

UAE to implement VAT on 1 January 2018

The UAE Minister of State for Financial Affairs, His Excellency Obaid Humaid Al Tayer, has stated that the UAE will implement VAT at the rate of 5% on 1 January 2018.

The minister was speaking in Dubai on 24 February after a joint press conference with Christine Lagarde, Managing Director of the International Monetary Fund (IMF).

VAT is expected to be introduced at a rate of 5% with some limited exceptions including basic food items, healthcare and education. The UAE are planning to implement on 1 January 2018 - other GCC countries may do so at the same time or by 1 January 2019 at the latest.

Background

The GCC Member States are in the process of approving the long anticipated common framework for the introduction of a Value Added Tax (VAT) system in the GCC. The common VAT framework will form the basis for the introduction of a national VAT system by each Member State.

While there are a number of challenges that still need to be addressed before it is introduced, VAT will help governments to deliver on long-standing plans for economic diversification away from oil, while still being able to deliver social and economic programmes. The exact details of the VAT regime which will need to be set out in the common framework and national legislation are yet to be made available.

Takeaway

From our experience in other markets, the establishment of clear regulations and efficient administrative processes is vital for VAT introduction to be a success. Businesses in the UAE (and GCC) should start planning now how the changes could impact their business, to ensure a smooth transition.

Businesses will have to adapt to the changes by identifying the impact of VAT on their business, and key immediate considerations are to:

- Assess capability of existing systems
- Identify VAT implementation strategy
- Identify contracts that need a VAT action
- Identify intercompany transactions
- Undertake training / awareness

A potential VAT implementation will also have immediate effects on consumer behaviour which gives opportunities for companies to assess their business direction and to plan strategically.

If you would like to discuss further please do not hesitate to contact your PwC VAT advisor

Jeanine Daou

Middle East Indirect Taxes Leader
+971 (0) 4 304 3744
jeanine.daou@ae.pwc.com

Nadine Bassil

Middle East Indirect Taxes Director
+971 (0) 4 304 3688
nadine.bassil@ae.pwc.com

Brian Tilly

Middle East Indirect Taxes Director
+971 (0) 4 515 7172
brian.tilly@ae.pwc.com



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