

December 17th, 2017

Dear Supplier,

Ref.: Introduction of Value Added Tax (“VAT”) in the United Arab Emirates (“UAE”)

As you will be aware, UAE and the other members of Gulf Cooperation Council (“GCC”) have mutually agreed to introduce VAT system, notably a domestic VAT legislation in the UAE has been issued to commit the VAT implementation to be effective from 1 January 2018.

VAT is a consumption tax that is charged at every stage of the supply chain. The UAE has already announced that VAT will be imposed on most of the domestic supplies of goods and services at a standard rate of 5% with few exemptions and zero-ratings (to be prescribed in the domestic VAT legislation and VAT Executive Regulation).

We are in the process of preparing for VAT implementation by taking the necessary steps for ensuring that we comply with all the VAT requirements in UAE by 1 January 2018.

Initially, Ministry of Finance (“MoF”) have already released the GCC VAT framework¹ (“VAT framework”) and have published a compilation of Frequently Asked Questions² (“FAQs”) on their website to make people aware about the VAT applicability of VAT and the compliance. Subsequent to that, the VAT legislation has been released to provide basic requirement on complying VAT rule, notwithstanding the detail compliance requirement will be further outlined in the Executive Regulations soon. The aforementioned information provides sufficient information that the businesses to start preparing for implementation.

1 <https://www2.deloitte.com/gz/en/pages/tax/articles/vat-gcc-treaty.html>

2 <https://www.mof.gov.ae/En/budget/Pages/VATQuestions.aspx>

Post introduction of VAT, there may be some critical procedural and documentation changes required in our business transactions.

What we request of you as our supplier

As our supplier, we request that you consider the following issues:

- ✓ Firstly, ensure that you have met any requirements for registering for VAT that may be applicable to you.
- ✓ Secondly, prepare for the introduction of VAT, and as an outcome of this, consider the VAT treatment on the goods and services that you supply to us.
- ✓ Finally, in order to enable us to pay you within our currently agreed terms of trade, we will need you to be in a position to provide us with the correct documentation so that we can recover any VAT that you charge to us.

We have addressed these issues in greater detail below. If you have not already commenced a process for being complaint for registering VAT in the UAE, we request you to prioritize it, and **consider taking the below steps.**

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Steps may considering taking

1. Register for VAT

- We expect that as a business with annual sales turnover likely to be more than AED375,000 you are required to register with the Federal Tax Authority (“FTA”) in the UAE. The MoF has announced that the online VAT registration process will commence during Quarter 3 of 2017.
- In the event that you have an annual sales turnover of less than AED375,000 and more than AED187,500, you may consider voluntarily registering for VAT purposes so that VAT does not become a cost in your supply chain. MoF has clearly indicated that businesses with revenue less than AED187,500 will not be allowed to register voluntarily.
- Once registered, we would request you to furnish us the Tax Registration Number in order for us to update our vendor master data.

2. Evaluate the VAT treatment for the goods and services that you supply

- Based on the reading of the domestic VAT legislation in the UAE, we understand that most of the supplies of goods and services supplied within UAE would attract VAT at a standard rate of 5% with a few exceptions. The exceptions may be in the form of VAT zero-ratings or VAT exemptions.
- Few examples of supplies on which VAT will be zero-rated are supply of certain healthcare services, supply of newly constructed residential property (if supplied within 3 years of construction), supplies of international transportation and related supplies. Whereas, some of the financial supplies, residential properties, bare land may be exempted from levy of VAT.
- Therefore, based on the nature of supply, the VAT treatment will apply. Hence, it is extremely important that you to critically evaluate the nature of goods/services that you supply and apply the correct VAT treatment accordingly.
- Applying incorrect VAT treatment on the goods/services that you supply to us may result in delays in processing of invoices from our side and higher chances of tax audits from the FTA.

3. Be prepared to issue VAT Compliant Documentation

- As part of the New VAT regime, for any goods or services supplied after 1 January 2018, you will be required to issue a valid tax invoice that contains several particulars including your full name, address, VAT identification number, amount of the value of goods/services supplied and VAT charged on the invoice. The particulars to be contained a tax invoice will be specified in the VAT regulations of UAE.

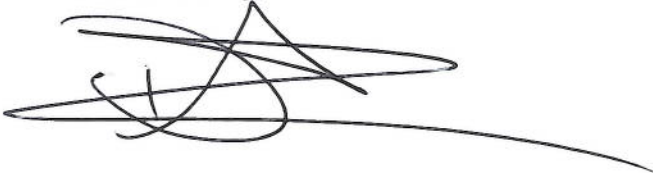
- Additionally, as our supplier, we would recommend that all the invoices that are issued to us indicate value for the goods and services supplied to us net of VAT and the VAT charged on such supplies should be indicated separately.
- You will need to issue a tax invoice to us for every supply of goods/services. For example, a business who is engaged in providing professional services for a fixed fee, will need to issue a tax invoice on the agreed payment milestone.
- Any documentation that does not comply with all the requirements for it to be a tax invoice will not be processed for payment until we receive a valid tax invoice. Therefore, we request you to carefully consider the tax invoice requirements prescribed under the VAT laws of UAE.

Please confirm that you are currently undertaking a process that will enable you to address the issues that we have identified above, and that you will be able to comply with the requirements to operate within the VAT requirements by 1 January 2018.

If you have any queries in relation to this request, please contact our dedicated VAT email address: eesvat@emitac.ae

Emitac Enterprise Solutions have registered with the UAE Tax Authority and are awaiting confirmation of our Tax Registration Number, once this is confirmed we will notify you of the same and will also publish all relevant VAT information on our website – www.emitac-ees.ae

Yours sincerely,



Dale Ryder

Director – Finance & Commercial Operations

