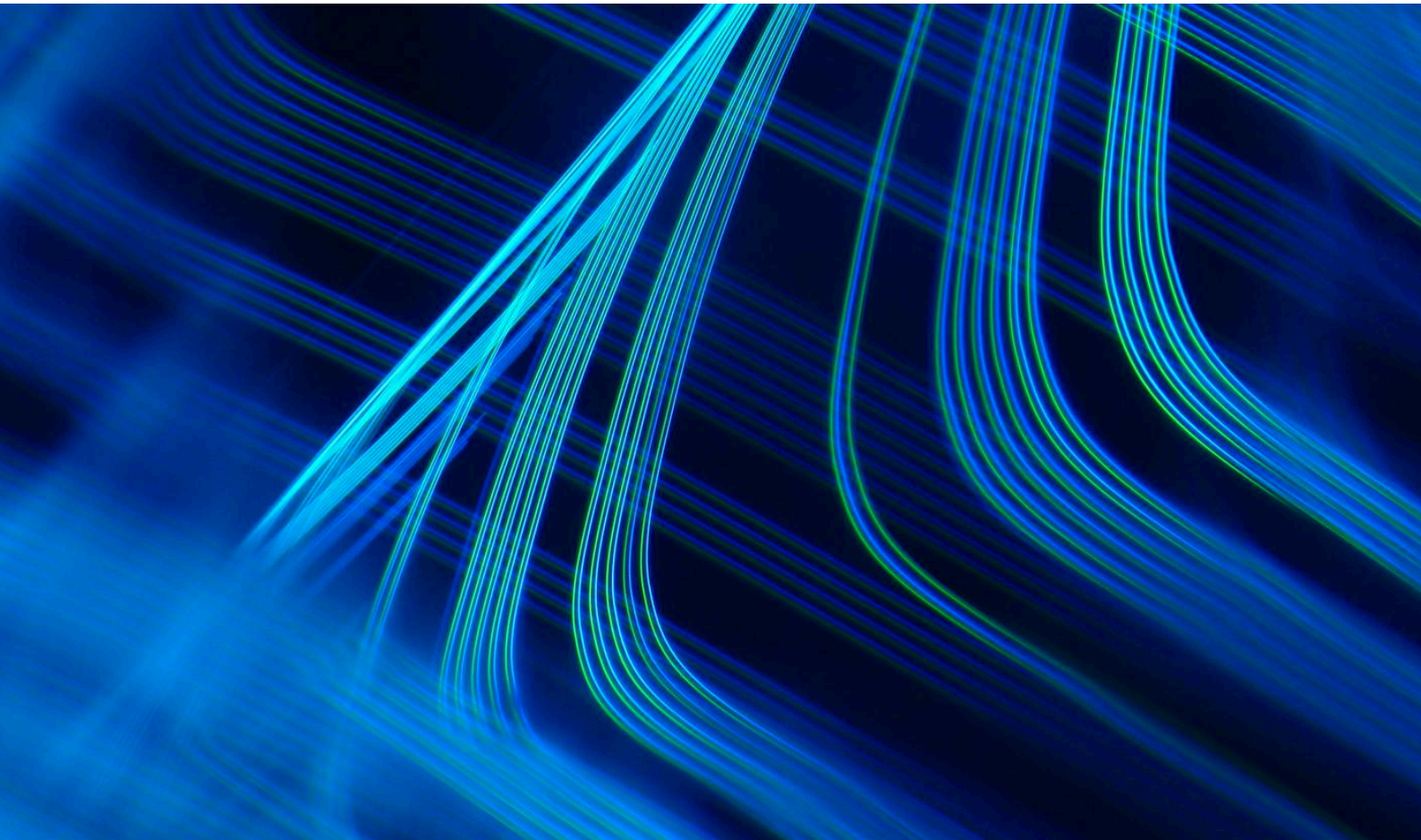
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UAE VAT Update

FTA clarifies how supplier verification protects Input Tax recovery - VAT Public Clarification VATP048





1. Overview

The Federal Tax Authority (FTA) has issued VAT Public Clarification VATP048, setting out the practical application of FTA Decision No. 13 of 2026 on the Measures, Procedures and Conditions required by Taxable Persons for the Verification of the Validity and Integrity of the Supplies before Deduction of Input Tax (the 'Decision'), effective from 1 October 2026.

The Clarification does not add new verification requirements; rather, it clarifies certain aspects of the Decision, including its application, the protection it gives to Taxable Persons, and the FTA's expectations of the verifications that should be carried out by Taxable Persons, supplemented with practical examples. It re-emphasises that applying the Decision is critical for businesses to defend their Input Tax recovery if a supplier is later found to be involved in Tax Evasion.

For the full list of requirements under FTA Decision No. 13 of 2026, please refer to our earlier update: Measures and Procedures for Verifying Supplies Before Input Tax Deduction.

2. Key points clarified by VATP048

Key point	Detail
The Decision applies only where Tax Evasion is established.	It has been clarified that the Decision is limited to Clause 2 of Article 54 (bis) of Federal Decree-Law No. 8 of 2017 on Value Added Tax (the 'VAT Law'). Further, it becomes relevant only once the FTA has established Tax Evasion in the supply or supply chain, as the burden of proving Tax Evasion sits with the FTA (Article 51 of the Tax Procedures Law).
Compliance is key to prove that businesses "could not have been aware".	Once Tax Evasion is established, the business must show that it was unaware, and could not have been expected to be aware, of it. The FTA clarifies that compliance with the Decision is critical in order to prove this.
Protection and recovery entitlement for compliant businesses.	Where the business was not actually aware of the Tax Evasion and proves that it complied with the Decision, it will not be treated as "should have been aware" that the supply was related to Tax Evasion. Accordingly, the business will be entitled to recover the related Input Tax, provided the other Input Tax recovery conditions are met.
Practical ways to meet the identity verification measures.	The verification measures relating to the identity of natural and legal persons have been clarified as follows: Natural Persons: - A valid proof of identity of the supplier, such as a copy of the Emirates ID or passport, should be obtained. - The meeting with the supplier, which must take place before the supply is made, may be held in person or through a phone or video call. Legal Persons: - The supplier's incorporation may be verified through official databases (e.g. the registers of the Abu Dhabi Global Market or the Dubai International Financial Centre) or by obtaining its certificate of incorporation or trade licence issued by the relevant licensing authority in the UAE.

Key point	Detail
Practical ways to meet the place of business verification measures.	The FTA clarified that the existence of the supplier's actual place of business may be verified using web mapping and navigation platforms or through a site visit. This applies to both natural and legal persons, and the place of business should be compatible with the nature of the supplier's activities.
Verification of the suppliers' risk level.	It has been noted that where any of the risk indicators listed in Article 3(3)(a) of the Decision applies (for example, the supplier has changed its address or key employees more than twice over the previous 12 months, or has undertaken transactions that are disproportionate to the size and history of its business), the responsibility is on the Taxable Person to retain a clear and justified explanation and submit it to the FTA upon request. Such explanation should not contradict the evidence or information available to the Taxable Person.
Thresholds are measured excluding VAT	The Clarification confirms that a Taxable person A has engaged with a new Supplier (Taxable person B) for a purchase transaction of fixed asset where the value of supply is AED 9,000 (excluding VAT). Given that this is the first transaction with the Supplier and its value is less than AED 10,000 (excluding VAT), Taxable person A is not required to verify the Taxable Supply it received from the Supplier. Subsequently, Taxable Person A made two more purchase transactions of fixed assets from the same Supplier with total value of AED 95,000 (excluding VAT). Since the total value of supplies received from the same Supplier during a 12-month period is AED 104,000 (excluding VAT) (i.e., exceed AED 100,000 excluding VAT), Taxable Person A is required to verify all the Taxable Supplies it received from the Supplier during the first 12-month period.
Cash thresholds still to come.	The cash payment thresholds referred to in the Decision will be set by a Decision of the Minister of Finance. This links to the new Article 54(3) of the VAT Executive Regulation, which blocks Input Tax on supplies paid in cash above that threshold, whether or not Tax Evasion is involved. At the time of writing, the Ministerial Decision has not yet been issued.
Documentation and governance.	Verification steps must be documented and supporting records retained. Further, a documented policy must name the persons responsible for implementing, reviewing and supervising the verification procedures, with a clear allocation of powers, roles and responsibilities.

3. Practical examples provided by the FTA

The Clarification includes eight examples that illustrate how the FTA will apply the Decision in practice. These are summarised below. Our own illustrative scenario is set out separately in Section 4.

Scenario	Verification measure	Facts	FTA's conclusion
Boutique engaging a curtain specialist	Supplier identity – natural person (Article 3(1))	A boutique engaged a curtain specialist identified through social media advertisements. All communication took place via WhatsApp, and the boutique did not verify the specialist's identity before receiving the supply of AED 10,000 plus AED 500 VAT.	The boutique would be regarded as "should have been aware" of the Tax Evasion, as it did not verify the identity of the supplier.
Construction company purchasing machinery	Supplier address and place of business (Article 3(2))	Before purchasing light machinery from a newly registered supplier, representatives of a construction company visited the supplier's warehouse in Al Quoz Industrial Area and assessed the equipment.	The construction company complied with the requirement to verify the supplier's address and place of business.
Warehouse implementing an ERP system	Supplier risk level (Article 3(3))	A start-up software company stated that its team of 25 consultants could implement an ERP system within four weeks. Its website showed only three employees, with experience limited to mobile applications. The warehouse nevertheless engaged the company for AED 20,000 plus AED 1,000 VAT.	The warehouse would be regarded as "should have been aware" of the Tax Evasion, as a risk indicator applied and was not supported by a clear and justified explanation.

Scenario	Verification measure	Facts	FTA's conclusion
Bakery purchasing furniture	Payment conditions (Article 4(2))	A bakery ordered furniture for AED 60,000 (including VAT). The manufacturer issued three invoices of AED 20,000 each from different companies, each showing a different foreign bank account. The bakery accepted the explanation that this was done for convenience, without further enquiry.	The bakery would be regarded as "should have been aware" of the Tax Evasion if it did not obtain and retain a reasonable commercial explanation for the involvement of third parties and the payments to foreign bank accounts.
Hotel purchasing bed sheets	Price and profit margin (Article 4(3)(a))	A hotel purchased 200 sets of branded bed sheets from a newly established wholesaler at AED 200 per set, against a market price range of AED 400 to AED 800 per set, without seeking any justification for the difference.	The hotel would be regarded as "should have been aware" of the Tax Evasion, as it did not verify that the price was consistent with market conditions.
Restaurant purchasing shishas	Supplier's licensed activities (Article 4(3)(b))	A newly established wholesaler offered to sell shishas to a restaurant. On reviewing the wholesaler's trade licence, the restaurant found that its licensed activities were limited to management consulting, IT advisory and marketing management.	By verifying the supplier's licensed activities, the restaurant identified that the supply fell outside their scope and decided not to proceed with the purchase.

Scenario	Verification measure	Facts	FTA's conclusion
Cosmetic clinic purchasing aesthetic devices	Authenticity, origin and ownership of goods (Article 4(3)(c))	A clinic purchasing aesthetic devices obtained the serial numbers and Customs documentation from its regular wholesaler. It also carries out supplier verification every year, including a review of the wholesaler's trade licence.	The clinic met the requirement to verify the authenticity and origin of the goods and the supplier's right to dispose of them.
Business complying with the Decision	All measures, procedures and conditions under the Decision	A Taxable Person complied with all the measures, procedures and conditions under the Decision and retained the supporting evidence. Tax Evasion was later established in the supply chain, without the Taxable Person being party to it or aware of it.	The Taxable Person would not be regarded as "should have been aware" of the Tax Evasion, and the normal Input Tax recovery rules would apply.

In each of the examples where the Taxable Person was regarded as "should have been aware", the warning signs were apparent at the time of the transaction. The FTA expects businesses to make reasonable enquiries where such signs arise, obtain a credible commercial explanation, and retain documentary evidence of both.

4. What this means in our view

FTA audits and refund requests.
We expect the FTA to apply this most in audits involving suppliers that have disappeared or not paid the VAT they charged, and when verifying the Input Tax behind refund claims. Businesses in a regular refund position should expect these questions. Supply chain fraud is not limited to particular industries, and the verification requirements are relevant to businesses across all sectors.

What is likely to be sufficient evidence.

A supplier register showing the verifications were done at the time of onboarding or purchase, not afterwards. In practice this means dated copies of IDs and licences, a record of the meeting or call, a map screenshot or visit note, a risk checklist with explanations, bank confirmation for suppliers above AED 375,000, price comparisons and bank transfer records. Documents gathered only after an audit notice will carry little weight. In addition, businesses should retain a documented policy identifying the persons in charge of implementing, reviewing and supervising the verification procedures, as well as indicating their powers and responsibilities in a clear manner.

Impact of non-compliance.

Where Tax Evasion is established and the business is unable to demonstrate that it complied with the Decision, the FTA may reject the recovery of the related Input Tax, even where the business holds a valid Tax Invoice issued by a VAT registered supplier. This may result in an adverse Tax Assessment, the imposition of administrative penalties and delays in the processing of refund claims. In such cases, the financial burden falls on the customer rather than on the supplier who evaded the tax.

Illustrative scenario.

Two traders each buy furniture worth AED 2,000,000 plus VAT of AED 100,000 from a recently established, VAT registered supplier, at about 12% below market, with payment requested to a related company's account abroad. The supplier later disappears without paying the VAT.

- Trader A pays without question. As a consequence, it is likely to be treated as "should have been aware", putting the AED 100,000 Input Tax recovery at risk.

- Trader B verifies the supplier, benchmarks the price and asks for a reasonable commercial explanation of the payment arrangement. As a consequence, it is likely not to be considered as "should have been aware", and it should be able to keep its Input Tax recovery, provided the other recovery conditions are met.

This scenario is illustrative and reflects our interpretation as at the date of this update.

5. Key takeaways

VATP048 makes clear that the checks and the documented policy under FTA Decision No. 13 of 2026 are the evidence a business will rely on if a supplier is later linked to Tax Evasion. Businesses that carry out and document these checks at the time of purchase can protect their Input Tax recovery. However, those relying only on a valid Tax Invoice risk losing their ability to recover the Input Tax.

- A valid TRN is not enough to defend Input Tax where a supplier is linked to Tax Evasion.
- Long-standing suppliers not verified in the previous 12 months need to be checked.
- Low-value supplies should be monitored on an aggregate basis. The AED 10,000 (excluding VAT) exception ceases to apply once the total value of supplies received from a supplier exceeds, or is expected to exceed, AED 100,000 (excluding VAT) over a 12-month period.
- Unusual payment routes through third parties, related companies or overseas accounts need a documented commercial reason.
- Watch for the Ministerial Decision on the payment in cash threshold and move supplier payments to bank transfer where possible.
- No written policy is a gap in its own right, even where the necessary checks are done informally.

How we support

We support businesses review their supplier onboarding and Accounts Payable controls against the FTA Decision No. 13 of 2026 and VATP048, prepare the verification policy and SOPs, review supplier files ahead of FTA audits and refund claims, and respond to FTA queries where Input Tax is challenged.

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