

# AED 357 Million in Hidden Tax Liabilities Exposed: What **The UAE's** New VAT Apportionment Rules Mean for Businesses



## ABU DHABI:

The UAE's **Federal Tax Authority (FTA)** has intensified its compliance enforcement, carrying out **85,500 inspection visits** in the first half of 2025 - more than double the number during the same period last year.

These inspections uncovered **AED 357.22 million in unpaid taxes and fines**, marking an **86.29% year-on-year increase**, and led to the seizure of over **17.6 million non-compliant excise goods**, up **144.44%** from 2024.

**We utilise the latest digital technologies to enhance compliance, improve regulatory efficiency, and prevent the sale or storage of untaxed goods,"** said Sara Al Habshi, Executive Director of Tax Compliance at the FTA. **Alongside this enforcement drive, the FTA has issued new comprehensive guidance on VAT Input Tax Apportionment (effective September 30, 2025), introducing a more flexible and fairer mechanism for VAT recovery by businesses engaged in both taxable and exempt supplies.**



# Key Highlights of the New Apportionment Guidelines:

## **Tailored Recovery Options:**

Businesses can now choose from methods such as Outputs- Based, Transaction Count, Floorspace, and Sectoral Approaches, aligning VAT recovery more closely with real business activities.

## **Simplified Recovery Percentage (SRP):**

Eligible entities (registered for 12+ months) can apply a consistent recovery rate for four years.

## **Enhanced Compliance Obligations:**

Mandatory annual wash-up adjustments and actual-use reconciliations are now required for accuracy.

## **Application Process:**

Submissions via EmaraTax must include detailed justifications and 12 months of reconciled calculations.

## Why This Matters:

The FTA's actions reflect a dual focus, **strengthening enforcement** against non-compliance while offering **greater operational flexibility** to legitimate taxpayers. However, penalties for VAT non-compliance remain steep, escalating **up to 300% of the unpaid tax** for delays or inaccuracies.

## Our Take:

Timely VAT payments, accurate filings, and proper record-keeping are now more critical than ever. Businesses should proactively reassess their VAT recovery methods, ensure compliance readiness, and leverage the new apportionment framework to minimize risk and enhance efficiency.



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