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The UAE VAT Health Check: Questions to Answer Before an FTA Audit

The strongest VAT audit response begins before an audit notice: with complete transaction data, traceable invoices, disciplined reconciliations and timely correction of identified errors.

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> A VAT health check should answer a question more demanding than whether the return was filed: can the business trace every material figure from the return to the ledger, the transaction and the evidence required by UAE VAT law?

The Federal Tax Authority (FTA) may conduct a Tax Audit to verify compliance with the Tax Procedures Law and the relevant Tax Law. Under Federal Decree-Law No. 28 of 2022, the FTA generally notifies a person at least ten days before a Tax Audit. The law also permits access without prior notice in specified circumstances where serious reasons exist, including suspected tax evasion or concern that the audit could be impeded.

The correct response is not to build an audit file after receiving notice. It is to operate a VAT control framework that keeps registrations current, captures output tax completely, supports input tax recovery and identifies errors early enough for the appropriate correction process.

VAT audit essentials

AUDIT AUTHORITY	The FTA can examine records, information, data, goods and business locations to verify compliance under the applicable procedures.
GENERAL RETENTION	VAT records are generally retained for at least five years after the end of the relevant Tax Period, with special or extended periods applying in certain cases.
CORRECTION MATTERS	The treatment and penalty exposure for an error can depend on its nature, value, timing and whether it is corrected before an audit notification.

1. Is the registration profile accurate?

Begin with the taxpayer rather than the return. Confirm the legal name, trade licences, business activities, addresses, branches, bank details, authorised signatory and contact information held in EmaraTax. Changes to information recorded with the FTA must be notified within the applicable timeframe. A technically correct return can still sit inside an inaccurate or incomplete registration profile.

Review whether all relevant legal entities are separately registered or correctly included in an approved VAT Tax Group. Do not assume that a Corporate Tax Group automatically creates a VAT Tax Group; the two regimes have separate applications and conditions. Where a business has crossed a registration or deregistration threshold, document the calculation and the date on which the obligation arose.

2. Can all taxable supplies be reconciled?

Reconcile reported sales to the general ledger, sales systems, issued tax invoices, credit notes, bank receipts and customs or e-commerce records where relevant. Differences should be explained by timing, scope or documented adjustments, not left as an unexplained balancing figure.

The review should test whether the correct VAT treatment was applied to standard-rated, zero-rated, exempt and out-of-scope transactions. Zero-rating requires the conditions and evidence prescribed by law; it is not interchangeable with exemption. Cross-border services, exports, designated-zone transactions, real estate, financial services and agency arrangements can each require detailed analysis of the place and date of supply.

Also consider transactions that may not appear in the normal sales cycle: deemed supplies, related-party transactions, barter, business assets taken for non-business use, reimbursements, deposits, cancellation charges and goods moved between locations. The existence of no customer invoice does not necessarily mean there is no VAT consequence.

3. Are tax invoices and credit notes compliant?

Sample tax invoices across business lines and systems. Check that required information is present, the tax registration number is correct, the date of supply and invoice date are properly determined and VAT is calculated and rounded consistently. Simplified tax invoices may be used only where the relevant conditions are met.

Credit notes should link clearly to the original supply and the reason for the adjustment. Commercial teams should not cancel and reissue invoices in a way that obscures the audit trail. Where the system allows manual changes to tax codes, invoice dates or VAT amounts, those permissions should be restricted and monitored.

> *An audit-ready VAT return is not a standalone form. It is the final summary of a transaction trail that remains visible from source document to filed amount.*

4. Is input tax recovery supported and permitted?

Input tax should be reconciled to purchase ledgers, valid tax invoices, import statements and payment records where relevant. The business must establish that costs were incurred for making taxable supplies and that the documentary and timing conditions for recovery are met.

A health check should identify blocked or restricted items, private or non-business expenditure, entertainment, motor vehicles available for private use and costs connected with exempt supplies. Mixed businesses must examine input tax apportionment and annual adjustments. The allocation method should be applied consistently and should reflect the use of costs in the business.

Supplier data also deserves attention. Confirm that the invoice names the correct purchasing entity and that the supplier’s tax registration information is credible. Recovering VAT on an invoice addressed to another group company creates a preventable challenge.

5. Has reverse charge VAT been captured?

Imported services and certain goods can create reverse-charge obligations. Reconcile overseas suppliers, foreign-currency payments, customs records and expense accounts to the amounts reported. Common gaps arise from software subscriptions, professional fees, digital advertising, group recharges and services purchased directly by employees.

The analysis should determine the place of supply, the recipient, the nature of the service and the correct exchange rate and tax period. Where input tax can also be recovered, reporting output and input tax may appear cash-neutral, but failure to report remains a compliance issue and can distort partial-exemption calculations.

6. Do VAT returns reconcile to the accounts and payments?

Prepare a return-by-return reconciliation showing output tax, input tax, adjustments, net VAT and payment. Tie filed values to the final ledger and explain subsequent journals. Review outstanding VAT receivables and payables, refund claims and amounts carried forward.

Trend analysis often reveals risks that a single-period check misses. Compare effective VAT rates, zero-rated sales, exempt income, input recovery percentages and adjustments across periods. Unexpected movements should be investigated against business events such as a new product, market, supplier, branch or system implementation.

7. Are identified errors being corrected correctly?

Once a potential error is found, determine whether it is an error, the affected Tax Periods, the tax difference and the legally prescribed correction route. Do not automatically amend the next return or issue a credit note without examining the relevant conditions.

Cabinet Decision No. 129 of 2025 amended administrative penalties and entered into force on 14 April 2026. The FTA has stated that the amendments affect, among other matters, incorrect returns, Voluntary Disclosures and failure to submit a Voluntary Disclosure before notification of a Tax Audit. Because penalty consequences can depend on timing, businesses should escalate material errors promptly and obtain advice on the correct procedure.

8. Can the records be produced efficiently?

The VAT record set generally includes accounting records, tax invoices and credit notes, import and export evidence, records of goods and services supplied, adjustments, tax calculations, fixed assets, inventory and other documents required by the legislation. Records should allow VAT to be traced from a source document to the return.

Five-year retention is the general starting point, but longer periods apply to real estate and the FTA can require extended retention in specified circumstances, such as an ongoing audit or dispute. The business should identify the rule applicable to each record type rather than deleting everything under one generic policy.

Test retrieval. Select a return box and ask the team to produce the reconciliation and supporting sample within a reasonable time. A document that exists but cannot be located, opened or connected to the reported figure provides little protection during an audit.

A practical VAT health-check programme

01	**Profile:** Verify legal entities, branches, VAT groups and registration details.
02	**Revenue:** Reconcile all supply channels and test the VAT classification.
03	**Purchases:** Validate invoices, recovery conditions and restricted expenditure.
04	**Imports:** Reconcile reverse-charge transactions and customs information.
05	**Returns:** Tie filings and payments to the ledger and investigate unusual trends.
06	**Errors:** Escalate findings and apply the legally correct correction mechanism.
07	**Evidence:** Confirm records are complete, retained and quickly retrievable.

A health check should end with a prioritised action plan. Separate errors requiring correction from process weaknesses that could create future errors. Assign an owner, deadline and evidence of remediation. High-value transactions, manual adjustments, new business lines and areas of legal judgement deserve the earliest attention.

For management, the value extends beyond audit defence. Accurate VAT data improves cash-flow forecasting, reduces supplier and customer disputes and prevents avoidable penalties. The standard to aim for is not a perfect file assembled under pressure. It is a repeatable process that makes the correct treatment the normal result of day-to-day operations.

Official sources

SOURCE CHECK Official UAE government references. Links verified 4 August 2026.

1. **Federal Tax Authority: VAT Guides, References and Public Clarifications**
2. **UAE Legislation: Federal Decree-Law No. 28 of 2022 on Tax Procedures**
3. **Federal Tax Authority: VAT Legislation**
4. **Federal Tax Authority: 2026 Administrative Penalty Amendments**

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Tax-readiness quick check

1. Confirm the responsible legal entity and registration position.
2. Reconcile the accounts, tax adjustments and supporting evidence.
3. Document ownership, review and approval before filing.

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