



## Trading and commodities in the United Arab Emirates

### Your strategic advisor for Indirect Tax matters

#### Commodity trade

The United Arab Emirates (UAE) has strong credentials in commodity trading, from its integral contribution to the old Silk Road to technical commercial innovations in present day trade. It is ranked amongst the top three global commodity trading hubs.

This has resulted in a wide range of participants and products in the market. Technological innovation has resulted in more complex and fast paced trade, often with international counterparties that do not have a presence in the UAE.

Although some jurisdictions have sought to address such complexity at a practical level, for example through reliefs designed to allow for the international trade in commodities on a Value Added Tax (VAT) neutral basis, such relief in the UAE is limited and largely focused on specific trades within Designated Zones. This has resulted in a range of potential risks areas for commodity market participants including:

#### VAT registration obligations for non-resident traders

There is no VAT registration threshold for non-residents with an obligation to account for VAT in the UAE. Where non-residents are trading within the UAE, including the UAE territorial waters, this may create VAT registration and compliance obligations.

#### Financial institutions

Trading income earned on derivatives is in principle exempt from VAT. However, delivery of the underlying commodity may be taxable at the appropriate VAT rate for the supply. This may create VAT registration and compliance obligations for financial institutions and others that trade on this basis.

#### Designated Zones

Although limited relief is available for VAT purposes, it is dependent on evidence requirements and use of the goods. The application may be limited to who can apply it and on which transactions.

#### VAT registration for branch

The UAE branch of a foreign entity may have VAT registration and compliance obligations in the UAE if the branch of foreign entity is most closely connected to the supplies made within the UAE or imports services, for example.

#### Export of goods in a chain transaction

VAT relief on chain transactions may in some instances be limited to the final supply. This is further complicated where non-residents are within the supply chain.

#### Domestic reverse charge mechanism

The domestic reverse charge rules can be applied to the supply of oil products (i.e., any crude or refined oil, unprocessed or processed natural gas, or any hydrocarbons) made in the UAE by domestic suppliers. However, the supplier can only apply the domestic reverse charge rules if the conditions are met and the relevant evidence is retained.

#### Trading platforms

Various fees, payments, services, and discounts are provided via trading platforms. This creates added risk and complexity. Services provided via online platforms may also be subject to special place of supply rules.

#### Evidence requirements for export of goods

To apply the zero-rating for the export of goods, the business should obtain official and commercial evidence. The official evidence refers to export documents (such as an exit certificate) issued by the local Emirate Customs Department in respect of goods leaving the UAE. Where the required evidence has not been obtained, the business will be required to apply the VAT rate applicable for the underlying commodity.

Why now?

The years following the introduction of VAT in the UAE have tested its interpretation and practical application. The Federal Tax Authority (FTA) has reacted to this with the publication of legislative amendments, taxpayer guidance, and private and public clarifications.

A milestone in this development includes the June 2021 changes to the Tax penalty regime. The penalty framework now provides a greater incentive for taxpayers to voluntarily disclose errors as part of its broader compliance strategy. This framework sets the clear expectation that taxpayers regularly review their compliance position and disclose errors early as part of their 'business as usual'.

Tax audits and enforcement actions by the FTA are also becoming increasingly sophisticated, with a focus on common errors and industry specific issues. The FTA leverages daily interactions throughout the administrative cycle to validate taxpayer compliance, such as refund applications, administrative requests, and de-registration.

How can Deloitte assist?

**Transaction mapping exercise**

Transaction maps document each relevant transaction type for the purpose of validating classification and evidence requirements. This can be used to support the automation of systems for VAT determination and reporting purposes.

**VAT health check exercise**

Healthchecks are an industry focused stress test of the technical positions and procedural structures that have been put in place within the business to provide comfort that the business is compliant with the VAT legislation.

**Documentary evidence review**

Review the documentation retained for each supply by category in order to identify risk and recommend action.

**VAT refund request review**

Review of the VAT refund request template for the Tax period and corresponding VAT return in order to seek to identify risks and suggested corrective actions for consideration by the business prior to its submission of the VAT refund request.

**VAT return review**

We can perform a detailed review of the VAT return, whilst applying the knowledge gained from broader compliance activities and industry specific risk areas to highlight key issues and recommend action.

**Remediation assistance**

We will work with you to develop a strategic approach to address any remediation required.

Why Deloitte?

**Integrated team:**

Our team is comprised of highly qualified and dedicated Tax specialists with experience across commodities and sectors. The team consists of more than 120 Indirect Tax specialists across the Gulf Cooperation Council (GCC) region, and is complimented by the industry and technical strengths of the broader VAT team across the GCC to provide companies with the right team of experts.

**Relationship with the Tax authority:**

Our team has developed a strong professional relationship with the UAE FTA from the time of establishment. Deloitte is established in the Middle East region with uninterrupted presence since 1926.

**Industry experience:**

Our team has hands-on experience with leading UAE trading companies across the spectrum of commodities. We have successfully represented our clients on several complex and contentious Tax issues identified in the commodity trade market.



Contact us

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