

Knowledge Series Session

Overview of Emerging Compliances & Regulations in UAE

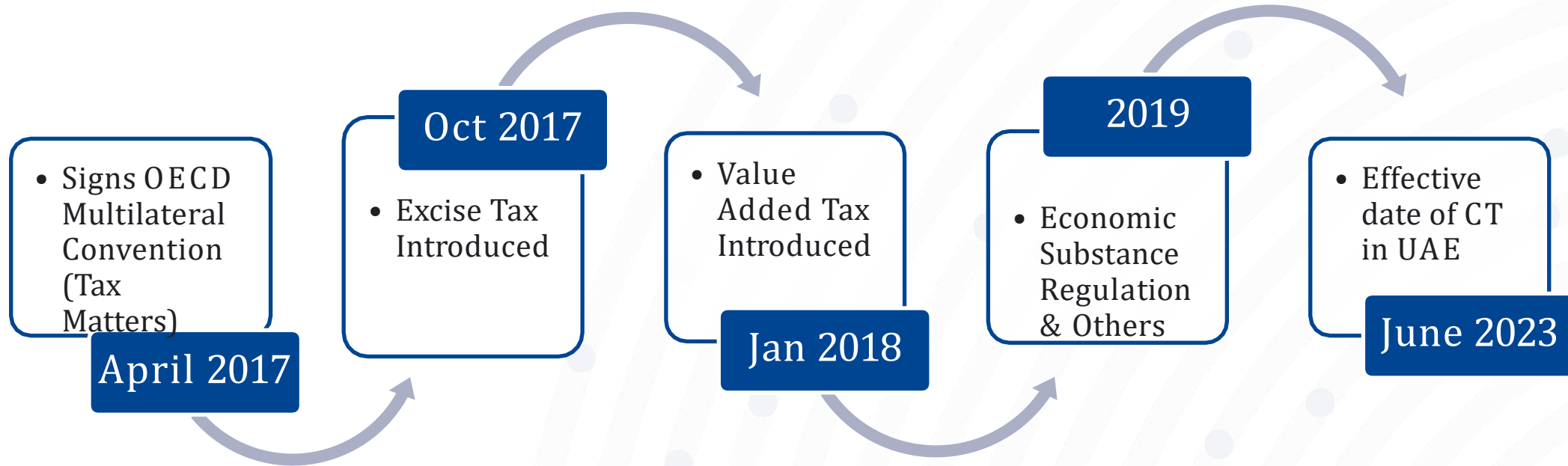
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Corporate Regulations & Compliances - Timeline



OECD – Organisation for Economic Co-operation & Development

Forum where market based economies collaborate to develop policy standards to promote sustainable economic growth

Corporate Regulatory Framework in the UAE

Company Regulations

Company Registration Type & Applicable Company Law

Mainland (Non-Free Zone)

- Various Emirate Economic Depts
- Commercial Cos. Law for Incorporated Entities & Local (State) Decree for Unincorporated Entities

Free Zones

- Various Free Zones
- Respective Free Zone Decree & Implementing Regulations

Offshore

- Various Offshore Authorities
- Respective Offshore Authority Regulations

Types of entities

Sole Proprietorships
(for professional activities)

General Partnerships
(for professional activities)

Limited Liability Companies or Partnerships

Public or Private Joint Stock Cos.

Free Zone Est. or Cos.

Offshore Cos.

License to be obtained for specific activities proposed to be carried out

Excise Tax

Excise Tax in the UAE

- Excise tax introduced w.e.f 1st Oct 2017
- Not on all manufactured goods
- **Applicable only on:**
 - Tobacco & tobacco products,
 - Liquids used in electronic smoking devices & tools
 - Electronic smoking devices & tools
 - Carbonated drinks
 - Energy drinks
 - Sweetened drinks(whether manufactured in country or imported and traded in UAE)
- **Rate:**
 - 50% on carbonated drinks & sweetened drinks
 - 100% on tobacco products, electronic smoking devices & liquids used in such devices and energy drinks



Value Added Tax (VAT)

Overview

- VAT introduced w.e.f 1.1.2018
- Modelled largely on European Union VAT
- Rate of 5% on most goods & services (few items exempt or zero rated)
- Mandatory registration threshold of AED 375,000/- revenue during 12 month period
- Tax Grouping for VAT permitted
- Designated zone (certain free zones) entities exempted from VAT subject to only international trading of goods
- Import of goods / services on reverse charge mechanism (book entry & no cash flow impact)
- VAT refund for tourists
- Quarterly or monthly filing of returns & payment depending on turnover



Exempted Entities

Government

- Government Bodies designated by each State

Charity Establishment

- Charities and Public Benefits Establishment

Exempted Companies

- International event hosting agreements

Citizens

- Of the member state when constructing their homes for private use

Farmers & Fishermen

- Who are not registered for Tax

VAT Rates:

Exempt

- Residential real estate (sale or lease) (upto 1st sale in 3 yrs)
- Local pax transport
- Financial Services (interest etc. excluding fees / charges)
- Supply of bare land

Zero Rated – 0%

- Exports (outside implementing states)
- National & Int'l pax transportation
- Supply of Investment grade precious metals
- Oil & Gas
- Preventive & basic healthcare
- Education (subject to conditions)
- 1st supply of residential buildings within 3 years

Std. Rated - 5%

All other which are not covered in exempt or zero % incl but not limited to:

- Commercial real estate (sale & lease)
- Exports to implementing states if Customer is not taxable (subject to conditions)

Economic Substance Regulation (ESR)

Genesis of ESR:

- Harmful tax practice :
 - ❖ shifting of profits from high tax jurisdiction to low tax jurisdiction
 - ❖ treaty abuse (use of DTAA's for evading taxes)
- Profits being accrued in jurisdiction where no or minimal economic activity carried out

Force behind ESR:

OECD (Organisation for Economic Co-operation & Development) thus launched project titled BEPS (Base Erosion & Profit Shifting) in 2012.

Action points recommended by 2015

Action 5:
Eliminating
harmful tax
practices

Action 6:
Prevention
of Treaty
Abuse

Action 13:
Country by
Country
Reporting

Action 14:
Mutual
Agreement
Process

ESR at a glance:

UAE Government issued resolutions by cabinet of ministers No. (31) of 2019 concerning Economic Substance.

Doctrine of 'economic substance' is applied to disentangle economic substance and tax avoidance by applying certain test to unravel real nature of transaction.

Applicability: UAE companies incl. free zone and offshore companies that carry on "**Relevant Activities (RA)**"

RA: Banking, Insurance, Investment funds management, Lease finance, Shipping, Intellectual Property, Distribution & Services centre, Holding company business, Head quarter business.

Directed & Managed Test

Core Income Generating Activities Test

Adequacy Test

Allow to outsource some or all of its activity to service providers

Licensee shall **annually** notify to Authority

Penalties:
From AED 10,000/-
to AED 400,000/- &
even termination of
license

ES Notification to be filed within 6 months & Report to be filed within 12 months of the FY end

Ultimate Beneficial Owner (UBO) Regulation

UBO Regulation at a glance:

Aim:

To strengthen the UAE's anti-money laundering and combating terrorism financing drive

Compliance Requirement:

Submit the UBO details to relevant licensing authority within the prescribed time limit

Registers to be maintained:

- UBO Register
- Shareholder/Partner Register
- Nominee Directors Register

Determination of UBO

Natural persons who ultimately own or control or have the right to vote with minimum 25% shareholding of the company, whether through direct or indirect ownership or who have the right to appoint or dismiss the majority of the Directors / Managers



If no natural person satisfies the condition above, then any natural person who exercises control over the company through other means shall be deemed as the UBO



If no natural person satisfies both conditions above, then a natural person who is responsible for the senior management of the company will be deemed as the UBO

Anti Money Laundering Regulation

AML at a glance:

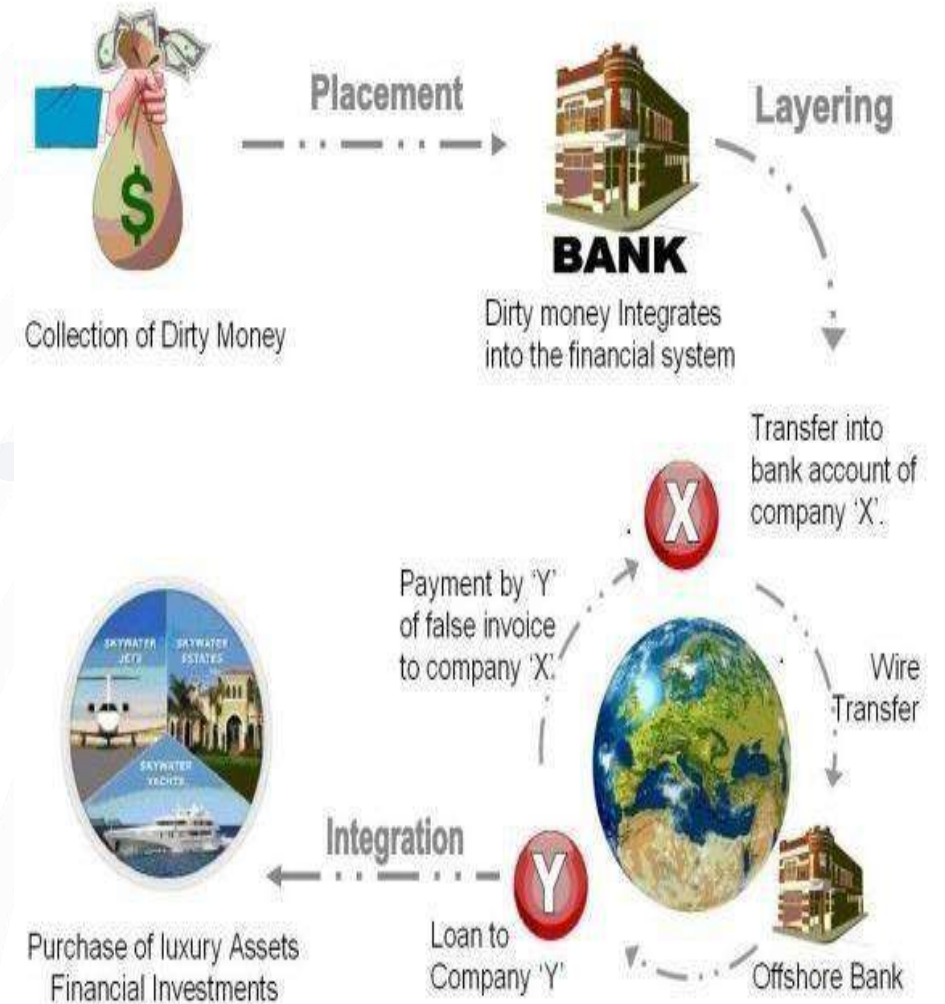
Established Financial Intelligence Unit (“FIU”) within the UAE Central Bank (AMLSCU)

FIU to create and maintain a database to facilitate authorities their investigation.

Applies to any acts aiming to convert, transfer, deposit, keep safe, invest, exchange or manage proceeds of a criminal offence pursuant to the Penal Code (**Tax evasion covered**)

Fines of upto AED 5mn for offence of Money Laundering, Financing of Terrorism or Financing of Unlawful Organizations

Money Laundering offence could also result into imprisonment of up to ten years and / or a financial fine / penalty



AML Compliance:

Special reporting requirements for:

- Licensed Financial Institutions (LFI)
- Designated Non Financial Business or Professions like
 - - Auditors & Lawyers
 - Corporate Service Providers
 - Jewellers
 - Real Estate Agents

✓ **Compliance Check of all stakeholders:**

- KYC & Compliance screening
- Sanctions List
- Enhanced Due Diligence of PEP & Sanctioned Persons
- Update KYC documents regularly
- Keep tab on activities
- Red flag indicators, TF check list & Risk Rating

Flag off Suspicious Activity / Transactions
Discontinue activities with suspicious parties

FATCA & CRS

Summary

Key considerations	Foreign Account Tax Compliance Act (FATCA)	Common Reporting Standard (CRS)
Introduction	In 2010, the United States enacted FATCA to increase income tax reporting by US taxpayers on assets held in offshore accounts and through “Non-US Entities”.	The Global Forum on Transparency and Exchange of Information for Tax Purposes is the multilateral framework within which work on transparency and exchange of information for tax purposes has been carried out by both OECD and non-OECD economies since 2000.
Registration	IRS registration to obtain Global Intermediary Identification Number (GIIN)	No registration required
Withholding	Withholding required on Non Participating Foreign Financial Institutions (NPFIs) and recalcitrant account holder	Withholding not applicable, however penalties are expected to be introduced for non-compliance
Reportable persons	Based on U.S. citizenship/U.S. residency	Based on residency for tax purposes in a reportable jurisdiction
Thresholds for preexisting accounts	FI may choose to apply thresholds in order to minimize due diligence	Threshold does not apply for individuals (may apply for entities)
Documentation requirement	Forms W-8/W-9 may be used to capture all required information	Must update and obtain self certifications to capture the additional required information

Countries which have adopted CRS

Countries to Implement CRS (101)

Signed (53)

Anguilla	Germany	Mexico
Argentina	Gibraltar	Montserrat
Barbados	Greece	Netherlands
Belgium	Greenland	Niue
Bermuda	Guernsey	Norway
British Virgin Islands	Hungary	Poland
Bulgaria	Iceland	Portugal
Cayman Islands	India	Romania
Colombia	Ireland	San Marino
Croatia	Isle of Man	Seychelles
Curacao	Italy	Slovak Republic
Cyprus	Jersey	Slovenia
Czech Republic	Korea	South Africa
Denmark	Latvia	Spain
Estonia	Liechtenstein	Sweden
Faroe Islands	Lithuania	Turks & Caicos Islands
Finland	Luxembourg	United Kingdom
France	Malta	

2017

Committed (2)

Dominica
Trinidad and Tobago

Signed (29)

Albania	Cook Islands	Monaco
Andorra	Costa Rica	New Zealand
Antigua and Barbuda	Ghana	Russia
Aruba	Grenada	Saint Kitts and Nevis
Australia	Indonesia	Saint Lucia
Austria	Israel	Saint Vincent and the Grenadines
Belize	Japan	Samoa
Canada	Malaysia	Sint Maarten
Chile	Marshall Islands	Switzerland
China	Mauritius	

2018

Committed (17)

The Bahamas	Panama
Bahrain	Qatar
Brazil	Saudi Arabia
Brunei Darussalam	Singapore
Hong Kong (China)	Turkey
Kuwait	United Arab Emirates
Lebanon	Uruguay
Macau (China)	Vanuatu
Nauru	

Bankruptcy Law

Bankruptcy Law in the UAE

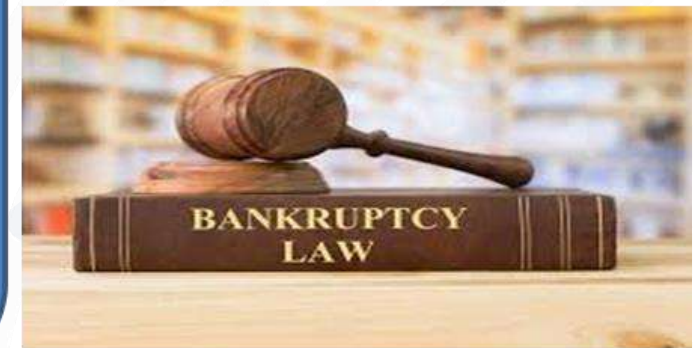
Covers most of the companies under incl LLC, PJSC, Free Zone entities, sole establishments, professional civil businesses

The self-legislating free zone such as Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM) may "opt-in"

- The Committee of Financial Restructuring (CFR)
- Approved insolvency experts,
- Register of insolvencies;
- Oversee restructurings that occur outside the court system
- Protection against criminal liabilities in case of cheque bounce /cheque return

Introduces processes :

- 1) Framework for the restructuring of financial institutions
- 2) Rehabilitation process for solvent debtors facing financial difficulties
- 3) Rehabilitation process for insolvent debtors
- 4) Insolvent liquidation process



Corporate Tax

Taxable Person



*Business:

- Any economic activity (continuous or short-term) conducted by person;
- Conducted with profit motive;
- Existence of some system & organization to activity conducted

Resident

- ✓ **Juridical persons** incorporated in UAE (includes Free Zone Person)
- ✓ **Foreign juridical persons** effectively managed & controlled in UAE
- ✓ **Natural persons** conducting business (*) / business activity in UAE
- ✓ Any other person as may be specified

Non-Resident:

A person who is not considered Resident Person **AND** either:

- Has permanent establishment (PE) in UAE, **OR**
- Derives UAE sourced income, **OR**
- Has a nexus in UAE (“Nexus” yet to be defined).

- **Unincorporated Partnerships** considered as Tax Transparent (entity not taxable person but individual partners treated as taxable person)
- Unincorporated Partnership may apply to be treated as Taxable Person
- **Family Foundation** may apply to be treated as Unincorporated Partnerships

Exempt Person



Subject to respective applicable conditions:

- Federal & Emirate Govts;
- Govt entity;
- Govt controlled entity;
- Person engaged in an Extractive business and Non-Extractive UAE Natural Resource Business subject to emirate level tax
- A Qualifying Public Benefit Entity
- A Qualifying Investment Fund
- Public and regulated private social security and retirement pension funds
- **UAE juridical person wholly owned & controlled by an 'Exempt Person' AND conducts any of specified activities**

Following persons not required to register for Corporate Tax as per MD No. 43 of 2023 :

- Govt entity
- Govt controlled entity
- Person engaged in an Extractive business/Non-Extractive Natural Resource Business
- Non Resident – derives only State Sourced Income and does not have PE in State

Qualifying Free Zone Person



➤ Conditions:

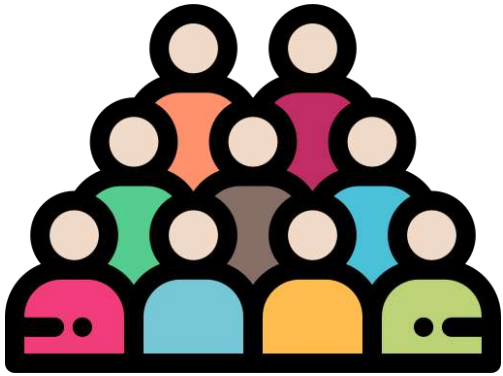
- ✓ Maintains adequate substance in UAE;
- ✓ Derives 'Qualifying Income' (yet to be defined);
- ✓ Has not elected to be subject to normal tax regime;
- ✓ Complies with the requirements of Arm's Length Transactions & TP Documentation;
- ✓ Any other conditions as may be prescribed

➤ *Option:* Can opt to be subjected to normal tax regime

➤ Taxability:

- **Qualifying Income** – CT @ 0%
 - **Other than 'Qualifying Income'** – CT @ 9%
- (‘Qualifying Income’ to be defined in further Cabinet Decisions)

Corporate Tax Group



- **Group companies** (resident juridical persons) can opt to form tax group & be treated as single taxable person where parent company holds (either directly or indirectly) at least 95% of a subsidiary's:
 - Shares;
 - Voting rights; AND
 - Entitled to at least 95% of the subsidiary's profits & net assets
- UAE branches of companies within tax group may be included.
- Parent or subsidiary should not be Exempt Person or Qualifying Free Zone Person.
- Group companies should have same financial year.
- Group companies should be following the same accounting standards.

Small Business Relief (SBR):

- ❑ **Can claim SBR if:**
 - ✓ a Resident Taxable Person
 - ✓ revenue not exceeding AED 3 million ($\leq 3mn$) for each tax period;
 - ✓ not a Qualifying Free Zone Person or a member of an *MNE Group;

- ❑ Relief not available if revenue in any relevant or previous tax period has exceeded the above threshold

- ❑ **Date of Limitation:** Applicable for tax periods starting on/after on/after 1st June 2023 till tax period that ends on or before 31st Dec 2026.

- ❑ **Revenue:** Based on applicable accounting standards accepted in the UAE.

- ❑ **In case claiming SBR:**
 - ❖ Not required to compute taxable income for CT purposes
 - ❖ Following provisions shall not apply:
 - Exemption of Income (Chapter 7)
 - Reliefs (Chapter 8)
 - Deductions from Income (Chapter 9)
 - Set off & carry forward of tax loss relief/net interest expenditure**
 - TP Documentation

Basis of Taxation



“Nexus” – yet to be defined

› Basic Criteria – Tax Residency

○ Residents:

- Juridical Persons – worldwide income
- Natural Persons – worldwide income derived from business/business activities conducted in UAE

○ Non-Residents (NR):

- Taxable income from their PE in UAE
- Income which is sourced in the UAE;
- Taxable income attributable to the NR’s nexus in UAE

Exempt Income



Dividends and other profit distributions received from resident juridical person

Dividends and other profit distributions received from ***Participating Interest** in foreign juridical person.

Any other income from ***Participating Interest**

Income of Foreign Permanent Establishment (subject to prescribed conditions)

Income derived by Non-Resident person from operating aircraft/ships in international transportation (subject to prescribed conditions)

Deductible Expenditure



Expenses incurred solely for taxable person's business + not capital in nature

Business expenditure incurred to generate non-exempt income

Net Interest Expenditure:

- Capped at 30% of EBITDA
- Disallowed amt carried forward & deducted in 10 subsequent tax years
- Cap not applicable if less than specified limit

Entertainment Expenses – upto 50%

Payments to connected persons*:

- To the extent the payment/benefit corresponds to its Market Value otherwise provided; AND
- Incurred solely & exclusively for the taxable person's business

*Connected Persons:

- Owner;
- RP of Owner;
- Director/Officer;
- RP of Director/Officer

Non-Deductible Expenditure



Donations/grants/gifts to a Non-Qualifying Public Benefit Entity

Fines & penalties (other than compensations for damages/breach of contract)

Bribes/other illicit payments

Drawings from the business by a natural person who is a Taxable Person/partner in unincorporated partnership

Recoverable input tax

Corporate tax imposed / tax on income imposed outside UAE

Corporate Tax Rate



➤ Progressive rates of Corporate Tax:

- Taxable income upto AED 375,000 – 0%
- Taxable income above AED 375,000 – 9%

(Differential tax rate for large multinationals may be set)

➤ UAE resident companies subject to CT on their worldwide income but allowed to claim credit of Foreign Tax paid as lower of:

- Tax paid in the foreign country or
- UAE CT payable on foreign-sourced income

(Note: Excess credit not refundable/not carried forward)

➤ Qualifying Free Zone Persons Taxability:

- **Qualifying Income** – CT @ 0%
- **Other than 'Qualifying Income'** – CT @ 9%

(Qualifying Income yet to be defined in further Cabinet Decisions)

Calculation of Taxable Income



- **Basis of computation:**
 - Starting point for taxable income:
 - Accounting net profit (or loss) as per the financial statements
 - Limited tax adjustments.
 - Financial accounting period to be used as the tax period
- **Foreign branch exemption:**
 - UAE company's foreign branch can elect to:
 - claim a foreign tax credit for taxes paid in the foreign country, or
 - claim an exemption for foreign branch profits

Note:

- In-force international agreements of UAE to be considered
- In case of a conflict, the relevant international agreement may limit the application of the UAE CT.

How is Corporate Tax calculated?



Particulars		Amount in AED
Net profit before tax as per financial statements	A	1,000,000
Add: Adjustments (Expenses not allowed as deduction for tax purposes or other adjustments – yet to be specified)	B	200,000
Less: Income not taxable – eg. dividend, capital gain		
Less: Other Adjustments		
Total Taxable Income	A+B=C	1,200,000
Tax on AED 375,000 @ 0%	375,000*0%	0
Tax on balance Taxable Income @9%	825,000*9%	74,250

Carry Forward of Tax Losses



Transfer of Tax Loss

- Unadjusted loss can be carried forward to future years
- Can be setoff up to a maximum of 75% of taxable income in each of future periods.
- Carry forward if same shareholder owns at least 50% of share capital.
- If change in ownership of more than 50%, tax losses may still be carried forward provided same/similar business/business activity is continued.

- Unadjusted Tax Loss may be offset against Taxable Income of another Taxable Person if:
 - Both are resident persons & juridical persons
 - Either of taxable person directly or indirectly owns at least 75% or third party owns 75% or more in both the taxable persons
 - None are exempt or qualifying free zone person
 - Follows same financial year & accounting standards

Related Parties



Introduction of Transfer Pricing

- 2 or more natural persons upto fourth degree of kinship / affiliation
- Natural person with RP directly or indirectly:
 - owns 50% or more in a juridical person
 - exercises control (50% or more of voting rights or nominate 50% or more Directors on Board or right in 50% or more profits or significant influence over business of said other person

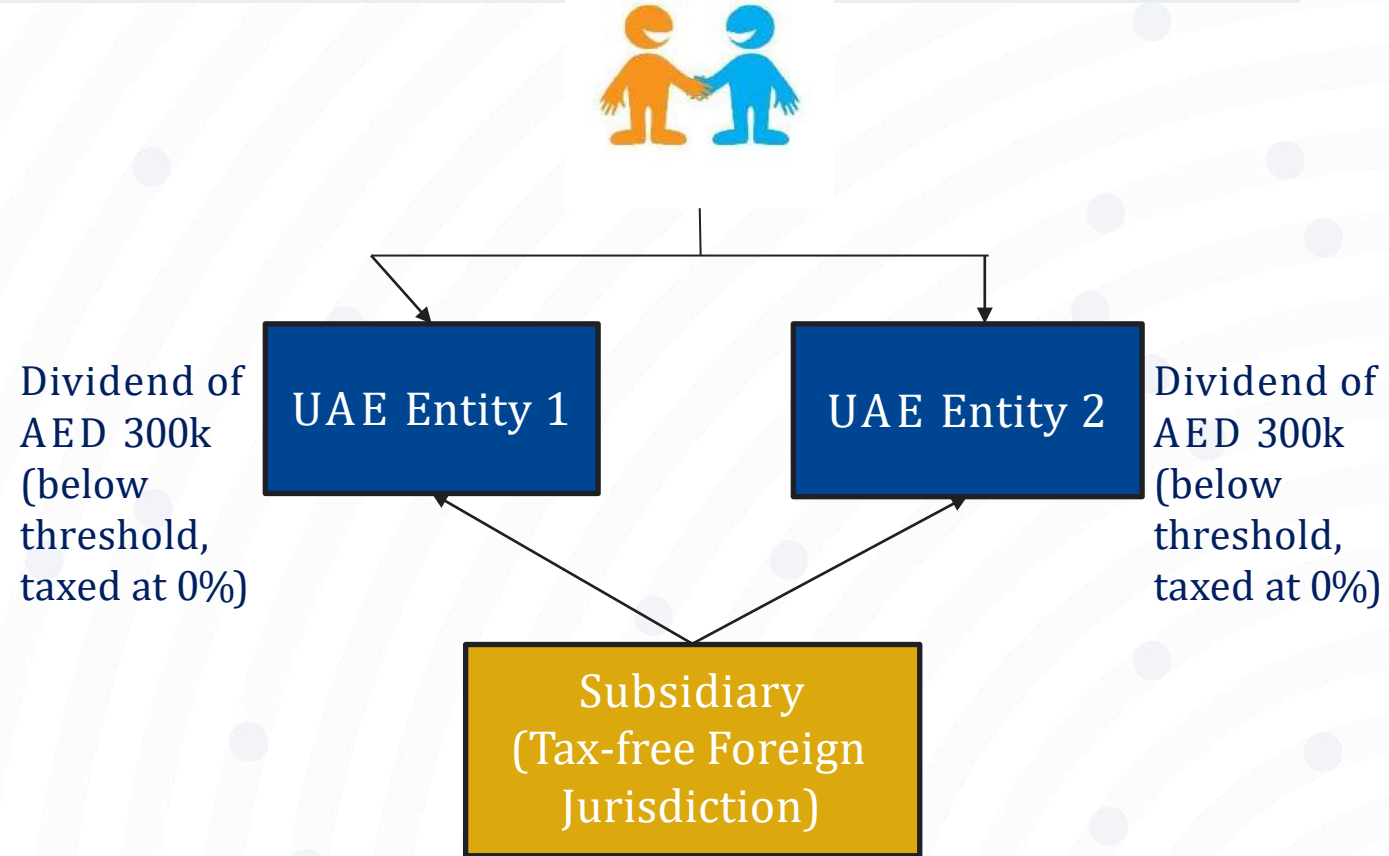
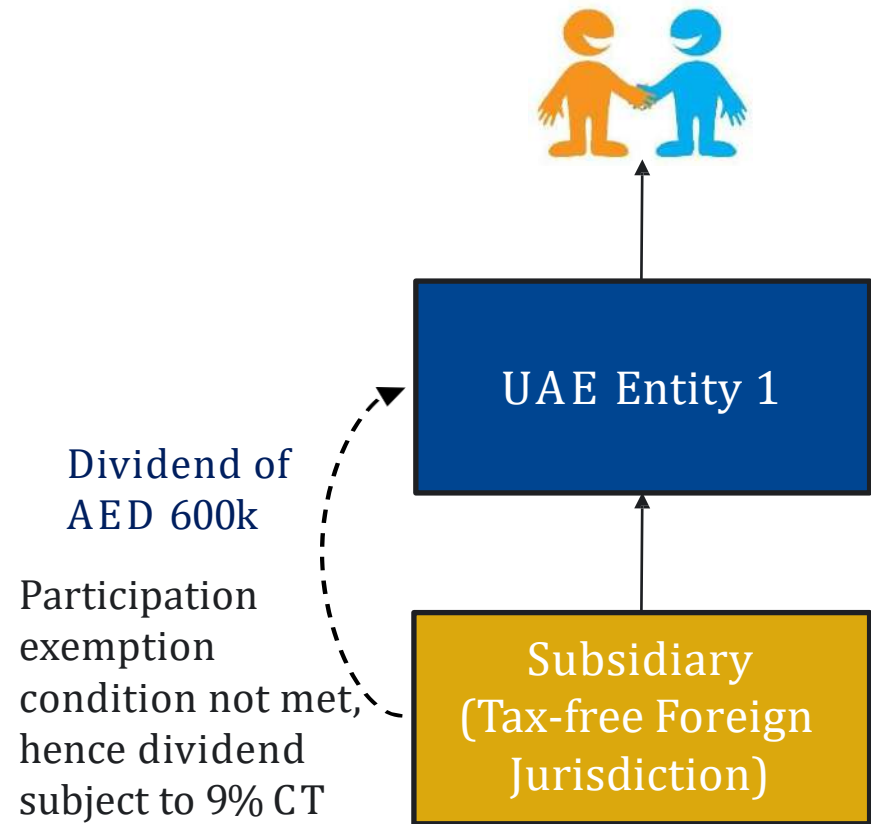
- Required to comply with **Transfer Pricing (TP) rules and Arm Length's Principle (ALP)**:
- To be determined by applying one/combination of following TP methods:
 - Comparable uncontrolled price method
 - Resale price method
 - Cost-plus method
 - Transactional net margin method
 - Transactional profit shift method
- **TP Documentation -**
 - Submission information regarding transactions with Related Parties and Connected Persons,
 - Master file and Local file where ALP exceeds certain threshold in relevant tax period.
- **Adjustments to taxable income** can be made by Authority where transactions are conducted on non-arm's length basis.

General Anti Abuse Rule

Illustration:

Points for Consideration:

- ❑ The transaction/arrangement is not for valid commercial/other non-fiscal reasons which reflects economic reality; AND
- ❑ The main purpose is to obtain CT advantage



Here, the establishment of the new UAE entity & split of shares is for the purpose of obtaining tax advantage^{4 2}. The Authority may determine that Tax advantages should be counteracted/adjusted in this case.

Tax Compliance



- Taxable Persons shall have to obtain Tax Registration Number ('TRN').
- Tax Returns & Tax Payment – within 9 months of the end of tax period.
- UAE CT regime will be based on self-assessment principle
- Option to apply to FTA for clarification in case of uncertainty on tax treatment
- Maintenance of financial and other records supporting the CT Return and other documents submitted to the FTA for period of 7 years.
- Qualifying Free Zone Person will also have to file tax return & financial statements to claim benefit of 0% CT on Qualifying income
- Audited financial statements for cos. with turnover > 50 mn AED or free zone entities

1 st Reporting Year	01-04-2024 to 31-03-2025	01-01-2024 to 31-12-2024	01-07-2023 to 30-06-2024
1 st CT Return	31-12-2025	30-09-2025	31-03-2025
Tax Payment	9 months from the end of the financial year		

Other Corporate Laws / Regulations:

Double Tax Avoidance Agreements (DTAA's)

- UAE has signed over 100 Double tax avoidance agreements with various countries covering many countries of Europe, Asia, Africa, Ex CIS countries and also Canada
- Some of the DTAA's do have limitation of benefit clause meaning that non-payment of taxes in UAE does limit right of the company to claim treaty benefits in other contracting states
- Majority of DTAA's are for long term

Anti Bribery Legislation in the UAE

Coverage:

- ✓ Bribery or attempted bribery
- ✓ Public and private sector employees
- ✓ Foreign and domestic acts of bribery

Compliance: International companies which carry on business in the UAE and also have business interests in other countries, have to comply with Emirate specific legislation, UAE legislation and specific anti-bribery legislation in place in those countries.

Commitment: Companies need to commit to an Anti-Bribery and Corruption policy that must be updated on a regular basis.

Punishment:

- ✓ fines
- ✓ jail term
- ✓ both



100% FDI in the UAE



Entities carrying out the activity(s) in the "positive lists" eligible

Foreign Company branches need not appoint a UAE National Service Agent

Effective from 1st June, 2021

Golden Residency Visa

10 years visa granted if either of following conditions are fulfilled:

- Investment of AED 2mn in UAE Public Investment Fund
- Investment of AED 2mn in a UAE Co.
- Investment of AED 2mn in UAE Property
- Specialised talent like Doctors, Scientists, Inventors, Athletes etc.
- Outstanding High School or University Students
- Executives with salary of AED 30,000/- p.m.

Spouse & Children also granted long term visas if head of family qualifies under above criteria

About us & Our Services

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