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UAE Tax Alert

Valuation of Deemed Supply of Services under VAT

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Executive Summary

The Federal Tax Authority (FTA) has issued Directive on Tax Transactions No. 5 of 2026, providing further clarification on the methodology for determining the value of deemed supply of services for VAT purposes.

The Directive provides guidance on the valuation of deemed supplies of services where input tax has been incurred on costs attributable to those supplies. In particular, it clarifies the principles that taxable persons should apply when determining the taxable value of such deemed supplies, with the aim of promoting consistency in the application of the UAE VAT rules.

The guidance is expected to assist businesses in assessing their VAT obligations in circumstances where services are treated as supplied for VAT purposes, despite no consideration being received, and to ensure that the valuation of such supplies is determined in accordance with the applicable provisions of the UAE VAT legislation.

VALUATION OF DEEMED SUPPLY OF SERVICES

The FTA has clarified that taxable persons must determine the value of a deemed supply of services based on the total costs incurred in making that supply on which input tax has been claimed. This includes both direct and indirect costs.

Such cost shall be determined in accordance with the following mechanism

i. Determine the open market value of the services constituting the deemed supply. Where the open market value cannot be determined, the open market value of comparable services should be considered.

ii. The estimated total cost of the services should be calculated by excluding the profit element from the open market value calculated in (i) above. This is determined by dividing the open market value by (1 + net profit margin).

iii. Calculate the percentage of costs on which input tax was incurred to the total costs incurred during the previous financial year.

iv. Thereafter the applicable percentage calculated above will then need to be applied to the estimated total cost of services calculated in (ii) above, to determine the total costs on which input tax was incurred.

The resulting calculated cost will represent the value of the deemed supply of services for the calculation of VAT amount.

ACQUISORY COMMENT

The Directive provides welcome clarity on an area of the UAE VAT regime that has given rise to practical uncertainty, particularly in relation to the valuation of deemed supplies of services where no consideration is received.

Taxable persons should review their existing approach to valuing such supplies to ensure that it aligns with the methodology set out in the Directive and is appropriately supported by contemporaneous documentation. The businesses should also review their internal processes, documentation, and compliance procedures to align with these updated requirements.

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