



Compliance Nexus & Opportunities in the UAE

Western India Regional Council of The Institute of Chartered Accountants of India



Compliance Nexus



Taxation Landscape in GCC



KSA

- ✓ No local, state or individual income taxes
- ✓ VAT: 2018 – 5%, In Jun'20 raised to 15%
- ✓ Capital gains tax for non-residents and CIT - 20%
- ✓ Oil and other hydrocarbons: 50 - 85%



UAE

- ✓ No personal or Capital gains tax
- ✓ VAT – 2018 - 5%
- ✓ Corporate Tax – 2023 - 9%
- ✓ Oil and gas Corporations taxed at 55%



Oman

- ✓ No Personal, regional or local income taxes
- ✓ VAT 5%
- ✓ CIT and Capital Gains tax: 15%
- ✓ Petroleum income tax 55%



Kuwait

- ✓ No VAT
- ✓ No CIT for domestic or other GCC owned entities
- ✓ Foreign owned companies Kuwait sourced income – 15%
- ✓ Capital gains tax – 15%(Exemption KSE)



Qatar

- ✓ No local, state or provincial government taxes
- ✓ VAT 5%
- ✓ Capital gains tax for non-residents and CIT– 10%



Bahrain

- ✓ No personal or Corporate Income Tax or Capital gains tax
- ✓ VAT - 10%
- ✓ Hydrocarbons Industry taxed at 46%



Tax & Compliances in the UAE



VAT



Custom Duties



Excise



Municipality or Property Tax



Social Security Contribution



Hotel Tax & City Tax



Tourism Levy



UBO



CbCR



ESR



Secretarial



Income Tax



Corporate Tax



VAT

Taxable

- Standard VAT rate - 5% or 0%.
- Include in the calculation of the taxable turnover.
- Input credit allowed.
- Examples: General Trading, Manufacturing, FMCG

Exempted

- Activities exempted from levy of VAT.
- Not to include in the calculation of the taxable turnover.
- No input credit allowed.
- Examples: Medical & Educational Services, Sale of Books

Not Covered

- Goods which are outside the scope of UAE VAT law will be termed as goods not covered.
- These goods are not charged to VAT and will not be part of taxable turnover.
- Example: High Seas, Sale to KSA.

Mandatory Registration

Annual Taxable Supplies more than AED 375K

Optional Registration

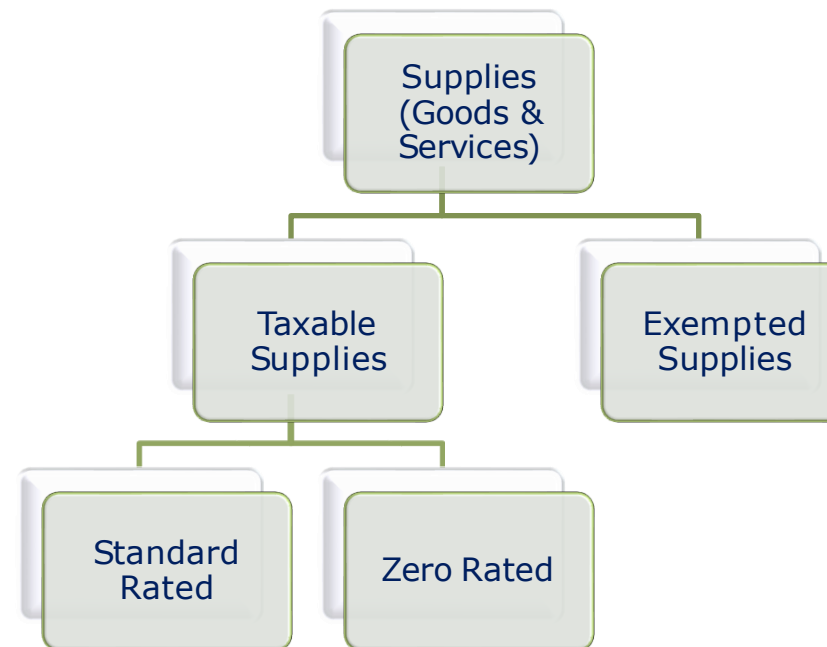
Annual Taxable Supplies between AED 187K to AED 375K

Zero Rated:

- Preventive & Basic Health Care
- Education
- Export
- Investment in Precious Metals
- International Transport Equipment
- International Transport
- First Sale (within 3 years) / Lease of Residential Property
- Crude Oil or Natural Gas

Exempted:

- Lease of Residential Properties (Except first lease within 3 years of completion)
- Financial Services
- Supply of Bare Land
- Residential Properties (Second Sale onwards)
- Local Passenger Transport





Excise Tax



Background

- Excise Tax - Tax on consumption
- Ultimately borne by consumer
- Registration:
- Importers
- Manufacturers
- Stock Pillars
- In certain cases, agents in the supply chain are liable to register
- Submissions of Multiple Declarations – primarily for each action related with Excise Tax



Products & Rate

- Carbonated Drinks – 50%
- Tobacco & tobacco products -100%
- Energy Drinks -100%
- Liquids used in electronic smoking devices and tools -100%
- Electronic smoking devices and tools – 100%
- Sweetened Drinks – 50%



Compliance

- Declarations for Compliance:-
 - Import of excise goods
 - Production of excise goods
 - Release of excise goods from a designated zone
 - Transfer of excise goods from a designated zone
 - Deductible tax
- Monthly Return



UBO

Introduction

To enhance the transparency of entities registered in the UAE
To develop effective and sustainable executive and regulatory mechanisms and procedures in respect of beneficial owner data.

Applicability

Legal Persons Registered in the United Arab Emirates

Identification

Whoever owns or ultimately control at least 25% of the shares through indirect or direct ownership or whoever has the right to vote the rate of 25% or more voting in the legal person.

Documentation

The name(s); Nationality; Place of birth; Legal documents such as Passports, Emirates ID cards; and the basis on which the person became the Beneficial Owner and the date of expiration of the Beneficial Owner of the company.

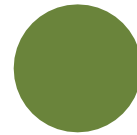


Country by Country Reporting - CbCR



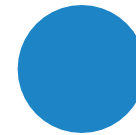
What is CbCR

- MNE Groups to provide information in their tax jurisdiction on global allocation of revenue, profit, taxes paid.
- Action Plan 13 of BEPS project initiated by the OECD with the objective of bringing substance and transparency to international tax rules with a view to curb tax avoidance and align global profits with value creation.



Why in UAE

- UAE had been added to the EU list of non-cooperative jurisdictions for tax purposes (EU blacklisted UAE).
- Blacklisted countries face stricter controls while doing business with the EU Countries.
- This was adversely impacting Foreign Direct Investment (FDI) into the UAE.
- To lift the name from blacklist, UAE has implemented the ESR & CBCR Regulation.



CbCR Compliance

- Filing of Notification (by the end of FY)
- Filing of Report (within 12 month from the end of FY)

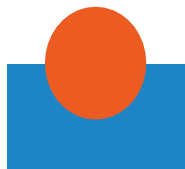


ESR



Objective

- To Promote Economic Inter-jurisdictional transparency
- To Curb Profit Shifting



Applicability

- Any licensed entity that carries out:
 - A Relevant Activity
 - Within the UAE
 - (including free zone or mainland entities, subsidiary, branch office, LLC etc.)
- Exclusion: Commercial companies with at least 51% direct or indirect government shareholding.



What is ESR

- To get tax benefit from the favorable conditions of DTA signed between two countries and other regulations.
- To ensure that companies' CIGA are actually performed in their respective jurisdictions.



Relevant Activities

- Headquarter Business
- Holding Company Business
- Investment Fund Management Business
- Intellectual Property (IP) Business
- Banking Business
- Insurance Business
- Lease-Finance Business
- Shipping Business
- Distribution & Service Centre Business.



Corporate Tax

- Applicable from FY commencing on/after 1st June 2023
- 0% on Taxable profits <= AED 375,000
- 9% for more than AED 375,000

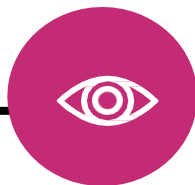
- Government & Government Controlled Entity
- Extractive & Non-Extractive Natural Resource Business
- Qualifying Public Benefit Entity
- Qualifying Investment Fund
- Social Security Fund

- Legal person resident in UAE
- Foreign Company Controlled & managed in UAE
- Natural person engaged in business activity
- Non -Residents PE in UAE

- Small Business Relief
- NR Person Operating Aircraft or Ships
- Participation Exemption
- Business Restructuring
- Tax Losses - Indefinite
- Transfer of Tax Loss
- Family Foundation



Date & Rate



Exempt Person



Applicability

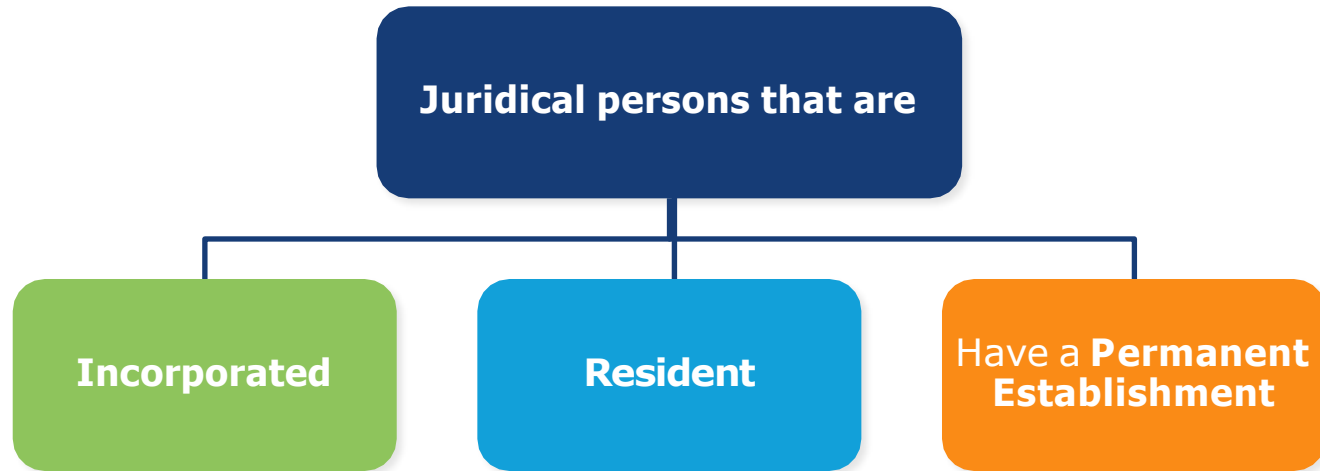


Relief



Corporate Tax

Does not differentiate between **Nationality or Residence**



- ❖ **Federal Tax** - Apply across all the Emirates
- ❖ CT and VAT are different types of taxes.
- ❖ Businesses registered for VAT, will have to register for CT separately

in the UAE, will be subject to UAE CT

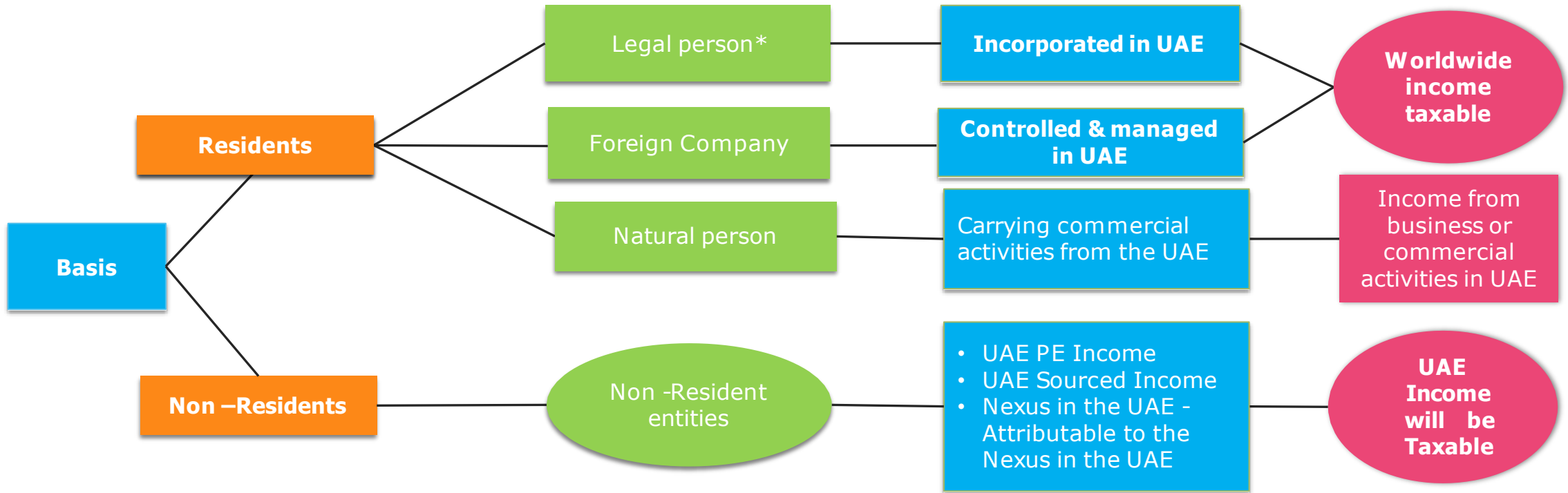
Taxable Person	CT Rate
Individuals / Juridical	0% on taxable income up to AED 375,000
	9% on taxable income exceeding AED 375,000
Qualifying Free Zone	0% on Qualifying Income
	9% on taxable income that does not meet the Qualifying Income definition



Basis of Taxation

Residency is a key determinant of whether business profits will be subject to CT in the UAE.

Both Resident Persons and Non-Resident Persons are regarded as Taxable Persons



*Including a Free Zone Person

Branch in the UAE of a Person, shall be treated as one and the same Taxable Person.



UAE Sourced Income

1

Income derived from UAE Resident Person

2

Income derived from a Non-resident Person where it attributable to PE in UAE

3

Income accrued or derived from activities performed in UAE, Assets located, Capital invested, Rights used, or Services performed or benefitted from in UAE



Exempt Income

Exempt Income

Income and related expenditure **not** be considered in determining the Taxable Income:

- ✓ Dividends and other profit distributions received from a
 - Juridical person that is a Resident Person.
 - Participating Interest in a foreign juridical person
- ✓ Any other income from a Participating Interest
- ✓ Income of a Foreign Permanent Establishment

Foreign Tax Credit

- ✓ Sufficient Evidence of Tax Registration/relationship and Payment of tax in other jurisdiction
- ✓ Typically, the foreign tax credit would be limited to the CT payable on the relevant income earned
- ✓ No refund can be claimed pursuant to FTC
- ✓ **Unutilized** FTC cannot be carried forward to subsequent period.

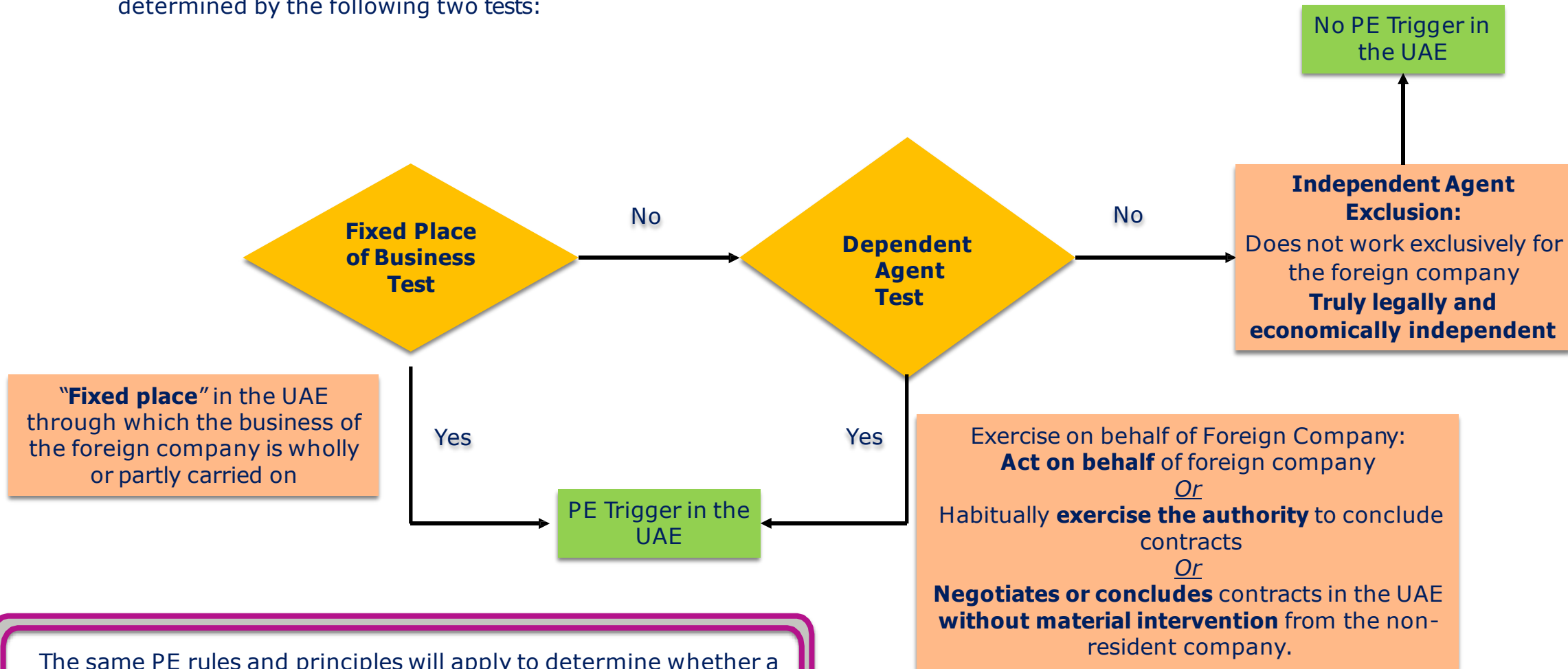
Is participation exemption available if group entity is located in a no tax jurisdiction?

Dividends and capital gains received from subsidiaries located in tax havens, where there is either no corporate tax at all or where the corporate tax rate is lower than 9% will **not** be exempted under the participation exemption.



Permanent Establishment Test

Permanent Establishment (PE Test): Trigger of a PE for a foreign company in the UAE will be determined by the following two tests:



The same PE rules and principles will apply to determine whether a **Free Zone Person** has a PE in mainland UAE.



Tax Losses

Tax Loss Relief

- Tax loss can be carried forward indefinitely.
- Capped at 75% of taxable income before any tax loss relief.
- A tax loss relief cannot be claimed for losses incurred –
 - Before the date of commencement of CT,
 - Before a person becomes a taxable person,
 - From an asset or activity the income of which is exempt.

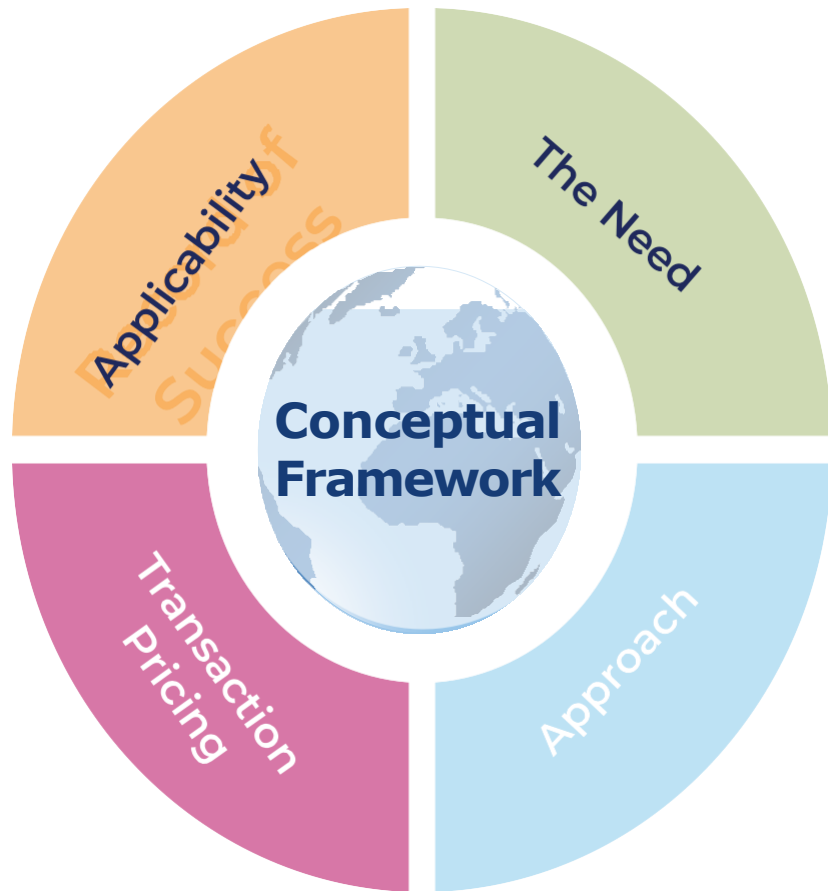
Transfer of Tax Loss

- A tax loss or a portion thereof may be offset subject to the certain conditions:
 - Same person continuously owned at least 50% ownership interest in the taxable person
 - Taxable person continued to conduct the same of a similar business following a change in ownership of **more than 50%**.
- This limitation does **not** apply to a taxable person whose shares are listed on a **recognized Stock Exchange**.
- With specific conditions:





Transfer Pricing Provisions - Overview



- In line with OECD Transfer Pricing Guidelines
- Arm's length pricing as tested on OECD TP Methods
- Transaction with connected persons as per transfer pricing provisions
- **Ownership criteria 50% or more though for Tax Group it is minimum 95%**
- Transaction between exempt and non-exempt business as RLP
- Wider in scope since transactions between connected persons also covered

Related Parties*

- ✓ Individuals within fourth degree of kinship or affiliation
- ✓ Individual ownership - at least 50%- directly or indirectly
- ✓ Legal entity having ownership of at least 50%, or control, directly or indirectly
- ✓ Branch or a Permanent Establishment
- ✓ Partners
- ✓ Exempt or Non-Exempt business activities

Connected Persons*

- ✓ Individuals having ownership interest or control, directly or indirectly
- ✓ A director or officer
- ✓ Relative of the owner, director or officer up to fourth degree of kinship or affiliation
- ✓ Other partner in an unincorporated partnership
- ✓ Related party of any of the above

* In the context of taxpayer (whether an individual or a legal entity, as the case may be)



Why UAE



World Bank Ranking For Ease of Doing Business - 16

Doing Business 2020 | **United Arab Emirates**

Ease of Doing Business in United Arab Emirates



Region	Middle East & North Africa
Income Category	High income
Population	9,630,959
City Covered	Dubai

DB RANK: 16

DB SCORE: 80.9

Rankings on Doing Business topics - United Arab Emirates





UAE the Land of Opportunities



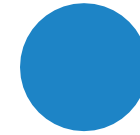
Economic Environment

- Strategic location and modern legislation, attract businesses and investments
- Base for Middle East and North African operations and further expansion
- UAE is focussed on economic diversification in trade, logistics, banking, tourism, real estate and manufacturing and provides opportunities
- One of the most liberal trade regimes in the Gulf and attracts strong capital flows from across the world



Infrastructure / Incentives

- UAE has a well-established infrastructure and a stable political system
- World class infrastructure
- Effective road, air and sea connections
- provides a tax favourable environment for most industries



Banking/ Forex

- UAE has a strong banking system
- There is no exchange control restrictions, and it is possible to have unrestricted repatriation of income and capital
- Presence of almost all international banks/ FIs



Security & Safety/ Diversified

- Safe and secure family environment with one of the lowest crime rates in the world
- Safe, stable and professional environment
- Openness and Tolerance
- UAE's culture is driven by Islamic traditions, however, with over 150 nationalities, expatriates are able to practise their own cultures



Professional Opportunities





Professional Opportunities – Audit & Assurance

Statutory Audit

Internal Audit

VAT

**Assistance in FTA
Audit**

Accounting

Excise

**ESR Notification
& Reporting**

**Unified In-Country
Value (ICV)**

Tax Agency Services



Professional Opportunities - Taxation

Country by Country Reporting

Corporate Tax

International Taxation

Transfer Pricing

Restructuring

IFRS

Anti Money Laundering

DTAA

Tax Planning



Professional Opportunities – Risk Advisory

**Internal Controls
Over Financial
Reporting (ICFR)**

**Standard Operating
Procedures**

GRC

**Investigation Fraud &
Forensic Audit**

**Enterprise Risk
Management**

Due Diligence

Transaction Valuation

**Private Equity, Debt &
Equity Syndication**

**Fraud Recovery &
Settlements**



Professional Opportunities – Strategy Consultancy

CFO Services

IPO Advisory

**Corporate Secretarial
Services**

HR & Payroll Advisory

Business Set up

**Organizational
Transformation**

Arbitration

**Digital Transformation
Strategy**

Liquidation



Types/Benefits of Entity in UAE

Types of Entities

- Limited liability Company (LLC)
- Branch
- Rep Office
- FZ LLC/ FZ Co./FZE/ FZ Branch
- Dual License Branch
- Joint Venture Entity
- Unincorporated Partnership

Benefits of Doing Business in the UAE

- 100% foreign ownership
- Banking confidentiality guaranteed by law
- No public registry
- 100% exemption from corporate and income taxes*
- Zero foreign currency restrictions
- Full repatriation of company profits and capital
- Low set-up costs compared to onshore companies
- No physical office requirements leading to no employee or labour-related costs
- No share capital requirement
- Offshore company's ability to act as a holding company



Doing Business in UAE Free Zones

Advantages of Free Zones Business

- 0% income tax (Subject to CT Condition)
- 100% ownership
- Full repatriation of Capital and Profits
- Special Economic area
- Is governed by respective authority within zones boundaries
- License obtained do not require approval from external authorities

Licenses Available in Free Zones

- General Trading License
- Trading/Commercial License
- Services License
- Manufacturing License
- Warehousing License
- Industrial License

Popular Free Zones in the UAE

- DMCC
- JAFZA
- Dubai Silicon Oasis
- Dubai Airport Free Zone
- Ajman Free Zone Authority
- Hamriyah Free Zone
- Khalifa Industrial Zone Abu Dhab
- Abu Dhabi Airport Free Zone (SAIFZ)

Free Zone Activities

- Raw Materials import and Manufacturing
- Storage or Warehousing of Products
- Processing and Assembling and Packaging
- Exporting Finished Products
- Service



Q&A

Thank You

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Western India Regional Council of The Institute of Chartered Accountants of India