



VAT UPDATES

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1. Public Clarification released by the Federal Tax Authority on B2B Supply of Health care Services

As per VAT law and its Executive Regulation, **healthcare services** may be zero-rated if certain conditions are met.

For the purposes of the Article, "healthcare services" are defined as: **"any Service supplied that is generally accepted in the medical profession as being necessary for the treatment of the Recipient of the supply including preventive treatment"** The definition makes it clear that the recipient of the supply must also be the patient that receives the treatment.

Following are the possible scenarios and its taxability:

Scenario	Taxability
Recipient of Services is Patient	Zero Rated (Subject to other condition)
A doctor has contracted with a hospital to see patients who visit the hospital	<ol style="list-style-type: none">1. Services of Doctor is given to Hospital, thus charged to 5% VAT2. Services of Hospital is given to Patient, thus Hospital will charge 0% VAT to Patient
A hospital refers a patient to a laboratory for a medical test. The patient enters into a separate agreement with the laboratory for the supply of the medical test	The services of Lab is given directly to the patient, thus Laboratory will charge 0% VAT to Patient
A hospital is required to perform a specialized procedure for its patient. The hospital contracts with another hospital to perform the procedure	<ol style="list-style-type: none">1. The services of Hospital to another hospital will be charged at 5% VAT2. The Services of the hospital to the patient will be charged at 0% VAT (Subject to other conditions)

2. Input Eligibility for VAT on Insurance paid for the Dependents of the Employees by the Company

The provision of health insurance will be liable to VAT at the standard rate. Where this is provided by an employer to an employee as a benefit which is part of a contract of employment, the employer will be able to recover the input tax on such products, subject to the usual rules of VAT recovery.

Where an employer provides health insurance to the family of the employee, input tax will only be recoverable if there is a legal obligation to provide the insurance to the family members.

The reason for this is that Article 53 of the Executive Regulations dealing with blocked input tax envisages that costs incurred for the personal benefit of employees (which health insurance would be), will only be recoverable where:

- a) It is a legal obligation to provide those services or goods to those employees under any applicable labor law in the State or Designated Zone.
- b) It is a contractual obligation or documented policy to provide those services or goods to those employees in order that they may perform their role and it can be proven to be normal business practice in the course of employing those people.
- c) Where the provision of goods or services is a deemed supply under the provisions of the Decree-Law.

The important part of the above is under 2, where family health insurance is a contractual obligation, then it must also be required **in order that the employee may perform their role**. It is not the case that an employee requires their family member to have health insurance in order that the employee may perform their role, and on that basis the input tax on health insurance provided to families under 2 above should **not be recoverable**. In contrast, if it is legal Obligation to provide it, it fall under 1 and thus is **recoverable**.

3. VAT Clarification issued for Time Frame for recoverability of the Tax inputs

Article 55 of the Federal Decree-Law No. 8 of 2017 on Value Added Tax (“VAT Law”) prescribes the time-period within which input tax should be recovered by a taxable person

This Public Clarification clarifies the FTA’s position relating to the interpretation of Article 55 of the VAT Law and discusses the time-period within which the input tax must be recovered. This Public Clarification also discusses the recourse available to taxable persons in the instance where input tax is not recovered within the prescribed time-period

As per VAT law Input Tax must be recovered in the first tax period in which the two conditions are satisfied:

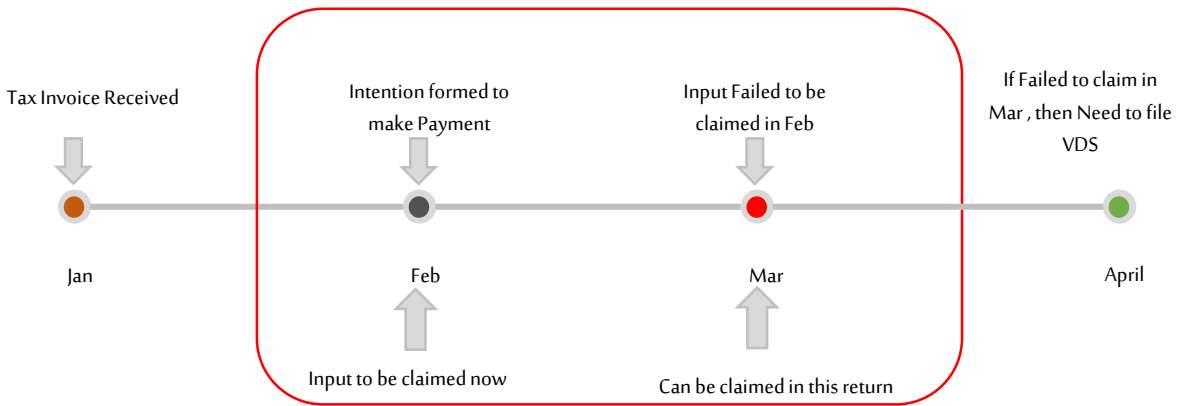
1. The tax invoice is received; and
2. There is an intention to make the payment of consideration of the supply before the expiration of six months after the agreed date of payment

Synopsis of the Clarification:

- Input Tax can be claimed only when the above stated two conditions are met
- If a Tax invoice is received in one Tax period but the intension to make payment is formed in next tax period, then input tax can be claimed in Next tax period only.
- When Input Tax is not claimed in the Tax period where both the conditions are met, the taxpayer can claim the input tax in the immediate next tax period
- If the Input Tax is not claimed in the first two tax periods, a taxpayer is required to submit the Voluntary Disclosure in order to claim the input. If a Voluntary Disclosure is submitted to claim the input tax, the taxpayer should amend the input tax reported in the VAT return of one of the Tax period

3. VAT Clarification issued for Time Frame for recoverability of the Tax inputs

*Example is based on Taxpayer having Monthly Tax Return



- The FTA considers that the conditions of Article 55(1) of the VAT Law will only be met when the taxable person completes the **internal approval** process and forms an intention to make the payment within the prescribed period
- Where a person fails to make the payment of consideration before the expiration of six months after the agreed date of payment, the taxable person has to reduce the input tax in the VAT Return of the tax period following the expiry of the six-month period. However, once the payment is made, he will again be entitled to recover the input tax.

Conclusion

Businesses were undergoing change in their accounting process to adapt Tax Compliance requirements. Having issued this clarification Taxpayer can claim input based on internal approval of the acceptance of supply and fulfilment of both the conditions i.e. Invoices received and agreed to pay consideration

4. FTA publishes press release highlighting two years of VAT in the UAE

The United Arab Emirates (UAE) Federal Tax Authority (FTA) has published a press release highlighting the current state of affairs and key statistics two years following the implementation of Value Added Tax (VAT) in the UAE.

The press release covers a wide range of areas, including the FTA's efforts to continuously develop systems to make processes more efficient, partnerships with the private sector, initiatives to raise awareness across industries, and efforts to enhance cooperation between parties involved in the VAT system.

In addition, the press release provides a statistical overview of the current state of the VAT system, which was introduced on 1 January 2018. Key statistics include the following:

- 312,000 businesses registered for VAT in the UAE
- 445 private and 19 public clarifications provided by the FTA, with 271% growth in private clarifications in 2019 over 2018
- AED 28.7 million processed under the foreign business visitor refund scheme
- 454 tax agents registered

The press release also highlights recent FTA initiatives, including private sector partnerships (the Business Consultancy Group and the Advisory Committee for Excise Goods Price Listing).

As part of the press release, the FTA called on businesses to ensure that they are in compliance with the VAT legislation and highlighted examples of common errors discovered by the FTA. As the VAT regime matures, the FTA will undoubtedly expect higher levels of compliance from businesses.

- For more information about VAT in the UAE, and how Nimai-RAMA can assist your business with achieving compliance with the legislation, reviewing and redesigning existing processes, and ensuring readiness for FTA tax audits, please email any of the contacts below contact.
- Team Nimai - RAMA has wide experience in the field of **Risk Management & Business Advisory, Indirect Taxes, ERP Implementations, Management Assurance and Corporate Finance** across varied industries for reputed corporates within India and Overseas.
- NIMAI was started in **early 2009**, with the Vision **“To be the Financial Consultant of choice by virtue of its superior service quality”**.
- NIMAI is headquartered at Dubai-UAE with branch offices across UAE and Bangladesh, India and Africa

You Can reach us at

Nisarg Dugad

nisarg.dugad@consultnimai.com

Ram Agarwal

ram.agarwal@consultnimai.com

Kapil Bansal

kapil.bansal@consultnimai.com

Dubai – Nimai Management Consultants

M-01, Bank Street Building, Next to Citibank, Bur

Dubai, P.O. Box: 120349, Dubai, UAE.

Ph: +971 4 354 5186 / +971 4 352 9466

Mumbai - Unit 401, Hub Town Viva, Western

Express Highway, Shankarwadi, Jogeshwari East,

Mumbai

Ph: +91 22 6223 1063