



Input Tax Apportionment: Special Methods

VAT Guide | VATGIT1

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1. Introduction

1.1. Overview

1.1.1. Short brief

VAT was introduced in the UAE with effect from 1 January 2018. As a general consumption tax on the supply of goods and services, it applies to most supplies which take place within the territorial area of the UAE.

1.1.2. Purpose of this document

This document contains guidance about special input tax apportionment methods.

This purpose of this Guide is to help you submit the Input Tax Apportionment Request Form to the Federal Tax Authority (“FTA”) in order to be able to use a special method of input tax apportionment. The Guide provides you with:

- an overview of the general input tax apportionment rules and the special methods of input tax apportionment;
- an overview of the process for applying for a special method of input tax apportionment; and
- the information which you will need in order to complete the form.

If you have additional questions regarding the process for applying for a special input tax apportionment method, please contact us at info@tax.gov.ae.

1.1.3. Who should read this document?

This document should be read by any taxable person who makes a mixture of taxable and exempt supplies.



2. Overview of Input Tax Apportionment

2.1. Chapter summary

In conducting its business activities, a taxable person may incur expenses which are subject to VAT (VAT incurred by a person is called “input tax”). This VAT can be recovered by a taxable person, subject to certain conditions being met. This ensures that VAT will not normally be a cost to such a taxable person. Where the taxable person is not able to recover the VAT incurred in respect of goods or services, the person is, in effect, treated as the end-consumer of those goods or services.

2.2. Entitlement to recover input tax

A taxable person is able to recover input tax incurred on the purchase of goods and services where certain conditions are met. Thus, the recovery of input tax will be permitted where acquired goods and services are used, or intended to be used, in making any of the following¹:

- taxable supplies;
- supplies that are made outside the UAE which would have been considered taxable had they been made in the UAE; and
- supplies of financial services which would have been treated as exempt if made in the UAE, but which are provided to a person who is outside the UAE and are treated as taking place outside the UAE.

Where any acquisition by a taxable person relates solely to the supplies indicated above, the person will, in principle, be able to recover the input tax incurred in full. In contrast, where an acquisition is directly linked solely to non-business or exempt supplies made by the person, the person will not be able to recover any of the input tax incurred.

In certain circumstances, goods or services will be used partly in the course of making supplies that allow for the recovery of input tax and partly for making supplies for which VAT is not recoverable. Where an expense is used for making such mixed supplies, the taxable person must determine the portion of the input tax that can be recovered.

2.3. Input tax apportionment

¹ Article 54(1) of the Federal Decree-Law No. (8) of 2017.



Input tax which is incurred in respect of goods or services which are used partly for making supplies that allow for VAT recovery and partly for making supplies for which VAT is not recoverable is known as “residual input tax”, and it must be apportioned between those supplies. Recovery will be restricted to the proportion relating to supplies that allow for VAT recovery.

In order to identify the amount of the residual input tax, it is first necessary to exclude input tax which is either recoverable or non-recoverable in full. As a consequence, the first step is to perform the following calculations in respect of each tax period²:

1. Calculate the total value of input tax which is directly attributable only to supplies for which VAT may be recovered under Article 54(1) of the Federal Decree-Law No. (8) of 2017 (the “Decree-Law”).
2. Calculate the total value of input tax which is directly attributable only to supplies for which VAT cannot be recovered.
3. Calculate the total value of input tax that relates to both supplies for which VAT may be recovered and supplies for which VAT cannot be recovered. This is the residual input tax of the taxable person.

The next step is to determine the recoverable part of the residual input tax. The standard method for apportioning the residual input tax is provided in Articles 55(6)-(10) of the Cabinet Decision No. 52 of 2017 on the Executive Regulations of the Federal Decree-Law No 8 of 2017 on Value Added Tax (“Executive Regulations”) and involves the following calculations:

1. Calculate the percentage to be applied to the residual input tax by dividing the total value of input tax which is directly attributable only to supplies for which VAT may be recovered by the sum of input tax which is directly attributable only to supplies for which VAT may be recovered and input tax directly attributable only to supplies for which VAT may not be recovered. The percentage should be rounded to the nearest whole number.
2. Multiply the total value of residual input tax by the percentage calculated under Step 1 above. The resulting amount is the amount of residual input tax which can be recovered by the taxable person.

² Article 55(5) of the Executive Regulations No. (52) of 2017.



This calculation is required to be performed in each period in which the taxable person incurs input tax relating to the making of exempt supplies, or to activities that are not in the course of business. Following the period-by-period apportionments, the taxable person must perform a wash-up calculation for the whole tax year using the principles identified above, and make an adjustment as appropriate. Specifically, if there is a difference of more than AED 250,000 in any tax year between the recoverable input tax as calculated in accordance with the standard apportionment method and the input tax which would have been recoverable if the calculation was made on the basis of the actual use of the goods or services, then the taxable person should make an adjustment to the input tax in respect of the difference. It should be noted, that the calculation of the “actual use” should be made in accordance with one of the special apportionment methods described later in this Guide, taking into account the guidelines regarding which special methods can be used by which types of businesses.

The FTA accepts, however, that the standard method of apportionment may not be appropriate in every situation. Each business is different, and the standard method of apportionment may give rise to outcomes which might not be reflective of the actual use of goods or services by the business. As a consequence, the FTA is introducing a number of alternative methods of input tax apportionment to be used where the standard method does not provide an outcome which is reflective of the actual use of the acquired goods or services.

The special input tax apportionment methods which are available to taxable persons are:

- outputs based method;
- transaction count method;
- floorspace method; and
- sectoral method.

Not every special apportionment method will be available to every business. Instead, specific special apportionment methods will generally be available only to businesses from certain industry sectors.

In Part 3 below we provide a summary of each of the alternative apportionment methods, and the types of businesses which may apply to use them.

Where a special method is approved, it will be applied for each tax period as well as for an annual adjustment in the first tax period of the following tax year.



3. Special Apportionment Methods

3.1. Outputs based method

3.1.1. How does it work?

The outputs based method calculates the apportionment percentage for residual input tax on the basis of outputs made by the taxable person.

To calculate the recovery ratio under this method, one needs to identify the value of taxable supplies as a proportion of all supplies made by the taxable person.

$$\frac{\text{Taxable supplies}}{\text{Total supplies (taxable + exempt + non business)}} \times (100/1)$$

The principle behind the outputs based method is that the VAT on expenses incurred by a business is most directly linked to income earned. This method is best used in businesses where there is a strong correlation between income and expenses.

3.1.2. Who is it available to?

The outputs based method is available for companies engaged in the following sectors:

- Insurance companies (Islamic and non-Islamic)
- Retail banks (Islamic and non-Islamic)
- Banks engaged in certain aspects of wholesale and/or investment banking (Islamic & non-Islamic)
- Providers of local passenger transportation services

3.2. Transaction Count method

3.2.1. How does it work?

The transactions count method identifies the apportionment percentage for residual input tax by calculating the number of taxable transactions as a proportion of all transactions made by the business during the period.



$$\frac{\text{Taxable transaction count}}{\text{Total transaction count}} \times (100/1)$$

The transaction count method is used when the VAT on expenses incurred by the business is most directly linked to the number of transactions (i.e. supplies made) rather than the amount of income earned – that is, where the level of expense would be similar regardless of the value of the supply being made.

3.2.2. Who is it available to?

Transaction count method is available to banks (Islamic and non-Islamic) engaged in wholesale and investment trading activities, since costs incurred in the course of such activities are generally similar per trade regardless of the trade's value.

3.3. Floorspace method

3.3.1. How does it work?

The floorspace method calculates the apportionment percentage for residual input tax by identifying the proportion of the floorspace used for taxable activity as a percentage of the total floorspace used by the business.

$$\frac{\text{Floorspace (in sqm) used in taxable activity}}{\text{Total floorspace (in sqm)}} \times (100/1)$$

The floorspace method is used when it is possible to identify when a specific area is used in a taxable or non-taxable / exempt activity.

3.3.2. Who is it available to?

The floorspace method is available to businesses which deal with supplies (sales and rental) of commercial and residential properties, including real estate companies and other businesses which sell or rent out real estate on an ongoing basis, where expenses would be similar for floorspace regardless of whether used for making exempt or taxable supplies.



3.4. Sectoral method

3.4.1. How does it work?

Large complex businesses may conduct different business activities through different divisions which are independent of each other from an operational and accounting perspective. For example, a bank may have different divisions dealing with retail customers and investment banking; or an insurance company may, in addition to its core business, have a real estate division which deals with renting out properties.

Where such business activities are conducted through discrete divisions of a single entity, and different expenses relate to activities of these different divisions, none of the special apportionment methods may be suitable for apportioning input tax of the business as a whole. To ensure that the apportionment method are as targeted as possible for each of the discrete business divisions, such businesses may apply for a “sectoral” method of input tax apportionment.

In addition to being used for different divisions of the same entity, this method can also be used by different entities which are members of the same Tax group – e.g. where a single apportionment method is not appropriate for all members of the group.

The sectoral method involves the following steps:

- Firstly, the taxable person must identify the residual input tax in accordance with the general rules in Article 55 of the Executive Regulations described above.
- Secondly, any residual input tax which relates wholly to a particular sector (i.e. division or entity) is allocated wholly to that sector.
- Thirdly, the remaining residual input tax which relates to more than one sector is divided between those sectors in accordance with an appropriate allocation method (discussed below).
- Finally, each of the sectors will be assigned their own apportionment method appropriate for that specific sector (e.g. either the standard input tax apportionment method, outputs based method, transactions count method, or floorspace method). This assigned method would then be used by the sector to apportion the residual input tax which relates to that sector.

3.4.2. Sector allocation methods



Where residual input tax of the business relates to multiple sectors of that business, it is necessary to allocate it to individual sectors. There are two methods which can be used for such an allocation:

- Headcount method
- Outputs method

Headcount method

The headcount method is used when overhead expenses incurred are in closest relation to the number of employees as a result of the expenses being consumed by those employees. For example, an insurance company may have different employees working in its distinct life and general insurance divisions.

The headcount method uses the number of staff (usually income generating only, not back office) employed or used in each sector.

$$\frac{\text{Number of staff in the sector}}{\text{Total number of staff}} \times (100/1)$$

Unless justified on the basis of special circumstances, it will normally be appropriate that staff numbers will be measured on a full time equivalent basis.

Outputs method

The outputs method is best used where expenses are linked to income. The amount of income in the sector may therefore be reflective of the input tax on expenses.

The allocation under this method is done using the following formula:

$$\frac{\text{Value of supplies in the sector}}{\text{Total value of supplies + non business activities}} \times (100/1)$$

This method can be appropriate for a wide-range of entities in both private and not-for-profit sectors. It may not be appropriate, however, where the business has a mixture of well-established sectors and sectors in a start-up phase, as the expectation would be that the start-up divisions would have proportionally more expenses than income.

3.4.3. Who is it available to?



It is expected that sectoral methods will be used by large, complex banks and insurance companies, which operate through different divisions – e.g. banks which have retail and investment banking divisions; or insurers where they write life and non-life contracts.



4. Applying for a special input tax apportionment method

4.1. How does it work?

A registrant may apply to the FTA for a permission to use a special method of input tax apportionment. Any applications approved by the FTA will be effective from **1 January 2019** at the earliest.

As part of the application for permission to use a special apportionment method, the registrant is required to identify which method it is applying for, and provide evidence that the special method of apportionment will be more appropriate than the standard method.

If the FTA approves the use of a special apportionment method, the taxpayer will typically be required to continue to use the approved method for at least 2 years.

4.2. Who may apply for a special input tax apportionment method?

To be eligible to apply for the special method of input tax apportionment, all of the following conditions must be met:

- the applicant has been registered for VAT for at least 6 months;
- the applicant makes both taxable supplies and exempt supplies; and
- the standard method of input tax apportionment does not give a fair and reasonable result to input tax recovery.

It should be noted that it is not compulsory for a VAT-registered person to apply for a special apportionment method. However, as mentioned in Part 2.3 of this Guide, any taxable person may be required to perform annual wash-up adjustments if the outcome of calculations under the standard method of apportionment differs from the outcome of calculations under a special method of apportionment (as chosen based on guidelines described in this Guide) by more than AED 250,000.

4.3. Who can submit the application?

Generally, the Input Tax Apportionment Request Form should be submitted by the person seeking to use the special apportionment method (i.e. by the “applicant”). Where an application is submitted on behalf of a tax group, or for a member of a tax group, the request should be submitted by the representative member of that tax group.

However, submissions will also be accepted where they are submitted on behalf of the applicant by either of the following:



- The appointed tax agent; or
- The appointed legal representative.

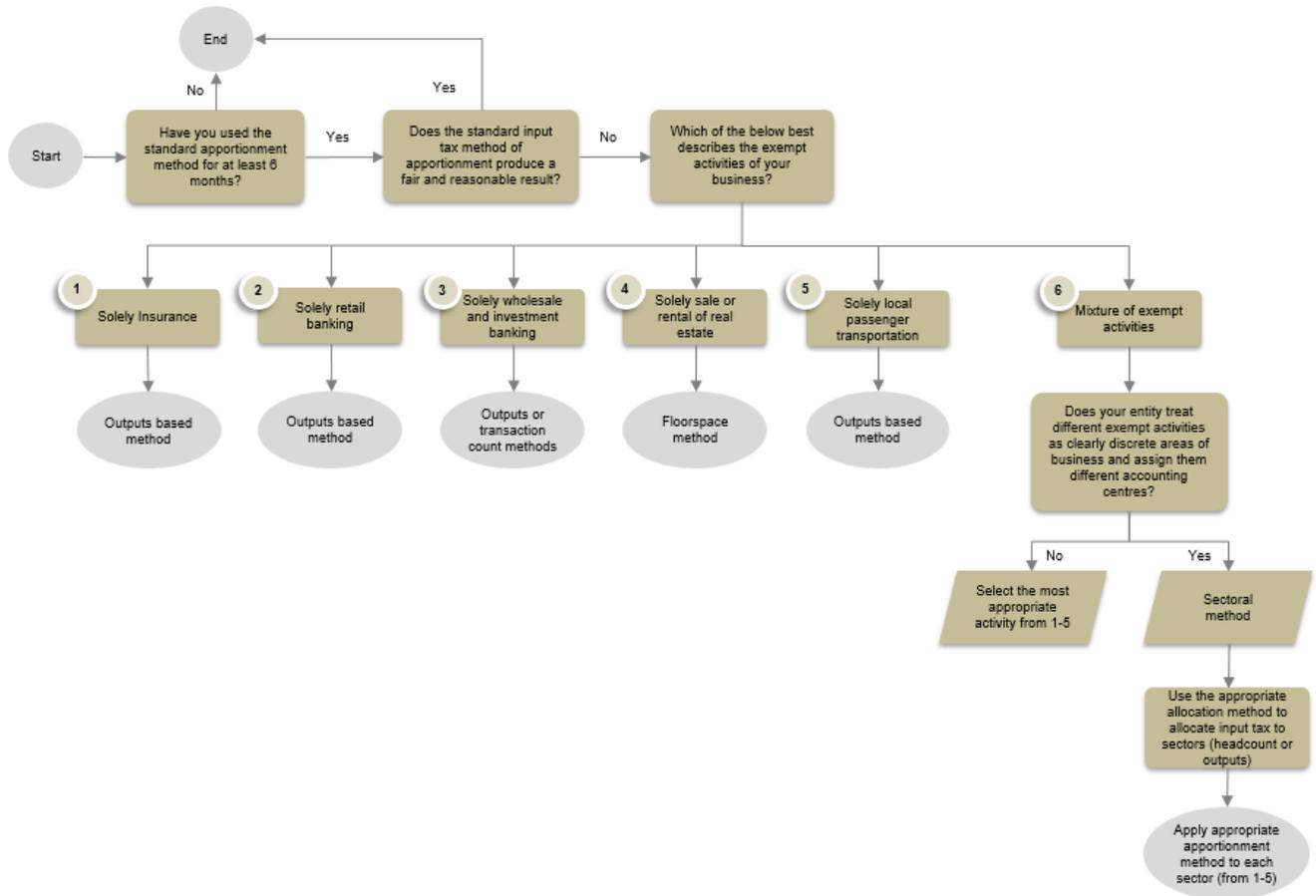
IMPORTANT:

- Tax advisors who are not registered tax agents are not permitted to submit any input tax apportionment requests on behalf of an applicant.
- A tax agent must send the Input Tax Apportionment Request Form from the email address it used to register with the FTA as a “Tax Agent” (i.e. your online user account) and which is linked to the applicant. Any emails sent from other email addresses by a tax agent will be disregarded.

4.4. Which special methods to apply for?

Most applicants will be limited in respect of the types of special methods for which they can apply. Where a business is engaged in a single predominant exempt activity, depending on the type of the activity, the business is able to choose either from the outputs based method, the transactions count method or the floorspace method of input tax apportionment. In contrast, where a business is engaged in a number of different types of exempt activities through distinct divisions, the business is able to apply for a sectoral method of apportionment.

Please refer to the diagram below to determine which apportionment methods are available to different types of businesses.



It should be noted that the FTA will reject applications where the applicant has applied for a special input tax apportionment method which is not applicable to its specific type of business.



5. Input Tax Apportionment Request Form

5.1. What information will you need when completing the Request Form?

You are required to provide the following information along with the form:

- Detailed description of the business activities of the applicant.
- Reasons for applying for a special input tax apportionment method.
- Historical calculations of residual input tax apportionment using the standard method of apportionment as provided in Article 55 of the Executive Regulations. The calculations should be for the period of 6 to 12 months preceding the application.
- Calculations of the residual input tax apportionment for the same period as above but using the special method for which the applicant is applying, and an alternative method if applicable.

Where the application is made for a sectoral method, the applicant must provide special apportionment method calculations for each of the sectors in respect of which the application is made.

The historical and expected calculations of residual input tax apportionment must use the real figures of the business for the relevant period of 6 to 12 months. As part of the calculations, the applicant should provide information substantiating the figures which are used to perform apportionment calculations for both the standard method and the chosen special method(s). For example, if the calculation indicates that the applicant made a certain amount of exempt supplies in a 6-month period, the applicant should provide a list of these exempt supplies.

Please refer to **Appendix 1** for details regarding the Input Tax Apportionment Request Form.

5.2. Submitting the Input Tax Apportionment Request Form

Once you have completed the Input Tax Apportionment Request Form, please send the soft copy (in editable format) to the following email address along with the supporting documents.

InputTaxMethod@tax.gov.ae



Input Tax Apportionment Requests sent to other FTA email addresses will not be acknowledged or processed.

Accepted file types are PDF, JPG, PNG and JPEG. The total file size limit is **10 MB**. The applicant will receive an email notification upon successful submission of the Input Tax Apportionment Request Form.

5.3. FTA's decision in respect of the application

It may take the FTA up to **40 business days** to respond to your initial input tax apportionment request if you have selected a non-sectoral method, and up to **80 business days** if you have selected a sectoral method.

If additional information is required in respect of the lodged application, the FTA will request the additional information. It may take the FTA a further 40 or 80 business days (based on the method selected) to respond to your updated request for a special input tax apportionment method.

The decision of the FTA to approve or reject an application will be based solely on the information provided by the applicant as part of the application process. The applicant will be notified of the FTA's decision in a decision delivered via an email.

Where the FTA has granted the permission to use a special input tax apportionment method, it will notify the applicant of the date from which the method should be used. The approval will typically be granted for 4 years in the case of a non-sectoral method and for 2 years in the case of the sectoral method. Applicants cannot apply to change the approved method for at least 2 years following the approval (subject to the notification rules described in Part 5.4 below).

Note: The FTA may withdraw the permission to use a special input tax apportionment method at any time – for example, if it considers that that the method does not provide an accurate result or where it is necessary for the protection of public revenues. During the period of approval, the FTA may request from the taxable person such information as the FTA believes is necessary in order to make a decision regarding whether the ongoing use of the approved method is still appropriate.

5.4. When to re-apply?

As mentioned above, any method approved by the FTA is valid for 2 or 4 years, depending on the method. If the registrant wants to continue using a special method after the expiration of the period, it needs to lodge a new application with the FTA. The new



application would need to include the same type of information and calculations as the original application.

Although a business is generally not able to apply to change the approved special method for at least 2 years following the approval, it **is required to notify the FTA** where the result produced **over the full year** by the input tax apportionment method approved by the FTA differs by more than 10% from the result the method generated at time of application. Following the notification, the FTA will consider whether the approved method is still suitable for the business. Where this is not the case, the FTA may direct the business to lodge a new special method application in order to be able to continue using the same, or an alternative, special method of apportionment.



Appendix 1: Completing your Request Form

The sample form is provided below.

Please fill in the form field by field. Any questions that are marked with an asterisk (*) are mandatory and must be completed in order to submit the form. You do not need to input anything for the boxes where document uploads are requested; instead, you should include the information and relevant documents, as supporting documentation in the email to be sent to the designated FTA's email address along with the Input Tax Apportionment Request Form.

You must fill out the form first electronically. Handwriting is not accepted.

The following guidance is designed to help you understand the questions that the Input Tax Apportionment Request Form asks in order to complete the form accurately.

1. About the Applicant

Name of the Applicant* Input the full name under which you are registered with the FTA.

Tax Registration Number (TRN)* Provide your TRN for VAT registration.

Tax Agent Approval Number (TAAN)* If you have an appointed Tax Agent, please input the TAAN here.

2. Contact Details of the Applicant

Building name and number, Provide your contact details here.

Street etc.* If you are located outside the UAE, some fields may or may not be relevant to you (e.g. PO box).



3. About the Request for Input Tax Apportionment

Have you previously requested a special input tax apportionment method approval from the FTA?*

Answer 'yes' or 'no'.

Please note not to submit duplicate claims – you should provide the FTA with the complete, relevant and accurate information necessary to assess the application.

If yes, provide the form reference number of the previous claim

Provide the reference number of the previous claim.

If yes, provide the date of the previous claim

Provide the date of the previous claim.

If yes, provide the decision of the previous claim

Provide FTA's decision of the previous claim

If yes, provide the method approved in the previous claim

Provide the method approved / applied for in the previous claim

4. About the Special Method for Input Tax Apportionment

What industry is your business in?*

Describe the industry or industries your business is operating in

Explain why you are requesting a special input tax apportionment method*

Provide your input in no more than 500 words.



Provide description of exempt supplies you provide*

Provide description of each stream of exempt supplies you provide

Provide description of taxable supplies you provide*

Provide description of each stream of taxable supplies (taxed at 5% and 0%) you provide

Provide description of non-business activities of the business*

Provide description of your non-business activities

Provide information on expenses wholly attributable to exempt supplies / non-business activities*

Provide information on expenses which are wholly attributable to exempt supplies / non-business activities

Provide information on expenses wholly attributable to taxable supplies*

Provide information on expenses which are wholly attributable to taxable supplies

Provide information on residual input tax*

Provide a description of types of expenses on which the input tax will be residual.

Special method that may apply to you*

Select from the drop down list the special method that applies to you:

- Output based method
- Transaction count method
- Floorspace method
- Sectoral method



Upload the calculation sheet applying the standard method

Upload the calculation sheet applying the standard method.

The template is provided in the application form in an excel format.

Specify the period to which the calculation of the standard method relates

The calculation should relate to the minimum period of 6 months and the maximum period of 12 months

Fill the below section if you have selected a non-sectoral method:

Justification for the method selected

Provide justification for the method you have selected (using the flowchart for choosing the correct special apportionment method).

Upload the calculation sheet applying the proposed method

Upload the calculation sheet applying the proposed method for the same period as the example of the standard method of apportionment provided above.

The template is provided in the application form in an excel format.

Provide any documentary proof to support the calculations made for the proposed and any other alternative methods

You may attach the relevant supporting documents to facilitate the processing of your request. You may hide certain information that is commercially sensitive when submitting the document(s).

Fill the below section if you have selected a sectoral method:

If the sectoral method is selected, identify the method for allocating expenses between sectors

Please select from the drop down list the allocation method that applies to you:

- Headcount method



- Outputs method

Justification for selecting a sectoral method

Provide justification for why you have selected a sectoral method.

Justification for the selected method of allocating expenses between sectors

Provide justification for selecting a headcount or outputs method for allocating expenses between sectors

Identify the special apportionment methods selected to be used for each sector

Provide a list of sectors and the special apportionment methods selected for each of the sector

Upload the calculation sheet applying the proposed method

Upload the calculation sheet applying the proposed method for the same period as the example of the standard method of apportionment provided above.

The template is provided in the application form in an excel format.

Provide any documentary proof to support the calculations made for the proposed and any other alternative methods

You may attach the relevant supporting documents to facilitate the processing of your request. You may hide certain information that is commercially sensitive when submitting the document(s).

4. Authorized Signatory

*Title
Name in English
Name in Arabic
etc.*

The signatory must be authorized to lodge application of behalf of the applicant.

Evidence of authorization may include a Power of Attorney or similar in the case of legal persons.



5. Declaration

Using this checklist will help you to make sure that you have completed the form correctly. Include any other forms and documents which we have asked you to send.



Appendix 2: Example on input tax apportionment

International bank			
Input Tax Apportionment Analysis			
(Figures in AED)			
Sales and Outputs	Value	VAT Charged	Treatment
Fee based Income	1,428,966.50	71,448.33	Standard-rated
Fee based Income and Interest Income earned from outside UAE	60,779,064.17	0	Zero-rated
Interest derived and earned on various products in UAE	36,527,492.51	0	Exempt
Supplies subject to the reverse charge mechanism (RCM) - not attributed to any supplies	3,486,672.66	174,333.63	
Total		245,781.96	
Expenses and Inputs	Value	Input VAT	VAT Recovery
Wholly attributable to Standard rated Fee based Income and zero-rated supplies	120,400	6,020	Full recovery
Wholly attributable to lending against Interest	43,000	2,150	No recovery
Overheads - not attributed to any supplies	433,840.60	19,542.03	Residual
Supplies subject to the RCM - not attributable to any supplies	3,486,672.66	174,333.63	Residual
Total amount of Input VAT		202,045.66	
Summary of Input VAT position			
Fully recoverable		6,020	100%
Fully Irrecoverable		2,150	0%
Remaining amount is residual		193,876	x%
Apportionment of Input VAT	Recoverable Residual Percentage	Recoverable residual amount	Remarks
Input tax method - method A (standard method)	74%	142,855.75	Determined by reference to a small amount of directly attributable input tax, whereas most of the costs are residual - potentially distortive, and likely to fluctuate from period to period.
Value of supplies based method - method B (special method)	63%	122,150.80	Determined by reference to supplies made, and as it exports a lot of services (being a bank), it has a relatively high recovery %. This is likely be fairly consistent from period to period, unless its customer base or product base changes.
Total Recoverable Input Tax			
Input tax method - method A (standard method)		148,875.75	Residual recoverable plus wholly attributable recoverable
Value of supplies based method - method B (special method)		128,170.80	Residual recoverable plus wholly attributable recoverable