



Doing business in the UAE

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Welcome to the UAE!

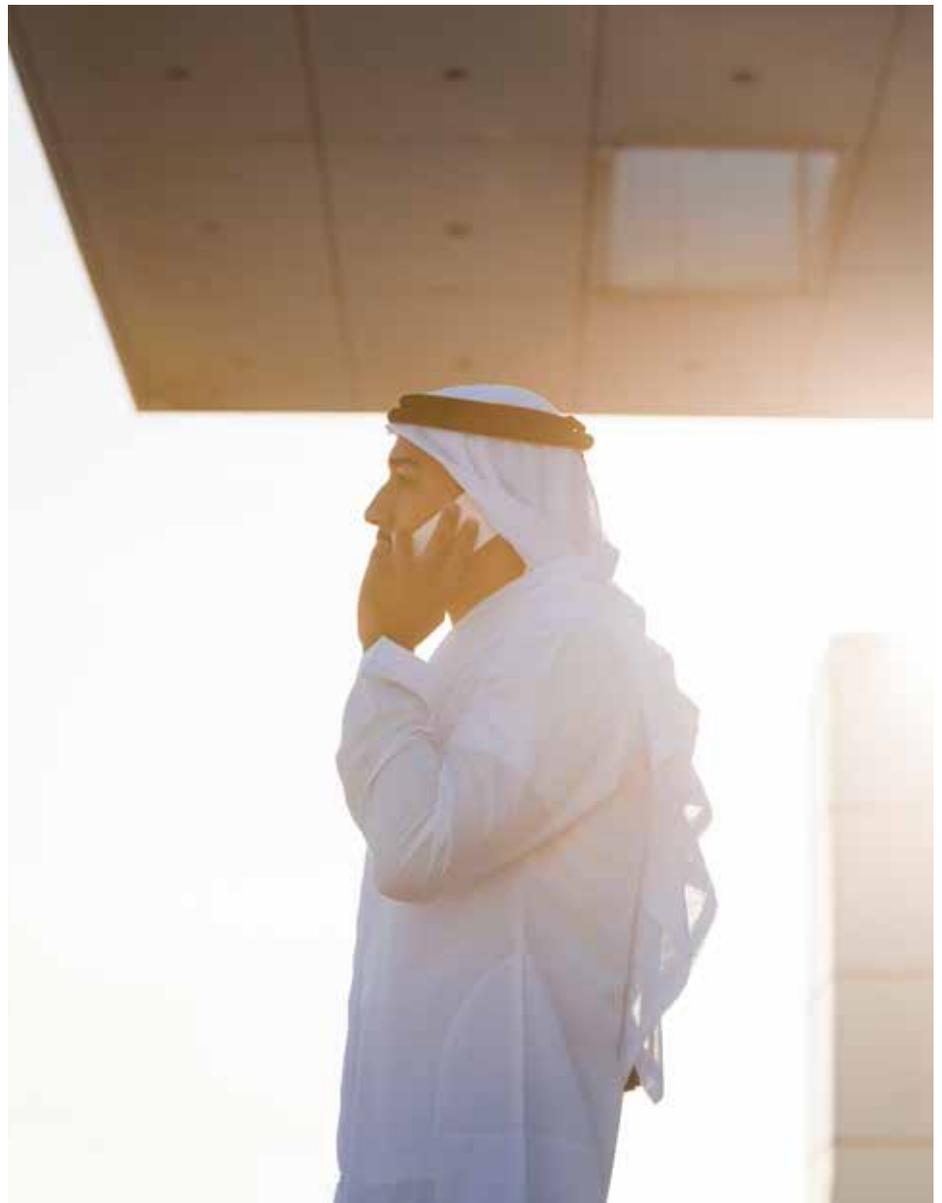
The United Arab Emirates (UAE) is strategically located between Europe, Africa and Asia. Due to investor-friendly legislation, financial and tax environments, as well as an extensive double tax treaty (DTT) network and well-established infrastructure, the UAE may be an ideal business location for multiple purposes:

- Conducting local business in the UAE
- Conducting regional business from a hub in the UAE
- Creating holding, financing and support platforms for a groups' worldwide business

There are a number of immediate and long-term initiatives intended to foster the business environment and promote development within the Emirates—in particular, Vision 2021. The UAE has also taken on a number of initiatives to create a robust tax environment.

This guide seeks to provide you with initial and practical information on doing business in the UAE, as of January 2019. Please also refer to our website for the latest developments.

This publication is of a general nature only. Specific professional advice must be obtained before making a decision. Our publication should not be considered legal advice or a substitute for seeking local legal advice. Laws and regulations in the UAE are changing constantly. The information contained within this publication is based on facts available as of 1 January 2019 and is subject to change.



Recent highlights



Foreign direct investment (FDI) law adopted. Opportunity for foreign ownership in mainland UAE entities increases from 49% to 100%



Dual licensing system introduced to allow free trade zone (FTZ) companies to also operate in mainland UAE



Government encourages inbound investment by reducing the cost of doing business in the UAE, including decreased licensing costs in some FTZs



**Ten-year visas
proposed
for certain
professions and/
or investors**



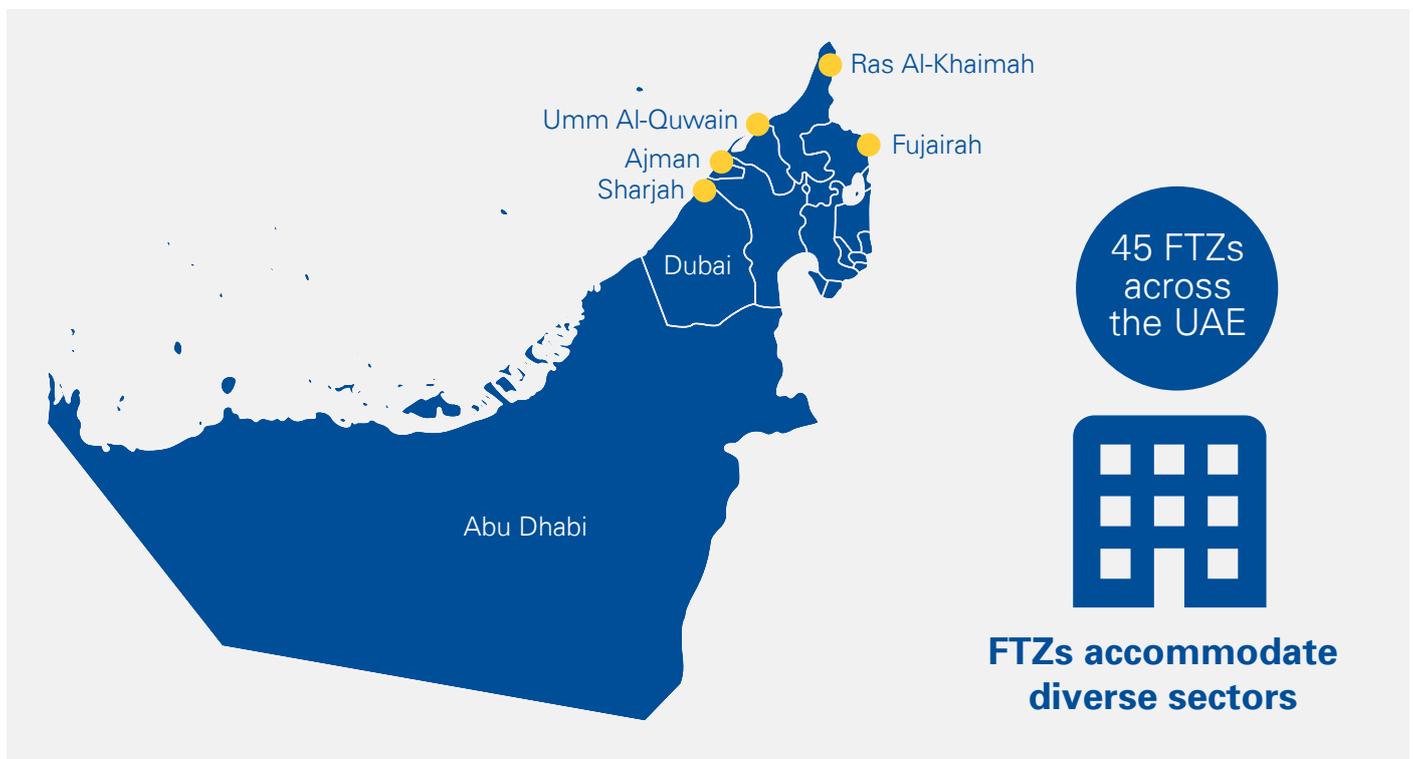
**Eleven new double
tax treaties (DTTs)
were signed in
2018, including one
with the Kingdom
of Saudi Arabia.
The UAE signed
the multilateral
instrument (MLI)
to change its
existing DTTs
which are now
122 in total**



**The UAE joined the
Base Erosion and
Profit Shifting Inclusive
Framework (BEPS
IF) and committed to
implementing the
15 BEPS Actions**

United Arab Emirates

Seven Emirates



Key business facts

- Member of the Gulf Cooperation Council (GCC), including six countries: Bahrain, KSA, Kuwait, Oman, Qatar and the UAE
- Several bilateral and GCC-based free trade agreements
- No federal corporate income tax, but Emirate-based taxation of foreign oil companies and branches of foreign banks
- Has VAT, excise tax and customs duty
- No personal income tax
- Social security for UAE/GCC nationals only, with end of service benefits (EOSB) scheme for expats
- Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) implemented
- No foreign exchange controls
- AED pegged to USD (USD 1.00=AED 3.67)

Country overview

The UAE is a federation of seven emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain) located along the eastern side of the Arabian Peninsula. The UAE encompasses an area of approximately 83,600 square kilometers.²

With a number of social, economic and environmental initiatives comparable to those found in other developed nations, the UAE strives to continue progressing on a variety of fronts, including trade, investment, communications, information technology, tourism and infrastructure, as well as human and social development. The UAE's Vision 2021 includes a comprehensive approach to addressing social, economic and environmental goals and provides direction at the federal level.³

Political system

The Federal Supreme Council is the country's highest authority and comprises the ruler of each emirate. The Council appoints the federal government and ratifies federal legislation.⁴

Legislative process

The Federal Cabinet—consisting of the Council of Ministers and led by the Prime Minister—initiates legislation and policy decisions. The country's parliament, the Federal National Council (FNC), assists the Council of Ministers in a consultative capacity.⁵

Each emirate has its own local government responsible for passing laws applicable to the individual emirate. Federal law, however, overrides local legislation.

Political development

In 1971, the UAE became a member of the Arab League.⁶ The country is also a member of various international organizations, such as the United Nations, the International Monetary Fund, the International Labor Organization, the Organization of Petroleum Exporting Countries, the Organization of Arab Petroleum Exporting Countries and the World Health Organization, among others.⁷

Gulf Co-operation Council

The UAE is one of the six member countries of the Gulf Co-operation Council (GCC), together with Kuwait, Saudi Arabia, Bahrain, Qatar and Oman. The GCC aims to promote political stability and economic integration in the region. Seeking to encourage closer ties between members, the Council has taken various measures, including establishing the GCC Customs Union,⁸ developing a VAT framework and enabling more efficient travel between member states for GCC nationals and residents.^{9,10}

Geography and climate

The UAE is primarily arid desert and salt-flats. The majority of its coastline runs along the Arabian Gulf. The country has a sub-tropical climate. It is generally hot and humid throughout summer (May to September) with the temperature ranging between 35 to 45 degrees Celsius, and humidity between 60 to 100 percent. During winter, the temperature ranges from 18 to 25 degrees Celsius with low humidity.

The UAE is four hours ahead of Greenwich Mean Time (GMT +4 hours).

Population, language and culture

According to 2017 data, the total population of the UAE is approximately 9.7 million.¹¹

The official language of the UAE is Arabic. English is a widely-accepted business language and is commonly spoken in commercial and government organizations, although government correspondence is largely conducted in Arabic.¹²

The UAE is an Islamic nation and the legal system is largely based on Islamic teachings.¹³ The holy month of Ramadan is determined by moon sighting and shifts by approximately ten days each year. In this holy period, Muslims fast during the day. Non-Muslims are not expected to fast; however smoking, drinking or eating in public is prohibited. Working hours in both the public and private sectors are reduced during this period and a slowdown in commercial activities should be expected.¹⁴

Currency

The official currency of the UAE is the Dirham (AED). Since 1980, the Dirham has been pegged to the USD (USD 1 is equivalent to AED 3.6727). There are no exchange controls in the UAE.¹⁵

Options for doing business

Overview

Depending upon business objectives, different options of varying complexity, set-up and maintenance costs are available. Considerations may include proposed activities, expected duration, a need for location in mainland UAE versus FTZ, licensing requirements and costs, and tax impacts and differences. Broadly, the options are:

- **Business/trading with UAE from overseas:**
 - Directly with UAE customers/clients
 - Via a UAE agent or distributor
- **Projects in the UAE:**
 - Fly-in fly-out (to the extent a local license is not required)
 - Via a sub-contractor
 - Unincorporated joint venture (with a local or foreign partner)
- **Legal presence in the UAE:**
 - In a mainland UAE emirate to undertake business within that emirate and outside UAE
 - In an FTZ as an onshore entity to undertake business only within the FTZ and outside UAE
 - In an FTZ as an offshore company to undertake business only outside the UAE

The key distinction between establishing a presence in the mainland versus in an FTZ is the foreign ownership restriction (to be changed soon).¹⁶ Outside of free trade zones, a foreign investor generally cannot own more than 49% of a company's shares. There is no such restriction on foreign ownership in an FTZ.¹⁷

Entities in the UAE are required to have a valid license to perform business activities within a particular emirate or FTZ. Any activity in another emirate or FTZ generally requires additional set up and licensing from that particular emirate or FTZ. A license serves as the primary permit for carrying out operations.¹⁸

Mainland UAE

The three most frequently utilized legal forms for mainland entities are:¹⁹

- **Branch:** A branch is not a separate legal entity. It can only carry out the same activities as the head office and only in the emirate of the registration and outside the UAE. A local agent must also be appointed.
- **Limited Liability Company (LLC):** An LLC is a separate legal entity that can be established in mainland UAE, but foreign ownership is currently restricted to 49%. Fifty-one percent of the company must

be locally owned by a UAE national shareholder or a UAE national company. It must have at least two shareholders. An LLC can conduct all activities included in its license in the respective emirate and outside the UAE.

- **Representative office:** A representative office is not a separate legal entity. It can only carry out marketing and promotional activities for the head office and cannot undertake any business/trade activity and only in the emirate of the registration and outside the UAE.

Free trade zones

FTZs are locations within the UAE and were established to promote FDI. There are no foreign ownership restrictions within FTZs and 100% foreign ownership is allowed.

There are 45 FTZs throughout the UAE. Each is independent with its own rules and regulations. However they are subject to certain UAE federal laws.

Many FTZs in the UAE are set up with a focus on particular sectors. Some of the specialized FTZs are:²⁰

- **Financial services:** Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM)
- **Ports and logistics:** Jebel Ali Free Zone (JAFZA) and Dubai Airport

Free Zone (DAFZ)

- **Telecom, IT and multi-industry:** Dubai Internet City (DIC) and Dubai Multi Commodities Centre (DMCC)

There are three main types of entities in FTZs. They can operate only within the specific FTZ and outside the UAE:

- **Free Zone Establishment (FZE):** An FZE is the simplest form of a legal entity that can be established in an FTZ. It can have only one shareholder. The minimum share capital requirement will vary according to the specific FTZ chosen. If more than one shareholder is required, an FZE can be converted to an FZCO/FZLLC. Some free zones do not distinguish between FZE and FZCO/FZLLC.
- **Free Zone Company (FZCO)/ Free Zone Limited Liability Company (FZLLC):** An FZCO/FZLLC requires a minimum of two shareholders. The minimum share capital requirement will vary according to the specific FTZ chosen.
- **Branch:** A branch of a legal entity can be established in an FTZ by a foreign or UAE company.

Introduction of a foreign direct investment law (FDI law)

A new FDI law, allowing foreigners to own more than 49% of a mainland legal entity, was issued in October 2018.

Eventually, an FDI Unit will be established in the Ministry of Economy. While the details are yet to be made public, an FDI Committee will be established in the interim, in order to review and recommend a list of sectors to open to foreign investors.

Under the FDI law, foreign investment may be permitted in sectors of the economy which do not appear in a 'negative list.' The list includes, among other sectors, banking and finance, insurance, land and air transport and medical retail services. Sectors may be added to or removed from the list by the UAE Cabinet.²¹

Accounting and audit requirements

The Commercial Companies Law requires locally registered companies and branches of foreign companies to appoint auditors to review their annual financial statements. In practice, audited financial statements are generally required to be submitted when an entity renews its trade licence.²²



Tax matters



BEPS implementation in the UAE

The UAE joined the OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS IF) on 16 May 2018. The country has committed to implementing the four minimum standards in the near term:

- Action 5: Harmful tax practices
- Action 6: Treaty abuse
- Action 13: Transfer pricing documentation and CbCR
- Action 14: Dispute resolution

In addition to implementing these minimum standards, the UAE has also committed to implementing the remaining 11 BEPS Actions in the medium- to long-term.²³

UAE DTTs and Tax Residency Certificate (TRC)

The UAE has an extensive network of 122 DTTs, of which 89 are in force. The UAE has signed a DTT with Saudi Arabia—the first of its kind within the GCC, as GCC countries do not have mutual DTTs.²⁴

The UAE Ministry of Finance (MoF) may issue TRCs on a case-by-case basis to mainland UAE companies in operation for at least one year, with an office in the UAE and audited accounts. A TRC is issued for a specific DTT and is valid for one year.

Currently, the MoF issues TRCs to certain FTZ companies in operation for at least one year, where the FTZ has signed a Memorandum of Understanding (MoU) with the MoF. Companies from FTZs are granted TRCs after three years in operations, on a case-by-case basis.

Individuals residing in the UAE can apply for a UAE TRC in order to avail tax treaty benefits, as applicable. The MoF grants TRCs to individuals on a case-by-case basis, if he/she meets the tax residency requirements stated in the respective DTT and is able to provide the required documentation.

UAE tax legislation does not define a 'tax resident.' In practice, however, an individual is considered a resident in the UAE if he/she stays in the country for a total of 180 days in the course of a 12-month period.²⁵

Currently, the MoF is revisiting its TRC application process and documentation requirements in order to align with BEPS minimum standards. It is recommended that developments should be monitored.

Corporate income tax

Currently there is no corporate tax legislation at the federal level. However, corporate tax legislation has been enacted in several emirates through respective emirate-level decrees. Thus far, corporate taxes have only been enforced with respect to foreign oil companies and branches of foreign banks.²⁶

The UAE previously announced the introduction of a corporate tax at the federal level; however, no further information has been made public at this time.

Most FTZs offer a guaranteed tax holiday of 50 years to their entities. This tax holiday provides freedom from corporate taxes, duties, etc. for the respective tax holiday period. Some FTZs also offer a renewable tax holiday period.²⁷

Corporate income tax may be enforced on foreign oil companies, based on the concession agreement with a given emirate. The tax rate is as agreed upon in the concession agreement. This is determined on a case-by-case basis and may be as high as 80%. In addition, royalty tax on oil production and super profit tax (windfall tax) generally apply.

Branches of foreign banks are taxed at 20% of their taxable income in the Emirates of Abu Dhabi, Ajman, Dubai, Sharjah and Fujairah.

Withholding taxes

Currently there are no withholding taxes in the UAE.

Transfer pricing

Currently there are no transfer pricing regulations in the UAE. However, as the UAE has committed to complying with BEPS Action 13, developments should be monitored.

Thin capitalization

Currently there are no thin capitalization rules in the UAE.

Value Added Tax (VAT)

The UAE implemented VAT from 1 January 2018, based on the Common VAT Agreement of the States of the GCC. The agreement is modelled on the European Union VAT regime. The standard VAT rate in the UAE is 5%, with zero rate for exports.

All goods and services obtained in the course of conducting business in the UAE are taxable, unless specifically exempted or out of scope according to the UAE VAT Decree Law.

All local entities making taxable supplies exceeding AED 375,000 (in the last 12 months or next 30 days) are required to register for VAT. Entities making taxable supplies or incurring taxable expenses between AED 18,500 and AED 375,000 can apply for VAT registration on a voluntary basis.

Registered entities are required to file monthly or quarterly returns, as stipulated by the Federal Tax Authority.

Customs duty

The GCC Customs Union was formed on 1 January 2003. The Union uniformly imposed a 5% duty on the majority of goods entering the GCC. Duty is charged at the first point of entry into the GCC. After duty has been paid at the initial point of entry into the GCC, goods may move freely between member states without additional duty charges.²⁸

Imports into FTZs are not subject to customs duty since the area is deemed to be offshore for GCC customs purposes. Duty is only charged once goods leave the FTZ and enter mainland UAE.

Excise tax

Effective 1 October 2017, excise tax was implemented in the UAE. Excise tax is applicable only to the following products: carbonated drinks, energy drinks, tobacco and tobacco products.²⁹

Property transfer fee

A registration fee is applicable on transfer of real estate. For example, within the Emirate of Dubai, the fee is 4% of the property transfer value.³⁰

Housing fee

5% housing fee is charged to lessees in Dubai, based on the annual residential rental amount.³¹

Staff matters

The Labor Law regulates employment terms such as work hours, leave, termination rights and medical benefits. The Labor Law overrides any conflicting provisions in an employment contract that are deemed less beneficial to the employee.³²

There is no personal income tax regime in the UAE.

The following requirements are relevant for an entity being established in the UAE.

Emiratization requirements

To overcome structural divisions in the labor market, the UAE Government launched an Emiratization campaign which mandates inclusion of Emiratis in the workforce—particularly the private sector. Emiratization aims to increase the number of Emiratis participating in the job market and their contribution to the economy. The UAE encourages implementation in both the public and private sectors and across levels through the establishment of a special department, quotas and incentives.

Visa requirements

An entity licensed in the UAE must ensure its employees are authorized to work in the UAE by providing a one to three year employment visa, residence permit and Emirates ID. Employees may then sponsor their family to reside in the UAE.³³

Where required, a three-month mission visa can be obtained for overseas staff or visitors.³⁴

A 10-year visa has been proposed for certain professionals and investors. Further details are yet to be announced.³⁵

Social security payments

Under the Pensions and Social Securities Law, when a company employs a GCC national, both the employer and employee must make social security and pension contributions to the General Pension and Social Security Authority. These contributions are based on salary and are payable at the following rates for a UAE national (different rates may apply for other GCC nationals):³⁶

- Public-sector employer: 15 percent
- Private-sector employer: 12.5 percent
- Employee: 5 percent

There is no requirement for expatriates or the employer of an expatriate to make social security contributions.

End of service benefits (EOSB)

An expatriate employee who has completed one year or more of continuous service, is entitled to EOSB at the end of service. EOSB is generally calculated as follows:³⁷

- Twenty one days' pay for each year of the first five years of service. If the period of the employee's continued service is more than three years and less than five years they become entitled to two thirds of the gratuity. If the period of the employee's continued service is more than one year and less than three years, they become entitled to one third of the gratuity.
- Thirty days' pay for each additional year, provided that the entire total remuneration shall not exceed two years' pay.

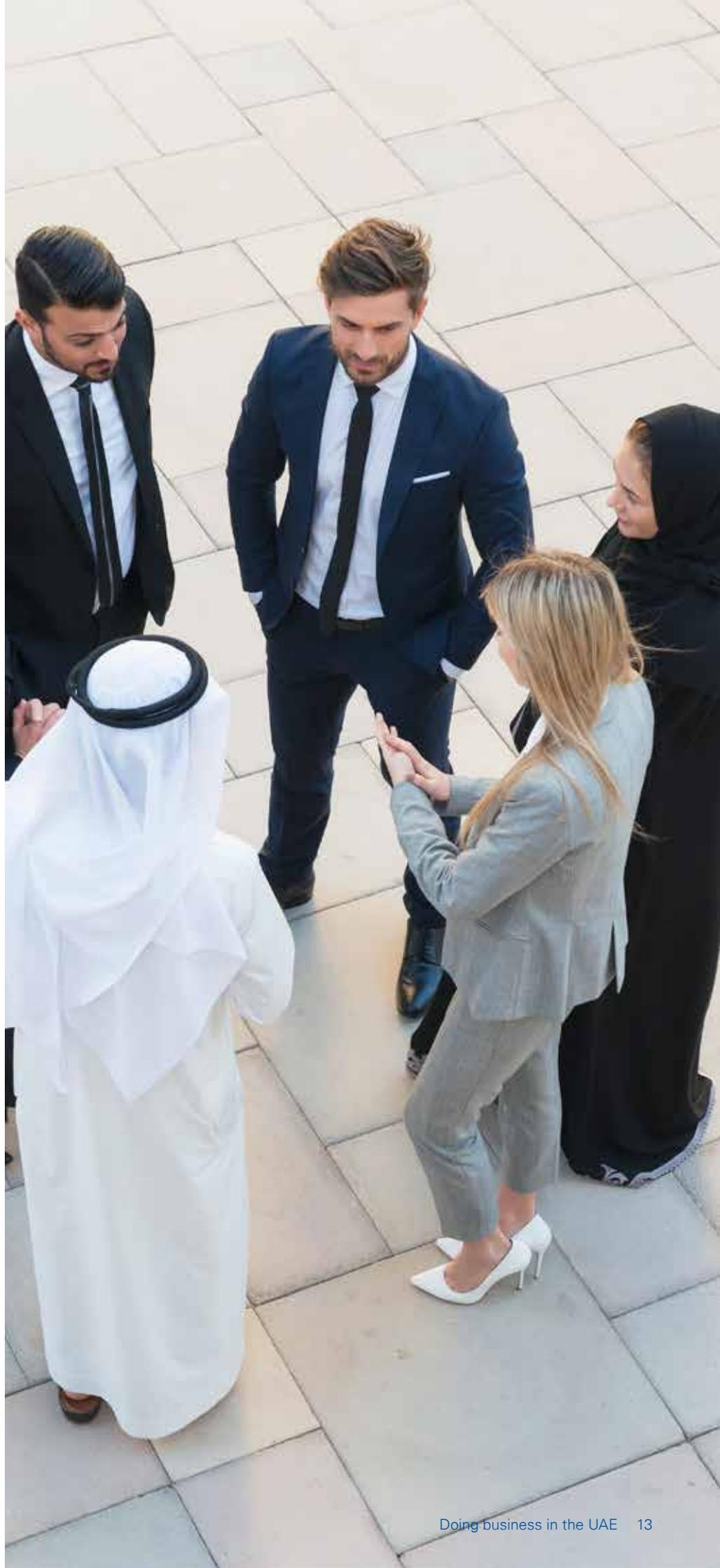
Wages Protection System (WPS)

Companies are mandated by the UAE Ministry of Labor to register their employees' salaries and wages via the WPS. The Ministry of Labor creates a database that records wage payments in the private sector to guarantee timely and full payment of wages.

All companies in the UAE are mandated to implement WPS except companies located in FTZs.³⁸

Key insurance obligations for employers and employees:

- **Health insurance:** Health insurance laws are implemented in each emirate, to ensure all employees enjoy a minimum level of health coverage. A UAE-based employer must ensure that employees hold valid health insurance at all times. Companies are required to submit valid health insurance policy for employees at the time a visa is initially issued and renewed.³⁹
- **Workmen’s compensation insurance:** This is a mandatory requirement for all companies. It covers legal liability to employees for occupational injury during the course of their employment, within the defined territorial limits according to the Labor Law/Workmen’s Compensation Ordinance.⁴⁰
- **Recruitment insurance:** The UAE Cabinet recently approved the adoption of a “recruitment” insurance as an alternative to the existing monetary deposit by employers of AED 3,000 per worker. In contrast, insurance will be AED 60 per year per employee.⁴¹



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