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INSIDE THIS ISSUE

Navigating UAE's 0% Corporate Tax for Free Zone Manufacturers

The UAE Ministry of Finance recently launched a digital consultation to seek views on elements of the corporate tax framework for free zone companies. This presents a unique opportunity for businesses to provide feedback and contribute to the tax policy process.

Key Highlights:

- **Qualifying Manufacturing Activities:** Manufacturing in free zones can be categorized into manufacturing one's own products and manufacturing products for others through contract or toll manufacturing. The tax implications on both categories differ, and businesses need to ensure correct profit allocation.
- **Challenges for Manufacturers:** Free zone manufacturers not located in 'designated zones' should evaluate tax implications and meet specific conditions for 0% tax benefits. Benchmarking may be required to avoid excess profit attribution.
- **Processing Activities:** Processing goods within free zones also qualifies for a 0% tax rate. However, the processing activity must result in the creation of another form of goods, and interpretation may be based on jurisprudence from other countries.

This ongoing consultation process is crucial for businesses and consultants alike. By actively participating, stakeholders can help shape the tax policy, ensuring it aligns with their needs and supports a business-friendly environment.

UAE's 0% corporate tax rate for free zone manufacturers presents exciting opportunities for businesses. However, careful evaluation of tax implications, profit allocation, and adherence to conditions is essential. We encourage all stakeholders to contribute to the consultation process to create a tax framework that fosters growth and prosperity in the UAE.

INSIGHTS ON UPDATED VAT GUIDE: ADMINISTRATIVE EXCEPTIONS IN THE UAE

The Federal Tax Authority (FTA) has amended and released the VAT Guide 'VATGEX1' on Administrative Exceptions in June 2023. This guide aims to assist taxpayers in preparing and submitting VAT Administrative Exception requests, allowing registrants to apply for concessions and exceptions from certain conditions set out in the Federal Decree Law and Executive Regulations.

Key Categories for VAT Administrative Exceptions:

- **Tax Invoices:** VAT registrants can apply for an exception when they are unable to meet the conditions specified in Article 59 of the Executive Regulations for tax invoices. Satisfactory proof must be provided to justify the exception.
- **Tax Credit Notes:** VAT registrants can seek an exception when they cannot meet the conditions in Article 60 of the Executive Regulations for tax credit notes. Valid justifications and supporting proof are necessary.
- **Length of the Tax Period:** Registrants may request to change their tax period to half-yearly, subject to specific criteria for individuals, businesses in continuous refund positions, and SMEs with or without funding.
- **Stagger:** VAT registrants can request a change in their VAT return stagger to align with their accounting year-end, but they must provide a reason for this request.
- **Evidence to Prove Export of Goods**: Registrants can request to use an alternative form of evidence to prove the export of goods, accompanied by detailed reasons and proposed alternative evidence.
- **Time for the Export of Goods:** VAT registrants may seek an extension beyond the 90-day export period under specific circumstances, provided they explain the reasons for the time extension.

Application Process and Processing Time:

The VAT Administrative Exception request can be submitted by the authorized signatory, tax agent, or legal representative through the EmaraTax portal on the FTA's website. Detailed explanations, supporting letters, and relevant documents must be provided to justify the request.

The processing time for the FTA to decide on the request varies based on the specific exception category, ranging from 20 to 40 business days.

Important Considerations:

Businesses must carefully evaluate the eligibility criteria and requirements for VAT Administrative Exceptions before applying. Strong justifications and sufficient supporting evidence increase the likelihood of approval by the FTA.S

Guideline for Tax Ruling Requests By ZATCA

On June 2, 2023, ZATCA of Saudi Arabia issued a detailed guideline for Tax Ruling Requests. Taxpayers can seek legal interpretations on specific issues through Tax Rulings, applicable to both domestic and reverse charge transactions. ZATCA evaluates various factors before reviewing requests, including complexity, information availability, and applicant credibility.
Certain cases are prohibited from requesting Tax Rulings, and ZATCA will deny such requests. Both legal and natural persons can apply for Tax Rulings, regardless of registration status. To submit a request, applicants must complete the form and provide relevant documents via the ZATCA e-portal or email.
If a request is rejected due to late information submission, the taxpayer must wait three months before reapplying. Objections to Tax Ruling Requests are not allowed, but the opinions are considered reliable and binding for tax treatments.
The guideline also includes an example summary of the objection/appeal procedure for taxpayers' convenience.

- ZATCA Reclassifies VAT-related Fines and Penalties, Emphasizing Awareness and Corrective Measures for First-Time Violations. Non-field violations remain unaffected by the decision. Taxpayers can find the simplified guideline on ZATCA's website.

- ZATCA Initiates Project to Revise VAT System in KSA, Considering Instalment Payment Option for Taxpayers"

ZATCA in the Kingdom of Saudi Arabia introduced amendments and additions to the VAT Implementing Regulations

The Zakat, Tax, and Customs Authority (ZATCA) in the Kingdom of Saudi Arabia has introduced amendments and additions to the VAT Implementing Regulations. These changes were formalized by the Board of Directors through decision number (01-04-23) on June 15, 2023. The effective date of these amendments is set to be June 23, 2023, upon publication in the official gazette.

The revisions impact various articles, including Article 8, Article 9, Article 29, Article 34, Article 40, Article 46, Article 63, and Article 70, with new additions to Article 9 (7), Article 34 (9) & (10), Article 36, and Article 46 (12). Notably, Article 75 (5) has been removed.

Some highlights of the amendments include exempting government entities from being considered economic activities under certain conditions, exempting payment of fees and commissions related to life insurance contracts from VAT, permitting non-legally obligated organizations to submit additional documentation on bad debts, and raising the maximum amount for rectifying errors in subsequent VAT returns from SAR 10,000 to SAR 15,000.

Data Submission and Risk Assessment functionality for the new FATCA/CRS System

The Ministry of Finance (MoF) in the UAE has launched the Data Submission and Risk Assessment functionality for the new FATCA/CRS System. After registration acceptance by the UAE Regulatory Authority, UAE Reporting Financial Institutions are required to submit their Annual Data / Nil reports and All UAE Reporting Financial Institutions Risk Assessment Questionnaires for the calendar year 2022 (CY2022) by July 31, 2023.

must register on the system using the provided link. Additionally, they must submit their Annual Returns (including Nil Returns) and complete the Risk Rating Assessment by the same deadline of July 31, 2023. To complete the registration process, the FATCA and CRS system website is available at (fatcacrs.mof.gov.ae).

VAT Guide for Related Persons in Oman by OTA: Valuation, Intercompany Charges, and Special Cases

The Oman Tax Authority (OTA) has released a comprehensive VAT Guide for Related Persons, in line with Article 39 of the Executive Regulations. The guide offers crucial insights into matters concerning Related Persons, including the definition of Related Persons, valuation of supplies, and special cases of intercompany charges.

Highlights of the guide:

1. Definition of Related Persons: The guide clarifies that Related Persons include both natural and legal persons, encompassing various relationships such as family members, business partners, and controlling interests in companies.
2. Valuation of Supplies to Related Persons: If transactions occur between Related Persons, VAT must be calculated based on the market value if the consideration is lower than the market value.
3. Valuation of Supplies to Employees: Goods or services provided by employers to employees must also be subject to market value standards if the consideration is below the market value. Employees, not engaged in economic activities or taxable persons, are ineligible for input VAT reduction.
4. Special Cases - Intercompany Charges: The guide discusses VAT treatment for management services, intercompany services within the same group, and transfer pricing adjustments to ensure compliance with transfer pricing guidelines and regulations.

The VAT Guide for Related Persons aims to provide clarity and compliance measures for businesses involved in transactions with Related Persons in

HEALTHCARE SERVICES IN OMAN: EXEMPTIONS, GUIDELINES, AND INPUT VAT DEDUCTIONS

The Oman Tax Authority (OTA) has released a VAT Guide for Healthcare Services, providing clarification on Input VAT matters. The guide explains Article provisions of item (2) of Article (47) of the Law and Article (80) of the Executive Regulations. Here are the key points from the guide:

1. **VAT Exemption for Healthcare Services:**
   - Medical Professionals or Institutions providing healthcare services as per Omani laws are exempt from VAT.
   - This exemption applies only to human healthcare and does not include veterinary services.
   - Non-licensed health providers offering healthcare services will be subject to a 5% standard VAT rate.
2. **Cosmetic and Elective Medical Services:**
   - Cosmetic and elective medical services are VAT exempt if necessary for health purposes and prescribed by a medical professional (e.g., restorative or reconstructive procedures).
   - Elective cosmetics for aesthetic purposes, like teeth whitening, are not exempt and subject to the standard VAT rate.
3. **Goods and Services Related to Healthcare**:
   - VAT exemption applies only if medical institutions supply goods or services related to healthcare; commercial businesses supplying such goods or services do not qualify for exemption.
4. **Other Charges:**
   - Private medical institutes and professionals offering non-healthcare services, such as contributing to research studies, are not VAT exempt. They should charge 5% VAT if registered.
5. **Advertising, Sponsorship, and Donations**:
   - If medical institutes receive money from donors for services like advertising or naming rights, it is subject to VAT.
   - If the institute receives money as a donation with a small public acknowledgement of gratitude, it is not considered a supply for VAT purposes.
6. **Medical Insurance:**
   - Medical insurance provision is not considered a supply of healthcare and is subject to 5% VAT.
7. **Medicines and Medical Goods:**
   - Commercial supplies of medicines and medical goods not part of patient treatment are zero-rated throughout the supply chain.
   - If these supplies are used during patient treatment, they qualify as exempt supplies. If provided after patient discharge, they are zero-rated supplies.
8. **Input VAT Deduction**:
   - Healthcare providers offering only exempt supplies cannot deduct input VAT.
   - Providers offering both taxable and exempt supplies can deduct input VAT for taxable supplies in full.
   - Input VAT used for both taxable and exempt supplies, including overheads, can be partially deducted based on an apportionment calculation.

VAT GUIDE ON REVERSE CHARGE MECHANISM (RCM) IN OMAN: KEY INSIGHTS AND APPLICABILITY

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The Oman Tax Authority (OTA) has issued a comprehensive VAT Guide on the Reverse Charge Mechanism (RCM) in accordance with Articles 20 and 81 of the VAT Law. The guide sheds light on important matters related to RCM, and the key highlights are as follows:

1. Applying Reverse Charge Mechanism: RCM is applicable when specific conditions are met, including services received by a taxable person from a non-resident supplier, taxable supplies not exempted from VAT in Oman, and the place of supply rules making the supply subject to VAT in Oman. RCM also extends to intercompany charges within the same corporate group.
2. Services Falling Under RCM: Legal and professional services, management services, and rights in intellectual property are examples of services covered under RCM.
3. Non-Applicability of RCM: RCM may not apply to receipt of exempt services, dividends representing a return on capital, and VAT deduction outlined under RCM.
4. RCM Treatment for Non-Taxable Persons: VAT is levied on services provided in Oman to a taxable person by a non-resident supplier. If a person lacks a Place of Residence in Oman, they are considered non-resident.
5. VAT Due Date: The VAT due date may be earlier than the actual date of supply if a tax invoice is produced or payment is received before the supply. The same rules apply to supplies made under RCM as per Articles 26 and 27 of the VAT Law.
6. Input VAT Deduction: To claim the deduction of Input VAT on RCM, the Omani Company must possess commercial documents proving the nature of the supply, consideration payable, and corresponding tax calculation.

The VAT Guide on Reverse Charge Mechanism provides essential insights for businesses in Oman to understand and comply with RCM regulations.

OMAN TAX AUTHORITY ANNOUNCES ZERO-RATING FOR ELECTRIC VEHICLES AND SPARE PARTS

The Oman Tax Authority (OTA) has introduced a zero-rating policy for electric vehicles (EVs) and their spare parts, subject to specific conditions and controls. To qualify for zero-rating:

1. The vehicle must have a fully electric motor or a hydrogen-powered engine and be capable of independent movement.
2. The EV must be registered in Oman as an electric or zero-emission vehicle (hydrogen car) following the relevant procedures.
3. The vehicle's specifications must meet the approved standards in Oman.
4. The purchase of EVs must be made from a VAT-registered person in Oman.
5. The supply of essential spare parts exclusively used for EVs or zero-emission vehicles by a VAT-registered service provider in Oman will also be zero-rated.
6. The import of EVs (zero-emission/hydrogen vehicles) will be zero-rated, whether imported by VAT-registered or unregistered persons, following customs procedures and applicable tariff items.

The OTA's move aims to promote environmentally friendly transportation options and incentivize the adoption of electric vehicles in Oman.