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A Ryan LLC Affiliate

UAE CT AND VAT GUIDE FOR GOVERNMENT SECTOR

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The background image shows a professional office setting. In the upper right, a person in a grey suit holds a gold pen over a document featuring a bar chart. In the lower foreground, another person's hands are seen using a black calculator over a document with a donut chart and a line graph. A blue banner with the word 'Introduction' is overlaid on the left side of the image.

Introduction

Introduction

VAT Law was introduced with effect from 1 January 2018 through Federal Decree-Law No. 8 of 2017 on Value Added Tax (as amended) (“UAE VAT Law”). VAT was implemented as part of the UAE’s broader fiscal diversification strategy aimed at reducing reliance on hydrocarbon revenues and establishing a sustainable source of government income.

Subsequently, UAE Corporate Tax Law (“UAE CT Law”) was introduced vide Federal Decree-Law No. 47 of 2022.

Taxes are an important source of revenue for any Government. However, bringing Government or Government Entities under the ambit of taxation will merely result in the transfer of funds from one arm of the Government to another, without leading to any meaningful increase in overall revenues of the Government. Accordingly, generally exemptions are provided to Government Authorities or Entities from such taxes.

Similarly, UAE has also provided an exemption to Government Authorities and Entities owned by such Government Authorities. However, the current framework does not provide a blanket exemption to Government Entities and Government-Controlled Entities. Instead, it seeks to preserve competitive neutrality between the public and private sectors. Accordingly, specific exemptions have been granted to such entities, subject to the fulfilment of prescribed conditions.

Against this backdrop, this guide analyses the CT and VAT treatment applicable to Government Entities, Government-Controlled Entities, and wholly owned government subsidiaries in the UAE, including the exemption framework, taxability triggers, and compliance requirements under the applicable laws and regulations.



A wooden gavel with a brass band is positioned diagonally across the lower half of the image, resting on a circular wooden sound block. In the background, a silver laptop is partially visible, and a pair of black-rimmed glasses lies on a white sheet of paper. The entire scene is set on a light-colored wooden desk.

Legal and Regulatory References

Legal and Regulatory References

Corporate Tax

The treatment of Government and Government Controlled Entities is governed by a combination of primary legislation and implementing decisions, including:

1. Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments
2. Ministerial Decision No. 68 of 2023 on the Treatment of all Businesses and Business Activities Conducted by a Government Entity as a Single Taxable Person
3. Ministerial Decision No. 105 of 2023 on the Determination of the Conditions under which a Person may Continue to be Deemed as an Exempt Person, or Cease to be Deemed as an Exempt Person from a Different Date
4. Cabinet Decision No. 55 of 2025 on Exempting Certain Persons from Corporate Tax
5. FTA Decision No. 15 of 2026 Provisions of Exemption from Corporate Tax (repealing FTA Decision No. 7 of 2023)
6. FTA Decision No. 12 of 2023 Conditions for Forming the Tax Group by Subsidiaries of a Government Entity
7. FTA Decision No. 11 of 2023 Requirements of Submitting a Declaration for Exempt Persons

VAT

1. Federal Decree Law No. 8 of 2017 (“UAE VAT Law”)\
2. The Executive Regulation of the Federal Decree Law No. 8 of 2017 on Value Added Tax (“UAE VAT ER”)
3. Federal law no (4) of 2012 on the Regulation of Competition
4. Article 3 (bis) of UAE VAT ER – Exception of Supplies
5. Article 11 of the UAE VAT Law – Cases of Deemed Supplies
6. Article 5 of UAE VAT ER – Exceptions related to Deemed Supplies
7. Article 57 of UAE VAT Law – Recovery of Tax by Government Entities and Charities
8. Article 53 of the UAE VAT ER – Non-Recoverable Input Tax
9. Article 42 of the UAE VAT ER – Tax Treatment of Financial Services



UAE Corporate Tax

1. UAE CT framework for Government Sector

1.1. A brief snapshot

As mentioned above, the UAE CT Law was introduced to govern the taxation of corporations and businesses in the UAE. UAE CT Law is applicable for financial years starting on or after 1 June 2023.

As per the UAE CT Law, every resident taxable person is subject to CT at the rate of 9% on its worldwide taxable income exceeding AED 375,000. An exception to this rule is Qualifying Free Zone Person ("QFZP") which are taxed at 0% on their qualifying income.

Further, a resident taxable person has been defined under the UAE CT law to include, inter-alia, a juridical person incorporated or otherwise established in UAE or a foreign juridical person that is effectively managed and controlled from UAE.

Government Entities are exempt, except if they conduct the licensed Business or Business Activity which is subject UAE CT.¹ A Government Controlled Entity is exempt where it is specified in a Cabinet decision and only in respect of its Mandated Activities.² Non-mandated activities of a Government Controlled Entity are subject to UAE CT.

Similar exemption is also provided to local³ and foreign entities⁴ wholly owned and controlled by Government Entity or Government Controlled Entity, subject to meeting specified conditions. This has been discussed in further detail in the subsequent points.

Note: The UAE CT Law was amended to impose the Top-up Tax on Multinational Enterprises ('MNE')⁵. Subsequently, detailed provisions for imposition of Top-up Tax were introduced vide Cabinet Decision No. 142 of 2024 such that in-scope MNEs are subject to an effective tax rate of 15% computed as per applicable provisions. Given these provisions, Top-up Tax considerations may arise where a Government Entity, Government Controlled Entity or a wholly owned subsidiary forms part of an in-scope MNE Group. The entity's treatment as an Exempt Person under the UAE Corporate Tax Law does not, by itself, exclude it from the UAE Top-up Tax legislation. This guide excludes a detailed assessment of the Top-up Tax provisions.

1. Article 4 read with Article 5 of the UAE CT Law
2. Article 1 read with Articles 4 and 5 of the UAE CT Law
3. Article 4 of UAE CT Law
4. Article 2 of Cabinet Decision No. 55 of 2025
5. Federal Decree-Law No. 60 of 2023

1.2. What is a Government Entity and a Government Controlled Entity?

1.2.1. Prior to understanding the exemptions and nuances related thereto, it is important to evaluate who is a Government Entity or Government Controlled Entity. The relevant definition under the UAE CT Law and related decisions has been provided hereunder for your reference:

1.2.1.1. Government Entity: The Federal Government, Local Governments, ministries, government departments, government agencies, authorities and public institutions of the Federal Government or Local Governments.

1.2.1.2. Government Controlled Entity: Any juridical person, directly or indirectly wholly owned and controlled by a Government Entity, as specified in a decision issued by the Cabinet at the suggestion of the Minister.

1.3. Exemption status and conditions

1.3.1. Exemption Status: The exemption status and conditions for various categories related to Government sector are provided hereunder:

S. No.	Category	Default status	Conditions for exemption (if any)	Effective date of exemption
a)	Government Entities	Exempt	Exemption not applicable on business or business activity conducted under a license issued by the Licensing Authority. <i>Note – Conducting any business or business activity under a license issued by the Licensing Authority does not taint the exemption status of the Government Entity. Rather, such activity is considered as a separate independent business. This has been discussed in detail in para [1.4.1]</i>	From first Tax Period

**Mandated Activities: any activity conducted by Government Controlled Entities in accordance with legal instrument establishing or regulating the entity, that is specified in a decision issued by the Cabinet.*

S. No.	Category	Default status	Conditions for exemption (if any)	Effective date of exemption
b)	Government Controlled Entities	Exempt if specified in a Cabinet decision, and in respect of Mandated Activities.	Exemption not applicable on business or business activity which is not a Mandated Activity*. <i>Note – Conducting any non-mandated business or business activity does not taint the exemption status of the Government Controlled Entity. Rather, such activity is considered as a separate independent business. This has been discussed in detail in para [1.4.1]</i>	From first Tax Period
c)	Local juridical person wholly owned and controlled by a) or b)	Taxable. May be treated as exempt if specified conditions are satisfied; and an application filed by the juridical person is approved by FTA	If the ownership and control requirements are satisfied and the juridical person conducts any one or more of the following qualifying activities: • Undertakes part or whole of the activity of (a) or (b) • Is engaged exclusively in holding assets or investing funds for the benefit of the (a) or (b) • Only carries out activities that are ancillary to those carried out by (a) or (b) mentioned above.	Beginning of Tax Period specified in the application filed by the juridical person or any other date as specified by the FTA in certain circumstances mentioned in FTA Decision No. 7 of 2023 ensuring the exemption applies only from the date all requirements are fulfilled.
d)	Foreign juridical person wholly owned and controlled by a) or b)	Taxable (if otherwise regarded as taxable person under the UAE CT Law). May be treated as exempt if specified conditions are satisfied; and an application filed by the juridical person is approved by FTA	If the ownership and control requirements are satisfied and conducts any one or more of the following qualifying activities: • Only undertakes part or whole of the activity of (a) or (b) • Is engaged exclusively in holding assets or investing funds for the benefit of the (a) or (b) • Only carries out activities that are ancillary to those carried out by (a) or (b) mentioned above.	Refer para 2.3.2 for date of cessation of exemption.

1.3.2. Cessation of exemption: Conditions specified for (c) and (d) should be met throughout the relevant Tax Period. In case the conditions are not met, such person shall cease to be an exempt person from the beginning of the Tax Period in which conditions are not met except in the following situations:

- a. Liquidation or termination of the company⁵ – the exempt status shall cease from the date following the date of completion of liquidation or termination procedure (as per the applicable legislation in the State). This is subject to juridical person providing a notification to the FTA within 20 business days from the date of beginning of the procedures.
- b. Failure is of temporary nature which is promptly rectified and appropriate procedures are in place to monitor the compliance with the relevant conditions of the UAE CT Law⁶ - The juridical person shall continue to be an exempt person if the following conditions are satisfied:
 - The failure is due to unforeseen circumstances beyond juridical person's control which could not be reasonably predicted or prevented.
 - An application is made to the FTA to continue to be treated as an exempt person within 20 business days from the date of default.
 - It is reasonably expected to rectify the failure within 20 business days of the application. This timeline can be extended by 20 business days if the failure to rectify is beyond juridical person's reasonable control.
 - The juridical person must provide supporting evidence of procedures to monitor compliance with the conditions of UAE CT Law. Such evidences to be provided within 20 business days from the date of the request by the FTA or such other period as determined by FTA.
 - The application is approved by the FTA. The application should be reviewed by the FTA within 20 business days of submission of application or such other time as determined by FTA provided the juridical person is notified of the reason of delay.
- c. Reasonably concluded that main purpose or one of the main purposes of the cessation is to obtain CT advantage which is not consistent with the intentions or purpose of the UAE CT Law – Cessation shall be effective from the date juridical person fails to meet the conditions to be exempt.

5. Article (2) of MD 105 of 2023

6. Article (3) of MD 105 of 2023

1.4. Scenarios under which UAE corporate taxability is triggered

1.4.1. For Government Entities and Government Controlled Entities – The exemption does not extend to (i.e. UAE CT applies) a Business or Business Activity conducted under a Licence by a Government Entity, or to a Business or Business Activity of a Government Controlled Entity that is not a Mandated Activity. Rules governing the taxability of such taxable activity are provided hereunder⁷:

- a. Such taxable activities must be treated as separate and independent business;
- b. Separate financial statements must be maintained for these activities, distinct from their exempt or mandated operations;
- c. Taxable income for such activity is computed in accordance with the provisions of the UAE CT Law; and
- d. Transactions between taxable activities and exempt or mandated activities must be treated as related party transactions (and accordingly, should meet the arm's length principle).

***Note 1** – Government Entity may apply to be taxed as a single taxable person in relation to various business or business activities conducted under a license issued by the Licensing Authority. This has been discussed in detail in para 1.5.1.*

***Note 2** – As per the UAE CT Law certain reliefs / benefits are available to taxpayer. However, even if a Government Entity or a Government Controlled Entity is subject to tax in relation to its taxable activities (as discussed above), it shall not be eligible to claim the benefit of the following provisions:*

- *Qualifying Group Relief;*
- *Business Restructuring Relief;*
- *Transfer of tax loss; and*
- *Tax Grouping*

This is because, notwithstanding the taxation of specific activities, a Government Entity or Government Controlled Entity continues to retain its status as an exempt person under the UAE CT Law.

7. Article 5 of UAE CT Law

Accordingly, even where such entities are required to obtain a CT registration and comply with tax filing obligations in respect of their taxable activities, they would not be eligible to avail the above tax reliefs.

- 1.4.2. For local and foreign entities wholly owned and controlled by Government entities or Government Controlled Entities** – As mentioned in para 1.3.2 above, the exemption shall be ceased if any of the conditions (as highlighted in para 1.3.1.c and 1.3.1.d above) are not met. Consequentially, the legal juridical person will be required to compute its tax liability in accordance with the provisions of the UAE CT Law. Such juridical person (being a taxable person) should be eligible to be a part of the Tax Group as well as claim other reliefs, exemptions, and elections such as business restructuring relief, qualifying group relief etc., provided specified conditions are met.

1.5. Certain important provisions related to Government Sector

- 1.5.1. Single taxable person⁸ – These provisions are applicable only to Government Entities.** The relevant provisions have been elaborated hereunder:

- a. What is “single taxable person”** – As mentioned above in para 1.4.1, every business or business activity conducted by a Government Entity under a license issued by the Licensing Authority is treated as a separate business. As a result, they are required to maintain separate books of accounts for each such activity and comply with applicable requirements under the UAE CT Law, including computing the tax liability for each activity, filing tax returns etc.

However, in such cases, a Government Entity (Federal and Local) may apply to the FTA to have all its business or business activity conducted under a license issued by the Licensing Authority to be treated as a single taxable person in accordance with Article 5 read with Ministerial Decision No. 68 of 2023. This involves consolidating the financial results, assets, and liabilities for the Tax Period of all relevant businesses conducted under a license, while eliminating transactions between those businesses within the same single taxable person.

- b. Why such benefit?** – By default, a taxpayer carrying out multiple business activities are treated as a single taxable person. To maintain fairness, similar provisions have been provided in relation to taxable activities conducted by Government Entity.

8. MD. 68 of 2023

c. Conditions for being treated as “single taxable person” – A Government Entity Federal / Local) may file an application to be treated as “single taxable person” for all its business or business activities conducted under a license issued by a Licensing Authority if all of the following conditions are satisfied:

1. The application to be treated as a single taxable person includes all businesses and business activities conducted by the Federal / Local Government Entities.
2. Such businesses and business activities are conducted under a licence issued by the relevant Licensing Authority.
3. The application is submitted by a designated Representative Federal/ Local Government Entity.

In addition to the above, for local Government Entities one additional condition applies that all businesses and business activities must be conducted within the same Emirate.

d. FTA approval – The Government Entity is required to file an application to the FTA for treating multiple business or business activities as a “single taxable person”. Only once such application is approved by the FTA, the business or business activity conducted by the Government Entity shall be treated as a “single taxable entity”.

e. Start and end date of treatment as a single taxable person – The treatment as a single taxable person shall commence from the beginning of the Tax Period specified in the application submitted to the FTA or from the beginning of any other Tax Period as determined by the FTA.

The treatment as a single taxable person shall cease from the following date:

- **An application is made to FTA for cessation of treatment as a single taxable person by the Representative Government Entity** - Such treatment shall cease from the beginning of the tax period specified in the relevant application, or from any other Tax Period determined by the FTA; or
- **Failure to meet the conditions specified in para 1.5.1.c above** – Beginning of the Tax Period in which the conditions are not met.

f. Other important provisions –

- The FTA must be notified about the Representative Federal / Local Government Entity. Such representative entity will be responsible to undertake all compliance obligations required under the UAE CT Law.
- Application can be made to the FTA to replace the representative without impacting the single taxable person status.
- Any new licensed business activities conducted by the Government Entity, that meets the conditions specified in para 1.5.1.c shall be directly treated as part of single taxable person. This is subject to representative entity filing a notification to the FTA within 20 business days.
- The Representative Entity must notify the FTA within 20 business days of:
 - Any business or business activity is no longer conducted by the Government Entity.
 - Any business or business activity is no longer conducted under a license issued by a Licensing Authority.

1.5.2. Tax Grouping of subsidiaries⁹ of a Government Entity – As per the UAE CT Law, a parent company may form a Tax Group with one or more subsidiaries subject to meeting certain conditions as specified under the UAE CT Law.

Generally, formation of a Tax Group requires a parent company which owns certain subsidiaries (with whom such Tax Group is formed). In other words, merely the subsidiaries cannot form a Tax Group without a parent company. However, an exception has been provided in relation to subsidiaries directly or indirectly owned by Government Entities (being an exempt person), as discussed hereunder:

- a. Who can form a Tax Group** – Subsidiaries (not being an exempt person) in which a Government Entity directly or indirectly owns at least 95% of the share capital, voting rights and profits and net assets can form a Tax Group.
- b. Conditions to form the Tax Group** – A Tax Group may be formed if all the following conditions are satisfied:

9. FTA Decision 12 of 2023

- The **Exempt Government Entity** is not a member of the Tax Group;
- An exempt Subsidiary of a Government Entity is not a member of the Tax Group ;
- All other conditions of formation of a Tax Group as per Article 40 of the UAE CT Law (such as members are resident juridical person, members have same financial year etc.) are met and
- The Government Entity appoints one of the subsidiaries as representative of the Tax Group*.

**Such representative of the Tax Group will be required to undertake all the roles and responsibilities as are otherwise required to be undertaken by the parent company of a Tax Group. This includes the responsibility to file an application to the FTA for formation of Tax Group.*

- c. All other provisions as otherwise applicable in relation to Tax Group (such as in relation to cessation of Tax Group, computation of taxable income etc) should apply in the case of Tax Group of Government Entity's subsidiaries as well.



2. Compliance and Registration

We have provided hereunder a brief snapshot of the compliances required to be undertaken by entities in the Government Sector:

Compliance to be undertaken	Government Entity / Government Controlled Entity		Local / foreign juridical person* wholly owned and controlled by Government Entity or Government Controlled Entity	
	Exempt activity	Taxable activity	Exempt Person	Taxable Person
CT Registration	x	✓ (Refer Note 1)	✓ (Refer Note 1)	✓ (Refer Note 1)
Exemption Application	x	Not applicable	✓ (Refer Note 2)	Not applicable
CT Return	x	✓ (Refer Note 3)	x	✓ (Refer Note 3)
Annual Declaration	x	Not applicable	✓ (Refer Note 4)	Not applicable

*The above compliance requirements will be applicable for a foreign juridical person only if foreign juridical person is otherwise subject to corporate tax in UAE for instance due to place of effective management in UAE etc.

Note 1 – UAE CT registration to be obtained as per timelines prescribed under FTA Decision 3 of 2024.

Note 2 - The exemption application should be filed within 90 business days from the end of the tax period in which the conditions are met. For foreign juridical person seeking for exemption for tax periods prior to 1 January 2026, application should be filed before 31 December 2026¹⁰.

Note 3 – UAE CT return should be filed within 9 months from the end of the relevant Tax Period.

Note 4 – Annual declaration should be filed within 9 months from the end of the relevant Tax Period¹¹.

Note 5 – Non-compliance with the above requirements may result in the imposition of administrative penalties in accordance with Cabinet Decision No. 75 of 2023.

10. FTA Decision No. 15 of 2026 (repealing FTA Decision No. 7 of 2023)

11. Article 2 of FTA Decision No. 11 of 2023

3. Concluding remarks



Government Sector entities should conduct activity mapping to distinguish between mandated and commercial functions, establish clear financial segregation frameworks, and evaluate options such as a single taxable person election and potential tax grouping opportunities.

In addition, such entities must implement robust transfer pricing policies and continuously monitor compliance with applicable exemption conditions.

Given the severance of the penal consequences, entities should conduct a health check to identify gaps (if any) and take corrective actions.

A woman wearing a dark grey hijab is seated at a desk, focused on her work. Her hands are positioned over a black calculator, which is placed on top of a document featuring various financial charts, including a bar chart and a donut chart. The background is softly blurred, showing a bright window and some office equipment. A dark blue rectangular banner with a thin white border is positioned across the middle of the image, containing the text 'UAE VAT' in white.

UAE VAT

4. VAT Applicability on Supplies made by Government Entities

VAT Applicability on Supplies made by Government Entities

1. Sovereign Functions

Sovereign functions cover activities performed by a government entity in its sole competent capacity. Examples include statutory duties or operations only the government is authorized to perform. Supplies under these functions are generally out of scope of VAT.

2. Non-Sovereign Functions

Activities that are:

- Conducted in a non-sovereign capacity, and
- In competition with the private sector

are taxable. Cabinet decisions listing sovereign functions are often generic, therefore, each activity must be assessed individually to determine VAT treatment.

Definition of “in competition with the private sector”

While the UAE VAT law does not specifically define the term ‘in competition with private sector’ Federal law no (4) of 2012 on the Regulation of Competition define competition as practicing economic activities according to market mechanisms without any influence or restriction against such mechanisms in a manner that may harm trade or development. Where the government entity is not the exclusive provider of specific goods or services, and other market participants are also eligible to supply such goods or services, the activities of the government entity would be considered to be in competition with the private sector. Therefore, where a government entity is not the exclusive provider of a service and private participants can supply similar services, the activity is considered to be in competition.

Example: Government Training Institute Offering Commercial Courses

Scenario

A government entity establishes a professional training institute that provides:



Project management
certification courses



Accounting and
finance workshops



Leadership
development programs

These courses are offered:



At market-based
prices



To the general
public



Without any statutory
exclusivity

At the same time, private training centers in the UAE offer similar certification and professional development programs.



Analysis



No Exclusive Right

The government institute is not legally appointed as the sole provider of such training services.



Private Market Participation Exists

Multiple private institutes provide identical or similar courses to the same target audience.



Market-Based Pricing

The government entity charges fees comparable to private providers.



Consumer Choice

Students can choose between the government institute and private institutes.

Conclusion

Since private entities are capable of and actively supplying the same services under market conditions, the government entity is in competition with the private sector.

Accordingly, the activity would likely be treated as a taxable activity for VAT purposes because it competes directly in an open market.

Key Principle Summarized

A government entity is considered **“in competition with the private sector”** when:

- It provides goods or services that private entities can legally provide.
- It does not have exclusive statutory authority.
- The activity operates under normal market mechanisms.
- Customers have a real commercial choice between government and private providers.

The determining factor is **market substitutability and absence of exclusivity**, not the ownership status of the provider.

5. VAT Treatment on Transfer of Government Buildings and Real Estate Assets

Applicability of VAT on Transfer of Government Buildings and Real Estate Assets Between Government Entities

As per Article 3 (bis) of UAE VAT ER, the following shall not be treated as a supply for VAT purposes:

Transfer of ownership or disposal:

The grant or transfer of ownership, or disposal, of the following projects or assets from one Government Entity to another:

- Government premises;
- Government capital projects;
- Government infrastructural projects;
- Real estate assets allocated and utilized to serve a public utility or for public use;
- Real estate assets utilized and used by Government Entities; and
- Developed Government land.

Grant or transfer of rights:

The grant or transfer of the right to use, exploit, or otherwise utilize the government buildings, real estate assets, or similar projects from one Government Entity to another, including any such rights granted or transferred as of 1 January 2023, in respect of:

- Government premises;
- Government capital projects;
- Government infrastructural projects;
- Real estate assets allocated and utilized to serve a public utility or for public use;
- Real estate assets utilized and used by Government Entities; and
- Developed Government land.

6. Input VAT Recoverability on Transfer Between Government Entities

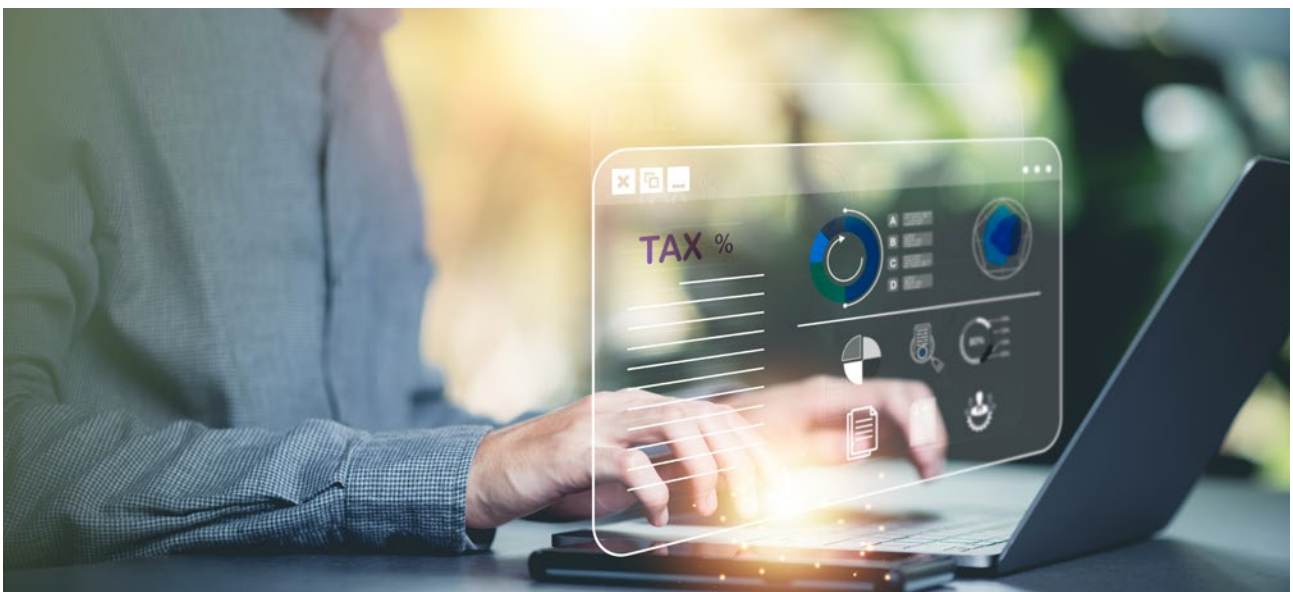
Recoverability of Input VAT on Transfers Between Government Entities

Input VAT is generally recoverable only to the extent that it relates to taxable supplies. Input VAT incurred in relation to exempt or out-of-scope supplies is typically **non-recoverable**.

In the context of transfers of government buildings and real estate assets between Government Entities:

- Such transfers are **treated as out of scope supplies**, and therefore, any VAT incurred in relation to these transactions is generally **not recoverable**.
- The special provisions allowing certain Government Entities to recover input VAT are usually limited to **sovereign activities** and **do not extend to all transfers of buildings or real estate** between Government Entities.
- The recoverability of input VAT may also depend on the **stage of construction or use of the asset** at the time of transfer. Accordingly, input VAT incurred during construction or acquisition for use in taxable activities may be treated differently from input VAT related to assets held for exempt or non-business purposes.

In practice, the input VAT incurred by the transferring Government Entity in such transactions typically represents an **irrecoverable cost**.



7. VAT Applicability on Deemed Supplies Made by Government Entities

A deemed supply, for UAE VAT purposes, is considered a taxable supply of goods or services if it falls within any of the scenarios outlined in Article 11 of the VAT Law. This includes supplies of goods and services made without consideration.

As per Article 5 of UAE VAT ER, a supply is not regarded as a deemed supply in the following cases:

1. No Input Tax was recovered on the related goods or services.
2. The supply is an exempt supply.
3. The recovered Input Tax has been adjusted under the Capital Assets Scheme.
4. The value of the supply of goods, per recipient within a 12-month period, does not exceed AED 500, and the goods are supplied as samples or commercial gifts.
5. The total Output Tax due on all deemed supplies per government entity within a 12-month period is below:
 - i. AED 250,000, if the recipient is a Government Entity or Charity
 - ii. AED 2,000, for all other recipients

The enhanced AED 250,000 threshold for deemed supplies applies to government entities only when the recipient is a Government Entity or a Charity. For all other recipients, including employees, the standard threshold of AED 2,000 applies. It will be pertinent to note that only the portion of the supply exceeding AED 2,000 is subject to VAT; the entire supply is not automatically taxable if the threshold is exceeded.



Example: Supply to Another Government Entity

Government Entity A provides IT equipment free of charge to **Government Entity B**.

- Cost of goods: AED 1,500,000
- VAT (5%): AED 75,000
- Input Tax was previously recovered.

Step 1

Check Threshold

Since the recipient is a **Government Entity**, the enhanced threshold applies:

Threshold = AED 250,000 Output VAT per 12 months

Step 2

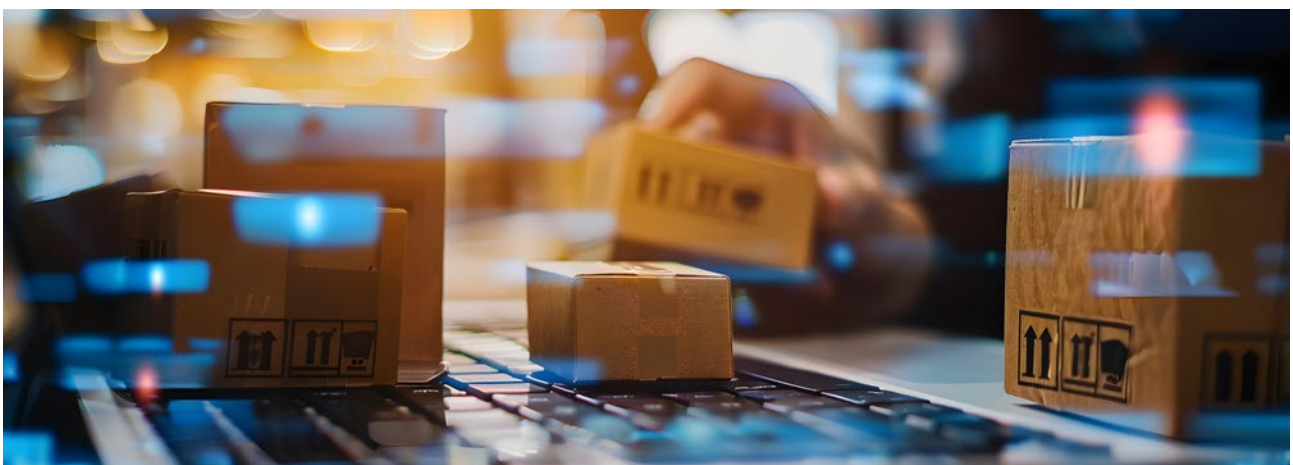
Compare Output Tax

- Output VAT on deemed supply = AED 75,000
- This is below AED 250,000

VAT Treatment

No VAT is payable.

The supply is **not treated as a deemed supply** because it falls below the special government threshold.



Key Takeaways

Two different thresholds apply:

- AED 250,000 → Only when recipient is a Government Entity or Charity
- AED 2,000 → All other recipients (including employees)

Thresholds are calculated:

- Per Government Entity
- Over a 12-month period
- Based on total Output VAT on deemed supplies

If threshold is exceeded:

- Only the amount exceeding the threshold is taxable
- The entire deemed supply is not automatically subject to VAT



8. Input VAT Recoverability on Entertainment Expenses

Under Article 57 of UAE VAT Law, certain Government Entities may recover the full amount of Input Tax, subject to a Cabinet Decision issued upon the recommendation of the Minister. Input Tax is recoverable only to the extent it relates to the Government Entity's **Sovereign Activities**.

However, the following Input Tax cannot be recovered by Government Entities:

- a. Input Tax that is expressly blocked from recovery under the UAE VAT Executive Regulations; and
- b. Input Tax incurred on goods or services used to make exempt supplies.

As per Article 53 of the UAE VAT ER, entertainment expenses incurred by Government Entities other than their employees including customers, potential customers, officials, shareholders, or other owners or investors, are fully recoverable. This provision is an exception applicable exclusively to Government Entities.

The term “entertainment services” refers to hospitality of any kind such as accommodation, food, drinks, event access, or leisure trips not provided as part of a regular business meeting. It covers any services offered for pleasure or entertainment purposes.



9. Input VAT Recoverability on Free Goods or Services Provided to Employees

Rule / Exception	Description	Input VAT Recoverable?
Default Rule	Goods or services provided free of charge to employees for their personal benefit (including entertainment) are normally blocked from recovery.	No
Exception 1: Legal Obligation	Provision of goods or services is required under UAE labour law or labour rules in a Designated Zone.	Yes
Exception 2: Contractual / Policy Requirement	Goods or services must be provided under: • A contractual obligation, or • A documented internal policy, and • They are necessary for employees to perform their roles, and • It is proven to be normal business practice.	Yes
Exception 3: Health Insurance	Provision of health insurance, including enhanced coverage, to employees and eligible family members (spouse and up to three children under 18).	Yes
Exception 4: Deemed Supply	The provision qualifies as a deemed supply under the VAT Decree-Law.	Yes (subject to deemed supply rules)

10. Input VAT Recoverability on Motor Vehicles Used by Government Entities

Article 53 of the UAE VAT Executive Regulations states that Input VAT on motor vehicles purchased for business purposes but available for private use is non-recoverable. To evidence the usage for business purposes and for the purpose of claiming input VAT on such motor vehicles and related expenses, entities are required to maintain proper records. In the absence of proper records, input VAT incurred for the purchase of motor vehicles and related expenses shall be blocked.

An exception is provided for motor vehicles registered for emergency purposes such as police vehicles, fire brigade, ambulance or other emergency services where Input VAT is fully recoverable. No records are required to be maintained to evidence the usage of such emergency vehicles.

Comparison Summary

Scenario	Records Maintained	Private Use Allowed	VAT Recovery
Business vehicle without records	✗	Yes/Unclear	✗ Blocked
Business vehicle with strict controls	✓	No	Not applicable
Emergency vehicle	✓ Recoverable	No	✓ Fully Recoverable

Key Compliance Takeaways for Government Entities

- Implement strict vehicle usage policy
- Maintain mileage logs and trip sheets
- Restrict home-to-office usage
- Install GPS tracking where possible
- Ensure emergency vehicles are properly registered and identifiable

Failure to demonstrate exclusive business use may result in complete denial of Input VAT recovery.

11. Government Grants, Subsidies and Financial Support

A key consideration for government entities is whether payments made in the form of grants, subsidies, or financial support constitute consideration for a supply of goods or services and are therefore subject to VAT.

General Principle

For a payment to be treated as consideration for a supply, there must be a direct link between the payment and the supply of identifiable goods or services. Where a government entity provides a grant or subsidy without receiving any goods or services in return, the payment is not consideration for a supply and falls outside the scope of VAT.

Payments That May Constitute Consideration

Where a government entity makes a payment in exchange for the delivery of specific goods, services, or outcomes, the payment may be treated as consideration for a taxable supply. Examples include:

- Payments to contractors for the delivery of public infrastructure projects.
- Payments to service providers for the provision of specific public services on behalf of the government entity.
- Performance based payments linked to the achievement of defined deliverables.

Payments That Do Not Constitute Consideration

Conversely, the following types of payments are generally not treated as consideration for a supply:

- Unconditional grants provided to support public objectives without any obligation to deliver goods or services in return.
- Subsidies provided to reduce the cost of essential goods or services to the public.
- Budget transfers between government entities for general operational purposes.

Government entities should assess the nature and terms of each payment arrangement on a case-by-case basis to determine the correct VAT treatment.

12. VAT Treatment of Inter Government Supplies

In addition to the transfer of government buildings and real estate assets addressed earlier in this guide, the VAT treatment of services supplied between government entities warrants careful consideration.

General Principle

Supplies of services made between government entities are subject to the standard VAT rules unless a specific exclusion or exception applies. The fact that both the supplier and the recipient are government entities does not, in itself, exempt the supply from VAT.

Sovereign versus Non-Sovereign Supplies Between Government Entities

Where a government entity provides services to another government entity in the exercise of its sovereign functions, the supply falls outside the scope of VAT and no Output Tax obligation arises. Importantly, Input VAT incurred in making such sovereign supplies remains fully recoverable by the supplying Government Entity pursuant to the applicable Cabinet Decision. However, where a government entity provides services to another government entity in a non-sovereign capacity and in competition with the private sector, the supply is taxable at the standard rate of 5%.

Practical Examples

- A government entity providing regulatory approvals or licensing services to another government entity as part of its statutory mandate is performing a sovereign function. This supply is outside the scope of VAT.
- A government entity providing IT support services, facility management, or consultancy services to another government entity, where such services could equally be procured from the private sector, is performing a non-sovereign function. This supply is subject to standard VAT at 5%.

Government entities engaged in inter government service arrangements should review each arrangement to determine whether the supply constitutes a sovereign or non-sovereign activity and apply the appropriate VAT treatment accordingly.

13. VAT Treatment of Sukuk Issuance and Islamic Finance Arrangements

Government entities in the UAE increasingly utilize Islamic finance instruments, including sukuk, to raise capital for infrastructure development and public projects. The VAT treatment of such instruments is governed by Article 42 of the UAE VAT ER, with the overarching principle being that Islamic finance arrangements receive equivalent VAT treatment to their conventional counterparts.

No Output Tax is chargeable on the issuance, and periodic distributions to sukuk holders are similarly exempt. This treatment applies uniformly to all common structures, including Ijarah sukuk, Murabaha, Wakala, and Mudarabah, where the implicit financing element is treated as exempt in the same manner as interest on a conventional bond. However, fees charged by financial advisors, arrangers, legal counsel, trustees, and fund managers in connection with the sukuk program remain taxable at the standard rate of 5%.

There is no differential or preferential VAT treatment for government entities in respect of financing activities. The same exemptions and restrictions that apply to commercial issuers apply equally to government entities. Critically, Input VAT incurred on costs directly attributable to the exempt distributions or sukuk issuance, such as legal and advisory fees, is non recoverable as it relates to exempt supplies rather than sovereign activities. Government entities should ensure that their Input VAT apportionment methodology is updated to reflect the introduction of exempt financial services, while noting that Input VAT directly attributable to sovereign activities remains fully recoverable and is unaffected by the sukuk issuance.



14. Conclusion



In conclusion, the VAT treatment of government entities in the UAE reflects a carefully balanced framework designed to preserve fiscal neutrality while respecting the unique constitutional role of the State. The distinction between sovereign and non-sovereign activities is central to this balance, ensuring that core governmental functions remain outside the scope of VAT, while commercial activities conducted in competition with the private sector are taxed on equal footing. The legislative hierarchy established under the Federal Decree Law No. 8 of 2017 and its Executive Regulations reinforces legal certainty by reserving classification authority to the Cabinet and preventing inconsistent administrative interpretations. At the same time, the detailed rules on deemed supplies, input VAT recovery, inter-government transactions, grants, real estate transfers, and Islamic finance arrangements demonstrate the complexity of compliance for government entities. Accordingly, robust internal governance, clear activity mapping, and careful transaction-by-transaction assessment are essential to ensure accurate VAT treatment, safeguard recoverability entitlements, and mitigate fiscal risk within the public sector.

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