

BASIC TAX INFORMATION BULLETIN

AUTOMOTIVE SECTOR



1. Who should read this information bulletin?

Businesses in the automotive sector, including but not limited to:

- New car dealers
- Used car dealers
- Servicing and parts' suppliers

2. Is VAT chargeable on all supplies made by businesses in the automotive sector?

Supplies made by businesses in the automotive sector are generally subject to VAT, including but not limited to:

- Sales of new and used cars
- Sales of car parts
- Service centers' services, warranties, and related insurance products



Supplies of qualified means of transport, such as buses that are designed or adapted for public transportation of 10 or more passengers and are actually used for public transportation are, however, zero-rated for VAT purposes.

3. Is there a need for businesses in the automotive sector to register for VAT?



Businesses in the automotive sector who make taxable supplies (which include zero-rated supplies) in the UAE are required to register for VAT provided the value of their taxable supplies and imports in the last 12 months exceeded, or is expected to exceed in the next 30 days, the mandatory registration threshold of AED 375,000.

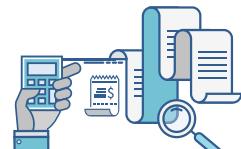
Businesses may also voluntarily register for VAT if the value of their taxable supplies and imports or taxable expenses incurred in the last 12 months exceeded, or is anticipated to exceed in the next 30 days, the voluntary registration threshold of AED 187,500.

4. Are tax invoices required to be issued?

Yes, tax invoices are required for all standard-rated supplies.

Simplified tax invoices may be issued where the supply is made to an unregistered recipient or the consideration for the supply made to a registered recipient is AED 10,000 or less.

Where VAT is charged with reference to the profit margin scheme, the tax invoice should clearly state that VAT was charged with reference to the profit margin scheme and must include all other information required on a tax invoice except the amount of VAT.



5. Are the businesses in the automotive sector permitted to recover input tax?

Yes, businesses in the automotive sector making taxable supplies are eligible for a full recovery of input VAT, with the exception of blocked items such as:

- Certain entertainment services.
- Purchased, leased or rented motor vehicles that are available for personal use.

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6. Specific issues in the automotive sector

a. Can I apply the profit margin scheme to account for VAT on the sale of used cars?

The profit margin scheme may be applied to the supply of goods that have previously been subject to UAE VAT on the purchase. Please refer to the Public Clarification on Profit Margin Scheme - VATP002 for further details.



b. Are gifts and giveaways subject to VAT?

Where goods are given away to consumers for free, this supply is likely to be considered as deemed supplies unless:

- The relevant input tax was not recovered on the related goods;
- The value of supply to each recipient does not exceed AED 500 in a 12-month period; or
- The output tax due for all deemed supplies per person made in the 12-month period is less than AED 2,000.

c. Are repair services and parts provided under warranty subject to VAT?

VAT is applicable in the first instance on:

- Sale of vehicles that include warranty;
- Warranty packages purchased separately by the customer.

Any subsequent supply of repair services and parts under warranty claims is not subject to VAT separately as long as no other amount is paid.

d. What happens when the service center reclaims costs of supplies made under warranty from a manufacturer based outside the UAE?

Where repair and maintenance services are physically provided in the UAE in relation to motor vehicles, such services are subject to VAT at the standard rate, even if the costs are charged to an entity based outside the UAE.