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# UAE: Tax Year End Adjustment of Input VAT Apportionment

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## *In brief*

Alternative input tax apportionment methods to be used for the tax year end input tax adjustment. “Actual use” assessment and the FTA special input tax apportionment method.

If your business is undertaking both taxable and exempt activities (“mixed taxpayers”) and has been recovering a proportion of the VAT incurred, you are required to carry out a mandatory tax year end adjustment calculation.

## *In detail*

### **What is required under the tax year end adjustment of input VAT apportionment?**

All mixed taxpayers are required to perform two calculations at the end of each tax year to determine whether the input VAT apportionment calculation for the tax year should be adjusted up or down. This process is known as the tax year end adjustment. The two step calculation is as follows:

#### *1. Annual wash-up calculation*

A definitive input VAT recovery ratio is calculated at the end of the tax year based on the consolidated data for the full tax year under the standard input tax method, and any difference (positive or negative) between this computation and the accumulated amounts of input tax recovered during this year in the periodic VAT returns must be adjusted.

The annual wash-up calculation requires the taxable person to:

- Calculate the recoverable part of the residual input tax<sup>[1]</sup> if the residual input tax calculations were performed for the whole tax year; and
- Compare the recoverable part of the residual input tax calculated for the entire year with the residual input tax actually recovered in the tax periods throughout the tax year.

#### *2. “Override” at the end of the year*

- Where there is a difference of more than AED 250,000 in the tax year between the recoverable input tax as calculated in accordance with the “standard” method and the input tax which would have been recoverable if the calculation was made on the basis of the “actual use” of the goods or services, the taxable person should make an adjustment to the input tax in respect of the difference in the first tax period following the end of the relevant tax year.
- If the difference is less than AED 250,000, no adjustment is required to be made.

[1] Input tax which is incurred in respect of goods or services which are used partly for making supplies that allow for VAT recovery and partly for making supplies for which VAT is not recoverable.

### **How to make the calculation of the “actual use”?**

On 28 December 2018, the Federal Tax Authority (“FTA”) issued an Input Tax Apportionment: Special Methods VAT Guide | VATGIT1 (Dec 2018) according to which it was clarified that the calculation of the “actual use” should be made in accordance with one of the special apportionment methods described in the Guide.

The FTA accepts that the standard method of apportionment may not be appropriate in every situation as each business is different, and the standard method of apportionment may give rise to outcomes which might not be reflective of the actual use of goods or services by the business.

Accordingly, the FTA has prescribed four pre-approved alternative special apportionment methods that can be used by type of industry:

<b>Method</b>	<b>Formula</b>	<b>Applicable industry</b>
<b>Outputs Based Method</b>	$\frac{\text{Taxable supplies}}{\text{Total supplies}^*} \times \frac{100}{1}$ <p>*(Taxable supplies + Exempt supplies + Non business Supplies)</p>	<ul style="list-style-type: none"> <li>• Insurance companies</li> <li>• Retail Banks</li> <li>• Wholesale / Investment Banks</li> <li>• Providers of local passengers transport</li> </ul>
<b>Transaction Count Method</b>	$\frac{\text{Taxable transaction count}}{\text{Total transaction count}} \times \frac{100}{1}$	<ul style="list-style-type: none"> <li>• Banks engaged in wholesale &amp; Investment trading activities</li> </ul>
<b>Floorspace Method</b>	$\frac{\text{Floorspace (sqm) for taxable activity}}{\text{Total floorspace (in sqm)}} \times \frac{100}{1}$	<ul style="list-style-type: none"> <li>• Lease and sale of commercial and residential properties</li> </ul>
<b>Sectoral Method</b>	<p><b>Step 1:</b> Calculate residual tax for the whole entity / VAT group</p> <p><b>Step 2:</b> Allocate residual tax by sector (to each division / VAT group member) based on direct attribution principles</p> <p><b>Step 3:</b> Remaining residual tax divided between sectors (division / VAT group member) based on sector allocation method (i.e. Headcount or Output method).</p> <p><b>Step 4:</b> Using the assigned apportionment method applicable per each sector, calculate the portion of recoverable residual input tax allocated to each sector</p>	<ul style="list-style-type: none"> <li>• VAT group – where members undertake different activities</li> <li>• Legal Entity – different divisions undertake different sectoral activities</li> <li>• Large complex banks and insurance companies who operate through distinctive divisions</li> </ul>

### ***When should the adjustment be carried out?***

The adjustment as result of the tax year end adjustment calculation and “actual use” override calculation is required to be included in its first tax return following the end of the tax year. For the corresponding tax year:

- Monthly tax period: Adjustment to be included in the January 2019 tax return (submission deadline: **28 February 2019**)
- Quarterly tax period with tax period ends on 31 March: Adjustment to be included in the June 2019 tax return (submission deadline: **28 July 2019**).

Failure to carry out the tax year end adjustment required under the legislation may give rise to administrative penalties (including late payment penalties) regarding the underpaid tax amounts. It is to note that in case the adjustment results in an under claimed input VAT amount of more than AED 250,000, you should be entitled to a VAT refund from the FTA.

### ***Next steps***

You should consider the following next steps, in light of the alternative VAT apportionment methods made available by the FTA to assess the “actual use” of goods and services:

- Assess the various alternative VAT apportionment methods made available by the FTA
- Assess the various apportionment percentages to conclude on the method which best reflects the “actual use” of goods and services acquired by taxpayers
- Perform the year end calculations:
  - Annual wash up calculation using the standard input tax apportionment method; and
  - “Actual use” assessment using one if the prescribed alternative apportionment methods
- Where necessary, make a tax year end adjustment required in the first tax return following the end of your tax year; and
- Where applicable, submit an application to the FTA for a special alternative VAT apportionment method.

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