

## The Wages Protection System in the United Arab Emirates

The Wages Protection System ("WPS") is an electronic salary transfer system affiliated with the Central Bank of the United Arab Emirates ("UAE") that requires salary payments to be made through accredited banks or exchange offices. It enables the competent authority to verify that employers pay salaries on time and in the required amount. The WPS was introduced in 2009 and has since been used by various institutions. We take the recent decision of the Dubai Multi Commodities Centre ("DMCC") to make the use of the WPS mandatory as well as the extension of the WPS obligation to certain employees in private households as an opportunity to take a closer look at the scope of the WPS in the UAE mainland as well as in specific free zones.

### Mainland

The Ministry of Human Resources & Emiratization ("MoHRE") is responsible for employment-related matters within the mainland of the UAE, i.e. outside the free zones. In 2009, the MoHRE was the first authority to make the use of the WPS for salary payments compulsory.

Since then, details have been amended several times. Currently, according to Ministerial Resolution No. 598 of 2022, an employer in the mainland of the UAE must, in principle, pay at least 80% of the total salaries of eligible employees through the WPS. With respect to the individual employee, the requirements of the WPS are deemed to be met when the employee has received at least 80% of his salary and there is a valid reason for any deductions. Salary payments must be made within the first 15 days of the following month unless the employment contract provides for a shorter period.

If salaries are not paid on time or in the required amount, the law provides for sanctions. For example, an employer is then no longer able to apply for new work permits with the MoHRE.

For persons working in a private household as private tutors, home caregivers, private messengers, personal trainers or private agronomists, the payment of salaries via the WPS has also been compulsory since 01.04.2023, in accordance with Ministerial Resolution No. 675 of 2022.

### DMCC

DMCC has introduced the applicability of the WPS with effect from 15.02.2023. Since then, all companies registered in DMCC are obliged to pay their employees who have an active or expired employment visa or permanent identity card via the WPS. It is mandatory that the salary is paid in the local currency UAE Dirham (AED). Shareholders of a company licensed in DMCC are exempt from the WPS obligation. Their salaries do not have to be paid through the WPS.

Employers may not pass on to the employee fees that banks or exchange offices charge for transferring money by the WPS.

For the year 2023, DMCC will not yet impose any sanctions in case of non-compliance. This will only kick in from January 2024 in the

form of restricted options for using the DMCC online portal and the imposition of fines.

### JAFZ

The Jebel Ali Free Zone ("JAFZ") introduced the WPS in 2012.

According to current information obtained from the authority, a company located in JAFZ meets the requirements of the WPS if, on the one hand, it pays at least 80% of the total salaries of eligible employees and, on the other hand, the individual employee receives at least 80% of the salary agreed in the employment contract. If the thresholds are not met, JAFZ imposes fines.

If an employer has not paid the salary or has only paid it in part, for example because the employee took unpaid leave, the employer can create a so-called Service Request Number (SR Number) via the Dubai Trade Portal and present justifying reasons, which must be supported by well-founded evidence. After submitting the documents, JAFZ examines the specific case and, depending on the facts, refrains from imposing a fine.

Regardless of which due date is stipulated in the employment contract, the salary must be paid by the 19th of the following month at the latest. Otherwise, the employer will receive a fine and will no longer be able to apply for new work permits with JAFZ.

### DAFZ

The Dubai Airport Freezone ("DAFZ") has not yet joined the WPS. However, the free zone has recently introduced the Employee Payroll System. It must be maintained by the employer in the online portal of DAFZ and can be viewed by DAFZ.

It reflects in the Employee Payroll System if an employee does not receive his salary or does not receive it in full. DAFZ then contacts the employer and requests him to pay the outstanding salary immediately or to explain why a (full) payment has not been made.

DAFZ does not stipulate how the salary is to be paid to the employee. The parties are therefore free to agree on the method of payment.



#### DDA

In free zones under the administration of the Dubai Development Authority ("DDA"), such as Dubai Design District, Dubai Internet City and Dubai Media City, the WPS does not apply either. Furthermore, there is no other system by which the free zones monitor salary payments.

An employee who has received his salary incompletely or not on time must first contact the employer. If the employer still refuses to pay, the employee can ask the respective free zone to contact the employer and mediate.

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#### Do you have questions? – We would be glad to answer them!

From our office located in the heart of Dubai, our team of German attorneys has been advising small and medium-sized companies, corporations and individuals on the laws of the United Arab Emirates for more than 17 years. Our areas of expertise include corporate law (in particular business set-up), commercial agency law, employment law as well as tenancy and real estate law. We would be happy to attend to your questions as well. Contact us!

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