

# Indirect Tax Alert

## UAE Tax Authority recommends registration of businesses for excise tax before 1 December 2019

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### Executive summary

Cabinet Decision No. 52 of 2019 (Decision 52) expands the scope of the excise tax in the United Arab Emirates (UAE) by including sweetened drinks, electronic smoking devices, liquids and tools. This decision will be implemented on a date set by the Minister, which must be before 1 January 2020. The Federal Tax Authority (FTA) indicated that the expected effective date is 1 December 2019, and therefore has urged importers, producers and stockpilers of electronic smoking devices, liquids used in such devices and sweetened drinks to register for excise tax purposes as soon as possible. The registration process includes registration of individual product categories and will require submission of extensive supporting evidence. Entities not registered for the excise tax after this date may be unable to import or trade excisable goods and may also face penalties.

### Detailed discussion

Decision 52 expands the list of goods subject to excise tax by replacing the currently effective Cabinet Decision No. 38 of 2017 as follows:

Excise goods	Rate
Tobacco and tobacco products	100%
Electronic smoking devices and tools	100%
Liquids used in electronic smoking devices	100%
Carbonated drinks	50%
Energy drinks	100%
Sweetened drinks	50%

According to the FTA, Decision 52 is expected to enter into effect on 1 December 2019. Entities not registered for the excise tax by the anticipated effective date will be unable to continue importing or releasing the excisable goods to the UAE market and may face penalties for failing to account for excise tax.

The FTA has prioritized excise registration and recommends that manufacturers and importers of sweetened drinks apply for registration before the end of September 2019. Importers and manufacturers of electronic smoking devices, liquids and tools should apply for excise registration before the end of October 2019. An importer is required to register if he imports more than once in a 6-month period or more than three times over a 24-month period.

Any person who owns "excess" sweetened drinks or electronic smoking devices, liquids and tools in free circulation during the course of conducting business and for which excise tax was not accounted for, such as stock on hand on the date the excise tax become applicable, will be regarded as a stockpiler and required to register for excise tax. The term "excess" in this context means excisable goods in excess of the person's average monthly stock level or twice the average monthly selling stock, based on a 12-month average. Note that this value needs to be calculated for each item per stock keeping unit (SKU).

As part of the registration process, each importer and producer (registrant) must create its own Retail Selling Price (RSP) list of imported or produced excisable goods. In addition to new registrants, businesses already registered for excise tax in the past may need to expand their RSP list, if they trade goods covered by Decision 52. Businesses will need to register their excisable goods by each individual SKU and the FTA requires the registrants to provide documentary evidence substantiating physical attributes and pricing of each individual product, such as laboratory reports, marketing materials and retail sale documentation from other countries. Registrants should also submit evidence for products not subject to excise tax, such as natural juices with no added sugar or beverages with at least 75% milk content.

## Implications

To reduce the risk of import and other business interruptions and potential fines, the FTA recommends that all entities likely affected by Decision 52 complete excise tax registration and update their RSP lists before December 2019. Businesses already registered for excise tax will need to update their product registrations if they also manufacture or import sugary drinks or any other excisable goods not yet registered. The FTA also recommends that the following registration dates are adhered to:

- ▶ Importers and manufacturers of sweetened drinks - September 2019
- ▶ Importers and manufacturers of electronic smoking devices, liquids and tools - October 2019
- ▶ Stockpilars of sweetened drinks or of electronic smoking devices, liquids and tools - November 2019

Given the wider range of products that will now be subject to excise tax, business should examine whether and how they might be able to use bonded tax warehouses in the UAE to lessen the cash flow impacts of excise tax.

For additional information with respect to this Alert, please contact the following:

**Ernst & Young Middle East (Dubai Branch)**

- ▶ David Stevens                      david.stevens@ae.ey.com
- ▶ Engela Wiid                        engela.wiid@ae.ey.com
- ▶ Marc Collenette                  marc.collenette@ae.ey.com
- ▶ Javier Pardo                        javier.pardo@ae.ey.com

**Ernst & Young Middle East (Abu Dhabi Branch)**

- ▶ James W Bryson                  james.bryson@ae.ey.com
- ▶ Sana Azam                         sana.azam@ae.ey.com

**Ernst & Young LLP (United States), Middle East Tax Desk, New York**

- ▶ Asmaa Ali                          asmaa.ali1@ey.com

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