

Catalysts of Change



TABLE OF CONTENTS

MESSAGE	03 Editorial Message	
ACADEMICS	05 IAS-28 Mastering Investments in Associates & Joint Ventures	14 ISA-706 Enhancing Audit Reports
UPDATES	09 Corporate Tax Updates- Introduction of Domestic Minimum Top-up Tax (DMTT)	18 VAT Regulatory Insights- Specified Recovery Percentage (SRP)
SPECIAL FEATURES	12 Catalysts of Change Technology, Tax and Transformation	21 UAE Flag Day
EVENTS	22 Festivals and Corporate Events	

“Expanding Horizons”

EVAS
CONSTANTIN

MOVING TO A NEW OFFICE IN

SHARJAH!





Vijaya MOHAN, FCA
Managing Partner & CEO

Dear readers,

Welcome to the latest edition of our newsletter.

As we enter the final quarter of Year 2025, we at Evas Constantin choose this moment to pause, reflect, and renew. The past months have rewarded our sincere efforts with meaningful achievements, reinforcing our belief in perseverance, teamwork, and purpose.

Some goals have reached their targets, while others are still taking shape, and we consider that as our experience, whether successful or not, it has enriched our understanding and strengthened our resolve. Every challenge faced has been a lesson in adaptability, while every success was a reminder of our dedication. The foundation we build today rests on this continuous cycle of learning and commitment. With that being our launching pad, the future stands before us — full of possibilities, inviting us to reimagine, rebuild, and reach higher with renewed energy and dynamism.

The world around us is changing faster than ever, driven by powerful catalysts of change such as technology, sustainability, and evolving tax systems. These forces are not only transforming industries but also reshaping the way we think, plan, and create value. Technology continues to push us to innovate and discover smarter, more connected ways of working. The global shift towards greener growth reminds us that true success goes beyond profit; it's about responsibility, balance, and long-term impact. And as tax systems and regulations evolve, they bring both structure and opportunity, encouraging businesses to act with transparency and foresight.

Embracing this spirit of renewal, we continue to believe that real progress happens when people come together and stay open to change. What keeps us moving forward is the strength we draw from each other, from teams and clients who share ideas, work with trust, and grow together. For us, being dynamic isn't just about speed but about purpose—staying steady through change and inspired by new possibilities. We see today's transformations not as challenges, but as signs of progress, a call to stay flexible, think long-term, and move forward with our clients with clarity and confidence.

A FRESH BEGINNING AT EVAS CONSTANTIN

"Every new beginning comes from the courage to reflect and the will to rebuild".

We are proud to announce the opening of our new office in Sharjah - a milestone that reflects our continued growth and commitment to staying closer to our clients and communities. This step is not just about expansion; it's about creating new opportunities for our team, fostering collaboration, and strengthening our collective journey forward.

This grand celebration took place on Saturday, 25th October 2025, in Sharjah, UAE.

The Sharjah office represents our belief that progress comes from staying connected - with our clients, our people, and the evolving business requirements. It marks the beginning of a new chapter, built on trust, purpose, and the shared ambition to grow together.

We extend our deepest gratitude to everyone who has contributed to this milestone. Your beliefs have been the cornerstone of our progress and have inspired us to strive higher and achieve more.

HERE'S WHAT WE'RE UNPACKING FOR YOU IN THIS EDITION

► **Spotlight on IAS 28: Accounting for Associates & Joint Ventures.**

Discover how IAS 28 guides report for entities with significant influence, clarifying when to apply the equity method, how valuations work, and why these investments matter for transparent financial statements.

► **VAT Focus: Streamlining Input Tax Apportionment with SRP**

Explore how the Specified Recovery Percentage (SRP) eases VAT complexities by allowing eligible businesses to apply a fixed, FTA-approved recovery rate, enhancing accuracy and reducing compliance burdens across periods.

► **Audit Insight: Strengthening Reports with ISA 706**

Learn how Emphasis of Matter and Other Matter paragraphs elevate audit report clarity, helping stakeholders better understand critical disclosures, uncertainties, and context behind the numbers.

► **Corporate Tax Update: The UAE's New Top-Up Tax**

Understand how the Domestic Minimum Top-up Tax brings the UAE into alignment with global BEPS Pillar Two standards, ensuring multinational groups meet the 15% minimum effective tax rate and reinforcing tax fairness and transparency.

► **Catalysts of change - Technology, Tax, and Transformation**

A forward-looking perspective on how digital adoption, progressive tax frameworks, and organizational change are reshaping business models, decision-making, and competitive advantage.

"Growth is never by mere chance; it is the result of forces working together."

— James Cash Penney —

Every quarter, we come before you with a fresh set of perspectives - ideas that spark thought, inspire reflection, and bring relevance to your professional journey. Through these writings, our goal is to create conversations that go beyond updates or analysis, and instead offer something meaningful - a moment to pause, learn, and grow together.

As we continue to evolve and expand, our focus remains unchanged: to add value through insight, to build trust through consistency, and to nurture a community that grows together with purpose. We thank you for your continued trust, engagement, and support - they remain at the heart of everything we do at Evas Constantin.

Happy Reading !

IAS-28

MASTERING INVESTMENTS IN ASSOCIATES & JOINT VENTURES



Investing with influence – not just ownership.

UNDERSTANDING THE CONCEPT

Investing in another company is more than just holding shares - it's about **influence, strategy, and accountability**.

When a business has significant influence or joint control over another entity, **IAS 28 - Investments in Associates and Joint Ventures** provides the accounting roadmap.

This month's edition of our Newsletter Series explores how such investments are measured, recognized, and reported - with simple examples and practical insights.

OBJECTIVE OF IAS 28

The standard explains how to recognize and account for investments in associates and joint ventures in both consolidated and separate financial statements.

WHO DOES THIS APPLY TO?

IAS 28 applies to any investor that exercises:

- **Significant influence** (usually 20 % or more of voting rights); or
- **Joint control** over another entity.

Significant influence isn't the same as control - it means participating in financial and operating policy decisions, not dictating them.

Common indicators of significant influence:

- Representation on the board of directors
- Participation in key decision-making processes
- Material transactions between the investor and investee
- Interchange of managerial or technical personnel

It's not just about the shares you own - it's about the say you have.

ACCOUNTING METHODS FOR INVESTMENTS

Depending on the nature of the investment, one of the following methods is used:

Scenario	Description	Key Feature
Cost Method	Recognize investment at cost; dividends recognized as income.	Simple, steady valuation.
Fair Value Method	Investment measured at current market value (either FVPL or FVOCI).	Reflects real - time value fluctuations.
Equity Method	Investment initially at cost, then adjusted for investor's share of profit / loss.	Reflects economic reality of shared performance.

QUICK ILLUSTRATION

Example:

XYZ Ltd acquires 10 % of ABC Ltd for AED 100,000. Dividend received = AED 5,000. Market value at year-end = AED 120,000.

Method	Investment Value	Profit / Loss	OCI
Cost	100,000	5,000	–
FVPL	120,000	25,000	–
FVOCI	120,000	5,000	20,000

EQUITY METHOD – STEP BY STEP

- Initial Recognition: Record investment at cost.
- Subsequent Adjustments: Increase / decrease investment by your share of associate's profit or loss.
- Dividends: Treated as a return of investment, not income.

Example:

Investor A buys 30 % of B Ltd for AED 200,000. B Ltd reports profit = AED 100,000, OCI = AED 10,000, and dividends = AED 20,000.

Particulars	AED
Initial cost	200,000
Share of profit (30 %)	30,000
Share of OCI (30 %)	3,000
Less: Dividend (30 %)	(6,000)
Closing Carrying Value	227,000

LOSING SIGNIFICANT INFLUENCE

When the investor loses the power to participate in financial and operational decisions, it also loses significant influence — and therefore stops applying the equity method from that date.

GOODWILL & CAPITAL RESERVE

If purchase consideration exceeds your share of fair-value net assets - the excess is **goodwill**, representing premium for brand value, customer base, or strategic advantages.

If it's less - you recognize a **capital reserve**.

- Goodwill is included in investment carrying amount.
- No amortization of goodwill.
- Impairment testing is done on the entire investment as goodwill is part of investment.

UPSTREAM & DOWNSTREAM TRANSACTIONS

Transaction	Direction	Recognition
Downstream	Investor → Associate	Record gain / loss; eliminate unrealized profits to investor's extent.
Upstream	Associate → Investor	Recognize share of profit after removing unrealized gains.

From the group's perspective, profits on intra-group transactions are recognized only to the extent of unrelated interests.

LONG-TERM INTERESTS (BEYOND EQUITY)

If the investor also holds **long-term financial instruments** (such as loans or preference shares) in the associate/joint venture:

- **First apply IFRS 9** to measure fair value and recognize changes;
- **Then apply IAS 28** for the overall net investment using the equity method.

Trade receivables and payables are not part of the long-term interest — they remain outside the equity method.

WHEN THE ASSOCIATE MAKES LOSSES

- **Stop recognizing losses** once your investment (including long-term interests) is reduced to zero.
- **Do not record further losses** unless you have a legal or constructive obligation.
- **Resume recognizing profits** only after recovering prior unrecognized losses.

In essence: you can't lose more than you've invested.

IMPAIRMENT OF INVESTMENT

If objective evidence indicates impairment - such as financial distress, default, or probable bankruptcy - determine the **recoverable amount** (higher of fair value less costs to sell, or value in use).

If recoverable value < carrying value → record an impairment loss.

WHEN TO DISCONTINUE THE EQUITY METHOD

Scenario	Accounting Treatment
Loss of influence / control	Remeasure retained interest at fair value and recognize gain/loss under IFRS 9.
Investment becomes subsidiary	Apply IFRS 3 – Business Combinations and IFRS 10 – Consolidated FS.

WHEN IAS 28 DOES NOT APPLY

- Venture capital or mutual funds holding investments for trading (measured at FVPL under IFRS 9).
- Investments classified as held for sale.
- Parent entities exempt from consolidation under IAS 27.
- Subsidiaries meeting specific exemption criteria.

KEY TAKEAWAYS

- Apply **equity method** when you have significant influence or joint control.
- Include both **equity interest and long-term interests** when assessing exposure.
- **Eliminate intra-group profits** appropriately.
- **Discontinue** equity method when influence ceases.
- Always evaluate **impairment** and **fair value** in line with IFRS 9 and IAS 28.

About EVAS Constantin Auditing L.L.C

At EVAS Constantin, we transform complex accounting standards into actionable business insights. Our IFRS specialists assist clients in structuring investments, assessing associate relationships, and ensuring accurate financial reporting under IFRS 10, 28 & 9.

IAS-28





CORPORATE TAX UPDATES

INTRODUCTION OF DOMESTIC MINIMUM TOP-UP TAX (DMTT)

In an effort to curb tax avoidance and promote fair and equitable taxation, the United Arab Emirates (UAE) has introduced a Domestic Minimum Top-up Tax (DMTT) applicable to Multinational Enterprises (MNEs). This measure forms part of the global tax reform framework developed by the Organization for Economic Co-operation and Development (OECD) under its Base Erosion and Profit Shifting (BEPS) 2.0 Project.

Under the previous framework of Pillar One that focuses on revising profit allocation and nexus rules to ensure that profits are taxed in jurisdictions where economic activities and value creation actually occur. However, this alone did not fully address the challenge of profit shifting to low- or no-tax jurisdictions. To bridge this gap, the OECD introduced Pillar Two, which establishes a global minimum effective tax rate of 15% for MNEs with annual consolidated group revenue exceeding EUR 750 million.

The UAE's introduction of the DMTT represents a landmark step in aligning its tax framework with international standards, reinforcing its commitment to transparency, fairness, and responsible tax practices in line with the global minimum tax initiative. It serves as a supplementary tax to the existing CT regime in the UAE. UAE has implemented DMTT effective 1 January 2025, for MNEs.

With the DMTT in place, MNEs will need to consider its impact on their existing UAE tax profiles and compliance obligations. We have outlined below certain key features of DMTT.

WHO IS COVERED UNDER UAE DMTT RULES?

Pillar Two, or the Global Minimum Tax initiative, targets MNE Groups with annual consolidated revenue of or above EUR 750 million (approximately AED 3.15 billion) or more in at least two of the previous four fiscal years. It targets to achieve minimum tax of 15% in each jurisdiction in which an in-scope MNE Group operates. This measure aims to prevent profit shifting and ensure that MNEs contribute their fair share of taxes.

UAE DMTT introduces a jurisdictional-level Top-up Tax on UAE Constituent Entities and Joint Ventures of an MNE Group, ensuring that profits of such groups are subject to a minimum ETR of 15%. Specifically, the tax applies where the ETR of the aggregate results of UAE Entities or JVs of an MNE Group is below 15%.

The following entities are excluded from the application of the DMTT Rules: (i) Governmental entities (ii) International organizations; (iii) Non-profit organizations; (iv) Pension funds; (v) Investment funds that are UPE; and (vi) Real estate investment vehicles that are UPEs.



For instance: Applicability for UAE subsidiary of foreign company claiming Qualifying Free Zone Person Benefit

FACTS

- ▶ ABC Inc., headquartered in the USA, has global consolidated revenue of EUR 5 billion.
- ▶ It has a wholly-owned UAE subsidiary operating in a Free Zone, benefiting from a 0% Corporate Tax rate as a Qualifying Free Zone Person.

APPLICABILITY

- ▶ UAE subsidiary is part of a group that exceeds the EUR 750 million threshold, so Pillar Two applies to the group globally.
- ▶ The UAE subsidiary's income is subject to DMTT rules – if its effective tax rate in the UAE is below 15%, the UAE DMTT may apply (to ensure minimum taxation within the UAE).

LEVY OF TOP-UP TAX

In order to determine the Top-up Tax liability, an MNE Group will have to undertake the following action steps:

- Step 1** Calculate **Pillar 2 Adjusted Income**¹ for all UAE MNE in scope entities.
- Step 2** Calculate **Adjusted Covered Taxes**² for all UAE MNE in-scope entities
- Step 3** Calculate **Effective Tax Rate (%) (ETR)** for UAE jurisdictions = $\frac{\text{Adjusted Covered Taxes} * 100}{\text{Pillar 2 Adjusted Income}}$
- Step 4** Calculate **Top-Up tax (%)** for UAE jurisdictions = Minimum ETR (15%) (-) ETR for UAE entities.
- Step 5** Compute **Excess Profits** = Pillar 2 Adjusted Income (-) Substance – based Income Exclusion³
- Step 6** Determine **Top - up tax amount** for UAE jurisdictions = Top up Tax (%) * Excess Profits
- Step 7** **Allocate Top – up tax amount to each UAE entity** in proportion to adjusted taxable income

RELIEFS

To ease compliance, the UAE DMTT includes several safe harbors and exclusions:

- ▶ **Permanent De-minimis Safe Harbor:** If the Average Pillar Two UAE revenue⁴ < EUR 10 million and Average Pillar Two income⁵ < EUR 1 million, the DMTT is deemed zero.
- ▶ **Transitional CbCR Safe Harbor:** For fiscal years (year 2025 and 2026), UAE group may have a zero DMTT, subject to conditions:
 - De-minimis Test – UAE Revenue < EUR 10 million; Income < EUR 1 million for the respective fiscal year
 - Simplified ETR is more than 16% (2025)/ 17% (2026)
 - Routine Profits test – no excess profits after substance deduction

- ▶ **Permanent Simplified Calculations Safe Harbor:** DMTT of the MNE Group in the UAE shall be deemed to be zero subject to conditions:
 - De-minimis Test – Average Pillar Two UAE Revenue < EUR 10 million; Average Pillar Two Income < EUR 1 million
 - Simplified ETR is at least 15%
 - Routine Profits test – no excess profits after substance deduction
- ▶ **Initial Phase of International Activity:** DMTT will be effectively reduced to zero if the MNE Group has Constituent Entities in no more than six jurisdictions and the netbook value of tangible assets in all jurisdictions, excluding the reference jurisdiction, does not exceed EUR 50 million.

1. *Pillar Two Adjusted Income - It is financial accounting net income or loss of each constituent entity, as reflected in the consolidated financial statements of the ultimate parent entity subject to certain adjustment*
2. *Adjusted Covered Taxes - It includes current taxes on income or profits, deferred taxes, taxes on distributed profits, etc.*
3. *Substance based Income Exclusion- This exclusion reduces the amount of income subject to the top-up tax by allowing a deduction based on the level of tangible assets and payroll in that jurisdiction.*
4. *Average Pillar Two Revenue is the average of the Pillar Two Revenue for the current and the two preceding Fiscal Years.*
5. *Average Pillar Two Income/ Loss is the average of the Pillar Two Income /Loss for the current and the two preceding Fiscal Years.*

COMPLIANCE

Any entity subject to the DMTT must register with the Federal Tax Authority (FTA) within the prescribed timeframe, form, and manner. These entities are required to file a **'Top-up Tax Return'** and appropriately discharge their DMTT liability. The return must be filed within 15 months following the end of the reporting fiscal year. However, for the first transitional year, the return must be filed within 18 months of the end of the reporting fiscal year. This timeline also applies to the discharge of the DMTT liability.

In addition to the above, certain specified entities must submit the **'Pillar Two Information Return'** to the FTA, providing detailed jurisdictional-level data as per the Pillar Two framework.

The FTA is yet to release the functionality for registration and filing under the UAE DMTT regime.

WAY FORWARD AND HOW CAN EVAS HELP MNE GROUP'S ESTABLISH PILLAR TWO READINESS?

With the introduction of the UAE DMTT and Pillar Two rules, it is crucial for MNE Groups to evaluate the potential impact and prepare early. The rules require preparation of consolidated UAE financials and collection of detailed financial and tax data across jurisdictions. Hence, assessing the readiness of accounting systems and adopting the necessary tools will be key to ensuring compliance.

EVAS can assist MNE Groups in achieving Pillar Two readiness through the following steps:

- ▶ **Assess applicability** – Determine whether the group meets the EUR 750 million consolidated revenue threshold.
- ▶ **Map group structure** – Identify all entities, jurisdictions, and effective tax rates.
- ▶ **Evaluate data readiness** – Ensure systems can capture and report GloBE-relevant financial and tax data.
- ▶ **Conduct impact assessment** – Estimate jurisdictional ETRs and potential top-up tax exposure.
- ▶ **Review incentives and structures** – Analyse the effect of tax holidays, free zone benefits, and intercompany arrangements.
- ▶ **Prepare for compliance** – Set up processes for DMTT and GloBE return filings, reconciliations, and disclosures.

CATALYSTS OF CHANGE

TECHNOLOGY TAX AND TRANSFORMATION (TTT)



The speed at which change is happening in the business world today is both incredible and inspiring. One of the biggest reasons behind this rapid transformation is the advancement of technology. It continues to reshape the way businesses operate, making processes faster, smarter, and more accurate. Automation, real-time reporting, AI-driven insights, and digital platforms now support day-to-day decision-making, giving leaders better visibility and helping organizations reduce errors and improve efficiency. Beyond operational efficiency, technology has also improved collaboration and accessibility. Cloud-based systems support remote work, streamline workflows, and enable rapid data analysis, allowing leaders to identify trends, manage risks, and make informed decisions.

At the same time, green growth or sustainability has emerged as a business priority. Customers, investors, and regulators are now placing greater emphasis on environmental responsibility, ethical behaviour, and transparent governance. The focus is no longer only on profit, but also on purpose and long-term impact.

This evolving mindset has created healthier and more value-driven business environments. Employees feel more engaged when working for companies that care about social and environmental outcomes. Investors also reward sustainable practices, seeing them as indicators of resilience and forward-thinking leadership.

The integration of technology and sustainability enables responsible innovation. Digital tools track emissions, automate ESG reporting, and measure impact, promoting accountability and smarter decision-making across the value chain. Companies can now measure the impact of their initiatives with precision, making sustainability measurable rather than theoretical.



However, as these two catalysts gain momentum, one more pillar is rising in importance: tax compliance. Strong compliance practices add value to governance, support financial discipline, and reinforce transparency. Many regions, including the UAE, have recently introduced corporate tax to align with international standards and foster accountability. This evolution reflects a broader movement toward maturity and structured economic development.

Together, technology, green growth, and tax compliance form a foundation for responsible and pervasive business growth. One drives efficiency, one protects the future, and one ensures fairness. Organisations that embrace all three will be better positioned to attract investment, manage risk, and compete globally.

At Evas Constantin, we view technology, sustainability, and tax compliance as key pillars shaping the future of business. Guided by this vision, we are taking strategic steps to ensure responsible and future-ready growth:

► Driving Digital Transformation.

Expanding digital platforms to deliver smarter, seamless client experiences. Professional practice is expected to improve in efficiency and control via the use of AI-related tools.

► Embedding Sustainability and ESG Values

Promoting measurable sustainability practices that align with the UAE's green growth vision. At Evas Constantin, sustainability is not a trend — it's a responsibility we uphold for the benefit of all stakeholders.

► Strengthening Compliance and Governance

Enhancing governance frameworks to meet UAE corporate tax standards and international best practices.

Providing clients with practical, transparent guidance on tax and regulatory matters.

Compliance is not a burden - it's a pathway to long-term value and trust for our clients.

► Empowering Clients for the Future

We partner with clients to balance profitability with purpose, ensuring resilience and readiness in a rapidly evolving regulatory landscape.

Our focus remains on keeping clients well-informed and future-ready through continuous updates and practical guidance.





ISA-706 ENHANCING AUDIT REPORTS

EMPHASIS AND OTHER MATTER PARAGRAPHS

In an independent audit, an auditor's primary objective is to express an opinion on whether the financial statements present a **true and fair view**. However, in some cases, auditors may need to draw users' attention to specific issues **without modifying** their overall opinion.

That's where **ISA 706 – "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"** comes into play.

PURPOSE OF ISA 706

ISA 706 provides guidance for using additional paragraphs in the audit report – the **Emphasis of Matter (EOM)** and **Other Matter (OM)** paragraphs – to increase clarity, transparency, and the informational value of the auditor's communication.

These paragraphs supplement, but do not replace, the auditor's opinion.

EMPHASIS OF MATTER (EOM) PARAGRAPHS

An **EOM paragraph** draws attention to matters that are **appropriately presented or disclosed** in the financial statements and are **fundamental to users' understanding** of them.

Typical situations include:

- Significant **subsequent events** after the reporting period.
- Financial statements prepared under a **special purpose framework**.
- **Early adoption** of new accounting standards.
- **Going concern uncertainties** appropriately disclosed.

Key requirements:

- Appears in a **separate section** titled "*Emphasis of Matter*".
- Refers clearly to the related note disclosure.
- Explicitly states that the **auditor's opinion is not modified** regarding the matter.

REAL-LIFE EXAMPLES OF EOM

Example 1:

Litigation Disclosure

We draw attention to Note 21 of the financial statements, which describes the ongoing litigation with a major supplier for breach of contract. The ultimate outcome of this matter cannot presently be determined. Our opinion is not modified in respect of this matter.

Example 2:

Going Concern Uncertainty

We draw attention to Note 2, which indicates that the company incurred significant operating losses and negative cash flows during the year. These conditions, along with other matters described in Note 2, indicate the existence of material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Example 3:

Special Purpose Framework

We draw attention to Note 1, which states that the financial statements are prepared in accordance with the financial reporting provisions of the Freezone regulations. Accordingly, they may not be suitable for another purpose.

OTHER MATTER (OM) PARAGRAPHS

An **OM paragraph** refers to matters **not presented or disclosed** in the financial statements but are **relevant to understanding the audit, the auditor's responsibilities, or the audit report**.

Common situations:

- Explaining that certain **subsidiary audits** were performed by other auditors.
- Clarifying that the audit report is **restricted to a specific purpose** or audience.
- Mentioning **dual reporting** (e.g., local GAAP vs. IFRS).
- Highlighting **uncorrected misstatements in "other information"** (ISA 720).

Key requirements:

- Presented in a **separate section** titled "Other Matter".
- Must not replace disclosures required by management.
- Should only be included when relevant to users' understanding of the audit.



ISA 706

REAL-LIFE EXAMPLES OF OM

Example 1:

Different Reporting Frameworks

The company's financial statements have also been prepared under IFRS for submission to the parent company in Europe. Our report on those statements, dated 10 March 2025, was unmodified. This report, however, relates solely to the financial statements prepared under UAE Corporate Tax Law requirements.

Example 2:

Restricted Use of Audit Report

This audit report has been prepared solely for submission to the Free Zone Authority and should not be distributed to or used by any other party for any purpose.

Example 3:

Component Audits by Other Auditors

We draw attention to the fact that the financial information of the subsidiary, company A, was audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this subsidiary, is based solely on their report.

PLACEMENT IN THE AUDITOR'S REPORT

The placement of these paragraphs depends on the auditor's judgment and the relative significance of the matter.

- **Emphasis of Matter** → follows immediately **after the Opinion section**.
- **Other Matter** → follows the EOM paragraph or at the **end of the report**, depending on relevance.

KEY DIFFERENCES

Qualified Opinion vs. Emphasis of Matter vs. Other Matter

Criteria	Qualified Opinion	Emphasis of Matter (EOM)	Other Matter (OM)
Purpose	To modify the audit opinion when a material misstatement exists or sufficient evidence is not obtained.	To highlight a matter appropriately disclosed in the financial statements that is fundamental to users' understanding.	To communicate a matter not presented in the financial statements but relevant to users' understanding of the audit or auditor's report.
Impact on Opinion	Modifies the opinion [Qualified, Adverse, or Disclaimer].	Does not modify the opinion.	Does not modify the opinion.
Disclosure Location	Within the "Basis for Qualified Opinion" section.	In a separate section titled "Emphasis of Matter".	In a separate section titled "Other Matter".

Qualified Opinion vs. Emphasis of Matter vs. Other Matter

Criteria	Qualified Opinion	Emphasis of Matter (EOM)	Other Matter (OM)
Reference to Financial Statements	Related to a misstatement or limitation in financial statements.	Refers to a note appropriately disclosed in financial statements.	Refers to information outside the financial statements (e.g., audit scope, other reports).
Reason for Inclusion	When financial statements are not fully compliant with the reporting framework or audit scope is limited.	When a disclosed matter is fundamental to understanding the financial statements.	When communication is necessary for transparency or to explain audit context.
Examples	Non-consolidation of subsidiary; inventory not verified.	Going concern uncertainty; pending litigation disclosed in notes.	Audit report restricted to specific users; reference to prior-period auditors.

PROFESSIONAL JUDGMENT AND GOVERNANCE COMMUNICATION

The placement of these paragraphs depends on the auditor's judgment and the relative significance of the matter.

Auditors should :

- Inform **those charged with governance** of any intended EOM or OM paragraphs.
- Ensure such paragraphs are **not substitutes** for modified opinions, Key Audit Matters (KAM), or Going Concern disclosures.
- Avoid **overuse**, maintaining the significance and impact of such emphasis.

Conclusion

The audit report represents the culmination of the auditor's work and serves as a statement of assurance and credibility to stakeholders. By expressing an opinion on the financial statements, the auditor carries a great responsibility – one that demands integrity, objectivity, and adherence to the highest professional standards.

ISA 706 strengthens this responsibility by enabling auditors to communicate key insights with greater transparency, without altering their opinion.

Through the effective use of **Emphasis of Matter** and **Other Matter** paragraphs, the audit report evolves from a compliance document into a **clear, informative, and trust-building communication tool** that enhances confidence in financial reporting.

SPECIFIED RECOVERY PERCENTAGE (SRP)



INTRODUCTION

Effective from 15 November 2024, the UAE VAT Executive Regulation was amended to introduce a simplified mechanism — the Specified Recovery Percentage (SRP) — for apportioning Residual Input Tax.

Previously, businesses were required to calculate their input tax apportionment ratio for each tax period individually. With the SRP mechanism, eligible taxable persons, upon FTA approval, may now apply a fixed recovery percentage (based on the actual recovery rate of the previous tax year) across all tax periods in the following year.

This change aims to simplify the VAT compliance process, especially for businesses engaged in both taxable and exempt supplies, where input tax recovery is complex and time-consuming.

1 Existing Mechanism of Input Tax Apportionment

Under the UAE VAT framework, a business that makes both taxable/zero-rated and exempt supplies must determine the portion of Input VAT it can recover.

Residual Input Tax

Residual input tax refers to VAT incurred on expenses used for both taxable and exempt activities, which cannot be directly attributed to either. Common examples include rent, utilities, and administrative overheads.

For such shared costs, businesses apply an input tax apportionment ratio to determine the recoverable amount.

The ratio can be calculated using:

- The standard method (based on taxable vs total supplies), or
- An FTA-approved special method (e.g., sectoral, transaction count, output-based, etc.)

This process is typically done monthly or quarterly, and must be revalidated through an annual wash-up adjustment, making it administratively heavy for businesses with recurring mixed supplies.

2 Introduction of the Specified Recovery Percentage (SRP)

The SRP mechanism allows a taxable person to apply a fixed, **FTA-approved recovery percentage** - derived from the previous year's actual recovery rate - to all tax periods of the subsequent year.

This replaces the need for multiple apportionment calculations throughout the year.

How the SRP is determined depends on the business:

- If a special method was approved by the FTA previously, the SRP will be based on recovery rates under that method.
- If a special method applies but is not formally approved, the SRP should still align with that method for consistency.
- If no special method applies, the SRP will be based on the standard apportionment formula (taxable supplies ÷ total supplies).

Note:

For entities using a sectoral special method, a single SRP is approved for the entire entity based on a weighted average of recovery rates across all sectors (Article 55(16) of the Executive Regulation).

3 Eligibility Criteria

To apply for the SRP, the following conditions must be satisfied:

- Be registered for VAT for at least 12 months.
- Make both recoverable (taxable / zero-rated) and non-recoverable (exempt) supplies.
- Have the application submitted by:
 - An authorised signatory,
 - An FTA-registered tax agent, or
 - A court-appointed legal representative

Note:

Applications submitted by unauthorized persons, such as consultants not formally appointed as tax agents, will not be accepted.

4 Application Process

Applications for a special input tax apportionment method and/or SRP must be submitted via the EmaraTax portal with the following documentation:

- A cover letter describing business activities, the method requested, and justification.
- Historical input tax calculations using the standard method for the previous 12 months, reconciling with VAT returns.
- Comparative calculations using the special method (including sectoral breakdowns, if applicable).
- Supporting documentation such as contracts, invoices, and details of exempt supplies.
- Annual wash-up calculations and the proposed SRP for the next year.
- Sector-level recovery rates (if sectoral) along with a consolidated weighted average.

5 Review Timeline and Validity

Once submitted, application review times are:

- 40 business days for non-sectoral methods.
- 60 business days for sectoral methods.

If additional information is requested, the registrant has 40 business days to respond, after which the FTA receives a fresh review period.

Note:

- FTA may reject incomplete or inconsistent applications.
- Once approved, the SRP remains valid for 4 years.
- Registrants cannot change the method used for at least 2 years, unless there is a major business change.

6 Monitoring and Reapplication

Even after approval, businesses must monitor their actual recovery rate.

If the variance exceeds 10% from the approved SRP:

- Notify the FTA within 20 business days.
- Submit supporting documentation explaining the variance.

Failure to notify may result in the SRP approval being withdrawn.

To continue using SRP after expiry, a renewal application must be submitted before expiry, with updated calculations and disclosures of any business changes.

7 Illustrative Example

Scenario:

A registrant operates across four sectors and incurred AED 1,200,000 of residual input tax during FY 2024. Based on sectoral calculations, the annual recovery rate was determined at 67%.

Sector	Method	Residual Input Tax Allocated (AED)	Residual Input Tax recovered per sector using the special method (AED)
Sector 1	Transaction count	228,000	38,760 (17%)
Sector 2	Output-based	144,000	21,600 (15%)
Sector 3	Output-based	480,000	480,000 (100%)
Sector 4	Floor space	348,000	261,000 (75%)
Total		1,200,000	801,360 (67%)

If approved, the registrant can recover 67% of residual input tax for all tax periods in FY 2025.

At the end of FY 2025, an annual wash-up calculation will determine the SRP for FY 2026.

8 Key Takeaways

- The SRP mechanism provides simplicity and predictability for businesses with mixed supplies.
- It eliminates the need for frequent apportionment calculations.
- However, accurate recordkeeping and annual validation remain essential.
- Businesses must continue to monitor material changes to ensure ongoing compliance.

Conclusion

The introduction of the Specified Recovery Percentage (SRP) marks a significant step in simplifying VAT compliance in the UAE. By allowing a fixed recovery rate approved by the FTA, the mechanism reduces repetitive calculations and promotes consistency in input tax recovery. Nevertheless, businesses must maintain robust documentation and perform annual reconciliations to ensure that their SRP continues to reflect the actual use of input tax — striking a balance between compliance efficiency and accuracy.



UAE FLAG DAY

CELEBRATING PRIDE, PROGRESS AND A SUSTAINABLE FUTURE.

UAE Flag Day, first celebrated in **2013**, marks the anniversary of **His Highness Sheikh Khalifa bin Zayed Al Nahyan's** accession as President of the UAE. On this day, the nation's flag is raised high across government buildings, businesses, and homes – a powerful expression of loyalty, pride, and solidarity.

INNOVATION AND SUSTAINABILITY: THE NEW COLORS OF PROGRESS

The UAE has not only honored its heritage but has also continuously redefined what progress means. As the nation marches toward its UAE Centennial 2071 Vision, **innovation, technology, and sustainability** have become central pillars of growth.

From hosting COP28 to launching ambitious initiatives like the UAE Net Zero 2050 strategy, the country stands as a regional leader in the global sustainability movement. Green technology, renewable energy investments, and digital transformation are driving economic diversification - demonstrating how the UAE blends tradition with forward-thinking innovation.

Businesses and organizations across the Emirates are aligning with this vision - integrating sustainable practices, investing in digital finance, and promoting ethical governance to build a stronger, greener economy.

NATIONAL PRIDE IN EVERY ENTERPRISE:

For the UAE's business community, these national celebrations serve as a reminder of shared purpose. Every milestone – whether opening a new office, embracing new technologies, or contributing to talent development – reflects the same spirit of determination and unity that defines the UAE.

This year, as we raise the flag and celebrate the nation's 54th National Day. We, at Evas Constantine, remain steadfast in our belief that true success lies in building for generations to come. Together, we celebrate not only the nation's achievements but also the collective spirit that makes the UAE a symbol of unity, resilience, and innovation for the world.

We also reaffirm our collective commitment to innovation, integrity, and sustainability – the values that continue to make the UAE a beacon of progress for the world.

Here's to the UAE – a nation that dreams boldly, builds sustainably, and inspires endlessly

EVENTS



Evas - Onam Festival -2025

"Celebrating Onam with the EVAS family - a festival of togetherness, gratitude, and shared joy that reminds us how unity makes every success more meaningful."



Evas Diwali Festival -2025

"We celebrate Diwali not just as a festival of lights, but as a tradition that unites us like family at our workplace."



EVENTS

Symposium -2025

"The day at EVAS Constantin - knowledge - sharing sessions, where our experts inspired growth through practical insights, professional training, and collaborative learning."



Corporate Events

ICAI UAE DUBAI – HOSTED landmark event, on September 28th, 2025.
"Opportunities Unlimited: Investing in A World of Possibilities"

The "Taxes & Compliance Marathon" held on September 13, 2025, By ICAI UAE DUBAI.



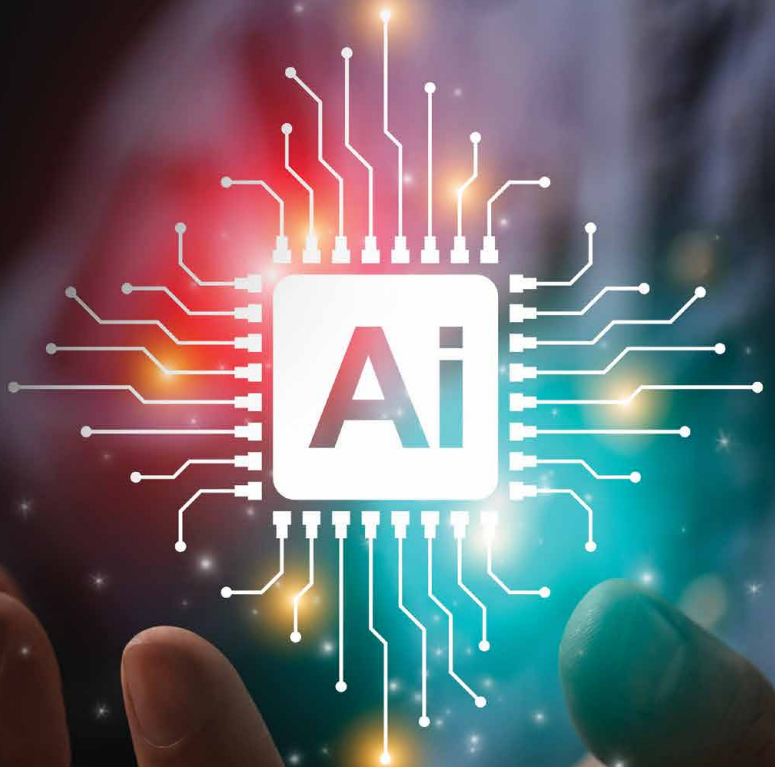
"OECD Pillar II & UAE Minimum Tax – The Journey from 9% to 15% Corporate Tax" 11th October 2025 By ICAI UAE DUBAI

“

Exploration is the engine that drives **Innovation**.
Innovation drives **Economic Growth**.
So let's all go exploring.

- Edith Widder -

”



EVAS
CONSTANTIN

+971 4 272 4701 | +971 2 645 7775 | +971 6 527 6017
communications@evasconstantin.com
www.evasconstantin.com

UAE

DUBAI

Corporate Office

Suite No: 327, 309 & 505
P.O Box 52258
City Bay Business Centre
Abu Hail

ABU DHABI

Suite No: 1601
P.O Box 25929
Kamala Tower
Khalidiya Street

Abu Dhabi Global Market
Office 2712, Level 27
Addax Tower
Al Reem Island

Masdar City
FD - First Floor
Incubator Building

SHARJAH

Office No: 1804
P.O Box 513424
Business Tower
Corniche St
Al Majaz 2

SAIF Zone
Office No: Q1-04-006/A
P.O Box 513424

INDIA

TRIVANDRUM

Evas Arcade
Kazhakootam
Kerala - 695582

KOLLAM

Building No. XIII/670A,C
Kochuvilayil
Tholicodu P.O, Punalur
Kerala - 691333



ASSURANCE | TAX | ACCOUNTING | ADVISORY