ATOZ ALERT

UAE VAT – FTA clarifies the requirements for the verification of the validity and integrity of supplies of goods or services

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On 20 August 2026, the Federal Tax Authority ("**FTA**") published [Decision No. 13 of 2026](), issued on 22 July 2026 and effective from 1 October 2026, which introduces mandatory measures, procedures, and conditions that Taxable Persons[1] must follow for the verification of the validity and integrity of supplies of goods or services they receive before deduction of Input Tax (the "**Decision**"). The Decision aims to enhance transparency, reduce fraud, and ensure compliance with VAT regulations.

Under the Decision, Taxable Persons are now required to implement robust verification processes to confirm the identity and authenticity of their suppliers and supplies, thereby safeguarding the integrity of the VAT system. It shifts the burden of due diligence onto the recipient of a supply, requiring them to actively confirm that a transaction is genuine before claiming VAT refund on it.

This Newsletter summarises the supplier verification and the supply validation requirements, as well as the documentation and record-keeping obligations provided by the Decision.

At a glance

- The FTA published Decision No. 13 of 2026 on 20 August 2026, introducing mandatory verification measures Taxable Persons must follow before deducting Input Tax, effective from 1 October 2026.
- The Decision builds on Article 54(bis) of the UAE VAT Law and shifts the burden of due diligence onto recipients, requiring them to actively confirm the legitimacy of suppliers and supplies rather than rely solely on valid tax invoices.
- Supplier identity verification requires obtaining proof of ID and an in-person or virtual meeting for individual suppliers, and incorporation checks plus representative ID verification for corporate suppliers.
- Taxable Persons must verify the supplier's place of business, using electronic means or a field visit, and assess whether the premises are compatible with the supplier's declared business activities.

1 All terms in capital letters that are not defined in this article shall be interpreted as defined under the UAE VAT legislation.

- A supplier risk assessment must check for red flags such as frequent changes in registered address or key personnel, or disproportionate transaction volumes, with any indicator triggering a documented, evidence-based justification.
- Where supplies from a supplier exceed or are expected to exceed AED 375,000 over a rolling 12-month period, enhanced due diligence applies, requiring bank account confirmation and reputational screening.
- Taxable Persons must also assess the commercial substance of each supply, covering payment terms, pricing, the supplier's business scope, and the authenticity and ownership of goods.
- Cash payments and third-party or cross-border payment arrangements require specific commercial justification and supporting documentation to withstand FTA scrutiny.
- All verification steps and supporting documents must be retained and made available to the FTA upon request, supported by a formal, documented internal verification policy.
- Non-compliance risks disallowance of Input Tax recovery and potential penalties, making it essential for businesses to update onboarding, payment, and documentation processes ahead of the 1 October 2026 effective date.

Background

This Decision builds upon existing Article 54(bis) of the UAE VAT Law, under which a Taxable Person must ensure that they did not know, and should not reasonably have known, that a supply formed part of a tax evasion arrangement before deducting Input Tax. The Decision provides greater clarity on the practical measures and conditions that Taxable Persons are expected to follow when verifying the validity and integrity of supplies.

From contextual and textual indicators, the Decision is best understood as being adopted primarily to fight VAT fraud and tax evasion with the core purposes of:

- Combating VAT fraud schemes involving fictitious suppliers, shell companies, or fabricated invoices (missing trader fraud);
- Denying Input Tax recovery where a Taxable Person knew, or should have known, that a transaction was connected to fraud or evasion – introducing a "knew or should have known" style standard;
- Standardising due diligence expectations, giving businesses clear, actionable checklists to demonstrate good faith rather than leaving them exposed to open-ended FTA audits or disputes; and
- Strengthening the overall integrity of the UAE's VAT system, in line with broader financial crime prevention and tax transparency objectives.

Key measures introduced

The Decision introduces the following new measures that apply to Taxable Persons in relation to the verification, validity, and integrity of the supplies they receive before the deduction of Input Tax.

A. ***Supplier verification assessment***

IDENTITY VERIFICATION

According to the Decision, Taxable Persons must verify the identity of the supplier. This assessment establishes the first and most basic layer of due diligence under the Decision: confirming that the supplier is who they claim to be, before any supply is made.

The verification requirements differ depending on whether the supplier is an individual (natural person) or a company/entity (legal person).

- **When the supplier is a natural person**, the verification must be undertaken through the obtention of a **copy of a valid proof of identity** of the supplier, such as an ID or a passport, but the Taxable Person shall also **meet the supplier in person or virtually** before the supply takes place.
- **When the supplier is a legal person,** the Taxable Person must:
    - ***Verify incorporation***, i.e. confirm the supplier's incorporation via official databases or a certificate of incorporation. Critically, it's not enough to just obtain the document. The Taxable Person must **cross-check that the details match reality**: the company name, registered address, and other particulars (such as employee information) must be consistent and accurate, not outdated or falsified.
    - ***Verify representative's identity***, i.e. obtain a copy of valid ID (Emirates ID or passport) for the director, agent, or employee authorised to represent the supplier.

Practical implications: Businesses dealing with individual suppliers (freelancers, sole proprietors, etc.) cannot rely solely on a scanned ID. They need to build a "face-to-face" verification step (even if only a video call) into their onboarding process, and document that this meeting took place.

For corporate suppliers, businesses should build in a two-part check at onboarding (i) a corporate search or licence check to confirm the company legitimately exists and its details are accurate, and (ii) an ID check on whoever the business is actually dealing with (the sales contact, director, or authorised signatory).

PLACE OF BUSINESS ASSESSMENT

Under the Decision, the Taxable Person must verify the address and place of business of the supplier, using electronic means or conducting a field visit to the place of business and ensure that the place of business of the supplier is compatible with the nature of the activities carried out by him. This requires Taxable Persons to go beyond simply recording a supplier's address on file – they must actively **verify that the address is real and that it makes sense given the type of business the supplier claims to operate**.

Breaking it down into its components:

1. Verification of the address itself

The Taxable Person must confirm that the supplier's place of business genuinely exists at the address provided. This isn't about trusting what's written on an invoice or trade licence. It requires positive confirmation.

Two accepted methods of verification

- **Electronic means**: for example, using satellite imagery (such as Google Maps), online business directories, utility records, or other digital tools to confirm the existence and location of the premises.
- **Field visit**: physically visiting the supplier's premises to confirm it exists and is operational.

The Decision gives businesses flexibility here: a physical visit is not always mandatory, provided that electronic verification is sufficient to establish a credible picture of the supplier's premises.

2. Compatibility test: a more substantive requirement

This requirement is a demanding aspect. It's not enough that the address exists; the Taxable Person must also assess whether the type of premises is **consistent with the nature of the supplier's declared business activities**.

Practical examples:

- If a supplier is registered as a large-scale manufacturer or wholesale distributor of goods, but its "place of business" turns out to be a small serviced office or a virtual/flexi-desk address with no warehousing

or production capability, this would raise a red flag. The premises are not compatible with the claimed activity.
- Conversely, a consulting or professional services firm operating from a compact office would be entirely consistent with its activities, and no concern would arise.

This requirement is directly aimed at detecting **shell companies or fictitious suppliers**, a hallmark of VAT fraud schemes (such as missing trader fraud), where a "supplier" exists only on paper, often registered at a nominal or shared address, with no real operational capacity to deliver the goods or services being invoiced.

Practical implications: Businesses should build a simple address-verification step into their supplier onboarding process – for instance, cross-checking the registered address against Google Maps or a similar tool, and asking whether the size/type of premises logically matches the supplier's line of business. For higher-risk or higher-value suppliers, a physical site visit may be warranted to obtain a more robust level of assurance and supporting documentation.

SUPPLIER RISK ASSESSMENT

According to the Decision, a Taxable Person is required to assess the level of risk associated with each supplier, having regard to the following:

1. *Risk indicators*

The Taxable Person must ascertain that none of the following risk indicators is present:

- The supplier has changed its registered address more than twice within the preceding twelve (12) months;
- The supplier has changed its key personnel (i.e., managers or individuals directly liaising with the Taxable Person) more than twice within the preceding twelve (12) months; or
- The supplier has carried out commercial transactions that are disproportionate or unexpected in volume, value, or nature, relative to the size and trading history of its business.

2. *Where a risk indicator applies*

The presence of such an indicator does **not automatically disqualify** the supplier or prevent Input Tax recovery. Instead, it triggers an **additional documentation obligation**: the Taxable Person must prepare and keep a written explanation setting out the circumstances behind that red flag, essentially, a credible business reason as to why it exists.

Should any of the above indicators be present, the Taxable Person must:

- ***Maintain a clear, documented justification explaining the circumstances:*** This means a simple internal note or verbal explanation is not enough. The business needs a real, substantiated explanation. For example, if the supplier changed address three times in a year because it was relocating to a larger facility due to business growth, that rationale should be recorded, ideally supported by evidence (lease agreements, board resolutions, correspondence, etc.).
- **To be produced to the FTA upon request:** This justification is not something that needs to be filed proactively with the FTA – but it must be readily available and produced if the FTA asks for it during an audit or review. In other words, it's a defensive file the business builds and keeps on hand.
- **Provided that such justification is not inconsistent with the evidence or information otherwise available to the Taxable Person:** The explanation must hold up against everything else the business already knows or has on file about that supplier. If the Taxable Person has other information suggesting the justification is not accurate or is contradicted by other evidence (for instance, media reports suggesting financial distress, or internal records showing something different), then that justification will not be considered valid – even if it is well documented.

Practical implication: This requirement means businesses can't just tick a box and write a generic explanation to neutralise a red flag. The justification must be genuine, evidence-based, and consistent with the broader picture the business has of that supplier. If it isn't, the FTA is likely to view the risk indicator as unresolved, which could jeopardise the recoverability of Input Tax on supplies from that supplier.

Bank Account and Reputational Due Diligence

Where the value of supplies received from a supplier exceeds AED 375,000 over the preceding 12-month period, or is expected to exceed AED 375,000 over the following twelve (12) months, the Taxable Person must additionally:

- *Confirm the supplier's bank account*, i.e. obtain written confirmation from a bank authorised in the State that the supplier holds a bank account, free of any reservations or conditions (e.g., a bank flagging that the account is under review or restricted in some way). This confirmation does not need to be issued directly to the recipient of the supply, meaning the supplier can simply provide a copy of a letter/confirmation the bank issued to them, rather than requiring the bank to write specifically to the recipient of the supply.
- This is a strong indicator that the supplier is a genuine, operational business – banks in the UAE conduct their own KYC/AML due diligence before opening accounts, so a clean bank confirmation provides third-party assurance that the supplier isn't a shell entity or fabricated identity. It also supports traceability of payments, which is relevant to detecting fraud.
- *Assess reputational standing*, i.e. review publicly available information, reviews, and media coverage relating to the supplier from reliable sources, ensuring consistency with the nature and scale of the supplier's business, and confirming the absence of any indicators suggesting suspected tax evasion.

This provision introduces an **enhanced due diligence tier** that applies only once a supplier relationship crosses a materiality threshold – **AED 375,000** in supplies over a rolling 12-month period (either looking backward at what's already been supplied, or forward at what's expected to be supplied). Below this threshold, these two additional checks are not mandatory; above it, they become required on top of the other verification measures (identity, address, risk indicators, etc.).

Practical implications: In practice, businesses will need to establish a mechanism to monitor cumulative purchase values on a per-supplier basis, both by reference to historical transactions and anticipated future volumes, in order to identify when the AED 375,000 threshold is met and enhanced due diligence obligations are triggered. As part of the onboarding process, or once it becomes apparent that a supplier is likely to cross this threshold, businesses should request a bank confirmation letter from significant suppliers, taking care to verify that it is issued without conditions or reservations.

Businesses should also implement a basic reputational screening process, for example by searching the supplier's name in news databases, checking for adverse media coverage, and comparing the supplier's public profile against its represented size and scale of activity. Finally, it will be important to maintain proper documentation of all such checks, including bank letters and dated records of reputational research, so that compliance can be readily demonstrated to the FTA upon request.

Verification of Supplies: Key Measures and Conditions

Beyond confirming that a supply has taken place, the new Decision requires Taxable Persons to exercise a more substantive level of scrutiny over the transactions underlying their Input Tax claims. These requirements move due diligence beyond documentary formality, requiring businesses to critically assess the commercial substance of their supply chains in order to safeguard their entitlement to Input Tax recovery and demonstrate compliance in the event of an FTA review.

- *General Assessment of the Supply:* Taxable Persons must conduct a general assessment of the conditions surrounding the transaction and ensure that the supplier's engagement is founded on genuine commercial reasons.
- *Assessment of Payment Conditions:* The payment method and terms must be commercially justifiable. Where a third party is involved in making or receiving payment, or where payment is remitted to a bank account outside the supplier's country of incorporation, a reasonable commercial explanation must exist, and must be consistent with the information available to the Taxable Person. Payment should generally be made by electronic means. Where cash payment is used, it must be supported by a documented commercial reason, remain within the thresholds prescribed under applicable Tax legislation, and be readily verifiable.
- *Verification of the Supply's Circumstances:* Taxable Persons must further confirm that:
  - prices or profit margins are not commercially unjustifiable or materially divergent from prevailing market conditions without clear justification;
  - the Goods or Services supplied fall within the supplier's ordinary business activities, or those permitted under its commercial licence;
  - the authenticity and origin of Goods received can be verified, together with the supplier's valid ownership of, or right to dispose of, such Goods; and
  - where the supplier acts as an intermediary, a clear and justifiable commercial rationale exists for its role in the supply chain.

Practical implication: Businesses must move beyond invoice/payment formalities and build documented proof (procurement rationale, payment justifications, market benchmarking, ownership/origin checks) into their supplier and transaction management processes, so they can demonstrate genuine commercial substance and due diligence if challenged by the FTA.

B. Documentation and internal policies

When taking the measures and verifying the compliance of the Decision’s conditions for each supplier and each supply received, the Taxable Person must document the verification steps and retain the supporting documents in order to enable the FTA to verify the correctness of their implementation.

Taxable Persons should also maintain a documented policy outlining the roles and responsibilities of those involved in the verification procedures. When dealing with the supplier for the first time, the Taxable Person should verify that the supplier is in accordance with the Decision’s provision concerning the measures and conditions for the verification of the supplier.

Insights

Decision No. 13 of 2026 represents a significant shift in the compliance burden placed on VAT-registered businesses in the UAE, with the following practical consequences for clients:

1. **Enhanced Due Diligence Obligations** Taxable Persons can no longer rely solely on the receipt of a valid tax invoice to support Input Tax recovery. They must now proactively verify the identity, legitimacy, and risk profile of their suppliers, as well as the commercial substance of each supply, before deducting Input Tax. This requires the implementation of new internal verification procedures ahead of the 1 October 2026 effective date.
2. **Increased Documentation and Record-Keeping Burden** Businesses will need to establish, document, and retain evidence of the verification steps undertaken for each supplier and each supply – including incorporation checks, identity documents, place of business assessments, risk indicator reviews, and (where thresholds are met) bank confirmation and reputational due diligence. This documentation must be readily available for production to the FTA upon request.

3. **Onboarding Process Adjustments** For new suppliers, businesses must build compliance checks into the onboarding process from the outset, rather than treating verification as a one-off or retrospective exercise. This may require revising supplier onboarding templates, checklists, and approval workflows.
4. **Governance and Internal Policy Requirements** Taxable Persons should adopt a formal, documented internal policy setting out the roles and responsibilities of personnel involved in supplier and supply verification. This suggests the need for cross-functional coordination between tax, finance, procurement, and compliance teams.
5. **Heightened Scrutiny for High-Value Suppliers** Where supplies from a given supplier exceed (or are expected to exceed) AED 375,000 over a 12-month period, additional due diligence – bank account confirmation and reputational checks – becomes mandatory, increasing the compliance intensity for key or high-volume trading relationships.
6. **Payment Practices Under Review** Businesses relying on cash payments, third-party payment arrangements, or cross-border payments to suppliers should reassess these practices, as they now require specific commercial justification and supporting documentation to withstand FTA scrutiny.
7. **Risk of Input Tax Disallowance** Failure to perform and evidence the required due diligence exposes businesses to the risk that Input Tax recovery may be denied, and potentially to related penalties, in the event the FTA considers that the Taxable Person knew, or should have known, that a supply was connected to fraud or tax evasion.
8. **Increased Compliance Costs, Balanced by Reduced Audit Exposure** While the Decision introduces additional administrative and compliance costs, the standardised checklists it provides also offer businesses a clearer, more defensible framework to demonstrate good faith, potentially reducing the risk and duration of disputes with the FTA.

Recommended next steps

Clients should use the period before 1 October 2026 to review and update supplier onboarding and payment approval processes, implement a formal verification policy, and train relevant personnel to ensure readiness ahead of the Decision's entry into force.

Do you have any questions?

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