



THE 2026 VAT CHANGES WILL DECIDE NEXT YEAR'S TAX DISPUTES

Most of the commentary on this year's UAE VAT reforms has come from the compliance side, and rightly so. From where we sit, as disputes lawyers, the changes read differently. Taken together, three of them move the evidential burden in a VAT dispute firmly onto the business. The files that will be argued before the FTA and the Tax Disputes Resolution Committee in 2027 and 2028 are being built, or not built, in the last quarter of this year.

The first is time. Since 1 January 2026, Federal Decree-Laws No. 16 and 17 of 2025 have placed a five-year limit on recovering excess input tax, counted from the end of the tax period in which the credit arose. Credit that is not refunded or used within that window is lost.

For businesses whose five-year period had already run out, or runs out during this year, the law gives a transitional window that closes on 31 December 2026. In practical terms, that is the last opportunity to claim credit balances going back to the first years of VAT, 2018 to 2021. Developers, exporters and businesses that carried heavy input tax through a long start-up phase are the obvious candidates. We have also seen balances sit untouched in groups that simply never revisited them.

There is a judgment to make before filing, however. A refund claim on an old period invites the FTA to look at that period again, and a claim filed in the fifth year gives the FTA a further two years from the date of the claim to audit it. A business with clean records should claim what it is owed. A business that knows its 2019 file has gaps should understand what it is opening before it files, and should put its records in order first.

The second change concerns who you buy from. The amended VAT Law now allows the FTA to deny input tax where a supply forms part of a chain connected to tax evasion and the business knew, or should have known, of that connection. FTA Decision No. 13 of 2026, in force since 1 October 2026, sets out the checks a business is expected to run on its

suppliers and on the supplies it receives before it recovers input tax, with a limited exception for supplies below AED 10,000.

This is the provision we expect to generate the most disputes. A valid tax invoice is no longer the end of the enquiry. If a supplier further up the chain disappears without accounting for its VAT, the FTA will ask the buyer what checks it carried out at the time, and where the record of them is. A business that ran and documented the prescribed checks has a defence. A business that did not starts the dispute on the back foot, because the law itself treats a failure to verify as proof that it should have known.

One point is often missed. Supply contracts signed today should carry warranties on the supplier's VAT compliance and an indemnity for input tax denied because of the supplier's conduct. Without them, the buyer bears the loss alone and has nothing to claim on.



The third concerns how a transaction is structured and paid for. Cabinet Decision No. 149 of 2026, amending the VAT Executive Regulation, took effect, for the most part, on 1 October 2026, and two of its changes stand out from a disputes perspective. Bundled supplies are now treated according to their economic substance, so a contract that prices components separately will not by itself defeat a finding that the supply is a single composite supply, taxed by reference to its principal element. And input tax is blocked on supplies above a threshold, still to be fixed by Ministerial decision, where the consideration is paid or intended to be paid in cash. In both cases, how the contract was drafted and how the money moved will now decide the tax outcome.

The FTA is no longer content to look at whether a document exists. It is looking at substance, at timing, and at what the business did to protect itself. In a dispute, the outcome will turn on the evidence created at the time of the transaction, not on arguments put together after an assessment arrives.

The rules are only part of it. Most businesses that lose a VAT case they should have won lose it on procedure.



A dispute with the FTA follows a fixed route under the Tax Procedures Law. A business that disagrees with an assessment or penalty must first ask the FTA to reconsider it, within 40 business days of being notified. If the reconsideration decision goes against it, the business may object to the Tax Disputes Resolution Committee within a further 40 business days, and the objection will not be admitted unless the disputed tax has been paid in full. Where the tax and penalties in dispute do not exceed AED 100,000, the Committee's decision is final. Above that figure, either side may take the matter to the competent court within 40 business days of being notified of the Committee's decision, and from there to appeal and cassation. The court will not hear a taxpayer's challenge unless the tax has been paid and at least half of the penalties settled, in cash or by a bank guarantee in the FTA's favour.



In our experience, cases are lost at three points along that route.

Deadlines come first. Forty business days sounds generous, but an assessment that lands on a finance director's desk in a busy quarter, goes to the auditors and comes back can use most of it before anyone decides to contest it. The time limits are strict, and a missed deadline usually ends the matter whatever its merits.

Then there is the reconsideration request itself. Too many businesses treat it as a form to be completed, a short letter of disagreement with a few attachments, on the assumption that the real argument will be made later before the Committee. That is a serious mistake. The reconsideration request is where the case is framed, the facts are set down and the documents are placed on record. A case badly framed at that stage is rarely rescued afterwards, and an argument raised for the first time before the Committee carries far less weight than one the FTA has already had to answer.

Payment is the last trap. A business that has not planned for paying the disputed tax before objecting can find that its right to be heard depends on its cash position rather than its case. That needs to be addressed on the day the assessment arrives, not on day thirty-nine.



Each of the three changes calls for its own evidence, and that evidence is created now. For a refund claim on an old period, it is the reconciliations and source invoices that prove the credit arose and was never used. For an input tax denial linked to a supplier's evasion, it is the dated record of the checks carried out before the tax was recovered, together with the contract terms that allocate the risk. For a composite supply or cash payment challenge, it is the contracts, the commercial reason the transaction was structured as it was, and a payment trail that can be followed. A business that can produce these documents at the reconsideration stage is in a strong position. One that has to reconstruct them after the event is not.

This is also why the choice of adviser matters from the first step. A VAT assessment is a legal decision, and contesting it is a legal process with a record, strict deadlines and a burden of proof. The accountants who prepared the returns have an essential role on the numbers, but the case has to be built from the first letter as if it will end before a judge, because some of them do.

The practical steps are not complicated. Review historical credit balances before 31 December and decide deliberately which to claim, rather than letting them lapse or filing everything without thought. Put the supplier verification process in writing, run it, and keep the record. Revisit supply contracts, bundled pricing structures and any habit of settling large invoices in cash, because each of them now carries a VAT consequence it did not carry a year ago.

At BLK Partners, we act for businesses in VAT reconsideration requests, in objections before the Tax Disputes Resolution Committee and in the litigation that follows, and we review supply contracts for exactly the exposure described above. If any of these changes reach your business, we would be glad to talk it through before the 31 December deadline passes.

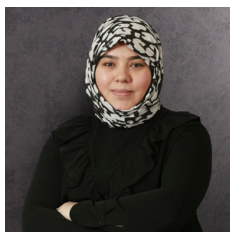
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