



CHANGE IN THE PERMITTED USE OF A BUILDING – VAT TREATMENT

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CHANGE IN THE PERMITTED USE OF A BUILDING

VAT TREATMENT

The Federal Tax Authority (FTA) of the United Arab Emirates has issued a Public Clarification VATP018 clarifying the VAT treatment on of the sale of a building and the subsequent use thereof by the purchaser. A summary of the subject Public Clarification is as under.

The Public Clarification states that supply of a building may be subjected to VAT, as follows, depending on the nature of the building and the permitted use thereof at the date of supply:

- Standard rated 5%
- Zero-rated
- Exempt

The Public Clarification states that since VAT is a transaction-based tax, the VAT treatment shall be determined independently at each date of supply. Means, on the subsequent sale of building each time the VAT treatment is to accorded at the date of supply keeping in view the permitted use at the time of each subsequent supply.

The Public Clarification discusses two scenarios to explain the VAT treatment when the permitted use of a building is changed subsequent to sale, these situations are discussed hereunder.



ACQUISITION OF A RESIDENTIAL BUILDING AND SUBSEQUENT SUPPLY THEREOF

First Supply:

The seller supplies the residential building to the buyer on the date of supply, if it is the first supply (within three years of completion) the supply may be zero-rated, otherwise supply might be exempt.

Second Supply:

Case 1	Case 2
The purchaser leases or sells the building as a principal place of residence to a third party. This supply is exempt from VAT.	The purchaser might amend the permitted use to lease or sell the building as a serviced or hotel apartment to a third party. This supply is subject to standard 5% VAT if the purchaser is a taxable person.

ACQUISITION OF A NON - RESIDENTIAL BUILDING AND SUBSEQUENT SUPPLY THEREOF

First Supply:

The seller supplies the non - residential building to the buyer and on the date of this supply it is subject to standard 5% VAT.

Second Supply:

Case 1	Case 2
The purchaser amends the permitted use of the building and leases or sells the building as a principal place of residence to a third party as a residential building. This supply is exempt from VAT.	The purchaser leases or sells the building as a serviced/hotel apartment to a third party. This supply is subject to standard 5% VAT if the purchaser is a taxable person.

The Public Clarification, after discussing the above scenarios, concludes that VAT treatment of the sale of a building is independent from its subsequent supply by the purchaser. Therefore, the VAT treatment accorded at the time of sale will remain the same irrespective whether the purchaser amends the permitted use subsequently.



Please share your queries & responses

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