
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

Jeanine Daou
Middle East Indirect Tax Leader
Direct: +971 (0)4 304 3744
jeanine.daou@pwc.com

Nadine Bassil
Indirect Tax Partner
Direct: +971 (0)4 304 3688
nadine.bassil@pwc.com

Raymond Van Slijter
Indirect Tax Partner
Direct: +971 (0)5 66820511
raymond.vanslijter@pwc.com

Antoni Turczynowicz
Indirect Tax Partner
Direct: +971 (0)4 515 7372
antoni.a.turczynowicz@pwc.com

Tina Hsieh
Indirect Tax Senior Manager
Direct: +971 (0)509007674
tina.hsieh@pwc.com

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