

Tax violations in the UAE: penalties and their objection

On 24 September 2017 the UAE`s Cabinet of Ministers has adopted the Resolution No. (40) on (the “Resolution”). This action was commenced after earlier introduction of 5% rated value added tax (the “VAT”) in the region.

That said, the Resolution outlines the amount of fines to be levied in case of violation of the UAE laws on:

- Tax procedures;
- Excise tax;
- VAT.

The Resolution envisages individuals, companies, tax agents and their legal representatives as subjects of non-compliance with tax laws. The amount of penalties ranges from AED 2 500 to AED 50 000 depending on the offences committed by subjects. It should be mentioned that the Resolution does not differentiate taxpayers by the scale of their business and same penalty applies for small size entities and large scale businesses. This means that the amount of penalties levied may be found large and burdensome for small and medium size businesses.

Below we outline the short list of examples of penalties approved in the Resolution:

- Failure to keep the required records and other information specified in Tax Procedures Law and the Tax Law - AED 10 000 for the first time and 50 000 in case of repetition.
- Failure to register for VAT- AED 20 000.
- Failure to settle taxes within outlined timeframe:
 - (2%) of the unpaid tax if the payment is made within seven days after the deadline;
 - (4%) of the unpaid tax on the seventh day or beyond following the deadline for payment;
 - (1%) daily penalty (not more than 300%) on due tax amount if the tax is still unpaid one month following the payment deadline.
- Failure to account for any due tax on import of goods - 50% of the unpaid tax.



- Failure to produce proper tax data, records and documents in Arabic when requested - AED 20 000.
- Failure to comply with conditions and procedures related to keeping the goods in a designated zone or moving them to another designated zone - the penalty shall be the higher of AED (50,000) or (50%) of the tax, if any, chargeable in respect of the goods as the result of the violation.
- Failure to display prices inclusive of tax - AED 15 000.

In the meantime, the Resolution provides that a taxpayer has the right to object to the Federal Tax Authority (the 'FTA') administrative penalties imposed on it within 20 business days from the receipt of the notification. In its turn, the FTA shall review the application and issue its justified decision within 20 business days from receipt of such application.

The UAE's Resolution on Tax Procedures has also introduced a special separate institute for consideration of tax disputes - the Tax Disputes Resolution Committee (the "Committee"). The Committee considers tax disputes as the second instance after the FTA, and no application will be considered by the Committee in case:

- a reconsideration request has not been previously submitted to the FTA, and
- if taxes and penalties subject of the objection have not been settled by a taxpayer.

The Committee can also decide in respect of applications for reconsideration that were submitted to the FTA and yet not resolved by it.

Any decision of the Committee on disputes not exceeding AED 100 000 shall be final, while decisions on disputes exceeding AED 100 000 can be further appealed to the courts of the UAE.

One should always understand that the process of challenging the FTA's assessments may be time and cost consuming and the best option for a taxpayer is to prevent the non-compliance with the UAE tax laws.

We can assist you with analysis of your business and mitigate risks associated with potential violation of the UAE tax laws and levy of penalties.



Who we are?

Garant Business Consultancy DMCC is a boutique business advisory firm with wide expertise in business establishment and operation in the UAE market.

Garant has an extensive hands-on experience in advising on worldwide structuring assets as well as estate planning and wealth management.

Having supported establishment of more than hundreds of companies Garant is the best choice for those looking for well-trusted, diligent and quality-oriented business advisors.

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