

# TIME-FRAME FOR RECOVERING INPUT TAX



The Federal Tax Authority (FTA) has issued public clarification on the **Timeframe for Recovering Input Tax**.

## **When an Input Tax can be recovered?**

In accordance with Article 55 of VAT Law, Input Tax shall be recovered when the **Taxable Person**:

- a. Receives and keeps the Tax Invoice; and
- b. Pays the consideration for the supply;

However, in order to understand recoverability of input tax we must read the above Article 55 (1)(b) of VAT Law in conjunction with Article 54 (2) of VAT Executive Regulations, that provides, inter alia, if the taxable person intends to make the payment before the expiration of six months after the agreed date for the payment for the supply.

A combined reading of Article 55(1) of VAT Law and Article 54 of VAT Executive Regulations provides an answer to our above question.

Accordingly, the input tax must be recovered in the first tax period in which the following two conditions are satisfied:

- a. The tax invoice is received; and
- b. There is an intention to make the payment of consideration of the supply before the expiration of six months after the agreed date of payment.

## **How to substantiate intention to make payment?**

Intention to make payment can be substantiated through a documented process for Receiving, Recording and Payment of Bills.

## **What is the time limit for recovering Input Tax?**

The time limit for recovering input tax is the first tax period in which above two conditions are satisfied or in the next tax period immediately after the first tax period.

## **How and when an Input Tax can be recovered if not recovered in the first two tax period?**

If input tax is not recovered in the first two tax period, a taxable person is required to submit a Voluntary Disclosure (VD) and amend the input tax reported in the VAT return of one of the two tax periods.

## **What is the implication of non-payment of consideration before the expiry of six months after the agreed date of payment?**

The taxable person should reduce input tax in the VAT return of the tax period following the expiry of the six months period after the agreed date of payment. However, upon the payment of consideration, the taxable person will again be entitled to recover the input tax in the tax period in which payment is made.

It is clear from the above public clarification that taxable person should consider review of its existing vendor bills not only to recover input tax but also to reverse input tax in case of non-payment consideration within six months period after the agreed date of payment and consider filing Voluntary Disclosure.

The taxable person is required to implement robust accounting system to ensure automatic input tax recovery and reversal in view of the above public clarifications. Besides, system should have a documented payment approval process to comply with requirement to “**substantiate intention to make payment**”.

To access the Full Public Clarification Document, please click [here](#).

### **ABOUT KPI**

KPI’s rich experience and committed advisory team can assist your business with VAT consultation and other specific or subject related inquiries.

For any additional information, please feel free to contact:



**Mahesh Shetty, ACA**  
Partner – Advisory & Assurance  
[mahesh@kpi.co](mailto:mahesh@kpi.co)

