

UAE VAT Fines and Penalties

In the United Arab Emirates (UAE), adherence to Value Added Tax (VAT) regulations is crucial for businesses to avoid substantial fines and penalties.

Below is a detailed overview of common VAT-related violations, associated penalties, and illustrative examples:

1. Late VAT Registration

- Penalty: AED 10,000 for failing to register within the stipulated timeframe.
- Example: A business surpasses the mandatory registration threshold of AED 375,000 but delays registration by 45 days.

This results in a fine of AED 10,000.

2. Late VAT Deregistration

- Penalty: AED 1,000 for the first offense; AED 1,000 per month for subsequent violations, up to a maximum of AED 10,000.
- Example: A company ceases taxable activities but fails to apply for deregistration within 20 business days.

After three months, the total penalty amounts to AED 3,000.

3. Late Filing of VAT Returns

- Penalty: AED 1,000 for the first offense; AED 2,000 for subsequent violations within 24 months.
- Example: A business submits its VAT return five days past the deadline. For a first-time offense, the penalty is AED 1,000.

4. Late VAT Payment

- Penalties:

- 2% of the unpaid tax immediately after the due date.
- 4% additional penalty if payment is not made within seven days.
- 1% daily penalty after one calendar month, up to a maximum of 300% of the tax amount.
- Example: A business owes AED 50,000 in VAT but pays 40 days late.

Penalties include:

- 2% immediately: AED 1,000
- 4% after seven days: AED 2,000
- 1% daily for 33 days: AED 16,500
- Total penalty: AED 19,500

5. Incorrect VAT Return Submission

- Penalty: AED 3,000 for the first offense; AED 5,000 for subsequent violations within 24 months.
- Example: A company underreports its VAT liability by AED 20,000.

For a first-time error, the penalty is AED 3,000.

6. Failure to Maintain Proper Records

- Penalty: AED 10,000 for the first offense; AED 50,000 for repeated violations within 24 months.
- Example: A business fails to retain invoices and receipts for transactions. The initial penalty is AED 10,000.

7. Failure to Issue VAT Invoices

- Penalty: AED 5,000 per missing invoice.
- Example: A retailer neglects to issue VAT invoices for ten transactions. The total penalty is AED 50,000.

8. Failure to Comply with Procedures for Transfer of Goods in Designated Zones

- Penalty: The higher of AED 50,000 or 50% of the tax unpaid on the goods due to the violation.
- Example: A company improperly transfers goods out of a designated zone without following prescribed procedures, resulting in unpaid tax of AED 60,000.

The penalty is AED 50,000.

9. Submission of Incorrect Information

- Penalty: AED 3,000 for the first offense; AED 5,000 for subsequent violations within 24 months.
- Example: A business provides incorrect details during VAT registration. The initial penalty is AED 3,000.

10. Voluntary Disclosures

- Penalties:

- Fixed Penalty: AED 1,000 for the first offense; AED 2,000 for subsequent offenses.
- Percentage-Based Penalty: Varies based on the timing of disclosure relative to FTA notification or audit:
 - 5% of the underpaid tax if disclosed before FTA notification.
 - 10% if disclosed within one year after the tax period.
 - 20% if disclosed within two years.
 - 30% if disclosed within three years.
 - 40% if disclosed after three years.
- Example: A company discovers an underpayment of AED 10,000 and voluntarily discloses it two years after the tax period.

Penalties include:

- Fixed penalty: AED 1,000
- Percentage-based penalty (20%): AED 2,000

- Total penalty: AED 3,000

11. Late Penalty Payment

- Penalty: 4% per month on the outstanding penalty amount, up to a maximum of 300% of the original fine.

- Example: A business incurs a penalty of AED 5,000 but delays payment by six months.

The additional penalty is AED 1,200 (4% of AED 5,000 per month for six months).

12. Failure to Display VAT-Inclusive Prices

- Penalty: AED 15,000 for not displaying prices inclusive of VAT.

- Example: A restaurant fails to display VAT-inclusive prices, resulting in a fine of AED 15,000.