dhruva
A Ryan LLC Affiliate

The VAT Landscape for Stablecoins in the UAE

July 2026

dhruva
A Ryan LLC Affiliate

Contents

01

What are Stablecoins?

Stablecoins are blockchain-based digital tokens designed to maintain a stable value by reference to an underlying asset, such as fiat currency, commodities, or other digital assets. Unlike cryptocurrencies such as Bitcoin or Ethereum, which are subject to significant price volatility, stablecoins are intended to combine the operational features of blockchain technology, such as speed, programmability, transferability, and 24/7 settlement, with the price stability of traditional money.

This publication focuses on fiat-backed stablecoins, and AED-backed Dirham Payment Tokens (DPTs) regulated under the Central Bank of the UAE's (CBUAE) Payment Token Services Regulation (PTSR) 2024 framework, as these are the most commercially relevant in the UAE and raise the most significant VAT questions.

dhruva
A Ryan LLC Affiliate

Principal categories of stablecoins

Fiat-backed Stablecoins

- Backed on a 1:1 basis by fiat currency reserves held with regulated financial institutions. Each token represents a direct claim on those reserves. AED-backed DPTs, USDT, and USDC fall within this category.
- Most relevant for UAE VAT analysis, particularly given the CBUAE's PTSR 2024 framework.

Commodity-backed Stablecoins

- Backed by physical commodities, commonly gold or other precious metals, held in custody. Each token represents a fractional ownership of the underlying commodity. Examples include PAX Gold and Tether Gold.
- VAT treatment may differ as these tokens have a closer nexus to the underlying physical asset.

Crypto-Collateralized Stablecoins

- Backed by other cryptocurrencies, typically over-collateralized to absorb price volatility and managed through smart contract mechanisms. DAI (MakerDAO) is the most prominent example.
- More complex to classify for VAT purposes.

Algorithmic Stablecoins

- Maintain value through algorithmic supply and demand mechanisms without full reserve backing.
- Explicitly prohibited under the UAE's PTSR 2024 and the ADGM's FRT framework.

While the stablecoin ecosystem involves a wide range of participants, this publication focuses on the VAT implications for stablecoin issuers, minters, and other businesses involved in the issuance, conversion or redemption of stablecoins. The VAT implications for traders, investors or person dealing in stablecoins for trading purposes may differ and should be analyzed separately based on their facts, activities and transaction flows.

02

The Core VAT Question: Are Stablecoins 'Virtual Assets' Under the UAE VAT Law?

The UAE VAT regime applies VAT at 5% on taxable supplies of goods and services, unless a specific zero-rating or exemption applies. Until the amendments introduced by Cabinet Decision No. 100 of 2024, the UAE VAT legislation did not specifically address cryptocurrency or virtual asset transactions.

Businesses, therefore, had to assess such transactions based on general VAT principles, whether there was a supply, whether consideration was received, and whether any financial services exemption could apply. Cabinet Decision No. 100 of 2024 changed this position by introducing a specific VAT framework for virtual assets under the Executive Regulations.

While the amendments provide welcome clarity on the VAT treatment of virtual assets, they leave a specific question unresolved for fiat-backed stablecoins: whether these tokens should be classified as virtual assets or, alternatively, treated as digital versions of fiat currency.

This classification is critical because it affects not only the output VAT treatment of stablecoin transactions but also input tax recovery on the related expenses.

Definition of 'Virtual Asset' – Article 1 of the Executive Regulations

Article 1 of the Executive Regulations defines "virtual assets" as:

> ***"A digital representation of value that can be digitally traded or converted and can be used for investment purposes and does NOT include digital representations of fiat currencies or financial securities."***

This definition is central to the VAT analysis of stablecoins. On one hand, stablecoins are digital representations of value that can be digitally transferred or converted and may be used within virtual asset ecosystems. On the other hand, fiat-backed stablecoins, particularly AED-backed DPTs, are designed to maintain a fixed value by reference to fiat currency and may function primarily as digital payment instruments.

The phrase "does not include digital representations of fiat currencies" therefore creates the central question: if this exclusion is interpreted broadly, certain fiat-backed stablecoins may fall outside the virtual asset definition entirely. If interpreted narrowly, stablecoins may remain within the virtual asset framework. The VAT implications of both approaches are discussed in detail in the subsequent sections.

Exemptions for Virtual Asset Transactions – Article 42 of the Executive Regulations

Cabinet Decision No. 100 of 2024 introduced specific exemptions for certain virtual asset activities under Article 42(2) of the Executive Regulations. These exemptions are relevant only where the relevant token or transaction falls within the virtual asset definition under Article 1.

Article	Exempt Activity	Effective Date
Article 42(2)(k)	Transfer of ownership of virtualassets, including virtual currencies	Retrospective from 1 January 2018
Article 42(2)(l)	Conversion of virtual assets	Retrospective from 1 January 2018
Article 42(2)(m)	Keeping and managing, and enabling control of virtual assets*	From 15 November 2024

**Note: The exemption relating to keeping, managing, and enabling control of virtual assets should be read with the general VAT treatment applicable to the financial services under Article 42 of the VAT Executive Regulations.*

Accordingly, where the consideration is earned through an implicit margin, it may be treated as exempt. However, where such services are supplied for an explicit fee or commission, the service may be subject to VAT at 5%.

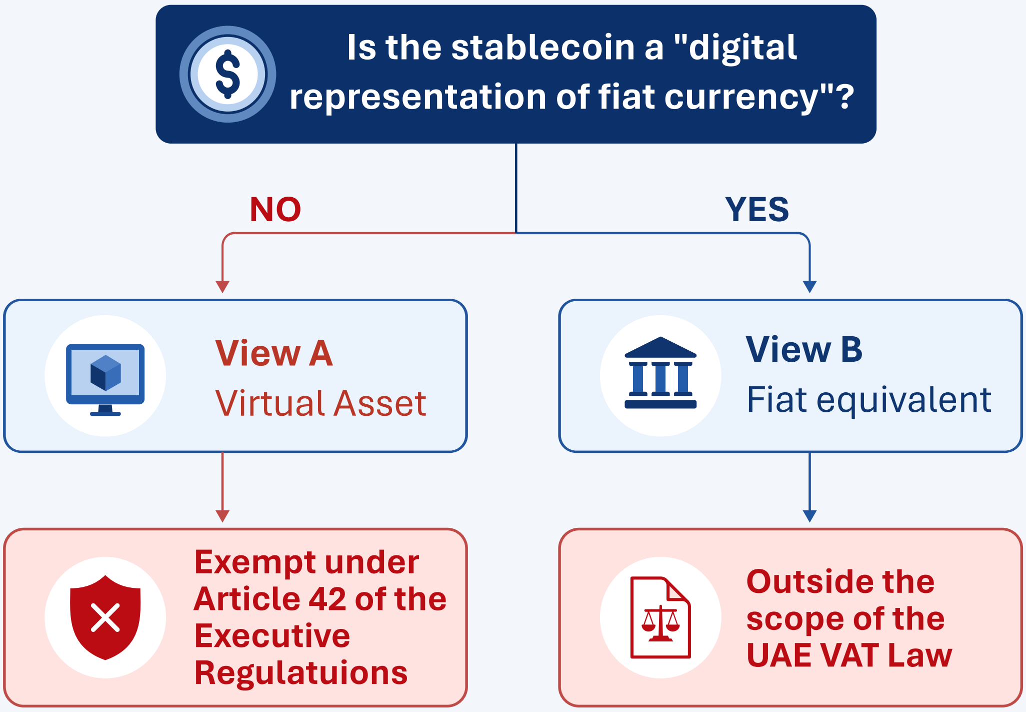
Accordingly, if stablecoins are treated as virtual assets, the transfer and conversion of stablecoins may qualify as exempt financial services under Article 42. This may cover sale, purchase, exchange, or conversion of stablecoins into fiat currency or other virtual assets.

However, the exemption should be applied only to the specific activities covered by the law. It should not be read as a blanket exemption for all activities connected with a virtual asset ecosystem.

This approach is supported by the FTA's Public Clarification VATP039 on cryptocurrency ('crypto') mining. In such clarification, the FTA confirmed that mining does not qualify for the virtual asset exemption merely because it is connected with virtual assets. Where mining is undertaken for the miner's own account, it may fall outside the scope of VAT. However, where mining is performed for another person for a fee, the fee is treated as consideration for a taxable supply.

The same principle should be relevant for stablecoin businesses. Accordingly, businesses should not assume that all activities connected with virtual assets are exempt merely because they relate to a virtual asset ecosystem.

Taxability of Stablecoins: Converging views



View A

Stablecoin is a Virtual Asset

Under this view, a stablecoin satisfies the core elements of the virtual asset definition. It is a digital representation of value, it can be transferred or converted digitally, and it may be held, exchanged, or used within virtual asset ecosystems.

The key question is whether the exclusion for “digital representations of fiat currencies” applies to privately issued fiat-backed stablecoins.

If such exclusion is interpreted narrowly, the reference to fiat currency may be understood as relating only to sovereign money issued under the authority of a Central Bank and carrying legal tender status. In this context, privately issued stablecoins, including AED-backed DPTs, do not themselves constitute legal tender. Rather, they merely reference or track the value of fiat currency while remaining legally and commercially distinct instruments.

Result: Exempt financial services under Article 42

View B

Stablecoin is a Fiat Equivalent

Under this view, the exclusion for "digital representations of fiat currencies" is interpreted more broadly. Fiat-backed stablecoins, particularly CBUAE-regulated AED-backed DPTs, may be viewed as digital fiat-equivalent instruments rather than virtual assets.

This view is more compelling for AED-backed DPTs, because such tokens are issued under a regulated payment token framework, require full reserve backing, and are intended to function as payment instruments rather than speculative investment assets. Unlike foreign stablecoins, such as USDT or USDC, which are issued by private offshore entities outside any sovereign monetary framework, a CBUAE-licensed DPT can only be issued by an entity specifically licensed by the CBUAE, under regulatory conditions that closely mirror those applicable to payment institutions handling fiat currency.

If fiat-backed stablecoins are treated as equivalent to fiat currency, a key question arises on whether the issuance, transfer and redemption of such stablecoins fall within the scope of “financial services” under Article 42 of the UAE VAT Executive Regulations, given their functional similarity to the movement or exchange of fiat currency.

In line with the general VAT treatment of fiat currency transactions, where the conversion or related service is remunerated through an implicit margin, the margin or spread may qualify as exempt. In contrast, where a separately identifiable explicit fee, commission or charge is levied, such fee may be taxable at 5%. Further, where no margin or explicit consideration is charged, transaction with fiat currencies may be viewed as movement, holding or settlement of value rather than a supply of goods or services, and therefore fall outside the scope of UAE VAT.

Accordingly, under this interpretation, depending on the legal form and the consideration model, such transactions may qualify as either exempt / taxable financial service or may completely fall outside the scope of VAT.

Result: Core stablecoin issuance and transfer may fall outside the scope of VAT

Explicit fees remain separately assessable

A key point is that the exemption for the underlying virtual asset transaction does not automatically extend to every associated fee or charge. Separately charged amounts such as commissions, platform fees, wallet fees, custody fees, transaction charges, onboarding fees, discounts, rebates, or facilitation fees should be assessed independently.

Where such amounts represent explicit consideration for services, they may remain taxable at 5%, even if the underlying transfer or conversion of the stablecoin is exempt or outside the scope of VAT.

This distinction is particularly important for exchanges, wallet providers, stablecoin issuers, custodians, and payment platforms, where revenue may arise primarily from fees rather than from the underlying token transfer itself.

> *A stablecoin ecosystem typically involves multiple revenue and cost streams such as issuance, minting fees, redemption charges, custody, wallet services, platform fees, transaction facilitation, reserve yield, etc. Each stream should be analyzed separately for UAE VAT purposes.*

Practical Position: Outputs

As of July 2026, the FTA has not issued stablecoin-specific VAT guidance. Accordingly, the classification remains open to interpretation and may depend on the exact nature of the stablecoins. However, both views generally converge on one practical outcome: the core movement of the stablecoin itself should not attract VAT.

Businesses should not, however, analyse stablecoins solely at the token level. Instead, each revenue stream should be assessed separately, including issuance, redemption, conversion, custody, wallet services, platform fees, reserve yield, and intercompany arrangements. Where the position is material, businesses should document the basis for the approach adopted and consider seeking private clarification from the FTA.

Input Tax Recovery

A key VAT consideration for stablecoin businesses is the potential impact of the adopted VAT classification on input tax recovery.

As per Article 54 of the VAT Decree-Law, the input tax recoverable by a taxable person for any tax period is the input tax paid on goods and services which are used, or intended to be used, for making taxable supplies.

In simple terms, input VAT recovery depends on what the cost is used for. The VAT incurred on expenses is not automatically recoverable merely because the expense is incurred by a taxable person. The cost should be linked to supplies that give a right to recover input tax.

Accordingly, the input tax position may broadly be considered as follows:

Category	Input VAT Recovery	Examples
Costs directly attributable to taxable activities	Fully recoverable	Fees charged for minting, redemption, custodianship, platform and other technology-related services; zero-rated supplies of virtual assets for export.
Residual costs (not directly attributable to taxable or exempt supplies)	Subject to input tax apportionment	Office-related expenses, utilities, professional fees, technology-platform expenses etc.

Accordingly, while this publication focuses primarily on the VAT treatment of stablecoin issuance, transfer, conversion and redemption, businesses should also consider whether they can recover the input VAT on related costs it has incurred.

Input Tax Apportionment

As discussed above, stablecoin businesses may make both taxable supplies and non-taxable supplies. Where a business has both, it cannot simply recover all its input VAT but must apportion the input VAT under Article 55 of the UAE VAT Executive Regulations in accordance with the prescribed apportionment mechanism to determine the recoverable portion.

Article 55 broadly requires the taxable person to identify input tax that is directly recoverable, input tax that is not recoverable, and input tax that partly relates to both. In case of mixed-use costs, only the portion relating to supplies taxable supplies should be recoverable.

Accordingly, stablecoin should be mindful that where the same cost supports more than one type of activity, the business should not automatically recover the full VAT. Instead, businesses should ensure that their input tax recovery position is aligned with the VAT classification adopted for their activities and is supported by a proper apportionment calculation.

Tax Grouping

Where a stablecoin ecosystem is operated through multiple legal entities, such as an issuer SPV, distributor SPV, wallet operator or custodian, intercompany charges may arise for technology, management, custody, and support services.

If these entities are separately registered for VAT purposes, such intercompany charges may be taxable at 5%, subject to the nature of the services. Each entity would also be required to manage its own VAT compliance obligations, including VAT return filing, invoicing, record-keeping, and input tax recovery.

In this context, forming a tax group may offer strategic advantages in multi-entity structures, as it eliminates VAT on transactions between group members, improves cash flow by removing VAT on internal recharges, and simplifies compliance through a single consolidated VAT return.

However, VAT grouping should be evaluated carefully, particularly where the group makes both taxable and exempt supplies. While tax grouping may reduce cash flows and administrative burden, it may also affect input tax apportionment at the group level.

06

Global Benchmark

Across major jurisdictions that have addressed stablecoin taxation, a consistent pattern has emerged: the exchange and transfer of fiat-backed stablecoins used as a means of payment is treated as VAT or GST-exempt, or outside the scope of indirect tax entirely.

Jurisdiction	Position
European Union	VAT-exempt financial activity
United Kingdom	Stablecoins are assessed under existing VAT principles. VAT remains due on goods or services supplied in exchange for stablecoins
Singapore	GST-exempt
Japan	Payment-type stablecoins are treated as equivalent to prepaid payment instruments or digital currencies, and their transfer and exchange are generally exempt from consumption tax
Australia	Stablecoins, treated as digital currency, are generally GST-free. They are treated similarly to money, so acquiring or disposing of them does not attract GST

Recommendations & Way Forward

The UAE VAT treatment of stablecoins remains an evolving area, particularly in the absence of specific guidance from the FTA. Businesses operating in this space should adopt a proactive VAT governance approach, with clear technical positions, robust documentation, and transaction-level controls.

1 Classify the nature of the stablecoin

Given that the VAT definition of a virtual asset expressly excludes 'digital representations of fiat currencies', businesses should assess whether their stablecoins fall within this exclusion. The classification may depend on the specific characteristics and regulatory status of the stablecoin in question. Where uncertainty remains, businesses should consider seeking private clarification from the FTA.

2 Review historical VAT returns

Businesses should review their prior VAT positions. Any corrective actions should be supported by clear transaction mapping and concurrent evidence.

3 Implement an input VAT attribution framework

Businesses should implement robust cost allocation and attribution mechanisms from the commencement of operations. Failure to establish an appropriate methodology upfront may result in significant uncertainty and input VAT exposure during future FTA reviews or audits.

4 Assess Tax Grouping at the structuring stage

Tax grouping under the UAE VAT Law eliminates VAT on transactions between group members, reducing both cash flow cost and compliance burden. This is recommended to be considered at the structuring stage itself.

OUR TEAM

UAE CONTACTS

NIMISH GOEL
Leader, Middle East
nimish.goel@dhruvaadvisors.com

ASHISH AGRAWAL
Partner
ashish.agrawal@dhruvaadvisors.com

BHAKTI THAKKER
Partner
bhakti.thakker@dhruvaadvisors.com

GEET SHAH
Partner
geet.shah@dhruvaadvisors.com

KAPIL BHATNAGAR
Partner
kapil.bhatnagar@dhruvaadvisors.com

RAKESH JAIN
Partner
rakesh.jain@dhruvaadvisors.com

SANDEEP KUMAR
Partner
sandeep.kumar@dhruvaadvisors.com

UJJWAL KUMAR PAWRA
Partner
ujjwal.pawra@dhruvaadvisors.com

VLAD SKIBUNOV
Partner
vlad.skibunov@dhruvaadvisors.com

AMR SAMAK
Associate Partner
amr.samak@dhruvaadvisors.com

FRAN WILHELM
Associate Partner
fran.wilhelm@dhruvaadvisors.com

MONIKA MINDSZENTI
Associate Partner
monika.mindszenti@dhruvaadvisors.com

SHIRAZ SALEEMI
Associate Partner
shiraz.saleemi@dhruvaadvisors.com

KSA CONTACTS

MANISH BANSAL
Associate Partner
manish.bansal@dhruvaadvisors.com

GOPAL AGARWAL
Director
gopal.agarwal@dhruvaadvisors.com

DUBAI
204, Emaar Square,
Building 4, PO Box 127165,
Dubai, UAE
Tel: + 971-4240-8477

ABU DHABI
1905, Addax Tower City of
Lights, Al Reem Island, Abu
Dhabi, UAE
Tel : +971-2678-0054

SAUDI ARABIA
308, 7775 King Fahd Road,
Al Olaya, 2970, Riyadh 12212,
Saudi Arabia

www.dhruvaconsultants.com