

Indirect Tax Update

The Federal Tax Authority (FTA) provides an update on supplies made within Designated Zones and on Exchange Rates

2 August 2018

Dear Valued Clients,

The FTA has released publications outlining in greater detail the applicability of VAT to supplies made within a Designated Zone, as well as clarifying certain issues regarding the recently resolved subject of exchange rates.

VAT on supplies made within a Designated Zone

The UAE VAT Regulations are clear on how VAT applies to supplies of services made within a Designated Zone. In summary, since the place of supply for services taking place within a Designated Zone is considered to be the UAE, UAE VAT is applicable on supplies of services taking place within a Designated Zone.

However, although the UAE VAT Regulations provide that supplies of goods taking place within a Designated Zone are by default outside the scope of UAE VAT, some ambiguity exists as to the precise interpretation of the exceptions that may override this general rule. The FTA's recent publication on Designated Zones has cleared this ambiguity.

The FTA clarified that the general rule would be overridden, and the supply of goods within a Designated Zone would be subject to UAE VAT, if the goods were intended to be consumed. However, this does not include instances where their consumption is due to their incorporation into another good or when they are used in the production of another good located in a Designated Zone.

The following examples better depict the application of these rules:

- A business buys trading stock within a Designated Zone for the purpose of resale. No consumption of the goods will occur by the business. The default rule applies (Out of scope of UAE VAT).
- An oil equipment manufacturer buys steel which will be used in the production of equipment. Although the steel will be "consumed" by the manufacturer, it will be used in the production of another good. This supply is out of scope of UAE VAT.
- A manufacturer in the Designated Zone buys work tools which are used in manufacturing goods. Although the tools will be "consumed" by the manufacturer, they will be used in the production of another good. This supply is out of scope of UAE VAT.
- A business in the Designated Zone buys an office computer, food, stationery, a company car, office furniture, and other similar goods to be used for general business purposes. The business is considered to consume the goods, which are not to be incorporated or to be used in the production of another good. The default rule is therefore overridden, and the supply of goods is subject to UAE VAT.

- A manufacturer in the Designated Zone purchases a computer to be used for creating designs of goods to be manufactured by him. Although the computer is used for the wider manufacturing process, there is no direct link between its utilization and the process of producing the goods. The supply is therefore subject to UAE VAT.
- An individual buys goods in the Designated Zone to be used for private purposes. Since the goods are used for non-business purposes, they are treated as “consumed” by the individual. The supply is therefore subject to UAE VAT.

It is the supplier’s responsibility to ensure that the buyer will utilize the goods for qualifying purposes. In cases where the supplier is unable to establish this based only on the nature of the goods to be supplied, the supplier should request and retain a written statement from the recipient that the goods will not be consumed.

Utilization of Exchange Rates to Convert Foreign Amounts

The UAE Central Bank (CBUAE) began publishing exchange rates on 17 May 2018 for taxable persons in the UAE to utilize when converting amounts denominated in foreign currencies into their local currency equivalent. The FTA clarified that taxable persons need not amend Tax Invoices issued before this date with foreign amounts as long as a reliable source for exchange rates was used consistently by the taxable person.

For the FTA, reliable sources of exchange rate information include but are not limited to the following:

- Thomson Reuters,
- Oanda,
- the exchange rate published by a UAE bank.

Going forward, taxable persons must utilize the exchange rates published by CBUAE for the purposes of converting amounts denominated in foreign currencies into their local currency equivalent. This includes using the rate provided in the same number of decimal places it is published in, whereby rounding the exchange rate is not acceptable. For example, if the exchange rate for US dollars is published as 3.672500, the full rate must be used and shown on the Tax Invoice. Rounding this rate to 3.7 or to 3.67 is not acceptable.

For converting foreign amounts relating to imports of services from outside the UAE, where the supplier is not VAT-registered within the UAE and therefore is not obliged to convert foreign amounts into UAE Dirhams, VAT-registered persons may use the invoice date as the date of supply for these transactions. They must then report these transactions within their VAT return by converting them into Dirhams as per the CBUAE exchange rate applicable on the invoice date.

For imports of goods, the Customs Department will convert foreign amounts shown on invoices into their local currency equivalent, and this value will be automatically populated in the taxable person’s VAT return under Box 6. Where the exchange rate utilized by Customs differs from the rate published by CBUAE for that date, the Taxable Person is not required to report an adjustment to this amount in his VAT return.

For more information, please [contact us](#).



Philippe Norre

Partner – Head of Indirect Tax
Tax and Corporate Services

E: pnorre@kpmg.com



INTERNAL USE ONLY

©2018 KPMG Fakhro, a Bahrain partnership registered with the Ministry of Industry, Commerce and Tourism (MOICT), Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").