



Designated Zones

*Chapter 5 : Article(50), (51), (52) of DL &
Article (51) of the ER*

Identification Of Designated Zones

- *Must be a specific fenced geographical area.*
- *Must have security measures and customs control in place to monitor the entry and exit of individuals and movement of goods to and from the Designated Zones.*
- *Must have the internal procedures regarding the method of book keeping, storing and processing of goods within the Designated Zones.*
- *The operator of the Designated Zone must comply with the procedures set out by FTA.*

*Only where a Designated Zone meets **all** the above can be treated as **outside UAE** for the purpose of VAT.*



VAT Registration and Entities within Designated Zones

- *Designated Zone businesses are considered to be established “onshore” in the UAE for VAT purposes.*
- *Have to register, report and account for VAT under the normal rules.*
- *They can join a tax group provided they meet the required conditions.*

Supply of Services within a Designated Zones

- *Place of supply of services within the Designated Zones are considered to be within UAE.*
- *Will be liable to VAT at standard rate.*
- *Services that are exported liable to zero-rated.*

Supply of Goods within a Designated Zones

➤ Default Rule:

Supply of goods within a Designated Zone is treated as made outside the UAE and hence not subject to VAT.

➤ Override of Default Rule:

Supply of goods is made within a Designated Zone to be consumed by him or other person, place of supply will be UAE and VAT will be applicable.

- **Consumed:** Utilisation, application, employment, deployment or exploitation of the goods does not include resale of purchased goods.

➤ Exception to Override : OOS

When purchased goods are:

- Incorporated into, attached to or otherwise form part of another good located in the same Designated Zone and that other goods is not consumed; or*
- Used in the production of another good located in the same Designated Zone and that other good is not consumed.*

Examples

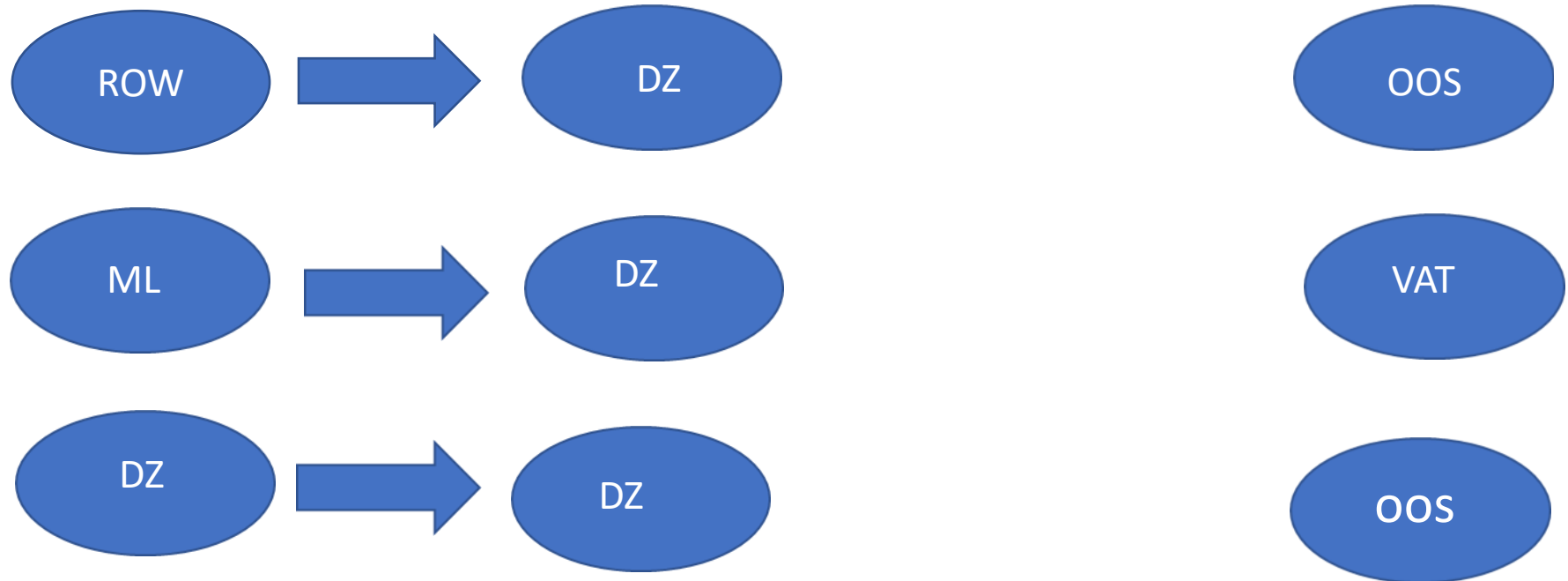
- *A business buys trading stock for the purpose of resale within DZ: **OOS***
- *An oil equipment manufacturer in DZ buys steel which will be used in the production of the equipment and then sold by the manufacturer: **OOS***
- *A manufacturer in the DZ buys work tools which are used in manufacturing goods and are then sold by the manufacturer: **OOS***
- *A business in the DZ buys an office computer, food, stationary, a company car, fuel for the company car, office furniture and similar goods to be used in the general running of the business : **Vat applicable***

Examples

- *A manufacturer in the DZ buys a computer to be used to create designs for goods to be manufactured by the manufacturer : **VAT applicable***
- *An individual buys goods in the DZ to be used for private purposes: **VAT applicable***

The Onus is on the supplier that it treats a supply correctly for VAT purposes.

Transfer of Goods into a Designated Zone



Transfer of Goods from DZ to DZ subject to the following two conditions:

- *a) The goods, either in part or in their entirety are not released into circulation, nor used or altered in any way during the transfer between the Designated zones.*
- *b) Transfer for the goods is undertaken in accordance with the rules for Customs suspension as per GCC Common Customs Law.*

*FTA may require owner of the goods to provide **financial guarantee** for VAT which he may become liable if conditions not met.*

Examples : Import of Goods from Designated Zone

- *Goods are imported from DZ into ML and subsequent sale of goods in the mainland by Importer.*
 - *Import VAT due from the importer and supplier charges VAT on sale if a taxable supply.*
- *Goods are sold within DZ which will not be consumed by the purchaser and the same is imported into mainland by the purchaser.*
 - *OOS and import VAT due on the importer.*
- *Goods sold within DZ and they are intended to be consumed by the purchaser. The goods are imported into mainland by the purchaser.*
 - *Supplier charges VAT on sale ; Import VAT due (but can be recovered via VAT return)*

Subsequent Consumption/loss of goods: *Where VAT has not been paid on the acquisition of goods, owners have to monitor the status of goods to ensure that VAT is paid if the condition for importation is triggered.*

Supplies of Water and Energy

- *Supply of water or any other form of energy are supplies of goods. These supplies are treated as OOS. However, where water and energy is supplied for consumption/ used in the production of other goods in the DZ, the supplier of water and energy shall charge VAT.*
- *Supply of oil, gas and other similar goods traded by businesses within DZ may still be OOS.*

Supplies of Real Estate

- *Includes sale and lease of real estate.*
- *POS is where the real estate is located.*
- *Not treated as consumed when sold or leased and hence OOS.*
- *Raw materials purchased within DZ for the purpose of constructing real estate in DZ also OOS. (Raw material used in the production of another good located in the same DZ which is not consumed).*
- *Real estate not supplied by way of sale or lease is supply of services includes granting personal right to use real estate, licences to occupy real estate, provision of contractual rights exercisable over or in relation to real estate, including right to use accommodation in a hotel or similar establishment.*

Tax Groups and Branches

TAX GROUP

- *DZ company is able to form a tax group with an onshore or other DZ company.*
- *Supplies between members will be disregarded for VAT purposes.*
- *As an exception, supply of goods between the tax group members results in goods being moved from a DZ into mainland would trigger the obligation to pay import VAT.*

BRANCHES

- *Supplies between different parts of the same legal entity are treated as intra-entity supplies and disregarded for VAT purpose.*
- *Supply of goods from a branch in DZ to HO in mainland VAT registered entity will be able to defer accounting for import VAT to its VAT return.*
- *Unregistered entity will be required to make the payment of import VAT before the goods are released from DZ.*



Thank You!