



# 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 defense, foreign affairs, education and health, while every single emirate maintains legislative power in the rest of the public sectors, including the tax sector.

# 1. The tax system: general aspects

The National Federal Council of the United Arab Emirates never disclosed a tax law, while most of the individual emirates issued decrees on this subject.

The Emirate of Dubai has published *The Dubai Income Ordinance of 1969*, *Dubai Income Tax Decree of 1970* and *Dubai Income on branch offices of foreign bank ordinance 1996* with subsequent amendments.

Despite the taxation of natural and legal persons being covered by legislation, in practice Dubai has only partially ratified the legislative decrees and therefore only some taxes and fees are required.

## 2. Direct taxes

### 2.1. Taxation of legal persons

#### Corporate income tax

Any organization operating a trade or business, including the provision of any service within the Emirate of Dubai, is subject to income tax payments. At this time, the Dubai government has only ratified the income taxes of the foreign banks branches and companies operating in the oil, gas and petrochemical sectors. Legislative decrees, however, indicate that **if** the income taxes should come into force, the government would be able to apply them retroactively.

The income brackets were divided into the following progression, **however they have never been implemented:**

<b>Income in AED</b>	<b>Rate</b>
Income from AED 1,000,000 < of AED 2,000,000	<b>10%</b>
Income from AED 2,000,000 < of AED 3,000,000	<b>20%</b>
Income from AED 3,000,000 < of AED 4,000,000	<b>30%</b>
Income from AED 4,000,000 < of AED 5,000,000	<b>40%</b>
Income > of AED 5,000,000	<b>55%</b>

#### Tax on capital gains

None.

### **Taxes on capital**

None.

### **Taxes on dividends**

None.

### **Social contributions**

None for foreigners, while it is equal to the **12.5%** of the salary for emirate citizens working in the private sector and the **15%** for those working in the public sector.

### **Withholding at the source**

None on dividends, interest or royalties.

### **Withholding on the transfer of income from the branch to the parent company**

None.

## **2.2. Taxation of natural persons**

### **Employee income tax**

None.

### **Tax on capital gains; taxes on capital**

None.

### **Social contributions**

None for foreigners, while the **5%** of the salary for the Emirate citizens.

## 3. Indirect taxes

### Value added tax (VAT)

From 1 January 2018 the *Gulf Cooperation Council* (GCC) will introduce value added tax (VAT) at a rate of **5%** on the value of goods and services sold.

5% VAT will be applied 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, whose list is not yet available. Quarterly VAT returns are required.

The information is updated as of July 2017. An update is planned following the publication of the *Tax Law*.

### 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

### **Tax declarations**

They are required only for companies subject to income taxes.

### **Financial statements**

Branches of foreign entities must submit the certified financial statements to the Ministry of Economy in the period prior to the renewal of their *Business Licence*. The Ministry of Economy will in turn issue a letter with the authorisation to proceed, addressed to the *Department of Economic Development*. The mainland companies (in the form of *Limited Liability Company* and *Sole Establishment*), as well as the *Free Zone Companies* of the main Free Zones, are now required to present the budget reviewed at the time of the annual license renewal.

### **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.

## 5. International bilateral agreements

The United Arab Emirates have signed bilateral treaties against double taxation with various countries to prevent a taxable person from being taxed in two countries for the same source of income in the same period.

Below is a list of the countries covered by these agreements with the UAE:

Algeria	India	Romania
Armenia	Indonesia	Singapore
Austria	Italy	South Korea
Belarus	Japan	Spain
Belgium	Jordan	Sri Lanka
Bosnia	Lebanon	Sudan
Bulgaria	Malaysia	Switzerland
Canada	Malta	Syria
China	Mauritius	Thailand
Czech Republic	Morocco	Tunisia
Egypt	Netherlands	Turkey
Finland	New Zealand	Ukraine
France	Pakistan	United States
Germany	Poland	Yemen

The United Arab Emirates have subscribed to and signed the agreements called *Common Reporting Standard (CRM)* related to the automatic exchange of bank information. The implementation of the CRM will be launched from January 2018.

## 6. Our services

### **Accounting services**

Using an approach based on business processes, the environment in which the enterprise operates and the main risk areas and through periodic visits to the company, Diacron verifies the correctness of the work of the accounting department of the company from a civil law, tax, currency and administration point of view. In addition, Diacron offers its customers the management of accounting, administrative and corporate tax areas.

### **Tax Services**

Diacron offers consultancy services in the field of national and international taxation, assisting its customers who have to deal with different jurisdictions, guiding them in identifying the most appropriate routes and choices.

### **Corporate services**

Diacron assists its customers right from the initial stages of the internalization and corporate reorganization projects. Through the use of well-established law firms, it assists the customer in the process of setting up the company and with regard to the related obligations required.

# 7. Strengths

## Global presence, local focus

7	Partner
8	Countries
9	Offices
40+	Books published
45	Conferences (since 2011)
90	Employees
200+	Press quotes
800+	Worldwide clients

## Why Diacron?

- ▶ Team of professionals with in-depth knowledge of tax systems and international corporate regulations
- ▶ International tax systems integration
- ▶ Staff who speak English and local language in all locations
- ▶ Consolidated collaboration with local partners
- ▶ Strategic and global presence

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