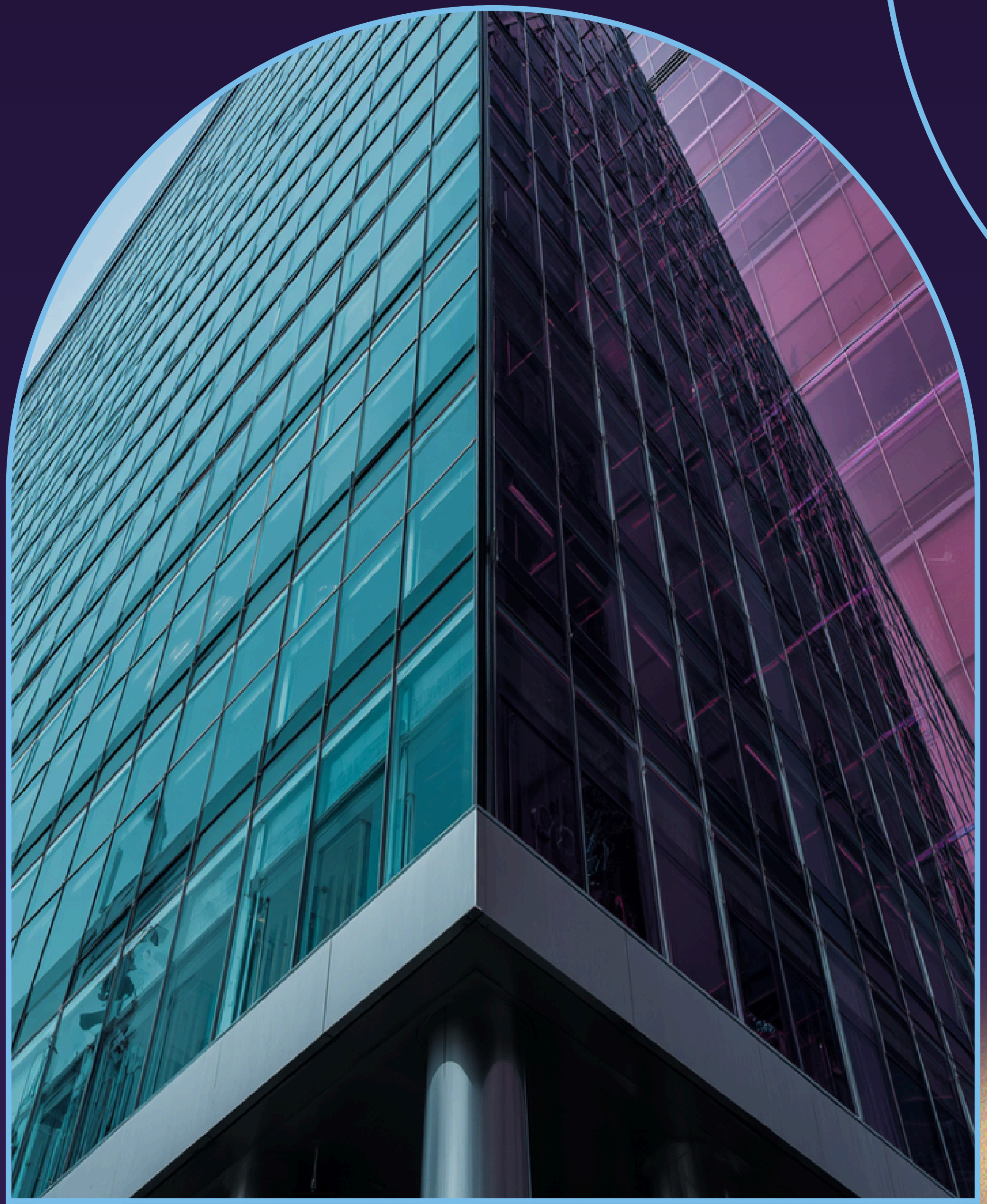
2026

VAT REFUNDS UAE UPDATE

Key Updates Businesses Should Know in 2026



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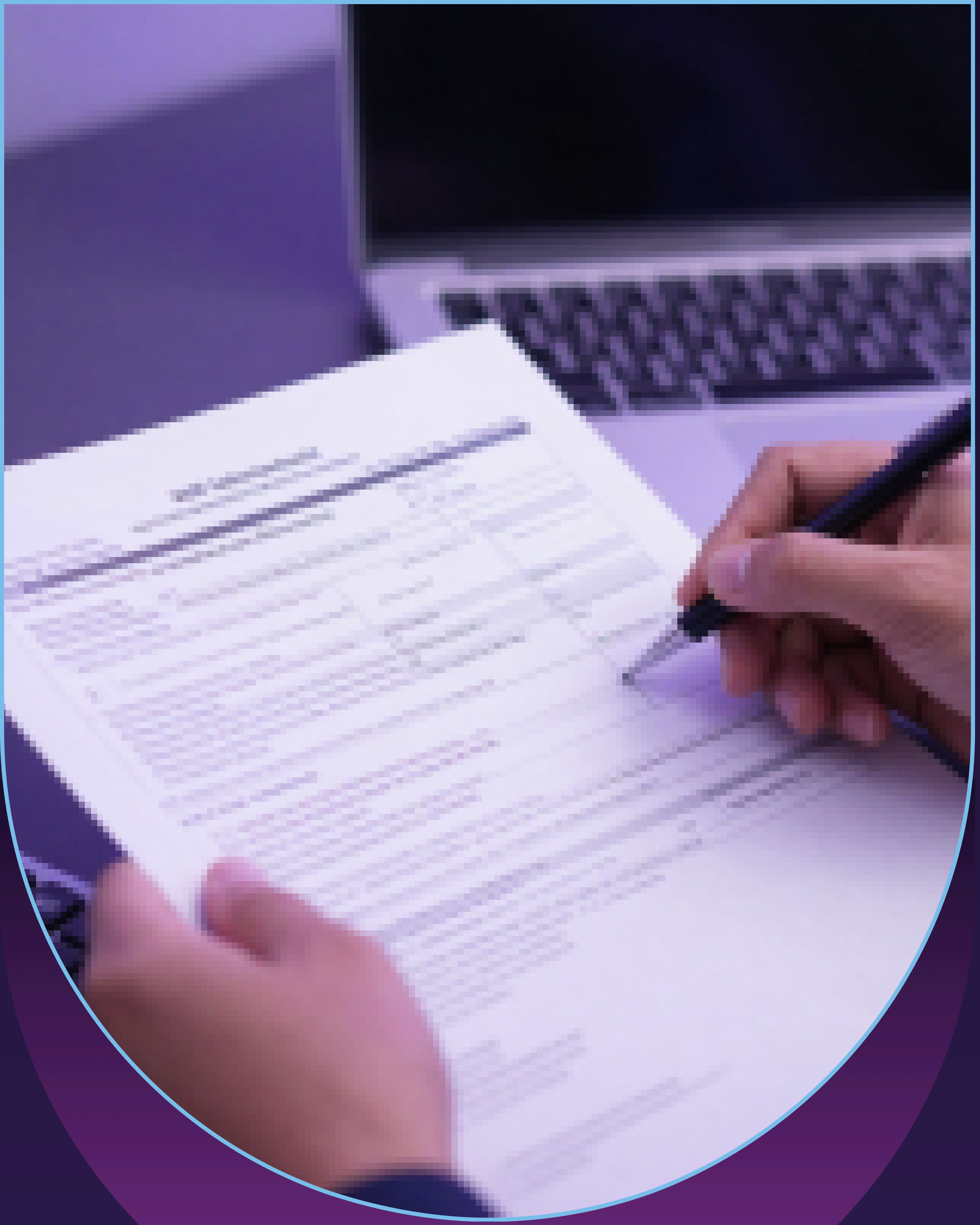
BACKGROUND ON VAT REFUNDS IN THE UAE

UAE VAT legislation allows taxable persons to recover eligible input tax incurred on business expenses. Where recoverable input VAT exceeds output VAT liability, businesses may either carry forward the excess credit or submit a refund application to the Federal Tax Authority (FTA) to recover the excess VAT paid.

01 Enhances working capital by recovering excess input VAT.

02 Supports financial efficiency through timely VAT recovery.

03 Critical for cash flow management and VAT compliance.



RECENT UPDATE

Statutory Limitation Period

Federal Decree-Law No. (17) of 2025 has introduced amendments to Federal Decree-Law No. (28) of 2022 on Tax Procedures, introducing a statutory limitation period for VAT credit balances.

The Federal Decree-Law introduces a significant change to the VAT refund framework by setting a statutory time limit for refund claims. Earlier, taxpayers could submit VAT refund applications without a clearly defined expiry period, creating open-ended exposure and uncertainty. Under the revised rules, all VAT credit balance refund claims must now be filed within five years from the end of the relevant tax period.

This amendment strengthens regulatory certainty, enhances compliance discipline and improves record-keeping practices. It also ensures timely closure of outstanding tax positions and encourages taxpayers to actively track, manage and utilize their input VAT credits within a defined and structured timeframe.

Key Amendments Introduced

1. Introduction of a 5 - year limitation period for submitting VAT refund applications from the end of the relevant tax period.
2. Replacement of the previous open-ended refund approach with a strict and time-bound framework
3. Mandatory submission of all VAT refund claims within five years from the relevant tax period.

EXCEPTIONS TO THE 5-YEAR RULE

Notably, an exception applies where a tax credit balance arises as a result of a voluntary disclosure, tax assessment or a decision issued by the FTA. In such cases, if the credit balance is generated after the expiry of the five-year limitation period or within the final 90 days thereof, the taxpayer may submit a refund application within one year from the date the credit balance arises.

TRANSITIONAL ARRANGEMENTS

As part of the transitional arrangements, taxpayers are also permitted to claim refunds or utilize VAT credit balances that have become time-barred under the five-year limitation rule. This relief is available during a one-year window starting from 1 January 2026, providing a final opportunity to recover or offset historical credit balances.

Key Points

01 Exception applies where the VAT credit balance arises from a voluntary disclosure FTA assessment or FTA decision even if generated after the 5-year limitation period or within the last 90 days of it.

02 In such cases, taxpayers may submit a refund application within one year from the date the credit balance arises.

03 A transitional relief window is available from 1 January 2026 allowing taxpayers to claim or utilise VAT credit balances that have become time-barred under the five-year rule.

KEY TAKEAWAYS

The amendment introduces a strict time-bound regime for the utilization and recovery of VAT credit balances replacing the previously open-ended carry-forward approach. Businesses must now actively monitor ageing VAT credits and ensure timely submission of refund claims within the prescribed limitation period.

Accordingly, robust VAT reconciliations and internal controls will be critical to avoid the permanent loss of recoverable input VAT particularly in respect of historical credit balances that may fall within the transitional window.

Robust VAT Reconciliations

Implement thorough VAT reconciliation processes to identify and quantify recoverable input tax credits before limitation deadlines expire.

Establish Internal Controls

Strengthen internal controls and compliance frameworks to prevent inadvertent forfeiture of VAT credits under the new time-bound regime.

Timely Refund Submissions

Ensure all VAT refund applications are submitted to the FTA well within the statutory 5-year limitation period to avoid permanent loss of credit.

Monitor Ageing VAT Credits

Actively track and review the age of all VAT credit balances to ensure no credits approach the 5-year limitation period unnoticed.

Our Expertise

At BAM Advisors, we bring years of expertise in Accounting, Taxation, HR / Payroll, VAT and Business Advisory Services. Our team of experienced professionals is committed to helping businesses achieve financial clarity, maintain regulatory compliance and optimize their financial performance through tailored accounting, tax and compliance solutions.

- Corporate Services
- Risk Management & Compliance Services
- Tax Consultancy Services
- HR & Payroll Services
- Accounting & Advisory Services

Contact Us

Get in touch with us for a consultation

For compliance support or questions regarding UAE VAT refund applications and the 2026 transitional window, please reach out to our team. We are here to help your business navigate the updated legislative requirements with confidence.

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