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Tax Alert – UAE VAT

FTA Decision No. 13 of 2026

Mandatory Due Diligence Requirements for Input Tax Recovery

August 2026

Overview

The Federal Tax Authority (FTA) has issued Decision No. 13 of 2026, introducing strict due diligence measures that UAE businesses must perform before claiming Input VAT. To safeguard input tax recovery and combat tax evasion, Taxable Persons are legally required to verify both the legitimacy of their suppliers and the commercial integrity of the transactions.

Key points:

- Supplier Verification.
- Supply Integrity Verification.
- Operational Procedures & Compliance Rules.
- Key Thresholds & Exception.
- What Businesses Should Do Now?

Key Highlights & Due Diligence Requirements

✓ 1- Supplier Verification

Before recovering Input VAT, businesses must verify their suppliers across four distinct areas:

Identity Verification:	▪ **Natural Persons:** Obtain a valid Emirates ID or Passport and hold a meeting (in-person or virtual) prior to the supply. ▪ **Legal Entities:** Validate incorporation details against official databases/certificates (ensuring name, address, and employee details match) and verify the authorized representative's identity.
Physical Presence & Location:	▪ Verify the supplier's actual place of business via electronic means or physical site visits, ensuring the premises match their licensed activities.
Risk Level Assessment:	Monitor and document justifications if any "**Risk Indicators**" apply: ▪ More than (2) address changes within a 12-month period. ▪ More than two changes in key management/contact persons within a 12-month period. ▪ Unusual transaction volumes or values inconsistent with business size or history.
Banking & Reputation Check **(For Supplies > AED 375,000/year)**	▪ Obtain **written confirmation** from an authorized UAE bank certifying the supplier holds an active account. ▪ Review publicly available media coverage and reviews to rule out fraud or tax evasion risks.

Key Highlights & Due Diligence Requirements

🔍 2- Supply Integrity Verification

Businesses must assess each transaction to confirm its genuine commercial nature:

Commercial Rationale:	▪ Ensure the transaction is based on legitimate business grounds and that prices/margins align with fair market values.
Payment Controls:	▪ **Payments must be made via electronic means**. Cash payments are **restricted** to statutory limits and require clear, documented justification. ▪ Third-party or offshore bank payments require reasonable commercial explanations.
Scope & Authenticity:	▪ Verify that supplied goods/services fall within the supplier's licensed trade activities, validate goods' ownership/origin, and justify any intermediary roles.

Key Highlights & Due Diligence Requirements

3- Operational Procedures & Compliance Rules

Frequency:	Supplier verification must be completed for **all new suppliers** and re-verified **annually** for recurring suppliers.
Transaction Level:	Every taxable supply received must undergo supply integrity verification.
Documented Internal Policy:	Taxable Persons **must create, maintain, and retain a formal written internal policy** designating responsible staff, their authorization limits, and operational review procedures.
Record Keeping:	All verification steps, justifications, and evidence must be documented and retained for FTA audit inspection.

⚠️ 4- Key Thresholds & Exception

A Taxable Person may generally disregard the prescribed verification measures where the consideration excluding VAT is **below AED 10,000**.

However, this exception does not apply where the total value of supplies received from the same supplier:

- **Exceeds AED 100,000** during the preceding 12 months, or
- **Is expected to exceed AED 100,000** during the following 12 months.

What businesses should do now?

💡 5- Action Required for UAE Businesses

1

Draft Internal Due Diligence Policies

Implement a compliant standard operating procedure (SOP) **before the October 1, 2026** deadline.

2

Update Onboarding Workflows

Integrate mandatory supplier document collection (bank letters, Emirates IDs, incorporation proofs) into Procurement/Accounts Payable workflows.

3

Audit Current Master Data

Conduct an immediate review of existing key suppliers to identify missing compliance data or elevated risk indicators.

Key takeaway

The new framework moves input VAT recovery beyond a purely invoice-based exercise.

- Businesses will need to demonstrate that they have taken reasonable and documented steps to verify who they are dealing with, the legitimacy of the transaction, the commercial rationale, and the authenticity of the goods or services received.

- Accordingly, businesses should review their existing procurement, accounts payable, supplier onboarding and VAT recovery processes before 1 October 2026 to ensure they can evidence compliance with the new requirements.

Effective Date: 1 October 2026

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