



Dear Friends and Clients,

Of course, this newsletter concentrates on the new VAT to be enforced on Jan. 1, 2018. There are 100+ seminars on VAT and almost every consultant's newsletter is dealing with this tax. For Europeans, there are not really any problems with understanding the VAT system. However, as I also found out with the students I am teaching in tax law (among others) at Modul Dubai University, this system of tax paid by the end-user yet needs to be followed up the whole trade chain with tax duties and deductibles is difficult to comprehend for nationals of countries who have never had VAT. So we are also outlining the basics of the new VAT Law.

What kind of complications could there be? A 5% VAT is still a portable start. Yes, accounting will be necessary now and the old profession of bookkeepers and CPAs will start to flourish in the UAE. Free Zone Companies will most probably be exempt from the VAT. That also means that no annual returns have to be filed and no bookkeeping will be mandatory in most of the free zones.

It's also good to know that Dubai police really get on the "speeders" and usually on the trucks. Road safety is one of the main concerns in this country. During my 13 years in UAE, many of my friends have been seriously injured and some even killed in traffic accidents. The Dubai police use strict fines and modern devices to enforce the law and this should be implemented in all Emirates and in other countries and jurisdictions. Furthermore, only good pay guarantees the incorruptibility of the police as shown in UAE, Singapore and many other countries.

Dubai again is the frontrunner in service when it comes to company formations. With the new "Instant license in just 5 Minutes" this Emirate shows an exemplary service orientation.

In Ras al Khaimah, the merger between the 2 Free Zones has been executed. We have now only one free zone under the name Ras al Khaimah Economic Zone (RAKEZ). After some initial difficulties, the communication with this authority now works quite well and the E-Service portal is strongly pushed. This also leads to gratifyingly quick settlements in many cases. After the summer heat slowly evaporates and all of us have happily (?) returned to our work stations, we are looking forward to a busy autumn.

All the best,

Theodor Strohal

### **Office news**

We welcome Mr. Hamdy Deyab, LLB to our team in Ras Al Khaimah. He has graduated from Menoufiya University, Egypt, and will assist our office in all matters that need Arabic language skills. Mr. Hamdy replaces Mr. Sameh, who has left our office for family reasons.

### **VAT in the UAE: The countdown starts**

On the 31<sup>st</sup> of July 2017, the UAE government issued Federal Law No (7) of 2017 on Tax Procedures (Tax Procedural Law).

The tax law defines the duties of the Federal Tax Authority (FTA) and in addition all the rights and obligations of the taxpayer and the tax authority and can be applied to the VAT. Even if the VAT will be implemented next year, the UAE are and will remain tax-exempt, because the actual burden of the VAT will be on the consumer and taxes on personal income or company profits are not yet planned.

Companies with an annual turnover of AED 375,000 are obliged to register with the authority. Companies with an annual turnover of AED 187,500 to AED 375,000 can register voluntary. If the registration is successful, the companies receive a Tax Registration Number (TRN). This number has to be used with every correspondence and transaction with the authority and third parties.

A company must issue a VAT declaration quarterly, or at the latest 28 days after the end of the quarter or if the FTA orders otherwise. These tax returns are to be submitted online to the authorities and corresponding VAT amounts must be paid immediately.

The standard rate of the VAT is 5% of the supply value or import value. This rate applies unless the supply is subject to a 0% rate or is exempt from VAT. The difference between the 0% rate and the exemption is that the 0% rate allows registered VAT business to deduct or reclaim the VAT on all those inputs used in carrying out taxable supplies. As a consequence, there is no component of taxation in the final price of a product that is 0% rated. This is different with the exempt rate. Goods and services that are exempted are not subject to VAT when they are sold, but the supplier of exempt products and services cannot reclaim the VAT paid on purchases of input.

### **Dubai: Instant License to investors in just 5 minutes**

Dubai's Department of Economic Development (DED) has launched the "Instant License" initiative, which allows investors and entrepreneurs to get a commercial license within five minutes. According to Mr. Omar Bushahab, CEO, Business Registration and Licensing sector at Dubai's DED, "this license will be granted for a year without the need to present a formal office lease, but the necessary documents will have to be provided on the renewal."

The "Instant License" is open to all business activities, except for public and private shareholding companies. Furthermore, the initiative may be obtained for any type of company, such as limited liability companies (LLCs) or an individual company. It is possible to apply online, where no documents are required at all, or if you will use other application channels, some documents are required e.g. a passport copy.

Please note that the requirements may vary on a case by case basis. If you are interested in an "Instant License" through Dubai's DED do not hesitate to contact us for more details.

### **Speeding Violations in Dubai lead to confiscation of the vehicle**

If accumulated traffic fines exceed Dh 6,000, the vehicle of the driver will be listed as 'wanted' and seized, the Dubai traffic department has said. Brigadier Saif Muhair Al Mazrouei, director general department of the traffic at Dubai Police, said that action will also be taken against the motorist. He pointed out that the traffic system gets updated automatically and puts all such vehicles in the 'wanted' list before they are confiscated. Speeding at more than 80kmph over the speed limit invites a fine of Dh 3,000. Two such violations will result in a Dh 6,000 fine and, therefore, trigger the 'wanted' category for the car. The security and traffic patrols are well-equipped and armed with modern techniques that zero in on these 'wanted' cars and their owners, and nab them if they try to escape because of the accumulated fines, Al Mazrouei added. He said that a gold car - which had accumulated fines amounting to about Dh100,000 - was seized recently when its driver tried to exit the country to Oman.

### **House prices expected to rise**

The Dubai real estate prices are on a three-year low and since they are expected to rise before Expo 2020, now could be the ideal moment to invest in UAE real estate.

Deciding where to invest and most importantly what kind of property to buy can be confusing. Therefore, here are some practical tips for the decision: Undoubtedly, the nearby community facilities are much sought after and can offer a corresponding price compared to areas with inferior amenities. On the other hand, you can expect excellent value for money in new emerging communities where construction is still going on and facilities and amenities are still far from complete. For investors, these emerging communities, which typically offer the best rental yields, are in high single locations and sometimes even over 10 percent. They are also affordable for the first home buyers; Prices well below Dh 1,000 per square meter are available and compared to fully completed projects, like Dubai, are 40 percent of the price.

These newer municipalities include, among others, Dubai Land, Al Furjan, DSO, Dubai Sports City, Motor City, and JVT. Buyers should note that these communities are still under construction, often potentially limited in their capital growth prospects. But these properties are a waiting game with high entrance fees plus additional exit costs mean you must have at least a five-year period in your mind. And with prices at a 3-4 year low, your chances of getting a positive result by 2020 and beyond are very likely. If you are considering a plan, it is advisable to factor in a minimum of a one-year lag from what you were quoted by the salesperson. Buying off plan with a less than 50 per cent deposit is the norm and progress payments are (usually) linked to construction milestones, which offers off-plan buyers considerable additional protection than what was available previously.

For many buyers in Dubai, a water view is a must-have. For this, or any desired view, you'll pay a premium. However, views are not guaranteed anywhere in the world, but never has that been truer than in Dubai where coastlines are fluid and a 50+ story building could very well pop up next door anytime. If you are considering a villa purchase, search and price statistics have consistently shown that affordable villas are an unsupplied and over-demanded segment of the market. Value for money in the UAE remains excellent despite falling property prices in the UK and most European markets.

### **Preparing for VAT: What can you do now for your business!**

It is important that you start now with the preparations for the planned introduction of VAT on 1<sup>st</sup> of January 2018, and review your company's procedures: Identify the VAT implementation strategy (in-house, outsourced, or combined), appoint someone as the VAT implementation project manager, get informed about the regulations and the registration processes, train your employees, etc. To fully comply with VAT regulations, you will need to make some changes in your businesses, e.g. in your financial management, bookkeeping and your technology. And perhaps you will need to mix up your human resources e.g. with accountants and tax advisors.

The registration process for companies, which have to register under the tax law, will probably start in September 2017. So, if your company's yearly turnover is above AED 375,000 you should then start with the registration and not wait until the end of the year.

### **VAT and the UAE free zones**

A decision on the VAT for free zones has been delegated to the "Executive Regulations" in the fourth quarter of 2017 and is not yet clarified.

Articles 50 to 52 of the UAE VAT Law covers free zones under "Designated Zones". The free zones in the UAE have been an extraordinary success. The concept provided the region with a "substantial migration of commercial skills". Also, the free zones have brought a balance in the economy that has supported the development of the broader onshore economy. Now a new change is coming to the UAE in form of the VAT.

Companies in free zones, which are clearly defined by the state (e.g. the Jebel Ali Free zone), are not subject to VAT (Article 50 VAT Law) according to current knowledge, nor can they register. Goods imported into such a free trade zone are not a subject of taxation either. However, the decision is not yet made as to which free trade areas will get an exemption.

As soon as a decision is made we will inform you about it.

### **Think of "The 5 Ws"**

Since the final VAT regulations were been announced last month, and so you have to think about the big 5 "Ws" to decide on VAT:

- **Who** is the supplier, and who is the customer? Is either or both of them registered? Is the supplier or the customer overseas and is it in the course or furtherance of a business?
- **What** is it? A supply of goods or services? Or is it one supply, or maybe multiple supplies?
- **Where** is the place the supply is deemed to take place? It determines which jurisdiction's VAT laws apply and the VAT liability applicable (e.g. standard, reduced or exempt).
- **When** do I need to account for the VAT and/or recover the VAT as the case may be? In either case I have to think about the documentation which will satisfy the authorities.
- **What value?** VAT is determined by reference to value of the supply, the nature of the supply and the rate applicable to it.

Furthermore, you have to keep in mind that your business has to keep accounting records, commercial books and tax-related information for at least 5 years. All returns and documentation, which need to submit to the FTA should be in Arabic. The FTA may accept the documentation in any other language, if a translate copy of the documents are submitted in Arabic. However, these costs are at the expense of the company.

If you prepare your business now and adopt some changes, you will successfully get through the VAT implementation with your business.

Our team will be glad to assist you with the individual and efficient preparation for VAT, so please do not hesitate to contact us.

**UAE to benefit most in GCC**

Oxford Economics said, in its last edition, that the UAE benefits most from the global trade flows and growth in global tourism than other GCC economies.

A report by the Economic Insight: Middle East Q2 2017 stated that the UAE, the second largest economy in the Arab world, has a more favorable economic outlook because it is the most diversified economy in the GCC. Among other things, the UAE generates only 22 percent of its fuel consumption.

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