

# VAT Penalties and Fines in UAE:

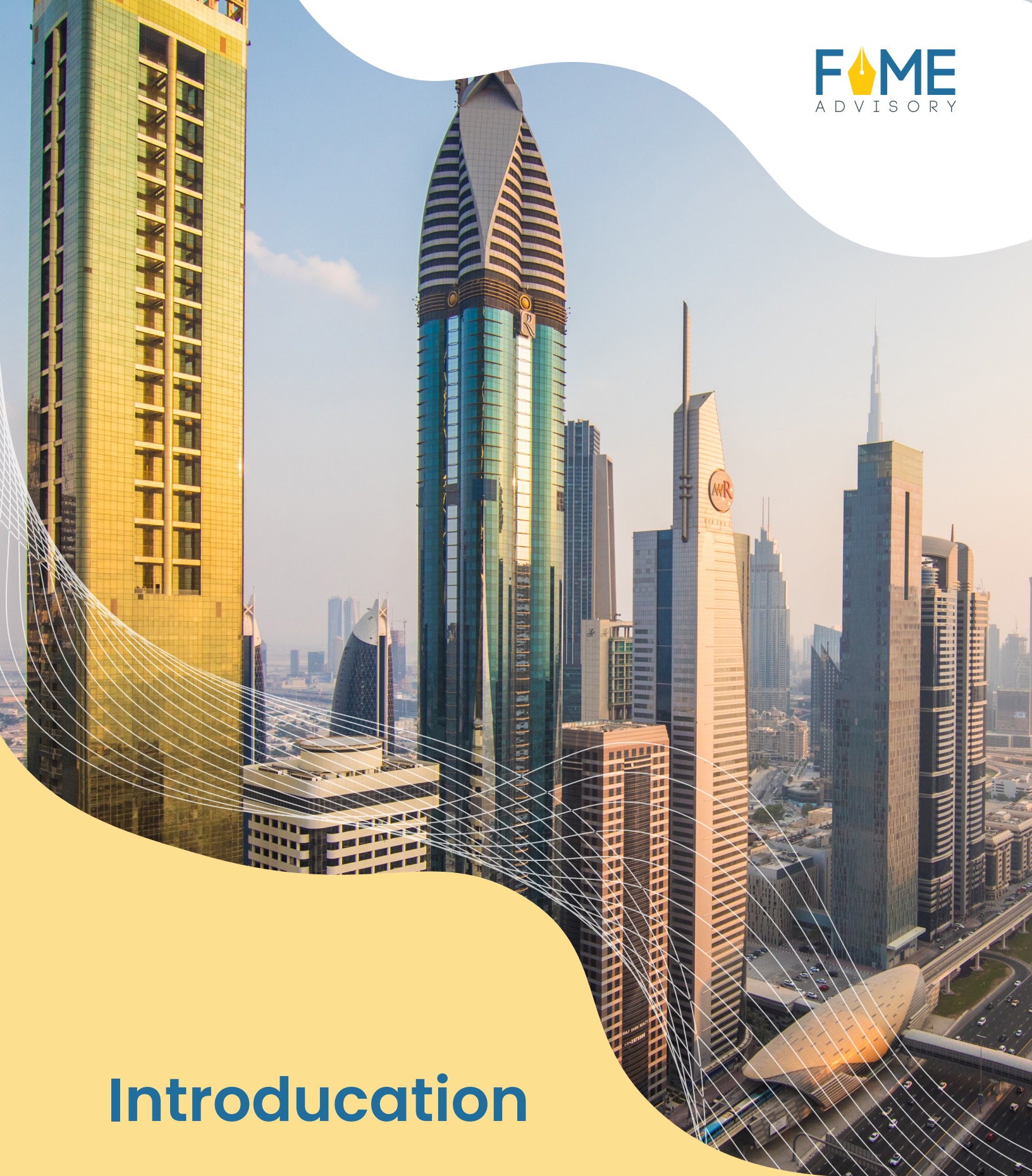
## Cabinet Decision No. (49) of 2021 Impact



# Table of Contents

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<b>01</b>	<b>Introduction</b>	<b>03</b>	<b>VAT Penalties Before and After Cabinet Decision No. (49) of 2021</b>
<b>15</b>	<b>Implications of The Amendments</b>	<b>18</b>	<b>Final Words</b>
<b>20</b>	<b>About FAME Advisory DMCC</b>		

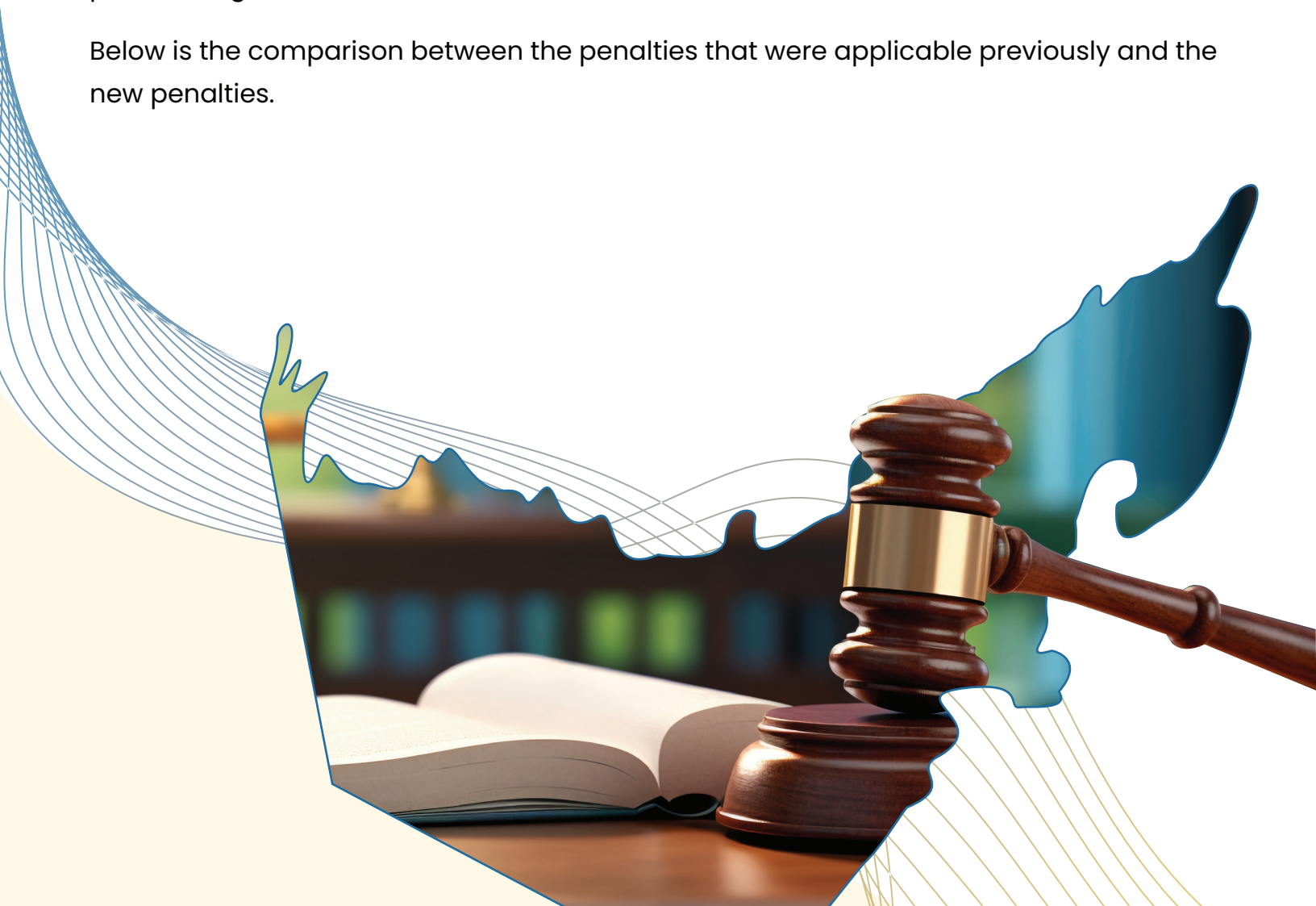


# Introduction

The United Arab Emirates (UAE) has published Cabinet Decision No. (49) of 2021, which amends Cabinet Decision No. (40) of 2017 on Administrative Penalties for Violations of Tax Law in the UAE. The amendments will be effective from 28 June 2021.

The amendment has substantially reduced the number of penalties compared to the previous legislation.

Below is the comparison between the penalties that were applicable previously and the new penalties.





# VAT Penalties Before and After Cabinet Decision No. (49) of 2021

# VAT Penalties Before and After Cabinet Decision No. (49) of 2021

Condition	Previous Penalty	New Penalty
The failure of the Person conducting Business to keep the required records and other information specified in the Tax Procedures Law and the Tax Law.	<ul style="list-style-type: none"> <li>• <b>AED 10,000</b> for the first time.</li> <li>• <b>AED 50,000</b> in case of repetition.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>AED 10,000</b> for the first time.</li> <li>• <b>AED 20,000</b> in case of repetition.</li> </ul>
The failure of the Registrant to inform the Authority of any circumstance that requires the amendment of the information pertaining to its Tax record kept by the Authority.	<ul style="list-style-type: none"> <li>• <b>AED 5,000</b> for the first time.</li> <li>• <b>AED 15,000</b> in case of repetition.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>AED 5,000</b> for the first time.</li> <li>• <b>AED 10,000</b> in case of repetition.</li> </ul>
The submittal of an incorrect Tax Return by the Registrant	<ul style="list-style-type: none"> <li>• <b>AED 3,000</b> for the first time.</li> <li>• <b>AED 5,000</b> in case of repetition.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>AED 1,000</b> for the first time.</li> <li>• <b>2,000</b> in case of repetition.</li> </ul>
Late payment penalty for failure to settle the stated VAT in the submitted VAT return.	<ul style="list-style-type: none"> <li>• <b>2%</b> Day after due date</li> <li>• <b>4%</b> One week after the due date</li> <li>• <b>1%</b> per day One month after the due date</li> <li>• <b>300%</b> Maximum</li> </ul>	<ul style="list-style-type: none"> <li>• <b>2%</b> Day after due date</li> <li>• <b>2%</b> One week after the due date</li> <li>• <b>4%</b> per month–One month after due date</li> <li>• <b>300%</b> Maximum</li> </ul>

Condition	Previous Penalty	New Penalty
<p>Late payment penalty for under-paid VAT as per the voluntary disclosure or tax assessment, when the error disclosed in*</p>	<p>1<sup>st</sup> year 2<sup>nd</sup> year 3<sup>rd</sup> year 4<sup>th</sup> year 5<sup>th</sup> year</p> <p style="text-align: center;"><b>5%</b> of the underpaid tax</p>	<ul style="list-style-type: none"> <li>• <b>5%</b> of the underpaid tax</li> <li>• <b>10%</b> of the underpaid tax</li> <li>• <b>20%</b> of the underpaid tax</li> <li>• <b>30%</b> of the underpaid tax</li> <li>• <b>40%</b> of the underpaid tax</li> </ul>
<p>The failure of the Person/ Taxpayer to voluntarily disclose an error in the Tax Return, Tax Assessment, or refund application pursuant to Article 10 (1) and 10(2) of the Tax Procedures Law before being notified by the Authority that it will be subject to a Tax Audit.</p>	<ul style="list-style-type: none"> <li>• <b>30%</b> of the underpaid tax after notification of the FTA audit</li> <li>• <b>50%</b> of the underpaid tax upon error discovered during an FTA audit</li> </ul>	<ul style="list-style-type: none"> <li>• <b>50%</b> of the underpaid tax along with 4% of the underpaid tax per month from the due date of the VAT return</li> </ul>
<p>The failure of the Taxable Person to submit a registration application within the timeframe specified in the Tax Law.</p>	<ul style="list-style-type: none"> <li>• <b>AED 20,000</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>AED 10,000</b></li> </ul>
<p>The failure of the Registrant to submit a deregistration application within the timeframe specified in the Tax Law.</p>	<ul style="list-style-type: none"> <li>• <b>AED 10,000</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>AED 1,000</b> in case of delay, and on the same date monthly thereafter, up to a maximum of AED 10,000</li> </ul>
<p>Failure by the Taxable Person to display prices inclusive of Tax.</p>	<ul style="list-style-type: none"> <li>• <b>AED 15,000</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>AED 5,000</b></li> </ul>
<p>The failure of the Taxable Person to issue a Tax Invoice or the alternative document when making any supply.</p>	<ul style="list-style-type: none"> <li>• <b>AED 5,000</b> for each tax invoice or alternative document</li> </ul>	<ul style="list-style-type: none"> <li>• <b>AED 2,500</b> for each detected case</li> </ul>

\* Where additional VAT liabilities arise from a voluntary disclosure or a tax assessment, the new rules represent a significant change as now taxpayers will be given 20 days to settle any underpaid tax before late payment penalties apply.

# Failure to keep required records and other information

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The failure of the Person conducting Business to keep the required records and other information specified in the Tax Procedures Law and the Tax Law.

Before the amendment, the previous penalty imposed was **AED 10000** for the default that happened the first time, and in case of repetition, it would be **AED 50,000**. After the amendment, the penalty in case of default repeats changed and was reduced to **AED 20,000**.

For example, if a business does not maintain invoices and receipts for sales made in January and June during the year 2024, it would be penalised with **AED 10,000** for the first default in January and **AED 20,000** for the repetitive default that happened in June.



# Failure to inform the Authority of the amendment of tax record information

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The failure of the Registrant to inform the Authority of any circumstance that requires the amendment of the information pertaining to its Tax record kept by the Authority.

The previous penalty was **AED 5,000** for the first time and **AED 15,000** in case of repetition. However, in the case of the repetition of default, the amendment decreased the penalty to **AED 10,000**.

For example, a company that moves to a new address but does not inform the tax authority about the change in its official records in 2023 and further changes its shareholders in 2023 would be penalised **AED 5,000** for the default of address change in 2023 and **AED 10,000** for the default in updating the shareholders' records.

# Submittal of an incorrect Tax Return by the Registrant

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The penalty for the submittal of an incorrect Tax Return by the Registrant was **AED 3,000** for the first time and **AED 5,000** in case of repetition. This has now changed to **AED 1000** in the case of the first default and **AED 2000** in the case of repetitive default.

For example, if a company submits a VAT return showing fewer sales than the actual need, it will be penalised **AED 1,000** for the first default in 2023.

## Late payment penalty for failure to settle the stated VAT in the submitted VAT return:

Late payment penalties for underpaid VAT as per the voluntary disclosure or tax assessment were 2%-Day after the due date, 4% one week after the due date, 1% per day one month after the due date, and which could go up to a maximum of 300%.

Now, the penalty is 2% a day after the due date, 2% one week after the due date, and 4% per month one month after the due date, which can go up to 300% maximum.

When a business has submitted its VAT return on time but fails to pay the due VAT amount of **AED 50,000** by the deadline, it needs to pay 2% of the unpaid tax immediately, i.e. **AED 1,000**, plus 4% per month up to 300% of the unpaid tax, i.e. maximum up to **AED 150,000**.

# Late payment penalty for underpaid VAT as per the voluntary disclosure or tax assessment

This has significantly changed the percentage of the penalty that would be imposed on the business in case of late payment for underpaid VAT as per the voluntary disclosure or tax assessment.

The penalty before was 5% of underpaid value irrespective of when disclosed.

However, the new amendment changed provided that if the error was disclosed in the first year, 5% of underpaid tax value, 10%, 20%, 30% and 40% if disclosed in the second year, third year, fourth year and a fifth year or thereafter respectively.

Where additional VAT liabilities arise from a voluntary disclosure or a tax assessment, the new rules represent a significant change. Now, taxpayers will be given 20 days to settle any underpaid tax before late payment penalties apply.

A company based on a voluntary disclosure finds that they owe an additional VAT of AED 20,000. They do not pay the amount within 20 days.

- Year 1: 5% of the underpaid tax (AED 1,000)
- Year 2: 10% of the underpaid tax (AED 2,000)
- Year 3: 20% of the underpaid tax (AED 4,000)
- Year 4: 30% of the underpaid tax (AED 6,000)
- Year 5 or thereafter: 40% of the underpaid tax (AED 8,000)

# Failure of the Person/Taxpayer to voluntarily disclose an error

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The failure of the Person/Taxpayer to voluntarily disclose an error in the Tax Return, Tax Assessment, or refund application pursuant to Article 10 (1) and 10(2) of the Tax Procedures Law before being notified by the Authority that it will be subject to a Tax Audit.

The previous penalty was 30% of the underpaid tax after notification of the FTA audit and 50% of the underpaid tax upon the error. The penalty is 50% of the underpaid tax, along with 4% of the underpaid tax per month from the due date of the VAT.

A taxpayer realises they made a mistake in their previous tax return but does not report it before receiving a notice of a tax audit, where the undeclared amount is **AED 10,000**. It needs to pay 50% of the undeclared tax amount, i.e. **AED 5,000**, along with 4% from the due date of the VAT return.

# Failure of the Taxable Person to submit a registration application

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The penalty for failure of the Taxable Person to submit a registration application within the timeframe specified in the Tax Law previously was **AED 20,000**, which is reduced to **AED 10,000**.

A business that reaches the turnover threshold for VAT registration but fails to apply for registration within the timeframe specified by the Tax Law needs to pay **AED 10,000**.

# Failure of the Registrant to submit a deregistration application

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In case the Registrant fails to submit a deregistration application within the timeframe specified in the Tax Law, the law previously imposed **AED 10000**. Now, the penalty is changed to **AED 1,000** in case of delay, and on the same date monthly thereafter, up to a maximum of **AED 10,000**.

A company stops trading and is no longer required to be VAT registered but does not apply for deregistration in a timely manner and thus needs to pay **AED 10,000**.

# Failure by the Taxable Person to display prices inclusive of Tax

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If the Taxable Person fails to display prices inclusive of Tax, a penalty of **AED 5000** will be imposed, which previously was **AED 15000**.

A businessman who advertises products with prices that do not include VAT, contrary to the requirement to display tax-inclusive prices, will be required to pay **AED 5,000** per instance.

# Failure of the Taxable Person to issue a Tax Invoice

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The failure of the Taxable Person to issue a Tax Invoice or the alternative document when making any supply earlier attracted a penalty of **AED 5,000** for each tax invoice or alternative document, whereas now it is **AED 2,500** for each detected case.

A service provider does not issue a tax invoice to its clients for services provided in the year 2024. He needs to pay **AED 2,500** per invoice not issued.





# Implications of the Amendments

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Overall, after the amendments, the penalty has been reduced, and it has adopted a supportive approach towards business.

By reducing penalties, the UAE tax authority aims to create a more business-friendly environment, reducing the financial burden and encouraging compliance. Below are the key changes:



### **1. Ensure Compliance with the Law**

The reduced penalties will encourage businesses to comply with tax without the fear of high penalties.

### **2. Supporting Businesses**

By reducing the fines, the TAX authority is giving its support to those who usually struggle with high penalties.

### **3. Promoting Voluntary Disclosures**

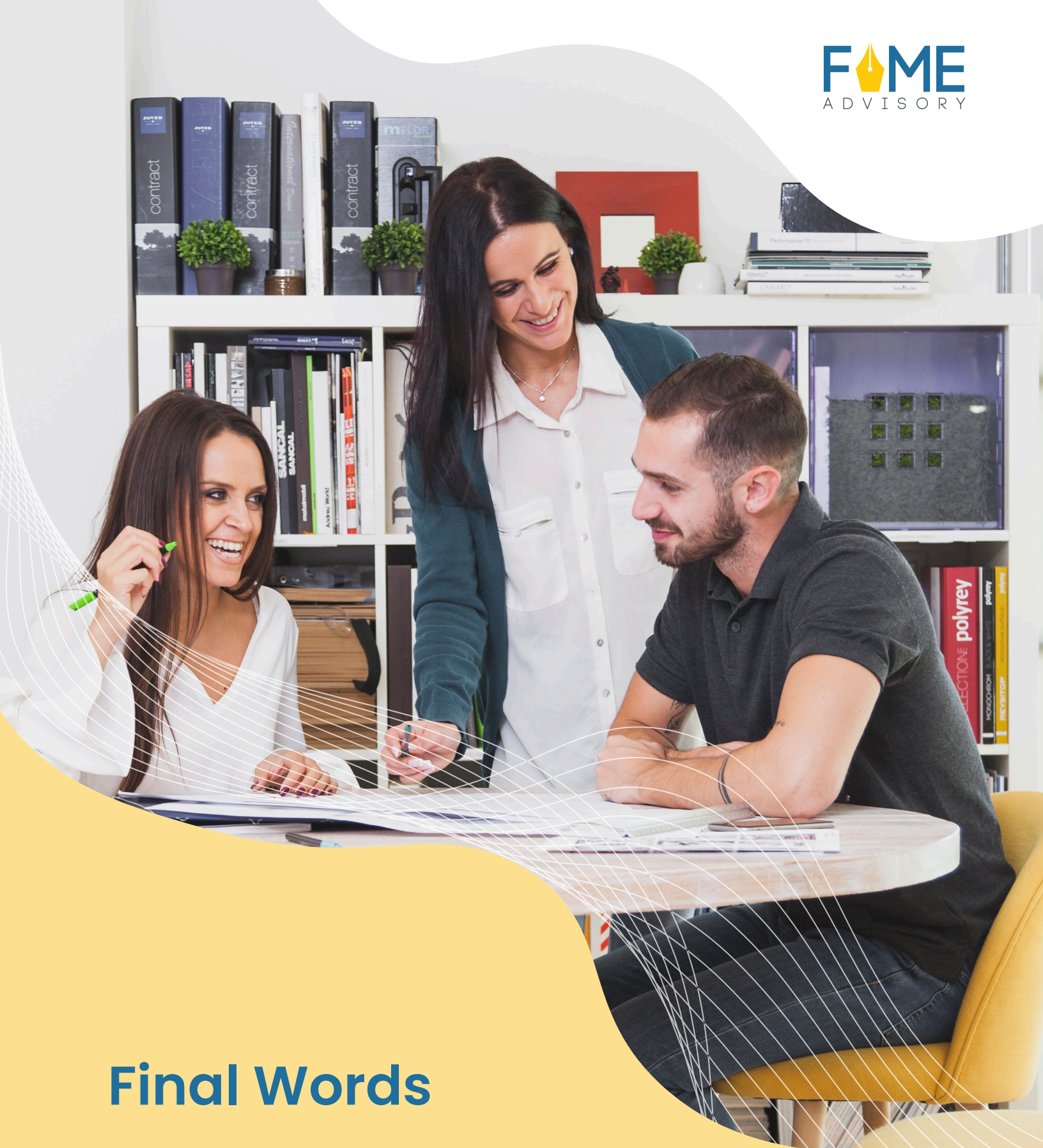
By giving the grace period for voluntary disclosures, the businessman will come forward and rectify errors early.

### **4. Improving Record-Keeping and Reporting**

The reduced penalties for record-keeping and reporting will encourage businesses to maintain correct and updated records.

### **5. Increase Focus on Business Operations**

By making the tax compliance process easy and smoother, businesses can focus on their growth and development.



# Final Words

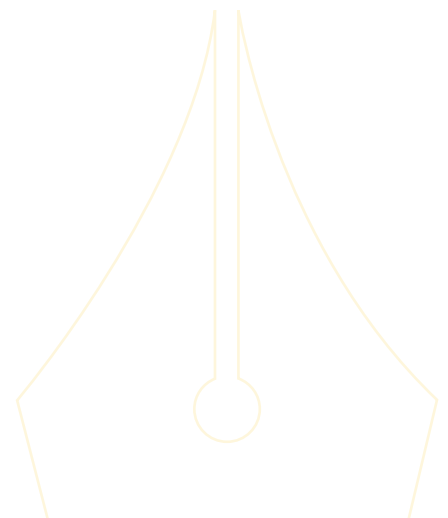
## Final Words

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The amendments introduced through Cabinet Decision No. (49) of 2021 marks a significant shift in the UAE's approach to tax penalties, aiming to foster a more supportive environment for businesses.

With such a reduction in penalties across various violations, the UAE tax authority seeks to encourage compliance and promote a culture of voluntary disclosure and accurate record-keeping.

Therefore, the new framework reflects a step towards enhancing business confidence and ensuring economic development in the UAE.



A nighttime photograph of a city skyline, likely Dubai, featuring several illuminated skyscrapers and a bridge with a complex cable-stayed structure. The scene is lit with various colors including blue, green, and yellow, with a large yellow curved shape in the foreground.

# About FAME Advisory DMCC

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With three decades of market presence, FAME Advisory has remained the UAE's most trusted and leading tax advisory and management firm. Along with that, FAME excels in various domains, such as corporate services, succession planning, and corporate structuring. Our primary aim is to align our solutions with the client's problems, educate them, and empower them to take informed decisions.

## Better future with FAME Advisory

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### Vision

To be the region's first choice for tax compliance and advisory in various aspects of the business.

### Mission

We at FAME Advisory aim to solve businesses' tax compliance issues and provide advisory services that help them achieve the milestones they dreamt of.

# Our Team



## Mr. Nirav Shah

Director at FAME Advisory

With over two decades of experience in corporate advisory, consultancy, and compliance, CA Nirav Shah is a qualified Chartered Accountant and a stalwart in the industry, being recognized as amongst the top corporate structuring, international tax, and compliance experts in the UAE, India, and other countries.

For more than 15 years, Mr. Nirav has had a distinguished journey consulting global clients on Corporate Structures and Governance and family asset holding structures and has served as a specialist in providing strategic inputs to organizations.



## Hemang Agravat

Manager - Business Development

As a Business Development Manager at FAME, Hemang has had a long professional career with a focus on growing the company's client base.

He holds a successful track record of nurturing clients & has been instrumental in building high-performing teams. He specializes in building programs that add value to the client relationships. Hemang brings in a wealth of experience bridging the gap between Sales & Advisory teams.



## Udit Chokshi

Manager- Corporate Tax and VAT Advisory

Udit Chokshi is a Taxpert, helping businesses all across the UAE in getting tax audit-ready, streamlining their VAT and accounting processes, and shield them against tax evasion. Being an active listener, Udit absorbs and understands the client's problem and situation and communicates the facts and solutions honestly.

As a customer service-oriented person, he believes in providing utmost dedication and availability to customers.





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