

UAE INVESTMENT GUIDE 2025

Content

TME Legal

OUR SERVICES	4
UAE STATISTICS	5
DIRECT FOREIGN INVESTS	6
1. INVESTMENT CLIMATE IN DUBAI	6
2. LEGAL FORMS OF DOING BUSINESS	8
3. A REPRESENTATIVE OFFICE AND BRANCH OFFICE	10
4. TRADE AGENT	11
FREE ZONES	12
1. GENERAL	12
2. BENEFITS AND ADVANTAGES OF FREE ZONES FOR FOREIGN BUSINESSES	12
3. EXPLORING LEGAL FORMS AVAILABLE IN FREE TRADE ZONES	14
4. IMPORTING GOODS INTO A FREEZONE	15
LABOR AND SOCIAL SECURITY LAW	16
1. LABOR LAW	16
2. ENSURING WELFARE AND SECURITY: SOCIAL PROTECTION GUIDELINES	19
TAX SYSTEM	21
1. CORPORATE INCOME TAX (CIT)	21
2. VAT	27
3. FREE ZONES UNDER THE UAE TAX REGULATIONS	29
4. IMPORTATION AND CUSTOMS PROCEDURES	31
YOUR CONTACTS AT TME LEGAL CONSULTANTS	34

About Us

TME Legal

TME Legal Consultants is a spin-off of a German-based international Law-, Tax- and BPO firm. Our Team consists of - among others – 40 professional Legal Consultants, Tax Advisors, and Accountants with a German background and education who are familiar with the legislative framework in the United Arab Emirates and the Kingdom of Saudi Arabia. TME Legal Consultants combines expertise in all Legal, Tax, and BPO matters with over 40 years of commitment to the region. Our routes deeply connect to the region, enabling TME Legal Consultants to establish high-value relationships with authorities, banks, and other vital institutions over the past years. Our Team has advised many SMEs and global players in the context of their market entry in the United Arab Emirates and the Kingdom of Saudi Arabia by assessing each client's concrete situation considering their home country jurisdiction.

Our aim is not only to advise and support our clients during their market entry but to enter and establish a reliable, trustworthy, and long-term relationship, as this has proven successful over decades.

TME Legal Consultants is a **ONE-STOP Solution Provider** offering a comprehensive solution to its clients. We are **ONE-FACE-TO-THE-CUSTOMER** for all its' needs. Our Team combines seven languages, e.g., German, English, Turkish, Italian, French, Arabic, and Hindi.

IMPORTANT!

The following information shall serve as a guideline for informative purposes only and shall not replace legal- or tax advice. Foreign investors seeking to enter the Saudi market should consider professional advisory. TME Legal Consultants does not assume any liability for the information's correctness and/ or completeness.

Our Services

TME Legal

TME Legal Consultants - WHAT WE DO!

- Company Establishments
- Commercial Companies Law
- Corporate Restructuring and Establishment of Tax harmonized holding Structures
- Tax Compliance and regular Tax Advisory in the UAE & KSA
- Tax Assessments and Health Checks
- Labour and Employment Law
- Litigation
- M&A Transactions
- Liquidation of Companies and Insolvency Law
- Accounting Services
- Payroll Services
- Audit Guiding Services
- Visa Services
- Company Renewal Services
- Compliance Services
- Company Secretarial Services
- Digital Marketing Services
- AML / CTF Services

UAE STATISTICS

- UAE was founded in 1971 (1972)
- Federation of seven autonomous emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ras
- Al-Khaimah, Sharjah, Um Al Quwain)
- Capital: Abu Dhabi
- Population: 9,5 million as of 2023
- Vast Majority of Foreigners: Nearly 90% Reside in the Area
- Over 1000 German companies have operations in the UAE
- Oil reserves: > 100 billion barrels
- GDP: approximately USD 415 billion (2021)
- Almost USD 43,700 per capita
- In 2022, the country welcomed around 14,36 million international tourists
- Inflation rate: 3% (2023)

UAE's Economic Growth and Global Positioning

The United Arab Emirates (UAE) has achieved remarkable progress and established itself as a thriving economic hub in the Middle East. Despite facing challenges during the global financial crisis, the UAE has overtaken Saudi Arabia to become Germany's primary trading partner in the Arab world. Approximately 1000 German companies operate in the UAE, particularly in Dubai and Abu Dhabi. Abu Dhabi, the largest Emirate and the seat of the UAE government provides an ideal environment for public investment initiatives. On the other hand, Dubai has emerged as a regional trade hub and a prominent financial center in the Arab world. Several free trade zones, an innovative concept in the region, enhance its appeal to international investors. The UAE and Germany have established several significant commercial agreements covering areas such as air transport and investment protection, which further strengthen their economic relationship.

DIRECT FOREIGN INVESTMENT

1. INVESTMENT CLIMATE IN DUBAI

The investment climate in the UAE has witnessed significant improvements in recent years, making it an increasingly attractive destination for domestic and foreign investors. Several factors contribute to this favorable environment:

Strategic Location

Dubai's strategic location at the crossroads of Europe, Asia, and Africa makes it an ideal hub for international trade and investment. Proximity to emerging markets allows investors to access a wide range of consumers and business opportunities.

Political Stability

The UAE is known for its political stability and security, providing a safe environment for businesses to operate. A stable political climate enhances investor confidence and reduces the risk associated with foreign investments.

Business-Friendly Regulations

Dubai has implemented business-friendly regulations, making it easy for foreign investors to set up and operate businesses. The government has established free zones with incentives such as tax exemptions, 100% foreign ownership, and streamlined administrative processes.

Infrastructure Development

Continuous investment in world-class infrastructure, including modern airports, ports, and transportation networks, facilitates efficient business operations. State-of-the-art facilities attract multinational corporations and contribute to Dubai's reputation as a global business hub.

Diversification Efforts

Dubai has actively diversified its economy beyond oil and gas, focusing on sectors such as tourism, real estate, finance, and technology. This diversification strategy reduces dependence on volatile commodities and opens new opportunities for foreign investors in non-oil sectors.

DIRECT FOREIGN INVESTMENT

Tax Advantages

Dubai offers favorable tax conditions, with no corporate income tax, personal income tax, or import/export duties in most free zones. This tax-friendly environment is a significant attraction for foreign companies seeking to optimize their financial performance.

Open Business Environment

Dubai has an open business environment that encourages innovation and entrepreneurship. The government actively supports initiatives that foster innovation, technology, research, and development. Additionally, several initiatives have improved the business environment and have been helpful to German and European companies in the GCC states. The German Emirati Joint Council for Industry & Commerce (AHK) is the exclusive bilateral chamber of commerce in the Arabian Peninsula, with offices in Abu Dhabi and Dubai. It provides a networking platform and market entry support across the GCC states.

Quality of Life

Dubai provides expatriates with a high quality of life, attracting skilled professionals and entrepreneurs worldwide. Excellent healthcare, education, and cultural amenities contribute to a favorable living environment for the international workforce.

Robust Financial Sector

Dubai's well-developed financial sector, including a sophisticated banking system and capital markets, provides essential support for businesses and investors.

Proactive Government Initiatives

The Dubai government proactively engages in initiatives to attract foreign direct investment (FDI) through targeted policies, promotional campaigns, and investment forums. Government agencies actively work to address investor concerns and streamline bureaucratic processes.

DIRECT FOREIGN INVESTMENT

2. LEGAL FORMS OF DOING BUSINESS

The UAE Commercial Companies Law governs the legal forms of business entities in the United Arab Emirates (UAE). Below is an overview of some common legal forms and considerations for each:

Sole Proprietorship

One individual owns the business and takes personal responsibility for all liabilities. Single ownership limits the scale of the company. Certain professional activities permit 100% foreign ownership, though restrictions vary by Emirate.

General Partnership

Formed by two or more UAE national partners who share profits, losses, and management responsibilities with unlimited personal liability.

Limited Partnership

Two types of partners form this business structure: general and limited. General partners assume unlimited personal liability, while limited partners limit their liability to the amount they contribute. Limited partners do not participate in managing the business. Foreign investors can serve as limited partners, but at least one general partner must be a UAE national.

Limited Liability Company (LLC)

Combining the features of a partnership and a corporation, a limited liability company (LLC) offers the benefits of both structures. Shareholders enjoy limited liability, while the company benefits from the flexibility of management and distribution of profits. Foreign investors can establish an LLC with 100% foreign ownership when engaging in certain trading and manufacturing activities.

DIRECT FOREIGN INVESTMENT

Public Joint Stock Company (PJSC)

A publicly traded company must have transferable shares, meet a minimum share capital and number of shareholders, and comply with strict regulatory requirements.

Private Joint Stock Company (PrJSC)

Requires minimum share capital and number of shareholders, with less stringent regulatory requirements compared to PJSC, but without public trading of shares.

Branch of a Foreign Company

When a foreign company wants to operate in the UAE, they can establish an extension of their company. Foreign ownership is allowed, but operations in the UAE are considered an extension of the foreign parent company.

Representative Office

Limited to promoting (coordination, supervision, intermediary, and advertising) the foreign parent company's business; commercial activities prohibited. Local service agent required.

DIRECT FOREIGN INVESTMENT

3. A REPRESENTATIVE OFFICE AND BRANCH OFFICE

Foreign companies can establish representative and branch offices in the UAE, which must have their legal identity and function as part of the foreign company. The parent company wholly owns and controls these offices. A company agent (National Agent) is required only for formal compliance, provided the agency contract is carefully worded. The Commercial Companies Law (CCL) distinguishes representative and branch offices based on their allowed activities. Representative offices can only perform coordination, supervision, intermediary, and advertising functions, while branch offices can directly participate in the parent company's business activities. Before commencing operations, both types of offices require a permit from the Ministry of Economy and must be registered. Representative offices mainly serve preparatory functions and support the parent company, such as market research, marketing events, and customer service. Branch offices have broader activities and can conduct business transactions, requiring their own capital and stricter accounting and auditing regulations. The Ministerial Committee determines the permitted activities for a branch office on a case-by-case basis, considering their usefulness for the UAE and compliance with legal rules. Previously, a UAE citizen was required to be a national agent for a branch office, but this requirement no longer applies, regardless of the free trade zones.

DIRECT FOREIGN INVESTMENT

4. TRADE AGENT

Trade agents are vital in distributing goods and services in the UAE. Previously, only UAE citizens or companies wholly owned by UAE nationals were permitted to act as trade agents. However, since 2020, public joint-stock companies and public legal entities with at least 51% national capital contribution can also register as trade agents. In certain cases, international companies not owned by UAE nationals may also engage in commercial agency activities without a local trade agent if they meet specific requirements and receive approval from the Cabinet.

Trade agents must register trade agency agreements with the relevant Ministry of Economy to ensure legal protection. This requirement complicates termination for foreign companies. Termination attempts often involve lengthy negotiations and substantial reimbursements.

FREE ZONES

1. GENERAL

The United Arab Emirates has many free zones, most of which are in Dubai. These free zones operate independently under their respective authorities, such as the Jebel Ali Free Zone Authority (JAFZA) in Jebel Ali. These authorities not only supervise the free zones but also have legislative responsibilities. Therefore, foreign-owned businesses' rules and regulations can vary between free zones. As a result, all relevant applications for conducting business in a particular free zone should be submitted directly to the corresponding authority. It's important to note that neither the Emirate's administration nor the UAE federal government is directly responsible for these free zone matters.

2. BENEFITS AND ADVANTAGES OF FREE ZONES FOR FOREIGN BUSINESSES

Foreign investors who establish companies in free zones enjoy multiple advantages. In Dubai, the infrastructure is exceptional, and the free zone authorities are flexible and committed to providing excellent services to investors. Offices and warehouse premises are well-equipped and efficient sea, air, and motorway logistics solutions are available. Additionally, companies with foreign capital, in which a majority partner is a citizen of a GCC member state, can obtain a valid production license throughout the country by operating in a free zone.

FREE ZONES

Furthermore, Free Zones generally offer numerous benefits for Foreign Investors such as:

- 100 % Foreign Ownership of an FZE or FZCO
- 100 % Repatriation of Capital and Profits
- Fast and Easy Business Set-up Procedures
- Developed Business Communities
- Numerous Options at Competitive Costs
- 100% Exemption from Corporate and Income Tax (currently at 9 % on profits)
- 100 % Exemption from Customs Duty (currently at 5 %)
- Independent Laws and Regulations
- Easy Regional, Global Market Access

FREE ZONES

3. EXPLORING LEGAL FORMS AVAILABLE IN FREE TRADE ZONES

Free Zone Establishment (FZE) and Free Zone Company (FZCO)

Foreign companies can establish remote offices in UAE-free zones without having their own legal identity, but they must follow the regulations of the specific free zone. Initially, setting up a remote office was limited to free zones to attract active investors rather than "letter-box" companies.

FZE

An FZE is a legal entity owned by a single shareholder, who can be either an individual or a corporate entity and a resident or non-resident of the UAE. Each Free Zone Authority has its own specific capital requirements for establishing an FZE, which can vary depending on the chosen Free Zone. The shareholder's liability is limited to the share capital invested in the FZE. FZEs are allowed to engage in a wide range of business activities in accordance with the rules and regulations of the respective Free Zone Authority.

FZCO

An FZCO is like an FZE, but it allows for multiple shareholders (partners) ranging from two to a maximum limit set by the Free Zone Authority. Like an FZE, an FZCO may have specific capital requirements set by the Free Zone Authority. The liability of each partner in an FZCO is limited to the amount of their share capital in the company. An FZCO can engage in various business activities as specified by the regulations of the Free Zone.

FREE ZONES

4. IMPORTING GOODS INTO A FREEZONE

A foreign company with a free zone subsidiary is allowed to export goods to the UAE or other countries. However, it is important to note that having the right to export goods does not automatically grant the right to import them. The ability to import goods depends on the consignee's license and permitted business activities. Goods in transit to and from free zones are not subject to customs duties in the UAE. Importers can secure temporary imports by providing a security deposit instead of paying customs duties. Goods in transit are not sealed or subjected to government control. Upon depositing the import duty, authorities issue an export certificate. They refund the deposit when importers provide valid evidence of export. If transit goods remain in the UAE, authorities do not repay the deposit but impose no additional duties or penalties.

LABOR & SOCIAL SECURITY LAW

1. LABOR LAW

The United Arab Emirates Federal Law No. 33 of 2021 governs the relationship between employers and employees in the UAE. This law replaces the previous UAE Labor Law and covers various aspects of employment to ensure workers' rights protection while defining employers' responsibilities.

The law applies to local and foreign employees, with certain exemptions for government employees, armed forces, police, security personnel, and domestic workers. However, free zones within the UAE may have regulations that complement or differ from federal law.

Employment Contracts

Employers in the UAE generally use a bilingual model contract provided by the Ministry of Labor and Social Affairs or the respective free zone authority for employment agreements. Although the law does not require it, documenting agreements with written contracts is advisable. The law no longer allows unlimited-term contracts. Parties must agree on a fixed term, and contracts automatically extend if both parties continue fulfilling their rights and obligations after the original contract expires.

Employers must comply with the law's provisions regarding fixed-term employment from February 1, 2023, to avoid fines for violations. During a probation period of up to six months, the employer or employee can terminate the contract at any time.

If either party terminates after the probation period, notice periods apply; failing to comply with them results in compensation for the remaining period.

LABOR & SOCIAL SECURITY LAW

Both employers and employees can terminate the employment contract, but there must be a valid reason, as outlined in the UAE Labor Law. Employees who disagree with the termination have the right to appeal to the Ministry of Labor. Foreign workers must obtain a work permit from the Ministry of Labor and Social Affairs to secure a residence visa, except for specific exceptions like remote work visas. Employing foreigners without the proper permits or visas is considered an offense.

Compliance Requirements

Non-compliance with labor and migration laws may lead to penalties, including fines and placement on a "blacklist" for employers that make it challenging to obtain future visas. The law sets the maximum working hours at 48 per week, with an 8-hour workday for a 6-day workweek. Employers apply exceptions in some instances, and during Ramadan, they reduce daily working hours by two hours for all employees.

Employers and employees must mutually agree on rest days, with at least one rest day per week. Private companies can align with the public sector's shift to Saturday and Sunday as non-working days. The new law introduces various work models, including part-time, temporary, flexible, remote work, and job sharing, with the potential for implementing a minimum wage in the future.

Employers must pay overtime at premium rates, and payroll must be processed through the Wages Protection System (WPS) to protect employees. Employees are entitled to 14 national holidays and 30 calendar days of mandatory paid leave after one year. Employers provide sick leave allowances, but only for a specified period. Employees may not receive sick leave for illnesses resulting from misconduct.

LABOR & SOCIAL SECURITY LAW

Dispute Resolution

The UAE has updated its employment law according to Federal Decree Law No. (20) of 2023, which emphasizes streamlining the dispute resolution process for enhanced efficiency. The Ministry of Human Resources and Emiratisation (MoHRE) plays a central role in facilitating fair and efficient resolution of employment-related disputes. MoHRE will issue a final judgment for claims below AED 50,000.00 or if parties fail to adhere to an amicable settlement. If either party is dissatisfied with the judgment, they can appeal to the Court of Appeals within fifteen working days, and its judgment will be considered final.

For disputes exceeding the threshold or falling out of MoHRE's jurisdiction, MoHRE will refer the dispute to the competent court, accompanied by a comprehensive memorandum detailing the essence of the dispute.

Claims can be filed within one year, starting from the date the right in question becomes due.

End-of-Service-Benefits (EOSB)

The United Arab Emirates (UAE) government has recently introduced a modern End of Service Benefits (EOSB) system, which offers a new approach to the conventional gratuity method for the private sector and free zone employees. Under this system, employers must make monthly contributions towards a savings and investment fund on behalf of their employees, which is a departure from traditional practices.

The EOSB system allows employees to choose from three investment options: risk-free, risk-based, and Sharia-compliant. The EOSB system will enable employees to tailor their investment strategy according to their preferences. Upon completion of their service period, employees can access their accumulated savings and returns.

LABOR & SOCIAL SECURITY LAW

The primary objective of this initiative is to create a cost-effective system for employers and to encourage talent retention by offering an attractive benefits program. Public sector employees are also encouraged to participate, demonstrating the government's commitment to financial stability for all citizens.

One of the most significant features of the EOSB system is that employee savings are protected, even during challenging economic times. Employers are required to make monthly contributions, ensuring a safeguarded portion of EOSB in case of financial difficulties.

2. ENSURING WELFARE AND SECURITY: SOCIAL PROTECTION GUIDELINES

In the United Arab Emirates (UAE), mandatory unemployment and pension insurance schemes are unavailable to foreign employees. These schemes are only available to UAE citizens. Likewise, there is no compulsory accident and disability insurance specifically for foreigners. However, obtaining such insurance to cover potential expenses resulting from work-related accidents is highly recommended. If an accident occurs, the employer is responsible for covering the employee's medical treatment, travel expenses, and rehabilitation costs and continuing to pay the employee's wages during their absence from work due to the accident.

Recently, the UAE has introduced a mandatory unemployment insurance scheme that provides financial support to all employees who lose their jobs unexpectedly. This scheme applies to both public and private sector employees, including Emirati citizens and foreign nationals residing in the UAE. Employees contribute to this scheme monthly, and the assistance provided amounts to 60 percent of the employee's basic salary for a limited period, with a maximum cap of AED 20,000.

LABOR & SOCIAL SECURITY LAW

Employers must ensure medical treatment for their employees. Some emirates meet this obligation by providing a basic "health card" that covers treatment in public hospitals. However, individuals should acquire additional private health insurance. Recognizing the need for an enhanced healthcare system, some emirates have taken steps to develop it. Employers must provide mandatory health insurance for their foreign employees; work permits can only be issued with this coverage. The employer is responsible for the full cost of the insurance, which must be obtained from a state-approved and certified company.

Overall, while there are no mandatory social security provisions for foreign employees in the UAE, individuals must consider personal insurance options to protect their well-being and mitigate financial risks in the event of unemployment or accidents.

TAX SYSTEM

The UAE has various types of taxes, including those for businesses, such as the most relevant Corporate Income Tax (CIT) and Value Added Tax (VAT). The CIT is a 9 % direct tax on the net adjusted profit exceeding a threshold of AED 375,000. VAT is a 5% indirect tax on the net amount of commercial transactions customers pay. Next to CIT and VAT is the Emirate Level Corporate Tax, which applies to businesses involved in natural resource extraction, with rates up to 55%. Excise Tax, an indirect tax, is levied on specific goods with potential health or environmental impact, such as carbonated drinks, tobacco products, and energy drinks.

1. CORPORATE INCOME TAX (CIT)

General Overview

The United Arab Emirates (UAE) have implemented a Corporate Tax (CIT) in 2023. The first reportable Period for the Financial Year started on June 1, 2023. The CIT is imposed on the net income of companies and businesses in each Emirate. The main objective of the CIT is to strengthen the UAE's position as a global business and investment hub, comply with international tax transparency standards, maintain competitiveness, and promote economic growth while attracting foreign investments.

The CIT rate in the UAE is 9% on the net income of businesses and commercial activities exceeding AED 375,000.00 within a financial period, unlike other countries like Germany and the USA, which have higher tax rates (over 30%) for distributing profits and retaining profits within legal entities.

Compliance with the CIT regime is essential; non-compliance can result in financial and administrative penalties. Businesses and individuals engaged in commercial activities must register for UAE CIT with the Federal Tax Authority (FTA) and obtain a Tax Registration Number. The FTA may register businesses for CIT automatically if they fail to do so voluntarily.



TAX SYSTEM

UAE businesses and individuals conducting commercial activities must file CIT returns for each financial period, with no requirement for provisional or advance filings or payments. The filing deadline is within 9 months of the end of a Tax Period, and CIT liability settlements should occur within the same timeframe. The FTA may request Financial Statements, particularly balance sheets, for review by the taxable person. Overall, the UAE's CIT framework aims to balance taxation with economic growth and international standards.

Permanent Establishment (PE)

In the UAE, a company's corporate tax residency is determined by economic substance rather than its place of incorporation. The effective management and control of a legal entity is crucial, aligning with global tax concepts.

To determine a company's place of management, key considerations include where key decisions are made, usually by the board, and other factors like controlling shareholders, delegated powers, and the residence of board members. The residency of board members is optional for effective management in the UAE. However, this scenario can lead to potential double taxation in both the UAE and the country of origin.

A non-resident with a permanent establishment (PE) in the UAE is subject to corporate income tax on any income attributable to that PE. The criteria for determining a permanent establishment include a fixed place in the UAE or the authority of representatives. However, certain exemptions are available for preparatory or auxiliary activities and specific scenarios involving independent agents or temporary exceptional presence. Combining activities from separate Pes can impact the tax implications for a cohesive business.

TAX SYSTEM

Taxation on Distributed Profits

Foreign distributed profits are subject to specific tax rules and exemptions, especially on dividends and distributions from foreign entities. A resident person's dividend is generally exempt from Corporate Income Tax (CIT), but only if the recipient holds a Participating Interest (PI) in the foreign company. The PI is subject to CIT in the country where it is resident, and this Tax must be at a rate of at least 9%. Ownership interests such as ordinary shares, preferred shares, and capital contributions are covered by relief provisions. However, the tax exemption for participation interest does not apply if the participation is entitled to a deduction for dividends or other distributions under foreign tax laws. These regulations aim to balance the taxation of distributed profits from foreign entities while ensuring compliance with applicable tax laws.

Deductible Expenses

Calculating taxable income involves deducting business expenses from revenue. However, not all expenses are deductible, and non-deductible ones are added back for tax purposes. For an expense to qualify for deduction, it must be solely for business purposes and not of a capital nature. This emphasizes operational expenses.

Interest expenditure is usually deductible, but there is a limitation when net interest expenditure exceeds AED 12,000,000 within a tax period. The deductible amount is the greater of 30% of EBITDA or AED 12,000,000. Any disallowed Net Interest Expenditure can be carried forward for up to 10 tax periods.

The General Interest Deduction Limitation Rule does not apply to banks, insurance providers, natural persons conducting business, and resident persons involved in qualifying infrastructure projects meeting specific criteria.

TAX SYSTEM

Transfer Pricing

Transfer Pricing refers to pricing goods, services, intangible assets, or loans between related parties. Transfer pricing aims to determine the fair and reasonable pricing for these transactions as if they were taking place between unrelated, independent parties (Arm's Length Principle). The primary aim is to prevent tax avoidance by ensuring that profits are appropriately allocated among different entities to reflect the economic substance of their activities.

Under the Corporate Tax Regime, taxable persons must maintain master and local files for transfer pricing documentation if they meet specific criteria. These criteria include being a Constituent Company of a Multinational Enterprises Group with a total consolidated group revenue of AED 3,150,000,000 or more in the relevant tax period or having revenue in the relevant tax period amounting to AED 200,000,000 or more. Additionally, the local file should include Related Parties and Connected Persons, such as Non-Resident Persons, Exempt Persons, Resident Persons opting for Small Business Relief, and Resident Persons with varying Corporate Tax rates.

Conversely, the local file should exclude transactions with other Resident Persons, natural persons acting independently, juridical persons in Unincorporated Partnerships, and Permanent Establishments of Non- non-resident persons subject to the same Corporate Tax rate. The decision clarifies that natural persons and a Non-Resident Person's Permanent Establishment can be considered acting independently if they engage in ordinary business activities and are not exclusively transacting with the Taxable Person.

If the FTA determines that the transfer pricing rules have not been complied with in a financial period, or if the audit shows that the exchanged services are below the arm's length price, the difference is added to the taxable income, which increases the taxpayer's tax burden.

TAX SYSTEM

Small Business Relief / Artificial Separation

Under the UAE Corporate Income Tax regime, eligible taxable persons, both natural and juridical, residing in the UAE can benefit from the Small Business Relief (SBR) if their revenue does not exceed AED 3,000,000 in a relevant tax period.

It's important to note that if the revenue surpasses this limit in any tax period, the eligibility for Small Business Relief is forfeited, even if the subsequent revenue falls below the AED 3,000,000 threshold. Small Business Relief offers two main categories of benefits: Administrative Relief and Tax Relief.

Administrative Relief

1. No Taxable Income Calculation Requirement SBR:
participants are not required to calculate their taxable income.
2. Simplified Filing and Record-Keeping:
The process of filing tax returns and maintaining records is simplified for those under the Small Business Relief.
3. Basis of Accounting:
Eligible entities have the flexibility to prepare financial statements using a basis of accounting that suits their needs.

TAX SYSTEM

Tax Relief

1. Exemption from Corporate Income Tax: Participants in the Small Business Relief are not obligated to pay Corporate Income Tax on the income earned during the tax period.
2. Election within Tax Return: Eligible taxable persons can opt for Small Business Relief within their tax return. Once this election is made, they can complete a simplified tax return and enjoy the associated relief measures.

It's important to note that attempting to artificially separate business entities intentionally to stay below each business' AED 3 million threshold is not allowed. The Federal Tax Authority considers this an artificial separation to gain a tax advantage. In such cases, the authority reserves the right to offset the tax liability of the concerned taxpayer.

TAX SYSTEM

2. VAT

The United Arab Emirates (UAE) began imposing the Value Added Tax (VAT) on January 1, 2018. This move was taken to diversify revenue sources and improve economic sustainability. VAT is a tax charged on goods and services, and its implementation marks a major change in the region's fiscal landscape.

Key Aspects of the UAE VAT

1. Standard Rate: The UAE has set the standard VAT rate at 5%, which applies to almost all goods and services. This rate is intended to balance revenue generation for the government and reduce the impact on businesses and consumers.
2. Taxable Entities: VAT in the UAE applies to a wide range of goods and services. Certain goods and services may be exempt or subject to a zero rate, and businesses must carefully determine the VAT treatment of their supplies to ensure compliance with the law.
3. Registration: If a business's supplies and imports exceed or are expected to exceed a threshold of AED 375,000 within 12 months, it must register for VAT with the Federal Tax Authority (FTA). Once registered, the business must comply with VAT regulations, maintain accurate records, and file regular VAT returns.
4. Input and Output VAT: Registered businesses engage in input and output VAT transactions. Input VAT is the Tax paid on purchases, while output VAT is the Tax collected on sales. After deducting input VAT from output VAT, the net result represents the payable or reclaimable VAT.

TAX SYSTEM

Reverse Charge Mechanism in the UAE

1. Import of Services: Under the Reverse Charge Mechanism, the recipient must account for VAT if a taxable person in the UAE receives services from a foreign supplier. This ensures that the VAT on imported services is properly reported and paid within the UAE tax framework.
2. Designated Goods: Certain goods in the UAE are designated for applying the Reverse Charge Mechanism. When a taxable person receives these designated goods, they assume the responsibility for reporting and paying the associated VAT.
3. Recipient's VAT Registration: To be subject to the Reverse Charge Mechanism, the recipient must be a registered VAT taxpayer in the UAE. Businesses may need to undergo the registration process to comply with their obligations if they still need to register.
4. Documentation and Reporting: Businesses under the Reverse Charge Mechanism must maintain accurate records and documentation to support the application of this mechanism. Proper reporting in VAT returns is essential to ensure transparency and compliance.

TAX SYSTEM

3. FREE ZONES UNDER THE UAE TAX REGULATIONS

UAE Free Zones have long been renowned for offering businesses attractive tax advantages and incentives. These zones provide a unique environment where companies can benefit from a zero percent corporate tax rate, subject to specific conditions and criteria.

Corporate Tax in Free Zones

Free Zones fall under the purview of corporate Tax (CT) and are obligated to register and file CT returns. However, a significant provision within the corporate tax law allows for a 0% CT rate on what is termed as "Qualifying Income" derived by a "Qualifying Free Zone Person" (QFZP). This favorable tax treatment is subject to certain conditions.

To be recognized as a QFZP, a Free Zone Person must meet specific requirements, including deriving Qualifying Income from relevant transactions, maintaining adequate substance in the UAE, and satisfying the de minimis requirements.

De Minimis Requirements:

- Non-Qualifying Revenue Limit: A maximum of AED 5,000,000 non-qualifying revenue in a Tax Period.
- Percentage of Total Revenue: Non-qualifying revenue should be at most 5% of total revenue for the Tax Period.
- Election Not to be Subject to Corporate Tax: Entities must not elect to be subject to Corporate Tax.
- Compliance with Transfer Pricing Rules: Adherence to Transfer Pricing Rules to prevent tax avoidance.
- Audited Financial Statements: Preparation and maintenance of audited Financial Statements.

TAX SYSTEM

Qualifying and Excluded Activities

Qualifying Income includes revenue from transactions with other Free Zone Persons, certain Non-Free Zone Persons for Qualifying Activities, and any other income meeting de minimis requirements. Qualifying Activities cover various sectors such as manufacturing, processing, shipping, reinsurance, wealth and investment management, fund management, headquarters services, treasury and financing services, and aircraft leasing.

Conversely, Excluded Activities that do not qualify for the 0% CT rate involve transactions with natural persons, certain financial activities subject to regulatory oversight, ownership or exploitation of UAE immovable property (except in Free Zones), ownership or exploitation of intellectual property assets, and ancillary activities.

VAT in Free Zones

VAT Incentives for Free Zone Persons:

Businesses operating within Free Zones are subject to specific VAT regulations. However, to attract foreign businesses UAE Free Zones offer VAT incentives for Free Zone persons, which include:

- **VAT Exemption on Goods and Services**

Free Zone entities engaged in certain activities, such as international trade and financial services, maybe eligible for VAT exemptions on specific goods and services.

TAX SYSTEM

- **Zero-Rated Supplies**

Some Free Zone businesses may benefit from zero-rated VAT on certain supplies, particularly those related to exports and international services.

- **VAT Refunds**

Free Zone businesses are often entitled to reclaim VAT paid on eligible expenses, further enhancing their financial competitiveness.

4. IMPORTATION AND CUSTOMS PROCEDURES

The rules and regulations for customs in the United Arab Emirates (UAE) are established by individual emirates, with general consistency across the nation. Importers engaging in international trade must follow specific procedures and provide necessary documentation for customs clearance.

Import Documentation and Application

When importing goods from foreign countries, importers must submit a bill of entry to the customs authority. This document serves as an application for an import permit and includes essential information about the imported goods, customs clearance details, and payment of customs duty. Supporting documents such as the bill of lading, air waybill, or certificate of origin must accompany the bill of entry. Certain items, including drugs, weapons, pesticides, or wireless devices, require a special import permit to comply with regulatory standards.

TAX SYSTEM

Customs Duty Payment and Exemption

Customs duty is payable when filing the customs declaration, and it can also be secured through a bank guarantee. Goods exempt from customs duty or not subject to it require a customs duty exemption certificate. Lists of duty-exempt items can be obtained from the Federal Agency for Foreign Trade, particularly in Abu Dhabi and Dubai.

Customs Duty Rates

The standard import duty in the UAE generally stands at 5%, in line with the minimum customs duty set by the Gulf Cooperation Council. However, duties for tobacco and alcohol range from 25 to 34 percent if applicable. Goods imported from other Gulf Cooperation Council member states enjoy duty-free status. Personal luggage for travel purposes, within reasonable volumes, is exempt from duty, as are trade samples and promotional materials intended for free distribution or offered at a nominal price.

Customs Clearance Process

The customs authority's stamp on the bill of entry signifies successful customs clearance, allowing the importer to bring the goods into the UAE. Importers can further validate compliant importation by obtaining a "landing certificate," evidence of the stamped bill of entry.

Refund and Release Mechanism

If imported goods undergo processing within the UAE and are subsequently exported or re-exported without additional processing, the customs duty paid or the security deposit provided is refunded. The bank guarantee is released through a "Custom Exit/Entry Certificate," issued upon (re)export of the goods, accompanied by the relevant bill of entry or landing certificate.

TAX SYSTEM

Importation into UAE Free Zone

While customs duty is not applicable within Free Zones, imported goods still undergo customs examination, except for transit goods promptly re-forwarded. Goods remaining within the free zone are declared through a special trade-free zone bill and are subject to customs inspection if later imported into the UAE territory, where customs duty is imposed upon importation.

YOUR Contacts at TME Legal Consultants!



Mr. Omar Sami
(Attorney at German Law)

Legal- & Tax Consultant

Mobile KSA: +966 (53) 4 77 42 89
Mobile UAE: +971 (52) 5 67 75 45
Email: omar@tme-legal.com



Mrs. Derya Bandak
(Attorney at German Law)

Legal- & Tax Consultant

Mobile KSA: +966 (53) 5 63 25 28
Mobile UAE : +971 (50) 2 40 05 02
Email: derya@tme-legal.com



Mr. Sebastian Luermann
(Attorney at German Law)

Legal Consultant

Mobile KSA: +966 (53) 4 77 42 89
Mobile UAE : +971 (50) 3 24 97 68
Email: sebastian@tme-legal.com