VAT Public Clarification
Adjustment on Account of Bad Debt Relief

Issue
Where a VAT registered supplier supplies goods or services to its customers but is not paid (wholly or partially) within a specified period, such supplier may be able to adjust the VAT on the bad debts, subject to meeting the conditions prescribed in Article 64(1)\(^1\) of the Federal Decree Law No. 8 of 2017 on Value Added Tax (‘Decree-Law’).

Summary
This Public clarification discusses the conditions which must be met in order to benefit from the Bad Debt relief scheme.

Detailed discussion
In accordance with the date of supply provisions in Article 25\(^2\) and Article 26\(^3\) of the Decree-Law, a VAT registered supplier is generally required to account for output tax in the same tax period in which a tax invoice is issued. This is on the basis that no other event which triggers the date of supply has taken place prior to the date on which the invoice is issued. 

ملخص
يتناول هذا التوضيح العام الشروط التي يجب استيفاؤها للاستفادة من نظام خصم الديون المعدومة.

شرح تفصيلي
وفقاً لأحكام تاريخ التوريد المنصوص عليها في المادة (25)\(^2\) والمادة (26)\(^3\) من المرسوم بقانون، على المورّد المسجل لضريبة القيمة المضافة بشكل عام احتساب ضريبة المخرجات في الفترة الضريبية ذاتها التي صدرت فيها الفاتورة الضريبية. وهذا على أساس عدم وقوع أي حدث آخر يترتب عليه نشوء تاريخ التوريد قبل تاريخ إصدار الفاتورة.
If that invoice is not paid and a bad debt situation occurs, the VAT accounted for by the supplier is likely to become a real cost to the business. The Bad Debt relief scheme seeks to provide a relief to the supplier in such instances by permitting an adjustment of the VAT charged but not paid by the customer.

In order to benefit from the Bad Debt relief scheme, the following four conditions must be met:

a. The goods and services should have been supplied and VAT on the supply should have been charged and accounted for;

b. The consideration for the supply should have been written off in full or in part as a bad debt in the accounts of the supplier;

c. More than six months should have passed from the date of the supply;

d. The supplier should have notified the customer of the amount of consideration for the supply that has been written off.

_VAT should have been accounted for and paid on the supply_

The first condition requires that the VAT on the supply must have been charged and paid by the supplier. The FTA considers that this condition will be satisfied where the supplier has charged VAT on

و في حال لم يتمّ سداد تلك الفاتورة وتم اعتبارها ديناً معدوماً، فمن المتوقع أن تصبح الضريبة المحتمبة عنها من قبل المورّد تكلفة حقيقية على الأعمال. ولذلك فإن نظام خصم الديون المعدومة يهدف إلى التخفيف عن المورّد في مثل هذه الحالات من خلال السماح له بتسوية ضريبة القيمة المضافة المحتمبة غير المدفوعة من قبل العمل. وللاستفادة من نظام خصم الديون المعدومة، فإنه يستوجب استيفاء الشروط الأربعة التالية:

أ. تمّ توريد السلع والخدمات واحتساب ضريبة القيمة المضافة المستحقة على التوريد وسدادها.

ب. تم شطب مقابل التوريد كلياً أو جزئياً في حسابات المورّد باعتباره ديناً معدوماً.

ج. انقضاء أكثر من (6) ستة أشهر من تاريخ التوريد.

د. قام المورّد بإبلاغ العميل بمقابل التوريد الذي تمّ شطبته.
Consideration for the supply should have been written off

The second condition mandates the supplier to have written off the whole or part of the consideration for the supply as a bad debt in its accounts.

It is important to note that the bad debt relief can only be taken to the extent of the consideration written off in the accounts. Therefore, if only a part of consideration is written off, a bad debt relief can be taken only to the extent of such written off consideration.

For example, where a supplier issues an invoice for AED 105, where AED 100 represents the value of supply and AED 5 represents the VAT amount. If the supplier is not able to collect the entire debt and writes off AED 105, a bad debt adjustment of AED 5 can be taken. On the other hand, if the supplier collects 50% of the consideration and consequently writes off AED 52.5, a bad debt adjustment of only AED 2.5 can be taken.

على سبيل المثال، يقوم مورد بإصدار فاتورة بقيمة 105 درهم، حيث يمثل مبلغ 100 درهم قيمة التوريد في حين أن مبلغ الـ 5 درهم يمثل مبلغ ضريبة القيمة المضافة. إذا لم يتمكن المورد من تحصيل الـ 100 درهم بالكامل وقام بشطب مبلغ الـ 105 درهم، فعليه يمكن إجراء تسوية بمبلغ الديون المعدومة أي 5 درهم. من جهة أخرى، إذا قام المورد بتحصيل 50% من الديون ومن ثم قام بشطب 52.5 درهم، فيمكن إجراء تسوية بمبلغ الديون المعدومة أي 2.5 درهم فقط.
More than six months should have passed from the date of supply

The third condition requires that the debt must have remained unpaid for a period of six months from the date of supply.

This means that a supplier must wait for six months from the date of supply to initiate the process of bad debt adjustment. The FTA considers that during the course of these six months, the supplier should engage with the customer to recover the debt and collect the outstanding amount.

Notification to the customer stating the consideration for the supply which has been written off

The fourth condition states that the supplier should have notified the customer of the amount of consideration that has been written off.

The FTA considers that the notification issued to the customer must, at the minimum, contain the following information in addition to any other information that the supplier may choose to include:

- Invoice number and date of the tax invoice which has not been paid by the customer;
- Amount of consideration that has been written off by the supplier.

It may be noted that the Decree-Law does not prescribe any specific method through which a notification should be made to the customer. The
FTA considers the requirement of notifying a customer will be satisfied where a supplier sends a letter, email, post, or any other similar communication to the customer stating the amount of consideration that has been written off. Please note that whilst it is not necessary for the supplier to receive an acknowledgement from the customer before taking the bad debt adjustment, a supplier needs to evidence documentation and/or that best measures were taken to notify the customer. Evidence to this effect must be retained.

Mechanism to claim bad debt relief

Where a VAT registered supplier meets all the conditions prescribed in Article 64(1) of the Decree-Law, it is eligible to claim a bad debt relief. Any adjustment on account of bad debt relief should be made in the “Adjustment column” of Box 1 of the VAT Return. The adjustment amount should be the VAT amount only and should be reported for each Emirate, where applicable, in accordance with the respective Output Tax amount being adjusted.
This Public Clarification issued by the FTA is meant to clarify certain aspects related to the implementation of the Federal Law No 7 of 2017 on Tax Procedures, Federal Decree-Law No 8 of 2017 on Value Added Tax and their Executive Regulations.

This Public Clarification states the position of the FTA and neither amends nor seeks to amend any provision of the aforementioned legislation. Therefore, it is effective as of the date of implementation of the relevant legislation, unless stated otherwise.

**Legislative References**

1 Article 64(1) of the Decree-Law provides that a Registrant supplier may reduce the Output Tax in a current Tax Period to adjust the Output Tax paid for any previous Tax Period if all of the following conditions are met:
   a. Goods and Services have been supplied and the Due Tax has been charged and paid.
   b. Consideration for the supply has been written off in full or part as a bad debt in the accounts of the supplier.
   c. More than six (6) months has passed from the date of the supply.
   d. The Registrant supplier has notified the Recipient of Goods and the Recipient of Services of the amount of Consideration for the supply that has been written off

2 Article 25 of the Decree-Law provides that the date of supply is the earliest of the following dates:
   1. The date on which Goods were transferred, if such transfer was under the supervision of the supplier.
   2. The date on which the Recipient of Goods took possession of the Goods, if the transfer was not supervised by the supplier.
   3. Where goods are supplied with assembly and installation, the date on which the assembly or installation of the Goods was completed.
   4. The date on which the Goods are Imported under the Customs Legislation.
   5. The date on which the Recipient of Goods accepted the supply, or a date no later than (12) months after the date on which the Goods were
transferred or placed under the Recipient of Goods disposal, if the supply was made on a returnable basis.

6. The date on which the provision of Services was completed.

7. The date of receipt of payment or the date on which the Tax Invoice was issued.

3. Article 26 of the Decree-Law provides the date of supply for any contract that includes periodic payments or consecutive invoices as the earliest of any of the following dates, provided that it does not exceed one year from the date of provision of such Goods and Services:

a. The date of issuance of any Tax Invoice.

b. The date payment is due as shown on the Tax Invoice.

c. The date of receipt of payment.