



## Tax Guide

### UAE VAT Treatment for Real Estate: Practical Guidance



## Overview of VAT on Real Estate in UAE

- ❑ Real estate is a key pillar of the UAE economy, with VAT rules carefully structured to balance government revenue objectives with market stability and investment attractiveness.
- ❑ VAT treatment varies significantly depending on the type of property (residential, commercial, or mixed-use), the nature of the transaction, and whether it qualifies for zero-rating, exemption, or standard rating.
- ❑ Ensuring accurate classification and strict compliance is essential for developers, property owners, investors, and real estate managers to mitigate tax risks and optimize VAT recovery.

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### Definitions

#### Goods <sup>(1)</sup>

Physical property that can be supplied including but not limited to real estate, water, and all forms of energy as specified in the Executive Regulation of this Decree-Law.

#### Services <sup>(2)</sup>

Anything that can be supplied other than Goods.

#### Completion Date

Building completion certificate, or Date of first occupation.

#### Residential buildings <sup>(3)</sup>

- For VAT purposes, a **residential building** is a building that is intended and designed for human occupation. This includes:
  - A building (or part thereof) used, or expected to be used, as a person's principal place of residence.
  - Student accommodation.
  - Accommodation for armed forces or police personnel.
  - Orphanages, nursing homes, and rest homes.
- However, a residential building does **not** include:
  - Movable structures that are not fixed to the ground.
  - Hotels, motels, bed and breakfast establishments, hospitals, and similar establishments.
  - Hotel apartments and serviced apartments.
  - Buildings constructed or converted without lawful authority.
- A property will still qualify as a residential building where a minor portion is used as an office or workspace by the occupants, or where it includes garages, gardens, or other features forming part of the residential use.
- First supply of residential buildings by sale or lease (within 3 years of completion): Zero-rated (0%) for VAT purposes.
- Subsequent supplies: Exempt from VAT
- Input VAT recovery: Allowed only for zero-rated supplies.

**Note:** Based on article 43 of The Executive Regulation of the Federal Decree-Law No. 8 of 2017 on Value Added Tax, the supply of residential buildings is generally exempt from VAT, except where it qualifies as the first supply of a residential building, which may be zero-rated. A residential lease is treated as exempt where the tenancy period exceeds six months, or the tenant holds a UAE ID card.

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(1) (2) Article 1 – Definitions - Federal Decree-Law No. 8 of 2017

(3) VAT Guide | VATGRE1

## Commercial Property

- Refers to properties used for business purposes, such as offices, shops, warehouses, and factories.
- VAT treatment: Always subject to 5% VAT on rent or sale.
- Input VAT recovery: Permitted if used for taxable activities.

## Bare Land <sup>(4)</sup>

- Defined as land that is not covered by any completed or partially completed buildings, nor by any civil engineering works.
- VAT treatment: Exempt from VAT.

## Mixed-use Property <sup>(5)</sup>

- A mixed-use development is a property with clearly distinct areas used for different purposes, each attracting its own VAT treatment.
  - **Individual units:** VAT depends on the use — commercial units are standard-rated, while residential units (other than first supply) are exempt.
  - **Entire development:** Consideration must be apportioned between residential and commercial parts; residential portions are exempt (or zero-rated for first supply) and commercial portions are standard rated.

Property Type	Examples	VAT Treatment	Input VAT Recovery
Residential	Principal residence, student housing, rest homes	0% first supply, Exempt subsequent	Only for zero-rated supplies
Commercial	Offices, shops, warehouses, factories	5% standard-rated	Allowed if used for taxable activities
Bare Land	Land without buildings or civil works	Exempt	Not applicable
Mixed-Use	Multi-purpose buildings	Apportioned: Commercial = 5%, Residential = Exempt/0%	Only on taxable portion <b>Note:</b> Input VAT apportionment methods could be applied in accordance with UAE VAT regulations in cases where input VAT relates to both taxable and exempt supplies

(4) Article 44 - The Executive Regulation of the Federal Decree-Law

No. 8 of 2017 on Value Added Tax

(5) VAT Guide | VATGRE1

## Practical cases

### Residential Buildings

A developer completes a new apartment building in Dubai and sells apartments within three years of completion

- VAT Treatment: Zero-rate (0%) VAT applies on the first supply.
- Input VAT incurred on construction and related costs can be recovered.

The same apartments are resold after three years.

- VAT Treatment: Exempt from VAT.
- Input VAT cannot be recovered on costs related to these subsequent sales.

A villa is primarily a residence, but the owner uses a small room as a home office.

- VAT Treatment: First supply zero-rated (0%), subsequent sales exempt.
- Minor office use does not affect the VAT treatment of the property.

Student accommodation or nursing homes built and sold to the operator within three years of completion.

- VAT Treatment: Zero-rated (0%) for first supply.
- Input VAT on construction and related costs can be recovered.

## Practical Cases

### Commercial Properties

A developer sells an office unit in a commercial tower to a business.

- VAT Treatment: Standard-rated (5%) VAT applies.
- Input VAT incurred on construction or fit-out can be recovered if used for taxable activities.

A retail shop in a mall is leased to a tenant.

- VAT Treatment: 5% VAT on lease payments.
- Input VAT can be recovered by the tenant if the property is used for taxable business operations.

A logistics company purchases a warehouse for operations.

- VAT Treatment: Standard-rated (5%) VAT on the purchase.
- Input VAT is recoverable if the warehouse is used in taxable activities

## Practical cases

### Bare Land

An investor sells a plot of undeveloped land in Abu Dhabi.

- VAT Treatment: Exempt from VAT.
- Input VAT recovery is not applicable.

A developer purchases land for future residential or commercial projects.

- VAT Treatment: Sale or lease of bare land → Exempt
- Input VAT related to exempt supplies generally not recoverable
- VAT may arise only when the land is developed and a taxable property supply occurs.

Land with minor groundwork or landscaping but no building.

- VAT Treatment: Exempt. Minor civil work does not trigger VAT.

## Practical Cases

### Mixed-Use Properties

A developer sells a retail unit on the ground floor of a mixed-use building.

- VAT Treatment: Standard-rated (5%) VAT applies.
- Input VAT can be claimed on construction costs relating to the commercial unit.

Sale of a residential apartment in the same building (upper floors).

- VAT Treatment: Exempt for subsequent supply; zero-rated (0%) if first supply.
- Input VAT can only be recovered if it is zero-rated first supply.

A developer sells the entire mixed-use building (retail, offices, and apartments) in a single transaction.

- VAT Treatment: Consideration must be apportioned:
- Commercial portion: 5% VAT
- Residential portion: Exempt or zero-rated for first supply
- Input VAT recovery only on the commercial portion or zero-rated residential units.

## VAT on Service Charges for Residential Buildings

- Community developers or building owners often levy service charges on unit owners or tenants to cover the maintenance and management of communal areas within the building or development.
- VAT Treatment: These service charges are taxable services subject to VAT at the standard rate (5%).
- Reasoning: The charges relate to the provision of services for upkeep and operation of shared facilities and do not constitute consideration for the supply of a residential building. Therefore, they are not eligible for zero-rating or exemption under the UAE VAT law.



## VAT Treatment of Labour Camps

- Based on VAT Guide | VATGRE1, labour camps are facilities provided by employers to house their employees. These can vary in design and may offer additional services beyond basic accommodation. As a result, each labour camp must be assessed individually to determine whether it qualifies as a residential building for VAT purposes.
- Residential Status Criteria: A labour camp will be treated as a residential building if all of the following conditions are met:
  - ✓ The accommodation is used by the employee as their principal place of residence, meaning it is the location where the individual normally lives. An employee can only have one principal place of residence, although it may be shared with others.
  - ✓ The building is fixed to the ground and cannot be moved without being damaged.
  - ✓ The building has been constructed or converted lawfully, with the necessary approvals.
  - ✓ The building is not similar to a hotel, motel, bed & breakfast, or serviced apartment where additional services beyond accommodation are provided.

### VAT Implication:

- If a labour camp meets the above criteria, it is treated as a residential building, and the supply may be zero-rated for first supply (0% VAT) or exempt for subsequent supply.
- If the criteria are not met (e.g., the camp operates like a serviced apartment or hotel), the supply will not qualify as residential and may be subject to standard-rated VAT (5%) for any services supplied.
- If an employer provides accommodation to employees free of charge, it is not considered a supply for VAT purposes, and the employer may recover input VAT on related costs as business overheads where the accommodation is required by UAE labour law, stipulated in employment contracts or company policy, otherwise treated as a deemed supply under the VAT Decree-Law.

## VAT Treatment of Farmhouses

- Based on VAT Guide | VATGRE1, farmhouses situated on agricultural land can be treated as residential buildings for VAT purposes if they meet the standard residential criteria.
- Residential Status Criteria: A farmhouse will qualify as a residential building when:
  - ✓ It is occupied, or intended to be occupied, as a person's principal place of residence.
  - ✓ It satisfies all other conditions required for a residential building (e.g., fixed to the ground, constructed lawfully, not operated like a hotel or serviced apartment).

### VAT Implication:

- First supply (within 3 years of completion): Zero-rated (0% VAT)
- Subsequent supply: Exempt from VAT
- Input VAT recovery: Only allowed for zero-rated first supply.



## VAT on Service Charges for Residential Buildings – Practical Examples

### Example 1 – Service charges collected by a developer

A developer owns a residential tower in Dubai and charges each apartment owner an annual service fee of AED 12,000 to cover cleaning of common areas, security services, elevator maintenance, and landscaping of the shared garden.

#### VAT Treatment:

The developer must charge 5% VAT on the service charges.

#### Explanation:

Although the apartments themselves may qualify as residential buildings, the service charges represent separate services related to maintenance and management of common facilities, which are subject to VAT at the standard rate.

### Example 2 – Service charges collected by a property management company

A property management company is appointed by the building owners' association to manage a residential building. The company collects monthly service charges from tenants to cover security, waste management, and maintenance of shared areas.

#### VAT Treatment:

The property management company must charge 5% VAT on the service charges collected.

#### Explanation:

The charges relate to management and maintenance services, not to the supply of residential property, therefore they are standard-rated supplies.

## **VAT Treatment of Farmhouses – Practical Examples**

### **Example 1 – First sale of a newly built farmhouse**

A developer constructs a farmhouse on agricultural land and sells it to an individual who intends to live there permanently. The farmhouse is a fixed structure and has received all necessary construction approvals. The sale occurs within two years of completion.

#### **VAT Treatment:**

The sale is zero-rated (0% VAT) as it represents the first supply of a residential building within 3 years of completion.

#### **Explanation:**

The farmhouse qualifies as a residential building because it is intended to be used as the buyer's principal place of residence.

### **Example 2 – Resale of an existing farmhouse**

An individual purchases a farmhouse from another owner five years after the building was completed. The property has been used as a residence since completion.

#### **VAT Treatment:**

The supply is exempt from VAT.

#### **Explanation:**

This transaction represents a subsequent supply of a residential building, which is exempt under UAE VAT rules.

## **VAT Treatment of Labour Camps – Practical Examples**

### **Example 1 – Labour camp qualifying as residential accommodation**

A construction company provides accommodation to its workers in a permanent building located in an industrial area. The building contains shared bedrooms, kitchens, and bathrooms, and workers reside there throughout the duration of their employment. The building is fixed to the ground and is approved by local authorities for residential use.

#### **VAT Treatment:**

The supply of accommodation may qualify as residential accommodation.

- First supply within 3 years of completion: Zero-rated (0% VAT)
- Subsequent supplies: Exempt from VAT

#### **Explanation:**

The building meets the conditions of a residential building, as it serves as the workers' principal place of residence and does not operate like a hotel.

### **Example 2 – Labour camp operating similar to serviced accommodation**

A company operates worker accommodation where rooms are provided on short-term rotation with additional services such as daily cleaning, catering, and laundry services included.

#### **VAT Treatment:**

The supply does not qualify as residential accommodation and is therefore subject to VAT at 5%.

#### **Explanation:**

Because the facility operates similarly to a serviced accommodation facility, it does not meet the criteria of a residential building under UAE VAT law.

The VAT regime in the UAE presents a **complex framework for the real estate sector**, with different VAT treatments depending on the nature of the property, the stage of the supply, and how the property is used.

While certain transactions—such as the **first supply of residential properties within three years of completion**—may **qualify for zero-rating**, other supplies, including **commercial property transactions and related services**, are generally subject to **VAT at the standard rate**. In contrast, **subsequent supplies of residential properties are typically exempt from VAT**.

Given the technical nature of the UAE VAT legislation and the importance of contractual and factual details, **even small differences in transaction structures or property usage can lead to different VAT outcomes**. It is therefore essential for real estate developers, property owners, and managers to ensure that their **finance and operational teams understand the applicable VAT rules, compliance obligations, and documentation requirements**.

Ultimately, VAT in the real estate sector is **not a one-size-fits-all system**. Proper classification of property supplies, careful structuring of transactions, and periodic reviews of business activities are critical to **mitigate risks, optimize VAT recovery, and maintain full compliance with UAE VAT regulations**.



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