WILLOW
TAX & LEGAL



Digest September-October

Dear Colleagues,

We are pleased to present the latest issue of our monthly digest of tax and legal news from the GCC, covering the most significant developments across the region from late September to October 2026.

In the UAE, the Federal Tax Authority prescribed conditions for input VAT recovery on employee expenses, issued Public Clarifications TAXP010 on Free Zones and Designated Zones and VATP047 on domestic metal-scrap reverse charging, and launched a new digital platform for tourist VAT refunds. The Ministry of Finance introduced direct accreditation of e-invoicing service providers and amended the Electronic Invoicing System rules, including a temporary exclusion for transactions within the same Tax Group and changes to data storage and system-failure requirements. Dubai Customs also removed the requirement for duty guarantees on exports from certain free zones through the same Customs office.

In Saudi Arabia, ZATCA published mechanisms for VAT refunds and cancellation on qualifying historic property sales by individuals, together with separate relief for unpaid penalties where the underlying VAT remains due, and released the Annual Disclosure Form for Regional Headquarters. Oman revised its zero-rated VAT lists for food, human healthcare and veterinary products and established duty-free markets at three land crossings. Bahrain restricted the profit margin scheme to goods previously subject to VAT and updated its VAT registration and deregistration guidance and its Excise Guide.

In this edition you will find updates on the following:

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- FTA Clarifies Free Zones and Designated Zones for Tax Purposes
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- MoF Moves e-Invoicing Service Providers to Direct Accreditation
- MoF Amends the Electronic Invoicing System Rules
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- Dubai Customs Removes Duty Guarantees for Certain Free Zone Exports

Saudi Arabia

- ZATCA Publishes Annual Disclosure Form for Regional Headquarters
- Saudi Arabia Opens VAT Refund Window for Individual Property Sellers

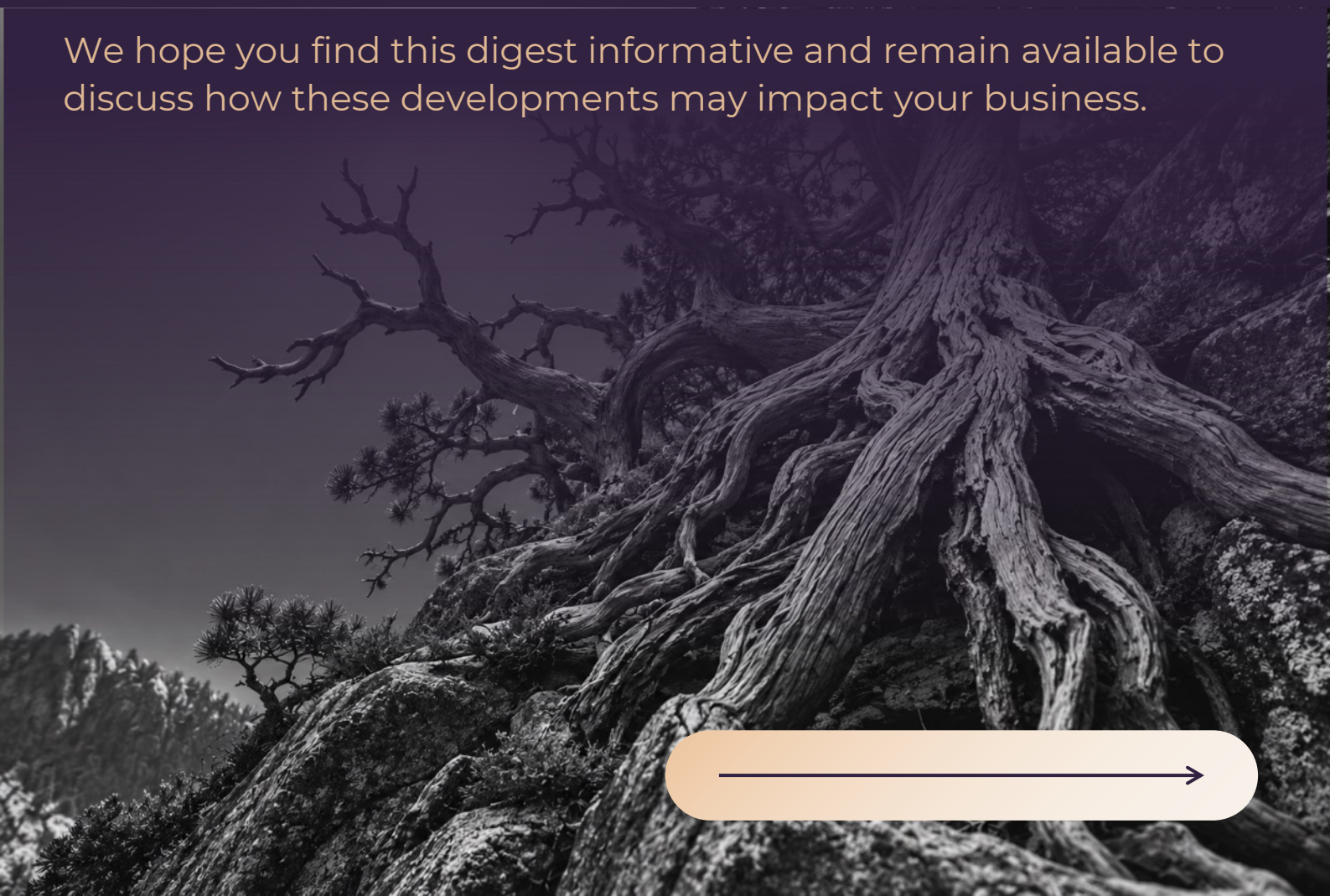
Oman

- Oman Expands Its Zero-rated VAT Lists
- Oman Establishes Duty-free Markets at Three Land Crossings

Bahrain

- Bahrain Updates Its VAT Registration and Deregistration Guidance
- Bahrain Revises the Excise Refund Threshold for Re-exported Goods
- Bahrain Restricts the Profit Margin Scheme to Goods Previously Subject to VAT

We hope you find this digest informative and remain available to discuss how these developments may impact your business.



UAE

FTA Sets Conditions for Input VAT Recovery on Employee Expenses

FTA Decision No. 17 of 2026, issued on 9 September 2026, published on 28 September 2026 and effective from 1 October 2026, sets out the cases and conditions referred to in the amended Article 53(1)(c)(2) of the VAT Executive Regulation. Following that amendment, an employment contract or documented company policy providing for an employee benefit is no longer sufficient on its own to support input tax recovery, and, where recovery relies on that exception, the expense must fall within one of the six categories the Decision addresses: employee transport, food and beverages, employee accommodation, temporary accommodation for new employees, phones, airtime, data and home internet, and employee parking fees.

Each category carries its own conditions. Transport, food and accommodation must not come with a cash alternative; food and beverages qualify only where the employee lives in a remote or isolated area without suitable facilities nearby; temporary accommodation for new employees is limited to 30 days; phones and internet require a documented use policy with reasonable monitoring; and parking requires a documented reimbursement and approval policy together with payment records.

Our team has prepared an alert on this Decision.

FTA Clarifies Free Zones and Designated Zones for Tax Purposes

On 2 October 2026, the FTA published Public Clarification TAXP010, "Free Zones and Designated Zones for Tax Purposes", addressing the concepts across Corporate Tax, VAT and Excise Tax. In several passages the Clarification describes a VAT Designated Zone as a Free Zone listed in Cabinet Decision No. 59 of 2017 that also meets the conditions in Article 51(1) of the VAT Executive Regulation, and states that a company must confirm with the relevant free zone authority that the specific area in which it is based meets those conditions. For Corporate Tax purposes, the zone must be recognised both as a VAT Designated Zone and as a Corporate Tax Free Zone.

This is narrower than the wording of the VAT Law, under which an area becomes a Designated Zone by Cabinet designation and the Article 51(1) conditions determine only whether it is treated as outside the State, and the Clarification itself is not entirely consistent on the point. The practical risk is greatest for Qualifying Free Zone Persons distributing goods in or from a Designated Zone from premises outside the fenced, customs-controlled perimeter, since a failure of the qualifying conditions removes Qualifying Free Zone Person status for the Tax Period concerned and the following four Tax Periods. Distributors should confirm the precise Designated Zone perimeter with their free zone authority, review where their distribution activities were carried out in earlier periods, and consider a Private Clarification where the amounts are material.

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FTA Clarifies the Reverse Charge on Domestic Metal Scrap Trading

Public Clarification VATP047, issued on 2 October 2026, explains the reverse charge introduced by Cabinet Decision No. 153 of 2025 for supplies of metal scrap between UAE VAT registrants, which applies to supplies made on or after 14 January 2026. The mechanism covers ferrous or non-ferrous metal waste with commercial value that the recipient intends to resell or process into materials for manufacturing. It does not extend to other scrap such as paper, plastic, glass or rubber, to metal scrap acquired for the recipient's own use, or to exports, which remain subject to the ordinary zero-rating rules.

Before each supply, the recipient must provide written declarations confirming its VAT registration and its intention to resell or process the scrap, and the supplier must retain those declarations, verify the recipient's registration and state on the tax invoice that the reverse charge applies. Where the conditions are not met, the supplier must account for VAT under the ordinary rules and the recipient may be denied recovery of the related input tax. Businesses trading in metal scrap should build the declarations and registration checks into their onboarding, procurement and invoicing controls rather than completing them after the supply.

For VAT return reporting, the recipient accounts for the reverse-charged transaction in Box 3 and, subject to the normal recovery conditions, claims the related input tax in Box 10 rather than Box 9. Traders should reconcile their return mapping with their declarations and invoice wording.

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MoF Moves e-Invoicing Service Providers to Direct Accreditation

Ministerial Decision No. 168 of 2026 on the Eligibility Criteria and Accreditation Procedures for Service Providers under the Electronic Invoicing System entered into force on 1 October 2026 and was announced on 9 October 2026. It repeals Ministerial Decision No. 64 of 2025 and its amendments, including Ministerial Decision No. 56 of 2026, and replaces the preliminary approval stage with direct accreditation, under which a Service Provider must complete the defined assessment and testing requirements before accreditation is granted. Service Providers may continue to use third-party Peppol products and to outsource the development, operation or management of their services, while retaining full responsibility for compliance and service delivery.

The framework also sets out procedures for renewal, ongoing evaluation and termination of accreditation, with a formal right to object to a termination decision. Service Providers that received preliminary approval under the previous framework have up to 30 days from 1 October 2026 to complete the new requirements. Businesses selecting or relying on a provider should confirm its accreditation status under the new framework rather than earlier preliminary approval announcements.

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MoF Amends the Electronic Invoicing System Rules

Ministerial Decision No. 197 of 2026 amends Ministerial Decision No. 243 of 2025 on the Electronic Invoicing System with effect from 1 October 2026, and was announced by the Ministry on 19 October 2026. Transactions between members of the same Tax Group will be treated as excluded transactions for 24 months from 1 January 2027. The amended Article 11 requires electronic invoices, electronic credit notes and associated data to be retained for the period prescribed by the Tax Procedures Law and produced to the FTA on request, without the previous requirement to store them in the UAE, and the provisions on System Failure, including the obligation to notify the FTA within two Business Days, have been repealed.

The changes give groups more time to deal with intra-group flows and allow storage in regional or global cloud environments, but they do not alter the main implementation timetable. Groups should still map their Tax Group transactions and prepare for their inclusion once the exclusion ends, and maintain continuity and recovery procedures despite the removal of the notification obligation.

As an implementation reminder, Ministerial Decision No. 66 of 2026 requires persons subject to the Electronic Invoicing System whose revenue is at least AED 50 million to implement the system by 1 January 2027, having appointed an Accredited Service Provider by 30 October 2026. These are existing deadlines, rather than new dates introduced by Decision No. 197 of 2026.

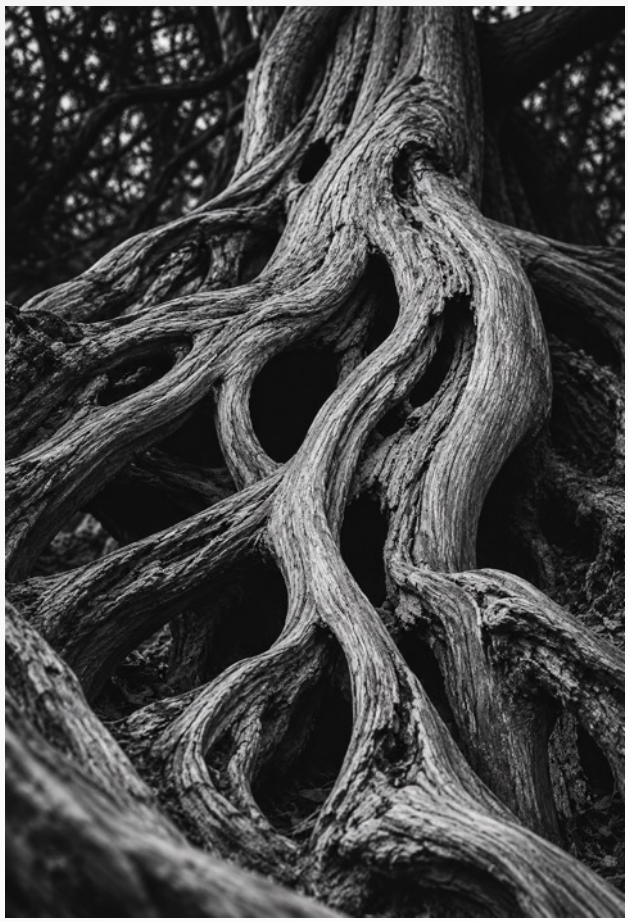
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FTA Launches Digital Platform for Tourist VAT Refunds

On 20 October 2026, the FTA announced the launch of an integrated, AI-powered digital platform for tourist VAT refunds, developed with Planet, the authorised operator of the scheme. The platform is operational at Zayed International Airport in Abu Dhabi, Dubai International Airport and Sharjah International Airport. It offers paperless procedures through the Planet mobile application, including digital registration, QR-code processing and facial recognition where verification is required.

The FTA reports that the time for tourists to receive refunds has been reduced to one business day, compared with approximately nine days previously. Eligible transactions that do not require inspection can be completed through the application without in-person verification; transactions requiring inspection remain subject to the applicable checks.

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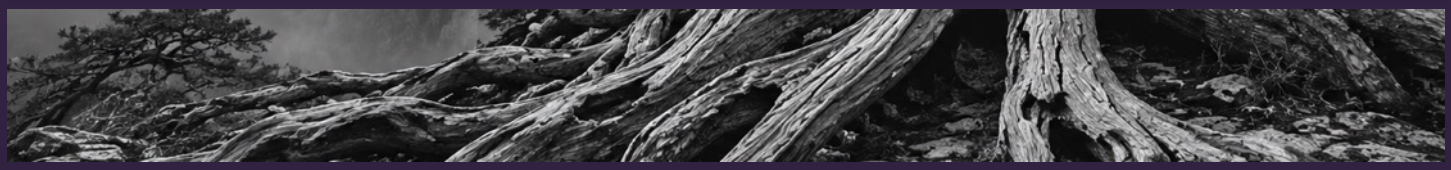


Dubai Customs Removes Duty Guarantees for Certain Free Zone Exports

Customs has issued Customs Notice No. 18/2026, effective from 30 September 2026, under which goods warehoused in certain free zones under FZ Transit In declarations may be exported outside the UAE under FZ Transit Out declarations without a cash or bank guarantee equivalent to the customs duties payable, provided they exit through the same Customs office. The procedure applies to Jebel Ali Free Zone and Dubai Logistics City Free Zone for exports through Jebel Ali Port or Al Maktoum International Airport, and to Dubai International Airport Free Zone for exports through Dubai International Airport. The Notice repeals Customs Notice No. 3/2016 and Customs Notice No. 2/2017, which amended it.

The goods must be exported within 30 days of the registration of the customs declaration, and a request to close the declaration must be submitted electronically within 45 days of the same date, supported by a copy of the FZ Transit Out declaration and an exit/entry certificate, signed and stamped by the competent officer, confirming that the goods have left the free zone and been exported outside the UAE. The declaration may still be closed within a further 45 days on payment of a late penalty, after which customs duties, penalties and other amounts due are imposed. Exporters using these free zones should build the export and closure deadlines into their logistics processes and ensure that exit documentation is collected for every shipment.

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Saudi Arabia

ZATCA Publishes Annual Disclosure Form for Regional Headquarters

ZATCA has published on its portal the Annual Disclosure Form for Regional Headquarters, together with a user manual. The form implements the requirement under the Regional Headquarters Tax Rules to submit an annual report demonstrating compliance with the economic substance requirements in Article 5. It covers the headquarters' locations, board and executive management, employees, approved activities and financial information, including operating expenses, with supporting documents.

Neither the Rules nor the user manual sets a filing deadline. A Regional Headquarters that fails to meet any economic substance requirement has 90 days from ZATCA's notification to remedy the breach, failing which a fine of SAR 100,000 applies, rising to SAR 400,000 for a continuing or repeated breach. Regional Headquarters should confirm that their board, management and financial records support the disclosures.

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Saudi Arabia Opens VAT Refund Window for Individual Property Sellers

Dubai Under Royal Order No. 54152 and the implementing mechanisms approved by the ZATCA Board on 16 August 2026, VAT is not considered due on qualifying sales of real estate by individuals between 1 January 2018 and 4 October 2020, when the Real Estate Transaction Tax took effect. The mechanisms were published in Umm Al-Qura on 13 October 2026. Relief is available to natural persons who paid VAT on a property sale in that period, did not sell real estate on a continuous and regular basis, did not exceed the registration threshold through more than one supply within 12 months, and did not deduct input tax on the property. Eligible individuals may recover the VAT and any related penalties paid, and VAT already assessed but not due may be cancelled.

The refund claim is limited to VAT that the individual has not already recovered from another relevant government entity. ZATCA may verify that no such prior recovery has occurred.

Separately, individuals whose historic property supplies were subject to VAT may qualify for cancellation of unpaid VAT penalties for the period from 1 January 2018 until the Real Estate Transaction Tax took effect, after paying the principal VAT due. This relief does not cover penalties imposed for tax evasion. Individuals who deducted input tax on the relevant property supply cannot use the VAT refund route described above, but may still benefit from this unpaid-penalty relief if its conditions are met.

Claims are filed before the tax dispute resolution committees through the Hiyad portal, and the refund is then requested from ZATCA once a final favourable decision is issued. Claims must be submitted within 30 days of the publication of the mechanisms on 13 October 2026, so individuals should begin assembling evidence of their 2018 to 2020 sales, returns, assessments and payments now.

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Oman

Oman Expands Its Zero-rated VAT Lists

The Tax Authority has issued Decisions Nos. 223/2026, 224/2026 and 225/2026, dated 22 September 2026, published in Official Gazette No. 1667 on 27 September 2026 and effective from 1 October 2026, setting out the goods subject to VAT at 0%. Decision 225/2026 replaces Decision 65/2021 with a list of 807 food items, Decision 224/2026 replaces Decision 59/2021 with 677 human medicines, medical preparations and medical equipment, and Decision 223/2026 introduces a new list of 62 veterinary medicines and medical equipment items. Each list identifies the goods by 12-digit customs tariff code and description.



Medical and veterinary products qualify only where the Ministry of Health or the Ministry of Agriculture, Fisheries and Water Resources, as relevant, issues a release permit under the applicable customs code. Suppliers of food, healthcare and veterinary products should remap their product master data against the new tariff codes rather than rely on the 2021 lists, confirm that the required permits are in place, and update their invoicing systems and VAT return reporting for supplies made from 1 October 2026.

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Oman Establishes Duty-free Markets at Three Land Crossings

The Royal Oman Police Decision No. 145/2026, issued on 11 October 2026 and published in Official Gazette No. 1670 on 18 October 2026, establishes duty-free markets at the Al Wajajah, Khatmat Malaha and Rub al Khali land crossings. The Decision takes effect from its date of issuance.

The measure is relevant to border retail and cross-border distribution. It establishes the markets but does not itself confirm that outlets have opened or grant a general exemption for goods passing through those crossings. Operators should confirm licensing, permitted sales and customs procedures before relying on duty-free treatment.

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Bahrain

Bahrain Updates Its VAT Registration and Deregistration Guidance

The National Bureau for Revenue has published Version 1.10 of its VAT Registration Guide, updated on 29 September 2026, and a revised VAT Deregistration Manual dated 28 September 2026. The Registration Guide sets processing times of 21 working days for VAT registration and registration amendment applications and five working days for NBR profile amendments, replacing the previous 30-day period. Under the Manual, a resident taxable person must deregister if it permanently ceases its economic activity, transfers or sells the business, or its taxable supplies fall below BHD 18,750 over 12 consecutive months and are not expected to exceed that level in the following 12 months, while a non-resident must deregister if its standard-rated supplies to persons not registered for VAT in Bahrain are nil for 12 consecutive months. Residents with supplies between BHD 18,750 and the mandatory threshold of BHD 37,500 may deregister voluntarily, but voluntary registrants must remain registered for at least 24 months and members of a VAT group must first leave the group. Deregistration is finalised only once all outstanding returns are filed and liabilities paid, and a request for further information must be answered within 30 days or the application is cancelled, so businesses planning to exit should settle their position before applying.

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Bahrain Revises the Excise Refund Threshold for Re-exported Goods

On 6 October 2026, the National Bureau for Revenue published Version 1.2 of its Excise Guide. Under Section 2.7, excise paid on goods released for consumption in Bahrain and later re-exported outside the GCC may be refunded or deducted where the value of the goods is not less than a specified amount, which the revised Guide sets at BHD 2,000 in place of the previous USD 5,000 or its equivalent in Bahraini dinars. Businesses re-exporting excise goods should review their refund claims against the revised threshold.

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Bahrain Restricts the Profit Margin Scheme to Goods Previously Subject to VAT

On 20 September 2026, the National Bureau for Revenue published Version 1.3 of its VAT Retail and Wholesale Guide, clarifying the eligibility conditions for the profit margin scheme on used goods. The scheme remains optional and requires the Bureau's prior approval, but applies only to goods that have previously been subject to VAT in Bahrain. Stock acquired before VAT took effect on 1 January 2019, and goods not previously subject to VAT for any other reason, cannot be sold under the scheme and are subject to VAT on the full selling price.

Where the scheme applies, VAT is charged on the margin between the selling and purchase prices, at one-eleventh of the margin at the 10% rate, and the tax invoice must state that the scheme has been applied and must not show a VAT amount. Dealers in used goods, including vehicles, should confirm their approval status and retain evidence that each item was previously subject to VAT, such as purchase documentation or registration dates.

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Articles

1. **TAXP010 and Corporate Tax Designated Zones: has the FTA narrowed the concept?**
2. **Pillar Two Case Study: Can an MNE Group Fall Within the UAE DMTT Scope in the Year of Its Merger?**
3. **Input tax on employee benefits: testing the vires of FTA Decision No. 17 of 2026**

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Best regards,

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