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NO. TIME TO BE MORE
CULTURED

ABOUT
CONCLUSIVE
RECORD-KEEPING ”

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Here's why VAT in UAE will NOT be 5%

The Big Debate



Hussain, a friend of mine who happens to be a Finance Director in one of the well-known interior decor retailer in UAE seemed over-concerned on losing the market significantly after Value Added Tax is imposed. He'd bring the subject up every single time I had seen him in last month and a half. This past weekend, I thought I will have to ease the weight off his head that he has been bearing because of the illusion. This article is to help slacken the stretch he and the likes of him have been whining about.

Yes, the UAE has announced it will proceed with the implementation of a value-added tax (VAT) regime, which will most likely be effective on January 1, 2018. It is expected that the rate of the VAT will be not-so-whopping 5% on all goods and services, with some exceptions including basic food items, healthcare and education.

Fellows this part here calls for attention, at a modest rate of 5 per cent and with certain exemptions, the impact of VAT WILL BE bearable. In some time it will become a part and parcel of living and gradually everyone will be accustomed to the change (in case the rates do not increase frequently and or no direct taxes system will be introduced).

To further simmer down the pain, let me tell you, since most of the people will experience tax for the first time the impact on consumers will be mainly psychological. With the list exempt and zero rated products & services, the overall impact on an individual will be around 2.5 per cent which is less than the usual annual inflation rate anyway, and may be less, given the current competitive market conditions.

So what is it that needs working?

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Corporate Challenges



What we as finance managers need to worry over is that the tax will present some corporate challenges, especially for businesses which have not previously been exposed to the nuances of tax compliance. Aside from having to accommodate for additional administration costs, companies will need to consider how VAT will affect their financial systems, operating models, supply chain arrangements, end customer pricing, IT and other relevant areas. You will have to specifically focus on:

- *Pro-active remedial measures to address deficiencies, which should also result in a more cost-effective supply chain.*
- *Amending the accounting scheme before implementation date*
- *Testing IT system capabilities*
- *Deciding how much of the VAT burden they would like to pass on to the consumer; and*
- *Education of personnel is essential across the business functions*
- *Ensuring robust internal documentation processes (for example invoicing) to correctly calculate and capture the necessary information required for VAT implementation and Because the affects will be so minimal, you might be wondering why it's even happening here but It's a crucial step in ensuring the UAE economy stays stable, while becoming less reliant on oil revenue, which historically it has.*

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Finally, it will be interesting to see how the law implementing VAT would deal with the tax holidays granted to free zone entities under the respective free zone laws.