inspections, and reciprocal recognition with key GCC and Asian trading partners.

- **GCC-Wide Data Exchange:** A cross-border data-sharing protocol among GCC customs agencies now enables real-time cargo visibility and enhanced coordination, supporting the seamless operation of the GCC trade corridor.

- **Enhanced Voluntary Disclosure Mechanism:** Businesses can now submit consolidated corrections across multiple declarations for valuation, classification, and origin, reducing penalties and encouraging proactive compliance management.

Regulatory Developments:
Enhancing Transparency, Alignment, and Trade Integrity

Recent regulatory milestones further align the UAE's trade environment with international best practices, while supporting its long-term economic diversification agenda.

- **Formation of the Ministry of Foreign Trade:** Established in June 2025, the Ministry consolidates oversight of trade policy and accelerates engagement in bilateral and multilateral trade negotiations—strengthening the UAE's global economic footprint.

- **Refined Controls for Dual-Use and Sensitive Goods:** New licensing procedures were implemented in April 2025 to align import controls with global non-proliferation frameworks and national security mandates.

For Further details: https://www.uaeiec.gov.ae/en-us/online-services/strategic-goods

- **Modernized Preferential Tariff & Origin Protocols:** Enhanced rules of origin and streamlined documentation requirements have been adopted under CEPA agreements with India, Indonesia, Mauritius, and others—reducing friction and unlocking preferential access.

- **Digital Documentation Expansion:** In support of end-to-end paperless trade, UAE customs now formally accept a wider range of electronic documents, including e-invoices, digital bills of lading, and blockchain-authenticated certificates. This aligns with the progressive rollout of the UAE National Single Window.

- **Sustainability Integration into Trade Policy:** As part of post-COP28 commitments, trade and customs frameworks now incorporate ESG criteria, with early-stage pilots for green lanes and incentives for low-carbon importers and compliant supply chains.

Strategic Trade Initiatives:
Unlocking Growth Through Agreements and Technology

The UAE continues to solidify its position as a strategic trade hub through high-impact agreements and digital innovations:

- **New CEPA in Force – UAE–Jordan:** The UAE-Jordan Comprehensive Economic Partnership Agreement is now operational, delivering preferential treatment and investment incentives for companies, including those based in free zones such as Jafza.

For Further details:
https://www.moec.gov.ae/en/uae-jordan-cepa?p_l_back_url=%2Fen%2Fsearch-results%3Fq%3DFuture%2520Economy%26delta%3D60%26start%3D6

- **IMEC Economic Corridor Advancements:** As part of the India–Middle East–Europe Corridor, customs authorities have signed agreements on digital integration and cargo pre-clearance. Pilot rail freight services between Jebel Ali and Abu Dhabi are currently underway. A blockchain-enabled trade corridor between Dubai and major European markets (Germany, the Netherlands, Italy) has been launched, enabling digital origin verification and ESG compliance tracking

Looking Ahead:
Harnessing Trade Innovation to Drive Growth

The UAE continues to lead the region in customs modernization, digital trade infrastructure, and strategic trade diplomacy. Businesses operating within or through the UAE are strongly positioned to benefit from a transparent, tech-enabled, and future-ready trade ecosystem.

For tailored insights or assistance in optimizing your customs strategy, our customs team of experts is here to support you every step of the way.

Tax Technology in Practice: How Global Leaders Are Redefining the Tax Function

Across industries and borders, tax functions are undergoing a profound transformation. No longer confined to compliance and reporting, tax is becoming a strategic, data-driven function which is powered by technology and aligned with enterprise-wide digital agendas.

Global companies are leading the way, leveraging advanced tax technologies to drive efficiency, reduce risk, and unlock value. From real-time VAT reporting to predictive corporate tax planning, the tax function is being reimagined as a digital control tower.

- **Intelligent Automation Across the Tax Lifecycle**
  Multinational businesses are deploying automation to streamline routine tasks such as invoice validation, tax code assignment, reconciliations, and filings. Robotic Process Automation (RPA) and rule-based engines are reducing manual effort and improving accuracy across jurisdictions.
  In the UAE, the upcoming e-invoicing regime and corporate tax compliance requirements present a timely opportunity for businesses to embed automation into their tax workflows.

- **Centralized Tax Data Platforms**
  Leading organizations are investing in tax data lakes and centralized platforms that consolidate financial, transactional, and master data across entities. These platforms enable real-time visibility, faster reporting, and better control over tax positions globally.
  With the UAE's move toward real-time invoice exchange and digital reporting, businesses can benefit from centralized tax data strategies that support both local compliance and global governance.

- **Predictive and Scenario-Based Tax Planning**
  Technology enables tax teams to move from reactive reporting to proactive planning. Using analytics and simulation tools, companies can model the impact of regulatory changes, business restructuring, or cross-border transactions on their tax obligations.
  This is especially relevant as UAE businesses prepare for corporate tax filings where scenario modeling can help optimize effective tax rates, manage deferred tax positions, and ensure alignment with transfer pricing policies.

- **AI-Enhanced Tax Intelligence**
  While still emerging, artificial intelligence is beginning to support tax operations through anomaly detection, smart classification, and natural language queries. Global firms are experimenting with AI to identify risks, flag inconsistencies, and generate insights from complex tax data.

  In the UAE context, AI can complement e-invoicing by validating TRNs, detecting outliers, and enhancing audit readiness with VAT reconciliations especially as structured data becomes the norm.

What This Means for UAE Businesses

The shift to digital tax is not just a regulatory requirement. It is a strategic imperative. Businesses that embrace tax technology now will be better positioned to:

- Ensure seamless compliance with e-invoicing, VAT and corporate tax
- Reduce manual effort and operational risk
- Gain real-time visibility into tax positions
- Align tax with broader digital transformation goals

At Andersen, we have a dedicated Tax Technology team supporting clients globally and locally in building future-ready tax functions. Let's explore how technology can elevate your tax strategy and unlock new value across your compliance landscape.

Logistics & Supply Chain Intelligence

Welcome to the Q2 2025 edition of Andersen's Logistics and Supply Chain Newsletter.

In this issue, we explore key developments shaping global and regional logistics, including digital transformation trends, supply chain resilience strategies, and infrastructure enhancements across the GCC, Asia, and key trade corridors. Our goal is to equip your organization with actionable intelligence to stay ahead in an increasingly dynamic trade and logistics environment.

Logistics Transformation: Technology-Driven Efficiency and Visibility

- **Smart Ports & Connected Logistics Hubs:** The UAE and KSA have expanded their smart port ecosystems, integrating AI-driven container tracking, IoT-based yard management, and automated gate systems. The Port of Jebel Ali and King Abdullah Port now support real-time supply chain visibility, reducing turnaround times by up to 28%.

For Further details: https://www.frost.com/cop28/smart-ports-innovation/

- **UAE's National Logistics Strategy 2025 Update:** Phase II implementation is underway, with key milestones in:
  - Multimodal transport integration (road, rail, sea, and air)
  - Blockchain-based freight clearance pilots
  - Expansion of bonded logistics zones to streamline re-export operations

https://www.thenationalnews.com/news/uae/2025/02/03/uae-unveils-dh200-billion-transport-logistics-strategy-to-drive-global-trade/

- Logistics AI & Robotics Deployment: Major 3PL players have adopted autonomous guided vehicles (AGVs), drone delivery prototypes, and predictive analytics platforms to reduce last-mile costs and boost operational responsiveness, particularly in high-demand sectors like pharma and FMCG.

Supply Chain Compliance & Regulatory Evolution

- **Advance Cargo Information (ACI) Protocols Expansion:** Several Middle East countries, including UAE, Egypt, and Jordan, are enforcing ACI protocols for improved cargo risk management. Shippers and freight forwarders are advised to ensure pre-departure compliance to avoid penalties or shipment delays.

- **Harmonized Tariff Schedules – GCC Revision:** Effective May 2025, the GCC Secretariat implemented revised HS codes for electronics, chemicals, and green technologies. Traders must update ERP and customs systems to remain compliant with updated classification rules.

- **Strategic Goods Controls Enhancement:** The UAE's 2025 strategic trade framework introduces new license categories for semi-conductors, EV batteries, and AI-enabled technologies. Exporters are encouraged to review their classification and licensing needs.

https://www.uaeiec.gov.ae/en-us/online-services/strategic-goods

Regional Trade Corridors & Agreements

- **IMEC and GCC Rail Integration Milestones:** The India–Middle East–Europe Corridor (IMEC) has achieved early-stage intermodal logistics integration, with UAE–KSA rail connections supporting faster overland transit times for containerized freight. A Dubai–Riyadh–Haifa–Europe corridor pilot is underway.

https://www.abramundi.org/post/imec-and-gcc-railway-a-new-era-of-connectivity-and-sustainability-in-the-middle-east

- **CEPA Agreements – Implementation Update:** Comprehensive Economic Partnership Agreements (CEPAs) with India, Indonesia, and Turkey are now in operational phases, offering reduced tariffs, simplified documentation, and expedited customs procedures across multiple sectors.

- **Digital Trade Infrastructure Advancements:** UAE, Bahrain, and Singapore have launched mutual recognition frameworks for e-documents, enabling trade transactions using blockchain-verified bills of lading and certificates of origin.

Sustainability in Supply Chains: From Compliance to Competitive Edge

- **Green Logistics Incentives Launched:** Dubai and Abu Dhabi are piloting carbon credit-based incentives for logistics providers operating electric or hybrid fleets. ESG-compliant companies may benefit from preferential zoning, financing, and customs clearance lanes.

- **Circular Supply Chain Programs:** Several MNCs operating in UAE Free Zones have launched reverse logistics and circular economy pilots in partnership with local authorities. These programs aim to reduce landfill waste, extend product lifecycles, and optimize resource usage.

Future-Proofing Your Logistics and Trade Strategy

As global supply chains grow more complex and digitally driven, proactive engagement with new regulations, digital platforms, and green initiatives will be critical for long-term success. Our team continues to monitor policy updates, emerging technologies, and regional logistics trends to ensure our partners stay informed and competitive.

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