




Navigating the future of VAT

Implications for the Energy, Utilities,
and Resources sector in the UAE

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As the United Arab Emirates (UAE) solidifies its position as a global leader in innovation and sustainable development, the introduction of Value Added Tax (VAT) in 2018 presented an exciting opportunity for growth and modernization. This progressive step is set to enhance the efficiency and transparency of key sectors such as Energy, Utilities, and Resources (EUR), driving the UAE towards a more prosperous and sustainable future.

A transformative landscape

The introduction of VAT in the UAE in 2018 marked a substantial transition for businesses across all sectors. As the nation accelerates toward its sustainability goals guided by Vision 2021 and beyond, the introduction of VAT was a landmark move aimed at diversifying the UAE's revenue sources and reducing dependency on oil revenues.

For the EUR sector, this meant a new layer of compliance and financial planning. Initially, businesses had to adapt to the new tax regime, which involved updating their accounting systems, training staff, and ensuring that all transactions were VAT-compliant.

VAT in Energy, Utilities and Resources

The EUR sector, being a critical component of the economy, possesses distinct characteristics and has specific VAT treatments that businesses must navigate. Below, we highlight key challenges and detail the available exemptions and incentives provided by the UAE VAT legislation.



Complex supply chains

The EUR sector involves complex supply chains and substantial infrastructural investments, making VAT compliance a critical undertaking. The energy and utilities industries often engage in cross-border trade in goods and services, warranting meticulous VAT documentation and adherence to both local and international tax regulations.

Identification of VAT treatment

One of the primary challenges for businesses in the EUR sector is the accurate classification of transactions for VAT purposes. The correct VAT classification dictates whether VAT must be charged and at what rate, and it establishes the basis for claiming input tax on expenses. Utility providers must ensure that appropriate VAT controls and processes are in place to apply the correct VAT treatment on a transaction-by-transaction basis. Here are some examples of the VAT treatment applicable to the EUR sector:

- The supply of all forms of energy, including electricity, gas, lighting, heating, cooling, and air conditioning, is subject to VAT at the standard rate of 5%.
- The supply of natural gas and crude oil is zero-rated, providing some relief to businesses in this sector.
- When crude or refined oil, unprocessed or processed natural gas, or pure hydrocarbons are supplied by one VAT registrant person to another registrant, and the recipient of these goods intends to either resell the purchased goods or use these goods to produce or distribute any form of energy, the domestic reverse charge mechanism applies. The supplier must ensure they have all necessary information from the recipient and that the products qualify for the reverse charge mechanism.



Offsetting VAT for investments, managing input VAT credits, and dealing with VAT refunds

Large infrastructure projects demand significant capital outlays and therefore understanding input VAT credit mechanisms becomes essential. Businesses must ensure that they can reclaim VAT on investments and operational expenses accurately. Companies have faced challenges in managing VAT on infrastructure projects, which often involve designing proper project structure, setting up new entities based on the project structure, and involving significant capital expenditure. The timing of VAT payments and the ability to reclaim input tax have been crucial factors in financial planning.

VAT considerations related to offshore operations of oil & gas sector

When exploring and extracting oil and gas in sea water areas, it is crucial to determine whether these areas fall within the UAE, as this impacts VAT treatment. UAE territorial waters are fully sovereign, whereas the exclusive economic zone has "sovereign rights" only below the surface, with the surface waters being international. Consequently, supplies within UAE territorial waters adhere to UAE VAT regulations. Further, the latest amendments of the UAE VAT Executive Regulations make it clear that supply of vessels or other floating structures used in offshore oil & gas operations such as seismic studies, drilling or other marine engineering activities shall be subject to VAT at 5% standard rate, do not qualify for zero-rating supply of means of transport.

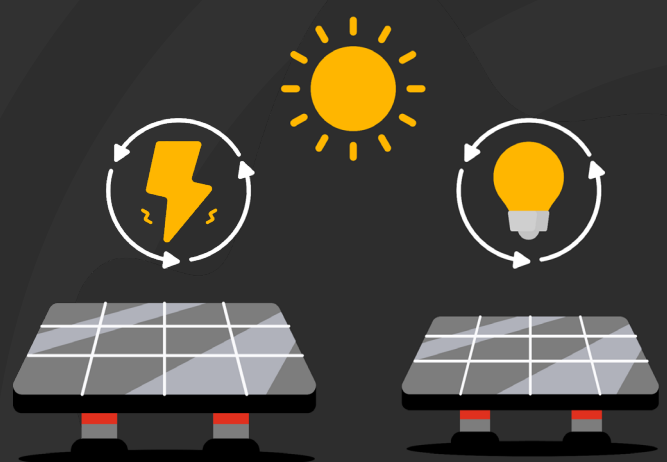
Collection of levies, duties, and taxes

Utility providers often collect levies, duties, and taxes on behalf of government bodies. Understanding the terms of charging and collecting these is important to determine the utility provider's obligations and the associated VAT treatment.

VAT implications of emerging business models and arrangements in the EUR sector

Recent years, with the development of technologies and business innovation, new commercial models and arrangements are emerging in this sector that may require special considerations for VAT implications by the suppliers and key stakeholders involved. These emerging business models and arrangements include:

- electricity supplied by solar photovoltaic systems installed by households and commercial entities.
- residual energy used for bitcoin mining.
- new energy storage facilities services.
- clean energy certificate as a market-based instrument.
- e-vehicle related utilities supplies.



The prospect of VAT Audits

As the UAE's VAT framework continues to evolve, it is expected that enforcement measures, including VAT audits, will become more stringent. Companies must proactively prepare for these audits by implementing robust VAT compliance programs.

Data accuracy and documentation

Maintaining accurate records and comprehensive documentation is crucial. This includes keeping copies of all sales and purchase invoices, retaining contracts and agreements related to business transactions, and preserving bank statements to support financial transactions. In the UAE, it is mandatory to retain all VAT-related documents for at least five years. Furthermore, any records related to real estate required to be kept shall be held for a period of 15 years. Ensuring that these documents are easily accessible for audit purposes is essential, as it not only facilitates the audit process but also helps address any queries or discrepancies that may arise.

Regular internal audits

Conducting regular internal audits is vital for ensuring ongoing compliance with VAT regulations and readiness for official audits. These audits should be scheduled quarterly to review all VAT-related transactions, including sales, purchases, and imports. During these audits, it is essential to verify that VAT is correctly charged on all taxable supplies and that input VAT is accurately claimed. Additionally, reconciling VAT returns with general ledgers and financial statements helps identify any discrepancies that need to be addressed.

Timely submission of VAT refunds

Given that the zero-rating of certain EUR supplies can result in a refundable position for the business, it is essential to ensure the timely submission of VAT refunds. Failure to claim these refunds and potential compliance errors can negatively impact the company's long-term financial strategy. Moreover, unclaimed refunds can increase the risk of future VAT audits.

Staying updated with VAT Laws

Staying informed about the latest VAT laws and regulations in the UAE is essential for compliance. Implementing and regularly updating internal VAT policies and procedures can help maintain adherence to these laws. Consulting with VAT consultants or legal advisors can provide additional guidance and ensure that the organization remains compliant with any changes in regulations.

Staff training and awareness

Regular training sessions for staff involved in VAT-related activities are essential for maintaining compliance. These sessions should be conducted frequently and cover topics such as VAT laws, filing procedures, and common errors to avoid. Providing updates on any changes in VAT regulations ensures that staff are always informed and up-to-date. Awareness programs play a significant role in promoting VAT compliance within the organization. Regular communication about the importance of VAT compliance to all employees helps create a culture of adherence.

E-Invoicing: A pivotal step towards digital transformation


The introduction of e-invoicing marks a significant milestone in the digital transformation of the VAT system in the UAE. The phase 1 go-live date is anticipated to be in July 2026, marking the beginning of a new era in VAT administration.

This innovative approach aims to streamline the invoicing process, minimize errors, and bolster compliance. For the EUR sector, e-invoicing offers a multitude of benefits, including heightened accuracy in VAT reporting, a reduction in administrative burdens, and enhanced transparency in transactions.

E-invoicing not only simplifies the invoicing process but also ensures that businesses remain compliant with the stringent requirements set forth by the Federal Tax Authority. By adopting e-invoicing, businesses can achieve greater efficiency and accuracy, ultimately leading to improved financial management and operational excellence.

To fully leverage the advantages of e-invoicing, it is imperative for businesses to ensure that their invoicing systems are compatible with the e-invoicing standards mandated by the Federal Tax Authority. This compatibility will enable seamless integration and facilitate a smoother transition to a more digital and efficient invoicing system.

E-invoicing is not just a regulatory requirement but a strategic move towards a more transparent, efficient, and digitally advanced VAT system in the UAE. Businesses that embrace this change will be better positioned to thrive in an increasingly digital economy.



Takeaways

The VAT implications for the EUR sector in the UAE are multifaceted, presenting both challenges and opportunities. By understanding the current VAT landscape, preparing for future audits, and embracing e-invoicing, businesses in the EUR sector can navigate the complexities of VAT compliance and leverage the benefits of a streamlined tax system.

Adopting a strategic approach to VAT compliance not only ensures alignment with regulatory requirements but also positions these businesses as frontrunners in the region's economic and environmental transformation. By fostering an environment of transparency and innovation, the UAE underscores its commitment to growth and sustainability, with VAT serving as a vital component of this evolving narrative.



Let's talk

Get in touch for more information.



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