

UAE VAT PUBLIC Clarification (VATP001) - Compensation Type Payments



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Do you Know there are some payments which are “Out of the Scope of VAT”

What are those?

- **Contractual payments to compensate loss**

If the compensation payment is paid in accordance with the agreement or contract, this will be considered as “Compensation” which is Out of the Scope of VAT, until and unless, it is cessation of right.

- **Payments to settle disputes**

Look out the nature of dispute, if the nature of the payment classifies as supply of goods or services, payment will be subject to VAT.

Otherwise, if the nature is the payment of damages or compensation, it will be out of scope of VAT.

- **Fines or penalties**

Fines and Penalties, imposed either by Government or any other person as per the contractual terms, they are out of scope of VAT.

- **Payment for damaged goods**

Where a person damaged or lost other’s goods, the payment against damage is out of scope of VAT. However, in some cases the person is obliged to take title to damaged goods which is within the scope of VAT.

In determining whether or not a payment is consideration of any supply, it is necessary to consider the contractual and legal arrangements in full to determine the reason for the payment. A description of an administrative payment as a “penalty” or a “compensation” will not prevent the nature of the payment from being consideration for a supply