

# Key facts on Real Estate VAT

## What is a supply in relation to real estate?

A supply of real estate may include the sale, lease or giving the right in any real estate.



## What is a residential building for VAT purposes?

A residential building is a building or part thereof that is intended and designed for occupation by individuals, and mainly includes buildings which can be occupied by any person as main place of residence. It does not include:

- Any place that is not a building fixed to the ground and can be moved without being damaged.
- Any building that is used as a hotel, motel, bed and breakfast establishment, or hospital or the like.
- A serviced apartment for which services in addition to the supply of accommodation are provided.
- Any building constructed or converted without lawful authority.



## What is a commercial building for VAT purposes?

A commercial building is any building or part thereof that is not a residential building. Examples would be offices, warehouses, hotels, shops, etc.



## Is a residential building subject to VAT?

The first supply of a new residential building within the first three years of it being constructed shall be zero-rated. All subsequent supplies shall be exempt, even if within the first three years.



## Is commercial real estate subject to VAT?

All supplies of commercial properties are subject to VAT at 5%, and this includes all buildings or parts thereof that are not residential buildings.



## Does the owner of real estate have to register for VAT?

The owners of residential buildings do not have to register for VAT if they do not have any other business activities. Where owners have other business activities, they should consider their obligations further.

The owner of any building that is not residential, will have to register if the value of the supplies over the preceding 12 months exceeds AED 375,000 or it is expected that they will exceed AED 375,000 over coming 30 days.



## Can a real estate owner recover VAT paid in relation to real estate?

An owner of residential building will not be able to recover VAT in respect of expenses related the exempt supply of the residential buildings.

An owner of a commercial building will generally be able to recover VAT in respect of expenses related to the supply of the building.



## How is a mixed-use building (residential and commercial) treated for VAT?

The rent or sale of a residential part of the building shall be treated as zero-rated or exempt, depending on whether this is a first supply or a subsequent supply.

The rent or sale of a commercial part of the building shall be treated as subject to VAT at 5%.

The tax incurred by the owner on the building needs to be apportioned where there is an exempt supply, and the portion related to the taxable supply (at 0% and 5%) may be recovered.



## Will VAT be charged on the property I am renting?

The rent of residential building will generally be exempt from VAT.

The rent of commercial building will be subject to VAT at 5%.

