

UAE VAT UPDATE: TIME-FRAME FOR RECOVERING INPUT TAX

It is time to relook into your internal policy and process followed for input VAT recovery. The public clarification released by the Federal Tax Authority changes the perception towards the Input VAT recovery Tax payers have believed over the past two years.

Eligibility for Input Recovery:

Under Article 55(1) of the VAT Law and Article 54(2) of the Executive Regulations, the Tax Registrant is eligible to claim the Input VAT on business expenditure in the Tax Period in which the following conditions are satisfied.

- a. The Tax Payer received the Tax Invoice; and
- b. The Tax Payer has paid for the consideration, or has the intention to make the payment within 6 months from the due date of the invoice.

Clarification by FTA:

It may be a case that the Tax Payer received the Tax Invoice but may have to wait for the internal approvals to make the payment. FTA clarifies that in such a case the conditions "b" listed above is not satisfied. In other words, the Tax Payer has not substantiated the intent to pay the invoice within six months of the due date. An internal approval process will show that the process for payment has been engaged and hence the intention.

In view of the above, before recovering input tax, a Tax Payer needs to substantiate that in addition to receiving a Tax Invoice, he has also satisfied the condition of forming an intention to make the payment within the prescribed period.

Where a Tax Invoice is received in one tax period and the intention to make the payment is formed in a later tax period, the eligibility to claim Input VAT falls in the later tax period; let's say, the Eligible Tax Period.

In a case where the Tax Payer has not recovered the VAT in the Tax period in which the eligibility conditions are satisfied, the Tax Payer can recover the input tax in the Subsequent Tax Period. It is good to note that the recovery can be extended for one tax period only.

If input tax is not recovered in the Eligible or the Subsequent Tax Period, the Tax Payer is required to submit a Voluntary Disclosure to amend the VAT returns of either of the Eligible or the Subsequent Tax Period.

What happens if the Tax Payer recovers the Input VAT and does not pay the supplier the consideration within 6 months from the due date?

The Tax Payer should reduce the Input VAT in the Tax Period following the expiry of 6 month period.

Once the payment is made, the Tax Payer would be eligible to claim the Input Tax again.

Way Forward:

Considering this clarification from the FTA, the Tax Payer are recommended do the following:

- Do not claim input VAT unless the internal approvals to make the payment are obtained.
- Before submitting the VAT return, review the payables aging for more than 6 months and adjust in the VAT return.
- Track all the payables adjusted above to reclaim VAT on payment.
- Compliance with this public clarification is more problematic for the Tax Payer whose is Tax Period is a Month instead of a quarter.
- Formulate Standard Operating Procedures(SOP) for accounting and recovery of Input VAT and train the Finance Team.

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Open Question: "How to justify the date of receipt of the Tax Invoice".

Clarification required in this regard as Tax Payers receives backdated invoices for the payments already made;

Our recommendation until further clarification from FTA is to mandate the suppliers to issue the Tax Invoice within 14 days from the Date of Supply

How can we help?

Rethink as an entity provides VAT advisory, optimization, registration, implementation, compliance, and training services in Bahrain, UAE, KSA, and the GCC.

Our team is here to guide you through the VAT law and regulations and ensure full compliance with the law.

Our team of senior qualified tax advisors, finance experts, and tax accountants will ensure timely and cost-effective VAT services.

Based on our local and international experience we understand that VAT is a complex tax and will certainly suffer numerous changes in the upcoming years. Rethink's VAT services are aimed to suit both basic and complex returns for SMEs and larger enterprises.

Who we are

Re/think is a boutique outsource and advisory company providing client-focused services in tax advisory, accounting, human resources and business advisory. We specialize in assisting clients with cost-effective, high-quality services and solutions. We create value by investing in highly qualified and motivated people and working closely with leading industry partners to provide our clients with a one-stop shop for all their business support needs which is tailored to suit your individual requirements.

Who will assist you



Keerthi Voodimudi
Tax Manager
✉ keerthi.voodimudi@rethink-hq.com



David Linklater
Director of Accounting and CFO Services
✉ david.linklater@rethink-hq.com