Reverse Charge, Imports and Designated Zones in Zoho Books

Common VAT mistakes UAE businesses make, and how to avoid them

A 3-page checklist by Perfonec, Zoho Partner, Dubai

Quick answer. Three situations cause most VAT errors for UAE businesses buying from abroad or trading with free zones: **reverse charge** (you account for the VAT yourself), **imports** (VAT is calculated on the customs value) and **designated zones** (treated as outside the UAE for VAT in many cases). Zoho Books can record all three, but only if the supplier location, the tax code and the organisation settings are right before you post.

Why these three cause so many mistakes

Normal local purchases are simple: the supplier charges 5% VAT and you claim it back. Reverse charge, imports and designated zones break that pattern. The VAT may be charged by nobody, paid at customs, or reported on both sides of your return. When the wrong tax code is picked on a bill, the error stays hidden until the VAT 201 return is prepared. Fixing it then means reopening entries.

The three situations at a glance

Situation	What it means	Who accounts for the VAT
Reverse charge	Applies to imports of goods or services, purchases of goods from a designated zone, and some gold, diamond and energy supplies (per Zoho and FTA guidance).	You, the VAT-registered buyer. You report the output VAT and, where allowed, claim the input VAT in the same return.
Imports of goods	Goods brought into the UAE mainland. Standard rate is 5% on the customs value, with some suspensions and exemptions.	The importer. Registered importers may account for it through reverse charge. Unregistered ones pay at customs.
Designated zones	Certain free zones the FTA lists as outside the UAE for VAT on qualifying goods. Not every free zone is a designated zone.	Depends on the goods, the parties and their registration. Goods moving between a designated zone and the mainland need special care.

A made-up example: reverse charge on an overseas service

Item	Amount (AED)	Note
Overseas consultant invoice, no UAE VAT charged	10,000.00	Supplier is outside the UAE
Output VAT you self-account at 5%	500.00	Reported as VAT payable
Input VAT you claim, if fully recoverable	500.00	Reported as VAT recoverable
Net VAT effect on the return	0.00	If only partly recoverable, the net is a real cost

Illustration only. Your recovery depends on your own taxable and exempt supplies. Confirm with your tax adviser.

Eight common mistakes and the fix

Mistake	Why it hurts	What to do
1. Posting an overseas bill with no VAT treatment at all	The output VAT is never reported, so VAT is understated and penalties can follow.	Choose a reverse charge tax code on the bill. Confirm the supplier is outside the UAE.
2. Treating reverse charge VAT as a pure cost	You pay the output VAT and forget the matching input claim, overstating cost.	Check both sides appear in the return. Review partial recovery with your adviser.
3. Wrong tax for suppliers in other GCC countries	Zoho notes you may need to create a tax for the relevant GCC country. Using a default UAE tax gives the wrong result.	Check the supplier country on each new vendor. Set up the extra tax before posting.
4. Counting import VAT twice	VAT shown on the customs declaration is recorded again through reverse charge on a bill.	Match every import to its customs declaration. Record VAT once, in the way your customs account works.
5. Using the wrong customs value	Up to AED 1,000 declared value: VAT on CIF. Above it: CIF plus excise, duty and fees (per Zoho FAQ). Missing freight or duty understates VAT.	Keep the declaration, freight and insurance invoices together. Build the landed cost from them.
6. Confusing any free zone with a designated zone	Only designated zones are treated as outside the UAE. A free zone that is not designated is treated differently, including for import VAT.	Check the zone against the FTA designated-zone list. Record the vendor or customer zone status.
7. Not setting the organisation up correctly	Zoho says a designated-zone business should select that status during organisation setup. A wrong setup changes the tax options offered.	Check the organisation profile and VAT settings early. Ask Zoho support before changing it later.
8. Missing proof and wording on documents	Documents should say VAT is payable through reverse charge, and records must be kept for audit.	Keep supplier invoices, customs papers and proof of payment attached to each transaction.

Which treatment applies? A quick scenario guide

If you...	Usual treatment	Check
Buy services from an overseas supplier	Reverse charge. You self-account the VAT, and Zoho offers reverse charge options for non-GCC vendors.	Supplier location and whether input VAT is recoverable.
Import goods from outside the GCC	5% import VAT on the customs value. Registered importers may account for it through reverse charge.	Customs declaration, and whether VAT was already paid at the border.
Buy goods from a designated-zone supplier	Reverse charge applies to purchases of goods from a designated zone (per Zoho guide).	Zone status on the FTA list, and supplier TRN.
Buy from a supplier in another GCC country	Zoho says to create a tax for the relevant GCC country if you want to apply tax.	Supplier country, goods or services, and registration.
Sell services or goods to a customer abroad	Goods exports are often zero-rated and services depend on place of supply. Evidence is needed either way.	Proof of export, contract, and customer location.
Move goods between mainland and a designated zone	Special rules apply and depend on the goods and who is registered.	Ask your adviser before setting any tax code.

These are usual treatments, not advice for your case. Rules have conditions and exceptions.

Reports worth running every month

Report	What to look for
VAT return preview	Reverse charge and import lines that look too high, too low or missing.
Bills by vendor location	Overseas or GCC vendors whose bills carry a normal local tax code.
Input and output VAT by tax code	Reverse charge output and input amounts that do not match.
Landed cost by import	Freight, duty and fees recorded against each import. Compare with customs papers.

Set-up and month-end checklist for Zoho Books

Before you post	Before you file
• **Where is the supplier or customer: mainland, designated zone, other GCC or outside the GCC?** • **Is the party VAT-registered, and is the TRN saved?** • **Is this goods or services?** • **Is there a customs declaration for the import?** • **Are the extra GCC taxes created?**	• Review the VAT return preview for reverse charge and import lines. • Reconcile import VAT to customs declarations. • Compare input and output VAT on reverse charge bills. • Check zero-rated and out-of-scope sales against documents. • File by the due date: 28 days after the end of the tax period.

Five questions to ask your tax adviser

1) Which of my suppliers and customers are in designated zones? 2) Which of my purchases fall under reverse charge? 3) How is my import VAT paid and shown on customs declarations? 4) How much input VAT can I recover? 5) How should I treat goods moving between a designated zone and the mainland?

Important. This guide is general information based on the FTA and Zoho documentation available at the time of writing. VAT treatment depends on your facts, and rules and software features change. Confirm each case with the Federal Tax Authority or a qualified tax adviser, and check current Zoho Books help for the exact steps in your edition.

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