LESSONS FROM 2026

Updated Contingency Strategy for UAE Businesses – Legal & Tax

AHK Seminar 27.10.2026

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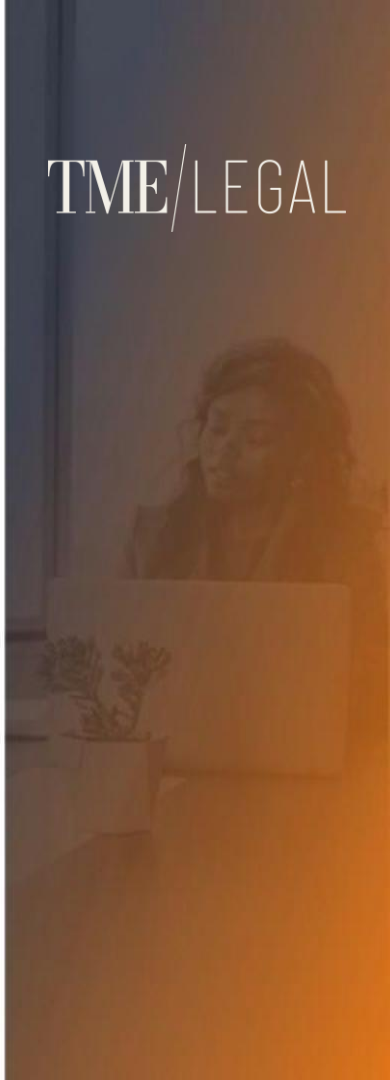


About us – TME Legal Consultants

TME Legal is a German boutique law and tax firm focused on cross-border advice between the DACH region and the GCC. We advise companies, shareholders and investors on all legal and tax matters arising from business activities in Germany and the Middle East.

Our advice is provided by lawyers and tax advisers admitted in Germany and in the respective jurisdictions. We combine local market knowledge with German quality standards and deliver integrated legal, tax and strategic solutions from a single source.

Our core practice areas include corporate law and structuring, tax law and international tax planning, transactions and due diligence, compliance, and ongoing advice to companies entering and expanding in the region. Our international experience and multilingual team ensure efficient processes, clear communication and robust results in complex cross-border mandates.



Our practice areas

Legal and tax advice from a single source – between Germany and the UAE

Legal advice

- General civil and commercial law
- Corporate law, M&A and restructuring
- Real estate, inheritance and succession planning
- Employment and data protection law (GDPR, UAE PDPL)
- Litigation and arbitration
- Dispute resolution in the UAE, KSA and Germany

Tax advice

- International tax planning Germany – UAE
- UAE corporate tax and VAT
- Exit taxation and CFC rules (German Foreign Tax Act)
- Tax structuring of real estate investments

COMPLEMENTARY SERVICES

Company Establishment

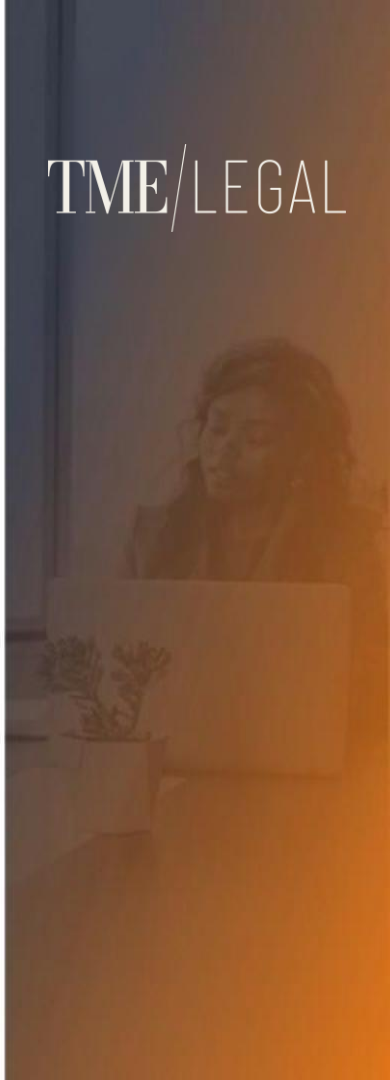
Mainland and free zone companies, licences, corporate secretarial

Compliance & accounting

Bookkeeping, financial statements, UBO, AML and regulatory obligations

Residence & visas

Residence and Golden Visas, Emirates ID for shareholders and families



Agenda

01 Looking back

02 KSA to UAE payments

03 Cost restructuring

04 HR and workforce

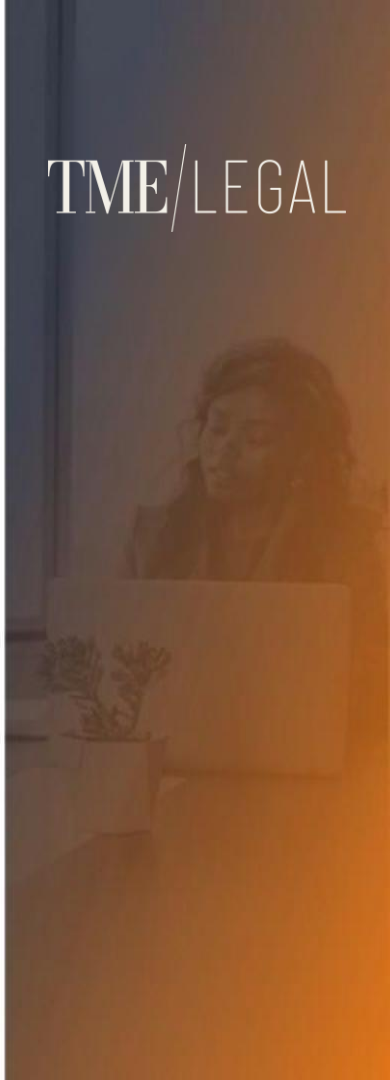
05 Contracts and legal risks

06 Tax

07 Compliance

08 Key takeaways

09 Discussion



01

Looking back



Timeline 2026

Late February

Escalation

Regional conflict with disruption of air traffic and shipping

March

Increased Costs and reduced demand

Higher energy, transport and insurance costs; tourism, hospitality and trade most affected; MOHRE recommendation on remote work.

Mid-May

Payments stall

Delayed, returned or blocked transfers from KSA to the UAE, still ongoing.

Today

Uncertain outlook

Easing cost pressure, but risk of renewed escalation remains.

Throughout 2026: Central Bank liquidity measures, Dubai relief package, bank hardship programmes for SMEs.

KSA-to-UAE payments since May 2026

- Transfers from Saudi banks to UAE accounts delayed, returned or blocked, often without explanation
- Where transfers go through, they often take 3 to 10 business days
- Additional documentation alone does not resolve the delays

Reactions

- Payments rerouted through third countries, for example Bahrain, or cash carried across the border
- Many waited and ran short of liquidity
- Receivables written off or carried as normal

TME/LEGAL

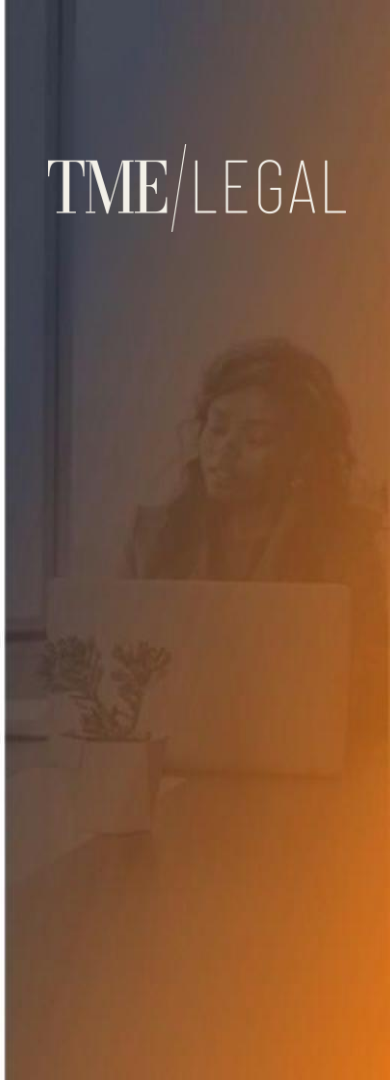
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KSA to UAE payments



Securing payments from Saudi Arabia

Topic	Typical error	Recommendation
Liquidity	No cash planning for delayed KSA payments	Six-month cash forecast with realistic payment delays, including VAT and corporate tax payments
Bank, auditor, lender	Payments rerouted without the bank's knowledge	Agree routes and documents with the bank in advance. Inform auditor and lender early.
New KSA contracts	No payment protection	Letters of credit, advance payments, agreed place of payment. Consider an alternative currency, e.g. USD or EUR.
Funds in KSA	Improvised workarounds	Use funds locally where costs arise in KSA, set-off only where legally permitted
KSA presence	Full dependence on cross-border transfers	Where volumes justify it, a KSA entity or branch so customers can pay locally
Tax	Payment routes and structures changed without a tax review	Check Saudi withholding tax, transfer pricing and permanent establishment risks before changing routes or structures



Payment structures and cost restructuring in 2026

Structures with significant legal risk

Structures considered by companies in 2026 to avoid payment delays, which banks, regulators and courts may treat as circumvention of the enhanced controls.

Structures

- Re-invoicing to disguise origin or destination
- Informal value transfer
- Netting arrangements designed to achieve indirectly what cannot be done directly
- Settlement in crypto assets

RISKS FOR THE COMPANY AND ITS MANAGEMENT

Criminal and regulatory: liability also personally for directors and finance staff

AML: exposure for the company and the banks involved

Licensing: risk to the UAE entity's licence

Banking: loss of bank relationships needed once payments normalise

Cost restructuring in 2026

Situation

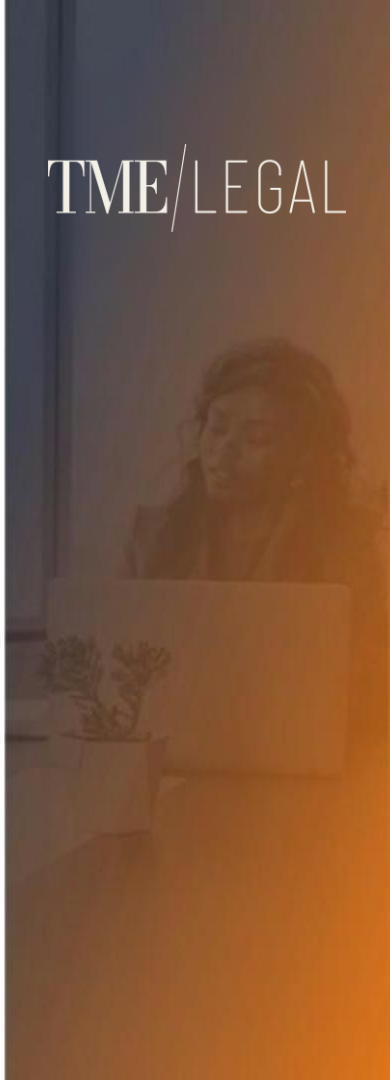
- Higher costs for energy, materials, transport and insurance
- Falling demand in tourism, hospitality and trade

Measures taken by companies

- Investments frozen, stock run down
- Prices raised
- Operations temporarily closed

Typical errors

- Payroll cut first, although it is the cost that is hardest to reduce lawfully
- State relief and bank programmes not used
- Leases and supplier contracts not renegotiated, although many counterparties were open to it
- Cuts made without checking legal and tax consequences



03

Cost restructuring



How to reduce costs lawfully

ORDER OF MEASURES

1

Suppliers, services, space

Negotiate first. Fastest saving with the lowest legal risk.

2

Leases and credit agreements

Use adjustment and break clauses. Free zone authorities are often landlord and regulator. Downsizing within the zone is usually negotiable.

3

Payroll

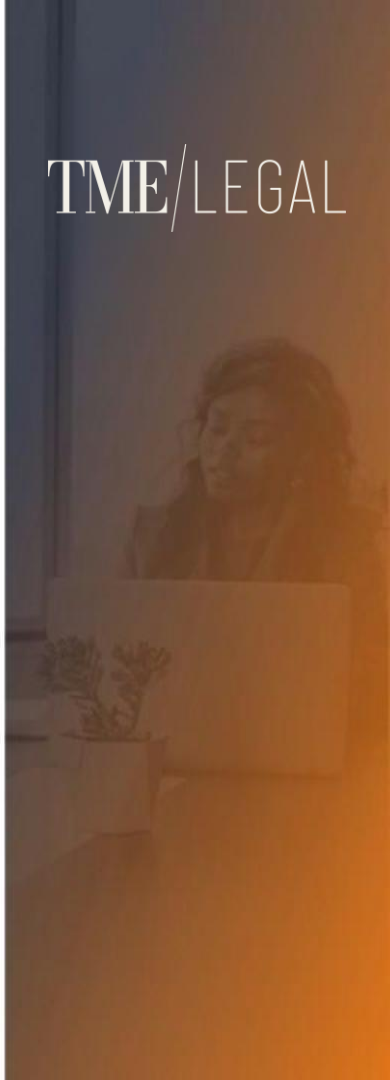
Only through a formal process. Document every step.

Support programmes

- Central Bank, Dubai and bank hardship programmes
- Keep contacts and eligibility criteria on file in order to apply quickly

TAX CHECK

In a free zone company, reducing headcount or office space can put the 0% corporate tax rate at risk (QFZP status).



04

HR and workforce



Crisis-related Measures by Employers

Employer measures of 2026 and their compatibility with UAE employment law

REMUNERATION

Unilateral reduction or deferral of salaries

WORKING HOURS AND SALARY

Reduction of working hours with a corresponding salary reduction

REMOTE WORK

Implementation of remote work without meeting statutory requirements

LEAVE

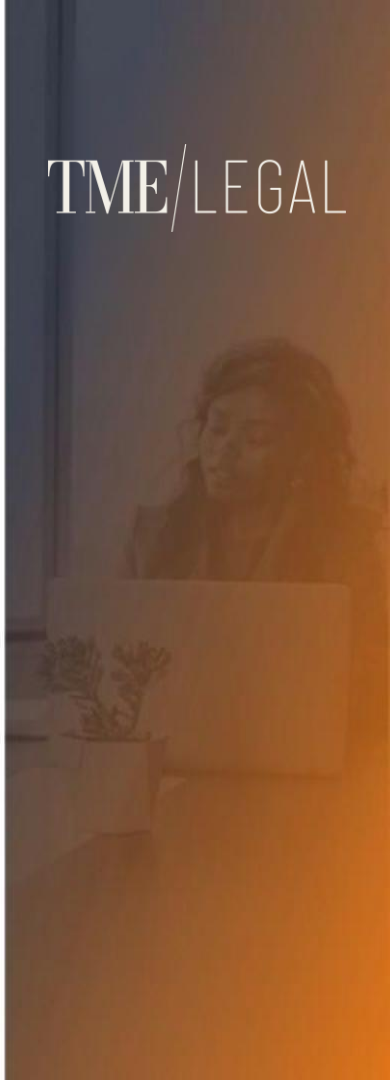
Unilateral determination of paid or unpaid leave by the employer

TERMINATION

Terminations disregarding notice periods and statutory requirements

EMERGENCY MEASURES

Reliance on emergency measures without a Cabinet declaration (Art. 36 Exec. Reg.)



The legal position

Remuneration

No unilateral reduction or deferral

- Remuneration is a contractual term: reduction requires the employee's written consent
- Contract amendment registered with MOHRE
- Salary Payment latest as of the first day of each month (WPS)

Working hours and salary reduction

Consent required

- Consent of both parties, settlement of entitlements and MOHRE procedure (Art. 10 No. 3 Exec. Reg.)
- Reduced basic salary lowers the End-of-Service Gratuity; no state short-time allowance
- Work-Pattern Change?

Remote work

Full remuneration

- Workplace: Work site agreed upon in the Employment Contract or upon to the Employer (Art. 1 LL)
- Requires the employer's approval but does not affect remuneration (Art. 17 No. 6 LL)
- Remote Work as work pattern: specific MOHRE-Contract (Art. 10 Exec. Reg.)

Leave

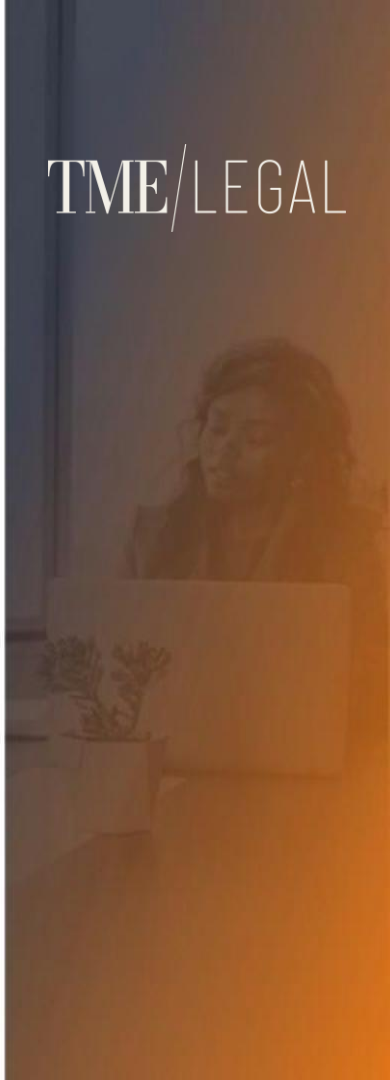
Not at short notice

- Employer determines dates of annual leave in accordance with Work requirements and agreement with worker
- Full Salary Payment
- Notification of the Employee not less than one month before the specific date (Art. 29 No. 4 LL)
- Unpaid leave suspends the main obligations of both parties: Consent of other Party (Art. 33)
- Unpaid leave duration shall not be counted within the service period for calculation of End-of-Service Gratuity (Art. 33 No. 2 LL)

Termination

Notice and full settlement

- Written notice of 30 to 90 days as per the Employment Contract
- Legitimate reason required? Legal Consequences?
- Dues payable within 14 days (End-of-Service)
- Cancellation of Work Permit and Visa
- **Legitimate reason required? Legal Consequences?**



Remote work from Germany

Key question: Employee's permanent residence and habitual place of work in Germany

EMPLOYMENT LAW

1 Choice of law
UAE law may be chosen
Art. 3, 8 Rome I

2 Favourability principle
Mandatory German law prevails where more favourable
Art. 8 No. 1, 2 Rome I

3 Overriding provisions
Minimum wage and working time apply in any event
Art. 9 Rome I

Subject	UAE law	German law	Applicable
Notice period	30 to 90 days (Art. 43 LL)	4 weeks to 7 months (§ 622 BGB)	**Longer period**
Form of termination	Written (Art. 43 LL)	Wet-ink signature (§ 623 BGB)	**German form, as a precaution**
Sick pay	15 days full, 30 days half pay (Art. 31 LL)	6 weeks full pay (§ 3 EFZG)	**German law**
Annual leave	30 days (Art. 29 LL)	20 working days (§ 3 BUrlG)	**UAE law**
Severance	End-of-service gratuity (Art. 51 LL)	No statutory severance	**UAE law**
Dismissal protection	No comparable protection	KSchG only with a German establishment	**German law**

SOCIAL SECURITY

- German social security from the first day of work in Germany (§ 3 SGB IV)
- No social security agreement with the UAE
- No posting exemption unless limited in advance (§ 5 SGB IV)
- Employer must register the employee and pay all contributions
- Appointment of **authorised recipient / Representative** in Germany upon request (§ 14 SGB X)

TME/LEGAL

Absence of employees from the UAE

Departure from the UAE does not in itself constitute a resignation or a breach of contract

Voluntary departure

With the employer's approval

- Remote work agreed: employment continues on unchanged terms with full remuneration (Art. 17 No. 6 LL)
- Approval may be withdrawn for the future, subject to a reasonable deadline to return

Without the employer's approval

- No implied resignation: a resignation requires written notice (Art. 43 LL)
- Absence without a legitimate reason for more than 7 consecutive or 20 non-consecutive days per year: summary dismissal following a written investigation (Art. 44 No. 8 LL)
- No remuneration for the period of unauthorised absence

Involuntary absence

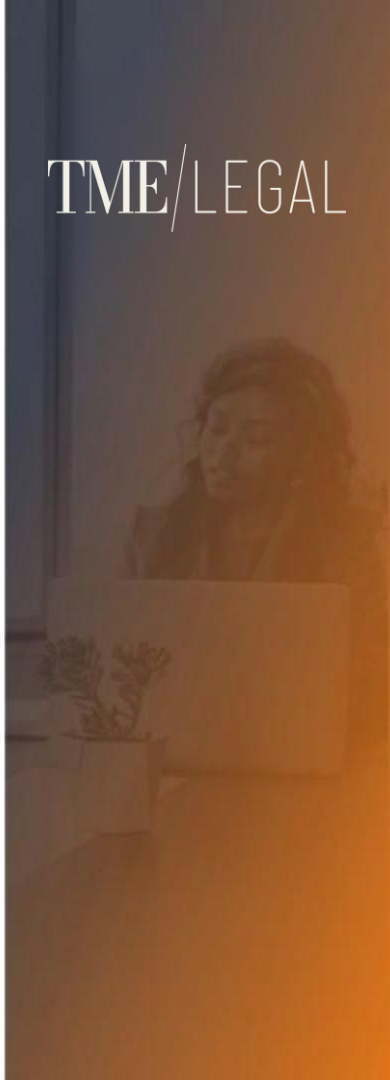
Return prevented

- Legitimate reason: closure of airspace, flight cancellations, entry restrictions or a concrete threat to safety
- No summary dismissal and no absence report (Art. 44 No. 8, 50 LL; Art. 28 Exec. Reg.)
- Remuneration due for remote work; otherwise paid or unpaid leave by agreement
- Justification ends once a return is reasonably possible; the employee must inform the employer and provide evidence

RECOMMENDED ACTION

1. **Classify and document each case**
2. **Written request to return, with a deadline**
3. **Monitor visa status (more than 180 days abroad)**

LL: Federal Decree-Law No. 33 of 2021 (Labour Law) · Exec. Reg.: Cabinet Resolution No. 1 of 2022 · DIFC and ADGM have separate employment laws



Measures in order of intensity

Measures should be applied in order of increasing intensity and only to the extent necessary- steps 1 to 4 are reversible while termination is final!

1

Remote work

Employer's approval

2

Annual leave

One month's notice

3

Reduced hours or unpaid leave

Written consent

4

Salary adjustment

Written consent and MOHRE registration

5

Termination

Notice and full settlement

Exception: Termination without Notice

Art. 44 No. 8 LL

GROUND

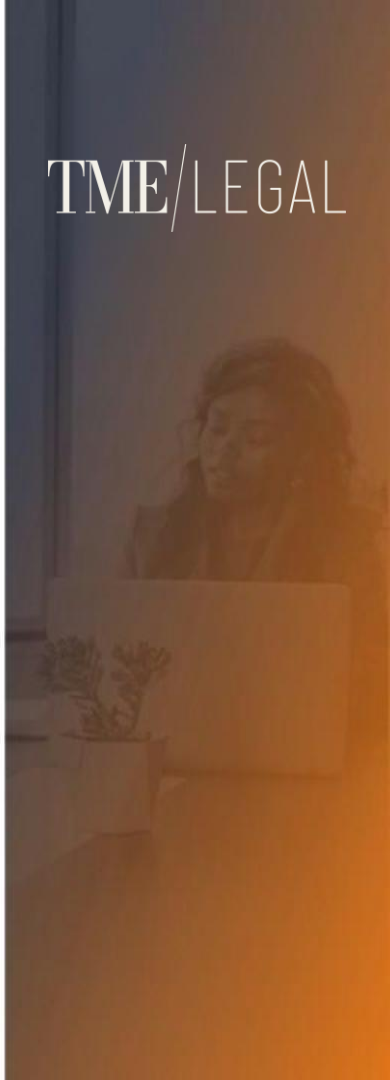
Absence without a legitimate reason or an excuse accepted by the employer for more than **7 consecutive** or **20 intermittent days** per year

NO GROUND

Legitimate reason, e.g. flight cancellations, closure of airspace or a concrete threat to safety

PROCEDURE

Prior **written investigation** and a reasoned written decision; gratuity remains due



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Contracts and legal risks



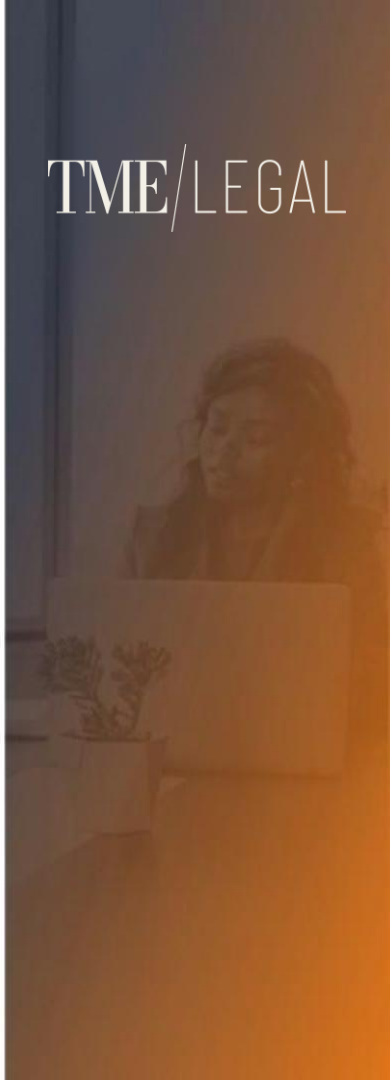
Force majeure and hardship

Errors in 2026

- Force majeure invoked where performance had only become more expensive
- An unjustified force majeure notice can itself be a breach of contract
- Force majeure clauses not checked before notices were sent, notice periods missed
- New contracts signed after February 2026 without risk allocation

	Force majeure	Hardship
UAE Mainland and most free zones. Civil Transactions Law (Federal Decree-Law No. 25 of 2025)	Art. 236: performance impossible. Obligation lapses, contract terminates. Partial impossibility: partial lapse or rescission by the court. Applies without a clause.	Art. 224: performance possible but excessively onerous due to exceptional, general and unforeseeable circumstances, threatening serious loss. The court may reduce the obligation or rescind. Cannot be excluded by agreement.
DIFC DIFC Contract Law	Art. 82: non-performance excused if caused by an unforeseeable impediment beyond the party's control. No automatic termination. Payment obligations not covered.	No hardship rule. No specific performance if unreasonably burdensome or expensive (Art. 84). The contract is not adjusted.
ADGM and English law	Only if agreed in the contract. Otherwise only the narrow doctrine of frustration.	No hardship doctrine. Relief only through a hardship clause in the contract.

New contracts: since February 2026 the conflict is foreseeable. Allocate the risk in the contract.



06 Tax



QFZP status: risks and protection

A Qualifying Free Zone Person (QFZP) pays 0% corporate tax on qualifying income instead of 9%, provided it meets the conditions of Art. 18 CT Law and Cabinet Decision No. 100 of 2023.

Status lost if one condition is not met

- Adequate substance in the free zone
- Qualifying income
- Non-qualifying revenue max. 5% of total revenue or AED 5 million, whichever is lower
- Transactions with group companies at market prices, with supporting documents (Art. 34, 55 CT Law)
- Audited financial statements
- No election for the standard rate

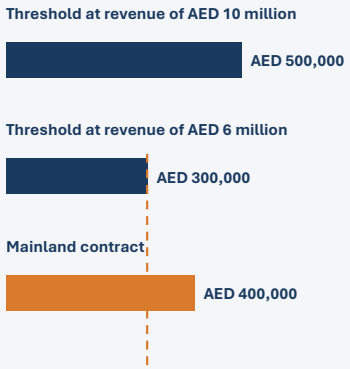
CONSEQUENCE

Status lost from the start of the tax period of the breach and for the following four tax periods.

9% on all taxable income above AED 375,000.

EXAMPLE

Revenue falls and new mainland customers are added. The threshold falls with the revenue.



Threshold exceeded: QFZP status lost for five tax periods

How to keep the status

- Monitor the de minimis threshold monthly, based on the reduced revenue
- Keep staff, premises and decisions in the free zone. QFZP check before any reduction
- Avoid managing directors abroad, or take decisions verifiably in the UAE
- Audited accounts and transfer pricing documentation on time
- Document substance continuously

TME/LEGAL

Risks of managing the company from Germany

Applies even to a temporary stay. Since 2022 there has been no double tax treaty between Germany and the UAE.

Tax

- Company managed from Germany: unlimited German corporate and trade tax liability (§ 10 AO, § 1 KStG)
- The managing director's home office can be a place of management (§ 12 AO)
- A person habitually conducting business for the company can trigger German tax liability (§ 13 AO)
- Moving management back to the UAE can be treated as a liquidation: taxation of all hidden reserves (§ 12(3) KStG). Exit taxation can also apply
- UAE residence visa may lapse after more than 180 days abroad (not Golden Visa). UAE tax residency certificate at risk

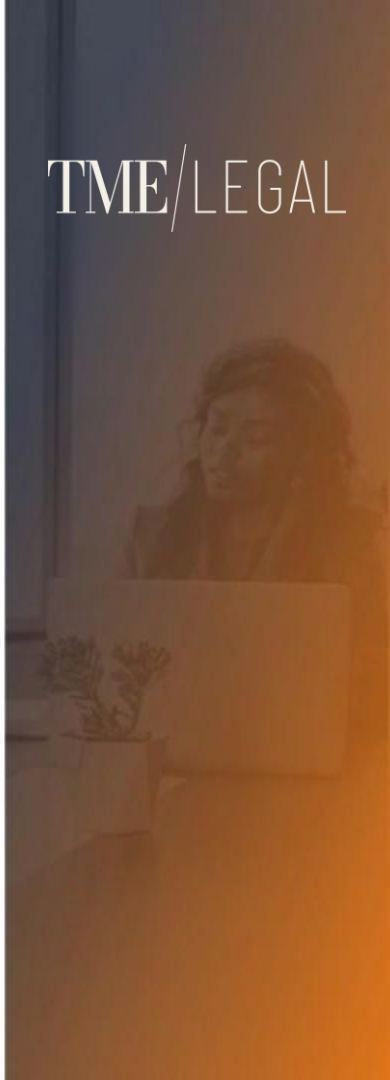
Social security and labour law

- Work performed in Germany: German social security applies (§ 3 SGB IV). No social security agreement with the UAE
- Exception (§ 5 SGB IV) only for a posting limited in advance. Leaving on one's own initiative because of the conflict is not a posting
- Managing directors: non-shareholder managing directors are usually insured. Shareholder-managing directors with at least 50% or a blocking minority usually not
- Work in Germany: the contract stays under UAE law if the stay is temporary, but German minimum standards apply: minimum wage, working time, leave, health and safety (Art. 8 Rome I, § 2 AEntG)
- Employees with a German employment contract: German dismissal protection may apply (KSchG). Notice of termination only in writing (§ 623 BGB)

RECOMMENDATION

- Take and document key decisions in the UAE: board meetings, signatures, approvals
- Limit stays in Germany, track days, and obtain a tax and social security review before relocating

TME/LEGAL



When does German tax liability arise?

Without a double tax treaty the German definitions apply. They are broader than treaty definitions and have no exception for crises.

Permanent establishment (§ 12 AO)

- Fixed place of business serving the company
- Intended for a certain duration: as a rule at least six months (case law)
- The company must have more than temporary power of disposal. An employee's home office usually not, unless the company rents or pays for it
- Place of management: the managing director's home can qualify (§ 12 sentence 2 no. 1 AO)

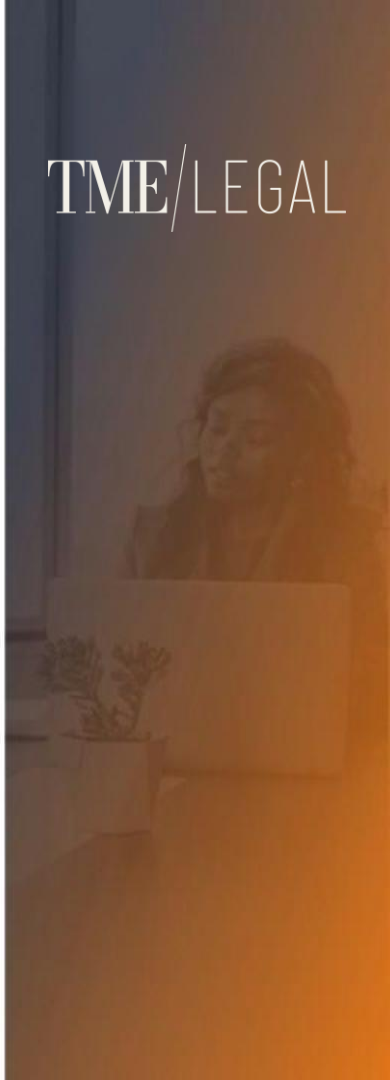
Permanent representative (§ 13 AO)

- Person who habitually conducts business for the company and follows its instructions
- Concludes or negotiates contracts, obtains orders, delivers from stock
- No authority to conclude contracts and no fixed place of business required
- No minimum period

CONSEQUENCES

Both trigger German corporate or income tax on the attributable profits and the obligation to withhold German wage tax (§ 38 EStG).

Trade tax applies only to a permanent establishment.



07

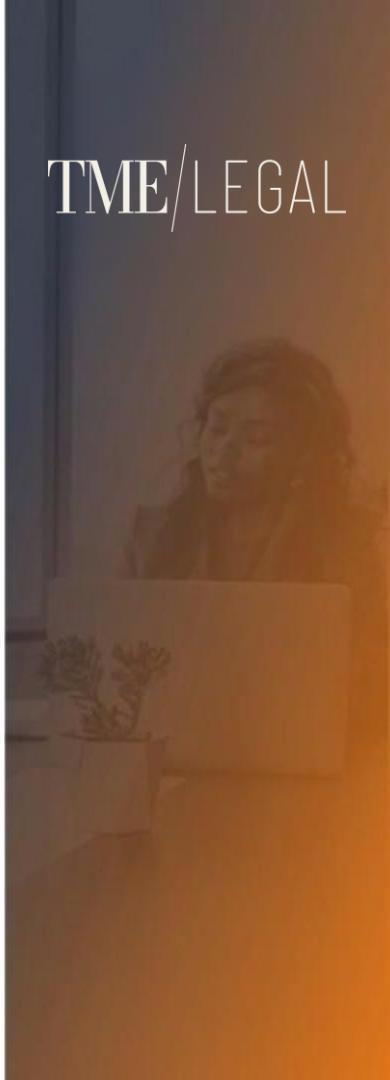
Compliance



Compliance obligations during the crisis

AML / CFT	• Obligations unchanged by trading conditions • DNFBP obligations continue where they apply • Compliance resources should not be reduced when unusual transactions increase
Sanctions screening	• New payment routes, intermediaries and counterparties require screening • Particularly relevant on the KSA-to-UAE corridor
UBO register	• The register of beneficial owners must be kept up to date • Changes must be reported to the registrar

In practice: assign one person responsible for the compliance calendar.



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Key takeaways



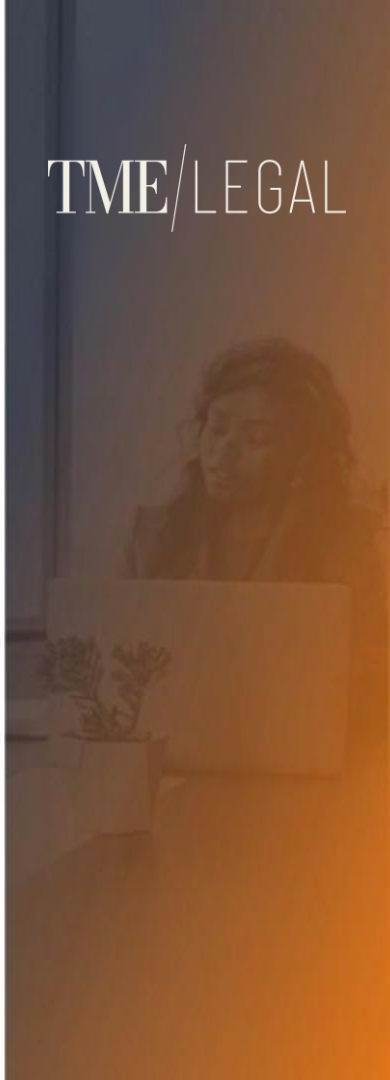
Planning new investments in an uncertain environment

RISKS

- The conflict may escalate again. The outlook remains uncertain
- KSA-to-UAE payments are still disrupted
- Costs can rise quickly: energy, transport, insurance
- Standard insurance often excludes war and political violence
- A loss of QFZP status binds for five tax periods
- Investors and buyers will review 2026 decisions in due diligence

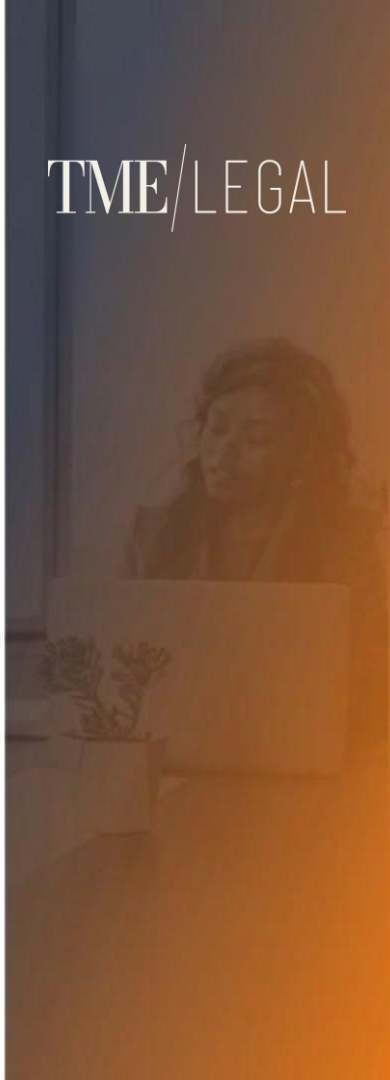
WHAT TO BUILD INTO NEW INVESTMENTS

1. Plan the business case with an escalation scenario
2. Crisis clauses in investment and supply contracts: price adjustment, payment routes, currency, suspension rights
3. Stage investments with decision points
4. Check insurance cover, including political violence
5. Choose the structure deliberately: free zone, mainland or KSA entity, with tax review
6. Keep a liquidity buffer



Key takeaways

Area	Typical errors in 2026	Recommendation
Payments	Payments rerouted without documentation	Plan liquidity with realistic delays. Agree payment routes with the bank and document them.
Costs	Payroll cut first, leases and supplier contracts not renegotiated	Renegotiate suppliers and leases first. Payroll last, through a formal process.
Payroll	Salaries cut or deferred by memo	Salary changes only with written consent, registered with MOHRE.
Workforce	Terminations without proper notice or final settlement	Prepare a step model. Termination as the last step, with notice and full settlement.
Workforce	Remote work abroad agreed informally	Remote work abroad only in writing, time-limited and with a prior tax review.
Contracts	Force majeure notices sent within days	Check force majeure and hardship before sending notices. Crisis clauses in new contracts.
Tax	Headcount and office cuts in a free zone company	QFZP check before any restructuring measure.
Tax	Restructurings without transfer pricing review	Adjust intra-group charges to the changed functions.
Compliance	Compliance resources reduced, filing deadlines missed	Keep AML, screening and filings running. Document key decisions at the time.



Discussion

Your experience from 2026

01 Which of these issues did your company face in 2026?

02 What worked, and what would you do differently next time?

03 Where do you see the greatest risk if the situation escalates again?

Questions on your specific situation are welcome after the session.

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