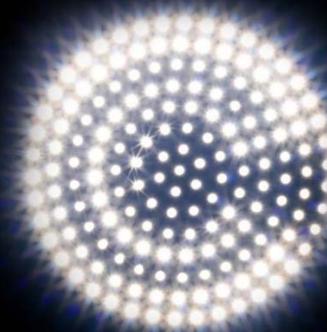


## International Tax United Arab Emirates Highlights 2019

Updated January 2019



### Recent developments

For the latest tax developments relating to the United Arab Emirates, see [Deloitte tax@hand](mailto:Deloitte_tax@hand).

### Investment basics:

**Currency** – United Arab Emirates Dirham (AED)

**Foreign exchange control** – No

**Accounting principles/financial statements** – IAS/IFRS. Financial statements generally are required to be prepared annually.

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

Foreigners generally may own only up to 49% of a UAE mainland-registered company, although the shareholding may be increased to 100% in companies set up in one of the 40+ free trade zones.

### Corporate taxation:

**Residence** – Emirate-level income tax decrees (see “Basis” below), do not contain specific provisions in relation to corporate tax residence. Therefore, there is no clear legal concept of corporate tax residence in the UAE. Nevertheless, the Ministry of Finance (MOF) issues tax residence certificates to companies that are incorporated in and managed from the UAE and meet the requirements of the MOF (e.g. at least one UAE resident director, a fixed place of business, etc.) and a relevant tax treaty, if appropriate.

**Basis** – Income tax decrees have been issued by five of the seven Emirates (i.e. Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain, Ras Al Khaimah and Fujairah), but currently only are enforced in respect of oil and gas exploration and production companies and certain

petrochemical companies under specific government concession agreements. Branches of foreign banks are subject to corporate income tax under separate banking tax decrees in certain Emirates.

**Taxable income** – In practice, no taxes currently levied on the income of the vast majority of businesses in the UAE, except for oil and gas exploration and production companies, certain petrochemical companies and branches of foreign banks.

The relevant applicable income tax and banking tax decrees include basic deductibility rules that need to be taken into account when determining taxable income.

**Taxation of dividends** – No

**Capital gains** – Capital gains are not taxable, unless derived by a company that is taxable under any of the income tax or banking tax decrees.

**Losses** – Generally not applicable, other than for companies taxable under any of the income tax decrees (which provide for losses to be carried forward indefinitely) or the banking tax decrees (under which losses may be carried forward for two years).

**Rate** – Oil and gas exploration and production companies are taxed at progressive rates of up to 55% under the applicable Emirate-level tax decree, although in practice, different rates may be agreed with the relevant authority under specific government concession agreements.

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%.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – No

**Participation exemption** – No

### **Holding company regime – No**

**Incentives –** The UAE has established several free trade zones which offer benefits including: (renewable) 15- to 50-year tax holidays, no restrictions on foreign ownership, no restrictions on capital and profit repatriation, and an exemption from import duties on goods brought into the zone.

### **Withholding tax:**

There are no withholding taxes in the UAE.

### **Other taxes on corporations:**

**Capital duty –** No, but limited registration/notary or attestation fees may apply.

**Payroll tax –** No, but see "Social security" below.

**Real property tax –** No, but see "Transfer tax" and "Other" below.

**Social security –** Social security contributions are due only in respect of nationals of the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE). For UAE national employees, the employer and employee pension contribution rates are 12.5% and 5%, respectively, and contributions are based on the monthly contractual salary, including basic allowances, as agreed in the local employment contract. The contribution rates and bases for other GCC nationals vary, but broadly are in line with those for UAE nationals. Under UAE labor law, non-GCC national employees are entitled to an end-of-service benefit (EOSB) if their employment contract is terminated after completion of at least one year of service. EOSB is payable by the employer and calculated as 21 days per year of basic wages for the first five years of employment, plus 30 days per year of basic wage for each additional year of service, subject to a maximum EOSB payment of two years' remuneration.

**Stamp duty –** No, although free trade zones generally charge companies operating within the zone an administrative fee for a transfer of shares in other UAE companies.

**Transfer tax –** A transfer charge is levied on the direct and, in specific circumstances, indirect transfer of real property situated in the UAE (e.g. a transfer of shares in a company holding real estate situated in the UAE). The charge also is levied on partial transfers under certain circumstances.

The tax rate varies according to the Emirate in which the property is situated. For the Emirate of Dubai, the rate is 4%, borne equally by the buyer and the seller (although in practice, the buyer generally is responsible for paying the transfer fee).

**Excise tax –** Excise tax is payable on the importation, manufacture and stockpiling of excisable goods, which include carbonated beverages, energy drinks and tobacco.

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

In the case of property rentals, certain Emirates charge a municipality fee on the annual rental value of the property, which varies according to the Emirate in which the property is situated. For the Emirate of Dubai, a municipality fee of 10% is levied on commercial properties. The fee is included proportionally in the monthly utility bills for the property.

### **Anti-avoidance rules:**

**Transfer pricing –** No

**Thin capitalization –** No

**Controlled foreign companies –** No

**Disclosure requirements –** Annual audited financial statements prepared on the basis of IFRS/IAS must be filed with the Ministry of Commerce by businesses located outside the free trade zones.

Entities located within a free trade zone report to the free trade zone authority for the relevant zone and generally are required to submit audited financial statements in accordance with IFRS/IAS annually. Some free trade zones do not require or do not enforce submission of annual audited financial statements.

### **Compliance for corporations:**

There are no significant tax compliance obligations for businesses based in the UAE.

### **Personal taxation:**

**Residence –** There are no tax laws covering individuals in the UAE and as a result, no domestic concept of personal tax residence. Nevertheless, the MOF issues tax residence certificates to individuals who satisfy the requirements of the MOF (including physical presence in the UAE of more than 183 days within any 12-month period) and a relevant tax treaty, if appropriate.

**Basis –** Individuals are not taxed on their income.

### **Other taxes on individuals:**

**Capital duty –** No

**Stamp duty –** No

**Capital acquisitions tax –** No

**Real property tax –** See "Real property tax" above.

In the case of a residential rental, certain Emirates charge a municipality fee, which varies according to the Emirate

in which the property is situated. For the Emirate of Dubai, a municipality fee of 5% is levied on the annual rental value of residential property and is included proportionally in the monthly utility bills for the property.

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

**Net wealth/net worth tax** – No

**Social security** – Social security contributions are payable only by GCC nationals. See "Social security" above.

#### Compliance for individuals:

There are no compliance obligations for individuals in the UAE.

#### Value added tax:

**Taxable transactions** – VAT applies on the supply of a broad base of goods and services, as well as the importation of goods, with some very limited exceptions. It is overseen by the Federal Tax Authority (FTA).

**Rate** – The standard rate is 5%; certain supplies of goods and services are zero-rated or exempt from VAT.

**Registration** – Registration is mandatory for taxable persons resident in the UAE whose taxable supplies exceed AED 375,000 in the previous 12 months or are expected to exceed AED 375,000 within the next 30 days. A resident business may register voluntarily if its taxable supplies exceed or are expected to exceed the voluntary registration threshold of AED 187,500. No threshold applies to nonresidents that are required to register for

VAT to remit any tax payable by them on supplies in the UAE.

**Filing and payment** – VAT returns generally are required on a monthly or quarterly basis depending on turnover, but the FTA may specify a longer or shorter period if it considers that to be appropriate. Returns must be filed online via the FTA portal by the 28th day (or next business day if the 28th day falls on a weekend or national holiday) of the month following the end of the reporting period. Any VAT payable for the reporting period is due on the return filing date and payments generally are made online via the e-Dirham website.

**Source of tax law:** Federal Tax Procedures Law, Federal Law for Pension and Social Security, Federal Law on VAT, VAT Executive Regulations, Federal Law on Excise Tax, Excise Executive Regulations and the Income Tax Decrees of the relevant Emirates.

**Tax treaties:** The UAE has concluded more than 80 tax treaties.

The UAE signed the OECD multilateral instrument on 27 June 2018.

**Tax authorities:** Ministry of Finance, Federal Tax Authority and General Pension and Social Security Authority.

#### Contacts:

Alex Law (alexlaw@deloitte.com)

Mark Junkin (majunkin@deloitte.com)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.