

## International Tax United Arab Emirates Highlights 2017



### Investment basics:

**Currency** – UAE Dirham (AED)

**Foreign exchange control** – No

**Accounting principles/financial statements** – IAS/IFRS. Financial statements must be prepared annually.

**Principal business entities** – These are the limited liability company, private/public joint stock company, branch and representative office.

Foreigners generally may only own up to 49% of a UAE mainland registered company, although they may increase their shareholding to 100% in respect of companies set up in free trade zones.

### Corporate taxation:

**Residence** – In practice, a company that is incorporated in the UAE is considered resident, provided: (1) all of the company's shares are beneficially owned by residents of the UAE; or (2) all or substantially all of the company's income is derived by the company from the active conduct of a trade or business other than an investment business in the UAE; and (3) all or substantially all of the value of the company's property is attributable to property used in that trade or business.

**Basis** – Income tax decrees have been issued by five of the seven Emirates (i.e. Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qaiwan, Ras Al Khaimah and Fujairah), but currently only are enforced on the income of oil and gas exploration and production companies and certain petrochemical companies under specific government concession agreements, at progressive rates of up to 50%/55% (Dubai/Abu Dhabi). Branches of foreign banks

also are subject to corporate income tax under specific Emirate-level banking tax decrees.

**Taxable income** – There are no taxes on the income of companies, except for oil and gas exploration and production companies and branches of foreign banks.

**Taxation of dividends** – No

**Capital gains** – No

**Losses** – N/A

**Rate** – Branches of foreign banks are taxed at rates agreed with the ruler of the Emirate in which they operate, generally at a flat rate of 20%. As noted above, oil and gas exploration and production companies are taxed at progressive rates of up to 50%/55% (Dubai/Abu Dhabi).

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – No

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – The UAE offers several free trade zones with (renewable) 15-50 year tax holidays and an exemption from import duty on goods brought into that free trade zone.

### Withholding tax:

There are no withholding taxes in the UAE.

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – A transfer charge is levied on the

transfer of real property, which varies depending on the Emirate in which the property is situated. For the Emirates of Dubai and Abu Dhabi, the rates are 4% and 2%, respectively.

**Social security** – The UAE does not impose social security taxes on foreign employees. However, under UAE labor laws, the employer is required to accrue roughly 21 days of “basic wage” every year and pay out to the employee upon completion of at least one year of employment.

Social security contributions are due only in respect of GCC nationals. Employer and employee pension contributions for UAE national employees are 12.5% and 5%, respectively, of the agreed contractual salary as per the employment contract.

**Stamp duty** – No

**Transfer tax** – No, but see “Real property tax,” above.

**Other** – Municipal taxes are imposed on certain hotel and leisure services and property rentals.

Annual rental expenditure of residential and commercial tenants is taxed at 5% and 10%, respectively, and included proportionally in the monthly utility bills.

#### Anti-avoidance rules:

**Transfer pricing** – No

**Thin capitalization** – No

**Controlled foreign companies** – No

**Disclosure requirements** – Annual financial statements must be filed with the Ministry of Commerce by companies and branches located outside the free trade zones.

Entities located within a free trade zone report to the free trade zone authority of the relevant zone. Such entities never have been officially requested to file or report financial statements to a ministry/authority located outside the zone.

#### Compliance for corporations:

There are no compliance obligations on companies in the UAE.

#### Personal taxation:

Individuals are not taxed on their income.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – No (although some free trade zones levy a fee for the transfer of shares in a company)

**Capital acquisitions tax** – No

**Real property tax** – See “Real property tax,” above.

**Inheritance/estate tax** – There is no inheritance tax regime. Inheritance, in the absence of a will, is dealt with in accordance with Islamic Shari’a principles.

**Net wealth/net worth tax** – No

**Social security** – See above under “Other taxes on corporations.”

#### Compliance for individuals:

There are no compliance obligations on individuals in the UAE.

#### Value added tax:

**Taxable transactions** – The UAE Ministry of Finance recently confirmed the introduction of VAT. It is expected that the VAT system would be introduced at a low rate (potentially 5%) and would apply as from 1 January 2018 on a broad base of goods and services with some limited industry exceptions.

**Source of tax law:** Income tax decrees issued by two of the seven Emirates (Dubai and Abu Dhabi) make up the UAE tax laws.

**Tax treaties:** The UAE has concluded around 70 income tax treaties.

**Tax authorities:** Ministry of Finance

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