



## UAE VAT update on Automotive Sector (VATGAM1)

UAE Federal tax authority ("FTA") has recently issued a VAT guide on Automotive Sector. This VAT guide provides information and guidance on how VAT affects businesses which operate within the automotive sector:

**Some of the key highlights of the guide issued on Automotive sector are as follows:**

### ➤ **Sale of Car within UAE**

- **Outright sale:** Car trader directly sells cars to customers and it will be taxed at 5%. Date of supply, which will be triggered in such sales, will be earlier of issue of Tax Invoice or transfer of ownership/possession of car or date of receipt of payment.
- **Hire-purchase arrangements:** In case of hire purchase arrangement transaction is divided in two legs, one is between **motor vehicle trader and Finance company** and second is between **Finance company and customer**.
  - For, motor vehicle trader it is kind of outright sale and tax invoice will issued to the finance company
  - Finance company will recover the amount from customer in installments, and installments is mainly consisting of principal and interest portion, accordingly, finance company has to account for **VAT on principal portion** and **VAT is exempt on Interest**. However, if finance charge is included in the total amounts payable then the total amount will be liable to vat.
- **Trade-ins:** In case of **trade-in of an old car** against the consideration of new car motor vehicle trader should **not net-off** the trade in value of the old car against the sales price of the new car.

### ➤ **Sale of Used/ Pre-owned cars**

Sale made by VAT registered supplier for used car is subject to VAT at 5% like new car, however **the dealer in used car** has option to calculate VAT based on **profit margin** scheme subject to meeting the required conditions.

- As per profit margin scheme trader can calculate and account for VAT on the **difference between purchase price and selling price, i.e. profit**, subject to the conditions and documents requirement.
- Motor vehicle trader has to inform FTA that he has opted to account for VAT by reference to the profit margin scheme.
- In following cases Profit margin scheme **will not apply**
  - Cars purchased prior to the implementation of VAT
  - Cars imported into the UAE where the VAT paid upon import has been recovered.



## ➤ VAT on lease of cars

In case of lease of car, it is a taxable supply and subject to vat @ 5%. Supplier should consider the different components of the fees and account for vat accordingly.

For example, **additional recovery** by leasing company like **Salik charges**, which is in, recharge nature from customer will be subject to vat at 5%

## ➤ Export of Cars

In case of export of cars whether **direct export of Indirect export**, Motor vehicle trader is required to maintain **official and commercial evidence** for exports of vehicle.

- In case exporter believes that impossible to obtain the official evidence then in such case it may apply for an **exception from the FTA**.
- For example, customer from KSA buys car from UAE Company and taking the car to KSA by self-drive. in such scenario, UAE Company will not be able to get the commercial evidence and it can apply for administrative exception.

## ➤ Warranty claims

- If warranty is included in the price of car, no further vat implications will arise at the time of providing actual repair services.
- If extended warranty is provided for a separate charge, then it's a taxable supply and subject to 5% vat.
- Reimbursement of cost by UAE distributors from overseas manufacturers is subject to VAT at 5% because the repair service has been provided in connection with the goods situated in UAE and therefore do not qualify for zero-rating.

## ➤ Auctions

The VAT treatment of auctions depends on whether the auctioneer is acting as a principal supplier or as an agent on behalf of another person.

- FTA expects auctioneer to **maintain the documents** like
  - **Contract copy** between principal seller and auctioneer,
  - **Copy of invoices** issued by principal seller to the customer,
  - Invoice issued by auctioneer to seller for his commission
- Auctioneer can issue Tax invoice on behalf of Principal car seller, but it should contain a reference to the principal supplier, including the supplier's name and TRN along with the other requirement of VAT law.

## ➤ Promotions and discounts

- **Gifts provided free of cost** would be subject to deemed supply rules if seller has recovered VAT input on the same.
- Other discounts – VAT should be applied at 5% on the discounted price of the car
- In case of **target-based incentive** provided by manufacturer to motor vehicle dealer, the parties should clearly evaluate that this discount reduces the original value of the car, or it is specific consideration for whole different supply made by the motor vehicle dealer. Accordingly, parties need to issue Tax credit note or Tax Invoice as applicable.



➤ **Company cars and Demo cars**

- Input credit on **purchase, rent or lease is blocked** if company car is **available for personal use**, however merely taking car home will not itself preclude from input tax recovery, provided it can be substantiated that nature of job is such that the employee is required to keep vehicle with him/her, or vehicle has to be available for emergency purposes.
- Normally, motor vehicle trader sells the **demo cars** (used to showcase at showroom) at a price **lower than** its retail selling price, and manufacturer may agree to make the payment of differential amount to **compensate the trader**, so this might be considered as discount and manufacturer has to issue proper tax credit note.
- However, if payment is related to any specific activity which motor vehicle trader has to perform (e.g. marketing services), then in such case it will be considered as consideration for that supply and motor vehicle dealer will be required to issue tax invoice and charge VAT.

*If you would like to discuss more about VAT related matters, please drop us an email at [info@premier-brains.com](mailto:info@premier-brains.com) or call us at + 971 4 354 29598 78037991.*

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