

EXEMPT SUPPLIES

With effect from 01st January 2018 the United Arab Emirates (UAE) has implemented VAT at a marginal rate of 5%. However, in addition to the standard rate of 5%, the GCC has agreed on two additional rates of VAT that will be levied at the time of computation of VAT.

The two rates in addition to the Standard rate of VAT are:

- a. Zero-Rate
- b. Exempt



The exempt supplies are those supplies made for a consideration where no tax is due and no Input Tax can be recovered. Exempt supplies are not taxable supplies for VAT purposes. It may be noted that the Tax Authorities will strictly apply exemptions as they are an exception to the normal rule that VAT should be charged. A person that only supplies exempted goods or services cannot register for VAT. In such a case, the person shall not recover tax incurred on business purchases.

The following goods or services have been notified as Exempt from Tax under Article 46 of the Federal Decree Law No. (8) of 2017.

- a. Financial Services

Article 42 of the Executive Regulations, provide for tax treatment of Financial Services. It provides that Financial Services are services connected to dealings in money or its equivalent and the provision of credit. Exchange of currency, provision of any loan, advance or credit, the operation of any current, deposit or savings account etc. are few instance of financial services.



Are all Financial Services exempt from the applicability of VAT?

No, article 42 of the Executive Regulations prescribes the following financial services only shall be exempt from VAT.

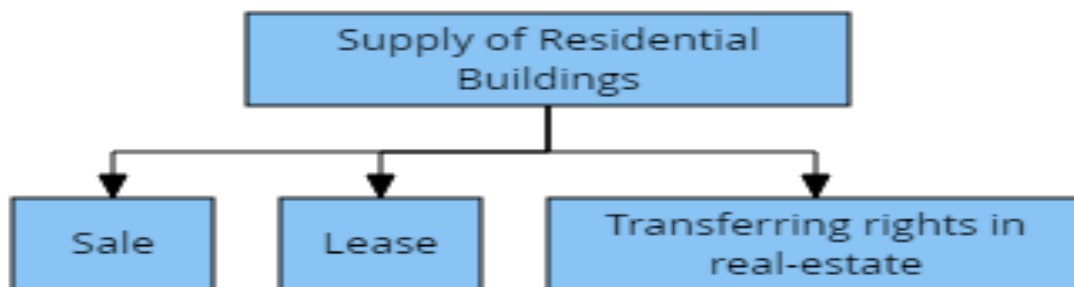
- i. Financial Services that are not conducted for an explicit fee, commission, discount, rebate or similar type of consideration.
- ii. Issue, allotment or transfer of ownership of an equity security or debt security.
- iii. Life Insurance and reinsurance of life insurance

b. Supply of residential buildings through sale or lease, other than those which are Zero-rated

Which buildings would be considered as residential buildings for VAT purposes is the first question that comes to the mind. The law clearly specifies that those buildings intended and designed for occupations by individuals, which includes principal place of residence shall be the ones enjoying the benefit of exemption.



Supply of residential buildings can be in the form sale, lease, or giving rights in the real estate.



The first supply of residential buildings within the first three years of it being constructed are Zero-rated. However, subsequent supplies even if in the first three years shall be exempt from VAT.

The exemption of supply in the form of lease of residential buildings is exempt subject to two conditions that the tenant is the holder of ID card issued by Federal Authority for Identity and Citizenship and the period of lease is more than six months. This however, shall not be calculated by including the right or option to extend the period of tenancy. However, if the contract gives the right to the tenant to terminate the lease before completion of the lease period shall be ignored.

c. Supply of bare land

Supply of bare land has been exempted from VAT. Bare land is defined in the law as a land that is not covered by completed, partially completed buildings or civil engineering works.

d. Supply of local Passenger Transport Services.

The supply of local passenger transport services by way of transport by land, water or air from a place in the State to another place in the State will be exempted.

The means of transport such as motor vehicle including taxi, bus, railway train, tram, monorail, ferry boat, abra or other similar vessel or similar means of transport, designed or adapted for transport of passengers are exempted from VAT.

Even helicopter or aeroplane designed or adapted for transport of passengers and approved for transport of passengers in accordance to the Civil Aviation Act is exempted.



However, local passenger transport services in the context of pleasure trip and local passenger transport service by aircraft which constitutes 'international carriage' as mentioned in UAE executive regulation will not be exempted and VAT @ 5% will be levied. That said, the UberCHOPPER rides have will be liable to VAT.