



Tax Alert on VAT Amendments Effective 1 January 2026



UAE Issues Major Amendments to VAT Law Effective 1 January 2026

Executive Summary

On **1 October 2025**, the UAE issued **Federal Decree-Law No. 16 of 2025**, introducing targeted but important amendments to Federal Decree-Law No. 8 of 2017 (UAE VAT Law).

The new changes come into force on **1 January 2026** and strengthen VAT compliance, enhance system controls, and reinforce the alignment between VAT procedures and the Electronic Invoicing System.

We summarized below the key amendments and their expected impact on businesses operating in the UAE.

1. Summary of Key Amendments

1.1. Reverse Charge – Self-Billing Clarification

The amendment clarifies that a taxable person applying reverse charge no longer needs to issue a tax invoice to themselves, aligning the law with practical requirements and digital VAT systems.

Area	Previous Requirement	Amendment	Impact
Reverse charge on imported goods/services	Taxpayer accounts for VAT and used to issue a tax invoice to themselves	No self-invoice required; only accounting entry	Reduced administrative steps; simplified documentation

1.2 New Provision to Deny Input Tax in VAT-Evasion Supply Chains

A major new article was added allowing the FTA to reject input tax if the transaction is linked to VAT evasion.

Two situations trigger rejection:

1. The taxable person was aware the transaction was part of VAT evasion.
2. The taxable person should have been aware, based on circumstances.

FTA may assess compliance by reviewing verification steps taken by the taxpayer.

Requirement	What It Means
Due-diligence expectation	Businesses must validate suppliers, contracts, invoices & supply chain integrity
High-risk indicators	Unusual pricing, new suppliers with no track record, inconsistent TRN activity
Consequence	Full denial of input VAT + administrative penalties

1.3 Mandatory Use of Electronic Tax Invoices & Credit Notes

Conforming with the UAE's Electronic Invoicing System, a taxpayer must issue tax invoices and credit notes in fully compliant electronic format where mandated.

Key points:

- ✓ All invoices must meet FTA's structured data requirements.
- ✓ Manual PDFs or scanned documents will not be accepted for businesses subject to e-invoicing.
- ✓ Non-compliance may lead to penalties under Tax Procedures Law.

Area	Before	From 1 Jan 2026
Invoice format	Paper/PDF allowed	Must follow e-invoicing structure
Transmission	Email allowed	Must transmit through e-system
Storage	Any format	Must follow e-archiving rules

1.4 Output Tax Adjustments – E-Credit Notes Required

Where an adjustment reduces output tax, a taxpayer must issue an Electronic Credit Note, not a manual one. Includes cases such as price revisions, sales returns, or cancelled supplies.

1.5 Other Technical Clarifications

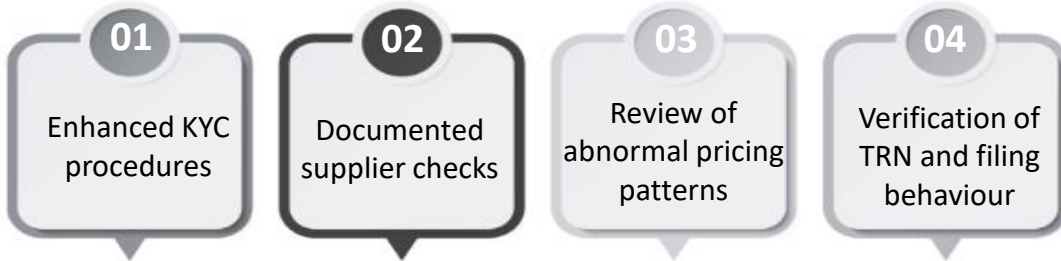
Article	Change Introduced	Purpose
Article 55(a)(3)	For imported services, original invoice must be retained in line with e-invoicing rules	Enhances verification of cross-border service imports
Article 65(5)	Explicit obligation to transmit e-invoices	Supports full automation
Article 70(4)	Mandatory e-credit notes	Complete digital documentation

2. Impact Assessment for UAE Businesses

2.1 Increased Due Diligence Obligations

Businesses must strengthen supplier-vetting processes to avoid input tax denial.

Expect:



2.2 Digital Readiness for E-Invoicing

Companies must ensure:

- ERP integration with FTA's e-invoicing platform
- Structured XML/UBL format
- Auto-validation and transmission capabilities
- E-archiving for 5–15 years

Sectors with high transaction volumes (retail, wholesale, construction, logistics) will be most impacted.

2.3 Financial Reporting & Governance

Audit teams will need to:

- Reconcile e-invoice data
- Align VAT ledgers with digital flows
- Ensure reverse charge is properly accounted under new rules

3. Acquisory Observations

From a practical perspective, we note:

- 1. VAT Compliance is Becoming More Control-Based:** The new Article 54 bis shifts responsibility toward businesses to show proactive verification.
- 2. Digital Transformation is No Longer Optional:** With mandatory e-invoicing and e-credit notes, organisations relying on manual invoicing must upgrade immediately.
- 3. FTA Will Gain Stronger Audit Capabilities:** Electronic data will allow deeper audit tracing and automated risk detection.
- 4. Groups with Complex Supply Chains Should Prioritise VAT Health Checks:** Especially in industries like trading, construction, fuel, and manufacturing.

4. Recommended Actions for Businesses

Immediately (Q4 2025 – Q1 2026):

- ✓ Conduct a VAT process review focusing on supplier verification
- ✓ Assess ERP readiness for e-invoicing
- ✓ Train finance teams on VAT-evasion red flags
- ✓ Update internal VAT manuals & workflows

Strategic

- ✓ Implement tax technology solutions
- ✓ Centralise VAT records
- ✓ Conduct mock VAT audits
- ✓ Strengthen contract terms with suppliers

How Acquisory Can Support


At Acquisory, we assist clients across the UAE and GCC with:

- ✓ VAT audits & health checks
- ✓ E-invoicing implementation support
- ✓ ERP readiness & compliance testing
- ✓ Input tax validation frameworks
- ✓ VAT policy and process redesign
- ✓ Training & ongoing compliance management
- ✓ For tailored support, please reach out to the Acquisory Tax Team.

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