



# UAE excise tax alert



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## 1. What is excise tax?

Excise tax is a single-stage indirect tax imposed on specified goods.

Members of the Gulf Cooperation Council (GCC) have executed the Common Excise Tax Agreement that entitles each member state to adopt a common excise tax system. Under the common excise tax system, member states are authorized to levy excise tax at different rates on goods deemed harmful to human health or to the environment, as well as on luxury goods.

## 2. How does excise tax work?

As a consumption tax, excise tax is ultimately borne by the final consumers, but collected earlier in the supply chain by businesses. Importers, manufacturers and tax warehouse keepers in the supply chain are liable for excise tax and are required to register, submit periodical returns, pay the excise tax due and maintain specific excise tax records. Where the person originally liable for the excise tax fails to pay it, the tax will become payable by the business holding these excise goods.

## 3. What goods attract excise tax in the UAE?

In the United Arab Emirates (UAE), excise tax is currently levied on carbonated drinks, energy drinks, tobacco and tobacco products. *Vide* Cabinet Decision No. 52 of 2019 on Excise Goods, Excise Tax Rates and the Methods of Calculating the Excise Price published on 4 September 2019 (Cabinet Decision No. 52/2019), the UAE Cabinet has now extended the levy of excise tax to:

1. Electrically heated cigarettes, at the rate of 100 percent
2. Electronic smoking devices and tools whether or not containing nicotine or tobacco, at the rate of 100 percent
3. Liquids used in electronic smoking devices, tools and the like whether or not containing nicotine, at the rate of 100 percent
4. Sweetened drinks, at the rate of 50 percent

## 4. What does the scope of sweetened drinks include, for the purposes of excise tax?

According to Cabinet Decision No. 52/2019 of the UAE, sweetened drinks include any product that is produced in any of the following forms and to which sugar or other sweetener is added:

1. A ready to drink beverage intended to be used as a drink
2. Concentrates, powders, gel, extracts, or any form that can be converted into a sweetened drink

## 5. Is sugar defined for the purposes of excise tax?

According to Cabinet Decision No. 52/2019 of the UAE, sugar in the context of sweetened drinks includes any type of sugar determined under Standard 148 of Gulf Cooperation Council Standardization Organization (GSO). Standard 148 of GSO covers white sugar, raw sugar, brown sugar and other specified type of sugar intended for human consumption or used in food articles.

## **6. Is sweetener defined for the purposes of excise tax?**

According to Cabinet Decision No. 52/2019 of the UAE, sweetener in the context of sweetened drinks includes any type of sweetener determined under Standard 995 of GSO that covers sugar substitutes.

## **7. Are there any exclusions from the scope of sweetened drinks for the purposes of excise tax?**

Cabinet Decision No. 52/2019 of the UAE, provides for specific exclusion of the following products from the scope of sweetened drinks otherwise subject to excise tax:

1. Ready to drink beverages containing at least 75 percent milk
2. Ready to drink beverages containing at least 75 percent milk substitutes
3. Baby formula, follow up formula or baby food
4. Beverages consumed for special dietary needs and falling under the heading "General requirements for Prepackaged Foods for Special Dietary Use" of Standard 654 of GSO and any subsequent and relevant standards
5. Beverages consumed for medical uses under the heading "General Requirements for Handling of Foods for Special Medical Purposes" of Standard 1366 of GSO and any subsequent and relevant standards

## **8. Are milk substitutes defined for the purposes of excise tax?**

According to Cabinet Decision No. 52/2019 of the UAE, milk substitutes include a drink used for all or most uses of milk as a milk substitute, has consistency similar to milk, and contains 120 gm of calcium per 100 ml, and is extracted from pulses, cereals, nuts, seeds or any other type of plant and does not contain aerated substances.

## **9. Who is required to obtain an excise registration?**

Any business that:

1. Imports excise goods into the UAE
2. Produces excise goods released for consumption in the UAE
3. Stockpiles excise goods in the UAE (when excise tax is made effective on the additions to excise goods)
4. Is responsible for overseeing an excise warehouse or designated zone, i.e. a warehouse keeper

## **10. Does introduction of excise tax impact businesses with mere inventory of excise goods on the date of implementation?**

Yes. In certain cases inventory of excise goods held by a person in the UAE in the course of business, on which excise tax is due but has not been paid, may be subject to excise tax on the date excise tax is introduced on such goods.

## **11. On what value will excise tax will be computed?**

Excise tax will be computed on the higher of:

1. Price published by the Federal Tax Authority (FTA) for the excise good in a standard price list that it issues, if available
2. Designated retail sales price for the excise good, excluding excise tax, if any computed in the manner specified

## **12. When will excise tax on the new category of excise goods be introduced?**

Excise tax on the new category of excise goods is likely to come into effect before 1 January 2020. The date of implementation will be announced through a separate Ministerial Decision.

## **13. What businesses are likely to be impacted by the extension of excise tax to the new category of excise goods?**

Among others, the transitional or on-going excise tax compliances are likely to impact:

- Importers of excise goods
- Manufactures of excise goods
- Supermarkets
- Pharmacies
- General stores
- Restaurants
- Hotels

## **14. What should businesses do to prepare for excise tax implementation on the new category of excise goods?**

Based on our implementation experience, introduction of excise tax on any goods is likely to impact cash flows, profitability, pricing, statutory compliances, invoicing, documentation, record keeping, IT systems, contract terms and product demand to list some. Therefore, it would be important for businesses to consider the following, among others, as part of their implementation strategy:

- Ascertain taxability of products
- Assess the areas and extent of the impact
- Make representations to the FTA for clarifications, if necessary
- Identify changes necessary to labelling, packaging, marketing strategy, etc.
- Update IT systems to generate reports necessary for statutory compliance
- Conduct independent physical stock takes to identify transitional inventory

- Undertake transitional compliance
- Obtain excise tax registration
- File returns
- Prepare refund claims, if applicable

## **15. When should businesses begin preparation?**

With implementation due on or before 1 January 2020, businesses may do well to consider beginning preparation immediately.

## **16. How can KPMG Lower Gulf help?**

Our team at KPMG can assist you in your effort to:

- ✓ Ascertain taxability of products
- ✓ Assess the areas and extent of the impact
- ✓ Make representations to the FTA, if necessary
- ✓ Suggest changes to the IT systems to generate reports necessary for statutory compliance
- ✓ Conduct independent physical stock takes to identify transitional inventory
- ✓ Obtain excise tax registration
- ✓ File returns
- ✓ Prepare refund claims
- ✓ Provide on-going advisory support.

If you require assistance with excise tax in the UAE, please reach out to your contact at KPMG.



# Thank you

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