Update

PKF

A QUARTERLY NEWSLETTER FROM PKF UAE AND PKF OMAN, PROUDLY PART OF THE PKF GLOBAL NETWORK

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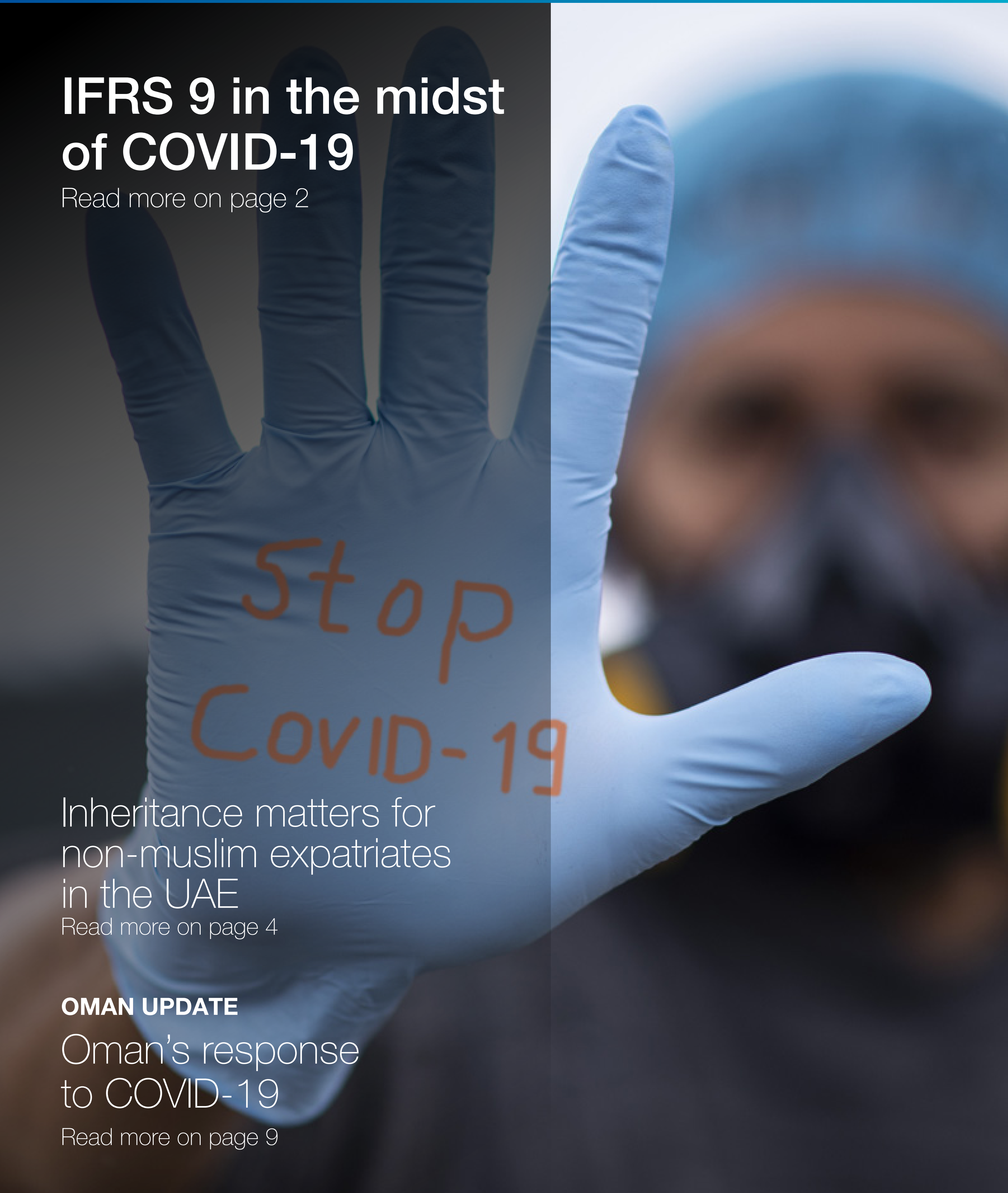


IFRS 9 in the midst of COVID-19

Read more on page 2

Inheritance matters for non-muslim expatriates in the UAE

Read more on page 4

OMAN UPDATE

Oman's response to COVID-19

Read more on page 9

IN THIS ISSUE

OUR VISION

We will be the first choice for companies in their selection of professional advisors.

OUR MISSION

We will provide quality service to our clients by focusing on client-specific needs and providing solutions to business problems, thereby adding value through expertise whilst maintaining integrity, professionalism and independence.

FROM THE MANAGING PARTNER - UAE

The last year of this decade will be remembered for all the wrong reasons. The first three quarters have seen erosion of substantial wealth and the worst economic downturn around the world. At this stage, it will take an overly optimistic person to claim that things will turnaround soon.

However, optimism is the one quality that separates human race from others. This positive spirit is personified in the frontline medical professionals and other faceless and nameless covid-19 warriors working tirelessly to ensure that their fellow humans live to see another day. The UAE plays an important role in the global race to develop vaccine for covid-19, as the world's first phase 3 clinical trials are currently underway in the country which is home to more than 200 nationalities, thus facilitating robust research across diverse ethnicities. As the world is cautiously coming out of the lockdown, it is heartening to note that the UAE is hosting the IPL cricket tournament in September which will see major international cricketing icons in action.

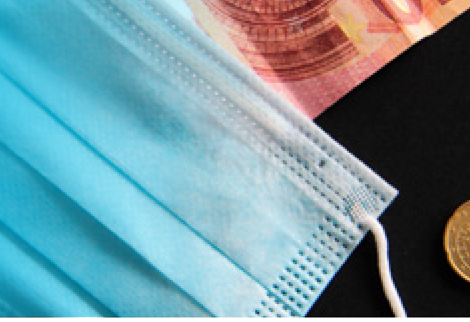
At this time of global crisis, countries that have traditionally not seen eye-to-eye for many reasons, bury the hatchet to come together for the sake of peace and humanity. In mid-August, the UAE and Israel announced a historic agreement that will lead to full normalization of diplomatic relations between the two states. Following this accord, HH Sheikh Abdullah bin Zayed Al Nahyan, UAE Minister of Foreign Affairs, and his Israeli counterpart Mr. Gabi Ashkenazi inaugurated a phone link between the two countries and exchanged greetings. After Egypt's peace treaty with Israel in 1979, followed by Jordan's in 1994, this makes the UAE only the third Arab country and first GCC country to normalize relations with Israel. This unprecedented action by the two countries is slated to usher in collaborations in many spheres including biotech, healthcare, defence and cyber surveillance. The BBC genially reported that following the agreement, the most searched-for words online were 'Hotels in Dubai' and 'Hotels in Israel'!

Returning from the brief lockdown hiatus, this issue catches up with noted educator - Mr. Nabil Nasr of the Al Mawakeb Group. We have an interesting inhouse article on IFRS 9 during the covid-19 pandemic. Among our usual contributors, we also have a topical guest column from Schluter Graf on inheritance matters for non-Muslim expats in the UAE. We pray to the Almighty that the covid-19 pandemic will end soon and life returns to normalcy.

Do write to us (update@pkfuae.com) for expressing your opinion on any matter included in the newsletter.

Stany Pereira

IFRS 9 IN THE MIDST OF COVID-19 PANDEMIC



Covid-19 and IFRS 9

In these unprecedented times, when we are facing multiple challenges due to onset of COVID-19, it is surprising to see increased discussions on a relatively new standard IFRS 9: Financial Instruments.

The issue we have at hand is medical and it needs a medical solution. So why are the economists, CFOs, accountants and auditors discussing IFRS 9?

In a nutshell, as the pandemic spreads, it looks like several borrowers would default on their loan instalments. One of the requirements of IFRS 9 on Expected Credit Losses (ECL) requires that the lenders should consider the event of default as a significant increase in credit risk and therefore create an allowance for the expected credit losses. The lenders would therefore have to top up their provisions as a result of default.

There is however an argument from the business community that the crisis is likely to be temporary and will not prolong. Businesses that look on the brink of collapse right now might bounce back as soon as the medical solution to the pandemic starts surfacing. So, is there a need to create provision when the losses are likely to be temporary and reverse in the short run?

In order to know what an accounting standard has to do with this crisis, it will be worthwhile to understand a brief history of the standard.

A brief history of IFRS 9

At the G20 summit in 2009, world leaders declared that improvements were needed to financial reporting. IAS 39 was widely considered to be one of the most 'unfriendly' IFRSs due to its complexities and internal inconsistencies. It was criticised for being too complex, inconsistent with the businesses and risk management, and deferred the recognition of credit losses on loans and receivables too late in the credit cycle. The IASB had always intended to reconsider IAS 39.

As a result, after several deliberations and deferment of the effective date for implementation, IFRS 9: Financial Instruments became effective for the accounting periods beginning on or after 1 January 2018.

IFRS 9 fundamentally redefined the accounting rules for financial instruments and one of the major changes it brought in was a forward-looking expected credit loss model. The idea was that more-timely credit loss recognition, would both induce cautious lending behavior in good times and prompt earlier corrective action in bad times and will help entities to further align risk and finance function.

Criticism of IFRS 9

The primary backdrop of IFRS 9 comes from the fact that the standard was designed to tackle economic crisis similar to the one in 2008 and not the one that is happening now. The requirements on ECL provisioning were introduced in the wake of the financial crisis in 2008. There are some views which state that the economies around the world are being beaten by the spread of the pandemic and lenders are fearing that the ECL could see their capital eaten up just when they are required to lend more to help the businesses to address the survival and liquidity challenge.

Further, The Institute of International Finance (IIF), amongst many, believed that the idea behind ECL framework was to build up reserves in good times to be used in bad times. However, in a severe economic downturn, the practical effect of ECL model has been the opposite.

Many banks across the globe have also argued that the growing economic uncertainties resulting due to the pandemic, and the rapidly evolving measures to confront related risks, make certain allowance-assessment factors potentially more speculative and less reliable at this time. As Eoin Mullany, analyst at Berenberg stated: "When your estimate is based on another estimate, your margin for error widens".

A case for IFRS 9

It could be argued that relying on expected loss models may hold back lending because lenders would face a capital crunch. This argument would be logical only if lenders capital requirements are set independent of the accounting standards used in the assessment of provision for expected losses. Industry experts believe that capital requirements and expected loss models are inherently linked and therefore, if lenders use forward looking ECL model for loss provisioning, regulators would also adjust capital requirements. This is because if lenders are well-timed and more proactive in measuring and recognising loan losses, their capital levels will also become more sensitive to risk in their loan portfolios. Such increased sensitivity would in turn allow regulators to adjust capital requirements to their loan portfolios.

More precisely, if the expected loss model provides good estimates of loan losses, and/or if lenders risk-taking incentive is not severe, implementing the ECL would actually relax capital requirements and spur lending.

In the light of the information that ECL produces, the concern that the ECL model could curb lending can be addressed directly by the regulators by setting up the rules to implement the appropriate level of capital requirements.

Consequently, if lenders implement the standard, regulators will optimally use the information to tailor capital requirements and could relax capital requirements to spur lending.

There are views which also state that the role of expected loss models is to reveal timely information about credit losses so that the lender's stakeholders can be kept informed. Ignoring such information would not discipline risk-taking. Governments and central banks are providing much of the cash to spur lending, nonetheless lenders will have to make a decision who should receive assistance and who shouldn't as they would have anyways struggled. This is precisely the time that lender management, board members, and regulators need to monitor credit risk more carefully. The ECL model provides this opportunity.

Further, as the crisis evolves, many borrowers and consumers may unfortunately default on their loans, and lenders would incur credit losses. But lenders that are cautious about recognising these losses will emerge from this crisis in a better shape and with more credibility.

The IASB's proactive role

In view of above conflicting views, many approached The International Accounting Standards Board (IASB) and regulatory authorities seeking clarity on application of extraordinary measures or other type of measures such as government support and guarantees and moratorium measures that are provided to borrowers, which can be analysed taking into account all the facts and circumstances, in order to assess whether the credit risk on the financial instrument has significantly increased or whether the borrower is only experiencing a temporary liquidity constraint and there has not been a significant increase in credit risk.

On 27 March 2020, IASB issued guidance on accounting for ECL applying IFRS 9 in light of the uncertainty resulting from the pandemic. The guidance sets out that in assessing forecast conditions, considerations should be given both to the effects of COVID-19 and significant government support measures being undertaken. Currently, it is likely to be difficult to incorporate the specific effects of COVID-19 and government support measures on a reasonable and supportable basis. However, one may argue that changes in economic conditions should be reflected in macroeconomic scenarios applied by entities and their weightings.

Further, a document by IASB responding to questions regarding the application of IFRS 9 during this period of enhanced economic uncertainty arising from the COVID-19 pandemic states the relevant requirements in order to consider how the pandemic affects the accounting for ECL. The document does not change, remove or add to, the requirements in IFRS 9 but is intended to support the consistent and robust application of IFRS 9.

The document acknowledges that IFRS 9 was developed in response to requests by the G20 and others to provide more forward-looking information about loan losses than IAS 39 and to give transparent and timely information about changes in credit risk. However, estimating ECL on financial instruments is challenging in the current circumstances. It highlights the importance of companies using all reasonable and supportable information available, historic, current and forward-looking to the extent possible, when determining whether lifetime losses should be recognised on loans and in measuring ECL.

The document reinforces that IFRS 9 does not provide bright lines nor a mechanistic approach in accounting for ECLs. Accordingly, companies may need to adjust their approaches to forecasting and determining when lifetime losses should be recognised to reflect the current environment.

The IFRS Foundation and IASB continue to work in close cooperation with regulators and others regarding the application of IFRS 9, and the document encourages companies to consider guidance provided by prudential and securities regulators.

UAE's response

The proactive approach of the authorities and the Government in the UAE has helped significantly the recovery process.

In a recent move, the Central Bank of UAE (CBUAE) issued a new requirement for all banks in the UAE to apply the prudential filter to the ECL requirements under IFRS 9 to minimise the provision requirements at a time when the banks are hard pressed for liquidity and funding. The CBUAE has said that any increase in provision will be partially added back to the regulatory capital.

The move will greatly assist banks in the UAE and provide much needed relief to the economy as businesses recover.

Concluding thoughts

IFRS 9 and the related disclosures can provide required transparency to users of financial statements. Several prudential and securities regulators including CBUAE have published guidance commenting on the application of IFRS 9 in the current environment and IASB encourages entities to consider that guidance.

Whether criticism of ECL have been justified by this crisis is another matter, but the fact remains that it is being tested so soon after its introduction. However, the world should not forget that one of the major reasons of the financial crisis in 2008 was too much of debt worldwide. Ever since the debt has increased multi-fold, we hope that IFRS 9 does not get tested again in its lifetime.

This article is contributed by Vinod Joshi (Partner), Shaji Joseph (Director) and Sachin Joshi (Senior Manager).

GUEST COLUMN

INHERITANCE MATTERS FOR NON-MUSLIM EXPATRIATES IN THE UNITED ARAB EMIRATES

Inheritance matters can be a common topic of discussion and concern for non-Muslim expatriates in the United Arab Emirates ("**UAE**"). Most expatriates wish to distribute their assets in accordance with the laws of their home country but are unaware that in the absence of a will, recognized by the UAE legal system, the distribution of their assets will be subject to UAE law, including Sharia principles. In such case, the process of transferring assets after their death can be time consuming, costly and fraught with legal complexity.

This article provides an overview of the legal framework for inheritance matters in the UAE and outlines recognized options to register a will that allows for the distribution of assets in accordance with the law of the home country of the testator.

Legal Framework

Inheritance matters in the UAE are governed by the Civil Code (Federal Law No. 5 of 195, "Civil Code"), Personal Status Law (Federal Law No. 28 of 2005 "Personal Status Law") and certain Sharia principles.

In case the deceased leaves behind immovable or moveable property (e.g. real estate, cars, personal belongings, bank accounts etc.) in the UAE, the Personal Status Court of the respective Emirate is authorized to divide the assets between members of the family in accordance to mandatory Sharia principles. Until a decision is made and a certificate of inheritance has been issued, access to the assets of the deceased is restricted. In some circumstances this can give rise to delays and financial complications at a critical time. A surviving spouse for instance, might not have access to the bank account of the deceased or to a joint bank account in the UAE, as banks will typically 'freeze' accounts until a certificate of inheritance can be produced.

Article 17 of the Civil Code states that the law of the home country of a non-Muslim can be applied to matters of inheritance determining the heirs and allocating the assets. However, Sharia principles remain applicable to immovable property in the UAE (see also Article 17 (5) of the Civil Code). Despite there being a distinct mechanism in the Civil Code for the application of foreign law, Personal Status Courts are reported to nevertheless apply UAE law and Sharia principles to all assets in certain cases.

This leads to potential uncertainty for the surviving family members of deceased non-Muslim expatriates.

Furthermore, serious complications can occur when minors are left behind, and no recognized guardianship arrangement has been put in place. By default, Sharia inheritance rules would apply and it would be at the discretion of the competent judge to choose the child's legal guardian. In general, this means that the husband's father or the closest male relative would become the legal guardian of any minor children as per Sharia principles – an outcome that may not meet the surviving family's expectations.

Effect of EU Regulation for European citizens residing in the UAE

Citizens of the European Union ("**EU**") are subject to the so-called Inheritance Regulation (EU Regulation No. 650/2012 "**EU Inheritance Regulation**"). The EU Inheritance Regulation – effective since August 17, 2015 – stipulates that the law of the country shall be applicable in which the deceased had his/her last permanent residency. However, if the testator choses a specific law in a will (e.g. the law of his/her home country), then the choice of law clause would prevail over the use of the law of the country where the testator has his/her permanent residency.

In case EU citizen had his/her last permanent residency in the UAE and has assets in a member state of the EU, the competent courts of such EU country may be required to distribute such assets in accordance with UAE law in case the deceased did not register a will with a choice of law clause specifying the application of a different law.

In order to avoid the above-mentioned situation and to safeguard distribution of assets available in the EU in accordance to the law of the deceased's home country, it is recommended to register a will in the respective home country which includes an appropriate choice of law clause. However, it should be noted that wills that are registered in other jurisdictions are not recognized by the UAE courts and authorities when it comes to assets within the UAE. Such will, will only safeguard distribution of assets in accordance to the wishes of the testator located within the EU.

Will Registration for Non- Muslim Expatriates at the DIFC Wills Service Center

Due to the discrepancy between the legal framework and its factual application in the UAE, non-Muslim expatriates should consider the importance of having a will recognized under UAE law when holding assets located in the UAE. It is essential and recommended for non-Muslim expatriates with assets and/or minor children in the UAE, to register a will using recognized means to guarantee distribution of assets in accordance to the deceased individual's wishes and appropriate guardianship agreements.

The DIFC Wills Service Center with its seat in the Dubai International Financial Center ("**DIFC**") was established in 2014 and provides non-Muslim expatriates the opportunity to register a will and allocate their assets in accordance with the laws of their home country.

The DIFC Wills Service Center mirrors common law jurisdiction principles and provides testamentary freedom as opposed to the forced heirship regime under UAE law and Sharia principles. A will registered with the DIFC Wills Service Center can include movable and immovable assets located in all Emirates. Non-Muslim expatriates who are at least 21 years old and wish to register a will with the DIFC Wills Service Center do not require a residency in the UAE. Assets can be allocated pursuant to the testator's wishes and without observing UAE law or Sharia principles. The will must, however, be compliant with the laws of the testator's home country in terms of succession and inheritance distribution, as otherwise, the will may be contested. Wills can furthermore include guardianship clauses for minors living in the UAE without the requirement to observe Sharia principles.

In light of the Covid-19 pandemic, the DIFC Wills Service Center has introduced a new virtual registration portal. The registration process now allows a testator and two witnesses to join via video conference call from different locations, rather than scheduling an appointment at the DIFC Wills Service Center, as was previously the case.

Upon verification of the identity of the testator and reviewing the will, the will can be directly uploaded to the system. The testator and the witnesses sign the will and share a scan via email during the video conference call. Once registered, it is stored as an encrypted file for 120 years in the DIFC Courts' system.

Summary

The legal framework for inheritance matters in the UAE is not consistently applied by UAE authorities and courts, in particular with regard to non-Muslim expatriates with assets in the UAE and can result in the (unwanted) application of Sharia principles. The DIFC Wills Service Center offers a recognized service to register wills for non-Muslim expatriates in accordance with the laws of their home country and provides an opportunity to secure the future of valuable assets and minors.

When it comes to inheritance matters, expatriates are usually confronted with multiple jurisdictions and legal systems. A timely legal consultation can avoid ambiguities and undesired complications. Non-Muslims expatriates with assets or minors situated in the UAE should consider registering a will with the DIFC Wills Service Center in order to avoid legal complications.

The DIFC Wills Service Center has a list of registered and accredited "Wills Draftsmen" who are authorized to draft wills for individuals and can assist with the registration procedures. SCHLÜTER GRAF is a registered Wills Draftsmen and can assist individuals with drafting compliant wills recognized under UAE law.

This article is contributed by Dounia Aghdoube, Senior Associate, SCHLÜTER GRAF Legal Consultants and Andrés Ring, Partner, SCHLÜTER GRAF Legal Consultants.

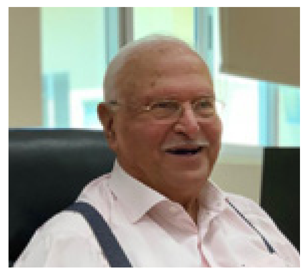
MEET THE TEAM MEMBER

HIMANSHU SAPARIA

ASSISTANT MANAGER, EXTERNAL AUDIT DEPARTMENT

Himanshu is an Associate Chartered Accountant (ACA) from the Institute of Chartered Accountants of India and also holds Bachelor in Commerce from Mumbai University, India. Himanshu is working with PKF since June 2019 and is an Assistant Manager in External Audit Department. Prior to joining PKF, he was with Ernst and Young in Mumbai, India for 4 year and Reliance Industries Limited. Mumbai, India for 1 year.

As an Assistant Manager with PKF, **Himanshu** has direct responsibility for a client portfolio comprising companies in wide range of business sectors engaged in real estate, manufacturing, construction, contracting, maintenance, trading and service activity. His hobbies are reading on topics related to current affairs and economics, playing cricket, watching movies and travelling.



INTERVIEW WITH MR. NABIL NASR

Mr. Nabil Nasr, Member of Board of Directors, and President of Al Mawakeb

When Nabil Nasr, a Lebanese teacher, came to the UAE with a big dream and a small pocket, little did he know that the school he started out of a three-compound villa in Garhoud in the late 1970s, would expand to include 8,000 students today. The school came into being in 1979, when Mr. Nasr, who came to the UAE during Lebanon's civil war in 1975, attended a majlis with Khalifa Juma Al Nabooda, Hamad Bin Sougat and Sharafuddine Sharaf. The three, joined and supported Mr. Nasr in his dream and are the founding partners and board of directors of Al Mawakeb Group of schools.

We had an opportunity to have chat with the visionary. Given below are the excerpts of our chat from this exemplary academician.

Setting up a school in an unknown country which was itself in the midst of finding its feet as a nation must have been challenging. Do tell us about the journey from 1979 to 2020?

Dubai was, and always will be, the home for entrepreneurs in whatever field they want to excel in. We wanted to build a brand that would provide education for all. Our mission then and now remains locked. We believe that every person deserves the opportunity for self-realization, and have worked accordingly for the last 41 years. All torch bearers across the years have upheld our mission and the board continues to oversee the purpose, and provide the necessary support for them.

Dubai has come a long way, and we have raced ahead of all others in the technological advancements and integration stay at the forefront of educational development. From our campus in Al Garhoud in 1979, we planned and we built our second campus in Al Barsha in 1997, then launched ISAS in Al Warqa in 2007, and recently built our next state of the art campus in Al Khawaneej in 2017.

Our alumni base has exceeded 8000 students in all the walks of life, and from them we draw strength and resilience. The walls of our schools tell a thousand stories of commitment and our olive trees shade our students where they may travel.

My journey is defined by the friends we made along the way, the love we seeded in our teams and our students and the immense honor to be a part of the history of a city that has set the standards for achievement and growth across the planet.

How challenging was it to find dedicated and passionate teachers in the early part of the school's history?

That challenge was and will always be there. This is a sacred profession that is not sought for riches. The decision to become a teacher comes with a knowledge and acceptance that it provides tranquility and satisfaction that only a few professions can provide. University qualifications will not suffice, it is about embracing the vocation and making the growth of others your eminent driver.

In the quiet smile of a kid... in the comforting words of a parent… in the silent knowledge that you have touched someone's life and perhaps changed it forever…

Teachers walk alone yet united. Their strength goes beyond mastery of subject, it is not physics, history or the instruction of a language. It is in the shaping of the character and the molding of the soul.

A good teacher will be your companion for life and you will always remember words he said and directions he gave…

I have strived throughout my years with our schools to find the teachers who subscribe to our vision and understand that our expectations exceed the delivery of knowledge to lay focus on the development of human character. We wanted a team that accepted growth and understood that education is an important social experience as well as an academic one.

How important have your people (staff and management) been in Al Mawakeb's astonishing journey?

Our staff from the junior member to the back-office integrator to our teachers and Senior Leadership Team are our strength. The familial approach to our management has created the loyalty across our years and to them we owe all the success that we have had. I can never thank them enough for their dedication and hard work.

How does the Group combat the fierce competition in the education industry from local and expatriate schools? Four decades of experience must have had your schools go through plenty of highs and lows.

Combat is an unusual word. We are all providers of education and safe environment. We don't compete. We either deliver on our promises or we don't.

When parents entrust you with their children, they are silently asking you to protect them, to provide for them, to secure their children. They are telling you: I am giving you the best part of me and the most precious thing I have.

We must always see this... at Al Mawakeb, that is our driver and with that comes our commitment and strength. We don't compete ... we endeavor to always deliver on our silent promises.

Schools that work like this enhance each other by setting the proper benchmarks… and with that the overall culmination is a total and complete trust from all stakeholders.

With the world reeling from the effects of the world wide pandemic, how do you feel the Group is shaping up for the challenges in the upcoming years?

For me and to all around me it is a matter of survival and brand protection. UAE is in the best place to be in this pandemic. The leadership of the UAE has provided and shall continue to provide to secure the safety of every one on this precious land.

As a Group, and under the wise approach of our management and board, we have the resources, and shall deploy everything to provide the safe premise environment and blended education that is needed in these trying times. The hallways of our and other schools shall echo back soon with the sounds of our children…
it is a matter of time only…

We will all prevail together.

What message do you wish to give to established and upcoming educators in the region?

Never lose sight of why we do what we do… we are teachers ... we are educators… we want to shape lives and better them…that is our mission…

Come with an open mind that embraces change, accepts challenges and always keeps what impacts children positively at the center of your focus. Your learning is not a task but a continuous state of being. Be the kind of teacher you wanted for yourself, find your path in humility, kindness, compassion, respect, lifelong learning and a sense of humor.

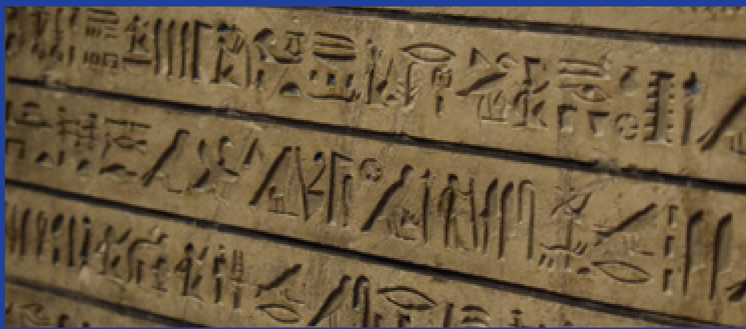
What is your vision for the future of the Group in light of the current challenges?

We need to remain focused on the original mission and never deviate from it. We need to continue to expand our brand so that more people benefit from our education … we need to remain true to our alumni and our students… firmly believe in every generation and in their capacity to adapt and improve.

DID YOU KNOW…

PICTOGRAPHIC TABLETS (3,200 BC)

Over 5,000 years ago, the ancient Mesopotamians started to record quantities on clay tablets. They partitioned the tablet into rows and columns. Within each cell, they drew a picture of the type of item and made holes indicating the quantity of it. Each type of item had its own standard pictographic representation, making this ledger language the earliest form of human writing we've discovered. It's called "Proto-cuneiform" because it later evolved into a complete written language called "Cuneiform". In other words, the ancients invented Excel before Word!



TALLY

A tally stick was an ancient memory aid device used to record and document numbers, quantities, or even messages. Tally sticks first appear as animal bones carved with notches during the Upper Palaeolithic; Tallies have been used for numerous purposes such as messaging and scheduling, and especially in financial and legal transactions, to the point of being currency. There are two different kinds of tally sticks: the single tally and the split tally.

The single tally stick was an elongated piece of bone, ivory, wood, or stone which is marked with a system of notches (see: Tally marks). The single tally stick serves predominantly mnemonic purposes. The split tally was a technique which became common in medieval Europe, which was constantly short of money (coins) and predominantly illiterate, in order to record bilateral exchange and debts. A stick (squared hazelwood sticks were most common) was marked with a system of notches and then split lengthwise. This way the two halves both record the same notches and each party to the transaction received one half of the marked stick as proof.

TAX UPDATE

INTERNATIONAL TAX & INDIRECT TAX

The UAE Federal Tax Authority ('the FTA') has issued certain public clarifications, updated guides and Cabinet decisions since our last tax update as under:

DATE	TAX	TYPE OF UPDATE	PARTICULARS OF UPDATE
January	VAT	Public clarification	Time-frame for recovering Input Tax
January	VAT	User Guide - updated version	New Residences VAT Refund
January	VAT	Cabinet Decision	Refund of Value Added Tax Paid on Goods and Services Connected with Expo Dubai
February	VAT	User Guide - updated version	Refund of Value Added Tax Paid on Goods and Services Connected with Expo Dubai
March	VAT	User Guide - updated version	VAT Administrative Exceptions
April	VAT	Public clarification	Change in the permitted use of a building
April	VAT	User Guide - updated version	Charities
April	VAT	User Guide - updated version	Real Estate
June	VAT	Cabinet Decision	Changes in condition to qualify for zero rating of Export of Services
July	VAT	Public clarification	Zero-rating of export services
January	Excise	Public clarification	Deregistration of Stockpilers
January	Excise	User Guide - updated version	Excise Tax Return User Guide
March	Excise	Public clarification	Renewal of Designated Zone Registration
June	Excise	Public clarification	Postponement of the implementation of the final step of phase two of the marketing tobacco and tobacco product scheme

VAT public clarification on time frame for recovering Input Tax

The public clarification specifies that Input tax can be recovered in the tax period in which the following conditions are satisfied:

- Invoice is received from the supplier; and
- An intention to make payment to supplier, before expiration of six months after the agreed date of payment, is formed.

VAT user guide on Administrative Exceptions

A new category of VAT Administrative Exception relating to "Evidence to prove export of goods" has been added.

VAT user guide New Residences VAT Refund and Refund of VAT Paid on Goods and Services Connected with Expo Dubai

Certain procedural update on claiming refund of VAT paid has been made.

VAT public clarification on change in the permitted use of a building

It has been clarified by the FTA that any eventual change in permitted use of a building after its sale will not impact the tax implications of the initial sale transaction.

VAT user guide on Charities

Under the updated guide, it has been specified that a Deemed Supply could be subject to VAT at Zero rate depending on circumstances.

The updated guide further includes certain criteria that Ministry of Community Development or any other relevant government entity may consider in order to decide if a charity should be approved as 'Designated Charity'. Below are the specified criteria:

- The Services performed by the charity are the ones that they have been licensed to perform;
- No trading activities are undertaken;
- The charity is managed by 'fit and proper persons' which have been further explained in the guide.

VAT user guide on Real Estate

The user guide on Real Estate has been updated to explain the below scenarios:

- Input VAT will not be recoverable if incurred on accommodation provided to employees which is not necessary for the employees to perform their role.
- Bare Land will retain its nature if a movable structure is placed on it. Therefore, a supply of such Bare Land will continue to remain "Exempt".

- VAT would be charged as per the nature of the Land as on the date of sale. Hence, the supply of a Bare Land would be Exempt if Date of Supply is triggered before the land ceases to be Bare Land.
- The taxability of a registered Musataha would be determined as on the date of agreement and no adjustment to the VAT treatment would be required at any later stage.

Cabinet Decision on changes in condition to qualify for zero rating of export of services

The Cabinet Decision has amended the conditions for export of a service to qualify for Zero Rating. It has been mandated that the recipient should not be present in UAE for more than a month and his presence should not be related to the supply.

VAT Public Clarification on Zero-rating of export of services

The public clarification provides the following key explanations:

- An export of service will be Zero Rated if the recipient does not have a Place of Residence in UAE
- If the recipient has multiple establishments, the Place of Residence would be the location most closely related to the supply.
- In instances where service has been received by more than one establishment, aspects such as which establishment is contractual recipient, contractual beneficiary, establishment receiving invoice and making payment, establishment providing instruction to supplier, etc. should be considered while determining the Place of Residence.
- The period to be considered for determining the residency of the service recipient is the time frame during which the service is performed.

The clarification further emphasises that in case of any ambiguity, a conservative approach should be opted and supply should not be Zero Rated.

Excise Tax Public Clarification on of Stockpilers

The Public Clarification specifies that a stockpiler may be allowed to deregister where less than six months have passed since their effective date of registration for Excise in the following circumstances:

- The registered person has met all his Excise tax obligations; and
- The registered person does not conduct or has an intention to conduct activities that will trigger an Excise tax registration obligation.

User guide on Excise Tax Return User Guide

The user guide has been updated by FTA thereby introducing the process of submitting Form 203D for Stockpile Declaration.

Further, it has been specified that while reviewing the'EX203B - Lost and Damaged Declaration', FTA may request a Destruction Certificate.

In this case, a new 'Lost & Damaged Declaration' cannot be submitted until the process of Destruction Certificate is completed.

Excise Tax Public Clarification on Renewal of Designated Zone Registration

It has been emphasised via Public Clarification that a Designated Zone ('DZ') registration is required to be renewed every 12 months in order to maintain its status. Further, it recommends certain specified measures to be undertaken to renew the registration.

Excise Tax Public Clarification on Postponement of the Implementation of the Final step of Phase Two of the Marketing Tobacco and Tobacco Product Scheme

The Public Clarification has notified that implementation of the final step to phase two of the Digital Tax Stamps ('DTS') Scheme applicable on water pipe, tobacco and electronically heated cigarettes has been postponed until 1 January 2021.

OMAN UPDATE

OMAN'S RESPONSE TO COVID-19

The COVID-19 outbreak in Sultanate of Oman and the world has adversely impacted the economy owing to various measures taken by the government such as lockdown, travel ban, social distancing etc, to contain spread of the same. In order to reduce the adverse impact on economy and businesses government of Sultanate of Oman has taken various remedial measures. Important measures are as follows:

A) BANK FINANCE MEASURES:

On March 18 2020, the Central Bank of Oman (CBO) announced a set of policy measures effective immediately to support the financial sector and along with comprehensive incentive package to inject additional liquidity of more than OMR 8 billion (USD 20.78 billion) into the economy.

continued on the next page >>

The key measures announced were as follows:

- Lower capital conservation buffers by 50%, from 2.5% to 1.25%.
- Increase the lending ratio/financing ratio by 5% from 87.5% to 92.5%, on the condition that this additional scope be reserved for lending to productive sectors of the economy including the healthcare sector.
- Accept requests for deferment of loans/interest (profit for Islamic financial institutions) for affected borrowers, particularly SMEs, with immediate effect for the coming six months without adversely impacting the risk classification of such loans.
- Defer the risk classification of loans pertaining to government projects for a period of six months.
- Local banks to consider reducing existing fees for various banking services and avoid introducing new fees in 2020.
- Reduce the interest rate on repo operations by 75 basis points, to 0.50%, and increase the tenor of repo operations up to a maximum of three months.
- Decrease interest rate on discounting of government treasury bills by 100 basis points to 1.00%.
- Reduce the interest rate on foreign currency swap operations by 50 basis points and increase in the tenor of swap facility up to a maximum period of six months.

B) MANPOWER COSTS RELIEFS:

On 15th of April 2020, the Supreme Committee tasked with handling the developments of coronavirus (Covid-19) pandemic approved a set of incentives to support the private sector and its manpower which included the following:

- Non-termination of services of Omani manpower. Affected private sector establishments and firms may offer advanced paid annual leaves for their workers in sectors that have been shut down.
- Affected private sector establishments may negotiate to lower the salaries of their workers for a period of three months in return for a reduction of duty hours after the expiry of outstanding days of an employee's paid leave. If necessary, this system will begin to be applied with effect from May 2020.
- For Omani manpower whose salaries are lowered, their bank loans will be postponed, and so shall their financing loans during the salary reduction period. Their loans will be rescheduled and allowed to be paid back without interest or additional fees. Their electricity and water bills will be postponed till the end of June 2020.
- Non-Omani manpower: Their respective employees' annual leave may be advanced and paid in full if they operate in the sectors terminally shut down.
- Non-Omani manpower: Expatriate workers of affected private sector establishments and firms can be terminally repatriated to their respective countries, according to the package agreed by the Supreme Committee and establishments and firms of the private sector.

C) CORPORATE AND OTHER TAX CONCESSIONS:

On 31st March 2020, following income tax relief measures were announced:

- Deferring provisional tax return filing and payment of tax by up to three months from the due date.
- Exemption from all fines and penalties related to such deferred filing and tax payments.
- Tax deductions for all donations or contributions made toward handling the COVID-19 pandemic, in accordance with the prescribed rules under the income tax law and the executive regulations.
- Flexible tax payment mechanisms, extension of timelines for filing objections against tax assessments and additional time to submit supporting documents and clarifications for ongoing objection proceedings.
- Tourist and municipality tax (applicable @4%) for restaurants and municipality tax (applicable @ 5%) for commercial establishments exempted upto 31st August 2020.

Further on 8th July 2020, the country's Tax Authority announced a slew of measures for corporate companies in the wake of coronavirus outbreak:

- Suspension of additional tax due to non-payment of income tax payable for the tax year ended on December 31, 2019 upto September 2020.
- Suspension of all fines for non-submission of declarations and accounts for the fiscal year 2019 till the end of September 2020.
- Suspension of additional tax due from the original taxes payable for the years prior to 2019, during the period from January 1, 2020 to the end of September 2020.
- Authority also allowed corporate companies to pay tax due for tax year 2019 in instalments.

Other than above, there have been various other measures adopted such as postponement of electricity and water fees for three months for affected private sector firms, exemption from rent granted to factories in industrial cities for a period of 3 months, reduction of employment renewal visa cost, reduction or exemption of various statutory fees, etc. All the relief measures taken would definitely help to reduce the adverse impact on economy and businesses.

This article is compiled by Mr. Zaid Patel, of PKF L.L.C., the PKF member firm in the Sultanate of Oman.

RANGE OF SERVICES

Audit, Assurance & Advisory

- Statutory audit
- Other assurance services including Agreed-upon Procedures
- Compilation of financial statements
- Agreed-Upon Procedure for RERA
- In-Country Value (ICV) certification for ADNOC
- Training, consulting and implementation of IFRS
- Internal audit including compliance for DFSA regulated entities
- Business risk identification
- Internal control review
- Risk management review
- Finance and Accounting Procedures Manual
- System and Operating Procedures Manual
- Due diligence reviews
- Forensic and other investigations
- Delegation of authority matrix

Corporate Finance

- Financial due diligence
- Market analysis and feasibility studies with financial forecasts
- Business & share valuations
- Identification & valuation of intangible assets on a business acquisition (purchase price allocation)
- Impairment reviews
- Preparation of Business Plans and Information Memoranda
- Fund raising
- Advice on partner/share holder entry/exit
- Review of financial models
- Sale of business

Business Process Outsourcing

- Book keeping and accounting services
- Payroll and HR management and processing
- Confidential processing of payroll
- Short term placement of accounting staff
- Outsourced accounting & payroll services for DIFC companies
- Fixed asset management
- Inventory verification and reporting

Structuring Services

- Entry strategy
- Free zone, mainland and offshore company formation
- Identification of local sponsor
- Administration services including company secretarial services
- Registered agents' services

Tax Advisory and Compliance

- Tax Advisory Services
- VAT and Excise Tax Implementation support
- VAT and Excise Tax registrations, amendments and deregistration
- Assistance in preparing and filing of VAT and Excise Tax returns
- Diagnostic reviews and health checks for VAT and Excise
- Represent / liaison with relevant authorities on taxation matters
- Tax Agency Services
- Assistance in evaluation, preparation and filing of reports under UAE ESR and CbCr regulations
- Cross-Border tax advisory
- Tax due diligence
- Training on tax matters

PUBLICATIONS

- Practice Profile
- Doing Business in the UAE
- Credentials
- Free Zones in the UAE

All the foregoing publications can be obtained from any of the offices in UAE and Oman

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