

# THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

## VAT AND DESIGNATED ZONES



## VAT INSIGHTS

### VAT AND DESIGNATED ZONES

The UAE VAT Law has introduced the concept of Designated Zone (DZ).

As per the UAE VAT law, DZ is a specified fenced geographic area and has security measures and custom controls in place to monitor entry and exit of individuals and movement of goods to and from the area.

Cabinet decision No 59 of 2017 provides a list of twenty DZ mainly located in a Free Zone (FZ).

Another key take away on DZ is that Designated Zone could have different meaning under different statutes and it would be wrong to assume that a DZ is automatically linked to a Free Zone.

The Concept of FZ is different from DZ. Free-Zones are defined and governed by the provision of GCC Common Customs Law and are exempt from all custom duties and taxes.

While DZ is a concept developed and governed by the UAE VAT Law.

Free zone are outside the scope of VAT while DZ are covered in the scope of VAT.

Hence, the entities operating in a FZ are considered as foreign resident and are not covered under the scope of VAT, while in case of entities located in DZ, even if such entities are considered as foreign entities, they are still liable to the provisions of VAT.

The awkward thing is that at the same time a DZ shall be treated as being outside UAE and outside the Implementing States but under specific conditions business conducted within a DZ can be regarded as being conducted in the State.

On top of that, all companies having a Place of Residence in a DZ shall be deemed to have a Place of Residence in the UAE.

This contradiction leads to implementation difficulties.

Furthermore, all services are excluded from the benefit of the VAT suspensive regime of the DZ.

The DZ VAT system is a real labyrinth where you lose yourself without a breadcrumb.

To make simple a complicated story for registered companies, the DZ VAT regime for goods can be summarized saying that are not taxable the following flows : from and to outside UAE; from and to another DZ; from and to inside a DZ (if there is no consumption of the goods), all others in and out flows are taxable.

It should be noticed that the sale of goods from a DZ to a Legal Taxable Person located in UAE is taxable, but the VAT is not invoiced because the Tax is due by the client supposed to be the importer of record.

It seems that in UAE, for registered companies, the tax authorities have generalized the reverse charge mechanism for import VAT following the articles 48 of the Decree Law and 48 of the Final Executive regulations.

A quick analysis of the above provisions suggests that there are not much benefits granted to entities located in designated zone except for the manufacturing facilities located therein and warehouses for wholesalers or retailers. For the latter, a custom warehouse should be easier to deal with.

## Contact

**Jean-Paul Ouaksel**  
Partner – Tax Services  
RSM KUWAIT

**E:** [jeanpaul.ouaksel@rsm.com.kw](mailto:jeanpaul.ouaksel@rsm.com.kw)

Arraya Tower 2, Floors 41 & 42 , Abdulaziz Hamad Alsaqar St.,  
Sharq, P.O. Box 2115, Safat 13022, State Of Kuwait

**T:** +965 22961000 | **F:** +965 22412761 | **M:** +965 66334467

RSM Kuwait is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU. RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM International Association, 2017.