A&M | TAX MIDDLE EAST

# Tax implications on commercial gaming operations in the UAE

Towards the end of 2023, the United Arab Emirates (UAE) established the General Commercial Gaming Regulatory Authority (GCGRA) as a federal authority to introduce a regulatory framework for a national lottery and commercial gaming. The GCGRA has since outlined its authority to grant **five categories** of commercial gaming licenses to entities or individuals:

### Gaming operators

Entities operating internet gaming platforms, sports wagering, land-based gaming facilities, as well as lottery and lottery retailers.

### Gaming-related vendors

Suppliers of gaming equipment or related goods and services.

### Key persons – corporates

Entities holding decision–making roles within the ownership structure of applicants or licensees, including controllers, affiliates, or management service providers.

### Key persons – individuals

Individuals holding executive decision–making roles within applicants or licensed entities, including Directors, Executive Officers, or Controllers.

### Gaming employees

Individuals working for, or otherwise connected with, applicants/licensees.

## Background

On 28 July 2024, the GCGRA announced that it has issued its first commercial gaming license in the UAE for the operation of the country's first lottery. This follows earlier announcements regarding the development of the Wynn Resort, which will include a casino in Ras al Khaimah, and other major casino operators such as MGM, Bellagio, and Aria, planning to establish a presence in Dubai.

Currently, and understandably, the tax regime in the UAE does not specifically cover gaming activities since it has only recently become a regulated activity.

Accordingly, there is ambiguity regarding how commercial gaming activities will be taxed in the UAE and no guidance currently exists on how the UAE would seek to tax such activities.

Based on the current VAT framework, it is likely that gambling activities will be treated as a taxable service and the uncertainty lies in determining the value of the supply. Considering that most games of chance are only profitable based on the net margin, a taxation system that taxed each bet could potentially render games of chance uneconomic, as the house edge wouldn't be sufficient to cover the VAT cost per bet.

However, with the establishment of the GCGRA, a modern and robust legal framework is likely to be developed, based on best practices from other jurisdictions, paving the way for how the UAE could seek to tax such activities in several ways.

Legislative changes could ultimately come, and it is therefore worth considering how other jurisdictions with pre-existing legal frameworks approach the taxation of gaming activities. In the meantime, it is likely that the existing VAT regime would be the principal means by which tax will be collected on these activities.

## Impact on operators in the UAE

Based on the current interpretation of the VAT provisions, operators should be entitled to recover all input tax incurred from expenses related to making future taxable supplies, meaning that any capital expenditure should be VAT deductible.

As outlined above, VAT should be applicable on the supply of gaming services, however, gaming operators need to be cautious about what VAT is due (i.e. whether is it due on the bet placed or on the margin of takings). Additionally, there are other aspects that gaming operators need to consider when applying VAT, such as the VAT treatment of complimentary or free bets, refunds, fraud/loss, and bad debts.

For example, in the game of blackjack, a player can play for several hours with the same stake – is VAT due each time a stake is placed?  If so, the same cash could be subject to VAT multiple times in a single sitting, considering the ebb and flow of winning and losing.

Given the margin on a game such as blackjack can be as low as 2% on the total game in a sitting, the notion that VAT would be due at 5% on each bet would soon render the game uneconomic, especially considering there is no clear offset for payouts made to a winning player provided for in the VAT law.

This is an important issue that providers will need to address and seek clarity on. This is not the global norm, but the current legal position does not clearly provide a basis for margin-based taxation on gaming activities.

Additionally, there are potential VAT implications for online gaming. Gaming services delivered online could be classified as electronically supplied services, which would ultimately impact the applicable VAT treatment of such services and potentially require offshore providers to register for UAE VAT.

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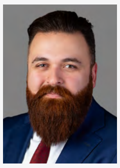
## KEY CONTACTS

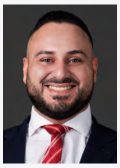

**Justin Whitehouse**
Managing Director
Middle East

jwhitehouse@alvarezandmarsal.com



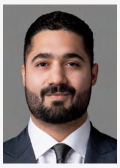
**Renan Ozturk**
Senior Director
Middle East

rozturk@alvarezandmarsal.com



**Ali Serhan**
Manager
Middle East

aserhan@alvarezandmarsal.com



**Mohamed Isa**
Manager
Middle East

misa@alvarezandmarsal.com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