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INDIRECT TAX ALERT

September 16, 2026

Cabinet Decision No. 149 of 2026: Key Amendments to the VAT Executive Regulation

EXECUTIVE SUMMARY

The UAE Ministry of Finance ("MoF") has published Cabinet Decision No. 149 of 2026, amending Cabinet Decision No. 52 of 2017 on the Executive Regulation ("ER") of the Federal Decree-Law No. 8 of 2017 on Value Added Tax. The amendments impact nine Articles of the ER and are effective from 1 October 2026, with one notable exception (see "Effective Dates" below).

This decision is a multi-provision amendment spanning across composite supply (Article 4), the profit margin scheme (Article 29), zero-rated healthcare goods (Article 41), the exempt-supply "outside the State" test (Article 52), non-recoverable input tax on employee benefits (Article 53), a new restriction on cash-settled transactions (Article 54), a substantive overhaul of the input tax apportionment mechanism (Article 55), the Capital Asset Scheme definition (Article 57), and a drafting correction to Tax Credit Notes (Article 60).

In this alert, we highlight the comparison of key amended Articles with our comments along with the key actions, the businesses should consider.

EFFECTIVE DATES

Article 3 of the Decision splits the effective date:

- General effective date - October 01, 2026, applies to amended Articles 4, 29, 41, 52, 53, 54, 57 and 60.
- Deferred effective date - first tax year commencing after 1 October 2027: applies specifically to Clauses 6, 7 and 19 of Article 55 (the apportionment mechanism).

SUMMARY OF KEY AMENDMENTS

Article	Subject	Nature of change
Art. 4(6) [New Clause]	Composite supply	A new standalone test: A supply comprising multiple components need not be treated as multiple supplies where, having regard to the nature of the supply and its economic substance, the components are interconnected and cannot be separated. In such cases, the supply should be taxed based on its principal component. One possible interpretation is that the new provision may override the existing provisions of Article 4 that refer to separate pricing. However, the FTA is yet to provide further clarity on the interaction between the new provision and the existing composite supply rules, particularly where the components are separately priced.
Art. 29(5)	Profit margin scheme	The definition of "purchase price" has now been narrowed to include only those costs and fees incurred in purchasing the goods on which Input Tax is not recoverable under Article 54. This effectively prevents a potential double benefit, by excluding costs on which the purchaser has already recovered Input Tax credit.
Art. 41(4)	Healthcare zero-rating (goods)	"Pharmaceutical products" and "medical equipment" (previously two separate paragraphs) are merged in a single "medical product" category to be specified by Cabinet Decision.
Art. 52(2)	Exempt supplies - "outside the State" test	"Less than a month" is replaced with a precise "less than 30 (thirty) days".
Art. 53(1)(c)	Non-recoverable Input Tax - Employee Benefits	"Designated Zone" is broadened to "any free zone, including financial and non-financial free zones." A new exception ensures employee accommodation is non-recoverable unless mandated by MOHRE. The contractual obligation / documented policy test is replaced by cases and conditions to be specified by the FTA.
Art. 54(3) [New clause]	Special Cases of Input Tax	Input Tax is not recoverable on any supply above a value threshold (to be set by a Ministerial Decision) where consideration is paid, or intended to be paid, in cash, subject to controls to be specified.
Art. 55(6)/(7)	Apportionment of Input Tax	There is a change in the computation of the recoverable percentage method. As per the new method, the recovery shall be computed basis taxable supplies value ÷ total supplies value. In addition, supply value of Capital Assets and Imports shall not be considered in the computation.
Art. 55(19) [New Clause]	Apportionment - Government Entities & Charities	A new clause has been introduced specifically for Government Entities and Charities, prescribing a separate basis for input tax apportionment. Their recoverable Input Tax will be determined using the standard input-based method, whereas there was no distinction earlier.
Art. 57(1)	Capital Asset Scheme - definition	"A single item of expenditure" is reworded to "a business asset with a cost". The AED 5,000,000 threshold and useful-life tests are unchanged.
Art. 60(1)(a)	Tax Credit Note	The words "Tax Credit Note" must now be displayed on the credit note.

1 ARTICLE 4(6) - COMPOSITE SUPPLY

OLD PROVISION - POSITION BEFORE THE AMENDMENT

NA

NEW PROVISION - ARTICLE 4(6)

"A Taxable Person may not consider a supply consisting of more than one component as multiple supplies if the nature of the supply and its economic substance demonstrate that these components are interconnected and cannot be separated. In such case, the supply shall be deemed a single composite supply, and shall be subject to the tax treatment in accordance with its principal component."

DHRUVA COMMENTS

This is a nature-and-economic-substance test, distinct from the existing mechanical tests. It provides an additional basis for single composite supply treatment even where the Clause 4 conditions (separate pricing) are not squarely met. An important element of this new clause is that the components are genuinely inseparable. This is directly relevant to arrangements combining goods and services under one commercial umbrella (e.g., bundled equipment-plus-service) where the "no separate pricing" conditions have previously been contested.

EXAMPLE

A patient is admitted to a hospital for surgery, and the discharge invoice separately identifies room rent, surgeon's fees, nursing charges, and medication. On a strict reading, Clause 4(a) may not be satisfied merely because the individual components are separately priced. However, the economic substance of the transaction is a single admission for the provision of healthcare. The patient cannot undergo the surgery without occupying a hospital bed, and the hospital is not providing room accommodation as a standalone commercial offering. Accordingly, under Clause 6, it may be argued that these supplies are interconnected and inseparable in the context of the overall transaction, and therefore constitute a single composite supply of healthcare, with the entire supply being treated in accordance with the principal component and, accordingly, subject to the applicable VAT treatment for healthcare services.

2 ARTICLE 29(5) - PROFIT MARGIN SCHEME

OLD PROVISION - ARTICLE 29(5) - CURRENT

"The 'purchase price' stated in Clause 4 of this Article includes, in addition to the price of the Good, any costs and fees incurred to purchase the Good."

NEW PROVISION - ARTICLE 29(5) - AMENDED

"The 'purchase price' stated in Clause 4 of this Article includes, in addition to the purchase price of the Good, any costs or fees incurred to purchase the Good, provided that the Input Tax on such costs or fees, where incurred, is not recoverable pursuant to the provisions of Article 54 of the Decree-Law."

DHRUVA COMMENTS

This amendment resolves an ambiguity and addresses the possibility of a double benefit under the existing wording. Previously, a business could include a cost in the purchase price even where Input Tax had been recovered, resulting in a duplication of the tax benefit.

EXAMPLE

A used-car dealer purchases a vehicle for AED 40,000 from a non-registered individual and incurs AED 5,000, plus AED 250 VAT, on a third-party pre-sale inspection and detailing service. Under the current wording, the full AED 5,000 could be added to the purchase price, resulting in a purchase price of AED 45,000, irrespective of whether the AED 250 Input Tax was recovered.

Post amendment, where the dealer recovers the AED 250 Input Tax on the inspection and detailing invoice, the AED 5,000 cost cannot be included in the purchase price. The purchase price would remain AED 40,000, resulting in a higher taxable margin and, consequently, higher output tax under the margin scheme.

3 ARTICLE 41(4) - HEALTHCARE ZERO-RATING GOODS CONSOLIDATED

OLD PROVISION - ARTICLE 41(4) - CURRENT

"A supply of Goods or an Import of Concerned Goods is zero-rated if it is a supply or an Import of: (a) Any pharmaceutical products as specified in a decision issued by the Cabinet. (b) Any medical equipment as specified in a decision issued by the Cabinet. (c) Any other Goods not covered by paragraphs (a) and (b) of this Clause which are supplied in the course of supplying a Person with zero-rated Healthcare Services that are necessary for the supply of such Healthcare Services."

NEW PROVISION - ARTICLE 41(4) - AMENDED

"A supply of Goods or an Import of Concerned Goods is zero-rated if it is a supply or an Import of: (a) Any medical product as specified in a decision issued by the Cabinet. (b) Any other Goods not covered by paragraph (a) of this Clause which are supplied in the course of supplying a Person with zero-rated Healthcare Services that are necessary for the supply of such Healthcare Services."

DHRUVA COMMENTS

This amendment simplifies the classification of "pharmaceuticals" and "equipment" prescribed under the Cabinet Decision. Businesses previously had to determine the category for each item, creating potential classification challenges. Following the amendment, a single consolidated list will apply, which should simplify the assessment and support more consistent application of the zero-rating provisions.

EXAMPLE

A hospital imports a surgical implant device along with a coating agent applied to the implant before implantation. Under the current wording, the hospital is required to categorize the implant under "medical equipment" and the coating agent under "pharmaceutical products". Post consolidation of "medical product" category, both items will have to be tested against a single, unified list.

4 ARTICLE 52(2) - A PRECISE "30 DAYS" REPLACES "A MONTH"

OLD PROVISION - ARTICLE 52(2) - CURRENT

"For the purpose of Clause 1 of this Article a Person is 'outside the State' even if they are present in the State, provided it is only a short-term presence in the State of less than a month, and that his presence is not effectively connected with the supply."

NEW PROVISION - ARTICLE 52(2) - AMENDED

"For the purposes of Clause 1 of this Article, a Person shall be considered 'outside the State' if only present in the State for a period of less than 30 (thirty) days, and such presence is not effectively connected with the supply."

DHRUVA COMMENTS

"Less than a month" is ambiguous, since calendar months range from 28 to 31 days. Replacing this with a fixed "less than 30 (thirty) days" removes the inconsistency and provides businesses a defined approach.

EXAMPLE

A financial services recipient is physically present in the UAE for 29 days. Under the current "less than a month" test, the outcome could differ depending on the relevant month (Feb vs. Oct). Post amendment, the condition is crystallized.

5 ARTICLE 53(1)(C) - EMPLOYEE ACCOMMODATION BLOCKED

OLD PROVISION - ARTICLE 53(1)(C)(1) - CURRENT

"Where it is a legal obligation to provide those Services or Goods to those employees under any applicable labour law in the State or Designated Zone."

OLD PROVISION - ARTICLE 53(1)(C)(2) - CURRENT

"Where it is a contractual obligation or documented policy to provide those services or goods to those employees in order that they may perform their role and it can be proven to be normal business practice in the course of employing those people."

NEW PROVISION - ARTICLE 53(1)(C)(1) - AMENDED

"Where the provision of those Goods or Services to the employees is mandatory under the applicable labour legislation in the State or any free zone, including financial and non-financial free zones, provided that this does not include the accommodation provided by the employer to its employees, unless the provision of such accommodation is mandatory pursuant to the decisions or directives issued by the Ministry of Human Resources and Emiratisation."

NEW PROVISION - ARTICLE 53(1)(C)(2) - AMENDED

"Where it is a contractual obligation or documented policy to provide those Goods or Services to the employees, in accordance with the cases and conditions specified by the Authority."

DHRUVA COMMENTS

This is an exposure on businesses with sizeable employee housing costs. A few businesses in the past, recovered input VAT on accommodation arguing that it was a documented HR policy or normal business practice. However, the amendment negates this argument. Under the new regime, the recoverability will be determined basis the mandate issued by MOHRE or in accordance with the cases and conditions specified by the FTA. The businesses will have to re-evaluate the recoverability.

In a few cases, the businesses relied on the Private Clarifications issued by FTA which supported the recovery, the same will also have to be re-evaulated.

EXAMPLE

A hotel procures serviced accommodation for its workforce at an annual rent of AED 500,000 plus AED 25,000 VAT. The hotel was currently recovering input VAT considering this accommodation is provided under a documented HR policy. In addition, this was due a normal business practice in the hotel industry or due to a remote location and, however not a MOHRE mandate. Under the amended Article 53(1)(c)(1), Input Tax becomes non-recoverable, regardless of documented policy or normal industry practice, unless the hotel can demonstrate that the accommodation itself is mandated by MOHRE directives, or in accordance with the cases and conditions specified by the FTA.

6 ARTICLE 54(3) - RESTRICTION ON CASH-SETTLED PURCHASES

OLD PROVISION - POSITION BEFORE THE AMENDMENT

NA

NEW PROVISION - ARTICLE 54(3)

"Input Tax may not be recovered on any supply which has a value exceeding the amount specified in a decision issued by the Minister where the consideration is paid or intended to be paid in cash, in accordance with the controls specified in that decision."

DHRUVA COMMENTS

There seems to be a typo error where Minister is mentioned instead of Ministry in the updated ER. The threshold for cash procurement is yet to be prescribed. Once introduced, this requirement is expected to encourage businesses to minimise cash-based transactions, strengthen procurement controls and supplier selection.

7

ARTICLE 55(7) - APPORTIONMENT MECHANISM (DEFERRED TO 2027)

OLD PROVISION - ARTICLE 55(7)(A) - CURRENT

"The Taxable Person shall calculate the percentage of Recoverable Tax with reference to Clause 1 of Article 54 and Article 57 of the Decree-Law, to the sum of Input Tax for the Tax Period."

NEW PROVISION - ARTICLE 55(7)(A) - AMENDED

"The Taxable Person shall calculate the percentage of total supplies as specified in Clause 1 of Article 54 of the Decree-Law, to the total value of all supplies."

DHRUVA COMMENTS

This is one of the most consequential changes introduced by the Decision. The amended apportionment formula is explicitly based on the ratio of the value of taxable supplies to the value of total supplies, thereby introducing an output/turnover-based methodology. This represents a significant departure from the current methodology, which is based on an input-tax-referenced formula and has been subject to interpretive debate.

Notably, this is the only amendment with a different effective date, i.e., 1 October 2027. The revised methodology aligns the UAE framework across the GCC. Businesses applying Input Tax apportionment should assess the impact of the revised method on their recoverable Input Tax. The impact could be particularly significant for Master Developers, where projects span multiple years and the timing and value of taxable and exempt supplies can vary materially over the project lifecycle.

EXAMPLE

A company has AED 7 million of taxable supplies and AED 3 million of exempt supplies in a Tax Period (AED 10 million total). Under the amended Clause 7(a), the recoverable percentage is 7,000,000 ÷ 10,000,000 = 70%, applied to the common Input Tax. If, in the same period, the company also sells a warehouse (a Capital Asset) for AED 20 million, the new Clause 7(b) requires that AED 20 million to be excluded from both the numerator and denominator, thus the percentage remains 70% rather than being distorted upward to roughly 84% (27m ÷ 32m).

8 ARTICLE 55(19) - A STANDALONE MECHANISM FOR GOVERNMENT ENTITIES AND CHARITIES

OLD PROVISION - POSITION BEFORE THE AMENDMENT

NA

NEW PROVISION - ARTICLE 55 (19)

"For the purposes of paragraph (d) of Clause 6 of this Article, Government Entities and Charities shall calculate the recoverable Input Tax as follows: (a) Government Entities and Charities shall calculate the percentage of the recoverable Input Tax pursuant to Clause 1 of Article 54, and Article 57 of the Decree-Law, to the total recoverable Input Tax and non-recoverable Input Tax for the Tax Period. (b) The percentage calculated under paragraph (a) of this Clause shall be rounded to the nearest whole number. (c) The percentage calculated under paragraph (b) of this Clause shall be multiplied by the amount of Input Tax referred to in paragraph (d) of Clause 6 of this Article to establish the recoverable portion of that Input Tax."

DHRUVA COMMENTS

This distinction exists because Government Entities and Charities often have activities (e.g., non-business, public-interest functions) that do not generate a conventional "supply value" as compared to the commercial business. Thus, the turnover-based ratio is not suitable for them.

9 ARTICLE 57(1) - CAPITAL ASSET SCHEME

OLD PROVISION - ARTICLE 57(1) - CURRENT

"A Capital Asset is a single item of expenditure of the Business amounting to AED 5,000,000 or more excluding Tax, on which Tax is payable and which has estimated useful life equal or longer than: (a) 10 years in case of a building or a part thereof. (b) 5 years for all Capital Assets other than buildings or parts thereof."

NEW PROVISION - ARTICLE 57(1) - AMENDED

"For the purposes of the Capital Asset Scheme referred to in Articles 12 and 60 of the Decree-Law, a Capital Asset is a business asset with a cost amounting to AED 5,000,000 or more, excluding Tax, on which Tax is payable and which has an estimated useful life equal or longer than: (a) 10 (ten) years in case of a building or a part thereof. (b) 5 (five) years for all Capital Assets other than buildings or parts thereof."

DHRUVA COMMENTS

The revised Article 57(1) replaces the reference to "a single item of expenditure of the Business" with "a business asset with a cost". The remaining provisions (the AED 5 million threshold, useful-life criteria and staged-payment aggregation rules under paragraph 3) remain unchanged.

DHRUVA COMMENTS (Contd.)

The amendment appears to be primarily a drafting refinement, rather than a substantive change. The removal of the word "single" may create some uncertainty around the application of the threshold, particularly when read together with the aggregation provisions. Businesses should monitor further FTA guidance or clarification before applying any changes.

10 ARTICLE 60(1)(A) - TAX CREDIT NOTE DRAFTING CORRECTION

OLD PROVISION - ARTICLE 60(1)(A) - CURRENT

"The words 'Tax Credit Note' clearly displayed on the invoice."

NEW PROVISION - ARTICLE 60(1)(A) - AMENDED

"The words 'Tax Credit Note' clearly displayed on the credit note."

DHRUVA COMMENTS

This corrects a drafting anomaly in the current ER, which required the words "Tax Credit Note" to appear on the invoice even though Article 60 governs the mandatory contents of a credit note, not an invoice. The amendment aligns the text and does not, in our view, change any existing compliant Tax Credit Note format.

WHAT BUSINESSES SHOULD DO NEXT

Composite Supply: Revisit bundled goods-and-services arrangements against the new Article 4(6) "interconnected and cannot be separated" test, particularly where the existing Clause 4 conditions (no separate pricing) have been contested.

Employee Benefits & Accommodation: Identify all Input Tax currently recovered on employee accommodation and re-test recoverability against the narrowed Article 53(1)(c) exception ahead of 1 October 2026.

Cash Transactions: Flag cash-settled or cash-intended transactions above likely materiality thresholds and prepare to apply controls once the Ministerial Decision under Article 54(3) is issued.

Apportionment Computation: For partially exempt businesses, model the turnover-based Article 55(7) formula against the current methodology now, even though the effective date (first Tax year after 1 October 2027) is later - early modelling will lead to smooth transition.

Margin Scheme Costs: For used-goods/margin scheme businesses, review cost/fee tracking to ensure only Input-Tax-irrecoverable costs are added to the purchase price under the amended Article 29(5).

Healthcare Goods Classification: Healthcare providers and importers await the Cabinet Decision defining "medical product" under the consolidated Article 41(4) and re-map current pharmaceutical/equipment classifications once issued.

"30-Day" Presence Tracking: Businesses relying on the Article 52(2) "outside the State" test should move day-count tracking for recipients onto a precise 30-day basis.

Dhruva Consultants achieved ITR World Tax
Ranking 2026:

- Tier 1 – Indirect Tax
- Tier 2 – General CT, Transfer Pricing, Transactional Tax
- Other Notable: Tax Controversy

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