**UAE VAT – Central Bank’s Notice No. 421/2017 to clarify VAT application**

29 December 2017

**In brief**

On 28 December 2017, the United Arab Emirates (“UAE”) Central Bank issued “Notice No. 421/2017” to Head Offices of National Banks, Main Branches of Foreign Banks and Finance Companies Operating in the UAE with a subject title “Clarification of VAT Application” (“Notice”). This notice clarifies the UAE Central Bank’s position regarding the levy of Value Added Tax ("VAT") on certain fees charged by banks and finance companies.

The Central Bank through its Notice clarifies that:

"Banks and finance companies should comply with Central Bank’s Regulations 29/2011 regarding Bank Loans & Other Services Offered to Individual Customers, and service charges collected from customers shall be within the limits specified in Annexure 2 of the said Regulations. Banks and finance companies will not be permitted to exceed the fees structure for individual customers because of VAT. Similarly, banks are required to maintain and not increase their existing fees structure and levels for non-individual customers as a result of VAT.

Therefore, the banks and finance companies shall absorb the applicable VAT until further instructions from the Central Bank. Similarly, any applicable VAT on the services provided by the Central Bank shall be absorbed by the Central Bank.”

This Notice does not seem to be aligned with the understanding of many financial services industry participants, where the interpretation is that charging VAT on their (maximum) fees and commissions is not an increase in fee but rather is a levy of tax on behalf of the Federal Tax Authority in accordance with the Federal Decree – Law No. (8) of 2017 on Value Added Tax ("VAT Law").

Some areas remain uncertain under the Notice, notably with regards to the application of the restriction to existing fees structure and levels for non-individual customers, as the maximum limits for fees and commissions listed in Appendix 2 of the Central Bank Regulations 29/2011 are applicable retail customer service only.

We believe these uncertainties will be addressed by the Central Bank. As indicated in the Notice, a further review in consultation with relevant stakeholders will be undertaken.
**Next steps**

Considering the implementation date is 1 January 2018, it is suggested that affected banks and finance companies firstly focus on the key areas to address in this limited period, so as to ensure the operations of their businesses are not affected, including:

- *Identify and map chargeable fees and commissions to those addressed in the Central Bank Regulations*
- *Determine the system impact and tag the impacted fees and commissions as VAT inclusive (where applicable)*
- *Revise published Tariff or Schedule of Charges to reflect the impacted VAT inclusive amount chargeable to customers*
- *Consider the financial impact of this added tax burden and be prepared accordingly*

**Let’s talk**

*For a deeper discussion of how this issue might affect your business, please contact:*

**PwC Middle East Indirect Tax contacts**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Direct</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeanine Daou</td>
<td>Middle East Indirect Tax Leader</td>
<td>+971 (0)4 304 3744</td>
<td><a href="mailto:jeanine.daou@pwc.com">jeanine.daou@pwc.com</a></td>
</tr>
<tr>
<td>Nadine Bassil</td>
<td>Indirect Tax Partner</td>
<td>+971 (0)4 304 3688</td>
<td><a href="mailto:nadine.bassil@pwc.com">nadine.bassil@pwc.com</a></td>
</tr>
<tr>
<td>Raymond Van Sligter</td>
<td>Indirect Tax Partner</td>
<td>+971 (0)5 66820511</td>
<td><a href="mailto:raymond.vansligter@pwc.com">raymond.vansligter@pwc.com</a></td>
</tr>
<tr>
<td>Antoni Turczynowicz</td>
<td>Indirect Tax Partner</td>
<td>+971 (0)4 515 7372</td>
<td><a href="mailto:antoni.a.turczynowicz@pwc.com">antoni.a.turczynowicz@pwc.com</a></td>
</tr>
<tr>
<td>Tina Hsieh</td>
<td>Indirect Tax Senior Manager</td>
<td>+971 (0)509007674</td>
<td><a href="mailto:tina.hsieh@pwc.com">tina.hsieh@pwc.com</a></td>
</tr>
</tbody>
</table>

©2017 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers (Dubai Branch), its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.