

# Doing Business in the United Arab Emirates 2019

# Introduction

Moore Global is one of the largest international accounting and consulting groups worldwide. Today the network comprises 609 offices in 112 countries throughout the world, incorporating 30,569 people and with fees of more than US\$ 3 billion.

The guide is intended to assist those interested in doing business within the United Arab Emirates (UAE). In addition to background information, this guide gives an overview of the financial, commercial and legal infrastructure of the UAE as of December 2019. In order to be aware of specific laws and regulations in more detail, it will be necessary to obtain more detailed and appropriate advice.

This guide is an overview and should not be seen as a comprehensive publication of the business regulations nor the Tax laws within the UAE. As at the date of publication, the information is accurate to the best of our knowledge. Moore is not responsible for actions incurred or omitted based on this publication. We advise users of this guide to contact our tax specialists on [tax@moore-uae.ae](mailto:tax@moore-uae.ae) for Tax related queries and [info@moore-uae.ae](mailto:info@moore-uae.ae) for all other queries.

**December 2019**

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# 1. Country profile

Capital City	Abu Dhabi
Other main city	Dubai
Other cities	Sharjah, Ajman, Fujairah, Ras Al Khaimah and Umm Al Quwain
Language	Arabic
Currency	United Arab Emirates Dirham (AED)

The UAE has established itself as a regional strategic trading hub, known for its business friendly environment. The policies of the government to encourage the private and non-oil sectors has seen the UAE develop as one of the largest economies in the Middle East that offers a wide range of investment opportunities, both within and outside designated areas known as the free zones.

## Geography

The United Arab Emirates is a federation that comprises seven emirates, which occupy the south eastern corner of the Arabian Peninsula. The constituent emirates are Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Ras Al-Khaimah, and Umm Al-Quwain. The capital is Abu Dhabi, and Dubai is seen to be attractive for business and commerce.

The UAE is located on the Eastern coast of the Arabian peninsula, in close proximity to Oman, Saudi Arabia and Qatar. The total area of the UAE is approximately 77,700 square kilometres.

## Demographics

Although the population of the UAE is 9.68 million (2019 census), it has a predominantly large expatriate community (about 80%) who come from all over the world.

## Currency and Time Zone

The currency of UAE known as the Arab Emirates Dirham (AED), is pegged to the United States Dollar at a fixed rate of AED 3.673: USD 1. The UAE is 4 hours ahead of GMT.

## Climate

The climate of the UAE is subtropical-arid with hot summers and warm winters. The emirate basks in virtual year-round sunshine with little rainfall and superb winter (October- April) temperatures which average around 24°C (75°F) during the day, falling to 13°C (56°F) during the night. Summer ( May-September) daytime temperatures can rise over 42°C (118°F) and there is high humidity. The hottest months are July and August.

## Language

Arabic is the official and national language of the UAE. Apart from Arabic, English is widely used as a second language. Other languages spoken in the UAE include Urdu, Hindi, Persian, Pashto, Malayalam, Bengali, Punjabi, Tamil, Balochi, Russian, Somali, Tagalog, Nepali and Mandarin Chinese.

## Major Customs and Practices

Being a highly cosmopolitan society, the UAE has a diverse and vibrant culture. Etiquette is an important aspect of UAE culture and tradition, and whilst in the UAE, visitors are expected to show appropriate manners and etiquette. Observing fast in public places during Ramadan (generally falls on the 9th month of the Islamic calendar) is expected from everyone, including those visiting the UAE.

### **Politics and Government**

The United Arab Emirates (UAE) is a constitutional federation which came into existence in December 1971. The UAE Comprises of seven Emirates, namely Abu Dhabi, Dubai, Sharjah, Ajman, Ras Al Khaimah, Umm Al Quwain and Fujairah. Whilst there are several laws and legislations which apply to all the Emirates at the Federal level, there are certain laws and regulations which are specific to each Emirate.

### **Economic Outlook**

In the last decade, the UAE's GDP has increased rapidly given the rich natural resources. The UAE currently holds the position of the seventh-largest proved reserves of oil and natural gas in the world. Whilst oil exports account for approximately 30 percent of the UAE's total GDP, the UAE has recently launched an initiative to reduce its dependence on oil by investing heavily into other industries such as tourism, aviation, and telecommunications.

According to the World Bank, the UAE is expected to be among the fastest-growing Gulf economies in 2019 with a projected 2.6 per cent expansion (projected 3 per cent expansion in 2020) on the back of continued infrastructure spending and economic stimulus.

Further, the Expo 2020 event will be hosted in Dubai between October 2020 and April 2021. This gargantuan event is expected to be the largest ever staged in the Arab world – and is likely to welcome over 150 participating countries and millions of visitors from across the globe. The Expo 2020 event will entail a huge amount of spending by large number of reputable multinational and regional businesses in setting up their pavilions and other operational costs.

## 2. Doing Business in UAE

### Legal structures

In accordance with the laws of the United Arab Emirates (UAE), the following are the different type of legal structures that foreign entities or nationals can consider for carrying on business or professional activities:-

- **Limited Liability Company**

A limited liability company can be registered in the mainland of any Emirate within the UAE with a minimum of two and a maximum of fifty shareholders, and should have UAE Nationals owning at least 51% of the share capital of the company. However, in July 2019, the UAE Cabinet has approved certain sectors and economic activities that would be eligible for up to 100% foreign ownership in the UAE.

- **Branch or representative office**

A branch or representative office of a foreign company can be established in the mainland of any Emirate within the UAE after being approved and licensed by the Ministry of Economy. In accordance with the registration requirements, the parent company should also appoint a UAE National as a National agent of the branch or representative office. However, branches of foreign companies established in any of the free zones of the UAE do not require to be registered with the Ministry of Economy or appoint a UAE National as a National agent

- **Civil partnership (for professional activities)**

A civil partnership can be registered by foreign nationals to practice a vocation or a profession in the mainland of any Emirate within the UAE. However, prior approvals from the concerned Government and Local Authorities will be required for such registrations and depending upon the activity, a UAE National will have to be a Partner or Service Agent in the partnership.

- **Joint venture**

A joint venture can be established in the mainland of any Emirate within the UAE as an association between two partners to share profits and losses in one or more commercial businesses conducted by one of the partners in his or her own name.

- **Commercial agency arrangement**

An international company that intends to trade directly with the UAE by supplying goods and services from abroad should appoint a commercial agent within the UAE. The agent must be a UAE National, or a company solely owned by a UAE National. A commercial agency agreement should be signed by the foreign principal and the agent in the UAE which should comply with the relevant provisions of the Federal Commercial Agency Law and the procedures and conditions prescribed therein.

- **Onshore and Offshore companies in free zones**

The onshore company in a free zone can be established as a limited liability company or as a branch of a foreign company to carry on trading, industrial or service activities as permitted by the regulations of the concerned Free Zone. Free zone entities can be 100% owned by foreign nationals or corporate entities. Offshore companies that can carry out approved investment activities in the UAE and trading (or manufacturing) activities outside the UAE can be registered in the Jebel Ali Free Zone in Dubai and the Ras Al Khaimah Free Trade Zone in Ras Al Khaimah. Such offshore entities are required to appoint a service agent and also have a local registered address.

### Type of licences

The business entities registered in the UAE should obtain at least one licence in the following categories:

- Commercial licenses for trading activity
- Industrial licenses for industrial or manufacturing activity
- Professional licenses for professional and service activity

Licences issued for certain activities need prior approval from the concerned Ministries and/or other related authorities.

All the commercial and industrial entities registered in the UAE should also register themselves with the 'Chamber of Commerce and Industry' of the relevant Emirate.

## Shareholding

The capital requirement for a limited liability company registered in the UAE depends upon its legal structure, place of registration and line of activity. It is a requirement that a limited liability company unless registered in a free zone or is specifically exempt, should have one or more UAE Nationals as partners whose shareholding in the company is not less than 51%.

## Locations

A business or professional activity can be carried on in any of the seven emirates of the UAE by registering a legal entity. This entity can either be registered in the mainland of the particular emirate or in any of the free zones in the UAE.

## Free Zones

Free Zones have transformed the economic market of the UAE in the last 25 years. The first Free Zone in the UAE was the Jebel Ali Free Zone, which commenced operations in 1985. The rapid growth of Jebel Ali Free Zone provided a benchmark for other Emirates to set up their own Free Zones to attract foreign investment. With the number of Free Zones increasing, their impact on the UAE economy has deepened.

The following are the free zones in the UAE that have been established to cater to a large and diversified business and professional segment of the economy.

### Abu Dhabi

1. Abu Dhabi Airport Free Zone (ADAFZ)
2. Twofour54
3. Abu Dhabi Ports Company (ADPC) Free Zone
4. Abu Dhabi Global Markets Free Zone (ADGMFZ)
5. Industrial City of Abu Dhabi
6. Higher Corporation for Specialized Economic Zones (ZonesCorp)
7. Masdar City Free Zone
8. Khalifa Industrial Zone Abu Dhabi (KIZAD)

### Dubai

1. Jebel Ali Free Zone, Dubai (JAFZA)
2. Dubai Airport Free Zone (DAFZA)
3. Dubai Multi Commodities Centre & Jumeirah Lake Towers (DMCC & JLT)
4. Dubai Internet City (DIC)
5. Dubai Media City (DMC)
6. International Media Production Zone (DMPZ)
7. Dubai Studio City (DSC)
8. Dubai Knowledge Village (DKV)
9. Dubai International Academic City (DIAC)
10. Dubai Healthcare City
11. Dubai Biotechnology & Research Park (DuBiotech)
12. Dubai Outsourcing Zone (DOZ)
13. Dubai World Central (Dubai Logistics City)
14. Dubai Gold and Diamond Park (DGDP)
15. Dubai International Financial Centre
16. Dubai Car and Automotive City Free Zone (DUCAMZ)
17. Dubai Industrial City (DIC)
18. Dubai Silicon Oasis

19. Dubai Carpet Free Zone – Deira
20. Dubai Maritime City
21. Dubai Outsource Zone (DOZ)
22. Dubai Techno Park (TP)
23. Dubai Textile Village

#### Sharjah

1. Sharjah Airport International Free Zone (SAIF Zone)
2. Hamriyah Free Zone, Sharjah (HFZ)
3. Sharjah Media City

#### Ras Al Khaimah

1. Ras Al Khaimah Economic Zone (RAKEZ)
2. Ras Al Khaimah Media Free Zone (RAKMFZ)

#### Ajman

1. Ajman Free Zone (AFZ)

#### Fujairah

1. Fujairah Free Zone

#### Umm Al Quwain

1. Ahmed Bin Rashid Free Zone (ABRFZ)

All free zones offer financial incentives to established manufacturing industries in the UAE. These are primarily focused on exemption from all taxes and duties levied on profits or production.

All free zones, besides permitting 100% foreign ownership, are subject to reduced or different trade barriers and tariffs. Although licences issued to free zone companies permit them to only operate within the free zone boundaries, they can operate outside these boundaries provided it adheres to the regulations of the UAE Commercial Companies Law and complies with the licensing procedure of the concerned emirate.

The major incentives offered by the UAE Free Trade Zones are:

- 100% foreign ownership with 100% repatriation of capital and profits
- No corporate taxes for 50 years
- No personal income taxes
- Exemptions from customs duties
- Absence of foreign exchange restrictions
- No VAT implications for transactions between designated Free Zones and overseas transactions



### Filing requirements

The provisions of the UAE Commercial Companies Law specifies that the audited financial statements of companies registered in the mainland are required to be placed and approved by the shareholders at a General meeting that is convened within four months of financial year end. A copy of the audited financial statements is also required to be submitted to the concerned licensing authorities.

With regards to entities registered in the free zones, generally a copy the audited financial statements should be filed with the free zone authority within three months of the financial year end.

### Dissolution

In accordance with the UAE Commercial Companies Law, a company registered in the mainland should be dissolved in the event of:

- the expiry of company's term or stated purpose
- a resolution to dissolve is passed at the general meeting
- a merger
- losses greater than 50% of the shares capital and the shareholders do not resolve to continue business

The dissolution of entities registered in free zones is carried out in accordance with the regulations laid down by the relevant free zone authority. Under these regulations, a free zone entity can be dissolved through a shareholders resolution or when the losses of the entity exceed the limit prescribed by the free zone authority.

### Investment incentives

The incentives for investment in the UAE can be summarized as follows:

- stable dollar based currency
- no restrictions on currency transfers
- low import duties (5%)
- Low VAT rate (5%)
- competitive labour costs
- no personal or corporate taxation

### UAE international relationships

The UAE is a contracting party to the General Agreement on Tariffs and Trade (GATT) since 1994 and a member of the World Trade Organization (WTO) since 1996. It is also a member of the Greater Arab Free Trade Area (GAFTA) in which all Gulf Cooperation Council (GCC) states participate. The GCC states comprise the UAE, Oman, Saudi Arabia, Qatar and Bahrain.

The UAE has concluded Free Trade Agreements with major countries like Singapore, the European Union, Japan, China, India and Pakistan.

The UAE has also signed double taxation agreements with a host of countries so as to facilitate cross border trade and investment flows, and to protect tax payers from double taxation. Effective June 2018, the UAE has committed to share financial information under the Common Reporting Standards released by the OECD.

## 3. Regulations

### Commercial Laws

The UAE Federal Law No. (2) of 2015, (referred to as the UAE Commercial Companies Law) issued on 1 April 2015 which came into effective from 1 July 2015, superseded the Federal Law No. (8) of 1984 and its subsequent amendments deals with the type of companies that can be set up in mainland UAE and regulations that they must comply with. For companies registered in the free zones of the UAE, the free zone authorities have issued free zone implementing regulations that are applicable to all such entities.

### Import and Exports

Entities registered in any Emirate in the UAE intending to import goods into the country should register with the Department of Customs in that particular Emirate. The importer should ensure that the goods imported are consistent with the stated activity in their trade licence.

For exports, the carriers or transportation companies should submit to Customs the manifest and obtain an exit permission for presentation with the goods to the customs office.

The UAE Federal Law No. 13 of 2007 on Commodities relates to Import and Export Control Procedures and harmonises the rules and standardises the procedures relating to the import and export of certain identified commodities throughout the UAE. This law bans the export or re-export of strategic commodities, including arms and military hardware, chemical and biological materials, and dual-use items without first obtaining a special license to do so.

### Customs

Customs duty is levied on goods that are imported into mainland UAE at the prescribed rate (which currently is at 5%) unless they are exempt from duty. However, goods can be freely imported into and exported from free zones without payment of any duty by an entities registered in free zones. Goods that are sold from the free zone into mainland UAE will attract import duty at the prescribed rate.

### Government approvals and registration

All business and professional entities that are set up in mainland UAE or the free zones, should be licensed by the appropriate authority. Entities are required to have a physical address in a location that is approved based on the licenced activity. Entities are sometimes required to deposit the share capital in cash into a local bank before the licence to trade is issued by the licensing authority.

### Accounting standards

The UAE Commercial Companies Law specifies that companies must apply International Financial Reporting Standards (IFRS) to prepare their financial statements. Generally, Accounting firms apply the International Standards on Auditing to conduct audit of the financial statements.

The Free Zone Regulations require that all companies registered within the free zones adopt International Financial Reporting Standards to prepare their financial statements.

The Central Bank of UAE has also made it mandatory for banks to prepare their accounts in accordance with International Financial Reporting Standards (IFRS).

Similarly, regulators of publicly listed entities and the Dubai Financial Services Authority (DFSA) have also made it mandatory for companies to prepare their financial statements in accordance with IFRS.

### Audit requirements

In accordance with the UAE Commercial Companies Law, all public and private shareholding companies, limited liability companies and branches of foreign companies are required to have their financial statements audited on an annual basis. Similarly, all limited liability companies registered in the free zones are also required to have their annual financial statements audited and a copy submitted to the authority within 90 days of the financial year end.

## 4. Labour Laws

The Labour Laws of UAE are administered by the Federal Ministry of Labour and govern all the aspects of employer/employee relations, such as hours of work, leave, termination rights, medical benefits, end of service benefits and repatriation. The Labour Law protects the interest of the employees and overrides conflicting contractual provisions agreed under another jurisdiction, unless they are beneficial to the employee.

However, the UAE Labour Law does not apply to employees working in federal governments, local ministries, government sectors, domestic servants and agricultural workers. Similarly, some free zone authorities like the Dubai International Financial Centre (DIFC) have their own employment laws and regulations.

The following are some of the important matters that are covered by the UAE Labour Law.

### Employment permits

The employer must obtain approval from the Ministry of Labour and the General Directorate of Residence and Foreigners Affairs before a residence visa can be obtained for an employee. While the free zone authority grants residency for a period of 3 years to employees, the Ministry of Labour grants a resident visa for 2 years to persons employed in non free zone areas of the UAE.

### Wages

There are no minimum wages specified, but wages must be paid at least once a month. Salary scales differ with regards to the qualification, experience of the employee, skill sets required, type of industry and company in which one is employed. Generally, employment contracts do provide for a review of the initial salary after the probationary period which can extend up to six months.

Under a recent development, the Ministry of Labour has implemented the Wages Protection Scheme (WPS) wherein all employees are required to open a bank account and employers are required to transfer the remuneration through a specified banking channel. Non-adherence to this requirement could result in heavy fines and the blocking the company's eligibility to obtain new employment permits.

### Overtime Pay

The normal working hours are 8 hours per day or 48 hours per week except for employees in hotels, restaurants or other similar operations which may be increased to 9 hours per day. During the month of Ramadan, normal working hours must be reduced by two hours per day. The time spent by the employees in commuting from their residence to the place of work is not included in the working hours.

Work beyond normal working hours attract overtime at the rate of 25% above the normal hourly rate. If an employee is required to work between 9:00 pm to 4:00 am, he/she is entitled to his/her normal working hours plus 50% of the normal hourly rate.

If employees work on Fridays or on public holidays, they are either be granted one day off in lieu or be paid normal working hours plus 50%.

### Health Insurance

Employers are required to provide medical insurance cover to all employees at their cost. This entitles the employee to free medical treatment within the UAE.

## Leaves

### Annual Leave

An employee is entitled to annual paid leave at two days for every month if his/her service is more than six months but less than a year. In case the employee has completed one year of service, he/she is entitled to 30 days annual paid leave for every completed year of service. This is in addition to public holidays, maternity leave for women and sick leave.

### Sick Leave

After the probationary period, an employee is entitled to sick leave of not more than 90 days for each year of service computed as follows:

- The first 15 days with full pay
- The next 30 days, with half pay
- The subsequent period, without pay

### Maternity Leave

A female employee is entitled to maternity leave for 45 days which includes the time before and after her delivery. She shall be entitled to full pay if she has completed not less than one year of continuous service and half pay if she has less than one year of service. An additional period of 100 days can be granted following the 45 days to the employee without pay upon providing a medical certificate.

## Notice Period

The minimum notice period for termination of employment is 30 days. The employee shall be entitled to full pay during the notice period and shall still have to perform duties as instructed by the employer. An employer and employee can mutually agree to a longer notice period but they cannot waive or reduce the minimum period.

The employer may terminate the employee without notice if they commit certain misconduct as stated in the UAE Labour Law in that which the employee shall not be entitled to end of service benefits.

## Compensation Pay

The compensation payable to an employee for termination of employment depends upon the whether the employment contract is "unlimited" or "limited" contract. An unlimited contract can be terminated with a one month notice on either side. In the case of a limited contract, termination of the contract for reasons other than those mentioned in the UAE Labour Law, can require the employer to pay upto 3 month's salary to the employee.

## End of Service Benefits

Upon termination of employment, the employee is entitled to end of service benefits that is calculated at 21 days basic salary for every year of the first five years of service and 30 days for every completed year thereafter. The total gratuity should not exceed two years' basic salary. In case the employee under an unlimited period contract resigns after working for at least 1 year the amount of gratuity payable will depend upon the term of service of the employee.

## Employment protection legislation

All disputes between the employer and employee are initially adjudicated by the Ministry of Labour and Social Affairs. In case any party wishes to appeal, a case may be filed in the UAE Courts.

# 5. Banking and Capital Markets

## Banking system

The UAE has currently 23 local banks and 26 foreign banks.

The Central Bank of the UAE is the banking regulatory authority and is responsible for formulation and implementation of banking, credit and monetary policies.

The Dubai Financial Services Authority ('DFSA') established in Dubai, is the regulatory authority for the financial entities including, investment banks, asset managers, that are registered in the financial free zone known as Dubai International Financial Centre ('DIFC'). Recently the Abu Dhabi Financial Centre has also been established in Abu Dhabi with the objective of promoting financial services business in Abu Dhabi.

The key documents that are normally required by banks in order to open corporate accounts are as follows:

- Copy of valid trade license or certificate of incorporation
- Copy of the shareholders/board resolution
- Passport copies, including resident permits of signatories, and
- Copy of valid chamber of commerce registration certificate (mainly for limited liability companies and branches of foreign companies)

To open a personal bank account, one would be required to furnish the following:

- Passport copy with valid UAE residence permit
- Proof of address
- A letter from employer in case of salary accounts

## Capital Markets

### Dubai Financial Market

Dubai Financial Market (DFM) was established as a public institution having its own independent corporate body. DFM is operating as a secondary market platform for trading in securities issued by public joint-stock companies, bonds issued by the Federal Government or any Local Government and public institution in the country. Currently, there are 76 companies listed on the DFM.

The minimum requirements for an IPO listing on the DFM are as follows:

- Primary local companies listing
- Minimum free float of 55% except family 30%
- 51% UAE minimum ownership
- Lock in period for founders is 2 years
- Offers structure new shares (capital increase)

### Abu Dhabi Securities Exchange

The Abu Dhabi Securities Exchange (ADX) was established on 15 November 2000. ADX has 67 listed securities and a market capitalization of USD 135 billion as of May 22, 2014.

In 2010, ADX became the first market in the region to introduce Exchange Traded Funds (ETFs) trading platform, by listing NBAD's 'OneShare Dow Jones UAE 25' ETF, under the ticker symbol 1UAE, and hence established the necessary infrastructure for diversified investment vehicles.

### Dubai International Financial Centre

The Dubai International Finance Centre (DIFC) houses some of the largest financial services, banking, legal and accountancy firms in the world. It was developed on the lines of the financial hubs in New York, London and Hong Kong. Its primary aim is to serve the Middle East, North Africa and South East Asia.

The DIFC focuses on several sectors within the financial industry such as banking services, capital markets, asset management and fund registration, insurance and reinsurance, Islamic finance, business processing operations and ancillary services.

The DIFC was established to create a regional financial centre, offering investors world class regulations and standards. The hallmarks are integrity, transparency and efficiency.

The DIFC offers organisations highly attractive investment environment including:

- 100% foreign ownership
- No tax on income and profits
- Wide network of double taxation treaties available to UAE incorporated entities
- No restrictions on foreign exchange or capital/ profit repatriation
- Transparent operating environment with high standards of rules and regulations
- Strict supervision and enforcement of money laundering laws
- State of the art infrastructure, data protection/security

### The Dubai Financial Services Authority (DFSA)

As the independent regulator of financial and ancillary services undertaken in and from the DIFC, the DFSA licenses, authorities and registers business and individuals who wish to conduct these services in the Centre. The DFSA supervises the activities of authorized firm within the DIFC and enforces the rules and regulations where necessary.

### NASDAQ Dubai

NASDAQ Dubai is an international financial exchange based in Dubai.

A key advantage of NASDAQ Dubai is that owners can retain a majority of the shares (up to 75%) after their IPO, and thereby keeping control. In 2012, NASDAQ Dubai reduced the minimum market capitalisation requirement for companies to list to USD 10 million, from the previous minimum of USD 50 million. This change opened the door to listings by small and medium-sized enterprises, including family owned business. Currently, there are 10 issues listed on Nasdaq Dubai.

## 6. Taxation

### Income Tax

The UAE has no personal income, corporate or withholding taxes. The country is characterised by an almost complete absence of taxation.

However, foreign banks and oil companies are subject to income tax on income generated in the UAE. While the oil companies pay up to 55% tax based on the terms of the concession agreement, foreign banks pay tax at 20% based on the taxable income that is calculated based on the audited financial statements. Oil companies also pay royalties on production.

### Municipality Taxes

Municipality service charges at differing percentages are levied on individuals for the various facilities and services like house rentals, restaurant food and beverage charges, hotel room rentals availed by them in the UAE.

### Hospitality Fee

Depending on each Emirate, one or more of the following taxes may be applicable on restaurants, hotels, hotel apartments and resorts:

- 10 per cent tax on the room rate
- 10 per cent service charge
- 10 per cent municipality fees
- 6 to 10 per cent city tax
- 6 per cent tourism fee

The Government of Dubai charges a hospitality fee (Tourism Dirham Fee) that ranges from AED 7 to AED 20 per night from guests staying in all hotels, hotel apartments, guest houses and holiday homes.

The Government of Abu Dhabi charges a hospitality fee of 4 percent of hotel stay bill and AED 15 per night per room.

Similarly, in Ras Al Khaimah, hotels charge AED 15 tourism fee per room per night.

### Value Added Tax (VAT)

In the UAE, VAT has been introduced from 1 January 2018. VAT is charged at a standard rate of 5 per cent on the taxable supplies of goods as well as services. There are also certain supplies which are zero-rated (for example, export of goods or services, international transportation, etc.), exempt or out of scope of the UAE VAT.

Businesses are entitled to recover input tax in respect of VAT paid on procurement of goods and services. The input tax can be recovered in case of taxable and zero-rated supplies but restricted in case of exempt supplies. Exporters of goods and services are entitled to claim refund of input VAT paid on procurements.

Liability to discharge VAT liability is generally on the supplier of taxable goods/services but in certain specified cases, the liability to pay tax shifts on the recipient of goods/services, i.e., Reverse Charge Mechanism ('RCM'). Instances wherein VAT is liable to be discharged under the RCM are:

- Import of goods from outside the UAE into the UAE, unless specifically exempted
- Procuring services from a supplier outside the UAE and place of supply of such service is in the UAE

Every entity or person is required to obtain VAT registration where the value of annual supplies (including imports) exceed the mandatory registration threshold (i.e. AED 375,000). An entity or person may voluntarily apply for registration where value of annual supplies exceeds the voluntary registration threshold (i.e. AED 187,500).

For the purpose of applicability of VAT on taxable services there is no distinction between entities located in Free Zones ('Designated Zones' as per VAT law) or in the UAE mainland. Even the activity of supply of goods between entities in the Mainland and the Designated Zones is subject to VAT.

Supply of goods between Designated Zones is exempt from VAT subject to meeting certain prescribed conditions.

## EXPO 2020: Benefit of VAT Refund

In order to ensure Official Participants do not incur any cost on account of UAE Value Added Tax ("VAT"), the UAE VAT law envisages refunds for the amount of VAT payments towards various operating expenses and development costs at Expo 2020. The key aspects of the VAT refund for Official Participants of Expo 2020 are:

### Requirement to obtain UAE VAT registration

If Official Participants are planning to provide any taxable supplies of goods or services in Expo 2020, they are required to be registered under the UAE VAT law. Upon receipt of registration and a Tax Registration Number (TRN), entities will be required to submit their VAT return to the UAE Federal Tax Authority ("FTA"). The benefit of refund will be available to Official Participants even if they are not registered under the UAE VAT law (i.e. the Official Participants not intending to make taxable supplies during the event).

### Eligibility for refund

Official Participants of the Expo 2020 would be able to either claim a refund or recover the VAT paid on goods or services provided they are used or intended to be used to make taxable supplies. However, VAT refund or recovery is also allowed under the categories of goods or services even where they do not meet the above condition.

- used in direct connection with the construction, installation, alteration, decoration and dismantlement of their exhibition space\*;
- used in direct connection with the operation of their exhibition space and any presentation within the Expo 2020 site\*;
- relating to the actual operation of their office, provided that the value of each Good or Service for which a claim is made is not less than UAE Dirham (AED) 200;
- meant for personal use of the Official Participant's Section Commissioner-General, Section Staff and the Beneficiaries.

\*In order to reclaim VAT under these categories, the official participant must be in possession of a Certificate of Refund Entitlement issued by the Bureau. This Certificate would be granted only to those Official Participants who hold a valid Expo 2020 trade license number and do not use more than 20% of the exhibition space or presentation for non-official or commercial purposes.

### VAT Refund on imported goods or services

Goods or services that are imported into the UAE are also eligible for refund in addition to the goods or services that are procured locally from within the UAE. Further, in the case of the above mentioned goods, Official Participants may enjoy the benefit of upfront non-payment of VAT on import. In order to avail this benefit, Official Participants are advised to coordinate with the Bureau International des Expositions ("BIE", the international organisation supervising, regulating and selecting the candidate for World Expos) to import goods and use a special Tax Registration Number allocated to the Bureau. The imported goods on which VAT benefit is claimed are not allowed to be sold or transferred in the UAE without payment of applicable taxes.

### Claiming a refund

A registered Official Participant would be able to initiate a VAT refund by filing a VAT return. Whereas an unregistered Official Participant would be granted refund by submitting a special refund application to the UAE FTA.

Application for VAT refund may be made by non-registered Official Participants as follows:

- Within 15 days of the end of the calendar month if the amount of VAT refund claim is AED 10,000 or more.
- Within 15 days of the end of the calendar quarter if the amount of VAT refund claim is less than AED 10,000.

The authorities are expected to take at least 20 business days to review the refund application. If the refund application is approved, the amount will be credited into the Official Participant's registered bank account within 30 business days.

### Summary

The participants/ exhibitors at the Dubai Expo 2020 should determine if they will be required to obtain VAT registration in the UAE depending on the activities proposed to be undertaken at the event. Irrespective of the registration requirement, the benefit of obtaining refund, recovery or upfront exemption from the payment of VAT on eligible procurements should also be explored by participants.

## Excise Tax

In the UAE, goods liable to Excise tax and the corresponding tax rates are as under:

- Tobacco products – 100 per cent
- Carbonated drinks (excluding sparkling water) – 50 per cent
- Energy drinks – 100 per cent



As per the UAE Excise Tax law, registering for excise tax is the responsibility of any business engaged in the following:

- import of excise goods into the UAE
- production of excise goods where they are released for consumption in the UAE
- stockpiling of excise goods in the UAE in certain cases
- anyone responsible for overseeing an excise warehouse or designated zone

There is no registration threshold for excise tax. Therefore, any entity which has been involved in import, production or stockpiling of excise goods or has the intention to be involved in the same must register and account for excise tax.

### Customs Duty

Goods imported into the country are subject to Customs duty specified in the customs tariff and the other applicable fees, excluding those exempted under the provisions of the regulation law or under the Unified Economic Agreement of the GCC Arab states.

A customs declaration should be produced for any goods entering or leaving the country. The goods are then presented to the customs authorities at the nearest customs office.

The duty rate of the customs tariff are either ad-valorem (percentage of the value of goods) or specific (an amount levied on each unit of the goods), or both.

Imported goods are subject to the Customs duties applicable at the date of registering customs declaration with the customs offices

Goods taken out from the free zones and duty-free shops into the local markets are also subject to the customs tariff effective at that time.



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