



EXPO 2020
To Create A Better Tomorrow

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Events

Ever since Dubai won the bid to host the 2020 World Expo, the hype surrounding it has been unreal. Today, standing at the cusp of this grandeur, feels just as surreal. The opportunities it presents, the sustainable growth it envisions and the conversations it sparks, will be a landmark in the history of this nation and the world at large.

The UAE is the first country in the Middle East, Africa and South Asia region to host a World Expo and it follows a diverse mix of predecessors, from the very first Great Exhibition of London in 1851 to locations such as Paris, Lisbon, Barcelona, New York, Osaka, Shanghai and many more.

Besides being an ideal fusion of 192 nations, cultures and ideas, the event is also expected to bring forth an array of benefits to the UAE economy. While enormous retail outlets and residential communities are evidently bankable, the conference centre and the exhibition itself will also become an important venue for the city. For start-ups and SMEs, Expo 2020 will serve as a push towards global exposure.

Expected to attract an international spotlight with over 25 million visitors, the six-month run will clearly provide a sizeable boost to the tourism and hospitality industries. The government of the UAE is expecting a GDP of up to \$23 billion which is nearly a quarter of Dubai's current GDP. Expo 2020 is also highly regarded as a major destination for economic growth in line with the Dubai 2040 Urban Master Plan. Even the main ideas of the National Innovation Strategy – health, education, transport, technology, space exploration, water and sustainability – is reflected in the Expo sub-themes of 'Opportunity, Mobility and Sustainability'.

Finally, the question remains as to whether the UAE expects the economic boost of hosting the event to persist after the end of its course in March 2022. What one can observe from the impact of past expositions, the answer to that question would be affirmative. The catalyst behind this enduring outcome is that over 80% of the Dubai Expo 2020 site would be reused, with a keen eye on infrastructure and cutting-edge technology across education, real estate, tourism, and logistics.

World Expos have changed people's lives, marked eras, shaped cities, and have been at the forefront of anticipating global change across the spectrum. The Expo 2020 will provide exceptional opportunities for business and economic growth in the UAE, right from its conception, execution and well beyond the conclusion of the event. Throughout the times since 1851, Expos are meant to symbolize a cross-cultural amalgamation of the past, present and future, promoting the underlying values and goals of gathering the world in favour of progress for all – which, at the end of the day, is exactly what the UAE, Expo 2020 and its people stand for and bring forth.

HELLO FROM US



This quarter and the next, marks an important milestone for UAE, with the onset of the much awaited World Expo 2020. And we are just as excited as you are for the incredible new opportunities that Expo brings for the nation and the people. **This is our time!**

On that note, welcome back to the latest release of Evas Plus, our quarterly newsletter series. Firstly, a huge thank you for the overwhelming response on our last newsletter, where we switched up our style to ensure you get the best content. In line with the theme, this edition also will be segregated into 4: **Spotlight, Academic, Leisure and Events.**

We are kickstarting the conversation with a deeper look at UAE's roadmap for the future. More specifically, operation **300 billion** project introduced by **Ministry of Industry and Advanced Technology** Next, we explore the concept of Global Minimum Tax under the realm of International Taxation and the age old question of what such a policy change would mean for the UAE. Growing and scaling a business comes with its own set of opportunities and challenges. This time, we take a look at a critical topic that is often overlooked: the need for an entity to have a business continuity plan in place.

From our academic sections, we are covering the below topics this quarter:

IFRS Desk

IAS 8: Accounting policies, changes in accounting estimates and errors

We take you through an in-depth discussion on the differences between an accounting policy and an accounting estimate, together with the method of accounting for each of these aspects.

ISA Desk

ISA 500: Audit evidence

Aimed at providing a good conceptual understanding of the standard and associated procedures. We discuss the nature and characteristics of audit evidence and what constitutes sufficient and appropriate audit evidence.

Tax Desk

Input Tax

We are often faced with a multitude of questions on VAT. To make things simpler for you, this quarter we are covering FAQ's concerning Input Tax and its treatment. We have also referred to the Articles of Cabinet Decisions, Public Clarifications and Guides on the topic for your ready reference.

As always, hoping that you find our newsletter informative and insightful and we sincerely welcome any feedback, suggestions on topics to explore, and food for thought.

I take this opportunity to thank our editorial team **Ms. Kaveri Shajan, Ms. Sneha Mathew, Mr. Amith R Ms. Devika Suresh and Mr. Sai Kiran** for their valuable contribution in making this newsletter release a success.

Happy Reading!

Vijaya Mohan
Managing Partner

THE FUTURE OF UAE



The UAE has chartered for itself a roadmap spanning the next 100 years, with strong focus on sustainability and progress in diverse fields including health, education, industry, infrastructure, tourism, environment and achievement of the UN's sustainable development goals. Below listed are some of the key strategies and plans put forth by the Government of UAE to ensure these goals are achieved.

2021

The UAE will achieve Abu Dhabi Economic Vision 2030, Environment Vision 2030, Plan Abu Dhabi 2030, Transportation Strategy, Dubai Industrial Strategy 2030, Dubai 3D Printing Strategy and UN's 2030 Agenda. Broadly speaking, these strategies are aimed at reducing the reliance of the economy on the oil sector and shifting focus on development of more knowledge-based industries. Another key vision is to preserve and enhance the natural heritage of the country through efficient use of resources, urban planning and promoting sustainable modes of transportation.

Amongst other things, the Dubai Industrial Strategy aims to increase the total output and make Dubai a preferred manufacturing platform. As a precursor, **the Ministry of Industry and Advanced Technology (MoIAT) was launched in 2021 with 2 critical projects under its wing, the Make it in the Emirates Campaign and the National In-Country Value Program.**

The UAE has achieved Vision 2021, National Innovation Strategy, Dubai Plan 2021, Dubai Health Strategy 2021, Sharjah Tourism Vision 2021 and Ajman 2021. These strategies are aimed at making UAE one of the best countries in the world, as UAE celebrates its 50th year.

This year UAE is also hosting the World Expo 2020, the largest event in the Arab world. Expo has welcomed 192 countries and its businesses into the country, staying true to its motto 'Connecting Minds, Creating the Future'.

2021
2030



2030
2117



The UAE is planning to establish the first inhabitable human settlement on Mars by 2117. The UAE Centennial Plan 2071 offers a clear map for the long-term government vision to fortify the Country's reputation and soft power. The UAE will achieve Dubai Clean Energy Strategy under which 75% of Dubai's energy will be generated from clean sources. The UAE will also achieve Fujairah 2040 plan.

THE FUTURE OF UAE

Operation 300Bn

For any nation to foster robust, resilient, long-term growth of its economy, diversification is a key ingredient. Here, diversification refers to the process of shifting the reliance of an economy from a single or few income sources to multiple income sources spread across a gamut of sectors. For decades, GCC countries have placed extensive reliance on the production and export of oil and other petrochemicals. This overconcentration has direct impact with the price in economy. In response, the country has been continually investing in other sectors in an attempt to rightfully diversify the economy. And where diversification previously targeted supporting sectors such as real estate, tourism, and logistics, the next phase in UAE's growth will focus on development of the manufacturing sector, making the country more self-dependent and reduce its reliance on imports.

In March 2021, the UAE launched Operation 300Bn, an ambitious 10 year program aiming to boost the contribution of the country's industrial sector. The program envisages an increase in GDP contribution of the industrial sector from the current AED 133Bn to AED 300Bn by 2031. For any diversification strategy to be successful, nations must establish strong economic institutions capable of overseeing this process. The UAE has established the Ministry of Industry and Advanced Technology (MoIAT) to lead the strategy and roll out programs and initiatives to support over 13,500 industrial SME's. The plan also aims to offer competitive facilities and incentives to attract the talent and human capital needed to achieve these targets, another key aspect to establishing a diversified economy. The country will invest in necessary hard and soft infrastructure, to derive the maximum benefit from an educated and upgraded workforce.

Areas where UAE previously has an established presence and expertise, including energy, petrochemicals, metals etc will be amplified. Further, the country will explore relatively new areas including advanced manufacturing, aerospace, biotechnology etc.



The existing law is being continually evaluated and updated, this includes several supporting schemes for business including 100% foreign ownership and the programs initiated by MoIAT will focus on SME growth by providing more attractive financing options for those enterprises. The policy resolves several impediments that were previously creating bottlenecks for this sectors potential, from ownership laws that now create a far more attractive environment for a global investor audience. Currently, MoIAT is leading two critical projects: Make it in the Emirates campaign and the National In-Country Value Program.

'Make it in the Emirates' is a new and open invitation to investors, innovators, and developers to contribute to the UAE's strategy Operation 300Bn. It provides them an opportunity to leverage UAE economy's unique value proposition by investing in future industries and advanced manufacturing, and exporting UAE made products into the global market. Through a partnership between MoIAT and EDB (Emirates Development Bank), industrial investors can get significant financial and advisory support from EDB, the financial driver of Operation 300Bn. As an 'Make it in the Emirates' ambassador, organizations can endorse its message across global platforms.

The **In-Country Value Program**, pioneered by ADNOC Group of Companies in 2018, has now been transferred to MoIAT. While there are no modifications to the existing program, under the leadership of MoIAT, the National ICV program now reaches a wider audience and will be implemented by Federal Entities across all emirates. The program is designed to benefit manufacturers and service providers in the UAE by redirecting billions worth of procurement into the local market. It encourages foreign companies to invest directly in the country and fosters a highly favorable environment for SME growth in the nation.

Undeniably, the UAE's booming industrial sector shows incredible long-term potential since it can harness some of the inherent strengths of the economy such as energy availability, strong logistics, transport links and capital deployment. This, reinforced by the importance the policymakers have placed on development of this sector, makes growth inevitable.

GLOBAL MINIMUM TAX

The Elephant In The Room



International taxation and its harmonisation is an age old agenda that has been a matter of priority to Government think tanks across ages. The problems of tax evasion and tax avoidance are as old as taxes themselves. Every nation whether developed or not tax their residents. And when these residents start exploiting loopholes to shift earnings to low tax regimes, the Governments would have no other go but to find ways to expand collections on activities out of their geographical boundaries. The co-ordination of cross-border tax collection for any Government is never an easy task as their counterparts in the host nations would not acknowledge a cut in their tax revenue or concede to reduce their 'tax free' status.

TAX CONVENTIONS AND ITS ROLE

The Organisation for Economic Co-operation and Development (OECD) with its objectives of stimulating economic progress and global trade is the frontrunner in harmonisation of international tax laws. The OECD publishes and updates a model tax convention that serves as a template for allocating taxation rights between countries. This model is accompanied by a set of commentaries that reflect OECD-level interpretation of the model convention provisions. In general, these guidelines help countries and multinational corporations identify the basis and form of cross border transactions, and the jurisdiction in which an income has to be taxed. In addition, there are other conventions like the UN Model Tax Convention, US Model Convention, Andean model convention and a myriad of Double Taxation Avoidance Agreements (DTAAs) between countries to alleviate the predicaments of multiple taxation. The UAE as on date has 135 such DTAAs signed with various countries of economic and trade importance, the latest one being with Israel. All of these are to tackle tax problems, harmonise tax disparities and facilitate exchange of information and co-ordination between nations for betterment of global trade.

While all these have been existent, slow pace of developments in the international tax regime and unhurried negotiations between countries pave way for grey areas providing plentiful ways for multi-national corporates to erode the bases and shift profits. Increasingly, income from intangible sources such as drug patents, software and royalties on intellectual property are the main areas where profit shifting is rampant.

WHAT IS GLOBAL MINIMUM TAX?

With Governments bleeding money like never before on support and revival measures of Covid-19, there is now an ardent outlook to quickly bring the scope of international taxation and transfer pricing to yield results. The concept of Multilateral Tax Conventions are one such step. Unlike Bilateral tax treaties (DTAAs) which are between two countries, Multilateral tax Conventions are a common consensus between numerous countries on a common ground.

'Global Minimum Tax' is one such common consensus which is part of the BEPS (Base erosion and profit shifting) 2.0 package. Finance Ministers from the Group of Seven (G7) rich nations reached a landmark accord on June 2021 backing the creation of a global minimum corporate tax rate of at least 15%, an agreement that could form the basis of a worldwide deal. This is as on date agreed by 136 countries, which according to OECD could account for over 90% of the Global Economy.

HOW WILL THIS WORK?

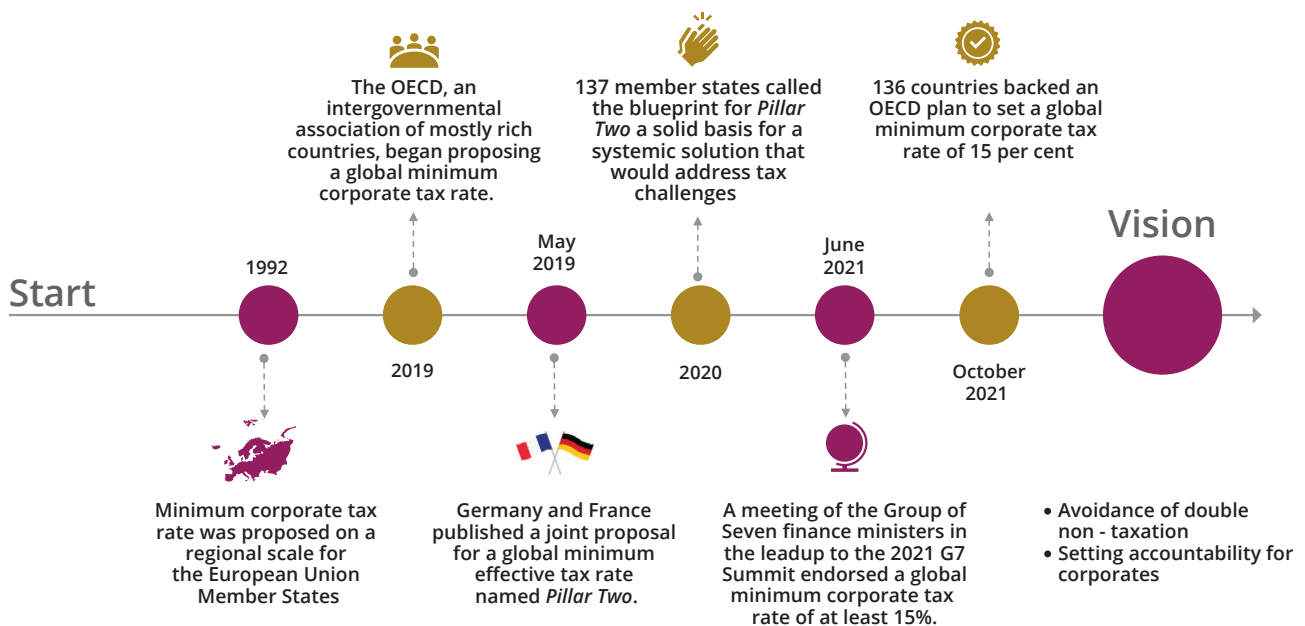
The Global Minimum Tax rate would apply to a Company's overseas profits. Host Governments could still set whatever local corporate tax rate they want, but if companies pay lower rates in a particular country (<15%), their home governments could "top-up" their taxes to the minimum rate, eliminating the advantage of shifting profits.

GLOBAL MINIMUM TAX

The Elephant In The Room



THE GMT TIMELINE



*source wikipedia

WHAT ARE THE CHALLENGES?

The metrics of how the proposed scheme applies to multinationals, the exemptions, deductions, trials, and appeals are pressing questions pending to be answered. In a post-Covid world, where the countries will be looking to rejuvenate their economies, there may be some concerns that a Global Minimum Tax could cause economic recovery to stutter, particularly in countries that are heavily reliant on the inward investment encouraged by tax incentives. Also, clarity on the concept of tax holidays on specific economic zones would have to be analysed. Middle East economies (like Qatar) who already have an income-tax law would need to provide guidelines on applicability of their tax holiday policies for investments allowed on areas marked as free-zones.

WHAT WILL IT MEAN FOR THE UAE?

As a member of the inclusive framework, any agreement on global minimum tax rate by the countries of the inclusive framework is likely to create a significant impact on the taxation framework of the UAE.

The Council of Ministers will now need to evaluate the potential implications of this agreement including what their options are and how they might respond. If this agreement comes through globally, it may be an obvious option for the UAE to start taxing corporates at minimum rate instead of letting them top-up the same to their home countries. As its GCC neighbours including KSA, Oman and Qatar have already adopted a corporate tax regime, there will plenty of data to analyse the potential implications of a new tax in the economy. The businesses operating in the country will also need to evaluate how they will be impacted under different scenarios.

WAY FORWARD

Tax policies does not operate in vacuum, and there can be no one-size-fits-all option. While the global minimum tax is an easy fix for international taxation ambiguities and benefit economies with a matured tax regime, it may prove challenging for countries providing investment linked tax incentives. We must wait and see how a broad consensus will be achieved, and who gets rewarded and who would compromise.

IAS-8

Accounting policies,
changes in accounting
estimates and errors



INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRS)

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

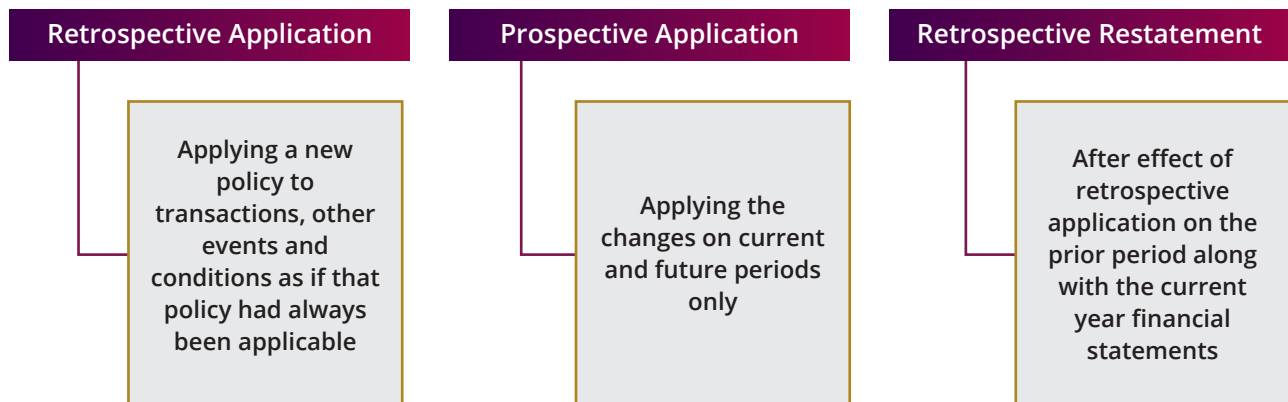
WHY IAS - 8?

IAS-8 was introduced by IASB to ensure comparability of the financial statements (from one entity to another and to the prior period of the same entity) and to enhance the relevance and reliability of financial statements.

WHAT ARE THE OBJECTIVES OF IAS - 8?

- ▶ Selection and changes in accounting policies (Eg: Selection of FIFO/ Weighted average method for valuation of inventory)
- ▶ Accounting treatment and disclosures of changes (Eg: How accounting has to be made when an entity changes its policy for valuation of inventory from FIFO to weighted average method)
- ▶ Changes in accounting estimates (Eg: Accounting treatment when an entity changes its useful life of a fixed asset)
- ▶ Correction of errors (Eg: Accounting treatment when an error is identified in the previous year financial statements).

KEY DEFINITIONS OF IAS - 8



WHAT IS AN ACCOUNTING POLICY

Accounting policy is the basis/ rules/ conventions/ practices/ specific principles that are applied in preparing and presenting financial statements.

There may be specific policies entities has to follow as required by IFRS (eg: Cost/ revaluation model, FIFO/ weighted average method).

In a situation where no specific guidance is provided by IFRS's, IAS-8 requires management to use its judgment to develop and apply an accounting policy that is relevant and reliable.

WHEN CAN AN ENTITY CHANGE AN ACCOUNTING POLICY:

- ▶ When required by a standard or interpretation
- ▶ Change in accounting policy will result in a better presentation of the financial statements.

IAS-8

Accounting policies,
changes in Accounting
estimates and errors



ACCOUNTING TREATMENT OF CHANGE IN ACCOUNTING POLICY

Retrospective

The entity shall adjust the opening balances of each affected component of equity for the earliest period presented and the other comparative amounts disclosed for each prior year, as if the new accounting policy had always been applied

Impracticable

When it is impracticable to determine cumulative effects of all prior periods, the entity shall adjust the comparative information to apply new accounting policy prospectively from earliest date practicable

WHAT IS AN ACCOUNTING ESTIMATE ?

Accounting Estimate is a measurement and recognition in the financial statements of an account/disclosure/transaction/event that generally involve subjective assumptions and measurement uncertainty.

Examples are: Expected credit losses/ Useful life of an asset/ Inventory obsolescence/ Warranty provision etc.

An estimate may need revision if changes occur in the circumstances or based on a new information which was not available during the time when the estimate was made.

HOW A CHANGE IN ESTIMATE HAS TO BE RECORDED IN THE FINANCIAL STATEMENTS:

Change in estimate shall be recorded prospectively in the profit and loss account in the period of change if the change affects that period only. If the changes affect future period also, then the change has to be made in both current year and future years.

Example: Management estimates provision for doubtful debts up to 5% of total trade debts. However, upon identifying age of debtors, it was revealed that bad debts are about 6.5%. Management immediately recognizes the increase in bad debts expense in the books of account.

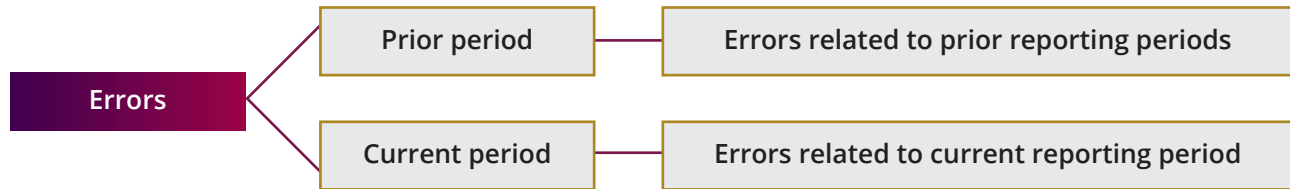
IAS-8 requires the effect of changes in accounting estimate in current and future periods. It allows "Prospective" changes in Financial Statements.

IAS-8

Accounting policies,
changes in Accounting
estimates and errors

WHAT ARE ERRORS?

Errors are mistakes by literal meanings.
They can be classified as:



WHAT ARE PRIOR PERIOD ERRORS?

- ▶ Failures to use or misuse of reliable information that was available when financial statements for those periods were issued
- ▶ Failure to use or misuse of reliable information that could reasonably be expected to have been obtained and taken into account in preparation and presentation of those financial statements

EXAMPLES OF PRIOR PERIOD ERRORS:

- ▶ Effects of mathematical mistakes
- ▶ Mistakes in applying accounting policies
- ▶ Oversight
- ▶ Fraud
- ▶ Misinterpretation of facts

HOW DO WE ACCOUNT PRIOR PERIOD ERRORS?

Entities shall correct retrospectively by

- ▶ Restating the comparative amounts for prior periods in which error occurred
- ▶ If error occurred before earliest prior period presented, restating the opening balances of assets and liabilities of the prior period

Disclosure requirements in the financial statements

Changes in Accounting policies	Changes in Accounting estimates
Nature of the changes in accounting policy	Nature and amount of changes in accounting estimate that has an effect on current and future periods
A description of the transitional provisions	If it is impracticable to assess the effect of changes for future periods, entity should disclose that fact in the financial statements
The amount of adjustment in the current period and prior period presented for each financial statement line item effected	
If retrospective application was not practicable, explanation of how the changes in accounting policy was applied	
If the change in accounting policy was a voluntary change, entity need to disclose how the new accounting policy will provide more reliable relevant information to the financial statements	
Financial statements of subsequent years need not repeat these disclosures	

Prior period errors
The nature of prior period error
The amount of the correction for each financial statement line item affected
The amount of correction at the beginning of the earliest prior period presented
If retrospective restatement was impracticable, an explanation needs to be provided on how the error has been corrected

ISA 500

AUDIT EVIDENCE

INTERNATIONAL STANDARDS ON AUDITING (ISA)

ISA 500 - AUDIT EVIDENCE

INTRODUCTION:

International Standards on Auditing (ISA) is the professional standards dealing with auditor's responsibilities when conducting an Audit. ISA 500 in specific is the guidelines for the auditors, explaining:

- ▶ What constitutes an audit evidence
- ▶ Auditor's responsibility to design and perform audit procedures to obtain audit evidence
- ▶ Quantity (sufficiency) and quality (appropriateness) of audit evidence

This ISA is a general standard that deals with all audit evidences. There are other ISAs which deal with the specific aspects of audit evidences, which we will be covering in our future newsletters (eg: ISA 315/ ISA 570/ ISA 520/ ISA 200 and ISA 330).

What is all about Audit Evidence?

- ▶ Audit evidence is the information that the auditor uses in arriving at a conclusion on the basis of which he forms his audit opinion.
- ▶ An auditor applies various audit procedures (a mix of control testing and substantive testing) to obtain audit evidence and to verify the appropriateness and sufficiency of the audit evidences obtained, which enables him to form an opinion whether the financial statements of an entity are free from material misstatements.

What is the objective of ISA 500?

The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient and appropriate audit evidence. Audit conclusions are based on the reasonable conclusions an auditor can obtain through audit evidences.

Key definitions :

APPROPRIATENESS

It is the measure of the "quality" of audit evidence. Audit evidence is appropriate when it is

- Reliable
- Relevant

The reliability of audit evidence is depends on its source and nature. Consistent audit evidences obtained from different sources may be more relevant.

SUFFICIENCY

It is the measure of "quantity" of audit evidence. Quantity of audit evidence. The quantity of audit evidence required depends on risk of misstatement on the financial statements. If the risk is high, more audit evidences are likely to be required.

Example: In the audit of fixed assets, if the entity's internal control is strong, auditors may need only one audit evidence of depreciation recalculation, to ensure sufficiency of audit evidence for the valuation testing of the fixed assets.

The higher the quality, the lower the quantity of audit evidence required to consider as sufficient.

ISA 500

AUDIT EVIDENCE



Do we have any thumb rules in identifying appropriateness of evidence?

Yes, ISA 500 prescribes following rules to identify appropriateness of evidence:

- ▶ Written (documentary) evidence is better than testimonial evidence
- ▶ Evidence from external sources is more reliable than internal sources
- ▶ Original copies are preferable over their photocopies
- ▶ Direct evidence obtained by auditor through observation, inspection, verification, etc. is stronger than other evidences
- ▶ Auditors should have good understanding of internal controls of the organization, as it enables to obtain relevant evidence

Factors that affect the sufficiency of audit evidence

- ▶ Higher the inherent risk, higher the requirement of audit evidence
- ▶ Higher the control risk, higher the requirement of high quality audit evidence
- ▶ Materiality is also a factor. Usually financial statement items with material amounts will require better audit evidence in terms of quantity and quality
- ▶ Past audit experience - In case of a new audit client, more audit evidence is required to form the opinion compared to a continuing client
- ▶ Result of other audit procedures - If auditor has identified fraud/ errors, more and strong audit evidences will be required
- ▶ Type and source of information - Some audit evidences can provide better audit evidence than others. Eg: Bank confirmation alone can ensure existence, valuation, and rights and obligation assertions
- ▶ Reliability of information - If the reliability of the information is high, then less audit evidence is required. Eg: for the valuation of a listed fair value financial asset, auditor can use the stock market information

In case the audit evidence obtained from one source is inconsistent with that obtained from another, or the auditor has doubts over the reliability of the information, then auditor should re-consider what modifications or additions to audit procedures are necessary.



Can the auditor place reliance on information produced by the entity?

Auditor can rely on the information produced by the entity to gather the audit evidences after ensuring the accuracy and completeness of the information. Auditor also need to evaluate whether the information is sufficiently precise and detailed for the auditor's purpose.



Can the auditor place reliance on audit evidence derived from information produced by the management/ management expert?

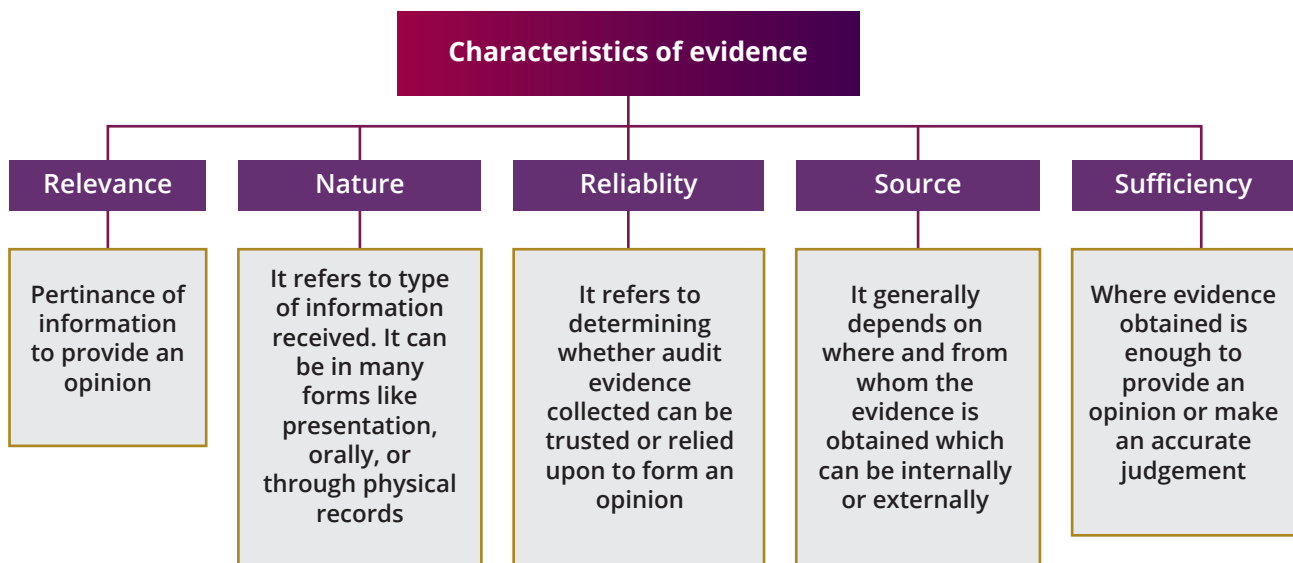
Yes, however auditor need to evaluate the competence, capabilities and objectivity of the management / expert, and obtain an understanding of the work completed. Also auditor need to evaluate the appropriateness of management's/ expert's work as audit evidence for the relevant assertion.

ISA 500

AUDIT EVIDENCE



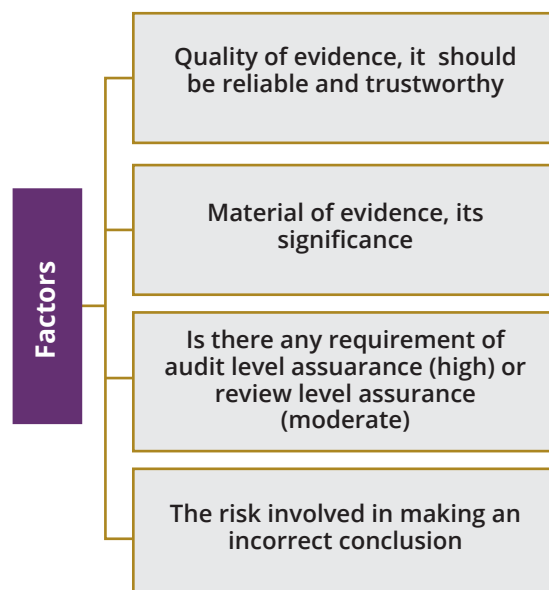
What are the characteristics of evidence?



Examples of audit evidence

- ▶ Inventory physical counts
- ▶ Bank statements
- ▶ Transaction records
- ▶ Management accounts etc.

Factors to keep in mind while obtaining evidence:



ISA 500

AUDIT EVIDENCE



What are the procedures to obtain audit evidence?

1. INSPECTION

- ▶ Inspection consists of examining of books of account and other relevant documents by auditor
- ▶ Inspection can be done internally or externally, and types of evidence may be in paper form, electronic form etc.
Example: Vouching and verification of books of account.

2. OBSERVATION

- ▶ Observation is the close verification of process performance by the client
Example: Auditor observes the inventory counting performed by the client and forms his conclusion about the control activities performed.

3. INQUIRY

- ▶ Inquiry is all about seeking information of knowledgeable persons inside or outside the entity in both financial and non-financial aspects
Example: Auditor seeking for explanation about valuation methods of inventory, accounting policies applied by the management.

4. EXTERNAL CONFIRMATION

- ▶ It consists of response to an inquiry to corroborate information contained in accounting records
- ▶ It is always said that external evidence is more reliable than internal evidence because it is without the entity's involvement and hence more reliable
Example: Auditor can obtain direct confirmation from debtors, suppliers, banks etc.

5. REPERFORMANCE

- ▶ It involves auditor's independent execution of procedures or controls that was originally performed as part of entity's internal control
Example: Auditor requesting management to perform physical stock count.

6. RECALCULATION

- ▶ Recalculation means checking mathematical accuracy of documents or records
- ▶ Recalculations may be performed manually or electronically

7. ANALYTICAL PROCEDURES

- ▶ It consists of the analysis of significant ratios and trends including the resulting investigation of fluctuation.

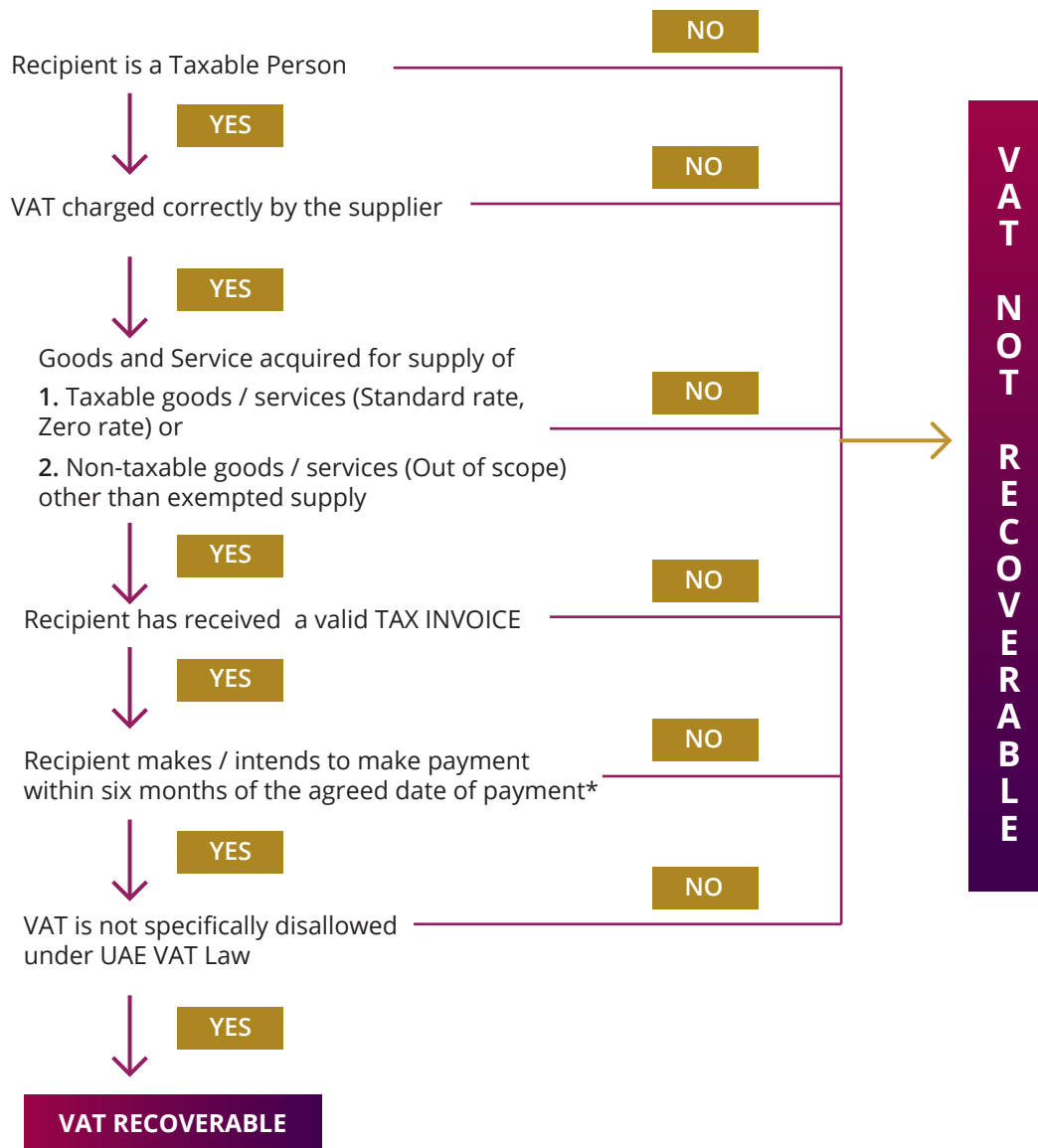
INPUT VAT



The question of who, what, when, why and how on recovering the VAT paid to suppliers are the constant queries received by consultants/ tax agencies. A brief explanation on all aspects of recoverable input VAT have been covered in this context.

FLOW CHART ON RECOVERABLE VAT PAID TO SUPPLIERS

Tax paid on the procurements / inputs is referred to as input tax. Unless otherwise specifically mentioned under the Decree Law, the credit of such input tax shall be available to the registered person subject to fulfillment of prescribed conditions. Such input tax for which credit can be claimed is referred to as recoverable input tax.



*Reversal of recoverable input tax is required if the consideration is not paid to the supplier within six months after the agreed date of payment for the supply. However, it can be reclaimed to the extent the consideration is paid during the Tax Period in which the consideration is paid.

FAQs on Input VAT

Q1 What mandatory components should a supplier's invoice contain in order to recover input VAT?

A1 The tax invoice issued by a supplier should contain the following components in order to recover input VAT:

- ▶ The word "Tax Invoice"
- ▶ Invoice date
- ▶ Invoice number
- ▶ Name of the supplier
- ▶ TRN of the supplier
- ▶ Name of the customer
- ▶ TRN of the customer (mandatory if taxable value is AED 10,000 or more)
- ▶ Taxable value
- ▶ VAT amount

Q2 Is the input VAT paid prior to registration claimable?

A2 Yes, the UAE VAT laws allows the recovery of input tax paid on goods, services and imported goods prior to the date of VAT registration. This will be allowed, only if the goods and services were used to make supplies that gives the right to input tax recovery upon tax registration. This implies that the purchases / expenses on which VAT was paid before registration were used in making taxable supplies after registration.

The recovery should be done in the VAT Return submitted for the first Tax Period following Tax Registration.

However, the UAE VAT also stipulates certain exceptional scenarios in which VAT paid before registration cannot be recovered. The following are the instances:

- Goods and Services purchased for the purposes other than making taxable supplies.
- Input Tax related to the part of the Capital Assets that was depreciated before the date of Tax Registration. This implies that if part of the asset is depreciated, then input Tax cannot be recovered on such assets to the extent such assets are depreciated. For example, if you purchase a fixed asset with an expected life of 10 years and when you register for VAT the asset has only 3 years of use left. In this case, you can reclaim only 30% of the VAT you originally paid.

- Input VAT on services received more than 5 years prior to the date of tax registration will not be allowed to be reclaimed. This restriction is applicable only for services and not applicable for goods.

- If such goods were moved to another GCC country before tax registration.

Except for the instances listed above, in all other cases, you will be eligible to recover VAT paid before registration, if it is used for making the taxable supply.

Q3 In what cases is input tax not recoverable?

A3 Input tax is not recoverable in the following cases:

- ▶ When input tax is incurred by a Person for provision of entertainment services^(A7) to anyone not employed by the Person, including customers, potential customers, officials, or shareholder or other owners or investors.

- ▶ Where a motor vehicle was purchased, rented or leased for use in the business and is available for personal use by any person.

- ▶ Where goods or services were purchased to be used by employees for no charge to them and for their personal benefit including the provision of entertainment services except:

- where it is a legal obligation to provide those Services or Goods to those employees under any applicable labor law in the State or Designated Zone
- where employer is under legal / contractual obligation to provide such goods / services or such goods / services are otherwise part of the documented policy or normal business practices
- where the provision of goods/services is a deemed supply

Q4 What is the time frame for recovering input tax?

A4 Input tax must be recovered in the first tax period in which the two conditions are satisfied:

- a. the tax invoice is received; and
- b. there is an intention to make the payment of consideration of the supply before the expiration of six months after the agreed date of payment

Where a tax invoice is received in one tax period and the intention to make the payment is formed in a later tax period, the input tax can only be recovered in such later tax period.

FAQs on Input VAT



Where the input tax is not recovered in the tax period in which both the conditions are satisfied, the taxable person can recover the input tax in the immediate next tax period.

If input tax is not recovered in the first two tax periods, a taxable person is required to submit a voluntary disclosure.

Q5 Can input tax be claimed on vehicle expenses which are used by employees like fuel/ maintenance of vehicles etc.?

A5 As per Article 53 of ER any facility related to vehicle which is available for use by employee for his personal purpose is not allowed to be claimed and therefore it is recommended not to claim input for these expenses.

Q6 Can input tax be claimed on insurance expense of employee's dependents?

A6 FTA has clarified that where an employer provides health insurance to the family of the employee, input tax will only be recoverable if there is a legal obligation to provide the insurance to the family members.

Accordingly, Abu Dhabi companies are eligible to claim input on dependent's insurance as there is legal obligation to provide those services to those employees under the applicable labor law in that Emirate.

Client Case Study on claiming input VAT on mobile bills

A company claimed VAT on mobile bills used by its employees. If an entity wants to recover the input VAT on mobile bills, it is recommended to maintain company policy and records or proof which confirms that the business regularly monitors the use of airtime/ data used by employees and to list out the measures taken to monitor the employee's use of mobile phones or actions against employees if for personal purpose.

However, whether mobile bills are fully recoverable or not is a grey area, which is debatable, and we advise to go for a private clarification by taxable person.

Q7 Can input tax be claimed on hotel stay/ restaurant expenses of employees for business purpose?

A7 As per Article 53 of the Executive Regulation, input tax shall not be recovered where Goods or Services were purchased to be used by employees for no charge to them and for their personal benefit including the provision of entertainment services.

The phrase "entertainment services" shall mean hospitality of any kind, including the provision of accommodation, food and drinks which are not provided in a normal course of a meeting, access to shows or events, or trips provided for the purposes of pleasure or entertainment.

While an employee is on a business trip, he may use various facilities of the hotel (spa, gym, swimming pool etc), which cannot be differentiated/ segregated from the final bill charged by the hotel. Hence it is recommended not to claim any hotel or restaurant bills.

Q8 Can input tax be claimed on bills of the owner of the company?

A8 In order to claim input VAT, the expense should be incurred solely for the purpose of the business. Hence personal expenses of the owner cannot be claimed even if the invoice is issued in the name of the company.

References:

1. Article (56) on Input Tax paid before Tax Registration of the Federal Decree Law No. (8) of 2017 on Value Added Tax
2. Article (53) on Non-recoverable Input Tax of the Executive Regulation of the Federal Decree Law No.8 of 2017 on Value Added Tax
3. Article (59) on Tax invoices & Tax credit notes of the Executive Regulation of the Federal Decree Law No.8 of 2017 on Value Added Tax
4. VATP006 – VAT Public Clarification on Tax Invoices
5. VATP017 – VAT Public Clarification on Time - frame for recovering Input Tax
6. VATGIN1 – VAT Guide on Insurance

BUSINESS CONTINUITY PLANNING



Before we begin, let's look at the basics of business continuity planning. The following Q&A will help you gain a better understanding of this process and its importance.

What is a business continuity plan?

A "business continuity plan" (BCP) is a process that outlines the potential impact of disaster situations, creates policies to respond to them and helps businesses recover quickly so they can function as usual. A BCP is generally created in advance of a disaster and involves the company's key stakeholders. The main goal of a BCP is to protect personnel and assets, both during and after an emergency.

What is an "emergency situation" regarding a business continuity plan?

An emergency is an event where business cannot proceed under normal circumstances. This could consist of a natural event, like a fire or flood, but could also consist of scenarios such as a power outage, compliance breach, or cyberattack, employee injury, death of partner or a change in the chain of command. No matter the situation, businesses should review potential threats and devise a BCP to ensure that operations continue should a threat become reality.

Why do business continuity plan matter?

Business continuity plans are an important part of any business. Threats, disruptions, and disasters can lead to a loss in revenue and higher costs, which in turn can affect profitability. Businesses can't always rely on insurance alone, as insurance doesn't always cover every cost associated with the incident.



What does a business continuity plan include?

Business continuity plans are complex and differ from company to company. You'll want to tailor your plan to your organization's specific needs. Here are some general examples of what a BCP may include:

Policy, Purpose, and Scope of Business Continuity plan:

1. Goals and objectives
2. Key roles and responsibilities
3. Risk mitigation plans
4. List of tasks required to keep operations flowing
5. Explanation of where to go during an emergency
6. Information on data backups and site backups
7. Plan maintenance protocols
8. Coordination with local emergency personnel
9. Contact information of management personnel

A proactive plan can also benefit a business in these three ways:

- ▶ The business will feel more prepared to handle the unexpected.
- ▶ The business will have a plan to continue providing acceptable service after the disaster.
- ▶ The business will better preserve its corporate reputation, image, and revenue stream.

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