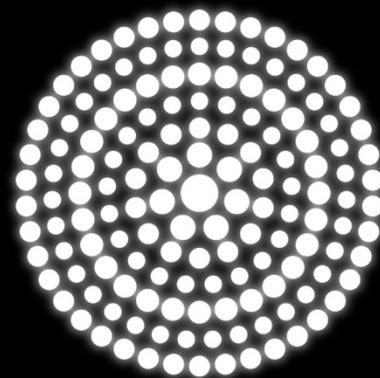


International Tax United Arab Emirates Highlights 2021

Updated January 2021



Recent developments

For the latest tax developments relating to the United Arab Emirates, see [Deloitte tax@hand](#).

Investment basics

Currency: United Arab Emirates Dirham (AED)

Foreign exchange control: There is no foreign exchange control.

Accounting principles/financial statements: IAS/IFRS. Financial statements generally are required to be prepared annually.

Principal business entities: These are the limited liability company, private/public joint stock company, branch, and representative office.

In the UAE, mainland foreign ownership restrictions apply and foreign investors generally may own only up to 49% of the shares in a UAE mainland-registered company; however, the shareholding may be increased to 100% in companies registered in one of the 40+ free trade zones.

Corporate taxation

Residence: Emirate-level income tax decrees (see “Basis” below) do not contain specific provisions relating to corporate tax residence, so there is no clear legal concept of corporate tax residence in the UAE. Nevertheless, the Ministry of Finance (MOF) issues tax residence certificates to companies that are incorporated in and managed from the UAE and meet the requirements of the MOF (e.g., at least one UAE resident director, a fixed place of business) and any relevant tax treaty.

Basis: Income tax decrees have been issued by five of the seven Emirates (i.e., Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain, Ras Al Khaimah, and Fujairah), but currently are not enforced on most businesses, resulting in no corporate taxation. However, oil and gas exploration and production companies are taxed, but usually under the specific terms of a concession agreement (or fiscal letter) signed with the government. The fiscal terms under such agreements generally supersede the provisions of the Emirati income tax decrees. Branches of foreign banks are subject to income tax under separate banking tax decrees in certain Emirates (e.g., Dubai, Abu Dhabi).

Taxable income: The applicable income tax decrees/concession agreements and banking tax decrees include basic deductibility rules that need to be taken into account when determining taxable income.

Rate: Oil and gas exploration and production companies are taxed at progressive rates of up to 55% under the applicable Emirate-level income tax decree, although in practice different rates may be agreed with the relevant authority under specific government concession agreements.

Branches of foreign banks are taxed at rates according to the banking tax decree of the Emirate in which they operate, generally at a flat rate of 20%.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: There is no tax on dividends.

Capital gains: Capital gains generally are not taxable, unless derived by a company that is subject to tax under an income tax decree/concession agreement or banking tax decree.

Losses: Companies subject to tax under the income tax decrees (subject to concession agreements) may carry forward losses indefinitely. Companies subject to tax under the banking tax decrees may carry forward losses for two years. The carryback of losses is not permitted.

Foreign tax relief: There is no foreign tax relief.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

Incentives: The UAE has established several free trade zones that offer benefits including: 15- to 50-year tax holidays (renewable), no restrictions on foreign ownership, no restrictions on capital and profit repatriation, and an exemption from import duties on goods brought into the zones.

Compliance for corporations

There are no significant tax compliance obligations for companies based in the UAE (except for companies subject to tax under income tax decrees/concession agreements or banking tax decrees).

Individual taxation

There are no tax laws that apply to individuals in the UAE and, as a result, no domestic concept of individual tax residence. Nevertheless, the MOF issues tax residence certificates to individuals who satisfy the requirements of the MOF (including physical presence in the UAE of more than 183 days within any 12-month period) and a relevant tax treaty, if appropriate.

Withholding tax

There are no withholding taxes in the UAE.

Anti-avoidance rules

Transfer pricing: There is currently no transfer pricing legislation in the UAE. However, on 30 April 2019, the UAE issued Cabinet of Ministers Resolution No. 32 of 2019 setting forth country-by-country reporting rules that are broadly in line with guidance issued by the OECD. The rules are effective for financial years commencing on or after 1 January 2019 and apply to multinational enterprise groups that are tax resident in the UAE and have annual consolidated revenues exceeding AED 3.15 billion in the preceding fiscal year.

Interest deduction limitations: There are no interest deduction limitation rules in the UAE.

Controlled foreign companies: There are no controlled foreign company rules in the UAE.

Hybrids: There are no anti-hybrid rules in the UAE.

Economic substance requirements: On 30 April 2019, the UAE issued the Cabinet of Ministers Resolution No. 31 of 2019 setting forth economic substance requirements for UAE entities (including companies and branches) licensed to carry out certain “relevant activities” in the UAE. Failure to adhere to these requirements could trigger penalties. The following nine activities are considered relevant activities: banking, insurance, fund management, financing and leasing, shipping, headquarters, holding company, intellectual property holding, and distribution and service center activities.

If such entities derive income from any of the relevant activities, they are required to comply with the following three economic substance tests, as well as certain reporting requirements: (1) the entity must be directed and managed in the UAE with regard to the relevant activity; (2) the entity must demonstrate that core income generating activities have been undertaken in the UAE with regard to the relevant activity; and (3) the entity must have an adequate number of qualified employees in the UAE, incur adequate expenditure in the UAE, and have an adequate physical presence in the country. A test with less stringent requirements applies for pure equity holding companies.

Disclosure requirements: Annual audited financial statements prepared on the basis of IFRS/IAS must be filed with the Ministry of Commerce by businesses located outside the free trade zones.

Entities located within a free trade zone report to the free trade zone authority for the relevant zone and generally are required to submit audited financial statements in accordance with IFRS/IAS annually. Some free trade zones do not require or do not enforce submission of annual audited financial statements.

Exit tax: There is no exit tax in the UAE.

General anti-avoidance rule: There is no general anti-avoidance rule in the UAE.

Value added tax

Rates	
Standard rate	5%
Reduced rate	0%

Taxable transactions: VAT applies on the supply of a broad base of goods and services, as well as the importation of goods, with some limited exceptions. It is overseen by the Federal Tax Authority (FTA).

Rates: The standard VAT rate is 5%; certain supplies of goods and services are zero-rated or exempt from VAT.

Registration: Registration is mandatory for taxable persons resident in the UAE whose taxable supplies exceed AED 375,000 in the previous 12 months (or are expected to exceed AED 375,000 within the next 30 days). A resident business

may register voluntarily if its taxable supplies exceed AED 187,500 in the previous 12 months (or are expected to exceed AED 187,500 within the next 30 days). No threshold applies to nonresidents that are required to register for VAT to remit any tax payable by them on supplies in the UAE.

Filing and payment: VAT returns generally are required on a monthly or quarterly basis depending on turnover, but the FTA may specify a longer or shorter period if it considers that to be appropriate. Returns must be filed electronically via the FTA portal by the 28th day (or the next business day if the 28th day falls on a weekend or national holiday) of the month following the end of the reporting period. Any VAT payable for the reporting period is due on the return filing date and payments generally are made online via the e-Dirham website.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals.

Social security contributions: Social security contributions are due only in respect of nationals of the Gulf Cooperation Council (GCC) countries (i.e., Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE). For UAE national employees, the employer and employee pension contribution rates are 12.5% and 5%, respectively, and contributions are based on the monthly contractual salary, including basic allowances, as agreed in the local employment contract. The contribution rates and bases for other GCC nationals vary, but broadly are in line with those for UAE nationals.

Under UAE labor law, non-GCC national employees are entitled to an end-of-service benefit (EOSB) if their employment contract is terminated after completion of at least one year of service. EOSB is payable by the employer and calculated as 21 days per year of basic wages for the first five years of employment, plus 30 days per year of basic wage for each additional year of service, subject to a maximum EOSB payment of two years' remuneration.

Payroll tax: There is no payroll tax.

Capital duty: There is no capital duty but limited registration/notary or attestation fees may apply.

Real property tax: There is no real property tax but limited registration/notary or attestation fees may apply. In the case of a residential rental, certain Emirates charge a municipality fee, which varies according to the Emirate in which the property is situated. For the Emirate of Dubai, a municipality fee of 5% is levied on the annual rental value of residential property and is included proportionally in the monthly utility bills (electricity and water) for the property.

Transfer tax: A transfer charge is levied on the direct and, in specific circumstances, indirect transfer of real property situated in the UAE (e.g., a transfer of shares in a company holding real estate situated in the UAE). The charge also is levied on partial transfers under certain circumstances.

The tax rate varies according to the Emirate in which the property is situated. For the Emirate of Dubai, the rate is 4%, borne equally by the buyer and the seller (although, in practice, the buyer generally is responsible for paying the transfer fee).

Stamp duty: There is no stamp duty, although free trade zones generally charge companies operating within the zone an administrative fee for a transfer of shares in other UAE companies.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax regime. In the absence of a registered will, inheritance is dealt with in accordance with Islamic Shari'a principles.

Other

Customs duties

Customs duty is payable on the importation of goods at the first point of entry into the GCC. In the UAE, rates are typically 0% or 5% depending on the goods' classification under the tariff, although higher rates may apply on a limited range of goods. Exemptions and suspension of customs duty are available in specified circumstances.

Excise tax

Excise tax is payable on the importation, manufacture, and stockpiling of excisable goods, which include carbonated beverages, sweetened beverages, energy drinks, tobacco, and tobacco products, such as electronic cigarettes and associated liquids and tools.

There are compliance and reporting requirements for importing, manufacturing, or stockpiling excisable products into the UAE. Additional compliance requirements exist for specified excisable products under the digital tax stamp regime.

Municipal taxes

Municipal taxes are imposed on certain hotel and leisure services and property rentals.

In the case of property rentals, certain Emirates charge a municipality fee on the annual rental value of the property, which varies according to the Emirate in which the property is situated. For the Emirate of Dubai, a municipality fee of 10% is levied on commercial properties. The fee is included proportionally in the monthly utility bills (electricity and water) for the property.

Tax treaties: The UAE has concluded 88 treaties. The OECD multilateral instrument (MLI) entered into force for the United Arab Emirates on 1 September 2019.

Tax authorities: Ministry of Finance, Federal Tax Authority, and General Pension and Social Security Authority

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