

UAE VAT: Profit Margin Scheme (PMS)

FTA VAT Guide VATGPM1 | Issued January 2026

A complete explanation of when VAT applies only on profit margin, eligibility rules, invoicing, records, and VAT return reporting.



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Regulatory Update **The January 2026 Directive**

In January 2026, the Federal Tax Authority issued VATGPM1, the official VAT Guide on the Profit Margin Scheme. This document provides the critical framework for audit defensibility.

Objective: This guide is critical for audit defensibility and penalty avoidance.

01

Scope

Defining strict eligibility rules.



02

Mechanics

Computational logic for margins.



03

Restrictions

Invoicing bans and mandates.



04

Reporting

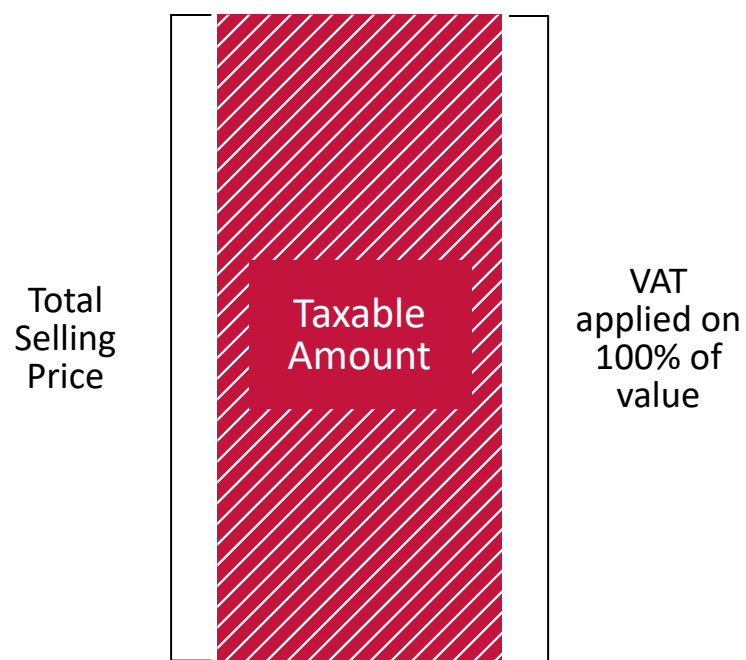
Disclosure requirements via EmaraTax.



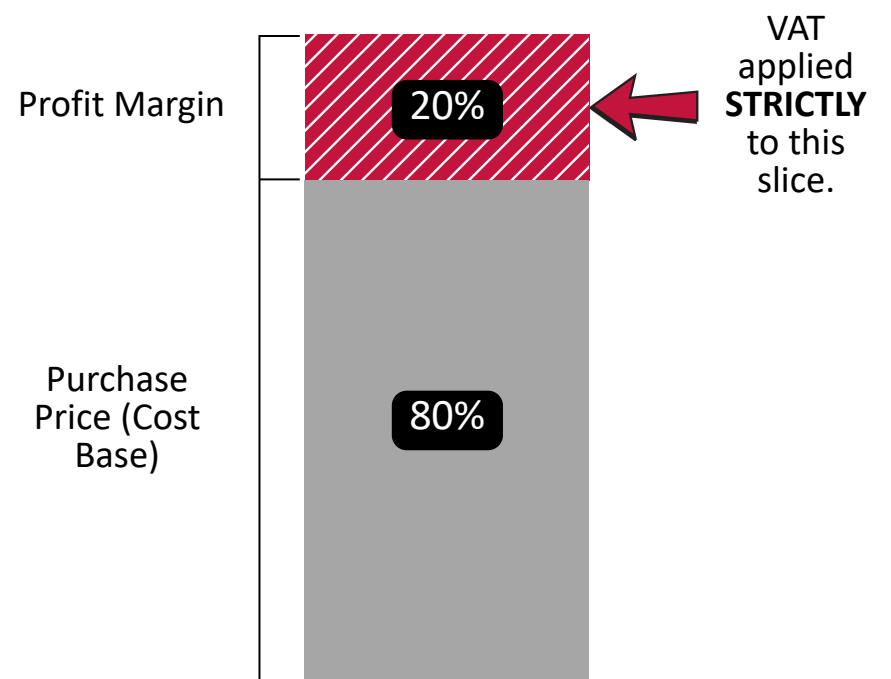
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The Mechanism: Taxing the Value Added, **Not the Full Price**

Standard VAT Mechanism



Profit Margin Scheme (PMS)



The Profit Margin Scheme (PMS) is an optional VAT mechanism. Instead of charging VAT on the full selling price, VAT is calculated only on the profit margin.

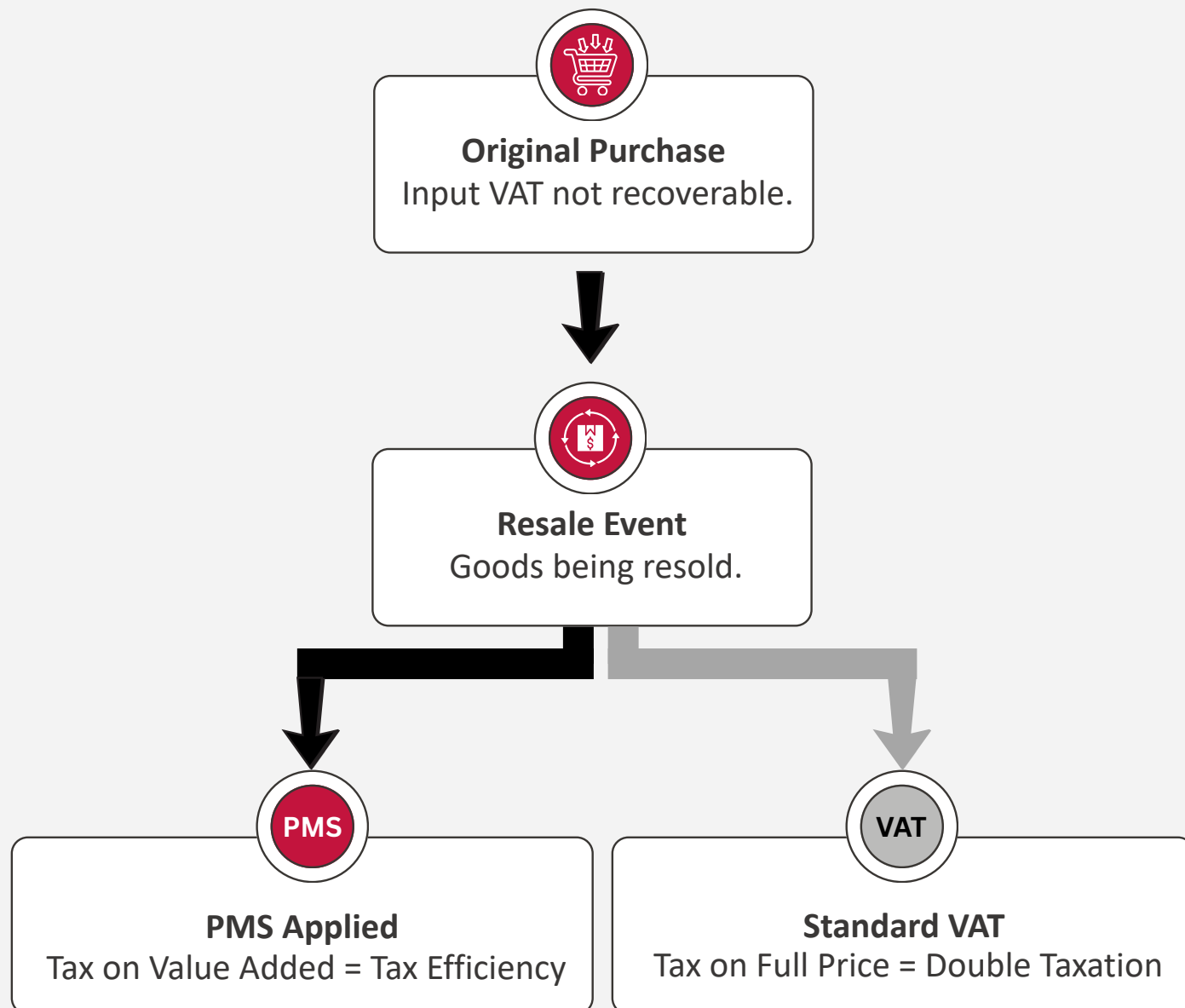
$$\text{Profit Margin} = \text{Selling Price} - \text{Purchase Price}$$

Note: VAT is treated as included within the margin.

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The Strategic Objective: **Preventing Tax Cascading**

The primary purpose of PMS is to avoid double taxation in supply chains where input VAT was previously stuck (unrecoverable).



The scheme ensures VAT is applied only on the actual value added by the reseller.

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GATE:1

Scope and Eligible Goods

PMS is transaction-specific. It applies only to the resale of the following categories, provided they were previously subject to VAT.



Second-hand goods



Tangible movable property suitable for further use.



Antiques



Goods explicitly older than 50 years.



Collectors' items



Stamps, coins, and rare botanical/mineral pieces.



Article 53 goods



Motor vehicles and specific goods where input VAT recovery was blocked.

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Critical Exclusion: **The Import Restriction**



Imported goods do NOT qualify for the Profit Margin Scheme.

The Exception (The “Unless”)

- Imports only qualify if Import VAT was specifically blocked under Article 53.
- Clarification: Article 53 goods qualify only where input VAT was blocked.

This restriction is crucial and often misunderstood in practice.

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The Calculation Protocol

$$\text{Selling Price} - \text{Purchase Price} = \text{GROSS MARGIN}$$

$$\text{Gross Margin} \times \frac{5}{105} = \text{VAT Liability}$$

Key Principles

- VAT applies only on the profit margin.
- VAT is inclusive within the margin.

The Loss Rule

If margin is Zero or Negative (Sold at a loss) → VAT = Zero.

Note: There is no negative VAT; the floor is zero.

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Operational Scenario: **An Example**

	Amount
Purchase Price	AED 6,300
Selling Price	AED 8,400
Profit Margin (VAT Inclusive)	AED 2,100

The Analysis

- The Taxable Amount is NOT AED 8,400.
- The Taxable Amount is the margin of AED 2,100.
- Takeaway: VAT is embedded within the AED 2,100. It is not charged on top of the AED 8,400.

Taxable Amount = AED 2,100

VAT Portion = $(2,100 \times 5 \div 105) = \text{AED } 100$

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Invoicing Protocol: **The Non-Negotiables**

Commercial Invoice

Header name		Georgia Pro		
Unit address		Protest		
No.	Description	Qty	Slme	Total
1		1		
2		1		
3		1		
4		1		
5		1		
6		1		
		VAT Amount:	AED 100	
		Amount:	AED 100	
		Subtotal:		
		Pass:		
		TOTAL:		
'VAT charged under the Profit Margin Scheme'				



Mandatory Text:
"VAT charged under the Profit Margin Scheme"



Strict Prohibition:
Must NOT disclose VAT separately.

Consequence:

If VAT appears separately anywhere on the invoice, PMS cannot be applied to that transaction.

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Building the **Audit Trail**

Businesses must retain the following to validate PMS application:

HISTORY

Evidence that goods were previously subject to VAT.

TRANSACTION LOGS

Purchase & sale documentation.

CALCULATION

Specific margin calculation worksheets.

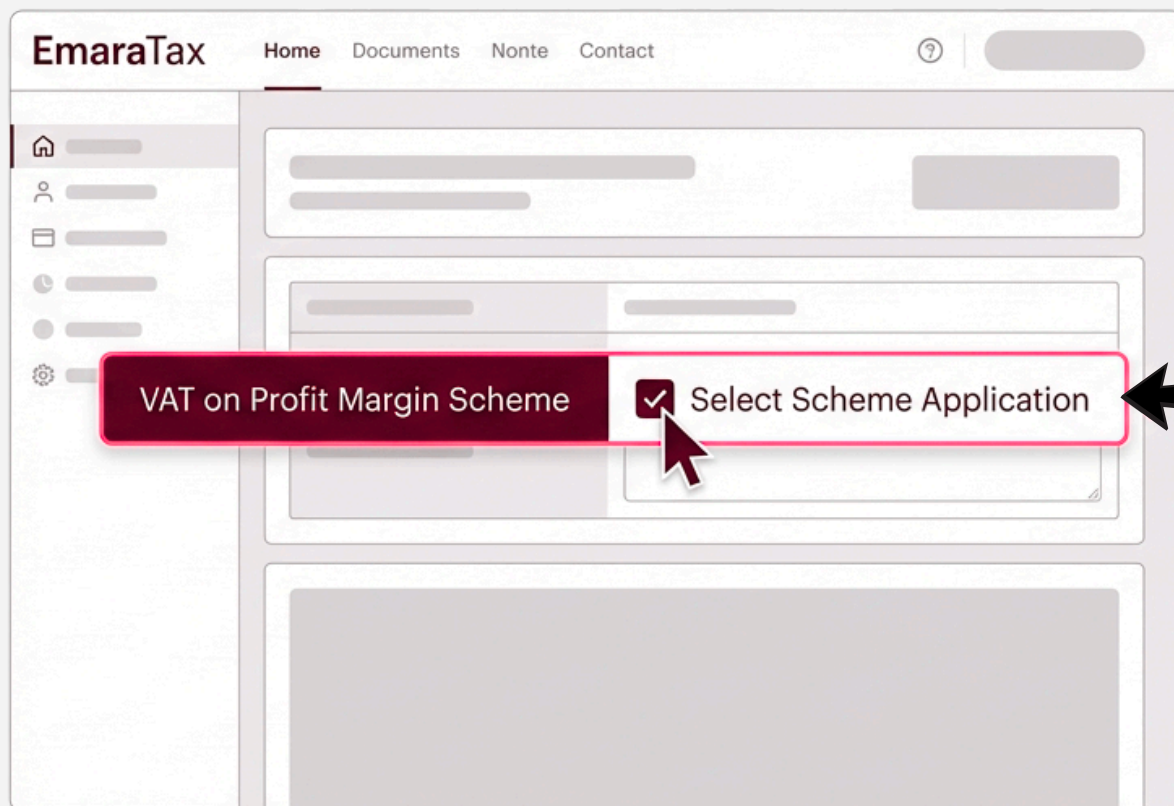
JUSTIFICATION

Proof of Article 53 status (where applicable).

Without these specific records, the FTA may reject the scheme application and assess VAT on the full sales price.

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Filing the VAT Return



Action Items

- PMS must be explicitly selected in EmaraTax.
- It is not sufficient to bundle these sales with standard supplies.
- Disclosure is mandatory and scheme-specific.

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Filing the **VAT Return**

- Is the good eligible? (Second-hand, Antique, Collector, Art 53).
- If Imported: Was it blocked under Art 53? (If no, STOP).
- Calculation: Calculated on Margin (Sell – Buy)?
- Invoicing: Does it say “VAT charged under PMS”?
- Invoicing: Is the VAT amount hidden (not separated)?
- Reporting: Selected PMS in EmaraTax



Strategic Bottom Line

The Profit Margin Scheme offers significant VAT efficiency by preventing cascading tax. However, this benefit is contingent on technical precision.



PMS is optional.



Eligibility must be assessed for each sale.



Incorrect invoicing invalidates the scheme.



STRICT COMPLIANCE IS NOT OPTIONAL — IT IS THE PRICE OF VAT EFFICIENCY.

Let's ensure your Profit Margin Scheme
stands up to scrutiny.



FOR A WORKING SESSION
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