

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

VAT AND NON-COMPLIANCE



VAT INSIGHTS

VAT and non-compliance

Any Person that fails to comply with all the VAT regulations shall be punishable by a fine and /or a penalty.

Each implementing country has its own set of tax sanctions. In many cases it seem that UAE is more severe.

A late VAT Registration leads to a fine in each countries of : 10,000 riyals (2,700\$) and 20.000 AED (5,400\$).

In KSA and UAE, non-compliance with the registration obligation qualifies as Tax Evasion, and leads to higher penalties.

In KSA the fine is not less than the amount of tax due and not more than three times the value of the goods or services at stake.

In UAE, the punishment is a prison sentence and monetary penalty, not exceeding five times the amount of evaded tax or either of the two.

The same penalties apply in UAE to whoever is invoicing VAT without being registered but in KSA the same behavior is punishable by a fine amounting to 100,000 riyals (27,000\$).

Late filing is sanctioned by a fine between 5% and 25% of the VAT in KSA. However in UAE it is a fine of AED 1,000 (270\$) for the first time, and AED 2,000 in case of repetition within (24) months.

Late payment penalty in UAE consists of the following:

- 2% of the unpaid tax is due immediately once the payment of Payable Tax is late;
- 4% is due on the seventh day following the deadline for payment, on the amount of tax, which is still unpaid.
- 1% daily penalty charged on any amount that is still unpaid one calendar month following the deadline for payment with upper ceiling of (300%).

In KSA the sanction is a fine equal to 5% of the value of the unpaid tax for each month.

The submittal of an incorrect VAT return is heavily punished in both implementing countries.

In KSA, the Taxable Person would have to pay a fine amounting to 50% of the amount unpaid.

It is more complicated in UAE because there are two fines. A fixed fine of AED 3,000 for the first time and AED 5,000 in case of repetition. The other fine is a percentage of the unpaid VAT depending on the behavior of the Taxable Person:

- 50% if the Taxable Person does not make a voluntary disclosure, or made the voluntary disclosure after being notified of the tax audit .
- 30% if the Taxable Person makes the voluntary disclosure after being notified of the tax audit and before the Authority starts the tax audit.
- 5% if the Taxable Person makes a voluntary disclosure before being notified of the tax audit by the Authority.

Failure to apply the reverse charge mechanism is expensive, given that if it is properly done it is neutral without any cost for the Taxable Person. This lack of compliance costs a fine of 50% of unpaid or undeclared tax in UAE. In KSA, it is a fine not exceeding 50,000 riyals (13,500\$).

Not keeping Tax Invoices, books, records and accounting documents as requested by the regulations, on top of the obvious VAT reassessment, impose a fine not exceeding fifty thousand (50,000) riyals. In UAE this is a fine of AED 10,000 for the first time and AED 50,000 in case of repetition.

Failure to issue invoices or credit notes is punishable in UAE by a fine of AED 5,000 for each missing document. In KSA, there a fine not exceeding 50,000 riyals.

At last, it should be noted that in KSA, if the same violation is repeated within three years, the fine may be doubled. On top of that, the decision issued to impose a penalty may include the publication of its content at the cost of the violator in a local newspaper issued in the place of his residence.

VAT is theoretically neutral for businesses, but it could be very expensive if the internal processes and IT systems were not properly implemented.

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