

UAE VAT Update

Dubai Owners' Associations and Management Entities

Summary

As per recent public clarification number VATP022 issued by Federal Tax Authority ("FTA"), Dubai Owners' Associations are required to deregister from VAT due to implications from Law No. 6 of 2019 issued in September 2019 Concerning Ownership of Jointly Owned Real Property in the Emirate of Dubai ("Law No. 6"). Management Entities are responsible to fulfill VAT obligations for such properties.

Key highlights

- On 3 November 2019, all rights and obligations of Dubai Owners' Associations were transferred to Management Entities, which resulted in Dubai Owners' Associations no longer making taxable supplies.
- Dubai Owners' Associations were, therefore, required to apply for VAT deregistration within the period prescribed in the tax legislation of 20 business days; that is, no later than 4 December 2019.
- Management Entities are regarded as making supplies to the owners of Jointly Owned Real Property and required to fulfill VAT obligations in this regard, including the issuing of valid tax invoices and VAT reporting.

Detailed discussion

- **Requirement of Law 6**
Under Article 49 of Law No. 6, all rights and obligations of Owners' Associations which arose before the effective date of that Law had to be transferred to the Management Entities. The Management Entity will, therefore, supersede the Owners' Associations in the business of managing the Jointly Owned Real Property, including Units.
- **Requirements of VAT law, its Executive Regulations and Tax procedure law**
As per article 16(2) of VAT decree law and article 14(2) of Executive Regulations, a registrant applies for deregistration within 20 business days from the date the registrant stops making taxable supplies or where the value of taxable supplies made over the past 12 months is less than AED 187,500.

As per Article 25(1)(d) of the Tax Procedures Law, the administrative penalty for failing to submit a deregistration application within the prescribed period is AED 10,000.

- **Owner associations to deregister**

On the basis of Law 6 above all of the Owners' Associations' rights and obligations were transferred to Management Entities, the Owners' Associations **no longer make any taxable supplies**.

Based on the above, VAT registered Dubai Owners' Associations were required to apply for deregistration no later than 4 December 2019.

Any VAT registered Owners' Association that failed to apply for VAT deregistration within 20 business days from the date it stopped making taxable supplies is liable for administrative penalties.

- **Management Entities to Account for VAT**

For VAT purposes, the Management Entity is **not** regarded as an agent but as a person supplying goods and services to the owners of the units (as a result of Law No. 6), thus Management Entity becomes a taxable person and under Article 65(1) of the Decree-Law is required to issue valid tax invoices to the recipients of these supplies.

The management of a Jointly Owned Real Property constitutes a taxable supply of services, which is subject to 5% VAT

The Management Entity is entitled, under Article 54(1)(a) of the Decree-Law,⁷ to recover VAT paid in respect of goods and services acquired to manage the Jointly Owned Real Property, provided the it obtains and retains valid tax invoices addressed to the Management Entity.

Management Entity, as a VAT registrant, is liable for any penalties which may arise as a result of non-compliance from VAT.

Prepared by: Premier Brains Tax Team

Premier Brains are a Tax Agency with FTA, If you would like to discuss any VAT matters, please drop us an email at info@premier-brains.com or call us at + 971 4 3542959.

ABOUT PB

Premier Brains is a firm of qualified and experienced audit, tax and finance advisors.

Delivering exceptional business value to our clients is our primary goal.

- Audit and Assurance (External & Internal)
- Tax Agency with FTA
- Tax Advisory
- Business valuations
- Feasibility Studies
- Business Accounts Outsourcing Services

- Fund raising and restructuring
- JAFZA Offshore agents
- Company incorporations (under group entities)

"ALWAYS DOING THE RIGHT THING"