



TAX ALERT

UAE VAT Input Tax Apportionment



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FTA Releases Updated Guidance on Input Tax Apportionment & Special Methods

The Federal Tax Authority (FTA) has released comprehensive guidance on Input Tax apportionment, effective September 2025.

The update provides detailed clarification on:

- ❑ **The Standard Apportionment Method** – Reinforcing the rules for calculating input tax recovery where VAT is incurred on expenses used for both taxable and exempt supplies.
- ❑ **Special Apportionment Methods** – Offering clearer criteria and guidance for businesses that may not achieve a fair or reasonable result using the standard method. Businesses can now apply for FTA approval to use a special method more aligned with their specific operations.

This development is particularly relevant for businesses engaged in mixed supplies, such as those in the financial services, real estate, and education sectors.

Key Highlights from the Guidance:

- a) Input Tax recovery allowed for taxable supplies.
 - A Registrant may recover Input VAT on their VAT return for Goods and Services used or intended to be used in making Taxable Supplies, which are supplies subject to VAT at either the standard 5% VAT rate or the zero rate.
- b) Foreign supplies may qualify if deemed taxable in UAE. (i.e., Supplies provided to recipients outside the UAE that would be considered taxable if supplied within the UAE).
- c) Certain exported financial services are eligible for input VAT recovery. (i.e., The supply of financial services that is normally exempt from VAT when provided within the UAE but is instead supplied to a recipient located outside the UAE).
- d) Full recovery applies to inputs used solely for taxable/business purposes.
 - A Taxable Person is permitted to recover the full Input VAT on Goods and Services that are entirely used or intended to be used for any of the purposes mentioned above.
- e) No recovery for non-business or exempt-use expenses
 - If the Goods or Services are used (or intended to be used) entirely for non-business purposes or for making exempt Supplies, the Person will not be permitted to recover the related Input VAT.
- f) Mixed-use inputs must be apportioned appropriately.
 - In some situations, goods or services may be used partly for making taxable supplies and partly for non-taxable purposes. In such mixed-use cases, the taxable person must determine the portion of input VAT that is recoverable.

Standard Apportionment: Clarified

1. The FTA has reinforced the standard Input Tax apportionment method as per UAE VAT Executive Regulations, including the correct treatment of blocked expenses.
2. The FTA has specified in its guide that the calculation method remains aligned with the approach outlined in the UAE VAT Executive Regulations. However, it has emphasized that blocked expenses, as defined in the Regulations, must be excluded from the calculation.
3. Businesses must ensure their calculation methodology aligns with these clarified rules.

Annual Adjustments & Timing

The guidance outlines the required timing for annual Input Tax adjustments, including:

1. Annual wash-up calculations
2. Actual use adjustments (including for newly established businesses)
3. Circumstances requiring year-end corrections beyond standard wash-ups

The Executive Regulations define the Tax Year based on Tax Periods and special cases like deregistration or Tax Group changes. The VAT Guide adds stagger-based year-ends and allows changes via EmaraTax to align with financial year-ends, offering greater flexibility.

The VAT Guide provides detailed steps for both the annual wash-up and actual use adjustments, clearly distinguishing between them and waiving the need for actual use adjustments when a special apportionment method is approved. In contrast, the Executive Regulations combine the concepts and do not mention any relief related to special methods.

For example, if a business is on the VAT stagger of December–February, its Tax Year will end on the last day of February each year. If the business wishes to align this with its financial year-end (e.g., December 31), it may submit a request via EmaraTax to amend the stagger accordingly.

Proper timing and documentation are critical to remain compliant.

Special Methods - Eligibility & Application

The UAE VAT Executive Regulations allow businesses to apply for an alternative apportionment method if the standard method is unsuitable. The VAT Guide expands on this by specifying approved methods and detailing eligibility based on business type.

For example, an insurance company provides both life insurance (exempt) and general insurance (taxable) products. If it uses the standard input-based apportionment method, the recovery of VAT on shared expenses (e.g. Admin costs) may not reflect the actual taxable use. The company can apply to the FTA to use the sectoral method to separately allocate input tax between its exempt and taxable business, ensuring more accurate input VAT recovery.

For businesses that wish to apply for a special apportionment method, the guidance provides detailed:

- a) Eligibility criteria:** A Registrant is eligible to apply for a special apportionment method only after being VAT-registered for at least six months. The application must be submitted by an authorised signatory, a registered Tax Agent, the representative member of a Tax Group, or a court-appointed Legal Representative.
- b) Application process and required information:** As part of the special apportionment method request, the applicant must provide a cover letter outlining business activities, the proposed method, and the rationale for its use, along with Residual Input Tax calculations for the past 12 months using both the standard and proposed methods. All information submitted to the FTA must be based on actual figures that align with filed VAT returns, with explanations for any variances, especially in cases involving sectoral method.
- c) Key conditions for approval:** The FTA may reject a special apportionment method application or request further details if the submission is incomplete or contains errors.
- d) Mechanism of how special methods operate:** Once the application approved by the FTA, the special apportionment method may be applied from the first Tax Period following the approval, or from another date determined by the FTA. The approval is typically valid for four years for non-sectoral methods and two years for sectoral method.
- e) FTA decision timelines and validity period of approvals:** If the FTA requests additional information for a special apportionment application, the Registrant must respond within 40 business days; otherwise, the application may be closed in EmaraTax. Likewise, applications started but not submitted within 40 days may be automatically cancelled.

Businesses should urgently assess whether the standard apportionment method fairly reflects their Input Tax recovery. Where it does not, they should:

- a) Review eligibility for special methods
- b) Prepare required documentation in line with the new guidelines
- c) Plan ahead for annual adjustments and ensure systems are capable of tracking actual use

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