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ACCOUNTING & TAX SOLUTIONS

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Operating From A FreeZone?

Obligations & Opportunities To Reduce Risks and Costs

Special Provisions & Obligations

At the introduction of VAT at the start of 2018, impacts to FreeZones were opaque and some confusion persisted across many companies. However, a year later and with precedent and clarifications, the implications are clearer and it may be timely to reassess your company's obligations for VAT.

FreeZone companies enjoy a special position in the UAE economy leading to a significant growth in FreeZones companies serving domestic and international markets. This has been especially attractive to micro and small companies seeking to operate under a tax-free regime with greater ownership controls.

In introducing the VAT system to the UAE, consideration was made to protect the status of FreeZones while assuring the compliance and reporting obligations from local market were protected. Therefore, the notion of Designated FreeZones where VAT is not due on the transfer of goods from one Designated Zone to another, or when importing goods into Designated Zones from outside the UAE were specifically defined.

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Such zones are defined as specific fenced geographic areas which conform to greater security procedures set by their respective Authorities with customs controls in place to monitor movements of individuals and goods to and from the areas. Additionally, they have internal procedures regarding the method of keeping, storing and processing of goods.

There are over 45 Free Zones in the UAE, however only 20 were named as Designated Zones. Therefore, for VAT purposes, the rest of the free zones are considered in the UAE mainland.

Assessing Your VAT Obligations

Are You Still Obliged To Comply?

Anecdotal evidence highlights many companies registered and received their TRN for the introduction of VAT. This prudent measure was taken in an effort to comply before the actual understanding of VAT and its implications to the business became clear. For 2019, the specific categorization of your supplies is better understood and you may not be eligible for VAT and may have the scope to deregister.

Under the provisions stated in Violations and Administrative Penalties related to the Implementation of the Federal Law No. (7) of 2017 on Tax Procedures, this can carry an AED10,000 penalty.

The primary question is assessing whether your business qualifies at the required threshold for taxable supplies. Taxable supplies are defined all forms of supply of goods or services supplied by a registered taxable person in the State of UAE for a consideration and in the course of conducting a business.

In the UAE, companies have to consider the VAT treatment of transactions with Designated Zones and assess their eligibility to comply.

Seller	Buyer	Supply	Rate	Considered as Taxable Supply?
FreeZone	FreeZone or Designated FZ	Service	5%	Yes
Designated FZ	FreeZone or Designated FZ	Service	5%	Yes
Designated FZ	Designated FZ	Goods	0%	No
FreeZone	International	Service	0%	Yes
Designated FZ	Local Market collecting from DFZ	Import for Buyer	5%	No

If your taxable supplies may fall below the mandatory threshold, you may seek to deregister. Deregistering with the Federal Tax Authority can be a lengthy and frustrating process without the experience and understanding of the proper requirements.

To assure the FTA your deregistration request is valid, you will need thorough preparation of the necessary documentation to present a clear case. This case should specifically set out the taxable supplies may require a range of supporting documents from invoices to financial and bank statements to present a clear position for your case.

Failing to accurately record and present the supporting documentation to justify your taxable supplies can lead to issues and delays. Naturally once your TRN is cancelled, you become ineligible to reclaim VAT in expenses.

What if You Still Need To Comply and Want to Reduce Costs and Risks?

In the event your taxable supplies still exceed the mandatory threshold, you must continue to comply. It would be advisable to assess the costs and challenges in your compliance model to ensure risks are reviewed and corrective actions are taken. This should apply to assessing:

- Accurately recording transactions for VAT
- Ensuring adherence to contractual terms
- Recovery processes and policies especially as clarifications impact treatment
- Review and reporting processes
- Supporting documentation requirements
- IT platform, automating and providing for an FTA Audit File (FAF)

These are not an exhaustive list and further considerations based on the nature of your business should be taken into account. There may be areas where you can improve your compliance model and processes. This in turn can present opportunities for cost and risk reduction especially addressing process efficiencies and IT automation.

Summary

From our experience, these discussion points can improve the success of your VAT model, managing costs and risks. You may be faced with other challenges from a technical or business standpoint, however in our experience these factors represent the main areas of issues whether small or large business. that can be better managed with:

- Review of your challenges from 2018
- Fit for purpose controls and reviews
- Filling capability gaps and resourcing appropriately
- On-going training and development to remain compliant
- IT automation and reporting

As your business assesses its performance or issues from 2018, these suggestions do not necessarily lead to major demands on your resources or investments. They may in reality be targeted changes that yield major benefits and reduce the financial impact to your business.

If you require a validation of your compliance model to improve your costs, we can support you and assess the risk areas so you can operate with greater confidence.

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About SimplySolved:

SimplySolved is an ISO 9001 accredited company providing quality driven services in accounting, consulting, tax, ERP or Accounting software implementation spanning multiple industries.

We are a trusted partner to over 100+ clients.

Our innovative and proven modular services are designed to enable individuals and businesses of all sizes, including Large Enterprise Tax Groups, to cost effectively manage their Financial & Tax reporting and derive key business insights to the business performance.

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