



United Arab Emirates

Tax highlights

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Tax highlights

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Introduction

The United Arab Emirates is a confederation founded in 1971 by the seven emirates of Abu Dhabi, Dubai, Sharjah, Ajman, Umm al-Quwain, Ras Al-Khaimah and Fujairah.

The National Federal Council, based in Abu Dhabi, is the highest expression of political and legislative authority.

The Federal Council maintains legislative power over defence, foreign affairs, education and health, while every single emirate maintains legislative power in the rest of the public sectors, including tax sector.

The UAE is a founding member of the Gulf Cooperation Council (GCC) together with Saudi Arabia, Kuwait, Qatar, Oman and Bahrain, among which since 2003 there is a customs union aimed at creating a common market, removing customs borders within Member States and establishing a common external tariff.

Since 1996 the UAE are members of the WTO and in 2018 they have signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and in the implementation of the transparency measures of the BEPS, such as the automatic exchange of financial account information.

50 years after independence from the United Kingdom, the UAE are now the main commercial hub in the Middle East, emerging as one of the most promising economy in the region, thanks to strong political stability, a liquid and well-capitalized banking system, one of the world's highest GDP per capita, an exchange rate pegged to dollar, one of the most liberal commercial regime in the Gulf – confirmed by the Foreign Direct Investments Law in 2018 allowing 100% foreign ownership. Huge fossil fuel reserves will continue to sustain the economic development despite important reforms to increase economic diversification.

Some numbers:

Territory: 83.600 km²

Population: 9,7 milion inhabitants

Urban population: 86,2%

International migrant stock (% of population): 88,4%

GDP per capita (PPP): 69.430 USD (2019)

Index Ease of Doing Business: 16/90 (2020)

1. The tax system: general aspects

Tax system in the UAE is managed by two authorities:

(i) the Ministry of Finance (MoF) is responsible for implementing all fiscal and monetary policies also regarding bilateral/multilateral agreements and the automatic exchange of information with foreign tax authorities;

(ii) the Federal Tax Authority, entity established in 2016, is responsible for the administration, collection and enforcement of federal taxes.

In January 2022, the Ministry of Finance has announced that a corporate tax regime will be established and will be disciplined by Corporate Income Tax Law, in force from June 2023.

2. Direct taxes

2.1. Taxation of legal persons

Corporate income tax

Corporate Income Tax is effective for financial years starting on or after 1 June 2023. It will be levied at a headline rate of 9% on Taxable Income exceeding AED 375.000.

Free Zone companies are also within the scope of Corporate Income Tax, but they can benefit from a Corporate Tax Rate of 0%

on the income generated outside Mainland if they meet some conditions, such as maintaining adequate substance in the UAE and complying with the transfer pricing requirements. Corporate tax returns must be submitted to Federal Tax Authority within 9 months after the end of financial year.

Taxes on capital gains

None.

Taxes on dividends

None.

Withholding tax

None on dividends, interest or royalties on domestic and cross-border payments.

2.2. Taxation of natural persons

Employee income tax

None.

Tax on capital gains and on capital

None.

Social contributions

None for foreigners, while it is 17,5% of gross salary for Emirati citizens, 5% borne by the employee and 12.5% borne by the employer (private sector).

3. Indirect taxes

Value Added Tax (VAT)

Value added tax (VAT) was introduced in the UAE on 1 January 2018, with a standard rate of 5%.

5% VAT applies to all goods and services sold or consumed in the country with the exception of goods and services taxed at 0% and those that are VAT exempt. VAT registration is compulsory once company reaches taxable sales and expenses of AED 375,000 during previous 12 months or in the following 30 days. VAT returns are filed on quarterly basis.

Excise Tax

Excise Tax was introduced on 1 October 2017 on specific kind of goods: carbonated drinks (50%), tobacco products (100%), energy drinks (100%), electronic smoking devices and liquids used in such devices and tools (100%), any product with added sugar or other sweeteners (50%).

3.1. Other indirect taxes

Register Tax (Stamp Duty)

No tax is applied for the transfer of movable property, while for real estate a percentage of 4% of the transaction value is applied, usually paid by the buyer.

Tax on consumption

Hotels, restaurants and companies that rent holiday apartments are required to apply a fee (Municipality Tax) of 10% to their fee.

Housing Fee

This is a municipal tax of 5% of the rental value (for the tenant) that is divided into twelve monthly payments in water and electricity bills. The same tax is still applied and collected also for property owners through a calculation on the value of the property.

Customs duties

A nominal tax of 5% has been set for the import of most of the goods in the GCC area, with the exception of products and derivatives of alcohol and tobacco for which increased duties are applied. The assets, once introduced in the GCC area, are no longer subject to taxation in the event of transit through the 6 member countries.

Succession and donation tax

None.

4. Other aspects

Financial statements

Most free zone requires registered companies on yearly basis to submit audited financial statements, as part of their business license renewal. As of today, for Mainland companies, audited financial statements are compulsory only for branches.

Losses carried forward

Operating losses can be carried forward for the following 2 financial years.

Thin Capitalisation

Not applicable.

Control Foreign Companies

Not applicable.

Transfer Pricing

Not applicable until the introduction of Corporate Income Tax in June 2023. All the operations with related parties should comply with Transfer Pricing rules and arm's length principle as set out in OECD Transfer Pricing guidelines.

4.1 Corporate compliance

UAE corporate regulation is constantly evolving while also aligning to western standards, with the double objective of meeting international standards on tax transparency and ensuring fair competition for companies, on the other side attracting foreign investors into the country.

In this respect, the most important developments are: new legislation on economic substance (Economic Substance Regulations), aimed at ascertaining the creation of value and preventing the use of legal structures without economic substance and without a substantial economic activity, involving cases of profit shifting and harmful tax competition; transparency requirements on the ultimate beneficial ownership of UAE companies (register of partners, nominee directors and UBO); obligation of preparing Country-by-Country Reporting (CbCR) for all multinational enterprises.

5. International bilateral agreements

The United Arab Emirates have signed double taxation treaties (DTTs) with 114 countries (91 are in force) to avoid that a subject is taxed in two different countries on the same source of income in the same period.

In 2019 the UAE also ratified the Multilateral Convention to implement tax treaty related measures to prevent Base Erosion and Profit Shifting. Such instruments will cover existing DTTs.

The UAE have also enacted Common Reporting Standards (CRS) regulations which apply in all UAE jurisdictions and relate to financial information gathering and reporting obligations by Financial Institutions to foreign tax authorities, since September 2018.

Implementation of FATCA regime with the United States dates back to 2016.

6. Our services

Accounting services

We support the foreign accounting division of the client by analyzing and optimizing the local processes on the basis of local regulations, potential risk areas, reference industry and through periodic company site visits. We offer accounting outsourcing services customized to the specific needs of the client

Tax Services

We offer consulting services in domestic and international taxation, assisting clients that deal with different jurisdictions, guiding them in planning and complying with their local tax requirements and in cross-border transactions

Corporate services

We offer our own experience and competence to clients that start an internationalization project or a corporate reorganization abroad, in the establishment process, in local regulatory compliance and administrative support, leveraging our know-how and our strategic partnerships consolidated over time

6.1 Our services in the United Arab Emirates

Accounting services

- Set up and implementation of local accounting system as per clients' specifications
- Accounting in Outsourcing
- Creation of SOP (Standard Operating Procedure) Manuals
- Customized Financial reporting
- Financial Review
- Payroll Processing services
- Financial Due Diligence
- Training of Clients' Accounting Staff

Tax services

- VAT registration
- Corporate Income Tax (CIT) registration
- Filing VAT returns
- Filing CIT returns
- VAT refunds
- Tax Residency Certificates for individuals and for companies
- Economic Substance Regulations (ESR) notifications and reports
- UBO filings
- Tax Due Diligence
- Transfer Pricing

Corporate Services

- Company formation either in Free Zones or in Mainland territory
- Assistance in opening a bank account in a local bank
- Assistance in issuance of UAE Residence Visas for management and staff
- Assistance in Company Liquidation and Corporate Amendments
- Treasury Services
- Company Secretary

Advisory Services

- Feasibility studies and impact analysis on establishing a business in the United Arab Emirates
- Advisory on ESR and substance requirements
- Advisory on Country-by-Country Reporting
- Cross-border Transactions
- Tax Advisory

7. Strengths

Global presence, local focus

7	Partner
11	Countries in which we are present
14	Offices
500+	Continuative clients around the globe

Why Diacron?

- Team of professionals with in-depth knowledge of tax systems and corporate regulations, locally and internationally
- Consolidated collaboration with local partners
- Strategic global presence

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