

VAT UAE

- **IMPORT EXPORT & DESIGNATED ZONES**



DESIGNATED ZONES:

 To be specified as Designated Zone following conditions are to be met:

(1) Has Specific fenced geographic area
(2) Has security measures and
(3) Customs controls in place to monitor entry and exit of individuals and movement of goods to and from the area.

(4) Shall have internal procedures regarding the method of
-keeping,
-storing and
-processing of Goods therein.

(5) Operator of the Designated Zone **complies with the procedures** set by the Authority.



The Designated Zone shall be treated as if being inside the State if:

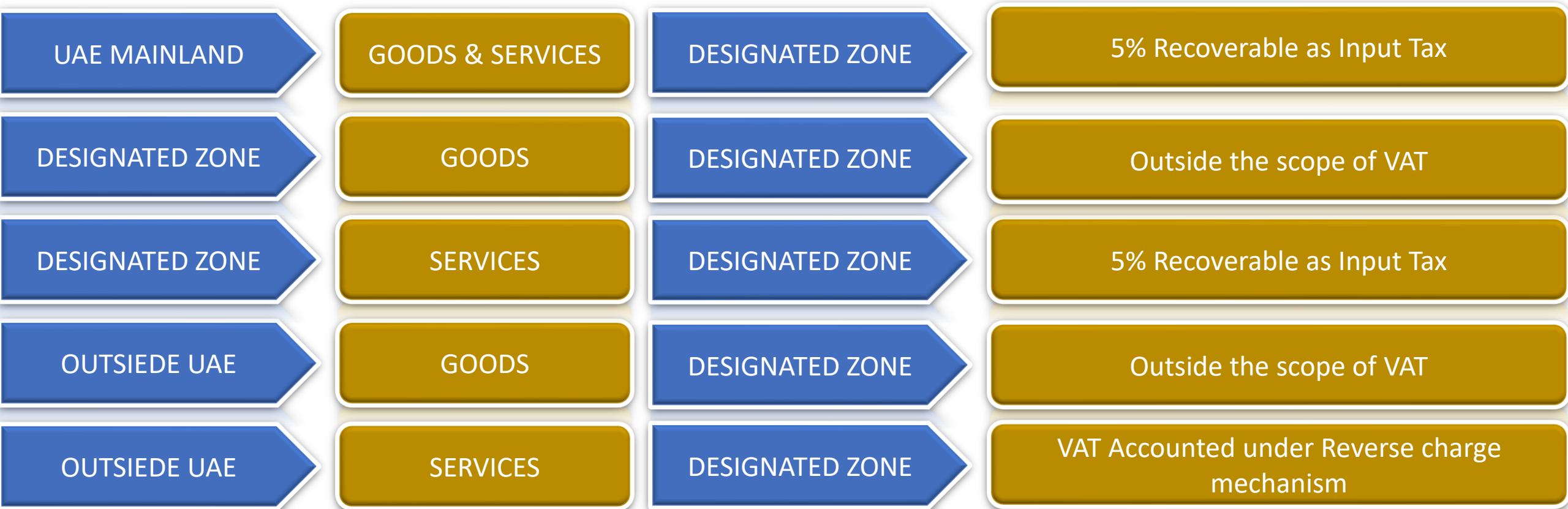
- It changes the manner of operating;
- If its no longer meets any of the conditions imposed on it.

Key Points:

- (1) For Exports:** A movement of Goods into a Designated Zone from a place in the State or a supply of Goods to a Designated Zone shall not be considered an Export of those Goods.
- (2) For Imports:** Goods shall not be treated as imported into the State, if these are imported into a Designated Zone from a place outside the State.
- (3) Supply of Water or any form of energy:** The Place of supply of water or any form of energy shall be considered to be inside the State if the place of supply is in a Designated Zone.
It means if Place of Supply of Water and any form of energy is inside the Designated zone, then also VAT shall be leviable.

DESIGNATED ZONES: (INWARD SUPPLY)

Explanation to the inward supply to Designated zones and its scope



DESIGNATED ZONES: (OUTWARD SUPPLY)

Explanation to the output supply from Designated zones and its scope

| | | | |
|--------------------------------|------------------|-------------------------------|---|
| DESIGNATED ZONE | GOODS | UAE MAINLAND | Recipient Account for VAT |
| DESIGNATED ZONE | SERVICES | UAE MAINLAND | 5% VAT charged by Designated Zone company |
| DESIGNATED ZONE | GOODS | DESIGNATED ZONE(not consumed) | Deemed No VAT |
| DESIGNATED ZONE | SERVICES | DESIGNATED ZONE | 5% VAT charged by Designated Zone company |
| DESIGNATED ZONE | GOODS & SERVICES | OUTSIDE UAE | Out of scope |
| DESIGNATED ZONE (UNREGISTERED) | GOODS & SERVICES | UAE MAINLAND (Consumer) | VAT shall collected at Custom point |
| DESIGNATED ZONE | GOODS & SERVICES | UAE MAINLAND (Consumer) | 5% VAT Charged by Designated zone Company |

LIST OF DESIGNATED ZONES FINALISED FOR SPECIAL TREATMENT UNDER VAT

Fujairah

- 19. Fujairah Free Zone
- 20. FOIZ (Fujairah Oil Industry Zone)

Ras Al Khaimah

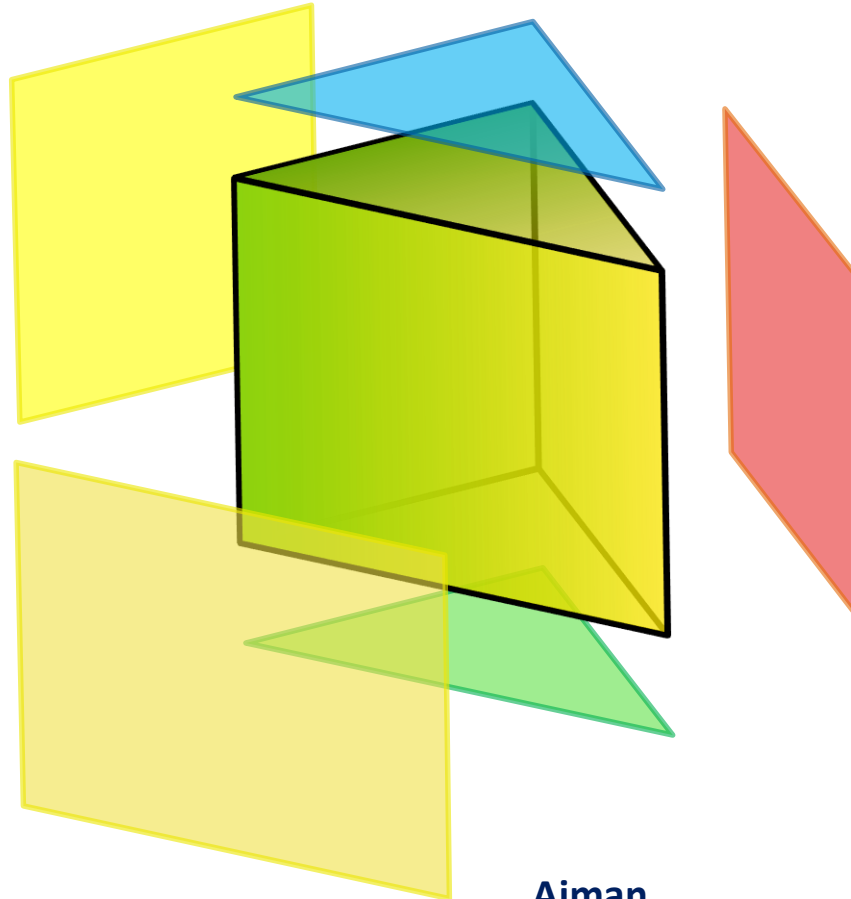
- 16. RAK Free Trade Zone
- 17. RAK Maritime City Free Zone
- 18. RAK Airport Free Zone

Umm Al Quwain

- 14. Umm Al Quwain Free Trade Zone in Ahmed Bin Rashid Port
- 15. Umm Al Quwain Free Trade Zone on Shaikh Mohammad Bin Zayed Road

Abu Dhabi

- 1. Free Trade Zone of Khalifa Port
- 2. Abu Dhabi Airport Free Zone
- 3. Khalifa Industrial Zone



Dubai

- 4. Jebel Ali Free Zone (North-South)
- 5. Dubai Cars and Automotive Zone (DUCAMZ)
- 6. Dubai Textile City
- 7. Free Zone Area in Al Quoz
- 8. Free Zone Area in Al Qusais
- 9. Dubai Aviation City
- 10. Dubai Airport Free Zone

Sharjah

- 11. Hamriyah Free Zone
- 12. Sharjah Airport International Free Zone

Ajman

- 13. Ajman Free Zone

RULES REGARDING IMPORT

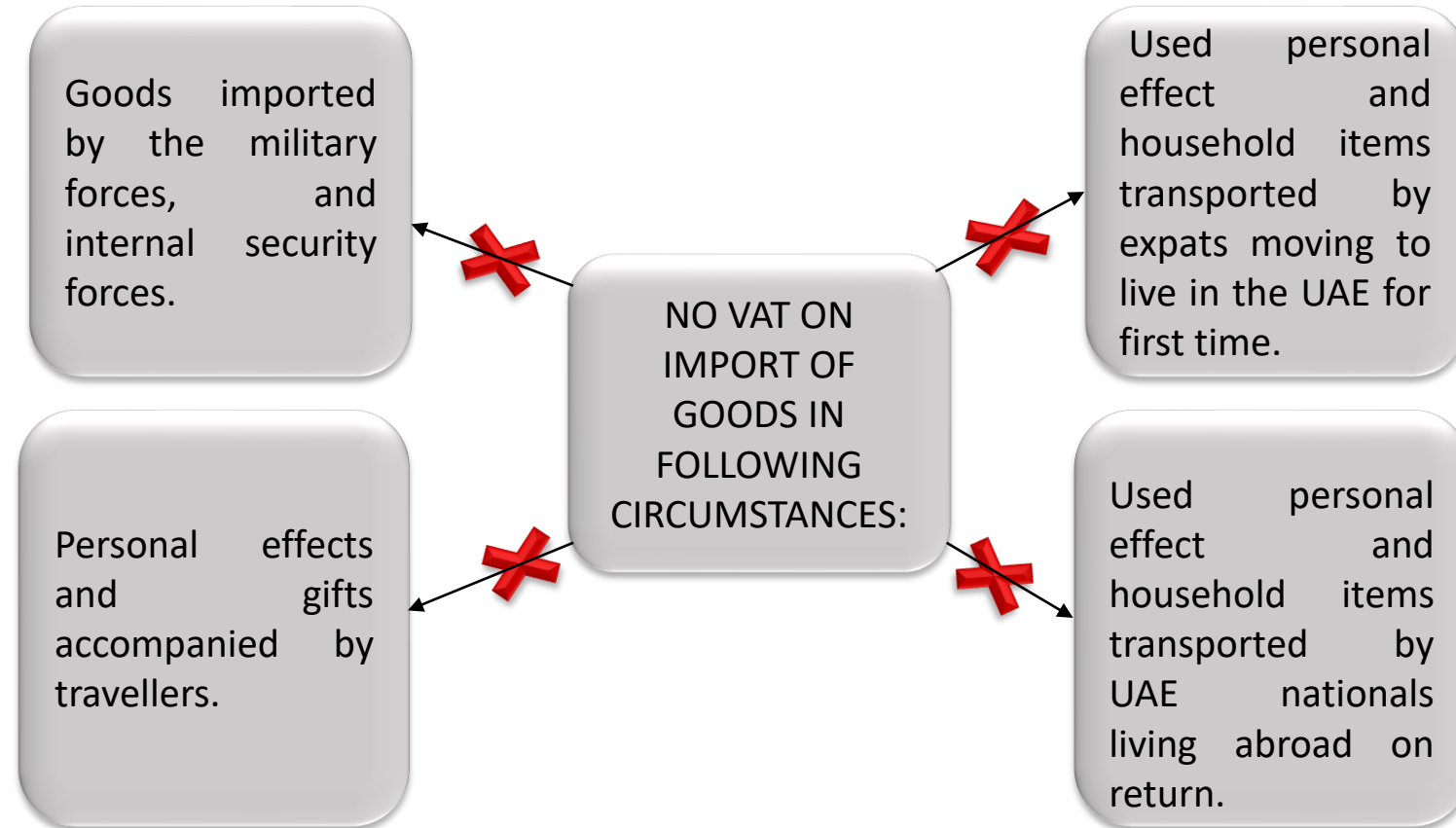
Definition

- ❑ The arrival of Goods from abroad into the State or receiving Services from outside the State.

Place of Supply

- ❑ Generally, in case of import of good in UAE. The place of supply shall be UAE.
- ❑ The recipient accounts for VAT under reverse charge mechanism.
- ❑ There are some exception to this rule. These are explained later in the slides with the help of examples and diagram.

(A) There are some exceptions to the definition of import:



RULES REGARDING IMPORT

GOODS SHALL NOT BE TREATED AS IMPORT IN FOLLOWING CASES:

(1) Imported into a designated zone from a place outside UAE.

(2) Where they are under custom duty suspension arrangement in accordance with GCC Common Custom Law in the following:

★ KEY POINT RELATED TO CASE (2)
Dealer shall have to provide a Financial Guarantee or Cash Deposit equal to the value of TAX DUE if and when requested by the Authority.

a) Temporary admission.

b) Goods placed in custom warehouse.

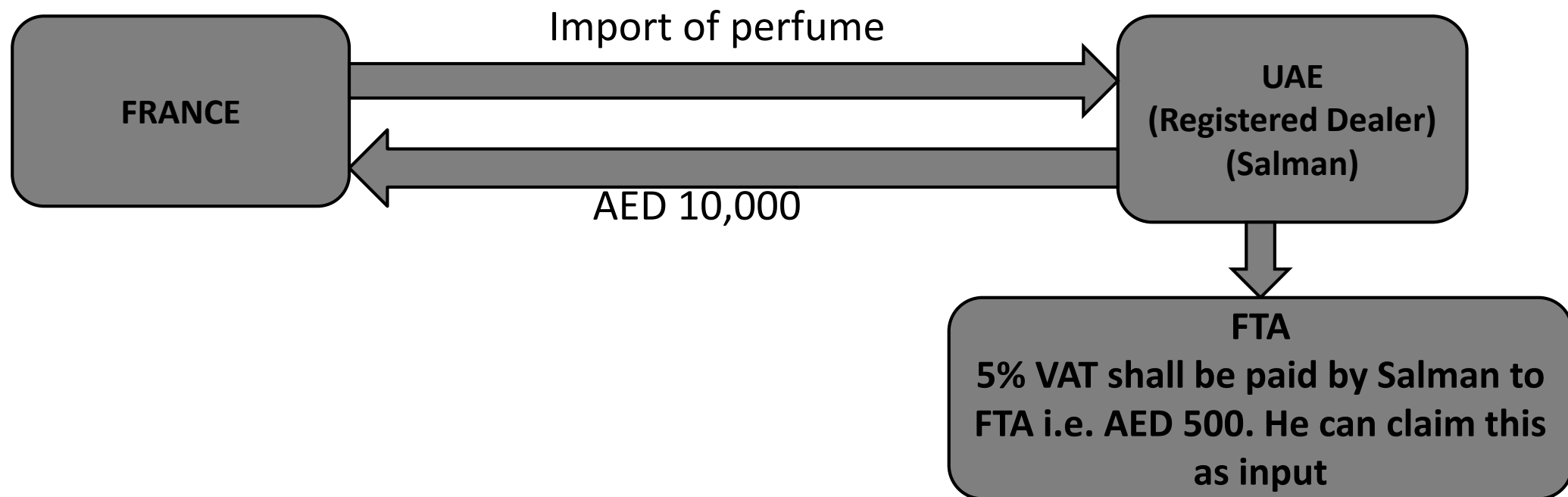
c) Imported goods intended to be re-exported by the same person.

d) Goods in Transit

EXAMPLES TO UNDERSTAND CONCEPT BETTER

Case 1: If the business owner in the State is a registered person with the Authority for VAT purposes, VAT would be due on that import using a reverse charge mechanism.

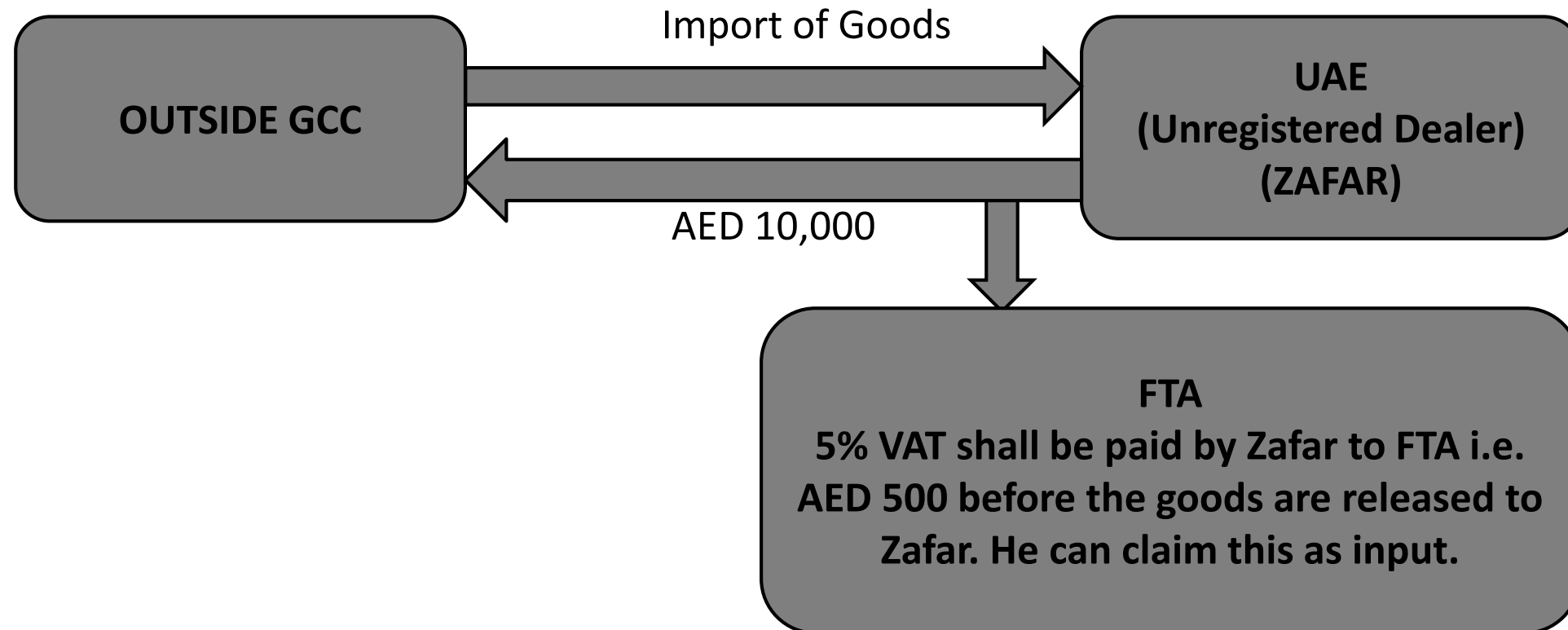
Example: Mr. Salman is a perfume dealer in UAE and is a VAT registered business owner. He imports perfume from France for sale in the UAE. He will owe VAT under the reverse in which Salman pays the tax directly to the government, and he can claim Input Tax Credit for this import.



EXAMPLES TO UNDERSTAND CONCEPT BETTER (Continue)

Case 2: If the business owner in the State is a non-registered person for VAT, then VAT would be paid on goods being imported from outside the GCC. Such VAT will typically be paid before the goods are released to the person.

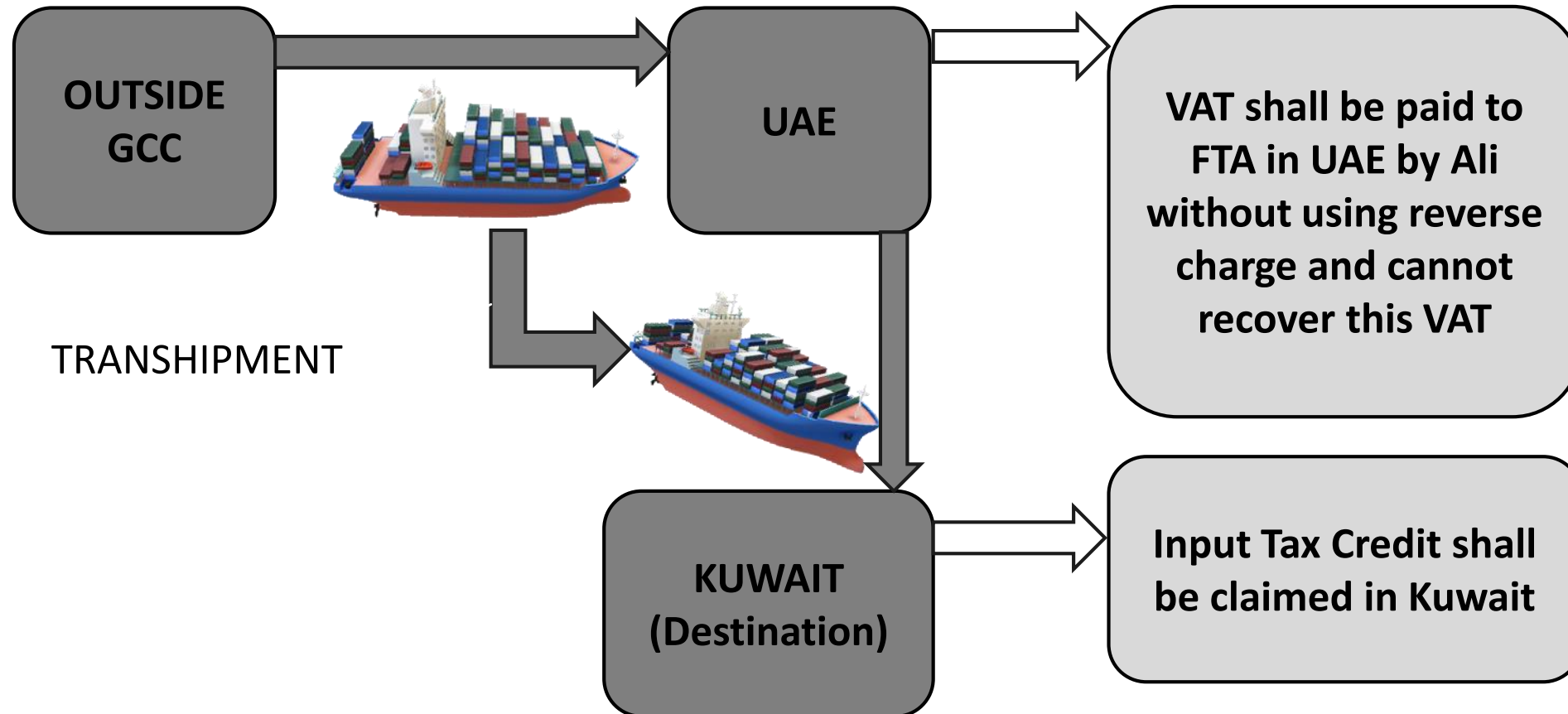
Example: Mr. Zafar is a non-registered business owner under VAT in the UAE. He imports goods from places outside the GCC. In this scenario, VAT is due to the UAE government and **has to be paid before the goods are released to Zafar.**



EXAMPLES TO UNDERSTAND CONCEPT BETTER (Continue)

Case 3: If goods are transhipped via UAE to other GCC countries, import VAT is applicable. The Input Tax Credit cannot be claimed in UAE, but can be claimed in the final destination member state.

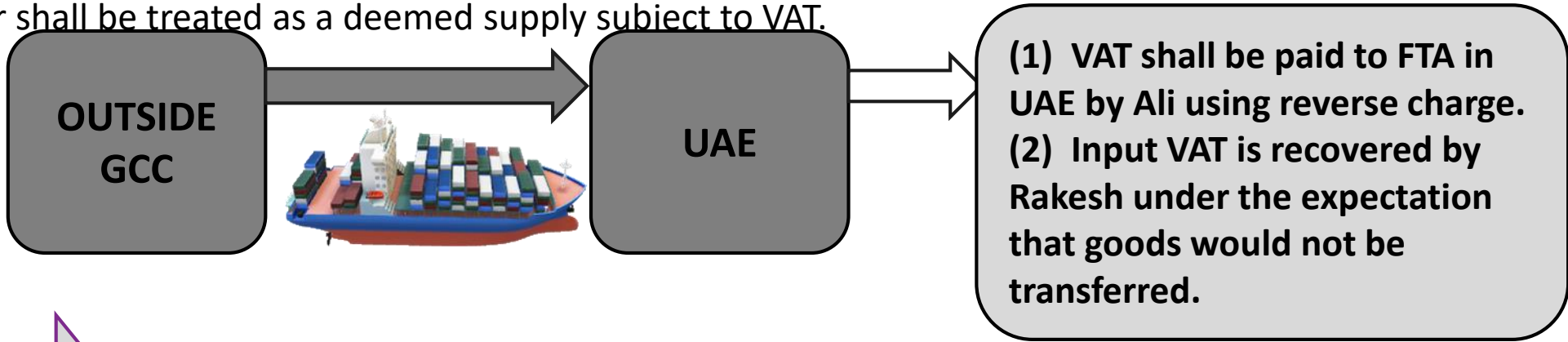
Example: Mr. Ali deals in cutlery, and he tranships goods via the UAE to other GCC countries. In this case, import VAT is applicable. Although Ali has to pay VAT in the UAE, the Input Tax Credit cannot be claimed there. He can only claim it in the destination state.



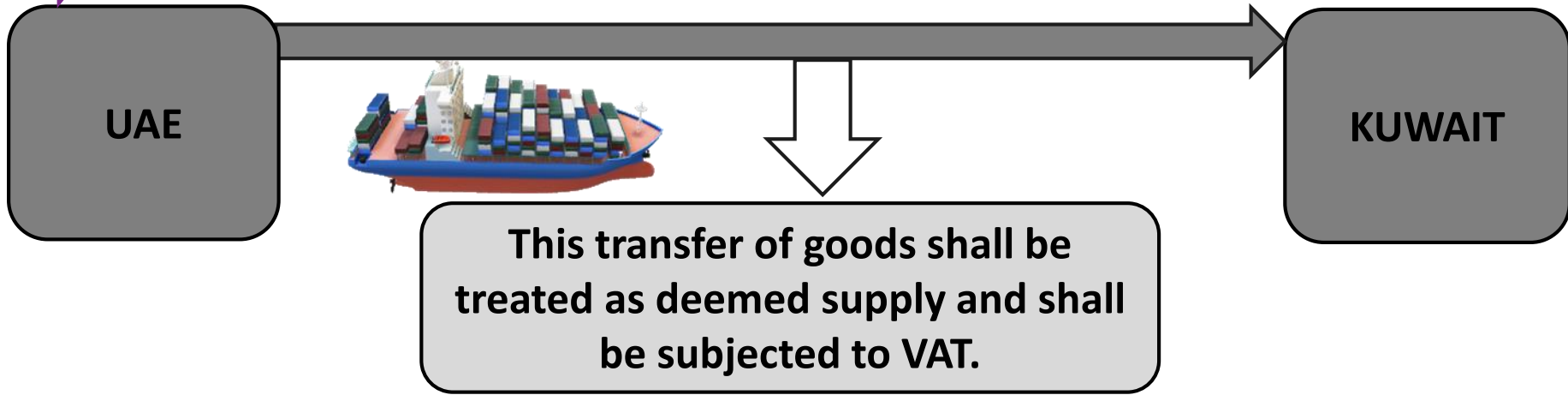
EXAMPLES TO UNDERSTAND CONCEPT BETTER (Continue)

Some key points in CASE 3

- ❑ This special point covers the case where import VAT was recovered in the UAE under the expectation that goods would not be transferred to another GCC State.
- ❑ However, at a later date they are moved to another GCC State, in this case, the importer will be required to “repay” the import VAT.
- ❑ The transfer shall be treated as a deemed supply subject to VAT.



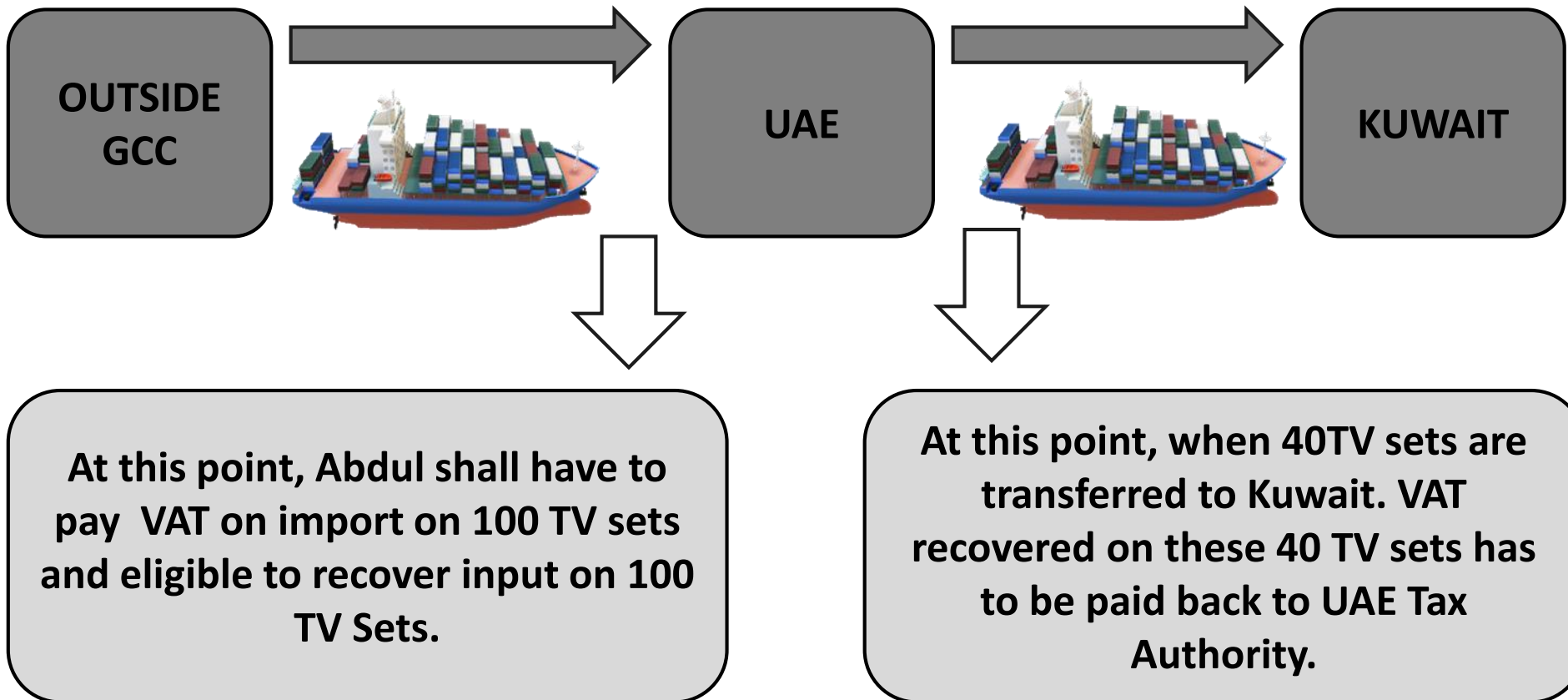
➔ At Later date, goods are moved to another GCC State



EXAMPLES TO UNDERSTAND CONCEPT BETTER (Continue)

Case 4: If Goods are previously imported to UAE and then exported to other GCC countries, import VAT is applicable. The input credit recovered via reverse charge has to be paid back to the UAE tax authority.

Example: Abdul owns an electronics business in the UAE and Kuwait. He previously imported 100 television sets to the UAE, and then he exported 40 of them to Kuwait (which is also a GCC country). In this case, the input tax credit which Abdul received on the 40 television sets has to be paid back to the UAE tax authority.



STEPS TO BE TAKEN BY IMPORTER

WHEN IMPORTING:

If you are registered:

You follow standard customs procedures, and by that the VAT due will automatically be displayed on your Tax Return for the Tax period of import.

If you are not registered:

You follow standard customs procedures and you pay the VAT in one of the following method:

1. By completing a declaration and paying through e-Dirham via the eServices portal on eservices.tax.gov.ae
2. Via a clearing company approved by the FTA at the port of the entry.
3. Via a freight forwarder approved by the FTA.
4. Via the courier company that delivers the goods to you.

WHEN IMPORTING FOR RE-EXPORT, TRANSIT & TEMPORARY ADMISSION:

If you are registered:

You follow standard customs procedures, and by that the VAT due will automatically be displayed on your Tax Return for the Tax period of import.

If you are not registered:

You follow standard customs procedures.

You need to provide a guarantee for the Tax that would be due on the goods, this can be done by:

1. Entering the previously obtained eGuarantee reference number on eservices.tax.gov.ae
2. Via clearing company approved by FTA at the port of entry.
3. Via a freight forwarder approved by the FTA.

PROCESSES FOR ACTIONS MENTIONED ON THE PREVIOUS SLIDE

HOW TO PAY ON IMPORTS

If you are a person not registered for VAT, you can pay through one of the certified import clearance companies registered with Federal Tax Authority.

- Submit your custom declaration following Customs declaration.
- Log on to the FTA e-services portal.
- Access the VAT payment form.
- Fill in the custom Authority, declaration number and declaration date.
- Complete the payment for the VAT due.

HOW TO PROVIDE EGUARANTEE?

- Submit your custom declaration.
- Logon to FTA e-services portal & access the VAT form.
- Fill the customs authority, Declaration number & date.
- Obtain an eGuarantee equal to the VAT due based on calculation on portal.
- Insert the eGuarantee number and submit the form.
- Upon the goods leaving the UAE, logon to the FTA services portal & open the eGuarantee cancellation form.
- Fill the required details including proof of export, export declaration number & eGuarantee number.
- Submit the form.

PROBLEM FACED BY REGISTERED IMPORTER IN CLEARING GOODS

As per the procedures, Registered importer can defer the VAT payment and account for it in their return under reverse charge. On the other hand, Non-Registered importer needs to make a cash payment by filling up the form -301(Import declaration form for VAT payment). VAT 301 form is generally for Non- registered importer.

However, the VAT registered importers are facing a lot of problems while clearing their goods at the border. This is because the Custom department is not able to verify TRN on their system when the declaration is made at custom. This problem is under consideration by both the department. But for the time being what can be done!

Registered importer can follow these steps:

1. Login to your E- Service Portal on the FTA site.
2. Click on VAT Tab on the top of the screen.
3. Then a link for VAT – 301 will appear. Importer need to fill up this form by filling up the Custom declaration detail which includes declaration port, date and number and click next.
4. On the next page click on “Fetch associated registration number”. This will automatically fill your TRN detail. **(Key Point)**
5. Then importer need to fill the balance from with some easy details and submit it.
6. Then it will automatically take the importer to payment option page, where importer will get various options for payment. However, as importer has used “Fetch associated registered number detail, he will get an option to defer the payment of VAT to return.

RULES REGARDING EXPORT

Definition Goods departing the State or the provision of services to a person whose Place of Establishment or Fixed Establishment is outside the State.

A) Export of Goods shall be zero-rated when the following conditions are met:

Direct Export: Where the supplier is responsible for arranging transport or appointing an agent to do so on his behalf.

Conditions:

- The goods are physically exported outside GCC or put into a customs suspension regime within three months of the date of the supply; and
- official or commercial evidence of export is retained by the exporter.

Indirect Export: Where the overseas customer is responsible for arranging the collection of the Goods from the supplier in the State and who exports the Goods himself, or has appointed an agent to do so on his behalf.

Conditions:

- the goods are physically exported outside GCC or put into a customs suspension regime by the overseas customer within three months of the date of the supply; and
- official or commercial evidence of export is provided by the overseas customer to the supplier, and
- the goods are not used or altered in the time between supply and export; and
- the goods do not leave the State in the possession of a passenger or crew member of an aircraft or ship.

RULES REGARDING EXPORT

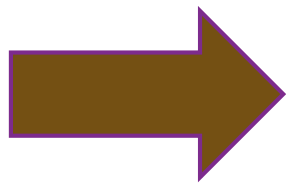
B) Export of Services shall be zero-rated when the following conditions are met:

(1) A supply of services shall be zero-rated if all of the following conditions are met:

- ❖ Recipient should not have a place of residence in a GCC State and is outside the UAE at the time the services are performed; and
- ❖ the services are not supplied directly in connection with:
 1. Real estate situated in the UAE; or
 2. Moveable personal property situated in the UAE at the time the services are performed.

(2) Services may also be zero-rated where:

- ❖ the services are actually performed outside the GCC or are the arranging of services that are actually performed outside the GCC;
- ❖ the supply consists of the facilitation of outbound tour packages, that part of the service.

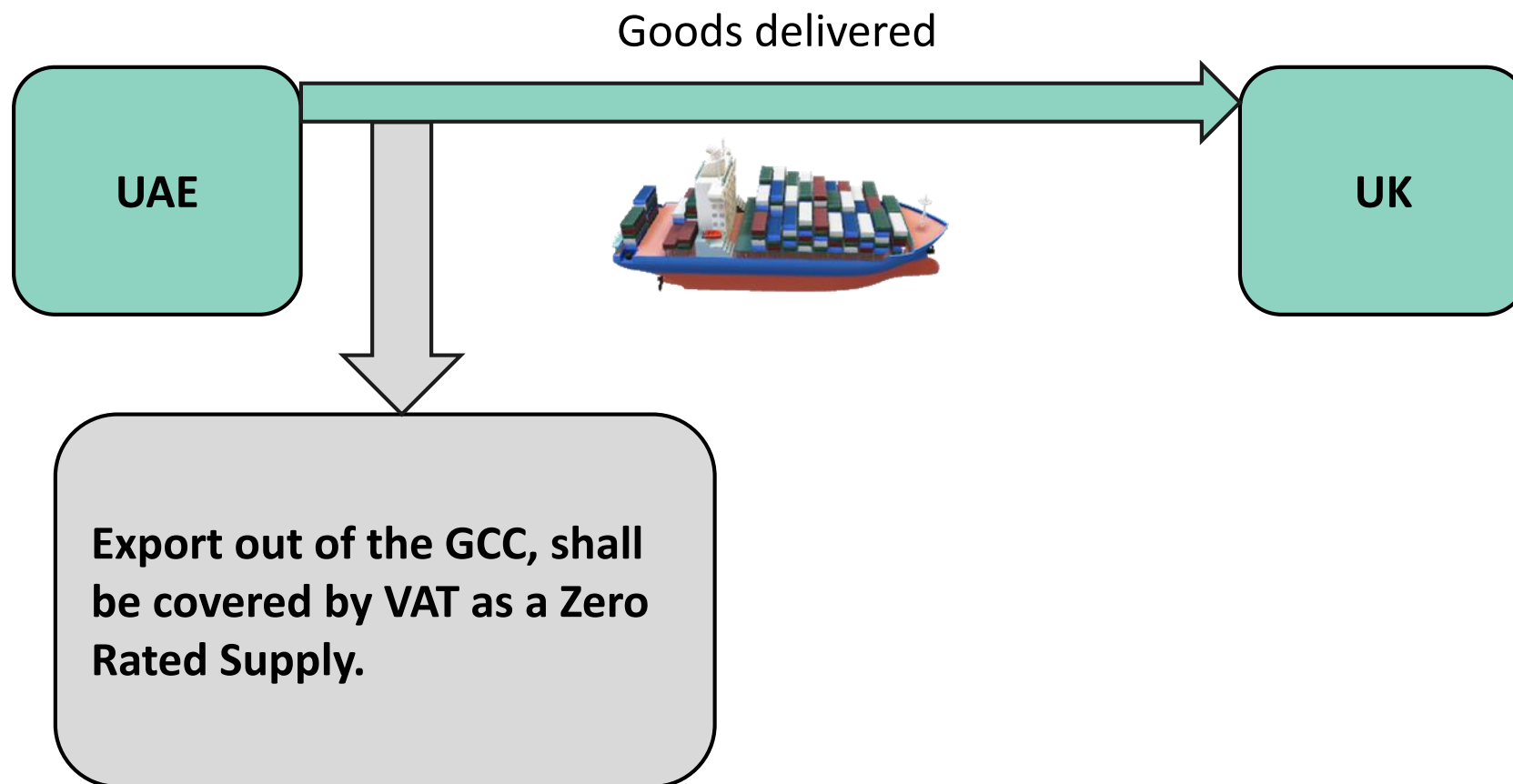


“Outside the UAE” includes a short term presence in the UAE (less than 1 month), or a presence that is not effectively connected with the supply.

PLACE OF SUPPLY AND SCOPE OF VAT

(1) EXPORT OUTSIDE THE GCC

In case of export of goods from UAE to outside the GCC State, place of Supply shall be UAE.

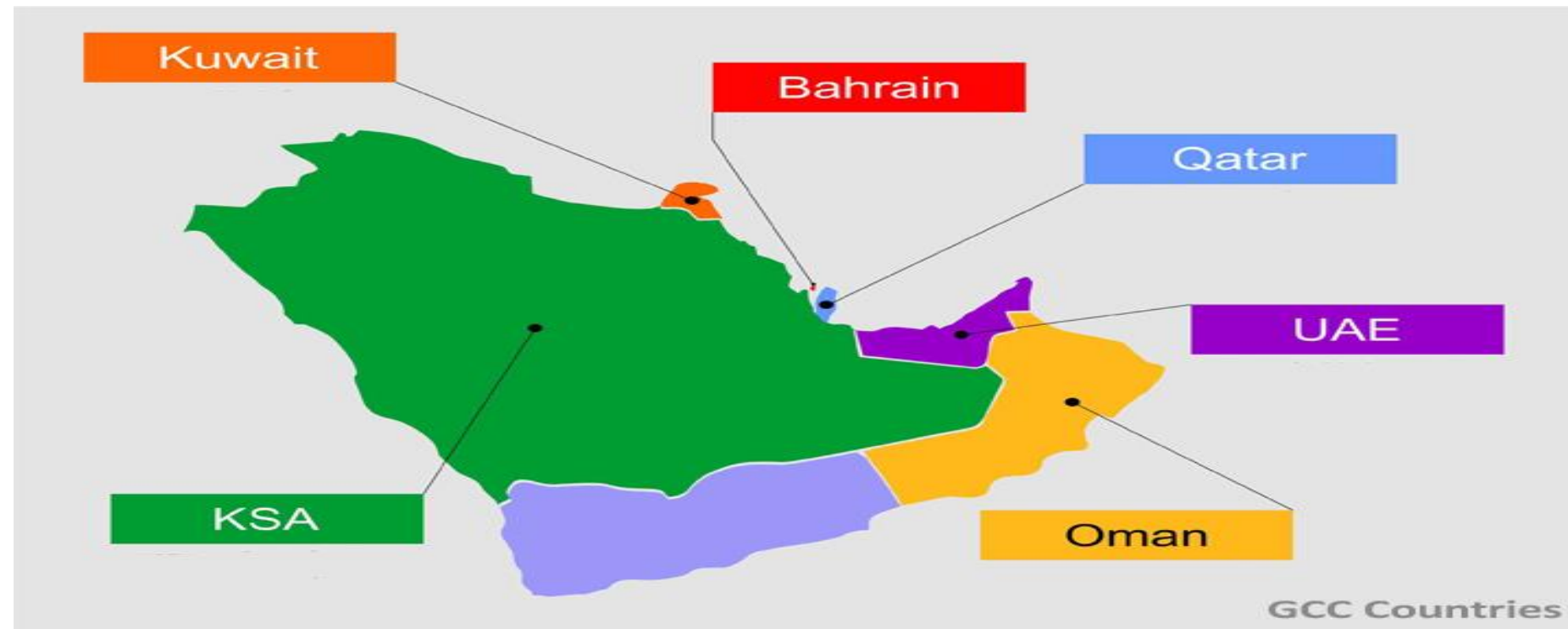


PLACE OF SUPPLY AND SCOPE OF VAT(Continue)

(2) EXPORT TO OTHER GCC STATE

There shall be three different cases covered by goods delivered to other GCC States.

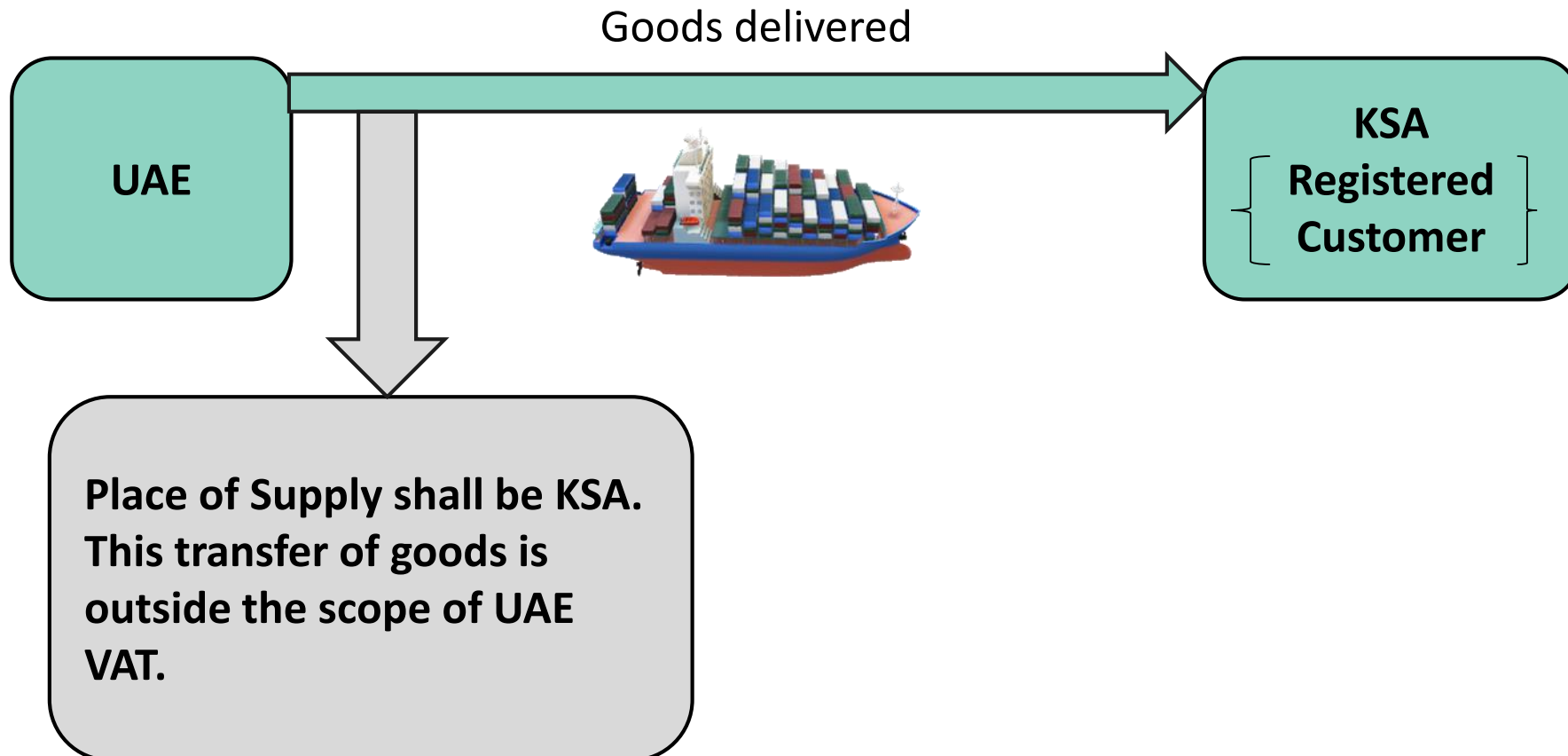
- (A) Where the customer in other GCC is registered in VAT;
- (B) Where the customer in other GCC is not registered in VAT and is **below threshold**.
- (C) Where the customer in other GCC is not registered in VAT and is **above threshold**.



PLACE OF SUPPLY AND SCOPE OF VAT(Continue)

(A) Where the customer in other GCC is registered in VAT

This is the case where goods are supplied to other GCC, and the customer is registered for VAT in that GCC State, Place of Supply shall be that other GCC State.



PLACE OF SUPPLY AND SCOPE OF VAT(Continue)

(B) Where the customer in other GCC is not Registered in VAT & is below threshold

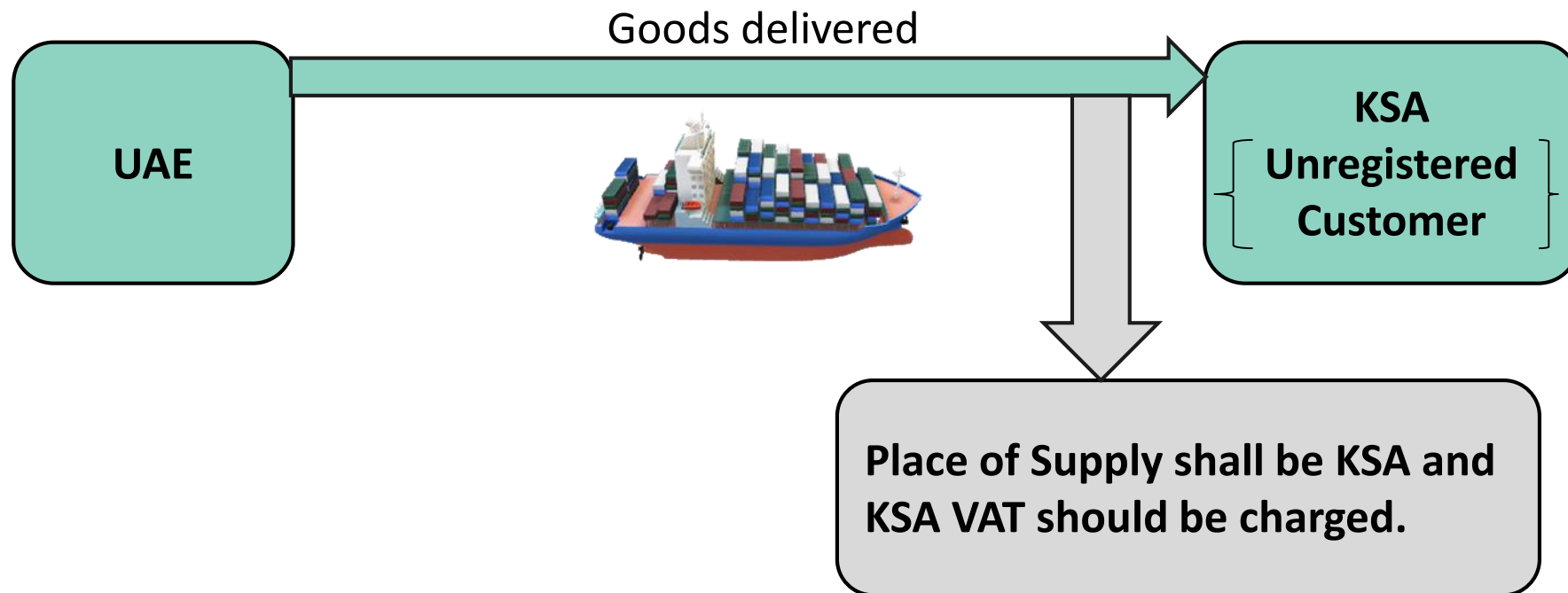
- ❖ In this case, the supplier is registered in VAT in UAE.
- ❖ Goods are sold by the supplier from UAE to KSA
- ❖ Customer is not registered in VAT & total amount of export by supplier remains below the Mandatory Registration threshold in KSA.
- ❖ Thus in this case, Place of Supply shall be UAE and UAE VAT is due.



PLACE OF SUPPLY AND SCOPE OF VAT(Continue)

(C) Where the customer in other GCC is not Registered in VAT & is above threshold

- ❖ In this case, the supplier is registered in VAT in UAE.
- ❖ Goods are sold by the supplier from UAE to KSA
- ❖ Customer is not registered in VAT & total amount of export by supplier exceeds the Mandatory Registration threshold in KSA.
- ❖ Thus in this case, Place of Supply shall be KSA & KSA VAT should be charged.



TAX RECOVERY AND EXPORTER

Generally, Exporter will be in a Repayment position i.e. net amount of refund of VAT may be due to the Exporter from the Authority. This is due to the following:

- ❑ Exporters make wholly zero rated supply outside the GCC (OR) outside the scope of Supplies to VAT registered businesses in GCC.
- ❑ Input Tax incurred on cost likely to exceed Output Tax declared on sales.

This can be better explained with an example:

Mr. Ali manufactured some goods in UAE. Local purchases of goods and Services have a net value of AED 50,000. Sales of goods exported outside the GCC is AED 150,000. Thus, his VAT computations are as follows:

| | | |
|---------------------------------------|---|----------------|
| | | <u>AED</u> |
| Output Tax due on sales | = | 0 |
| <u>Input Tax recoverable on sales</u> | = | <u>2,500</u> |
| <u>VAT payable/(recoverable)</u> | | <u>(2,500)</u> |

Other points:

- ❖ The FTA will approve refund claims or notify the taxable person of a rejection of the refund claim within 20 working days.
- ❖ The FTA may also notify the taxable person that consideration of the claim will take longer than 20 working days



WHEN EXPORTING:

1. You follow the standard custom procedures.
2. You need to ensure customs perform an actual examination of the goods provide you with a custom Customs entry exit certificate.

If you are registered:

You keep the custom exit/entry certificate in your records.

If you are not registered:

You need to use the Customs Exit/Entry certificate in order to release a lodged guarantee on the eservice portal or to provide evidence to clearing company/freight forwarders approved by the FTA to release your guarantee.

SOME OTHER POINTS RELATED TO DESIGNATED ZONE , IMPORT AND EXPORT

- 1. Two scenarios where non-registered importer need to provide eGuarantee:
 - a) Where the taxable goods are transferred from one VAT designated zone to another VAT designated zone.**
 - b) Import taxable goods under duty suspension.****
- 2. However, where the transfer of goods takes place from on VAT designated zone to another, in case of registered importer, VAT shall not be applicable.**
- 3. Where the traveller bringing in taxable goods valued up to DH3000, VAT shall not be applicable.**
- 4. Import returned goods (being certain exported goods which came back into UAE) into UAE mainland, VAT shall not be applicable.**
- 5. A UAE National living abroad or expat coming into the UAE for the first time importing used personal effects and households items.**

We appreciate you for going through this information and welcome you to connect with us.

THANK

You

Chetan Suri



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