



Value Added Tax (VAT) on Financial Services in UAE

Financial services are defined under the UAE VAT Law as services linked to money (or its equivalent) transactions and credit providing. Under UAE VAT law, it also encompasses specialized types of financing such as hire-purchase, instalment credit finance, and shares.

- The general principle applicable is that financial services, as defined by the VAT Law and Executive Regulations, will be subject to VAT at the standard rate when they are supplied for an explicit fee, discount, commission, rebate or similar type of charge.
- Financial services, insofar as they are remunerated by way of an implicit margin or spread (i.e. no explicit fee is charged in respect of them) will be exempt from VAT.

The following are the numerous financial services in the UAE which are subject to VAT:

1. VAT on Banking Services

The fee charged by banks on some services is subject to the usual VAT rate of 5%, according to the FTA. The list of services and the VAT rating on the fee charged on them is mentioned below:

- **Bank Account**

Certain services related to account operations are subject to a fee by the banks.

The regular VAT rate applies to the fee for such services like- Subscription fee, Transaction services fee, Account opening or closing fee, Withdrawal fee, Deposit fee, Replacement card fee, cheque book fee, Bank statement fee, maintenance fee.

- **Money Transfers**

The advancement of digital technology has resulted into increase in the number of services for which banks charge special fees.

Money transfers have become more robust in a highly sophisticated banking ecosystem like Dubai.

Transfer fee, Swift Transfer fee, and VAT on Cash are the services costs that are subject to a 5% VAT rating.



- **Card-Related Services**

Card fees, authorization fees, cash withdrawal fees, ATM transaction fees, cardholder fees, statement fees, cost on lost card, commission fees, overdraft fees, and balance transfer fees are all subject to a 5% standard rate.

The usual VAT rating applies to financial services including the handling of cash. For example, cash handling fees, a few cheques cashing fees, and a few more. a fee for providing a change

2. VAT on other Financial Services

- **Returns on Investment**

Payments that qualify as a return on investment are exempt from VAT if no service or transaction is given in exchange for the payment.

Under some circumstances, a financial service provider's return on investment payments are judged to be beyond the scope of VAT. Interest on deposits, dividends, and draws are all examples of this.

- **Intermediation Services**

VAT is levied on the fee or commission earned by a financial advisor who acts as a middleman in the sale of a financial product. The FTA considers the fee or commission received by the intermediary in such instances to be standard-rated.

- **Leasing**

The regular VAT rate applies to equipment leasing, where the lessee receives the right to use the equipment for a set amount of time determined by a contract. According to the contract, there is no transfer of ownership in this transaction.

If the equipment is eventually transferred by the owner to a third party after the lease period ends, the sale will be subject to VAT as well.

- **Investment Grade Precious Metals**

According to FTA, the supply of investment-grade precious metals is zero-rated. VAT paid on costs ascribed to the zero-rated supply is fully recoverable.



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Premier Brains has been advising clients on VAT in a variety of industries across UAE. Our tax team has a wealth of expertise handling all VAT-related questions and providing suitable VAT guidance based on a thorough understanding of an organisation.

We recognise that different businesses have different needs, and therefore, we use a personalised approach to make sure that our customers receive tailored tax guidance from our expert team of tax advisors in the UAE.

Book a free consultation with our VAT experts.

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