



## Frequently Asked Questions – Construction

➤ **How are construction services liable to VAT?**

As per UAE VAT legislation, 'Services Related to Real Estate' specifically includes 'A supply of Services involving the preparation, coordination and performance of construction, destruction, maintenance, conversion and similar work'.

Therefore, construction services supplied in the UAE would be subject to VAT at 5%. It is to be noted that the VAT treatment will apply regardless of the type of building which is being constructed. In other words, the exemption / zero-rating of residential buildings shall not apply to construction services in relation to such buildings.

➤ **Is receipt of advance taxable?**

Yes, any advance received towards the construction services shall be taxable at 5% at the time of receipt of that advance.

➤ **How is VAT calculated on the progressive receipts & progressive invoicing?**

For projects commencing after 1 January 2018, VAT shall be levied at 5% on the value of works done after deducting advance amount (if VAT has been paid on such advances) and retention amount (if any).

➤ **What is the treatment of retention deduction and retention release?**

Often the retention amount is not payable by the customer until an agreed period of time has passed, and in some cases where the customer is not satisfied with the quality of the work, the retention payment will be retained by the customer.



In cases where the contract specifies sign-off on completion (e.g. a completion certificate or similar document), VAT at 5% shall be due on the retention amount at the earliest of the following dates:

- Payment of retention
- Work signed off as complete
- Issue of tax invoice.

VAT on retention will not be accounted for until the retention payment is received or the invoice for retention payment is issued.

➤ **What is the VAT treatment on accommodation and ancillary service provided to labour force?**

The Federal Tax Authority ('FTA') clarified that in cases where residential accommodation (i.e. labour camps) is provided by the employer and consideration is received from the employee (in form of direct charge to the employee or deduction from salary or provision of accommodation in lieu of housing allowance), then the transaction would qualify as exempt supply under VAT. Consequently, corresponding expenses incurred by the employer in form of DEWA charges, service charges, etc (in relation to the said property) on which VAT is charged cannot be claimed as input VAT.

However, it also clarified that if the residential accommodation (i.e. labour camps) is provided by the employer without any recovery from the employee as per any statutory obligation or as per the documented policy, and the same is in line with common business practice, then the input tax on expenses incurred by the employer in the form of DEWA charges, service charges, etc (in relation to the said property) on which VAT is charged can be claimed as input VAT as a general overhead cost of the business.

➤ **Can the input tax incurred in relation to motor cars (such as trucks, service vans, other cars etc.) purchased, leased or rented be recoverable under the UAE VAT legislation?**

Input tax incurred on purchase, rental or lease of motor vehicles cannot be recoverable if the vehicle is used in business and is also available for personal use by any person.

➤ **What is the VAT treatment on retention for contracts that are entered into prior to 1 January 2018?**

- In the case of retention, where the payment is due after 1 January 2018 but the said retention supply is completed before 1 January 2018, such retention payment is **out of VAT scope**.
- In the case where retention payment is due after 1 January 2018 and the supply is not considered completed until retention is signed off, **VAT at 5% is applicable on retention payment received**.

➤ **What is the VAT treatment on advances received for an ongoing project prior to 1 January 2018 but not fully deducted/apportioned as on 1 January 2018?**

An unrecovered portion of an advance received prior to 1 January 2018 would be subject to VAT.



➤ **Will the contract be considered inclusive of VAT or exclusive of VAT, when the contract was been signed prior to 1 January 2018, and it is silent on VAT treatment?**

Where a contract does not contain clauses related to tax, the contract shall be treated as inclusive of tax, i.e. the supplier should not charge VAT at 5% over and above the contract price, except in cases where:

- The recipient is registered
- The recipient has the right to recover input tax credit either in full or in part.

For the above-mentioned exceptional cases, the contract shall be treated as exclusive of tax, i.e. the supplier can recover VAT at 5% over and above the contract price



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