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## Importance of Tax Documents for UAE Businesses



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***"If you think compliance  
is expensive, try  
non-compliance"***

**"If you think compliance is expensive, try non-compliance,"** said the Former U.S Deputy Attorney General, Paul Joseph McNulty.

I truly believe in this quote, and it is evident from the administrative penalties levied by the Federal Tax Authority ('FTA') in United Arab Emirates ('UAE') for various non-compliances for the Value Added Tax ('VAT') laws and Excise tax laws. Non-compliance of tax documents is one of those.

The recent Cabinet Resolution No (49) of 2021 amends some of the provisions of Cabinet resolution No (40) of 2017 effective from 28th June 2021, along with other amendments, it also reduced the penalties imposed for failure to issue the Tax Invoice/Credit note or an alternative document when making a supply. The penalty was AED 5000 for each invoice, now it has been reduced to AED 2500 for each 'discovered case'.

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Although, this is a relief for businesses, it should in no way be one of the reasons for being non-compliant when dealing with the tax documents. Compliance in terms of tax documents plays an important role by acting as supporting documents for recoverable /payable VAT of the business and its accounting records and sometimes ensuring 100% compliances is difficult.

E-invoicing could remove the hassles the businesses face while procuring compliant invoices/credit notes from its supplier or while issuing them to their customers thereby facilitating compliances. An e-invoice is a tax invoice issued in an electronic form. Further it is imperative to note that scanned or photocopied invoices are not considered as an e-invoice.

Let us first discuss tax documents namely, Tax Invoice and Tax Credit Notes and their mandatory particulars as per UAE VAT Laws in detail.

A Tax Invoice is a document that a VAT-registered supplier is required to issue to the recipient when making a taxable supply of goods or services, irrespective of whether the goods are sold directly or through an electronic medium. A proforma invoice/quote cannot be considered as an invoice. As per Article 59 of the Executive Regulation of the Federal Decree-Law No. 8 of 2017, below is the list of mandatory particulars to be present in the Tax Invoice to make it compliant.

- The word "Tax Invoice" is displayed on the invoice
- The name, address, and Tax Registration Number of the Registrant making the supply
- The name, address, and Tax Registration Number of the Recipient where he is a Registrant
- VAT rate & VAT amount per line item needs to be mentioned in invoices with multiple line items
- A sequential Tax Invoice number (for supply invoices) or a unique number enables identification of the Tax Invoice and the order of the Tax Invoice in any sequence of invoices
- Unit Price and quantity need to be mentioned on the Tax Invoice. However, in the case of services, it may be argued that services cannot be quantified and hence, tax invoices issued for services rendered would not require details of unit price and quantity
- The date of issuing the Tax Invoice and description of the Goods or Services supplied
- In case of an invoice in foreign currency, the exchange rate as per the central bank must be mentioned on the tax documents

To elaborate this further, FTA's Public Clarification (VATP006), emphasizes the following points:

- Each line item must show the tax value and net value, it is not mandatory to show the gross value of each line item, as gross value is stated at total invoice level
- The tax invoice should show the total gross amount & the tax amount payable in AED
- The Exchange rate applied (as per the exchange rates published by the UAE Central Bank on the date of supply) should be specified
- The tax value stated on the tax invoice should be rounded to the nearest whole Fils (to 2 decimal places)

A credit note is a written or electronic document in which the occurrence of any amendment to a taxable Supply that reduces or cancels the same is recorded as well as the details about it. It is used for adjusting output tax when a supply is cancelled, sales returns, change of consideration, tax is charged in error.

As per Article 60 of Executive Regulation of the Federal Decree-Law No. 8 of 2017, below is the list of mandatory particulars to be present on a Tax credit note to make it compliant

- The word "Tax Credit Note" is displayed on the invoice
- The name, address, and Tax Registration Number of the Registrant making the supply
- The name, address, and Tax Registration Number of the Recipient where he is a Registrant
- The date of issuing the Tax Credit Note
- The value of the supply shown on the Tax Invoice, the correct amount of the value of the supply, the difference between those two amounts, and the Tax charged that relates to that difference in AED
- A brief explanation of the circumstances giving rise to the issuing of the Tax Credit Note
- Sufficient information to identify the supply to which the Tax Credit Note relates

## **Impact of Tax Documents:**

In all GCC countries where VAT is implemented, including UAE, one of the basic conditions to claim the input tax is the availability of Tax Invoice/ alternate documents prescribed instead of Tax Invoice. Taxpayers need to ensure whether the Tax Invoices received are as per Article 59 of the Executive Regulation of the Decree-law or not.

One of the main reasons that VAT becomes a cost to the business is the absence of compliant tax documents. Most of the businesses face challenges with regards to their purchase invoices compared to that of sales. Businesses might assume that they lack control over the supplier invoice but if they take proactive measures like providing standard formats for the Tax invoice/ Tax credit note (designed with the help of tax consultants), they can avoid such challenges.

The businesses usually make sure of what is included in the consideration, and carefully designs pricing. However, I urge that it is equally important to pay attention to how the VAT is represented on the invoice and on the overall format of such tax documents.

While the supplier needs to abide by the regulations while raising Tax invoices, it is equally important for a business ensure to receive such tax invoices and make payment. The business needs to ensure their purchase Invoices is complaint before they claim input VAT.

## Importance of E-invoicing:

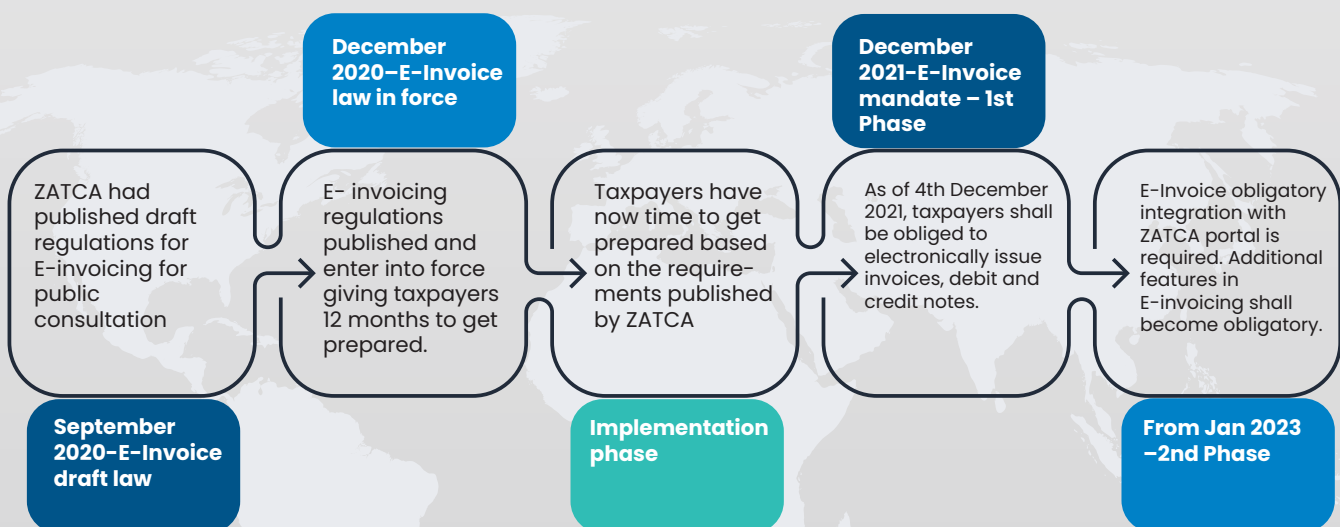
Having stated the rules in this regard, it is practically very difficult in some scenarios to get compliant tax documents for most businesses. 'E-invoicing' could be a long-term solution. E-invoicing eliminates the requirement of checking every document by a business procuring goods or services. Electronic invoicing (E-invoicing) is currently a part of the digital tax agenda for several governments. The jurisdictions across MENA are also working on the implementation of e-invoicing. Egypt has introduced e-invoicing from November 2020 in a first trial phase for large businesses, this will eventually be extended to all VAT registered businesses.

The primary objective of introducing an e-invoicing system is to reduce the size of the unofficial economy, promote fair competition and consumer protection, control the tax society, and avoid tax evasion. It also increases efficiency in transactions by making trade more seamless, efficient, and result in faster payments and reduced costs, whilst providing the government with greater insights on market conditions.

## Status of E-invoicing in GCC–Saudi Arabia (KSA):

Saudi Arabia is set to become the first country from GCC to implement e-invoicing in phased manner starting from 4 December 2021. All the taxable persons including the third parties issuing invoices on behalf of taxable persons are required to implement e-invoicing except the taxable persons who are not resident in KSA.

Recently Zakat Tax and Customs Authority (ZATCA, formerly known as GAZT) has published a resolution regarding e-invoicing implementation. Below is the flowchart of the e-invoicing implementation timelines in KSA for reference.



UAE being the tech friendly country, might implement e-invoicing soon.

“Precaution is better than cure”, it is always better for the businesses to have compliant tax documents for their transactions than being penalized for non-compliance or non-issuance of tax documents. Hope the above information would make you one step closer to compliant tax practices.