WILLOW
TAX & LEGAL

UAE amends the VAT Executive Regulations

The UAE Cabinet has issued Cabinet Decision No. 149 of 2026, amending several provisions of the VAT Executive Regulations. The said Cabinet Decision can be found **here**.

Most amendments take effect from 1 October 2026. The revised input tax apportionment rules will apply from the first VAT tax year commencing after 1 October 2027.

What has changed?

Provision	Previous position	Amendment	Practical implication
Article 4 – Composite supplies	Closely linked components supplied by one supplier for one price were treated as a single composite supply where it would be impossible or unnatural to separate them.	A new Clause 6 provides that a business cannot treat the components as multiple supplies where the nature and economic substance of the transaction show that they are interconnected and cannot be separated. The transaction must be treated as a single composite supply, with the VAT treatment following its principal component.	The legal form or separate description of components may not determine the VAT treatment. Bundled arrangements should be reviewed based on their overall economic substance.
Article 29(5) – Profit margin scheme	The purchase price included the price of the goods together with any costs and fees incurred to purchase them.	Acquisition costs and fees may be included in the purchase price only where the input tax on those amounts is not recoverable under Article 54 of the VAT Law.	A business cannot recover input tax on an acquisition cost and also include that cost in the purchase price to reduce the taxable profit margin. Auction fees, commissions and similar costs should be reviewed.

Provision	Previous position	Amendment	Practical implication
Article 41(4) – Healthcare goods	Zero-rating applied separately to pharmaceutical products and medical equipment specified by Cabinet decision. It also applied to other goods necessary for providing zero-rated healthcare services.	The separate references to pharmaceutical products and medical equipment are replaced by a single reference to "any medical product" specified in a Cabinet decision. The zero-rating of other goods necessary for providing zero-rated healthcare services remains.	Healthcare providers and suppliers should check whether their products fall within the medical products specified by the relevant Cabinet decision (like Decision No. 56 of 2017).
Article 52(2) – Temporary presence in the UAE	A person could be treated as being outside the UAE if their presence in the UAE was for less than one month and was not effectively connected with the supply.	"Less than one month" is replaced with the more precise period of less than 30 days. The requirement that the presence must not be effectively connected with the supply remains.	Businesses relying on this rule should confirm the exact number of days for which the recipient was present in the UAE and document why that presence was unrelated to the supply.
Article 53(1)(c)(1) – Employee benefits required by law	Input tax could be recovered where providing goods or services to employees was required under applicable labour law in the UAE or a Designated Zone. The provision did not contain a specific restriction for employee accommodation.	The reference to a Designated Zone is replaced with a reference to financial and non-financial free zones. The amendment also states that employee accommodation is excluded unless it is mandatory under a decision or directive issued by the Ministry of Human Resources and Emiratisation.	Input tax on employee accommodation will not be recoverable under this exception merely because it is required under an employment contract, company policy or operational practice. The accommodation must be mandatory under the specified MOHRE decisions or directives.
Article 53(1)(c)(2) – Contractual employee benefits	Input tax could be recovered where providing the benefit was a contractual obligation or documented policy, the benefit enabled employees to perform their roles, and it could be shown to be normal business practice.	The requirements concerning performance of the employee's role and normal business practice are removed from the text. Instead, the contractual obligation or documented policy must fall within the cases and conditions specified by the FTA.	The scope of this exception will depend on further FTA guidance. Businesses should review their contracts and employee benefit policies once the FTA specifies the relevant cases and conditions.

Provision	Previous position	Amendment	Practical implication
Article 54 – Cash payments	The Executive Regulations did not contain a specific restriction on input tax recovery based on payment in cash.	A new Clause 3 provides that input tax cannot be recovered where the value of a supply exceeds an amount to be specified by the Minister and the consideration is paid, or intended to be paid, in cash. The restriction will be subject to controls specified in the Ministerial decision.	The restriction is not yet operational in full because the threshold and detailed controls must still be issued. Businesses should monitor the implementing decision and may need to revise their cash-payment policies.
Article 55(6) and (7) – Input tax apportionment	Residual input tax was apportioned using an input-tax-based ratio. The recoverable input tax determined under Articles 54 and 57 of the VAT Law was compared with the total input tax for the tax period.	The standard method becomes **turnover-based**. The recovery percentage will be the value of supplies carrying an input tax recovery right under Article 54(1), divided by the total value of all supplies. The percentage is rounded to the nearest whole number and applied to residual input tax.	Businesses making both taxable and exempt supplies should model the effect of the new formula. A turnover-based method may produce a materially different recovery percentage from the existing input-tax-based method.
Article 55(7)(b) – Items excluded from the apportionment ratio	The existing formula was based on input tax and did not contain an equivalent turnover exclusion.	Supplies of capital assets attributable to the taxable person are excluded from the turnover calculation. Receipts of concerned goods and concerned services under Article 48 of the VAT Law are also excluded.	Significant capital asset disposals and reverse-charge transactions should not distort the turnover-based recovery percentage.
Article 55(6)(d) and (19) – Government entities and charities	Government entities and charities were generally covered by the same standard input tax apportionment provisions.	Government entities and charities will apply a separate method. Their recovery percentage will be calculated by dividing recoverable input tax under Articles 54(1) and 57 of the VAT Law by total recoverable and non-recoverable input tax for the tax period.	Unlike other taxable persons, government entities and charities will retain an input-tax-based calculation for residual input tax.

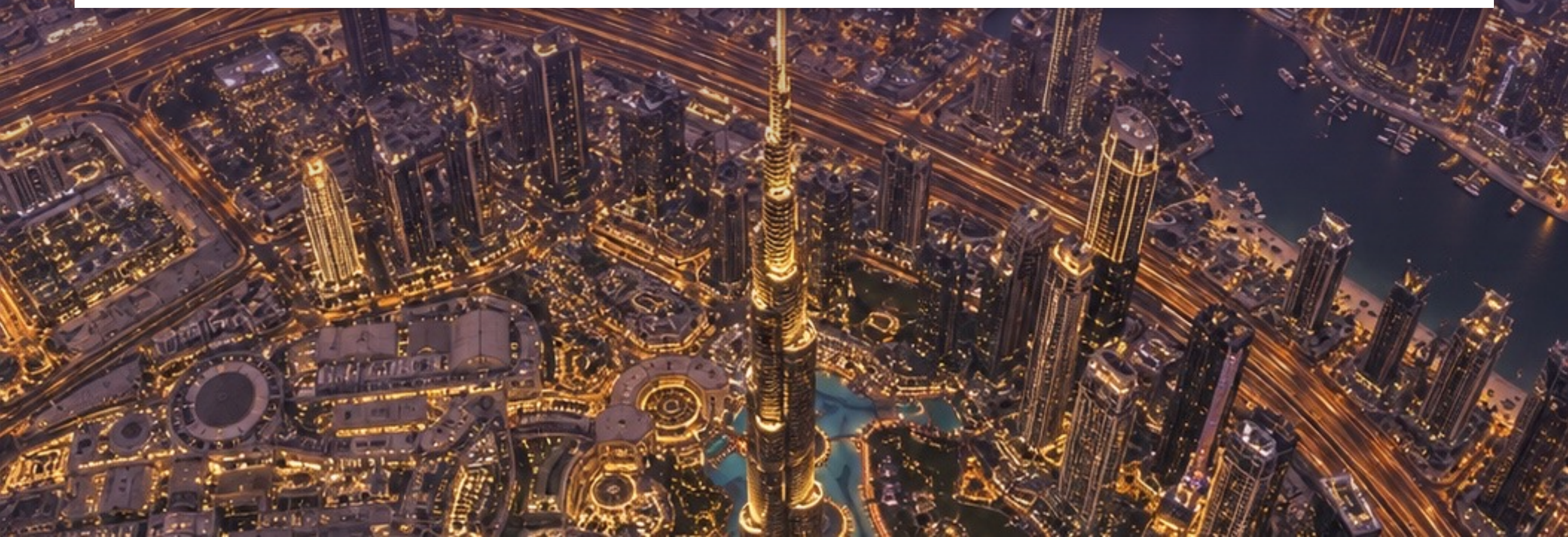
Provision	Previous position	Amendment	Practical implication
Article 57(1) – Capital Asset Scheme	A Capital Asset was defined as a single item of expenditure of the business amounting to AED 5 million or more, excluding VAT, on which VAT was payable and which met the relevant useful-life requirement.	The expression “single item of expenditure of the Business” is replaced by “business asset with a cost amounting to AED 5 million or more”.	The definition now focuses on the asset and its cost rather than characterising the Capital Asset as an item of expenditure. The AED 5 million threshold and useful-life requirements remain unchanged.
Article 60(1)(a) – Tax credit notes	The words “Tax Credit Note” were required to be clearly displayed on the invoice.	The words must be clearly displayed on the credit note.	This appears to correct a drafting error. It does not materially change the information that businesses should already include on tax credit notes.

New input tax apportionment formula

The change to Article 55 is likely to have the widest financial impact

Method	Calculation
Existing method	Recoverable input tax ÷ Total input tax
New general method	Value of supplies carrying an input tax recovery right ÷ Total value of supplies
New method for government entities and charities	Recoverable input tax ÷ Total recoverable and non-recoverable input tax

The new percentage will be rounded to the nearest whole number and applied to residual input tax



Effective dates

Provisions	Effective date
Amendments to Articles 4, 29, 41, 52, 53, 54, 57 and 60	1 October 2026
Revised Clauses 6 and 7 of Article 55 and new Clause 19 of Article 55	First VAT tax year commencing after 1 October 2027

The delayed effective date for Article 55 gives businesses time to assess the effect of the new calculation and update their accounting systems.

What should businesses do?

Businesses should:

- Review bundled transactions under the strengthened composite-supply rule;
- Check which acquisition costs are included under the profit margin scheme;
- Review employee accommodation and other employee benefit expenses;
- Monitor FTA guidance on benefits provided under contracts or documented policies;
- Monitor the Ministerial decision prescribing the cash-payment threshold;
- Model the impact of the turnover-based input tax apportionment method; and
- Update VAT policies, systems and supporting documentation before the relevant effective dates.

Follow us on LinkedIn and Telegram to stay updated on our upcoming posts! To stay informed about our latest news and events, subscribe to our mailing list. If you require any further information, please feel free to contact us or visit the newsroom.

Best regards,

Willow Tax & Legal

Andrey Nikonov

Partner

a.nikonov@willow.law

Maria Nikonova

PhD, Partner

m.nikonova@willow.law

Shraya Thiyagarajan

Associate

s.thiyagarajan@willow.law

Elizaveta Iasco

Associate

e.iasco@willow.law

The Offices 2, Level 3, One Central,
Dubai World Trade Center

+971 50 258 9570
+971 54 417 3060

info@willow.law

www.willow.law