

**MI CAPITAL**

Comprehensive Financial Services

Handbook on  
**TAX & COMPLIANCES**  
**IN UAE**

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# MI CAPITAL

Comprehensive Financial Services

An Initiative by



**MIC  
TAX Services**

An Initiative of MI CAPITAL Services



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## FOREWORD

The United Arab Emirates (UAE) tax and compliance regime has undergone significant changes in the past few years, with the introduction of new laws and regulations designed to bring greater transparency and fairness to the tax and compliance system and laws. These changes have been welcomed by many but have also created confusion and uncertainty for businesses and individuals alike.

That's why we are proud to present this tax and compliance handbook, which aims to simplify the complex world of taxation in the UAE. Our company has a deep understanding of the UAE tax and compliance system and has worked tirelessly to create a comprehensive guide that covers all the key aspects of taxation as well as compliance, from corporate tax, VAT, excise tax to AML, ESR and UBO. Whether you're a business owner, an accountant, or an individual taxpayer, this handbook has everything you need to know to navigate the UAE tax landscape with confidence and ease.

We hope that this handbook will be a valuable resource for all those seeking to understand and comply with the UAE tax regime, and we are confident that it will help to demystify what can often be a confusing and overwhelming subject.



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- MI CAPITAL Services comprises of a team of experts who work together to serve clients on a broad range of advisory services including: Corporate Finance | Audit & Accounting | Tax and Compliance | Risk & Assurance | Debt and Equity Advisory | Investment Advisory | Valuations and Due Diligence | Company Formations | Banking & PRO Services | Startup Advisory and Funding.
- Our team has decades of combined experience and a track record of successfully delivering solutions in diversified market conditions. Our presence in the region and deep relationships with the eco-system allows us to provide our Clients with efficient business solutions across various industries and client segment.
- MI CAPITAL Services understands the challenges and the burden of additional Tax and Compliance for Startups, SMEs and MSMEs and strives to provide cost efficient one stop solution specially designed for Startups, SME and MSMEs in the region including complete Accounting, Tax return filing, and Other compliance requirements under one package.



## PREFACE

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- The tax system in the United Arab Emirates – or rather, the lack of taxes paid – is one of the main draws to the region for many expats. For instance, there is no income tax paid by employees, and no system for corporate and inheritance taxes, among others. Until January 2018, there was also no VAT. This tax on goods and services sold was introduced relatively low, at 5%. There's also an excise tax that is levied on specific products deemed by the government to be harmful to human health or the environment, such as energy drinks and tobacco.
- The United Arab Emirates (UAE) has a long-established reputation as a low tax jurisdiction attracting foreign investors. This is set to change with the introduction of a new corporate income tax (Corporate Tax) regime announced on 31 January 2022 by the Ministry of Finance.
- The new regime is set to apply to any financial years commencing after June 2023 and will impose a standard Corporate Tax rate of 9%. This tax rate will only be levied on any taxable profits over AED 375,000 with anything below that still benefiting from tax free status. Meanwhile, multinational companies earning more than €750 million in global revenues will be subject to a higher corporation tax rate of 15%.
- This significant change in the UAE's tax regime follows the introduction of 5% VAT paid on goods and services on 1 January 2018 under Federal Decree Law Number 8 of 2017. The latest update to the UAE's tax regime stems from the country's desire to align itself with new international standards after it signed up to a global minimum tax of 15% for multinational corporations in 2021, along with 135 other countries. The new corporate tax regime will also introduce more stringent corporate regulations, including requirements for companies to register for corporate tax purposes and file a corporate tax return for each financial period.

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## VALUE ADDED TAX

Indirect tax

Resent in more than 150 countries


Typically, VAT Tax Rate range from 5% to 25%


Consumption based Tax


Imposed on supply of Goods &amp; Service

Ultimate consumers

Charged on each step of the 'supply chain'


  
 Producer

  
 Manufacturer

  
 Consumer

### Books of Producer

Revenue	AED 100
Output VAT	AED 5
Input VAT	-
Net VAT Payable	AED 5

  
 Federal Tax Authority(UAE)

### Books of Manufacturer

Revenue	AED 160
Output VAT	AED 8
Input VAT	AED 5
Net VAT Payable	AED 3

Standard Rate of VAT @ 5%

Treatment of VAT on different types of supplies

VAT on Imports is payable on Reverse Charge Basis

Capital Asset Scheme



## OVERVIEW OF VAT

### ON WHAT...?

VAT is levied on any taxable supply of goods and services made by a taxable person in the course or furtherance of any business carried on by him.

- **Supply**

Supply usually mean anything done for consideration.

- **Taxable supply**

All goods and services supplied in a country will be taxable supplies unless specifically exempt or fall outside the scope of VAT.

- **Deemed Supply**

Free of cost supplies, supply not for business use.

- **Goods**

All types of physical property/assets including Capital assets, Tangible and intangible assets for long term use.

- **Services**

Any supply transaction which doesn't constitute supply of goods shall be considered as a supply of services.

- **Taxable Person**

Taxable person is one who meets the conditions of registration. Activity done in ordinary course of business.

- **Consideration**

Consideration is what is paid or payable under the contract, it may be monetary or non-monetary.

### PLACE OF SUPPLY

#### INSTALLATION AND ASSEMBLY

POS- State where it is performed

#### SERVICES

B2B- Recipient's residence

B2C- Supplier's residence

#### SUPPLY OF GOODS WITHIN THE STATE

POS : UAE

#### SUPPLY OF GOODS WITH EXIT AND RE-ENTRY INTO THE STATE

POS : Outside UAE

#### EXPORTS

Outside GCC (UAE)

Within GCC (Outside UAE)

### TIME OF SUPPLY

Point of taxation determines WHEN liability to pay VAT arises.

**It is earlier of**

1. Goods made available for sale or removed / Services Performed Or
2. Tax Invoice is issued Or
3. Consideration is received (partial or full)

### REGISTRATION FOR VAT

- **COMPULSORY VAT REGISTRATION**

**If last 12 months or next 30 days taxable supplies are more than AED 375000**

- **VOLUNTARY VAT REGISTRATION**

**If last 12 months or next 30 days taxable supplies are more than AED 375000**

- **CAN NOT OPT FOR VAT REGISTRATION**

**If last 12 months or next 30 days taxable supplies or taxable expenses are less than AED 187500**

## OVERVIEW OF VAT

### COMPLIANCE VAT REGISTRATION

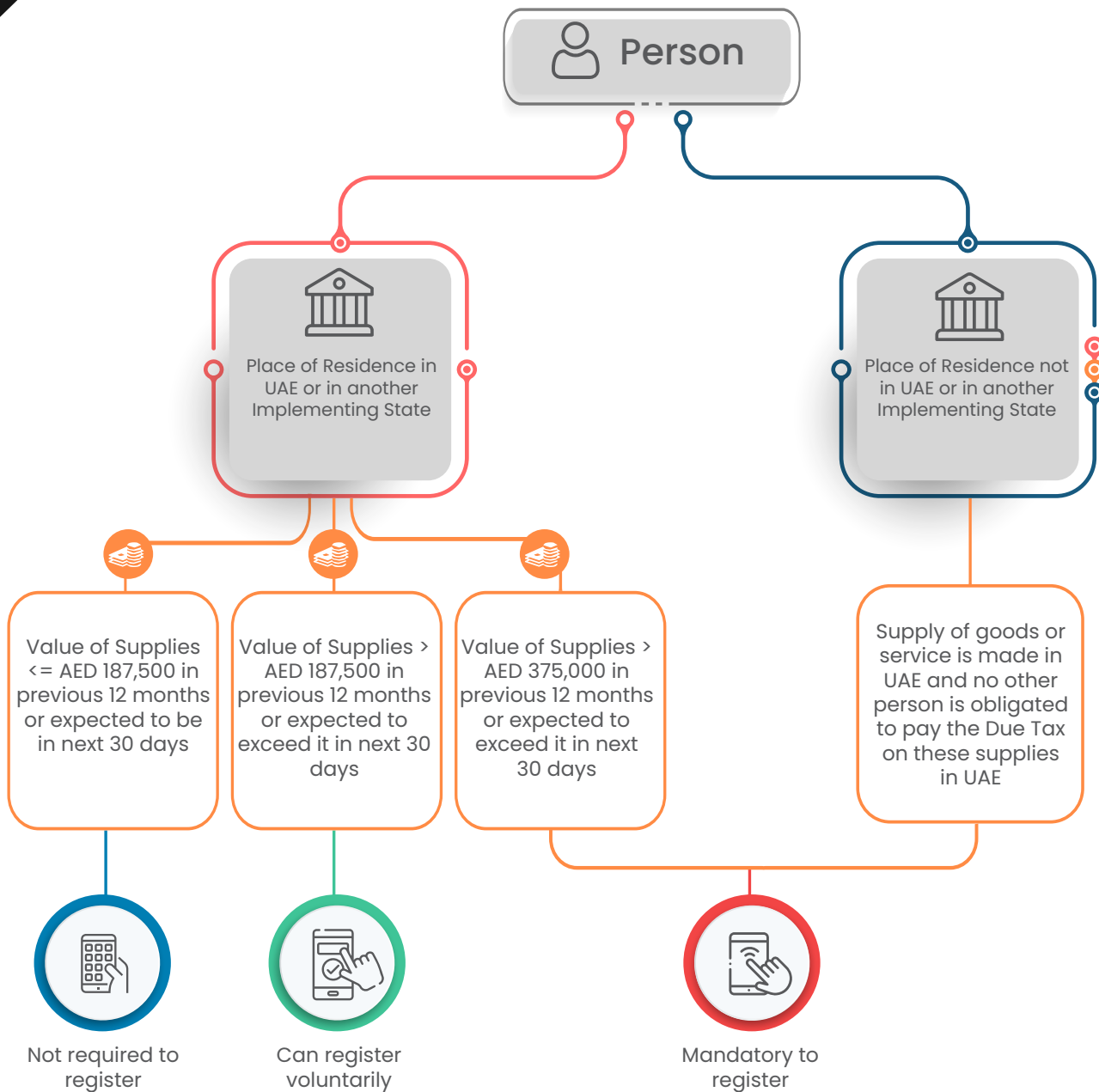
- 1) Copy of Trade License. (should not be expired);
- 2) Passport copy of the owner/manager who owns the trade license. (should not be expired);
- 3) Emirates ID copy of the owner/manager who owns the trade license. (should not be expired);
- 4) Contact Details of the company. (P.O Box and complete address such as building & area);
- 5) Memorandum of Association (MOA) – (not mandatory for sole establishments);
- 6) Concerned person's contact details. (Mobile Number, Designation, Email Address);
- 7) Bank Details of the company. (Must be company's bank account – Individual's bank account will not be accepted) – (Account Name, Account Number, IBAN, Bank Name, Branch Name);
- 8) Turnover declaration for the last 12 months. (should be signed and stamped by the owner of the company and must be printed on the company's letterhead);
- 9) Expected revenue & expense for next 30-days after getting the Tax Registration Number (TRN);

### COMPLIANCE RETURN FILING

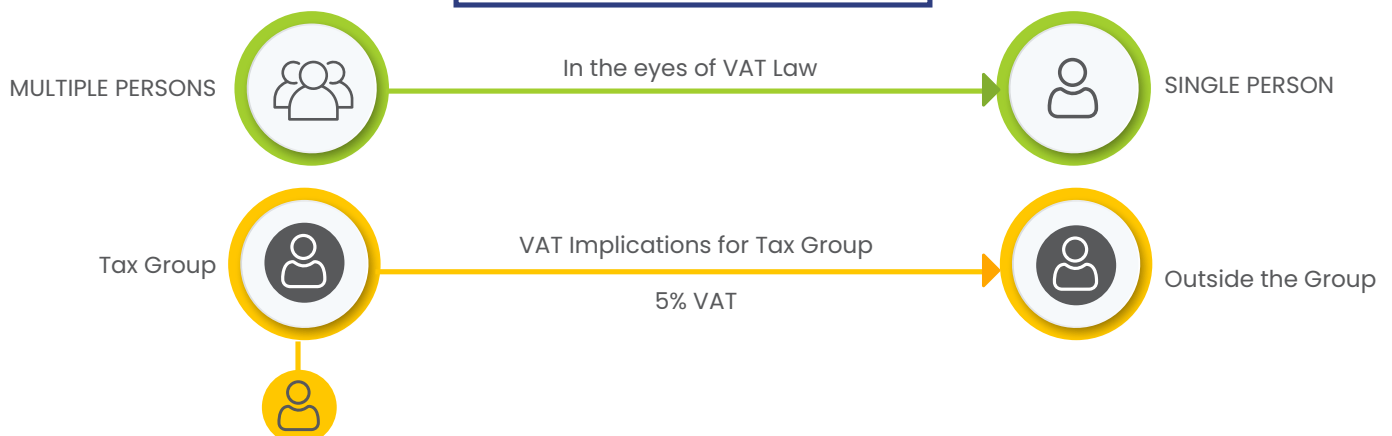
- 1) Every qualified business would have to file a return quarterly (or for a shorter period ('Tax Period' if authority decides so)
- 2) Prospective due date of filing: within 28 Days from end of the Quarter or tax Period
- 3) Preparation for return filling
- 4) Extraction of sales, purchase & expenses data
- 5) Calculation of Input Tax credit
- 6) Checking cut off date
- 7) Collating data in return format
- 8) Invoice and Credit notes sequence numbers
- 9) Reconciliation return data with book of accounts.
- 10) Supplies reported in the to return to be bifurcated into each emirate wise supplies
- 11) There may be some threshold of amount of error for which return needs to be revised or can be declared in subsequent return
- 12) Revision of Return provision would exists



## REGISTRATION

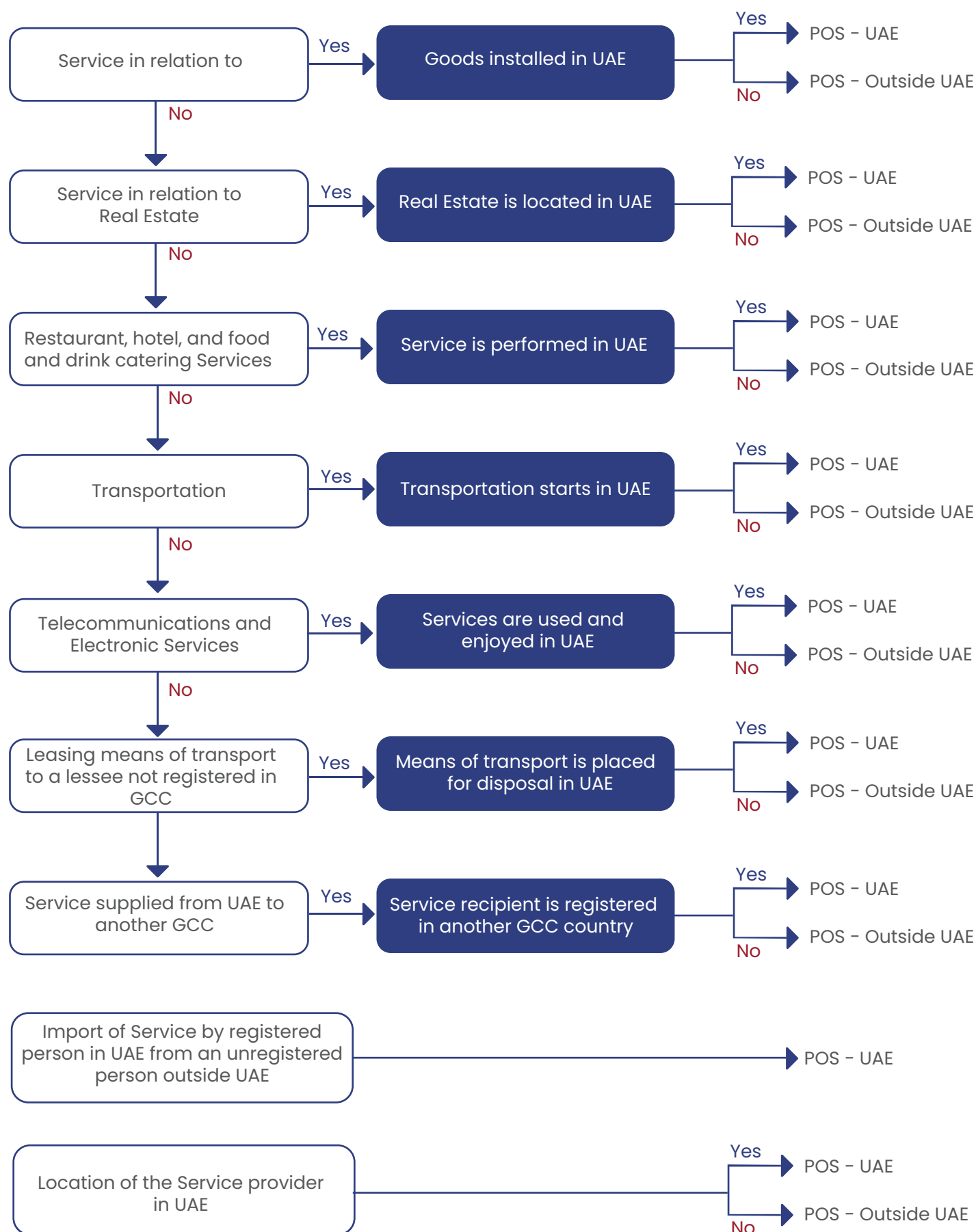


## TAX GROUP



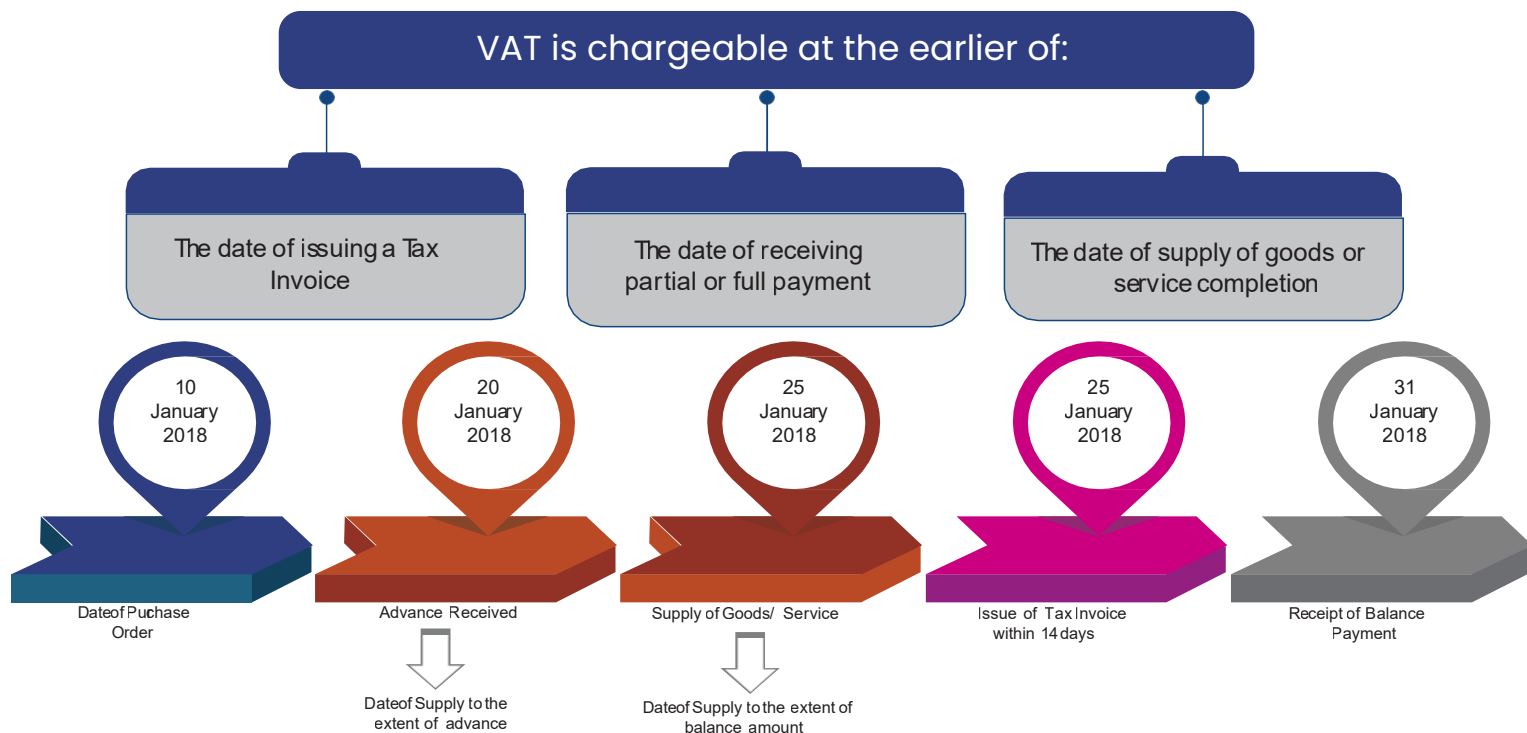


## PLACE OF SUPPLY

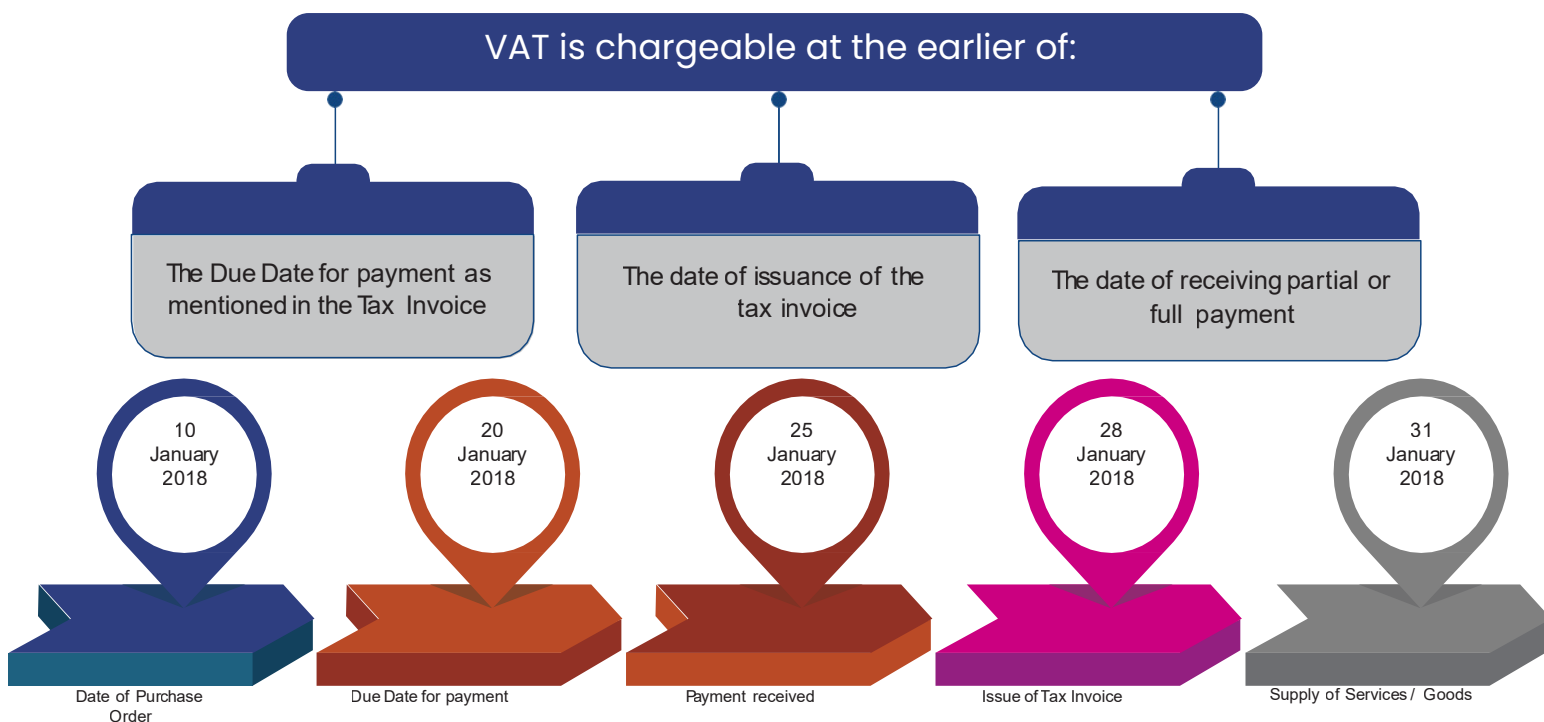


## TIME/DATE OF SUPPLY

### DATE OF SUPPLY – SINGLE SUPPLY



### DATE OF SUPPLY – CONTINUOUS SUPPLY



## TIME/DATE OF SUPPLY

### INPUT TAX CREDIT

- Recipient must be a taxable person and must be registered for VAT.
- Recipient must have received and retained a tax invoice evidencing the transaction
- VAT paid on the transactions is not specifically blocked from being recoverable as input tax.
- VAT on the purchase must have been correctly charged by the supplier
- The amount of VAT which the recipient seeks to recover must have been paid in whole or in part, or have been intended to be paid in whole or in part
- Reversal of recoverable input tax is required if the consideration is not paid to the supplier within six months after the agreed date of payment for the supply. However, it can be reclaimed to the extent the consideration is paid during the Tax Period in respect of such supply.
- The goods or services must have been acquired for an eligible purpose

### DEDUCTIONS OF INPUT TAX

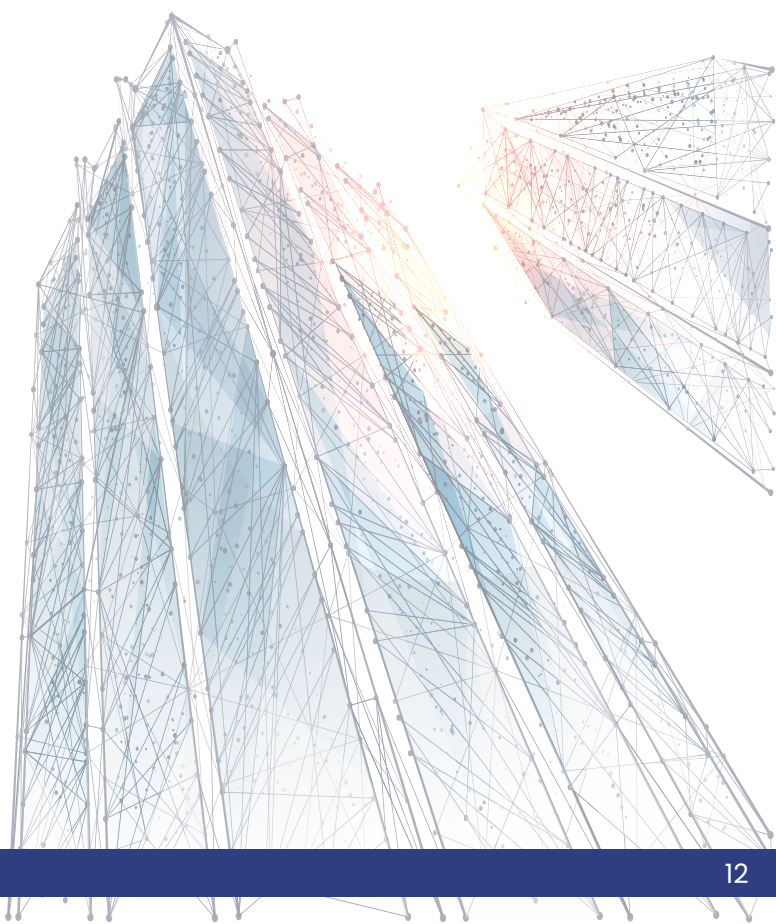
- 1) Deduct tax in relation to Taxable supplies
- 2) Deduction claimed on amount paid (before 6 months expiry)
- 3) Person paying tax on Reverse charge basis can deduct the tax
- 4) No deduction of VAT for: Not for economic activity, Prohibited items VAT Charged incorrectly
- 5) In UAE- Ratio of Input Tax recoverable to total
- 6) Adjustments in Input tax credit w.r.t reduction in value etc. shall be allowed
- 7) Tax Invoice or Custom document required as a proof of importer
- 8) If Goods/ services not supplied prior to reg. then tax may be deducted.

### THE EXPENSES ON WHICH INPUT VAT RECOVERY IS BLOCKED

- 1) Entertainment expenses
- 2) Motor vehicle used for personal purpose
- 3) Expenses incurred on exempt suppliers
- 4) Some employee related payments

### TIME FRAME TO CLAIM INPUT TAX

Upon receipt of a tax invoice, you can recover input tax only when an intention to make the payment within a prescribed period is formed. Hence, planned payment period is very important before you claim any input tax. Where a taxable person fails to make the payment of consideration before the expiration of **six months** after the agreed date of payment, the taxable person should reduce the input tax in the VAT Return of the tax period following the expiry of the six-months period. However, once the payment is made, the taxable person will again be entitled to recover the input tax.





## INPUT TAX

Recipient is a Taxable Person



No

Yes

VAT charged correctly  
by the supplier



No

Yes

Goods and Service acquired for supply of  
1) Taxable Goods / Service made in  
UAE and outside UAE  
2) Exempt Goods / Service made  
outside UAE



No

Yes

Recipient has received  
TAX INVOICE



No

Yes

Recipient makes / intends to make  
payment within six months of the  
agreed date of payment



No

Yes

VAT is not specifically  
Disallowed



No

Yes

**VAT RECOVERABLE**

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## INPUT TAX

### COMPLIANCE DOCUMENTATION

#### 1. Records to be maintained :

- |                                    |                                   |
|------------------------------------|-----------------------------------|
| ✓ Tax Invoices for purchases       | ✓ Contracts                       |
| ✓ Tax Invoices issued for sales    | ✓ Calculation of Input tax credit |
| ✓ Custom clearance documents       | ✓ Stock Records                   |
| ✓ Import of Services documentation | ✓ Evidence of VAT payment         |
| ✓ Vendor payment records           | ✓ Reconciliations of accounts     |
| ✓ Returns filled and back up data  |                                   |

#### 2. Maintenance of Records – Minimum 5 years

#### 3. Tax invoice needs to be issued by a registered business

#### 4. Special provision available for a taxable customer to issue a “self-invoice” with approval from the relevant tax authority provided that the taxable supplier consents.

#### 5. In Certain situation supplier may be able to issue a simplified tax invoice

### VAT RATES

- STANDARD RATE - 5%

Deduction of input VAT is allowed

- ZERO RATE - 0%

Deduction of input VAT is allowed

- EXEMPT

Specifically exempt

Deduction of input VAT is not allowed

Life Insurance, Interest/ Part of profits Sale and leasing of residential property, Bare land , Local passenger transport (Metro, Buses

### COMPLIANCE TAX INVOICE

A valid Tax invoice is required to capture the following :

- ✓ Customer Name and address
- ✓ Customer VAT Tin No.
- ✓ Mandatory to mention “ TAX INVOICE “
- ✓ Invoice should be serially numbered
- ✓ Date of issuance of invoice
- ✓ Companies VAT Tin No.
- ✓ VAT to be calculated on Net Consideration
- ✓ Amount to be converted into Local currency for VAT calculation.

### ZERO-RATED SUPPLIES

- ✓ A direct or indirect export to outside GCC
- ✓ International transportation of passengers and goods
- ✓ Supply of crude oil and natural gas
- ✓ Supply or import of investment precious metals
- ✓ Supply of Air , Sea & land transport for transportation of passengers and goods
- ✓ Residential building (within 3 years of completion) Buildings designed for charities
- ✓ Supply of education and related services for institution owned or funded by govt.
- ✓ Supply of preventive and basic
- ✓ Healthcare services and related goods and services

## TAX INVOICE

Customer A/C No.: 1234 Invoice Number: INV-001  
 Invoice Date:   
 Customer Name: XYZ Date of Supply:   
 Name of Supplier: Company name  
 Address: <<Customer address>> Address:   
 Emirate: Dubai TRN of Supplier: <<TRN of company>>  
 Country: UAE H.O / Branch name: <<H.O/ Branch name>>  
 TRN of customer: <<TRN of Customer>>

Sr. No.	Description of Goods/Service	Unit Price (AED)	Qty/ Volume	Value (AED)	Disco unit (AED)	Taxable Value (AED)	VAT Rate (%)	Amount (AED)	Total Value (AED)
1	XXXX	110.00	1	110.00	10.00	100.00	5	5.00	105.00
2	XXXX	20.00	1	20.00	0.00	20.00	5	1.00	21.00
Grand Total						120.00		6.00	126.00
Total Invoice Value				AED One Hundred Twenty-Six Only					126.00

For &lt;&lt;Company name&gt;&gt;

Authorised Signatory

## Note 1:

The amounts/ values in this document are expressed in "United Arab Emirates Dirham" (or "AED"), and the conversion rate from <<Currency as per the contract, such as USD, EURO>> to AED is taken as <<conversion rate>>, as approved by the Central Bank and prevailing at the date of supply.

## TAX CREDIT NOTE

Customer Account no.: 1234 Credit Note Number: CN-002  
 Customer Name: XYZ Credit Note Date: 10/10/2017  
 Address: <<>> Name of Supplier: <<Company name>>  
 City: Dubai Address: <<>>  
 Country: UAE TRN of Supplier: <<TRN of company>>  
 TRN of customer: <<TRN of Customer>> H.O / Branch name: <<H.O/ Branch name>>

Description	Amount in AED
Being amount refunded for return of goods/ services:	10,000.00
Previous Tax Invoice(s)/ Credit Note(s) details:	
Invoice/ Credit Note Number	Amount (in AED)
INV-001	10,000.00
Total Value of previous invoices	10,000.00
Corrected Value	0.00
Difference value (value of credit note)	(10,000.00)
Gross Total:	10,000.00
VAT @ 5%	500.00
Net Total:	10,500.00

(AED Ten Thousand Five Hundred Only)

For &lt;&lt;Company name&gt;&gt;

E &amp; O E

Authorised Signatory

## Note:

The amounts/ values in this document are expressed in "United Arab Emirates dirham" (or "AED"), and the conversion rate from <<Currency as per the contract, such as USD, EURO>> to AED is taken as <<conversion rate>>.

## What shall be included in the accounting and commercial records?

Accounting books in relation to the business, which include records of payments and receipts, purchases and sales, revenues and expenditure, and any business and any matters as required under any Tax law or any other applicable Law, including –

- Balance sheet and Profit and loss account
- Records of wages and salaries
- Records of fixed assets
- Inventory records and statements (including quantities and values) at the end of any relevant Tax Period and all records of stock-counts related to inventory
- statements

Additional records as may be required in the Tax Law and its Executive Regulations



## For how long shall the records be maintained?

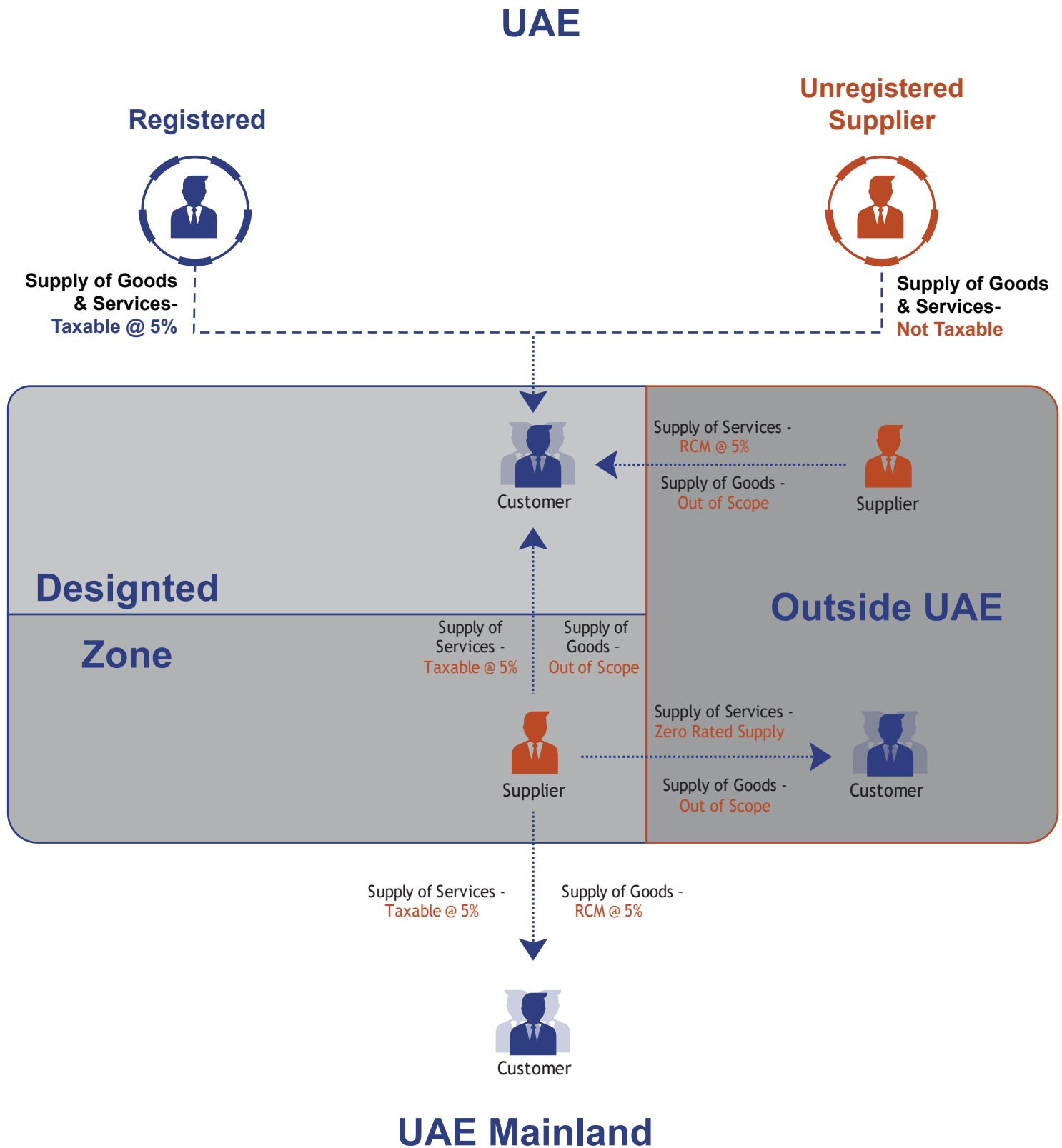
- The taxable person shall maintain the requisite records for the period of 15 years after the end of the Tax Period to which they relate.
- The non-taxable person shall maintain the records for the period of 5 years from the end of the calendar year in which the document concerned was created. E.g. The non-taxable person shall maintain the sales invoice raised in the month of January 2018 till 31 December 2023 and so on.
- The records related to real estate shall be maintained for the period of 15 years after the end of the Tax Period to which they relate.
- E.g. Any document related to supply of real estate in January 2018 shall be maintained 31 January 2033 for the person having monthly tax period and so on.
- Records related to capital assets shall be maintained for the period of 10 years.

**EXEMPT & ZERO-RATED SUPPLY**



## DESIGNATED ZONE

Designated Zone is a VAT free Zone which is considered to be outside the State of UAE for the purpose of VAT. As a result, on any transfer of goods between Designated Zones, VAT will not be levied



## LIST OF DESIGNATED ZONE IN UAE

Abu Dhabi	Dubai	Sharjah	Ajman	Umm Al Quwain	Ras Al Khaimah	Fujairah
Free Trade Zone of Khalifa Port	Jebel Ali Free Zone (North-South)	Hamriyah Free Zone	Ajman Free Zone	Umm Al Quwain Free Trade Zone in Ahmed Bin Rashid Port	RAK Free Trade Zone	Fujairah Free Zone
Abu Dhabi Airport Free Zone	Dubai Cars and Automotive Zone (DUCAMZ)	Sharjah Airport International Free Zone		Umm Al Quwain Free Trade Zone on Sheikh Mohammed Bin Zayed Road	RAK Maritime City Free Zone	FOIZ (Fujairah Oil Industry Zone)
Khalifa Industrial Zone	Dubai Textile City				RAK Airport Free Zone	
	Free Zone Area in Al Quoz					
	Free Zone Area in Al Qusais					
	Dubai Aviation City					
	Dubai Airport Free Zone					

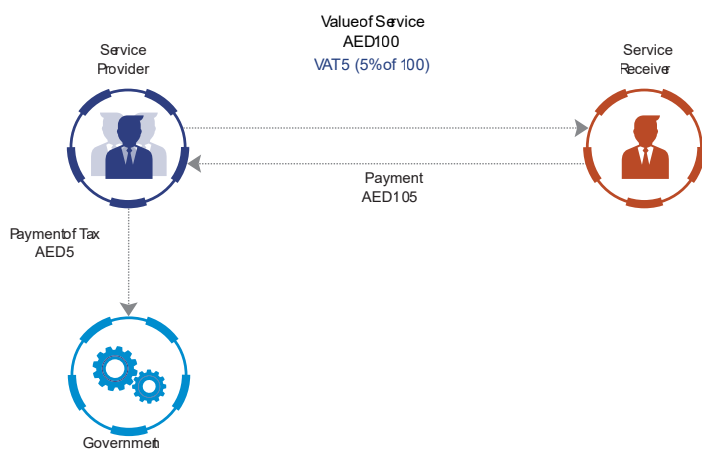
## VAT TREATMENT IN DESIGNATED ZONES

From	To	Goods Taxability	Services Taxability
Designated Zone	Designated Zone	Non-Taxable	Taxable at 5% VAT
Designated Zone	Mainland	Taxable at 5% VAT	Taxable at 5% VAT
Mainland	Designated Zone	Taxable at 5% VAT	Taxable at 5% VAT
Designated Zone	Oversea/GCC countries	Non-Taxable	Non-Taxable
Oversea/GCC countries	Designated Zone	Non-Taxable	Non-Taxable

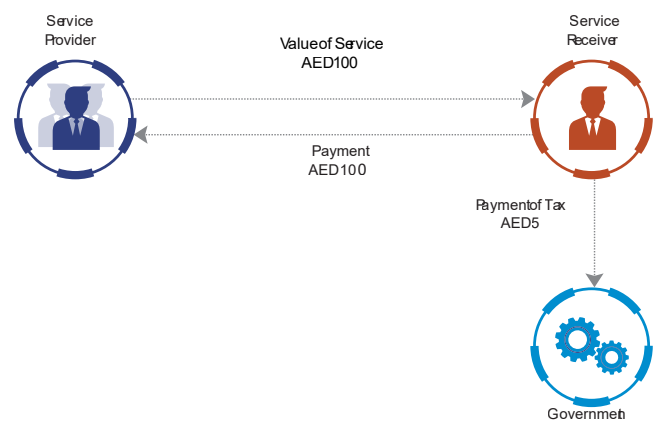
# IMPORT AND TAXABILITY UNDER REVERSE CHARGE

## REVERSE CHARGE MECHANISM

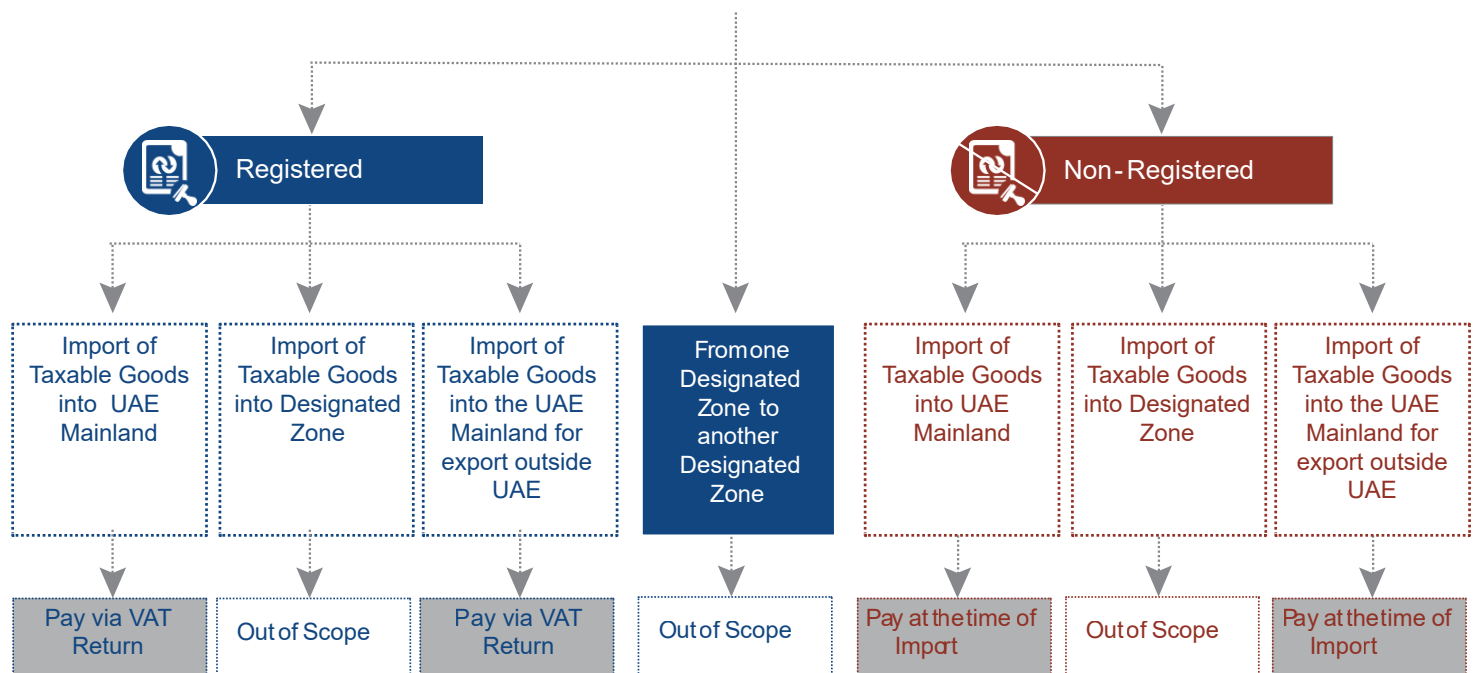
### Normal Transaction



### Import Transaction



## IMPORT





## IMPORT

### What is import?

The arrival of Goods from abroad into UAE or receipt of Services from outside UAE.

### What is Reverse Charge?

- Typically, VAT is liable to be charged by the supplier on supply of goods or services made by him.
- However, in the case of import of goods or services, the supplier is not registered in UAE and thus, the importer of such goods or services is made liable to account for VAT where he shall be deemed to have been making taxable supply to himself.
- As the liability for VAT is cast on receiver of goods or services, this is called a reverse charge

### Can input tax be recovered for the VAT paid under reverse charge?

- Typically, VAT is liable to be charged by the supplier on supply of goods or services made by him.
- However, in the case of import of goods or services, the supplier is not registered in UAE and thus, the importer of such goods or services is made liable to account for VAT where he shall be deemed to have been making taxable supply to himself.
- As the liability for VAT is cast on receiver of goods or services, this is called a reverse charge

### How to pay VAT under RCM?

- Payment of VAT can be done either through bank account (only in case of specific instances) or through an accounting entry.
- In the majority of the cases, the payment of VAT under reverse charge would be done through a book entry which will be merely a reporting requirement and there would not be any cash flow impact (if eligible for full input tax).

### When to account/pay VAT under RCM?

- Accounting/payment of VAT under RCM should be done as per the Date of Supply.

### What is the procedure to import Goods by VAT registered importers?

- Registered importers can import Goods directly or through Forwarding & Clearing Agents ('C&F').
- Below is the brief process to be followed where taxable Goods are directly imported into UAE mainland:
  - > Update VAT Tax Registration Number ('TRN') with Customs Authorities.
  - > Prepare and submit the Customs Declaration for processing by Customs.
  - > Login into the FTA portal and submit 'VAT301 – Import Declaration Form for VAT Payment'. Upon submission of this form, payment of VAT under RCM can be done through bank account or as part of VAT Return.
- Below is the brief process to be followed where taxable Goods are imported into UAE mainland through C&F:
  - > C&F will submit the customs declaration using importer's TRN
  - > Importer to pay VAT due at the timing of filing VAT Return.

### What is the place of supply for import of goods or services?

- Place of supply for import of goods or services is within UAE.



**EXPORTS**

## EXPORTS

### What is considered as exports under VAT?

Goods departing UAE or the provision of services to a person whose place of establishment or fixed establishment is outside UAE are considered exports under VAT.

### What are the different types of exports under the Decree Law?

Export of goods is bifurcated into two categories viz., direct export and indirect export.

- Direct export is an export of goods to a destination outside of the implementing States, where the supplier is responsible for arranging transport or appointing an agent to do so on his behalf.
- Indirect export is an export of goods to a destination outside of the implementing States, where the overseas customer is responsible for arranging the collection of the goods from the supplier in the State and who exports the goods himself or has appointed an agent to do so on his behalf.

### What are the documents required in the case of export of goods?

- Any export of goods shall be supported by 'official evidence' and 'commercial evidence'.
- Official evidence means export documents issued by the local Emirate Customs Department in respect of goods leaving the State.
- Commercial evidence includes any of the following:
  - > Airway bill
  - > Bill of lading
  - > Consignment note
  - > Certificate of shipment
- The above evidences shall identify the supplier, the consignor and the goods.

### What are the implementing States currently under the Decree Law?

- Currently, no State in GCC has been considered as an implementing State under the Decree Law. Such deferment is until the introduction of Electronic Services System in all GCC member States.
- Hence, any supply from/to any implementing State (e.g. KSA) shall be treated at par with outside GCC countries (e.g. UK).





## VAT RETURNS & PAYMENT OF VAT



Deadline for the submission of returns & receipt of tax by FTA:

**28<sup>th</sup> day of the month**

Subsequent to tax period



How to apply:

**Electronically**

Through the FTA portal

[eservices.Tax.Gov.Ae](https://eservices.tax.gov.ae)



METHODS OF PAYING DUE TAX:

- E-dirham cards
- E-debit
- Transfer via GIBAN

## 4 STEPS TO SUBMIT A VAT RETURN

# 01

Login to the FTA eServices portal and go to the 'VAT' tab whereby you will be able to access your VAT Returns. From this screen you should click on the option **"VAT 201 – New VAT Return"**

### Complete the Form:

Fill in the following details:

- The sales and all other outputs as well as expenses and all other inputs as follows:
  1. The net amounts excluding VAT.
  2. The VAT amount.
- The system will then calculate the payable or refundable tax.

# 02

# 03

**Submit the Form:** carefully review all of the information entered on the form after completing all mandatory fields and confirming the declaration. Once you confirm that all of the information included in the VAT Return is correct, click on the Submit button.

# 04

Settle the payable VAT (if applicable) through "My Payments" tab. Ensure payment deadlines are met.

For further information, please visit the Federal Tax Authority website [www.tax.gov.ae](http://www.tax.gov.ae)

## VAT RETURNS & PAYMENT OF VAT

### What is the due date for filing VAT returns and payment of VAT?

The taxable person shall file the VAT return on or before the 28th day of the month following the tax period concerned and the payment of VAT shall be made before

### Shall the VAT return be submitted online or manually?

VAT return shall be submitted online through VAT tab available after logging into FTA e-services portal. The taxable person would be required to fill in the required details and submit the return along with payment of tax.

### What is tax period for filing VAT return?

- Tax period is a specific period for which the payable tax shall be calculated and paid.
- The standard Tax Period applicable to a Taxable Person shall be a period of three calendar months ending on the date that the FTA determines. The FTA may, at its discretion, assign a different Tax Period, other than the standard one, to a certain group of Taxable Persons (e.g. in some cases businesses may be required to file monthly VAT returns)

### Illustrations of tax period and the due date

Tax Period	Due Date for filing VAT Return
1 January 2018 to 31 January 2018	28th February 2018
1 January 2018 to 31 March 2018	28th April 2018



### What details shall be submitted in the VAT return

- The name, address and TRN of the Registrant
- The Tax Period to which the Tax Return relates
- The date of submission
- The value of Taxable Supplies made by the Person in the Tax Period and the Output Tax charged
- The value of Taxable Supplies subject to the zero-rate made by the Person in the Tax Period
- The value of the Exempt Supplies made by the Person in the Tax Period
- The value of any Supplies subject to clauses (1) and (3) of Article (48) of the Decree law
- The value of expenses incurred in respect of which the Person seeks to recover Input Tax and the amount of recoverable tax
- The Total value of Due Tax and Recoverable Tax for the Tax Period
- The Payable Tax for the Tax Period

### What are the different modes for payment of tax?

- Payment via e-dirham or credit card (visa and master card only) - to be done through e-dirham payment gateway. A payment using an e-Dirham card will typically incur a charge of AED 3, while a payment using a credit card will typically incur a charge between 2% - 3% of the total payment amount.
- Payment via e-debit – to be done through 'pay via bank' and 'e-Debit' tab on payment gateway
- Payment via GIBAN - A GIBAN is a unique IBAN number that is given to every taxable person. A taxable person can make a fund transfer from certain UAE financial institution using the GIBAN provided by the FTA. This should be done directly through fund transfer/ domestic transfer section of tax payer's online banking portal.

## VAT REFUND

### WHAT IS A REFUND?

When the input tax is greater than the output tax on a VAT return, the taxpayer can request a VAT refund after filing their VAT return.

### TIMELINE FOR REFUNDS

When a taxpayer submits a claim for refund, the FTA will process and review the application within 20 business days of submission. The taxpayer will be notified regarding the FTA's decision to accept or reject the claim. If the process exceeds the timeline of 20 days, the FTA will notify the taxpayer regarding the extension of the deadline.

### Submitting a refund claim:

- Log in to the FTA's e-Services portal.
- Go to the VAT tab, then the VAT Refunds tab, and access the form by clicking VAT refund request.
- Complete the form. Some of the fields are pre-populated using the details from your account. Make sure that the details you've entered are correct, then submit the form by clicking 'Submit'.
- After you submit the form, you will receive an email from the FTA to notify you of the result of your refund application. Once the claim is approved, the refund will be processed within 5 business days.
- You can verify the refund amount by checking your balance from the My Payment tab under the Transaction History section in the e-Services portal.





## VAT DE-REGISTRATION

### What is VAT Deregistration?

VAT deregistration in UAE allows a taxable person or a business to cancel their VAT registration and suspend their Tax Registration Number (TRN). FTA VAT Deregistration is an online process.

### Timeline for refunds

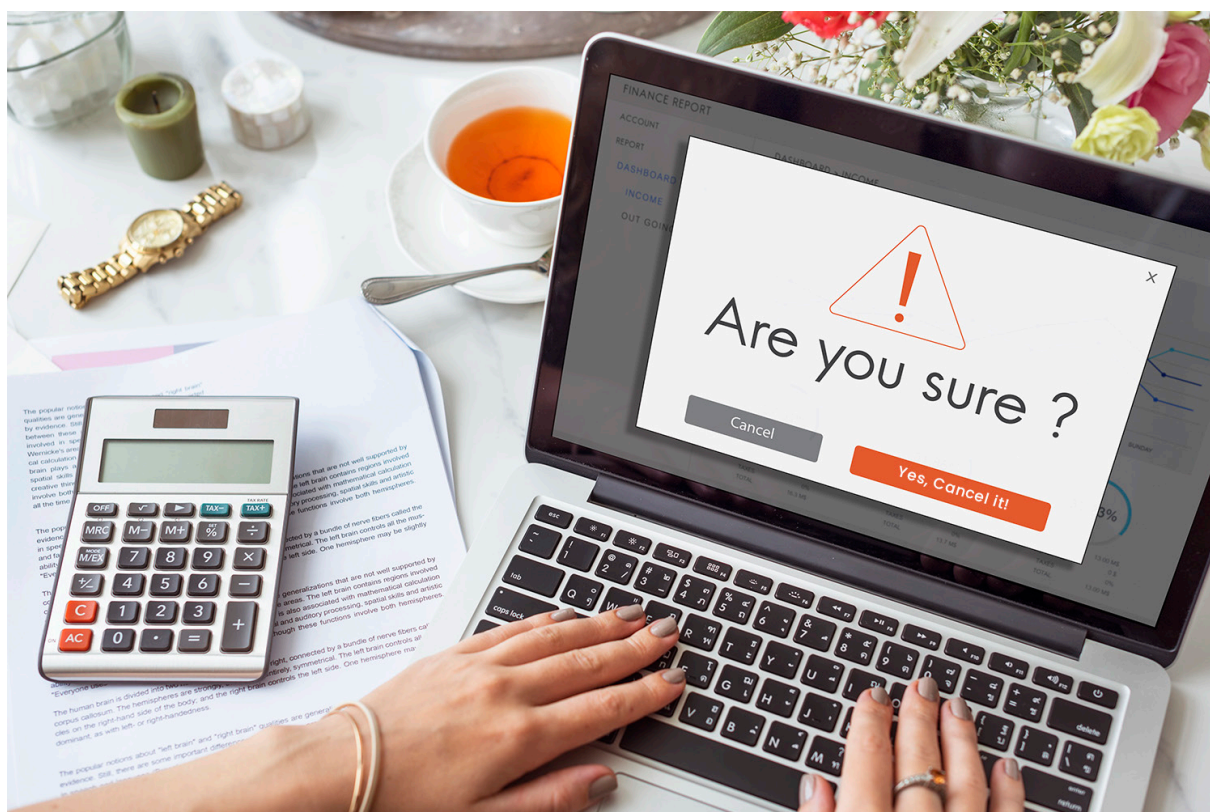
When a taxpayer submits a claim for refund, the FTA will process and review the application within 20 business days of submission. The taxpayer will be notified regarding the FTA's decision to accept or reject the claim. If the process exceeds the timeline of 20 days, the FTA will notify the taxpayer regarding the extension of the deadline.

### Who must de-register for UAE VAT

A business or a person registered under VAT can only apply for VAT Deregistration in the following circumstances:

- If the business or a person stops making taxable supplies and does not expect to make any taxable supplies over the next 12-month period, then they must apply for VAT Deregistration.
- If the business or a person is still making taxable supplies but the value in the preceding 12 calendar months is less than the Voluntary Registration Threshold (AED 187,500) then they must apply for VAT Deregistration.
- If the business or a person is still making taxable supplies but the value in the previous 12 months was less than the Mandatory Registration Threshold (AED 375,000) and 12 months have passed since the date of registration if you were registered voluntarily then you may apply for VAT Deregistration.

**Note that a person who has voluntarily registered under VAT cannot apply for de-registration in the 12 months following the date of registration. Late VAT Deregistration fine will be AED 10,000.**





# LEGAL PENALTIES





## REVISED FTA VAT FINES AND PENALTIES IN UAE

### Previous Penalty

### New Penalty

#### 1. Late VAT Registration penalty

➤ AED 20,000

➤ AED 10,000

#### 2. Late VAT De-registration penalty

➤ AED 10,000

➤ AED 1,000 in case of delay, and on the same date monthly thereafter, up to a maximum of 10,000.

#### 3. Late VAT return filing penalty

➤ AED 1,000 for the first time and AED 2,000 in case of repetition within 24 months.

➤ AED 1,000 for the first time and AED 2,000 in case of repetition within 24 months. (Not amended)

#### 4. Late VAT payment penalty

➤

- 2% of the unpaid tax is due immediately.
- 4% is due on the seventh day following the deadline for payment.

1% daily penalty will be charged on any amount that is still unpaid one calendar month after the deadline for payment, up to a maximum of 300%.

➤

- 2% of the unpaid tax is due immediately.
- 4% monthly penalty is due after one month from the due date of payment, and on the same date monthly thereafter, on the unsettled Tax amount to

#### 5. Submission of Incorrect tax return by the registrant

➤ AED 3,000 for the first time and AED 5,000 in case of repetition.

➤ AED 1,000 for the first time and AED 2,000 in case of repetition.

#### 6. Failure of the business maintaining proper books of accounts (Accounting and Bookkeeping)

➤ AED 10,000 for the first time and AED 50,000 in case of repetition.

➤ AED 10,000 for the first time and AED 20,000 in case of repetition.

#### 7. Failure in submitting the data, records and documents related to Tax in Arabic to Authority when requested

➤ AED 20,000

➤ AED 20,000 (Not change)

## REVISED FTA VAT FINES & PENALTIES IN UAE

### Previous Penalty

### New Penalty

#### 8. Failure to inform the Authority of any circumstance that requires the amendment of the information pertaining to its Tax record kept by Authority

➤ AED 5,000 for the first time and AED 15,000 in case of repetition.

➤ AED 5,000 for the first time and AED 10,000 in case of repetition.

#### 9. Failure of the Legal Representative of the Taxable Person to inform the Authority of its appointment as Legal Representative within the specified timeframe, in which case the Penalties will be due from the Legal Representative's own funds

➤ AED 20,000

➤ AED 10,000

#### 10. Submission of a VAT Voluntary Disclosure by Taxpayer on mistakes in the Tax Return or refund application

➤ AED 3,000 for the first time and AED 5,000 in case of repetition.

➤ AED 1,000 for the first time and AED 2,000 in case of repetition.

#### 11. Failure of the Person conducting Business to facilitate the work of the Tax Auditor

➤ AED 20,000

➤ AED 20,000 (No change)

#### 12. Person not accounting for any Tax that may be due on the import of goods as per the Tax Law

➤ 50% of unpaid or undeclared Tax

➤ 50% of unpaid or undeclared Tax (No change)

#### 13. Failure to show prices on tax invoice inclusive of tax.

➤ AED 15,000

➤ AED 15,000 (No change)

#### 14. Failure to inform FTA of applying tax based on the margin.

➤ AED 2,500

➤ AED 2,500 (No change)



**REVISED FTA VAT FINES & PENALTIES IN UAE****Previous Penalty****New Penalty****15. Failure to comply with conditions & procedures related to the transfer of goods in designated zones.**

- The penalty will be the higher of AED 50,000 or 50% of the tax, if any, unpaid on the goods as the result of the violation. (No change)

**16. Failure to issue a tax invoice or alternative document when making any supply.**

- AED 5,000 for each missing tax invoice or alternative document.
- AED 5,000 for each missing tax invoice or alternative document. (No change)

**17. Failure to issue a tax credit note or alternative document.**

- AED 5,000 for each missing tax credit note or alternative document.
- AED 5,000 for each missing tax credit note or alternative document. (No change)

**18. Failure to follow the conditions regarding the issuance of electronic tax invoices and tax credit notes.**

- AED 5,000 for each incorrect document.
- AED 5,000 for each incorrect document. (No change)



# UAE EXCISE TAX





# TABLE OF CONTENT

- INTRODUCTION
- EXCISE TAX ON DESIGNATED ZONE
- FEATURES
- EXCISE GOODS
- RATES OF EXCISE TAX
- TIME LIMIT FOR REGISTRATION
- FILING RETURN AND PAYMENT



## EXCISE TAX

### WHAT IS EXCISE TAX?

Excise tax was introduced across the UAE in 2017. Excise tax is a form of indirect tax levied on specific goods which are typically **harmful to human health or the environment**. These goods are referred to as “excise goods”.

### Excise Tax on designated zone

Goods held in the designated zones and the transfer between them will not be subject to Excise tax. The tax will be only imposed when these goods leave the designated zone and enter free circulation in the UAE. The FTA takes the responsibility to register and approve an area to be a designated zone. FTA will also appoint warehouse keepers for particular zones, and thus they will be in-charge over that zone.

### What are the main features of excise tax?

- Excise Tax is a tax on consumption.
- Excise Tax is levied on specific goods only.
- It is a single - phased tax, levied once at import or at production stage within the country.
- It is collected by businesses on behalf of the Tax Authority.
- Excise tax is reported on a self - assessment basis, i.e. businesses submit Excise Tax returns periodically to the Tax Authority.

As a consumption tax, Excise Tax is ultimately borne by the final consumers, but collected earlier in the supply chain. Importers, manufacturers and in certain cases other agents in the supply chain are liable to register for Excise Tax, submit periodical returns, pay the Excise Tax due to the local authorities and maintain specific Excise Tax records.

### Excise Goods

When considering whether a product is an excise good or not, the following definitions apply:

- **Carbonated drinks** include any aerated beverage except for unflavored aerated water. Also considered to be carbonated drinks are any concentrations, powder, gel, or extracts intended to be made into an aerated beverage.
- **Energy drinks** include any beverages which are marketed, or sold as an energy drink, and containing stimulant substances that provide mental and physical stimulation.
- **Tobacco and tobacco products** include all items listed within Schedule 24 of the GCC Common Customs Tariff.
- **From 1 December 2019, excise tax was levied also on:**
  - electronic smoking devices and tools
  - liquids used in such devices and tools
  - sweetened drinks.

### Filing returns and payment

- Once you have registered for Excise Tax, you are required to file your Excise Tax return by the 15th day following the end of each tax period (monthly).
- Excise Tax returns are automatically populated based on the information completed by you in the following declaration forms (as applicable) submitted during, or at the end of, the tax period:
  - Excise Tax import declaration forms.
  - Excise Tax production declaration forms.
  - Excise Tax release from designated zone not requiring customs clearance declaration forms.
  - Deductible Excise Tax declaration forms.

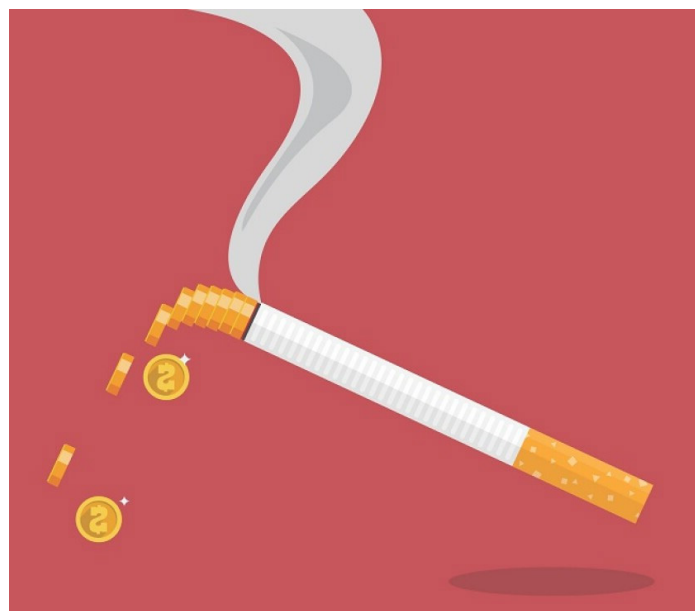
### Businesses required to Register for excise tax

Under the UAE Federal Decree Law No. 7 of 2017 on Excise Tax, registering for excise tax is the responsibility of any business engaged in:

- The import of excise goods into the UAE
- The production of excise goods where they are released for consumption in the UAE
- The stockpiling of excise goods in the UAE in certain cases

### Deadline for registering

There is no registration threshold for excise tax; therefore, any corporation who intends to be involved in any of the activities listed above must register prior to the date of introduction, i.e. 1 October 2017, and account for excise





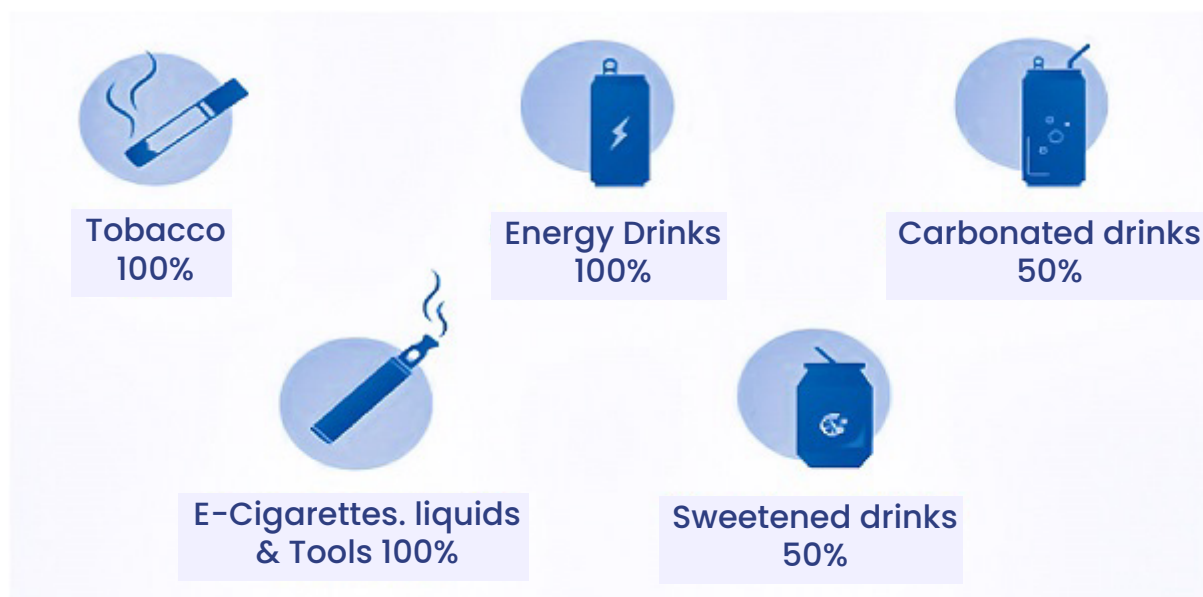
## How will it affect consumers?

Consumers will need to pay more for goods that are harmful to human health or the environment.



## Rate of excise tax

Consumers will need to pay more for goods that are harmful to human health or the environment.





# LEGAL PENALTIES





## UAE EXCISE TAX – VIOLATIONS

Description of violation	Administrative penalty (in AED)
Failure by the taxable person/business to display prices inclusive of tax.	15,000
Failure to comply with conditions and procedures related to the transfer of excise goods in designated zones.	The penalty shall be the higher of AED 50,000 or 50% of the tax, if any, unpaid on the goods as the result of the violation.
Failure by the taxable person to provide the authority with price lists for the excise goods they produce, import or sell.	<ul style="list-style-type: none"> <li>•50,000 for the first time.</li> <li>•20,000 in case of repetition.</li> </ul>



# UAE CORPORATE TAX

(Effective 1st June, 2023)



# TOPICS COVERED

- Taxable Persons
- Exempt Persons
- Free Zones
- Basis of Taxation
- Calculation of Taxable Income
- Interest Capping Rules
- Non-Deductible Expenses
- Tax Losses
- Groups
- Corporate Tax Liability
- Withholding Tax
- Filing Due Dates

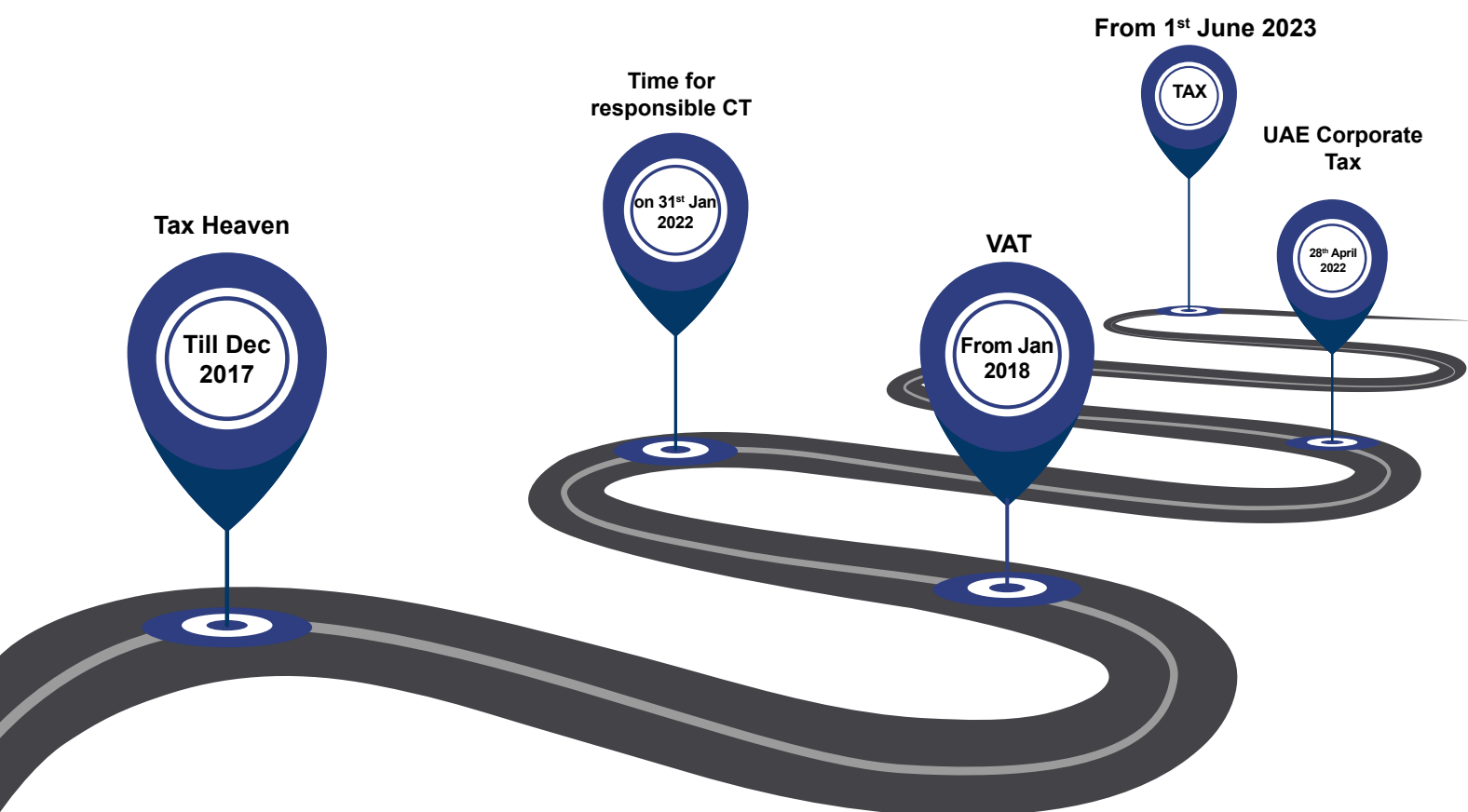




## INTRODUCTION

The federal CT regime is intended to help the UAE achieve its strategic objectives and accelerate its development and transformation. The certainty of a competitive CT regime that adheres to international standards, together with the UAE's extensive network of double tax treaties, will cement the UAE's position as a leading jurisdiction for businesses

## JOURNEY OF TAX IN UAE



## PREFACE

- The Corporate Tax (CT) will come into effect in the United Arab Emirates (UAE) from financial years starting on or after 1 June 2023.
- On 31 January 2022, the UAE Tax Authority made announcement to introduce Corporate Tax and released the FAQs to address the preliminary queries of applicability and procedure.
- On 28 April 2022, the UAE Ministry of Finance (MoF) released a Public Consultation Document for the purpose of obtaining input from interested parties. The stakeholders are invited to submit their concerns / comments in clear and concise form by 19 May 2022. The intention is to reduce compliance cost of the stakeholders and also the complexity. Ministry has also invited comments on areas that are otherwise not covered in this document. Business can take lead to make necessary modifications based on the clarifications made in the Consultation Document.
- The Federal Decree-Law No. (47) of 2022 on the Taxation of Corporations and Businesses (hereinafter referred to as the “Corporate Tax Law”) was issued by the United Arab Emirates (“UAE”), on 09 December 2022. The introduction of Corporate Tax is intended to help the UAE achieve its strategic objectives and accelerate its development and transformation. The certainty of a competitive Corporate Tax regime that adheres to international standards, together with the UAE’s extensive network of double tax treaties, will cement the UAE’s position as a leading jurisdiction for business and investment.



## CORPORATE TAX

### SALIENT FEATURES

- 0% Tax Rate up-to net Income of AED 375,000 p.a.
- 9% on Net Income
- Special Concession to Free-zones\* (subject to satisfaction of certain conditions)
- No Personal Taxation
- No taxation on Personal "Investment Income" (Rental Income, Dividends, Income from Debt/Equity Securities)
- Not on Capital Gains
- 0% Withholding Tax
- Mainly targeting Income Derived from a UAE trade or business
- Provisions for Tax Group, C/F of losses

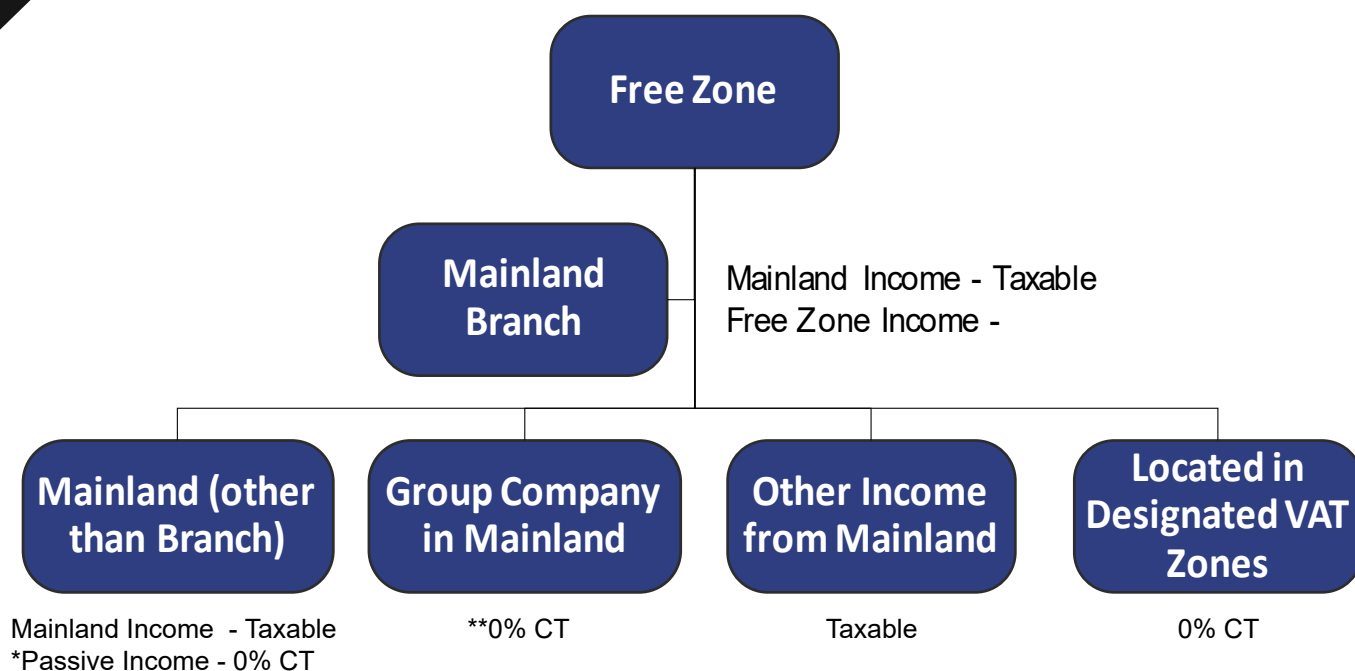
### TAXABLE PERSONS

- A legal person incorporated in the UAE
- A legal person that is not incorporated in the UAE but is effectively managed and controlled in the UAE or
- A natural person who is engaged in a business in the UAE.

### EXEMPT PERSONS

- The Federal and Emirate Governments and their departments, authorities and other public institutions.
- Wholly Government-owned UAE companies that carry out a sovereign or mandated activity, and that are listed in a Cabinet Decision.
- Businesses engaged in the extraction and exploitation of UAE natural resources that are subject to Emirate-level taxation.
- Charities and other public benefit organizations that are listed in a Cabinet Decision.
- Public and regulated private social security and retirement pension funds.
- Investment funds, subject to meeting the prescribed conditions.
- Regulated by Regulatory Authority in the UAE recognized by MOF(DIFC, SCA, ADGM)
- No group of 5 or fewer investors has 50% or greater economic interest
- No single investor has a 20% or greater economic interest
- Interest in Fund traded freely on Stock exchange

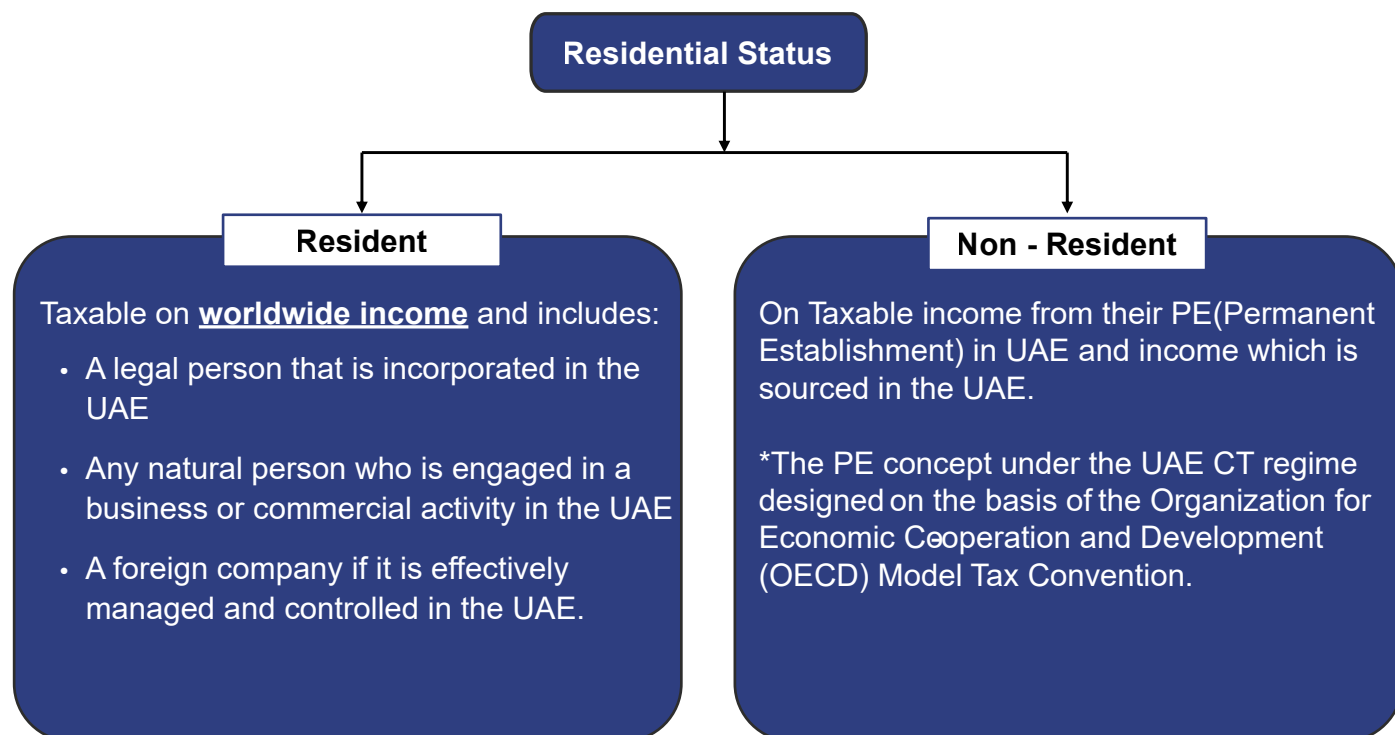




\*Passive Income - like interest, royalties, dividend, capital gains on shares of mainland UAE company, etc.

\*\*Payments to FZP by Group Company not deductible

## BASIS OF TAXATION



## UAE SOURCED INCOME

- Earned from UAE Resident Person
- Payment attributed to a PE of Foreign Company in the UAE
- Income derived from activities or contracts performed in the UAE, assets located in the UAE, or rights used for economic purposes in the UAE

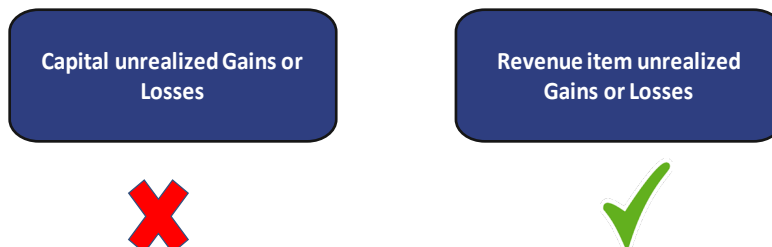
\*same principles for FZP which earns from mainland UAE

## 0% WITHHOLDING TAX

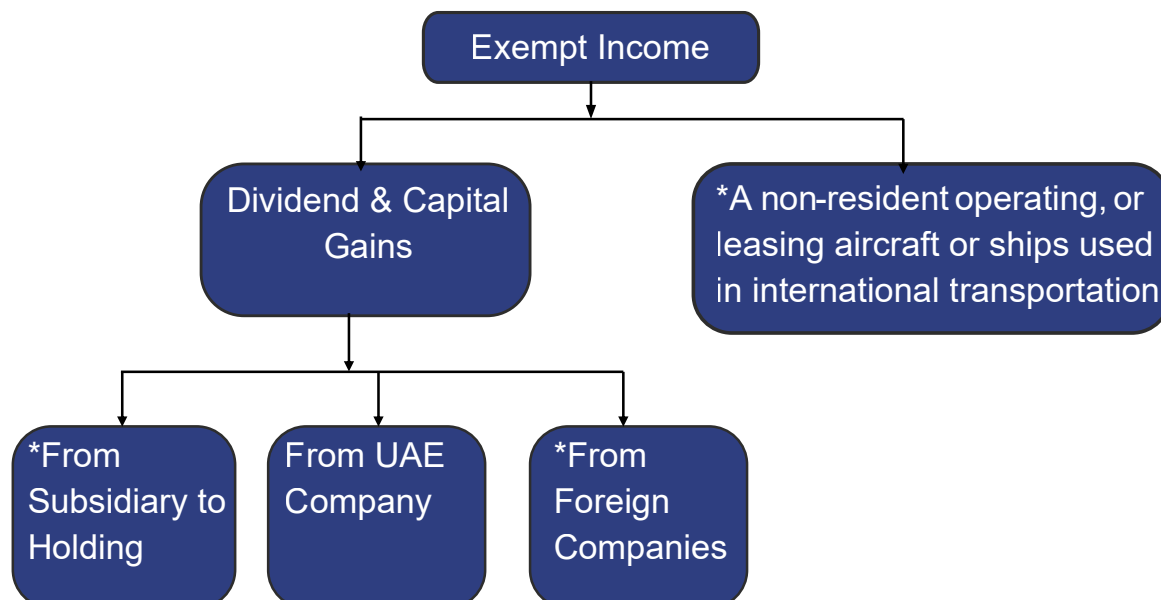
- UAE sourced income earned by a foreign company that is not attributable to a PE in the UAE ;
- Mainland UAE sourced income earned by a Free Zone Person
- Dividends and other profit distributions made by a Free Zone Person to a mainland UAE shareholder

## CALCULATION OF TAXABLE INCOME

Basis : Accounting net profit (or loss) as stated in FS considered as a starting point for determining taxable Income. Commonly IFRS used , alternate financial reporting standards can also be used.



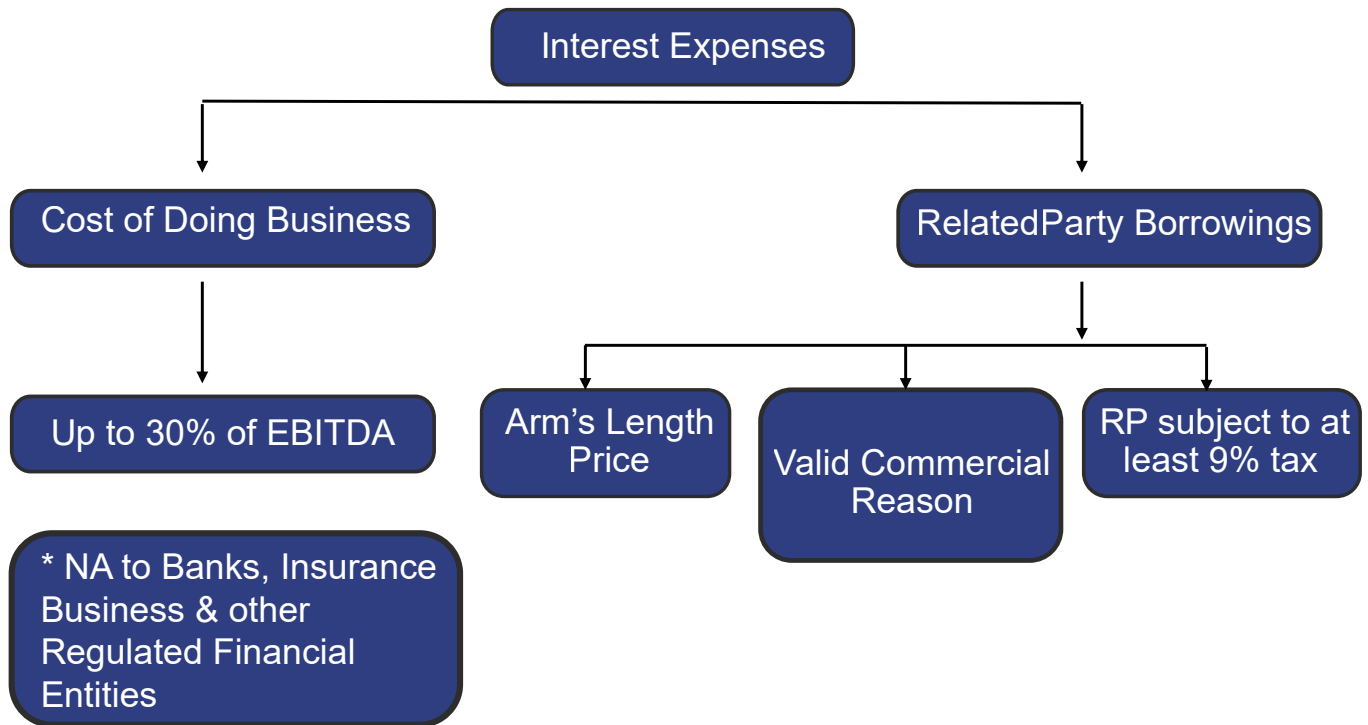
## CALCULATION OF TAXABLE INCOME



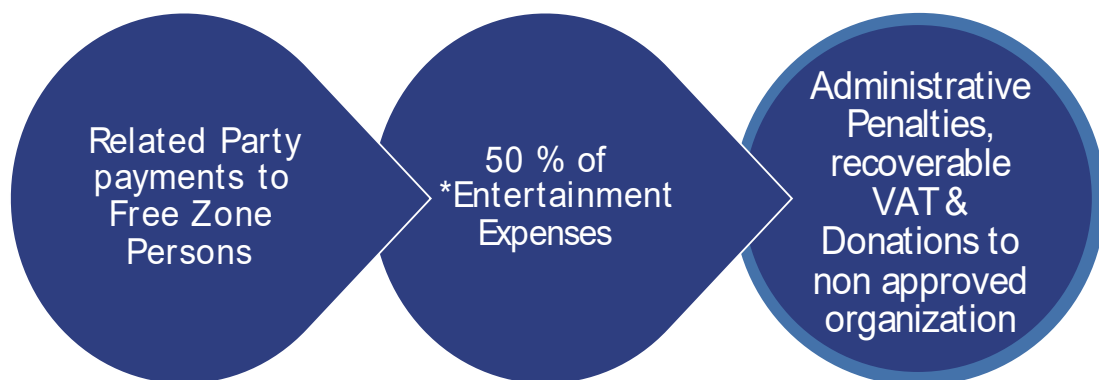
\*T&C



## INTEREST CAPPING RULES



## NON-DEDUCTIBLE EXPENSES

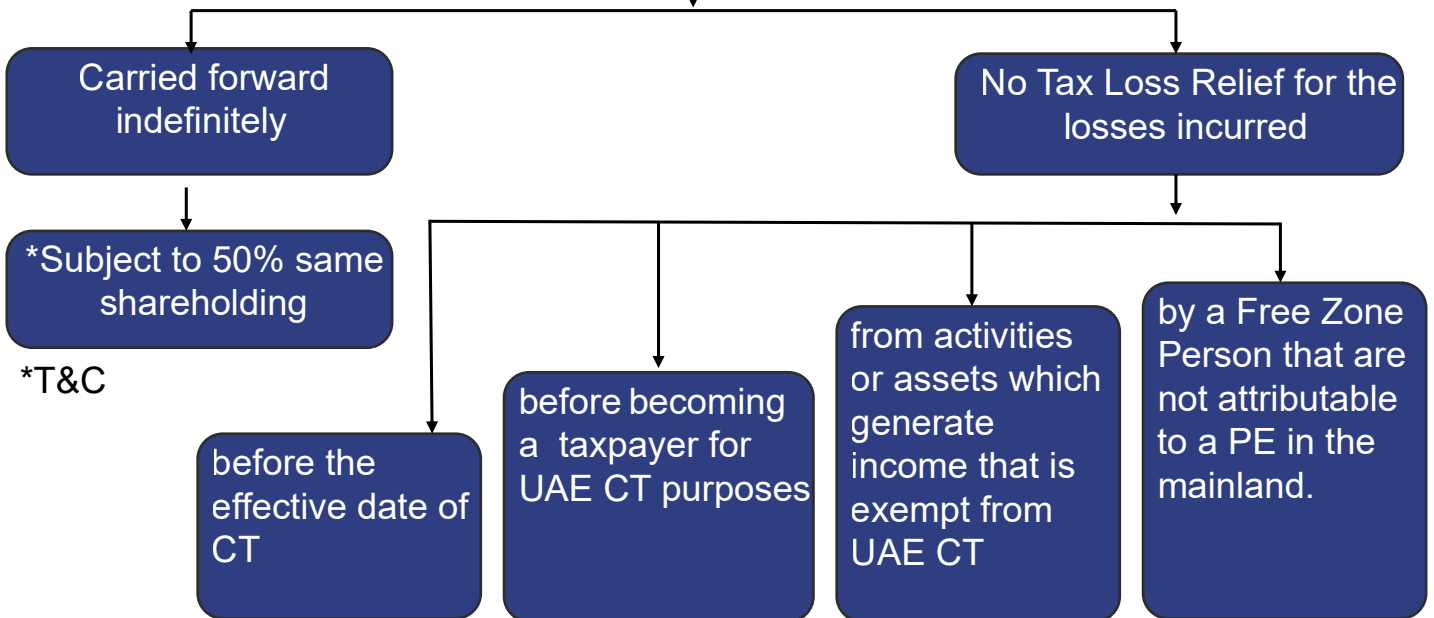


\*expenditure incurred to entertain customers, shareholders, suppliers and other business partners, to acknowledge that these types of expenses often also have non-business or personal element.

\*T&C

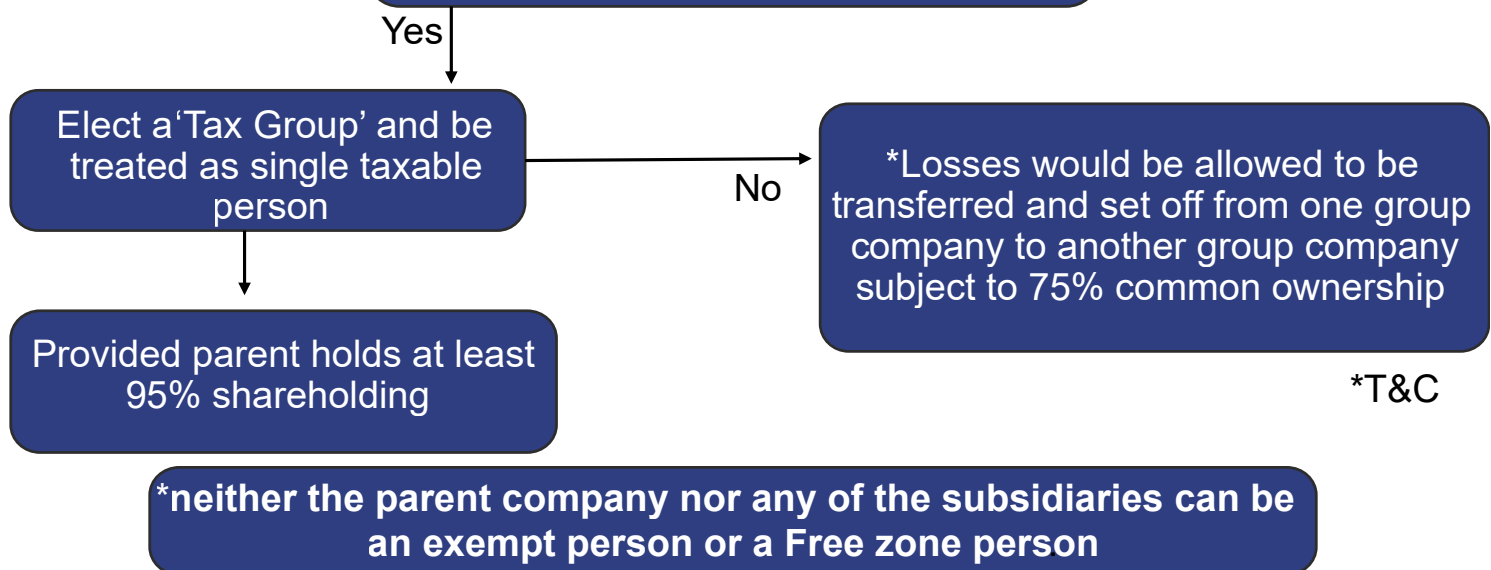
## TAX LOSSES

### Business Tax Losses

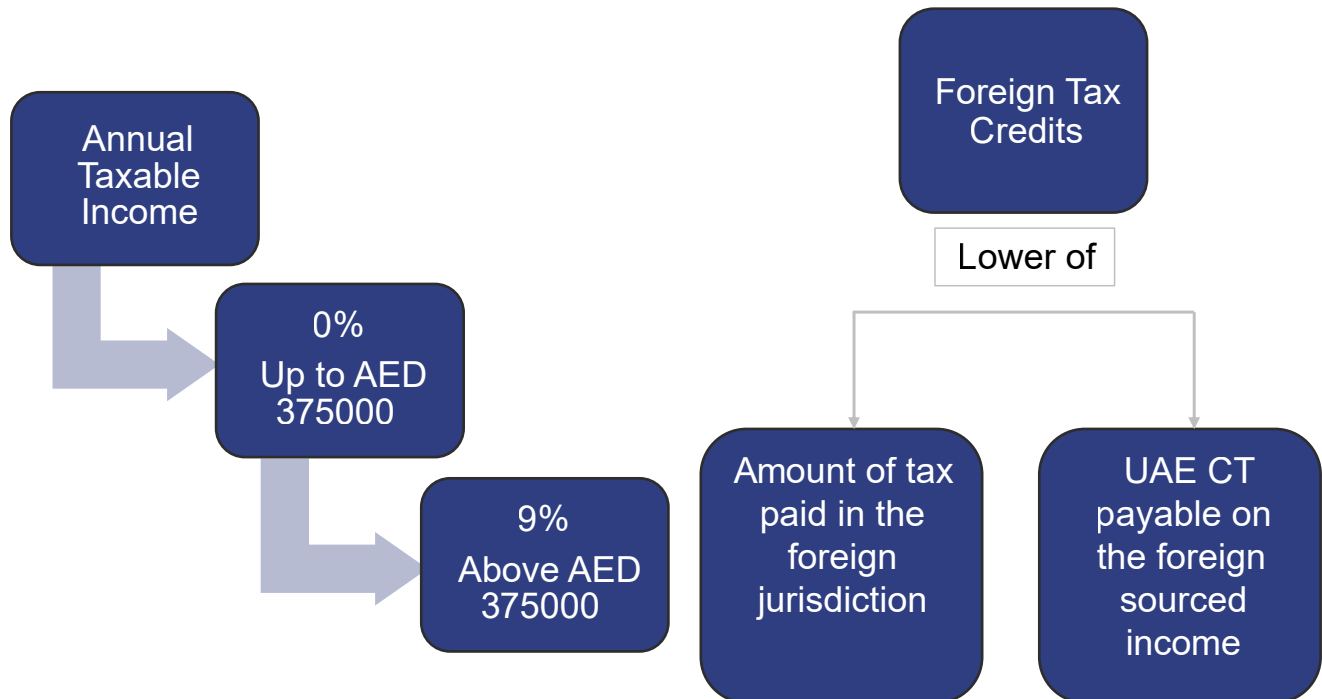


## TAX GROUPS & LOSSES

### UAE Resident Parent & Subsidiaries can form Group of Companies



## CORPORATE TAX LIABILITY & CREDITS



### FILING DUE DATES

Financial Year End	30 June	31 December	31 March
First Tax Period	1 July 2023 - 30 June 2024	1 January 2024 - 31 December 2024	1 April 2024 - 31 March 2025
CT return must be filed, and CT payment made, within nine (9) months of the tax period			
Filing & payment due date	31 March 2025	30 September 2025	31 December 2025

# Corporate Tax **FAQs**

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## IMPORTANT NOTICE

The information on this page is meant to provide guidance on the UAE Corporate Tax (CT) regime. The Federal Decree-Law No. (47) of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law) can be found at this link.

Nothing in these questions and answers should be interpreted as legal or tax advice, and it should not be assumed that the guidance is comprehensive or that it provides a definitive answer in every case. These questions and answers are not intended to address all aspects of the UAE CT regime and taxpayer specific circumstances should be considered when using these questions and answers for individual or business decisions.

These questions and answers are subject to change without notice. Further information and guidance on the technical details and other specifics of the UAE CT regime will be made available in due course.



## CORPORATE TAX – OVERVIEW

### 1. What is CT?

CT is a form of direct tax levied on the net income or profit of corporations and other businesses. CT is sometimes also referred to as **“Corporate Income Tax”** or **“Business Profits Tax”** in other jurisdictions.

### 2. Why is the UAE introducing CT?

- A competitive CT regime based on international best practices is expected to cement the UAE’s position as a leading global hub for business and investment and accelerate the UAE’s development and transformation to achieve its strategic objectives.
- Introducing a CT regime also reaffirms the UAE’s commitment to meeting international standards for tax transparency and preventing harmful tax practices.

### 3. Is the UAE the first country to introduce CT?

Most countries in the world have a comprehensive CT regime, including most of the countries in the Middle East.

### 4. When will the UAE CT regime become effective?

The UAE CT regime will become effective for financial years starting on or after 1 June 2023.

Examples:

- A business that has a financial year starting on 1 July 2023 and ending on 30 June 2024 will become subject to UAE CT from 1 July 2023 (which is the beginning of the first financial year that starts on or after 1 June 2023).
- A business that has a financial year starting on 1 January 2023 and ending on 31 December 2023 will become subject to UAE CT from 1 January 2024 (which is the beginning of the first financial year that starts on or after 1 June 2023).

### 5. Who will be subject to UAE CT?

- UAE CT applies to juridical persons incorporated in the UAE and juridical persons effectively managed and controlled in the UAE, as well as to foreign juridical persons that have a permanent establishment (see “Foreign persons”) in the UAE (see question 20 ‘Who is considered resident for UAE CT purposes?’).

- Individuals will be subject to CT only if they are engaged in a business or business activity in the UAE, either directly or through an unincorporated partnership or sole proprietorship. A Cabinet Decision will be issued in due course specifying further information on what would bring a natural person within the scope of UAE CT.

### 6. Will UAE entities owned by UAE or GCC nationals be subject to UAE CT?

The Regulations are administered by the Regulatory Authorities listed in Article 4 of the Regulations, and set out below:

### 7. Will UAE CT be applicable to businesses in each Emirate?

Yes. The UAE CT is a Federal tax and will therefore apply across all the Emirates.

### 8. Will I have to pay UAE CT alongside Emirate level taxes?

- Businesses engaged in the extraction of the UAE’s natural resources and in certain non-extractive activities that are subject to Emirate level taxation will be outside the scope of UAE CT, subject to meeting certain conditions.
- Other businesses may be subject to both CT and Emirate level taxation. Emirate level taxes paid will not be able to be credited against or otherwise reduce the amount of CT payable.

### 9. Will UAE CT replace VAT in the UAE?

No, CT and VAT are two different types of taxes. Both will continue to apply in the UAE.

### 10. Will I have to pay UAE CT alongside VAT in the UAE?

If you are a registered business for VAT, you will have to pay VAT and CT separately. If your business is not VAT registered you may still have to pay CT.

### 10. Will UAE CT replace Excise Tax in the UAE?

No, CT and Excise Tax are two different types of taxes. Both will continue to apply in the UAE.

## CORPORATE TAX – OVERVIEW

### 12. Will I continue to pay service fees to local and Federal Governments now that the UAE has introduced CT?

- Yes. Applicable service fees will continue to be payable to the relevant Emirate and Federal Governments.
- Business set up, license renewal and other Government fees and charges incurred wholly and exclusively in the ordinary course of business are deductible expenses for UAE CT

### 13. Will I need to consider the UAE's international agreements for UAE CT purposes?

In-force International agreements (including international agreements for the avoidance of double taxation) to which the UAE is a party should be considered under the UAE CT regime. In case of a conflict between the Corporate Tax Law and an international agreement with respect to the right to tax a certain item of income, the relevant international agreement may limit the application of UAE CT.

### 14. What will be the role of the Federal Tax Authority?

The Federal Tax Authority will be responsible for the administration, collection and enforcement of UAE CT and other federal taxes. For the purpose of the administration, collection and enforcement of CT, the Federal Tax Authority will issue guides, respond to clarifications and provide awareness as required.

### 15. What will be the role of the Ministry of Finance?

The Ministry of Finance will remain the 'competent authority' for purposes of bilateral/multilateral tax agreements and the international exchange of information for tax purposes. The Ministry of Finance also has the authority to issue further guidance and implementing regulations for UAE CT and other federal taxes.

### 16. What should I be doing to prepare for UAE CT?

To assess what the UAE CT regime means for your business, as a starting point, you should:

1. Read the Corporate Tax Law and the supporting information available on the websites of the Ministry of Finance and the Federal Tax Authority.
2. Use the available information to determine whether your business will be subject to UAE CT and if so, from what date.
3. Understand the requirements for your business under the Corporate Tax Law, including, for example:
  - a. Whether your business needs to register for UAE CT.
  - b. What is the accounting / Tax Period for your business.
  - c. By when your business would need to file a UAE CT return.
  - d. What elections or applications can or should your business make for UAE CT purposes.
  - e. How UAE CT may impact your business' obligations and liabilities under contracts with customers and suppliers.
  - f. What financial information and records your business will need to keep for UAE CT purposes.
4. Regularly check the websites of the Ministry of Finance and the Federal Tax Authority for further information and guidance on the UAE CT regime.

### 17. Where can I find the Corporate Tax Law?

The Corporate Tax Law can be found at this [link](#).

## SCOPE AND RATE

### 18. What is a “Business” or “Business Activity”?

- The terms “Business” and “Business Activity” as defined in the Corporate Tax Law identify when the activities of certain persons give rise to a UAE CT liability by considering the person to be a taxable person.
- “Business” means any economic activity, whether continuous or short term, conducted by any person. It is implied that a business is conducted with a profit motive, and that there is the existence of some system and organisation to the activity conducted. However, a business or business activity for UAE CT purposes does not lose its identity simply because it does not make a profit.
- For the application of the Corporate Tax Law to companies and other juridical persons, all activities conducted and assets used or held will generally be considered activities conducted, and assets used or held, for the purposes of a “Business”.
- Individuals can earn income from wages and salaries, investments or from practising a commercial, industrial or professional activity, either directly or as sole proprietor of a business. For natural persons, a Cabinet Decision will be issued in due course specifying further information on what would bring a natural person within the scope of UAE CT.

### 19. Who is exempt from UAE CT?

The following persons are exempt from UAE CT, either automatically or by way of application:

The UAE Federal and Emirate Governments and their departments, authorities and other public institutions;

1. Wholly Government-owned companies that carry out a mandated activity, and that are listed in a Cabinet Decision;
2. Businesses engaged in the extraction of UAE natural resources and related non-extractive activities that are subject to Emirate-level taxation after meeting certain conditions;
3. Public Benefit Entities that are listed in a Cabinet Decision;
4. Investment Funds that meet the prescribed conditions;
5. 6. Public or private pension or social security funds that meet certain conditions; and
6. UAE juridical persons that are wholly-owned and controlled by certain exempted entities after meeting certain conditions.

### 20. Who is considered resident for UAE CT purposes?

- UAE incorporated companies such as LLCs, PSCs, PJSCs, and other UAE juridical persons will be subject to CT as resident persons.
- An entity that is incorporated in the UAE will automatically be considered a ‘resident’ person for UAE CT purposes. Equally, an individual who is engaged in a business or business activity in the UAE will also be considered a resident person for UAE CT purposes.
- A foreign company may be treated as a resident person for UAE CT purposes if it is effectively “managed and controlled” in the UAE. All facts and circumstances must be considered in determining where a company is effectively managed and controlled, but a relevant indicator may include the place where the strategic decisions affecting the business are made.

### 21. Who is considered non-resident for UAE CT purposes?

Under the Corporate Tax Law, a juridical person is considered a non-resident if it is incorporated in a foreign country and is effectively managed and controlled outside the UAE. A natural person is considered a non-resident for UAE CT purposes if he or she is not engaged in a taxable business or business activity in the UAE.

### 22. How are UAE tax residents subject to UAE CT?

- UAE resident juridical persons will be subject to UAE CT on their income source from both the UAE and from abroad, although certain income earned through foreign subsidiaries and income of foreign branches that is subject to tax in another jurisdiction will generally be exempt from UAE CT. Further details of these exemptions are set out under questions 64 ‘Will the income of foreign branches of a UAE business be subject to UAE CT?’ and 88 ‘What is the participation exemption regime?’.
- Where income earned from abroad is not exempt, relief for income taxes paid in the foreign jurisdiction can be taken as a credit against the CT payable in the UAE on the relevant income to prevent double taxation. (see below under ‘Tax Credits’).



## SCOPE AND RATE

### 23. How are non-residents subject to UAE CT?

Non-resident persons will only be subject to UAE CT on:

- income from their Permanent Establishment in the UAE; or
- income sourced in the UAE (subject to a 0% withholding tax).

### 24. How do you determine taxable income for UAE CT?

- The taxable income for a Tax Period will be the accounting net profit (or loss) of the business, after making adjustments for certain items specified in the Corporate Tax Law.
- The accounting net profit (or loss) of a business is the amount reported in its financial statements prepared in accordance with internationally acceptable accounting standards.
- Adjustments to the accounting net profit (or loss) will need to be made for the following items:
  1. Unrealised gains and losses (subject to the election made regarding the application of the realisation principle);
  2. Exempt income such as qualifying dividends and capital gains;
  3. Income arising on intra-group transfers;
  4. Deductions which are not allowable for tax purposes;
  5. Transactions with Related Parties and Connected Persons;
  6. Transfers of tax losses within the group where relevant;
  7. Incentives or tax reliefs; and
  8. Any other adjustments as specified by the Minister.

### 25. What are the UAE CT rates?

Taxpayer	Applicable CT rate
Individuals and juridical persons	<ul style="list-style-type: none"> <li>• 0% for taxable income up to and including AED 375,000 (this amount is to be confirmed in a Cabinet Decision)</li> <li>• 9% for taxable income exceeding AED 375,000</li> </ul>
Qualifying Free Zone Persons (see further information below)	<ul style="list-style-type: none"> <li>• 0% on qualifying income</li> <li>• 9% on taxable income that does not meet the qualifying income definition</li> </ul>

### 26. What is a Tax Period?

Given CT is imposed on an annual basis, it is necessary to specify the "Tax Period". The Tax Period will normally be the Gregorian calendar year (i.e. from 1 January to 31 December), unless the business applies a different 12-month period for preparing its financial statements.

### 27. Will I need to consider the UAE's international agreements for UAE CT purposes?

The CT liability will be calculated as follows:

- Taxable income of AED 375,000 (amount to be confirmed in a Cabinet Decision) subject to CT at 0%:  $\text{AED } 375,000 \times 0\% = \text{AED } 0$
- Taxable income exceeding AED 375,000 (amount to be confirmed in a Cabinet Decision) subject to CT at 9%:  $(\text{AED } 1,000,000 - \text{AED } 375,000) = \text{AED } 625,000 \times 9\% = \text{AED } 56,250$
- The UAE CT liability for the Tax Period will be  $\text{AED } 0 + \text{AED } 56,250 = \text{AED } 56,250$
- The final amount of UAE CT payable can be reduced by available tax credits (see below under 'Tax Credits' section).

### 28. Will small businesses be given any UAE CT relief?

In addition to a 0% CT rate for taxable income up to and including AED 375,000, small businesses with revenue below a certain threshold can claim 'small business relief' and be treated as having no taxable income during the relevant Tax Period and may be subject to simplified compliance obligations. To claim small business relief, an election must be made to the FTA.

## SCOPE AND RATE

### 29. Who can claim small business relief for UAE CT purposes?

Any UAE resident juridical person or individual with revenues below the threshold defined by the Minister and that meets any other conditions that may be set, can claim small business relief.

### 30. What is revenue?

Revenue is the gross amount of income derived in a tax period from sales of inventory and properties, services, royalties, interest, premiums, dividends and any other amounts, before deducting any type of costs or expenditure. In the context of income from sales or services, gross income means gross revenues from sales or services without deducting the cost of goods sold or the cost of services.



## NATURAL PERSONS

### 31. Who is a Natural Person?

The term "Natural Person" in the Corporate Tax Law means an individual.

### 32. Will individuals be subject to UAE CT?

Only individuals who engage in a business or business activity as per a Cabinet Decision that will be issued in due course will be subject to UAE CT. Individuals engaged in other activities will generally be outside the scope of the CT regime.

### 33. What is the UAE CT treatment of a sole proprietorship or civil company?

For certain types of business activities, natural persons can form a sole proprietorship or civil company. For CT purposes, these entities will be treated as the natural person or persons owning them.

### 34. Will an individual be subject to UAE CT on business income earned outside the UAE?

The taxable income of a natural person that is engaged in a business in the UAE is all the income that is derived from that business. This would include income earned from outside the UAE insofar as it relates to the business activity conducted in the UAE.

### 35. What if an individual has multiple business activities that are in the scope of UAE CT?

The individual will file one CT return covering all their business activities that are within the scope of UAE CT.

### 36. Will an individual's employment income be subject to UAE CT?

UAE CT will not apply to an individual's salary and other employment income (whether received from the public or private sector). Employment may include a continuing service relationship where all or most of the income of the individual is derived from one customer, and the service income is essentially remuneration for the natural person's labour.



### 37. Will self-employed persons (e.g., freelancers) be subject to UAE CT?

Self-employed persons would only be subject to UAE CT if their activity is a taxable business or business activity as per the Cabinet Decision that will be issued in due course. Even if the self-employed person is considered to be undertaking a taxable business or business activity, no CT would be payable on the first AED 375,000 of net income / profit earned from the activity, and further relief (small business relief) may be available to the self-employed person and other individual entrepreneurs.

### 38. Will income earned by an individual from bank deposits be subject to UAE CT?

Interest and other personal investment and savings income earned by an individual in their personal capacity should not be subject to UAE CT.

### 39. Will an individual be subject to UAE CT on investment returns?

UAE and foreign individuals will not be subject to UAE CT on dividends, capital gains and other income earned from owning shares or other securities in their personal capacity.

### 40. Will an individual be subject to UAE CT on income from real estate?

Income earned by an individual from the investment in UAE property in their personal capacity will generally not be subject to UAE CT.

## JUDICIAL PERSONS

### 41. What is a juridical person?

A "juridical person" is an entity established or otherwise recognised under the laws and regulations of the UAE, or under the laws of a foreign jurisdiction, that has **a legal personality separate from its founders, owners and directors**. Examples of UAE domestic juridical persons include a limited liability company, a foundation, an 'onshore' trust, a public or private joint stock company, and other entities that have separate legal personality under the applicable UAE 'mainland' legislation or Free Zone regulations. UAE branches of a domestic or a foreign juridical person are regarded as an extension of their "parent" or "head office" and, therefore, are not considered separate juridical persons.

### 42. What does it mean to have a 'separate legal personality'?

Separate legal personality means that the entity has its own rights, obligations and liabilities. As a consequence, the owners of the juridical person would typically have limited liability when it comes to the debts and obligations of the entity.

### 43. How do you determine whether a juridical person has a "Business" that is within the scope of UAE CT?

All activities undertaken by a juridical person will be deemed "business activities" and are within the scope of UAE CT, unless specifically exempted.

### 44. Are foreign juridical persons subject to UAE CT in the same way as a UAE resident person?

No (see question 68 'Will foreign companies and other juridical persons be subject to UAE CT?'), unless the foreign juridical person is "effectively managed and controlled" in the UAE and treated as a resident entity for UAE CT purposes.

### 45. When is a foreign juridical person considered "effectively managed and controlled" in the UAE?

This will need to be assessed on a case by case basis, and may look at the location where the key decision makers, such as the directors, make the strategic decisions affecting the juridical person.

### 46. Will UAE holding companies be subject to UAE CT?

UAE holding companies would be subject to UAE CT (at a 9% CT rate or the 0% Free Zone CT rate), depending on whether the holding company is established in a Free Zone or in the mainland UAE, but dividends and capital gains earned from domestic and foreign shareholdings would generally be exempt from CT, subject to certain conditions.

### 47. Will a sole proprietorship or civil company be treated as a juridical person for CT purposes?

No, but individuals who conduct business in the UAE through a sole proprietorship or civil company may be subject to CT where a relevant business or business activity is undertaken.





## PARTNERSHIPS

### 48. How will the UAE CT regime apply to partnerships?

- The Corporate Tax Law makes a distinction between unincorporated and incorporated partnerships.
- **“Unincorporated Partnerships”** (as defined in the Corporate Tax Law) are essentially a contractual relationship between two or more persons, as opposed to being a distinct juridical person separate from their partners / members. Unincorporated partnerships are treated as ‘transparent’ for UAE CT purposes. This means that an unincorporated partnership is not subject to UAE CT in its own right. Instead, each partner is subject to UAE CT on their share of the income from the business conducted through the partnership.
- **Incorporated partnerships** include limited liability partnerships, partnerships limited by shares and other types of partnerships where none of the partners have unlimited liability for the partnership’s obligations or other partners’ actions. Such partnerships are subject to CT in the same manner as a corporate entity (see Section D ‘Juridical persons’).

### 49. Will each partner in an “unincorporated” partnership be required to register and file a UAE CT return?

- Natural persons that are engaged in a business or business activity through an unincorporated partnership are individually subject to UAE CT on their share of the income from the unincorporated partnership. Each partner would be required to register for UAE CT purposes, and comply with the requirements of the Corporate Tax Law.
- The partners in an unincorporated partnership can make an application to the Federal Tax Authority for the unincorporated partnership to be treated as a separate and standalone taxable person for the purposes of UAE CT. If the application is approved, the unincorporated partnership will file a CT return on behalf of the partners in the partnership.

### 50. How will foreign partnerships be treated under the Corporate Tax Law?

For UAE CT purposes, a foreign partnership will generally be considered as an Unincorporated Partnership subject to meeting certain conditions, including that the partnership is not subject to tax in the relevant foreign jurisdiction (see question 48 ‘How will the UAE CT regime apply to partnerships?’).



## TRUST AND FAMILY FOUNDATIONS



### 51. What is a “Family Foundation”?

- A Family Foundation (as defined in the UAE Corporate Tax Law) is a foundation, trust or similar entity used to protect and manage the assets and wealth of an individual or family.
- The principal activity of a Family Foundation would generally be to receive, hold, invest, disburse, or otherwise manage funds and assets associated with savings or investment for the interest of individual beneficiaries or to achieve a charitable purpose. Such activities would typically not constitute a “business” or “business activity” for UAE CT purposes if they were undertaken directly by the founder, beneficiary or any other individual.

### 52. Are Family Foundations subject to UAE CT?

- Foundations and certain types of trusts are independent juridical persons with separate legal personality, and would therefore prima facie be subject to UAE CT in their own right. However, these types of Family Foundations can apply to be treated as transparent “Unincorporated Partnerships” for UAE CT purposes, resulting in the founder/settlor and the beneficiaries of the trust to remain to be seen as owners of the assets held by the trust. This would generally prevent the income of the foundation or trust from attracting UAE CT.
- Other types of trusts (for example, trusts established in DIFC or ADGM) are a contractual relationship between two or more persons (e.g., the beneficiary, settlor, and trustee) and do not have separate legal personality. These types of trusts will by default be treated as transparent vehicles for UAE CT purposes.

## INVESTMENT FUNDS AND INVESTMENT MANAGERS

### 53. What is an investment fund?

An investment fund is an entity whose principal activity is the issuing of investment interests to raise funds or pool investor funds or establish a joint investor fund with the aim of enabling the holder of such an investment interest to benefit from the profits or gains from the entity's acquisition, holding, management or disposal of investments, in accordance with the applicable legislation.

### 54. Will investment funds be subject to UAE CT?

- Investment funds are commonly organised as limited partnerships (as opposed to corporate entities) to ensure tax neutrality for their investors. This tax neutrality follows from the fact that most countries treat limited partnerships as transparent ('flow through') for domestic and international tax purposes, which puts investors in the fund in a similar tax position as if they had invested directly in the underlying assets of the fund. Investment funds that are structured as partnerships, unit trusts and other unincorporated vehicles would generally be treated as fiscally transparent "Unincorporated Partnerships" for the purposes of UAE CT.
- Investment funds that are structured as corporate entities, including Real Estate Investment Trusts, or partnership funds that apply to be treated as a "Taxable Person" for UAE CT purposes in their own right, can apply to the Federal Tax Authority to be exempt from UAE CT subject to meeting certain requirements.
- CT purposes in their own right, can apply to the Federal Tax Authority to be exempt from UAE CT subject to meeting certain requirements.

### 55. What is a recognised stock exchange?

A recognised stock exchange includes:

- UAE: Any stock exchange established in the UAE that is licensed and regulated by the relevant competent authority (e.g. Nasdaq Dubai, Abu Dhabi Securities Exchange, or Dubai Financial Market);
- Foreign: Any stock exchange established outside the UAE of equal standing to the stock exchange in the UAE.

### 56. Will a UAE based investment fund manager be subject to UAE CT?

Yes. If the investment fund manager is a UAE resident, or if it operates in the UAE through a permanent establishment, the investment fund manager will be subject to UAE CT on the income it earns.

### 57. For the purpose of benefiting from the CT exemption, are both the investment fund and the fund manager required to be subject to regulatory oversight?

For the investment fund exemption, either the investment fund or the manager of the fund is required to be subject to regulatory oversight, not both.

### 58. Could a UAE-based investment manager create a UAE taxable presence for its foreign customers?

Under the so-called "Investment Manager Exemption", regulated UAE investment managers can provide discretionary investment / asset management services to foreign funds and customers without creating a permanent establishment for the foreign investors or the foreign investment fund in the UAE, where certain conditions are met.

### 59. Could the activities of a UAE-based investment manager result in a foreign investment fund / vehicle to be considered resident in the UAE for UAE CT purposes?

Where the conditions of the Investment Manager Exemption are met, a UAE-based investment manager should not create possible UAE residency for CT purposes for the foreign investment fund / investment vehicle it manages.

### 60. Can investment holding companies and Special Purpose Vehicles used by an investment fund benefit from an exemption from UAE CT?

Wholly-owned UAE investment holding companies and other Special Purposes Vehicles used by an investment fund to deploy capital and hold investments can apply to the Federal Tax Authority to benefit from the UAE CT exemption granted to the investment fund.



## BRANCHES

### 61. Are UAE branches separate juridical persons?

No. UAE branches of a domestic or a foreign juridical person are an extension of their "parent" or "head office" and, therefore, are not considered separate juridical persons.

### 62. Will the income of UAE branches of a UAE business be subject to UAE CT?

Yes. The income of UAE branches will be included in the taxable income and UAE CT return of their UAE "parent" or "head office".

### 63. Are UAE branches of a UAE juridical person required to separately register or file for UAE CT?

UAE branches of a UAE juridical person are not required to separately register or file for UAE CT.

### 64. Will the income of foreign branches of a UAE business be subject to UAE CT?

The income of foreign branches or foreign permanent establishments of a UAE business will be included in the taxable income and UAE CT return of their UAE "head office", unless the UAE business elects to claim an exemption for its foreign branch profits. This exemption is available for foreign branch profits that have already been subject to tax in the foreign jurisdiction.

### 65. Will UAE branches of foreign businesses be subject to UAE CT?

Where no election is made or the income of the foreign branch or permanent establishment is not eligible for an exemption from CT, the UAE CT payable on the income of the foreign branch or permanent establishment can be reduced by the corporate tax (or similar) paid on the relevant income in the foreign jurisdiction.

### 66. Will a UAE branch constitute a taxable Permanent Establishment for the foreign business?

A UAE branch of a foreign business would generally be subject to UAE CT, unless the activities of the branch do not give rise to a permanent establishment in the UAE for CT purposes (see Section I 'Foreign persons').

### 67. What are preparatory or auxiliary activities?

Preparatory or auxiliary activities are those performed in preparation or in support of more substantive business activities of the foreign entity. Examples of preparatory and auxiliary activities include storage, display or delivery of goods or merchandise belonging to the foreign entity, limited marketing and promotional activities, performing market research and attending seminars or conventions.

Where relevant, the application of an international agreement for the avoidance of double taxation should be taken into consideration when determining whether a permanent establishment exists or whether the activities performed are preparatory or auxiliary in nature.





## FOREIGN PERSONS

### 68. Will foreign companies and other juridical persons be subject to UAE CT?

Foreign entities that operate in the UAE through a permanent establishment or that are considered resident in the UAE for CT purposes will be subject to UAE CT. Merely earning UAE sourced income would not trigger CT payable or require the foreign entity to register and file for UAE CT.

### 69. When will a non-resident person be subject to CT?

A non-resident person will be subject to UAE CT if the non-resident person has a permanent establishment in the UAE or earns income sourced from the UAE (subject to 0% taxation). Income will generally be considered to be sourced from the UAE where it is derived from a UAE resident, a UAE Permanent Establishment, or the income is derived from activities performed or from assets located, capital invested and rights used in the UAE.

### 70. When will a foreign company be considered a resident person?

A foreign juridical person may be treated as a UAE resident for CT purposes and subject to UAE CT on its income sourced from both the UAE and abroad if it is effectively managed and controlled in the UAE (see above).

### 71. Can a foreign individual be subject to UAE CT as a resident person?

A foreign individual will be subject to UAE CT as a "Resident Person" insofar as he or she is engaged in a business or business activity in the UAE. Being treated as a Resident Person for UAE CT purposes does not automatically mean the foreign individual will be considered resident in the UAE for all other taxes or for the application of a double tax agreement.

For individuals, a decision by the Cabinet of Ministers will be issued in due course specifying further information on what would bring a natural person within the charge to Corporate Tax.

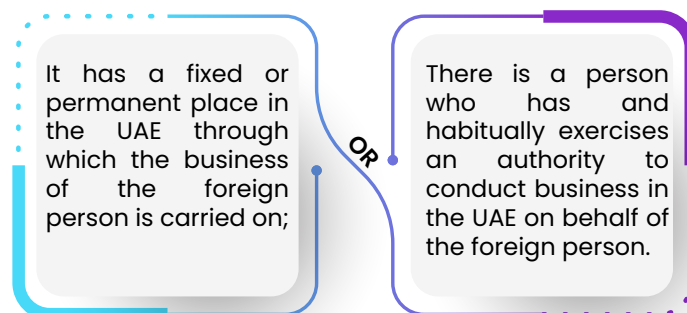
### 72. When will a foreign individual be subject to UAE CT as a non-resident person?

A foreign individual that does not conduct a taxable business or business activity in the UAE (see question 71 'Can a foreign individual be subject to UAE CT as a resident person?') would

generally not be subject to UAE CT. Merely earning UAE sourced income would not trigger CT payable or require the foreign individual to register and file for UAE CT.

### 73. How do I know if I have a Permanent Establishment in the UAE?

Generally, a foreign person will have a Permanent Establishment in the UAE if:



A fixed place of business would not be considered a Permanent Establishment if it is used solely to store, display or deliver goods or merchandise belonging to the foreign person or to conduct any activities that are of a preparatory or auxiliary nature.

A Permanent Establishment would not arise if the person who has and habitually exercises an authority to conduct business in the UAE on behalf of the foreign person acts as an independent agent.

Where relevant, the application of an international agreement should be taken into consideration when determining whether a permanent establishment exists.

### 74. Will the investment in UAE real estate constitute a taxable permanent establishment in the UAE?

- A foreign individual that owns property in the UAE in his or her personal capacity would generally not be subject to UAE CT and related compliance obligations.
- The investment in UAE real estate by a foreign juridical person may give rise to a taxable permanent establishment where the real estate represents a fixed place of business in the UAE through which the business of the foreign person is wholly or partially carried out. For more information on what would trigger a 'fixed or permanent place of business' under the permanent establishment rules, see question 73 'How do I know if I have a Permanent Establishment in the UAE?'.

## FOREIGN PERSONS

### 75. What determines whether income is sourced from the UAE?

Income will be considered to be sourced from the UAE, if:

- The income is derived from a UAE resident;
- the income derived is attributed to a Permanent Establishment in the UAE of a non-UAE resident; or
- The income is derived from activities performed, assets located, capital invested, rights used or services performed or benefited from in the UAE.

The Corporate Tax Law includes a non-exhaustive list of income that is considered as being sourced in the UAE. A Cabinet Decision may be issued in due course specifying the types of UAE sourced income subject to withholding tax. The UAE withholding tax rate is set at 0%.

### 76. Will UAE investment income earned by a foreign investor be subject to UAE CT?

Income from dividends, capital gains, interest, royalties and other investment returns earned by foreign juridical persons or individuals will not be subject to UAE CT, unless such income can be attributed to a permanent establishment in the UAE of the foreign person.

### 76. Will UAE investment income earned by a foreign investor be subject to UAE CT?

Income from dividends, capital gains, interest, royalties and other investment returns earned by foreign juridical persons or individuals will not be subject to UAE CT, unless such income can be attributed to a permanent establishment in the UAE of the foreign person.



## TAXABLE INCOME

### 77. What is taxable income?

The taxable income for a Tax Period is the accounting net profit (or loss) of the business, after making adjustments for certain items as defined in the Corporate Tax Law.

### 78. What standards must be used to prepare financial statements?

For UAE CT purposes, the financial statements of UAE entities and other businesses should be prepared in accordance with accounting standards accepted in the UAE. International Financial Reporting Standards (IFRS) is the most frequently used accounting standard in the UAE.

### 79. Will financial statements need to be prepared on an accruals basis?

Taxpayers should prepare their financial statements, and determine their taxable income on an accruals basis, unless they are permitted to use the cash basis of accounting instead. The Minister may prescribe the instances where a taxpayer can prepare financial statements using the cash basis, which is expected to be available for certain categories of individual entrepreneurs and small businesses.

### 80. What UAE CT adjustments to the financial statements will be required to calculate taxable income?

The accounting net profit (or loss) would need to be adjusted for the items prescribed in the UAE Corporate Tax Law, including:

1. Unrealised gains/losses (subject to the election made regarding the application of the realisation principle);
2. Exempt income such as dividends;
3. Intra-group transfers;
4. Deductions which are not allowable for tax purposes;
5. Adjustments for transactions with Related Parties and Connected Persons;
6. Any incentives or tax reliefs; and
7. Any other adjustment specified by the Minister.

### 81. What is the UAE CT treatment for any unrealised gains and losses arising from accounting fair value or impairment adjustments?

Where a business prepares their financial statements on an accruals basis, it has the following options in respect of the UAE CT treatment of unrealised accounting gains and losses:

- Option 1: The taxpayer can elect to recognise gains and losses on a 'realisation basis' for UAE CT purposes for all assets and liabilities – that is, any and all unrealised gains would not be taxable (and conversely, any and all unrealised losses would not be deductible) until they are realised;
- Option 2: The taxpayer can elect to recognise gains and losses on a 'realisation basis' for UAE CT purposes for assets and liabilities held on capital account only – that is, only unrealised gains and losses in respect of assets and liabilities held on capital account would not be taxable or deductible, respectively, until they are realised. Unrealised gains and losses arising from assets and liabilities held on revenue account, on the other hand, would continue to be included in taxable income on a current basis.

Generally, assets and liabilities are considered to be held on capital account when they are not expected to be sold or traded with during the regular course of the business operation.

### 82. What is the realisation principle, & when is income realised for UAE CT purposes?

- As under many other Corporate Tax systems, the UAE CT regime allows taxpayers to apply the realisation principle for determining their taxable income. This means that income will only be taxable, and a deduction would only be able to be taken, if and when a gain or loss is realised. Realisation would happen, for example, when the relevant asset is sold or terminated.
- Under the realisation principle, the taxable income for each Tax Period would exclude gains and losses in respect of assets or liabilities that are subject to fair value or impairment accounting.

### 83. How are capital gains taxed?

No distinction is made between gains arising from the sale of capital assets and those arising from the sale of non-capital (revenue) assets. Capital gains derived from the disposal of assets are included in annual taxable income in the same manner as other income from the business. Capital gains on the sale of shares may be exempt from corporate income tax, subject to meeting certain conditions (see question 87 'Are capital gains exempt from UAE CT?').



## INCOME EXEMPT FROM CT

### 84. What income is exempt from UAE CT?

The following income is exempt from UAE CT:

1. Dividends and other profit distributions received from UAE incorporated or resident legal persons;
2. Dividends and other profit distributions received from a Participating Interest in a foreign juridical person (see further information below);
3. Certain other income (e.g., capital gains, foreign exchange gains / losses and impairment gains or losses) from a Participating Interest (see further information below);
4. Income from a foreign branch or permanent establishment where an election is made to claim the "Foreign Permanent Establishment" exemption; and
5. Income earned by non-residents from the operation or leasing of aircrafts or ships in international transportation where certain conditions are met (see further information below).

### 85. Are all dividends and other profit distributions earned from UAE juridical persons exempt from UAE CT?

Domestic dividends and other profit distributions earned from UAE juridical persons are exempt from UAE CT, irrespective of the level of ownership in the UAE juridical person paying the dividend or profit share. This exemption also applies to dividends received from a UAE juridical person that benefits from a CT exemption or whose profits are subject to the 0% Free Zone CT rate.

### 86. Are all dividends and other profit distributions from foreign juridical persons exempt from UAE CT?

Subject to the participation exemption requirements, dividends and other profit distributions earned from a Participating Interest in a foreign juridical person are exempt from UAE CT. A Participating Interest is a 5% or greater ownership interest in the capital or equity of the foreign juridical person that meets the conditions of the participation exemption regime.

### 87. Are capital gains exempt from UAE CT?

- Under the participation exemption regime, capital gains earned from a Participating Interest are exempt from UAE CT. Also, there is relief from CT for capital gains that may arise on intra-group transfers and reorganisation and restructuring transactions.
- Other capital gains would be treated as ordinary income and subject to CT.

### 88. What is the participation exemption regime?

- The background to the participation exemption regime is to prevent double taxation within a group where an underlying group company (that pays the dividend or whose shares are being sold) has already been taxed on its profits.
- The Corporate Tax Law fully exempts dividends derived from UAE entities, as well as dividends from foreign subsidiaries that qualify as a "Participation". A Participation is a juridical person in which the UAE shareholder company owns a 5% or greater ownership interest (a "Participating Interest") for at least 12 months, and that meets the conditions of the participation exemption regime.
- Similarly, capital gains on the sale of shares in domestic and foreign entities would also be exempt from CT. This exemption is subject to the same minimum ownership threshold, duration and other conditions mentioned above.

### 89. Can I benefit from a UAE CT exemption if I own less than a 5% shareholding in a company?

There can be instances where a UAE business makes a strategic investment in another company that does not result in a 5% or greater ownership interest, or where the percentage ownership in the Participation falls below the 5% ownership threshold because of events outside of the control of the UAE shareholder company. To address such instances and reduce the administrative burden associated with monitoring the continued compliance with the minimum ownership requirement under the participation exemption regime, the Minister may prescribe a certain minimum acquisition cost / value above which the ownership interest in another juridical person is deemed to be a qualifying "Participation", and the income from this investment can benefit from the participation exemption



## DEDUCTIONS

### 90. What expenditure will be deductible for the purposes of calculating taxable income?

- In principle, all legitimate business expenses incurred to derive taxable income will be deductible, although the timing of the deduction may vary for different types of expenses and the accounting method applied. For capital assets, expenditure would generally be recognised by way of depreciation or amortisation deductions over the economic life of the asset or benefit.
- Expenditure that has a dual purpose, such as expenses incurred for both personal and business purposes, will need to be apportioned with the relevant portion of the expenditure treated as incurred wholly and exclusively for the purpose of the taxable person's business.

### 91. Will my interest expenditure be fully deductible?

The Corporate Tax Law provides for certain restrictions on the deductibility of interest expenditure to discourage excessive debt financing, and to ensure that debt financing used or arising as a result of certain specific intra-group transactions will only be deductible if there is a valid commercial reason for obtaining the loan.

#### General interest deduction limitation rule

- Businesses with net interest expenditure above a threshold to be set by the Minister will be allowed to deduct net interest expenditure up to 30% of their earnings before interest, tax, depreciation and amortisation (EBITDA), excluding any exempt income. Any net interest expenditure which exceeds this limit may be carried forward and utilised in the subsequent 10 tax periods.
- Businesses with net interest expenditure below the threshold to be set by the Minister will not be subject to the general interest deduction limitation rule.
- The general interest deduction limitation rule will not apply to banks and other finance institutions, insurance providers or individuals.

#### Specific interest deduction limitation rule

- Where a loan is obtained from a Related Party and is used to finance income that is exempt from CT, the interest on the Related Party loan will not be deductible unless the taxpayer can demonstrate that the main purpose of obtaining the loan and carrying out the transaction is not to gain a CT advantage.

### 92. What expenditure will be non-deductible for the purposes of calculating taxable income?

Article 33 of the UAE Corporate Tax Law lists certain specific expenses for which no deduction will be allowed, such as bribes, fines and penalties, and no deduction is available for expenditure incurred in deriving income that is exempt from CT or losses that are not connected with or arising out of a taxpayer's business. Additionally, certain restrictions may apply to the deduction of interest expenditure (see question 92, Will my interest expenditure be fully deductible?).

### 93. Will dividends paid by UAE companies be deductible for CT purposes?

Dividends paid by UAE companies will not be deductible for CT purposes.

### 94. Will service fees paid to local and Federal Governments be deductible for UAE CT?

Business set up, licence renewal and other Government fees and charges incurred wholly and exclusively in the ordinary course of business are deductible for CT purposes.

### 95. Will Value Added Tax paid be deductible for UAE CT?

Only irrecoverable input Value Added Tax may be deductible for CT purposes. Otherwise, Value Added Tax charged and Value Added Tax incurred would not impact the calculation of taxable income.

## TRANSFER PRICING

### 96. What are transfer pricing rules?

Transfer pricing rules seek to ensure that transactions between Related Parties are carried out on arm's length terms, as if the transaction was carried out between independent parties. To prevent the manipulation of taxable income, various articles in the Corporate Tax Law require that the consideration of transactions with Related Parties and Connected Persons needs to be determined by reference to their "Market Value".

### 97. Will transfer pricing rules apply to both domestic and cross border transactions?

Yes. Transfer pricing rules apply to UAE businesses that have transactions with Related Parties and Connected Persons, irrespective of whether the Related Parties or Connected Persons are located in the UAE mainland, a Free Zone or in a foreign jurisdiction.

### 98. Who are Related Parties?

- Generally, Related Parties of an individual refer to the individual's relatives as well as companies in which the individual, alone or together with their Related Parties, has a controlling ownership interest (typically 50% or more of shares of the company).
- Similarly, Related Parties of a company refers to any other companies in which the company, alone or together with their Related Parties, has a controlling ownership interest (typically 50% or more of shares of the company), or that are under greater than 50% common ownership.
- Further detail on the definition of Related Parties can be found in Article 35 of the Corporate Tax Law.

### 99. Who are Connected Persons?

Connected Persons are different from Related Parties. A person will be considered "connected" to a business that is within the scope of UAE CT if they are:



### 100. What transfer pricing methodologies can be used to determine the arm's length value?

Generally, taxpayers are required to apply one or more of the following methodologies to determine the arm's length values for transfer pricing purposes:

1. The comparable uncontrolled price method
2. The resale price method
3. The cost-plus method
4. The transactional net margin method
5. The transactional profit split method.

### 101. What documentation should be maintained in respect of transfer pricing?

- Businesses will be required to maintain information regarding their transactions with Related Parties and Connected Persons, and certain businesses will be required to submit this information along with their tax return. Businesses that claim small business relief will not have to comply with the transfer pricing documentation rules.
- Certain businesses may be requested to maintain a master file and a local file.

### 102. Do taxpayers need to consider whether intra-group loan arrangements are at arm's length?

Yes. Transfer pricing rules will apply to all transactions with Related Parties and Connected Persons. Therefore, any loan obtained from (or granted to) a Related Party or Connected Person needs to be at arm's length (e.g. interest rate, duration, etc.).

### 103. Would transactions in a Tax Group need to comply with transfer pricing rules?

Transactions between members of a Tax Group are eliminated in the consolidation of the Group's financial results statements and hence do not need to comply with the transfer pricing rules, unless a member of the Tax Group needs to compute its stand-alone Taxable Income for the purposes of utilising Tax Losses incurred before joining the Tax Group or when leaving a Tax Group.

## LOSSES

### 104. What are “Tax Losses”?

A loss for CT purposes (“Tax Loss”) would arise when the total deductions a business can claim are greater than the total income that is subject to tax for the relevant Tax Period, resulting in negative taxable income.

### 105. Will the UAE CT regime allow prior year tax losses to reduce taxable income?

Tax losses can, subject to certain conditions, be offset against the taxable income of future periods, up to a maximum of 75% of the taxable income in each of those future periods. Any excess (unused) tax losses can be carried forward and used against taxable income of future Tax Periods indefinitely.

Example:

- A taxpayer has taxable income of AED 100,000 and carried forward losses of AED 125,000. It can offset  $(75\% \times \text{AED } 100,000) = \text{AED } 75,000$  of its losses carried forward in the relevant Tax Period, reducing its taxable income to AED 25,000.
- The amount of tax losses available for carry forward to subsequent Tax periods would reduce to AED 50,000 (AED 125,000 – AED 75,000).

### 106. Will a change in ownership of the taxable person restrict the ability to use its tax losses?

Tax losses can be carried forward without limitation provided the same person or persons continue to own at least 50% of the entity with the losses. Where there is a greater than 50% change in ownership, tax losses may still be carried forward provided there is no major change in the nature or conduct of the entity's business.

### 107. Will a group be able to utilise the tax losses of one group company against the taxable income of another group company?

- Tax losses from one UAE group company may be used to offset taxable income of another UAE group company where there is 75% or more common ownership and certain other conditions are met.
- No tax loss transfers will be allowed from companies that are exempt or that benefit from the 0% Free Zone CT regime.



### 108. What are the conditions for the transfer of tax losses within a group?

The UAE companies must meet the following conditions to transfer an amount of tax losses from one company to another in the same Tax Period:

1. Both companies are UAE resident juridical persons;
2. Either owns 75% or more of the other, or a third party owns 75% or more of both entities and this ownership existed at the start and end of the Tax Period in which the loss was incurred;
3. Neither company is an Exempt Person;
4. Neither company is a Qualifying Free Zone business; and
5. The financial statements must be prepared using the same accounting standards, and using the same financial year.

## TAX CREDITS

### 109. What is withholding tax?

Withholding tax is a form of Corporate Tax collected at source by the payer on behalf of the recipient of the income. Withholding taxes exist in many tax systems and typically apply to the cross-border payment of dividends, interest, royalties and other types of income.

### 110. Does the UAE CT regime have withholding tax?

- A 0% withholding tax may apply to certain types of UAE sourced income paid to non-residents. Because of the 0% rate, in practice, no withholding tax would be due and there will be no withholding tax related registration and filing obligations for UAE businesses or foreign recipients of UAE sourced income.
- Withholding tax does not apply to transactions between UAE resident persons.

### 111. Is a credit available for foreign tax paid on income that is also subject to UAE CT?

Yes. Foreign tax paid on income that is also subject to UAE CT can be deducted as a foreign tax credit from the UAE CT payable. The maximum foreign tax credit is the lower of the foreign tax paid and the UAE CT payable on the relevant income. Any excess foreign tax credit cannot be carried forward or back to a different Tax Period.

### 112. What foreign taxes can be credited against UAE CT?

Withholding tax and other forms of foreign taxes on income or profits can be offset against the UAE CT liability, subject to any conditions as may be set out in an applicable agreement or treaty made between the UAE and the foreign country or territory.





## FREE ZONES

### 113. What UAE CT rates will apply to entities established in a Free Zone?

Entities established in a Free Zone that meet the conditions to benefit from the Free Zone CT regime ("Qualifying Free Zone Persons") will be subject to UAE CT at the following rates:

**0%**

on Qualifying Income

**9%**

on Taxable Income that does not meet the Qualifying Income definition

### 114. Is the 0% Free Zone CT regime applicable automatically?

A Qualifying Free Zone Person that meets the relevant conditions will be able to benefit from the 0% Free Zone CT regime automatically. However, a Qualifying Free Zone Person can elect not to apply the Free Zone CT regime, but instead be subject to the regular CT regime and rates.

### 115. What is a Qualifying Free Zone Person?

To be treated as a "Qualifying Free Zone Person", the Free Zone entity must:

Maintain adequate substance in the UAE

Derive "Qualifying Income" as specified in a Cabinet Decision;

Comply with transfer pricing rules and maintain the relevant transfer pricing documentation;

Not have made an election to be subject to CT in full

### 116. Will a Free Zone entity be required to register and file a UAE CT return?

Yes. All Free Zone entities will be required to register and file a CT return, irrespective of whether they are a Qualifying Free Zone Person or not.

### 117. Will a different UAE CT treatment apply to entities established in a financial Free Zone?

No. The UAE CT treatment will be the same for all Free Zone entities.

### 118. Will Free Zone entities be subject to the global minimum tax (OECD, BEPS Pillar 2) rules?

Qualifying Free Zone entities that are part of a large multinational group are anticipated to be subject to a different CT rate once the Pillar Two rules are embedded into the UAE CT regime.

## SECTORS

### 119. Will the oil and gas sector and other extractive industries be subject to UAE CT?

Businesses engaged in the extraction of the UAE's natural resources and in the non-extractive aspects of the natural resources value chain that are subject to Emirate-level taxation will be outside the scope of the UAE CT regime, subject to certain conditions and safeguards as specified in Article 7 and Article 8 of the Corporate Tax Law, respectively.

### 120. Will the banking sector be subject to UAE CT?

Yes. UAE headquartered banks and UAE branches of foreign banks will be subject to UAE CT.

### 121. Will the real estate sector be subject to UAE CT?

Yes. Businesses engaged in real estate management, construction, development, agency and brokerage activities will be subject to UAE CT.

### 122. Will the asset management sector be subject to UAE CT?

The asset management and broader financial services sectors will be subject to UAE CT, although investment funds that meet certain conditions can apply to be exempt from UAE CT. Further, under the so-called Investment Manager Exemption, UAE based and regulated fund managers and other investment managers can perform discretionary asset / investment management services without creating a taxable presence in the UAE for their foreign clients.

### 123. Will charities and other public benefit organisations be subject to UAE CT?

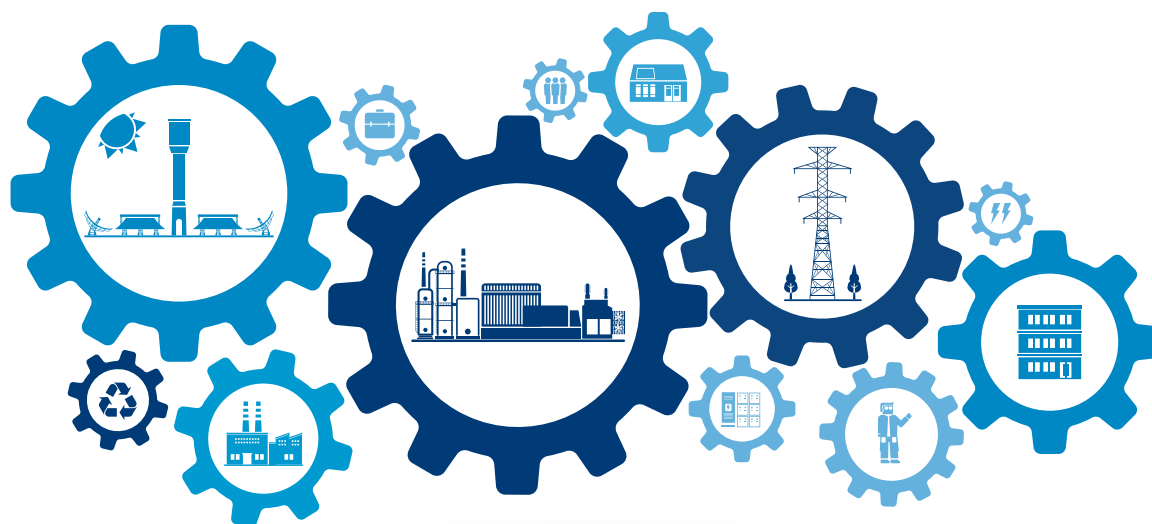
Charities and other public benefit organisations will be exempt from UAE CT, subject to meeting certain conditions and being listed in a Cabinet Decision.

### 124. How will international airlines and shipping companies be taxed?

Income earned by foreign operators of aircrafts and ships will be exempt from UAE CT in respect of:

1. Providing international transportation of passengers, livestock, mail, parcels, merchandise or goods by air or by sea;
2. Leasing or chartering aircrafts or ships used in international transportation; or
3. Leasing or chartering equipment which are integral to the seaworthiness of ships or the airworthiness of aircrafts used in international transportation.

This exemption would only apply where the country of the foreign airline or shipping company would grant a similar exemption to UAE operators of aircrafts and ships.



## TAX GROUPS

### 125. Will a group of UAE companies be able to form a Tax Group for UAE CT purposes?

UAE companies can apply to form a Tax Group and be treated as a single taxable person if the UAE parent company (directly or indirectly) holds **at least 95% of the share capital** and voting rights of each of the companies.

Example: Company A owns, 20% of company B, and 100% of Company C. Company C owns 80% of the shares of Company B. Because Company A indirectly owns 100% of the shares of Company B (80% via Company C), it can form a Tax Group with both Company B and Company C.

To form a Tax Group, neither the parent company nor any of the subsidiaries can be an exempt person or a Free Zone entity benefitting from the 0% CT rate, and all companies must use the same financial year and prepare their financial statements using the same accounting standards.

### 126. Can UAE subsidiaries of a foreign parent company form a Tax Group for UAE CT purposes?

Being (ultimately) owned by a foreign parent company does not preclude UAE subsidiaries from forming a Tax Group, but the UAE subsidiaries must be held by an intermediary UAE parent company that will be the "parent" of the Tax Group for UAE CT purposes.

### 127. Can foreign entities be included in a Tax Group?

No, unless the foreign entity is managed and controlled in the UAE and considered a UAE resident entity for UAE CT purposes. This is because only UAE resident juridical persons can form or be part of a Tax Group.

### 128. Will the 0% CT rate threshold apply to the Tax Group as a whole?

Yes. The 0% threshold of AED 375,000 (amount to be confirmed in a Cabinet Decision) will apply to the Tax Group as a single taxpayer, irrespective of the number of entities that form part of the Tax Group.

### 129. Who will be responsible for the filing of the UAE CT and for payment of the UAE CT due once a Tax Group is formed?

- Once formed, the Tax Group is treated as a single taxable person, with the parent company responsible for the administration and payment of CT on behalf of the group.
- For the period they are group members, the parent company and each subsidiary will be jointly and severally liable for the UAE CT obligations of the Tax Group. This joint and several liability can be limited to one or more named members of the Tax Group, with approval from the Federal Tax Authority.

### 130. Will the Tax Group need to prepare consolidated financial statements?

Yes. To determine the taxable income of the Tax Group, the parent company will have to consolidate the financial accounts of each subsidiary for the relevant Tax Period, and eliminate transactions between the parent company and each subsidiary group member.



## GROUP RELIEF

### 131. Will there be any relief available for transfers between group companies?

Yes. Companies that are part of a 'Qualifying Group' can transfer assets and liabilities between themselves at their net book value. This means that the transfer can be carried out tax neutrally (i.e. not give rise to a gain or loss for CT purposes).

### 133. Will there be any relief to facilitate mergers, spin-offs and other restructuring transactions?

Yes. The UAE CT regime allows for legal mergers, business mergers, spin-offs and other transfers and restructuring transactions that meet the conditions specified to be carried out without triggering a gain or loss for CT purposes.

### 132. What is a Qualifying Group?

A Qualifying Group exists where all of the following conditions are met:

**1**

The members are juridical persons which are UAE residents or non-resident persons that have a permanent establishment in the UAE

**2**

Either owns 75% or more of the other, or a third party owns 75% or more of both entities

**3**

Neither member is an Exempt Person;

**4**

Neither member is a Qualifying Free Zone Person

**5**

Members prepare their financial statements using the same accounting standards, and have the same financial year.



## FINANCIAL RECORDS

### 134. What records should I keep for UAE CT purposes?

- Taxpayers are expected to prepare and maintain financial statements for the purposes of **calculating their taxable income**, and should maintain all documents and records that support the information in the CT return or in any other filing made with the Authority.
- Exempt persons are required to maintain all records to support their exempt status.

### 135. How long must I keep my records for UAE CT purposes?

Records and documents should be kept for at least **seven years** following the end of the relevant Tax Period.

### 136. Can I use the consolidated financial statements of the group to prepare the UAE CT return for my UAE business?

No, unless the group only comprises UAE resident entities that have applied to form a Tax Group. Otherwise, each UAE entity that is subject to CT will need to prepare and maintain stand-alone financial statements for UAE CT purposes.

### 137. Will all entities that are subject to UAE CT be required to have audited financial statements?

No. Only the categories of taxable persons that are listed in a decision issued by the Minister will be required to prepare and maintain audited or certified financial statements.

### 138. Will the consolidated financial statements of a Tax Group need to be audited for CT purposes?

No. Only the categories of taxable persons that are listed in a decision issued by the Minister will be required to prepare and maintain audited or certified financial statements.

### 139. Will I need to submit my financial statements to the Federal Tax Authority?

The Federal Tax Authority may request for the financial statements to be submitted alongside the CT tax return, or for the financial statements to be provided upon request.

### 140. What currency do I use for UAE CT purposes?

- A taxpayer's income, deductions and credits must be measured in the national currency of the UAE (AED), and income derived and expenses incurred in a foreign currency need to be translated into AED.
- In principle, taxpayers are expected to translate amounts denominated in a foreign currency on a transaction-by-transaction basis. This means that the receipt of income denominated in foreign currency should be translated into AED at the time the income is derived. Similarly, each

### 141. What exchange rate do I use for UAE CT purposes?

For UAE CT purposes, all amounts must be converted to AED based on the applicable exchange rate set by the Central Bank of the UAE at the time the foreign currency transaction is to be translated into the national currency, unless the Federal Tax Authority allows the taxpayer to use an exchange rate that more accurately reflects the taxpayer's income.



## ADMINISTRATION

### 142. What is a self-assessment regime?

A self-assessment regime is one where taxpayers are responsible for calculating, reporting and paying their taxes.

### 143. Who will be required to register for UAE CT purposes?

All taxpayers, as prescribed by the Minister, will be required to register for UAE CT and obtain a Corporate Tax Registration Number. The Federal Tax Authority may also request certain Exempt Persons to register for UAE CT.

### 144. When do I register for UAE CT?

Taxpayers are required to register before they file their first CT return.

### 145. Is there a registration threshold for UAE CT?

There is no registration threshold for UAE CT.

### 146. How do I register for UAE CT?

Taxpayers will be able to electronically register for UAE CT through the website of the Federal Tax Authority. Further guidance on this will be provided in due course.

### 147. I am already registered for VAT purposes. Do I have to register for UAE CT?

Yes. Taxpayers will be required to register for UAE CT (and update their details, if required), even if they are already registered for VAT.

### 148. How often will UAE businesses need to file a UAE CT return?

Only one UAE CT return will need to be filed per Tax Period. The CT return will generally be due within 9 months following the end of the Tax Period. No provisional or advance UAE CT filings will be required.

### 149. I did not make a profit for the Tax Period, do I have to complete a UAE CT return?

Taxpayers are required to file a CT return, irrespective of whether they have made a profit or not. Taxpayers with tax losses should ensure they file a CT return in order to ensure that these losses can be used to reduce taxable income of future years.

### 150. I do not have any income / or my company is dormant, do I have to complete a UAE CT return?

Taxpayers are required to file a CT return, irrespective of the level of income or the status of the company.

### 151. Can I file one UAE CT return for all the companies I own?

- If the companies meet the requirements to form a Tax Group (see section R 'Tax Groups') and their application to form a Tax Group is approved, they can file a single UAE CT return covering all the members of the Tax Group.
- Where companies cannot form a Tax Group, they will each be required to file a UAE CT return on a standalone basis.

### 152. Will the CT return need to be filed electronically?

UAE CT returns will need to be filed electronically. Further guidance on this will be provided in due course.

### 153. When do I need to pay my UAE CT liability?

UAE CT will generally need to be paid before the end of the 9 months following the end of the relevant Tax Period.

### 154. How do I pay my UAE CT liability?

Further guidance on the approved payment methods will be provided in due course.

### 155. Will there be a requirement to pay UAE CT in advance?

No. UAE businesses will not be required to make advance UAE CT payments. The CT liability for a Tax Period will generally be due for payment by the end of the 9th month following the end of the relevant Tax Period.

### 156. Are there any consequences for non-compliance under the UAE CT regime?

- Similar to other taxes in the UAE (e.g. VAT), businesses will be subject to penalties for non-compliance with the UAE CT regime.
- Further information on the UAE CT compliance obligations and applicable penalties will be released in due course.

## PILLAR 2

### 142. Will the UAE CT regime tax large multinationals at the global minimum tax rate?

- The UAE is a member of the **OECD BEPS** Inclusive Framework and is committed to addressing the challenges faced by tax jurisdictions internationally. As such, the introduction of a CT regime helps to provide the UAE with a framework to adopt the Pillar Two rules.
- Until such time as the Pillar Two rules are adopted by the UAE, multinationals will be subject to CT under the regular UAE CT regime.
- Further information will be released in due course on the implementation of the Pillar Two rules in the UAE.



### 147. What is meant by “large” multinationals?

- A multinational corporation is a corporation that operates in its home country, as well as in other countries through a foreign subsidiaries, branches or other entity forms of presence / registration. Merely earning foreign sourced income from outside its home country without a foreign presence or registration in a foreign country would not make a business a multinational corporation.
- In the context of the global minimum effective tax rate as proposed under ‘Pillar Two’ of the OECD Base Erosion and Profit Shifting project, “large” refers to a multinational corporation that has consolidated global revenues in excess of the UAE Dirham equivalent of EUR 750 million.





*Other  
Compliances*





# **ECONOMIC SUBSTANCE REGULATIONS ( ESR )**





# TABLE OF CONTENT

- INTRODUCTION (WHAT, WHEN, WHERE, WHO)
- WHO IS LIABLE FOR
  - ESR REPORT
  - ESR NOTIFICATION
- RELEVANT ACTIVITIES
- REQUIREMENTS
- WHO NEED TO BE REPORTED
- WHEN



## WHAT IS ESR?

### Economic substance regulations (ESR)

Compliance is to be done for every financial year. Companies are required to do assessment of their activities and transactions for each financial year and take action accordingly for the filing requirement with UAE Ministry of finance (MOF).

### Why ESR is implemented in UAE?

The purpose of the ESR is to prevent businesses, typically multinational corporations, from artificially shifting profits to jurisdictions that impose little or no income tax without having substantial activities in that jurisdiction to take advantage of their tax laws.

### Who prepare Economic Substance Notification?

All the companies in the mainland, offshore and freezone are involved in more than one "Relevant Activities" must file a Notification annually, within six months of the end of the Reportable Period.

**E.g.: -if your company's financial year end is 31 December 2021, then you need to file ESR Notification before 30 June 2022.**

### Economic Substance Report

Entities that are within the scope of the Regulations have to submit an annual Notification form to their Regulatory Authority, and complete and submit to the same Regulatory Authority an Economic Substance Report within 12 months from the end of their financial year.

**E.g.: -31 December 2022 for entities with a financial year ending 31 December 2021.**



## Who has to file ESR?

Who needs to submit a Notification and by when? Exempted Licensees and Licensees who undertake any kind of **Relevant Activity** irrespective of any income earned from the Relevant Activity during the financial period are required to file a **Notification within six months from the end of the relevant financial period.**

- Banking Business
- Insurance Business
- Investment Fund management Business
- Lease – Finance Business
- Headquarters Business
- Shipping Business
- Holding Company Business
- Intellectual Property Business ("IP")
- Distribution & Service Centre Business

## WHAT REQUIREMENTS DO UAE ENTITIES NEED TO MEET?

- UAE entities undertaking and earning income from a Relevant Activity in a financial year must perform the related "Core Income Generating Activities" in the UAE by demonstrating that:
  1. The entity and Relevant Activity are being "directed and managed" from the UAE (through holding and minuting board meetings in the UAE, having a UAE based manager and/or directors etc.); and
  2. The entity has an adequate number of qualified employees, premises (e.g. office space), and annual operating expenditures in the UAE relative to the activity undertaken.
- It is possible for an entity to carry on more than one Relevant Activity at a time, in which case generally the economic substance requirements will need to be satisfied for each Relevant Activity.
- Different economic substance requirements apply depending on the Relevant Activity carried on. For example, pure holding companies are subject to less stringent economic substance requirements, but additional economic substance requirements apply to "high risk" IP related activities.

## WHAT NEEDS TO BE REPORTED?

- UAE entities that undertake a Relevant Activity will need to submit an annual notification within six months of their financial year end indicating whether they carry out a Relevant Activity in the financial year and whether any income from that Relevant Activity has been subject to tax outside the UAE. UAE entities that qualify for an exemption from the Regulations, or that did not earn income from their Relevant Activity during a financial period are required to submit a notification.
- UAE entities that undertake a Relevant Activity and earn income from the Relevant Activity will also need to file an annual economic substance report, self-assessing whether they met the economic substance requirements, supported by information about the Relevant Activity income earned, the number and qualifications of the staff involved, and information about the premises and other assets used in conducting the Relevant Activity.

## WHEN?

### Why ESR is implemented in UAE?

Must comply with the regulations from the beginning of their financial year end commencing on or after 1 January 2019, with the first report due 12 months after their financial year end. (likely being 31 December 2020 in many cases)

### New entities

Must comply with the regulations from the commencement of their financial year, with the first report due 12 months after their financial year end.





# FAQs



# THE ECONOMIC SUBSTANCE REGULATIONS

## 1. Why has the UAE introduced Economic Substance Regulations?

In April 2019, the UAE issued Cabinet of Ministers Resolution No. 31 of 2019 concerning Economic Substance ("Resolution 31") as part of its commitment as a member of the OECD Inclusive Framework, and in response to an assessment of the UAE's tax framework by the European Union Code of Conduct Group on Business Taxation.

On 10 August 2020, the Cabinet of Ministers issued Resolution No.57 of 2020 Concerning Economic Substance Regulations ("Resolution 57"). Resolution 57 amends and repeals Resolution 31, Cabinet of Ministers Resolution No. 58 of 2019, and Cabinet of Ministers Resolution No. 7 of 2020. Following the issuance of Resolution 57, H.E. the Minister of Finance issued new Guidance by way of Ministerial Decision No. 100 of 2020, which also includes an updated Relevant Activities Guide appended as Schedule 1 ("Ministerial Decision 100").

The Regulations require UAE onshore and free zone companies and certain other business forms that carry out certain activities (Licensees – See Question 6) to maintain and demonstrate an adequate "economic presence" in the UAE relative to the activities they undertake. The purpose of the Regulations is to ensure that UAE entities report actual profits that are commensurate with the economic activity undertaken within the UAE.

Resolution 57 and Ministerial Decision 100 (collectively, the "Regulations") have been prepared in consultation with the Organisation for Economic Cooperation & Development ('OECD') and the European Union ('EU').

## 2. Why should a business comply with the Economic Substance requirements?

If you are within the scope of the Economic Substance Regulations (see Section B), you must submit a Notification and Economic Substance Report, and meet the Economic Substance Test. Failure to do so will result in penalties (see Question 71).

## 3. When do the Regulations enter into force?

The Regulations apply to financial years starting on or after 1 January 2019.

**Example 1: A UAE company with 1 January 2019 – 31 December 2019 financial year:**

First assessable period would be 1 January 2019 – 31 December 2019.

**Example 2: A UAE company with 1 April 2019 – 31 March 2020 financial year:**

First assessable period would be 1 April 2019 – 31 March 2020.

No need to comply with the Regulations for the period 1 January 2019 – 31 March 2019.

**Example 3: A UAE company with 1 July 2018 – 30 June 2019 financial year:**

First assessable period would be 1 July 2019 – 30 June 2020.

No need to comply with the Regulations for the period 1 July 2018 – 30 June 2019.

## 4. Who are the "Regulatory Authorities"?

The Regulations are administered by the Regulatory Authorities listed in Article 4 of the Regulations, and set out below:

### A. Federal Entities:

- Ministry of Economy
- Central Bank
- Insurance Sector of the Central Bank
- Security and Commodities Authority

### B. Abu Dhabi Free Zones:

- Abu Dhabi Global Market
- Abu Dhabi Airports Free Zone
- Abu Dhabi Ports
- MASDAR City

## THE ECONOMIC SUBSTANCE REGULATIONS

### C. Dubai Free Zones:

- Dubai Airport Free Zone
- Dubai Healthcare City Authority
- Dubai International Financial Center
- Meydan
- Dubai Aviation City Corporation/ Dubai South
- Jebel Ali Free Zone Authority
- Dubai World Trade Center
- International Humanitarian City
- Dubai Development Authority
- Dubai Silicon Oasis
- Dubai Multi Commodities Centre
- Dubai Maritime City

### D. Sharjah Free Zones:

- Sharjah Airport International Free Zone Authority
- Hamriyah Free Zone Authority
- Sharjah Media City (Shams)
- Sharjah Publishing City
- Sharjah Research Technology and Innovation Park
- Sharjah Healthcare City

### E. Ajman Free Zones:

- Ajman Free Zone Authority
- Ajman Media Free Zone Authority

### F. Ras Al-Khaimah Free Zones:

- RAK International Corporate Centre
- Ras Al Khaimah Economic Zone
- RAK Maritime City

### G. Um Al-Quwain Free Zones:

- UAQ Free Trade Zone

### H. Fujairah Free Zones:

- Fujairah Free Zone
- International Free Zone Authority
- Fujairah Creative City

The Regulatory Authorities are responsible for monitoring compliance with the Notification and reporting obligations under the Regulations, identifying possible Licensees, validating information submitted, determining whether a relevant entity meets the requirements to be treated as exempt, and sharing information with the UAE Federal Tax Authority and the UAE Ministry of Finance.





## SCOPE OF APPLICATION

### 4. Who is the “National Assessing Authority” and what is their role?

The assessment and determination on whether a Licensee has economic substance in the UAE is made by the Federal Tax Authority (“FTA”), in its capacity as the “National Assessing Authority” under the Regulations.

The FTA will also be responsible for enforcing compliance of UAE businesses with the Economic Substance Regulations, including issuing penalties and hearing appeals.

For further information on penalties and appeals under the Economic Substance Regulations, please refer to the FTA’s Economic Substance webpage [here](#) [link to FTA ESR page].

### 6. Who is subject to the Regulations?

The Regulations apply to Licensees that carry out any of the following Relevant Activities.

- Banking Businesses
- Insurance Businesses
- Investment Fund Management Businesses
- Lease-Finance Businesses
- Headquarter Businesses
- Shipping Businesses
- Holding Company Businesses
- Intellectual Property Businesses
- Distribution and Service center Businesses

Please refer to Schedule 1 of Ministerial Decision 100 for an explanation and examples of each activity.

### 7. What is a Licensee?

A Licensee is a juridical person or an unincorporated partnership that is registered in the UAE and that undertakes a Relevant Activity.

By way of example, a Licensee can be:

- A limited liability company
- A private shareholding company
- A public shareholding company
- A joint venture company
- A partnership (e.g. a limited liability partnership, a limited partnership, a general partnership, etc.)

The following persons are not considered “Licensees” under the Regulations:

- A natural person
- A sole proprietorship
- A Trust\*
- A Foundation\*

\*Generally, Trusts and Foundations are not permitted to undertake commercial activities and therefore cannot undertake a “Relevant Activity”. However, if a Trust or Foundation does undertake a “Relevant Activity” it will be considered as a Licensee and must comply with the Regulations.

### 8. The business activities that I undertake do not meet the requirements of any of the Relevant Activities listed, am I subject to the Economic Substance Regulations?

Regulations and are required to file a Notification and Economic Substance Report.

### 9. Are branches subject to the Regulations?

Branches registered in the UAE are an extension of their “parent” or “head office” and do not have separate legal personality.

As such, the “parent” or “head office” registered in the UAE must file as a single Licensee, reporting the Relevant Activities of itself and all its branches in one composite Notification and / or Economic Substance Report.

A UAE branch of a foreign entity that carries out a Relevant Activity would be required to comply with the Regulations as if it was a separate legal person, unless the Relevant Income of the branch is within the scope of taxation in the jurisdiction of the foreign parent / head office. The “subject to tax” test is met where the income of the UAE branch is taken into account when calculating the taxable income of the foreign parent / head office or other relevant group entity reporting the Relevant Income of the UAE branch for corporate income tax purposes, irrespective of whether the income of the UAE branch can benefit from an exemption or other form of corporate tax relief in the foreign jurisdiction under domestic tax law or a double tax agreement.

Where a UAE entity carries on a Relevant Activity through a branch registered outside the UAE, the UAE entity is not required to consolidate the activities and income of the foreign branch for purposes of the Regulations, provided the Relevant Income of the foreign branch is subject to tax in the foreign jurisdiction where the branch is located. In this context, a branch can include a permanent establishment or any other form of taxable presence for corporate income tax purposes which is not a separate legal entity.

## SCOPE OF APPLICATION

### 10. Where do I report the details of my branch?

When completing the Notification and Economic Substance Report on the Economic Substance Filing Portal, you will be able to include details of your branches that carry out a Relevant Activity in Section B of each form.

### 11. Will the Regulatory Authorities tell businesses if they are subject to the Regulations?

No, businesses are responsible to self-assess whether they undertake a Relevant Activity and have a filing requirement under the Economic Substance Regulations and cannot rely on Regulatory Authorities to inform them of their requirements under the Economic Substance regulations.

Please refer to Schedule 1 of Ministerial Decision 100 for an explanation and examples of each Relevant Activity.

### 12. What does it mean to be subject to the Regulations?

#### Administration (For additional information refer to Section K)

Licensees that undertake a Relevant Activity are required to file an annual Notification within six months from the end of the relevant financial period (see Administration).

In addition, Licensees that earn income from their Relevant Activity(ies) are also required to file an Economic Substance Report within 12 months from the end of the relevant financial period (see Administration).

#### Demonstrating substance

For each financial period in which a Licensee earns income from a Relevant Activity, it will need to meet an Economic Substance Test in relation to that activity.

The Economic Substance Test requires a Licensee to demonstrate that:

- the Licensee and Relevant Activity are being directed and managed in the UAE;
- the relevant Core Income Generating Activities (CIGAs) are being conducted in the UAE; and
- the Licensee has adequate people, premises and expenditure in the UAE.

### 13. Do the Regulations only apply to UAE entities that are part of a foreign multinational group?

No. The Regulations impose economic substance requirements on any UAE entity which carries on a Relevant Activity, regardless of whether the UAE entity belongs to a foreign multinational group.

However, a UAE based Distribution Business, Service center Business, Headquarter Business or High-Risk IP Business would only be within the scope of the Regulations if the UAE entity transacts with foreign group companies. Distribution, Service center, Headquarter and High-Risk IP activities and transactions between UAE entities are not subject to Regulations.

### 14. Is a company registered under an 'offshore' free zone company regime subject to the Regulations?

Yes, if the 'offshore' company undertakes a Relevant Activity.

### 15. If the Ultimate Beneficial Owner of the Licensee is a UAE national or UAE resident individual, does the company still need to file a Notification?

Yes, a business that undertakes a Relevant Activity will be required to file a Notification, irrespective of the nationality or residency of its direct or ultimate owners.

### 16. Do the activities listed on the commercial license determine whether a Licensee undertakes a Relevant Activity?

No. Whilst the commercial license may indeed state the Relevant Activity, a 'substance over form' approach must be used to determine whether a Licensee undertakes a Relevant Activity and is within the scope of the Regulations. This means looking beyond what is stated on the commercial licence to the activities actually undertaken by the Licensee during a financial period.

If the business carried on a Relevant Activity, it will be required to comply with the Regulations, irrespective of the activities stated on the commercial License.

## SCOPE OF APPLICATION

### 17. When should a Licensee assess whether it undertakes a Relevant Activity?

This assessment needs to be done for each financial period, and should take into account the activities undertaken by the Licensee at any time throughout the relevant financial period.

### 18. How should a Licensee determine its financial period for Economic substance purposes?

A Licensee's financial period should correspond to the period for which financial statements (if any) are prepared to.

Newly incorporated Licensees may have either a short or long first financial period. More information and examples are available in the Economic Substance Notification and Report guidance.

### 19. Who is exempt from the Regulations?

The following Exempted Licensees are exempt from filing an Economic Substance Report and the requirement to demonstrate substance in the UAE:

- A Licensee that is tax resident outside the UAE;
- An Investment fund and its underlying SPVs / investment holding entities;
- A wholly UAE resident-owned business that is not part of a multinational group and that only carries on business in the UAE;
- A branch of a foreign entity that is subject to tax on all of its Relevant Income in a foreign jurisdiction.

Sufficient evidence must be submitted along with the Notification form to claim any of the above exemptions. Please refer to the Notification guide for details on the evidential documents that must be submitted,

### 20. What if a Licensee does not undertake a Relevant Activity during a financial period?

If a Licensee does not undertake a Relevant Activity during a financial period, it does not need to meet the Economic Substance Test.

The Licensee would not be required to submit a Notification (see Question 60) or submit an Economic Substance Report (see Question 65) for the relevant financial period.

### 21. My business was just set up, if I undertake a Relevant Activity (or plan to) by when should I file?

- Notifications must be filed within six months from the end of the relevant financial period in which you carried on a Relevant Activity; and
- Economic Substance Reports must be filed within 12 months from the end of the relevant financial period in which you carried on a Relevant Activity.

If you have just set up a business and did not carry on a Relevant Activity in your first financial period, you are not in the scope of the Regulations.

### 22. I currently do not undertake a Relevant Activity, but this may change in 6 or 10 months' time. Am I required to file a Notification now?

No, you should wait until the end of your financial period and then assess if you carried out a Relevant Activity. You will need to submit a Notification for the Reportable Period during which a Relevant Activity was undertaken. Notifications must be filed within six months after the relevant Financial Year end, and Economic Substance Reports must be filed twelve months after the end of the relevant financial period.





## SCOPE OF APPLICATION

### 23. What if the Licensee undertook a Relevant Activity for only part of a financial period?

If the Licensee undertook a Relevant Activity for only part of a financial period, it will be required to submit a Notification and Economic Substance Report (if applicable) in respect of the entire financial period.

If the Licensee undertook different Relevant Activities during the financial period, the Licensee is required to report all their Relevant Activities in a single Notification and Economic Substance Report (if applicable).

### 24. What if the Licensee carried on a Relevant Activity historically but no longer does, is the Licensee required to submit a Notification & Economic Substance Report every year until liquidation?

No, a Licensee is only required to file a Notification and Economic Substance Report in respect of financial periods where a Relevant Activity was carried on. There may be instances where a Licensee may be required to file for one year but not the following year.

### 25. What if a Licensee undertakes a Relevant Activity, but does not earn any income from that activity during a financial period?

A Licensee that undertakes a Relevant Activity but that does not earn income from this activity in a financial period, is required to submit a Notification on the Ministry of Finance filing portal.

The Licensee will not be required to meet the Economic Substance Test or file an Economic Substance Report for that period.

### 26. Is there a minimum level of income that must be met for the Economic Substance Regulations to apply?

No, there is no minimum income requirement or threshold. If you carry out a Relevant Activity you are required to submit a Notification.

If you generate revenue from a Relevant Activity – even if that was just a single dirham – you are required to file an Economic Substance Report and demonstrate economic substance in the UAE, unless you qualify for one of the exemptions.



### 27. What if all income from the Relevant Activity is earned from outside the UAE, is the Licensee exempt from the Regulations?

No. Income from a Relevant Activity for which the Licensee needs to demonstrate economic substance in the UAE includes all income, including income that is generated by the Licensee outside of the UAE.

However, please refer to Question 9 for the treatment of a foreign branch of a UAE entity that earns income from a Relevant Activity.

### 28. What if the Licensee is in liquidation (or otherwise ceases to exist), is the Licensee required to comply with the Regulations?

Yes, the Licensee must comply with the Regulations for any financial period during which it carries on a Relevant Activity. This would include submitting a Notification and Economic Substance Report (if applicable).

### 29. What if the Licensee changed its legal form in respect of a historical Reportable Period?

The Licensee should report on the basis of the information that was valid at the time the Reportable Period ended. This means, the Licensee should report the legal form that was applicable at the end of that Reportable Period.

## DEMONSTRATING ECONOMIC SUBSTANCE IN THE UAE

### 30. What is “adequate” or “appropriate” economic substance?

The UAE acknowledges that businesses vary in size and nature, and what is adequate and appropriate will depend on the nature and level of activities carried out, and the level of income earned by the Licensee. The Regulations therefore do not provide a “minimum” standard for what is considered “adequate” or “appropriate”.

The FTA is expected to take a pragmatic approach when assessing whether a Licensee has met the Economic Substance Test, recognizing that the type and level of activity of a Licensee may fluctuate during the course of a financial period and from year to year.

### 31. Will economic substance be assessed on a Licensee by Licensee basis, or can Licensees that are part of the same group elect to be assessed on a ‘consolidated’ basis?

No. The Regulations do not allow Licensees that are part of the same group to be aggregated for economic substance purposes. Each Licensee will need to comply with the Regulations, and demonstrate economic substance on an individual basis. That being said, relevant economic substance (staff, functions, assets, etc.) maintained in the UAE by other group companies can be taken into account if that economic substance

### 32. Does a Licensee need to hold board meetings in the UAE?

Yes, an adequate number of board meetings (or equivalent) should be held in the UAE. What is considered an adequate number of board meetings will depend on the nature of the Relevant Activity being undertaken by the Licensee, but for each board meeting held in the UAE:

- A quorum of directors must be physically present in the UAE; and
- Meeting minutes must be maintained and signed in the UAE; and
- Directors attending the board meeting must have the necessary skills and expertise to discharge their fiduciary duties.

A Holding Company Business is not required to be directed and managed in the UAE, except where this is a requirement of the relevant licensing authority.

### 33. Do employees who perform the CIGAs need to be resident in the UAE?

Employees who perform the CIGAs of a Licensee would in principle need to be resident in the UAE. Non-resident employees or other persons would count towards the economic substance of a Licensee in the UAE only if (i) the relevant activities are performed while the individual is physically present in the UAE and under the direction of the Licensee, and (ii) the Licensee bears the relevant costs of the non-resident individual.

### 34. Do the directors of the Licensee need to be resident in the UAE?

No, but the directors (or equivalent) do need to be physically present in the UAE to attend the relevant board meetings of the Licensee.

### 35. Can directors be counted as employees?

Yes, directors who in addition to performing their fiduciary duties also perform CIGAs can be counted as employees of the Licensee for purposes of meeting the Economic Substance Test.

### 36. Is having a UAE Tax Residency Certificate for a financial period proof of meeting the Economic Substance Test for that relevant period?

No, whilst obtaining a UAE Tax Residency Certificate requires certain minimum presence in the UAE, a UAE Tax Residency Certificate in itself is not proof of a Licensee having adequate economic substance in the UAE in relation to its Relevant Activity and the income earned from this activity.

## DEMONSTRATING ECONOMIC SUBSTANCE IN THE UAE – OUTSOURCING

### 37. What can a Licensee outsource?

Licensee can outsource any or all of its CIGAs so long as the outsourced activities are performed in the UAE. This means that a Licensee can use UAE based (i) employees and (ii) physical assets (including premises) of third parties or related entities to satisfy the Economic Substance Test.

A Licensee cannot outsource "directed and managed", as the Licensee is required to demonstrate oversight and control of its Relevant Activity in the UAE.

### 38. To whom can a Licensee outsource?

A Licensee can outsource, contract or delegate CIGAs to related parties or to third party service providers, as long as the Licensee monitors and retains the ability to control the outsourced activities.

### 39. What should a Licensee do under an outsourcing arrangement?

A Licensee should:

- Have adequate supervision of the outsourced activity; and
- Ensure the outsourced activity is conducted in the UAE; and
- Ensure the outsourcing provider has adequate substance in the UAE; and
- Ensure there is no double counting of the outsourcing provider's resources.

The above can be evidenced through the contractual agreements that govern the relationship and responsibilities of each party and the correspondence with the outsourcing provider.

### 40. Can a Licensee outsource any of its activities to a foreign person?

Activities that are not CIGAs (e.g. back office functions or specialist advice that cannot be obtained in the UAE) can be outsourced to related parties or third party service providers that are located outside the UAE without adversely impacting the economic substance of the Licensee in the UAE.





## DISTRIBUTION AND SERVICE CENTRE BUSINESS



### 41. What is a “Distribution and Service Centre” Business?

A “Distribution and Service Centre” Business refers to two distinct activities that are covered under one “Relevant Activity” heading.

A UAE entity is considered engaged in a Distribution Business if it:

- Purchases goods from a Foreign Connected Person; and
- Distributes those goods

A UAE entity is considered engaged in a Service Centre Business if it:

- Provides services to a Foreign Connected Person

The economic substance requirements for a Distribution and Service Centre Business are applicable to UAE entities whose main activity is distribution and/or service centre operations. Licensees that are mainly engaged in Banking, Insurance, Investment Fund Management, Lease-Finance, Shipping, Intellectual Property or Headquarter Business may also purchase goods for, and/or provide services to foreign group companies as a normal part of their business operations. To prevent duplicate reporting, such Licensees are not also considered engaged in a Distribution and Service Centre Business.

UAE entities that only purchase goods from third parties, or that only provide services to third parties, are not subject to the Regulations (as a Distribution and Service Centre Business).

### 42. Does a business that purchases goods from a foreign group company and sells such goods (in or outside the UAE) fall within the scope of a Distribution and Service Centre Business, if the goods are directly dispatched to the customer by the foreign group company?

Yes, the amended definition of a Distribution and Service Centre Business would apply in such cases, as the goods are no longer required to be imported into the UAE, meaning “bill-to-ship” transactions may fall within the scope of the Regulations as a Distribution and Service Centre Business.

Further, the removal of the requirement for the goods to be resold outside the UAE, means that the local distribution of goods (purchased from a foreign group company) would also be within the scope of the Regulations as a Distribution and Service Centre Business.

## HOLDING COMPANY BUSINESS

### 43. What is a Holding Company Business?

A UAE entity is considered engaged in a Holding Company Business if it:

- Only holds equity interest(s) in juridical person(s); and
- Only earns dividend and capital gains from its equity interest(s)

A UAE entity that holds other assets or earns other forms of income will not be considered a Holding Company Business. Where the holding of such other assets or the performance of other commercial activities constitute a different "Relevant Activity" (e.g. a Lease-Finance Business), the UAE entity would be subject to the Regulations in respect of that other Relevant Activity.

### 44. Are investment funds subject to the Regulations as a Holding Company Business?

No, an investment fund is not considered a Holding Company Business.

### 45. Does a Holding Company Business need to demonstrate economic substance?

Yes, although a Holding Company Business is subject to reduced substance requirements as follows:

- Comply with existing reporting / compliance requirements under the regulations applicable to the Licensee; and
- Have adequate employees and physical assets (e.g. premises)

A Holding Company Business does not require:

- to be "directed and managed" in the UAE (subject to each Regulatory Authority's own regulations); or
- To have / demonstrate adequate expenditure in the UAE



## “HIGH RISK” IP BUSINESS



### 46. What are the conditions for an IP Business to be considered as “High Risk”?

All of the following conditions must be met for an IP Business to be considered as “High Risk”:

- 1) The Licensee did not create the IP asset which it holds for the purposes of its business;
- 2) The Licensee acquired the IP asset either from:
  - a Connected Person, or
  - in consideration for funding research and development by another person situated in a country other than the UAE;
- 3) The Licensee:
  - licenses the IP asset to one or more Connected Persons, or
  - otherwise generates income from the asset in consequence of activities performed by Foreign Connected Persons

### 47. What does it mean if a Licensee has a “High Risk” IP Business?

1. Information is automatically shared with the foreign competent authority of the parent company, ultimate company and ultimate beneficial owner; and
2. The Licensee is presumed to not have met the Economic Substance Test, unless the Licensee rebuts this presumption and meets the increased substance requirements.

The increased substance requirements (in addition to those set out under Question 12) require a High Risk IP Licensee to demonstrate that it has (and historically had) a high degree of control over the development, exploitation, maintenance, protection, and enhancement of the IP Asset, and to submit proof that:

- It has adequate full-time employees with the necessary qualifications that permanently reside and perform their activities in the UAE – relevant employee information (e.g. experience, contracts, qualifications etc.) would need to be provided; and
- It has a business plan showing the reasons for holding the IP in the UAE; and
- Relevant decision making has and continues to take place in the UAE



## INVESTMENT FUND MANAGEMENT BUSINESS

### 48. What is a UAE Investment Management Business?

A UAE entity that provides discretionary investment management services to Investment Funds located in the UAE or in a different jurisdiction.

An Investment Fund Management Business includes making discretionary investment, divestment and risk related decisions on behalf of an investment fund. UAE entities providing other types of investment fund related services such as fund administration, investment advisory and custodian services are not considered engaged in an Investment Fund Management Business.

The Investment Fund itself is not considered an Investment Fund Management Business, unless it is a self-managed fund (the Investment Manager and the Investment Fund are part of the same entity).



## LEASE-FINANCE BUSINESS

### 49. What is a Lease-Finance Business?

A UAE entity is considered engaged in a Lease-Finance Business if it offers credit or financing for any kind of consideration. Providing credit includes making loans and entering into other financing arrangements such as hire purchase agreements and finance leases. Licensees engaged in Banking, Insurance, Headquarters and Investment Fund Management Business may also perform lease or financing activities as a normal part of their business operations. To prevent duplicate reporting, such Licensees are not also considered engaged in a Lease-Finance Business and will not need to separately demonstrate economic substance in respect of any ancillary Lease-Finance activities.

### 50. What does it mean to offer credit or financing?

Offering credit or financing includes making loans to related or unrelated parties, entering into finance leases in relation to assets other than land, and providing credit in the form of hire purchase agreements, long term credit plans, and other types of financing arrangements (including cash pool arrangements).

### 51. Is lending to another group entity considered a "Lease-Finance Business"?

Yes, a UAE entity that makes a loan or provides any other form of credit to a UAE or foreign group company for consideration (e.g. interest) will be considered engaged in a Lease-Finance Business.

### 52. Is investing and trading in debt securities considered undertaking a Lease-Finance Business?

No, UAE entities that invest and hold bonds and other debt securities that are traded on a regulated exchange are not considered engaged in a Lease-Finance Business.

### 53. What does consideration for the purposes of a Lease-Finance Business include?

Consideration includes interest, origination and processing fees, gains upon conversion of a loan into the share capital of the debtor, and late payments penalties. The grant of security in favor of the lender would not constitute consideration.



## HEADQUARTER BUSINESS



### 54. What is a Headquarter Business?

A UAE entity that provides services to other foreign group entities, and through the provision of such services:

- has taken on the responsibility for the overall success of the group; or
- is responsible for an important aspect of the group's performance.

### 55. Does an entity need to be the 'parent' company to be considered a Headquarter Business?

No, a group's corporate structure is not relevant in determining whether a UAE entity within the group is engaged in a Headquarter Business. Whether an entity is engaged in a Headquarter Business is entirely dependent on the nature of the services provided to foreign group companies.

### 56. Can an entity be considered engaged in a Headquarter Business in addition to carrying on another Relevant Activity?

Possibly, if the Relevant Activities form two or more distinct business activities. However, if an activity that might otherwise fall within the definition of a Headquarters Business forms part of another main Relevant Activity of the Licensee, the Licensee would not be considered to also be engaged in a Headquarter Business. For example, a UAE entity that undertakes captive insurance activities will not be considered to carry on a "Headquarter Business" simply because it assumes material risk on behalf of the group.



## ADMINISTRATION

### 57. Who can assist me with my questions and issues??

For questions regarding MoF account registration or login issues, please contact [insert email for MoF call Center].

For any Economic Substance filing portal related technical issues (e.g. the Notification filed does not appear on the Licensee dashboard, etc.) please contact [ESRsupport@cbrain.com](mailto:ESRsupport@cbrain.com).

For questions relating to penalties or appeals under the Economic Substance Regulations, please contact [FTAESR@tax.gov.ae](mailto:FTAESR@tax.gov.ae).

For questions regarding the scope and application of the Economic Substance Regulations, please review the information on this webpage, or obtain professional advice.

### 58. I called a Regulatory Authority & was told they are unable to support me with my Economic Substance query, what should I do?

Please send an email to [ESinfo@mof.gov.ae](mailto:ESinfo@mof.gov.ae) and include the following information:

- Details of your businesses (name, legal form, main activity)
- Nature of your query / reason for contacting the Regulatory Authority
- Name of Regulatory Authority
- Name of representative at the Regulatory Authority

We note that your Regulatory Authority and the Ministry of Finance cannot assist you in determining if and how the Economic Substance Regulations apply to your business. For such questions, you should seek professional advice.

### 59. I have made a request to amend my Notification (or Economic Substance Report), when will the request be approved?

Your Regulatory Authority is responsible for approving your request for amendment, please contact them for an update on when your request will be processed, you can find the contact details for the Regulatory Authority's below.

### 60. Who needs to submit a Notification and by when?

Licensees and Exempted Licensees that undertake a Relevant Activity (irrespective of whether the Licensee or exempt Licensee has earned income from the Relevant Activity during the financial period) are required to file a Notification within six months from the end of the relevant financial period. All Notifications must be submitted on the Ministry of Finance filing portal.

### 61. If my business carries out multiple Relevant Activities should I submit individual Notifications and Economic Substance Reports for each Relevant Activity?

No, businesses that have more than one Relevant Activity during a financial period should submit a single Notification and Economic Substance Report and report all their Relevant Activities in that single Notification and Economic Substance Report.

### 62. Should I file a Notification even if I did not earn any income during this financial period?

Yes, Businesses that carry out a Relevant Activity during a financial period are required to submit a Notification irrespective of whether they earned income from that Relevant Activity.

### 63. Can a single Notification be submitted for multiple Licensees?

No, each Licensee must submit a single Notification.

### 64. Will the Economic Substance Portal issue a reminder to submit a Notification for future financial periods?

No, a Licensee must assess whether it is subject to the Regulations on a year on year basis and is solely responsible for undertaking the necessary filings through the Economic Substance Portal.

### 65. Who needs to file an Economic Substance Report and by when?

Only Licensees that earn income from a Relevant Activity during the relevant financial period and that are not exempt from the Regulations are required to demonstrate economic substance in the UAE and file an Economic Substance Report. Economic Substance Reports must be filed within 12 months from the end of the relevant financial period.

## ADMINISTRATION

### 66. Are there cases where a business is only required to submit a Notification & not file an Economic Substance Report?

Yes, if the Licensee is an Exempted Licensee or does not earn income from its Relevant Activity. In these cases, there is no requirement to file an Economic Substance Report.

The Economic Substance Filing Portal will automatically assess whether you need to file an Economic Substance Report based on your Notification, and only create a Report if you are required to submit one.

### 67. Will a Licensee be required to comply with the filing requirements every year?

Yes, a Licensee will be required to submit a Notification and Economic Substance Report (if applicable) for each financial period in which it undertook a Relevant Activity.

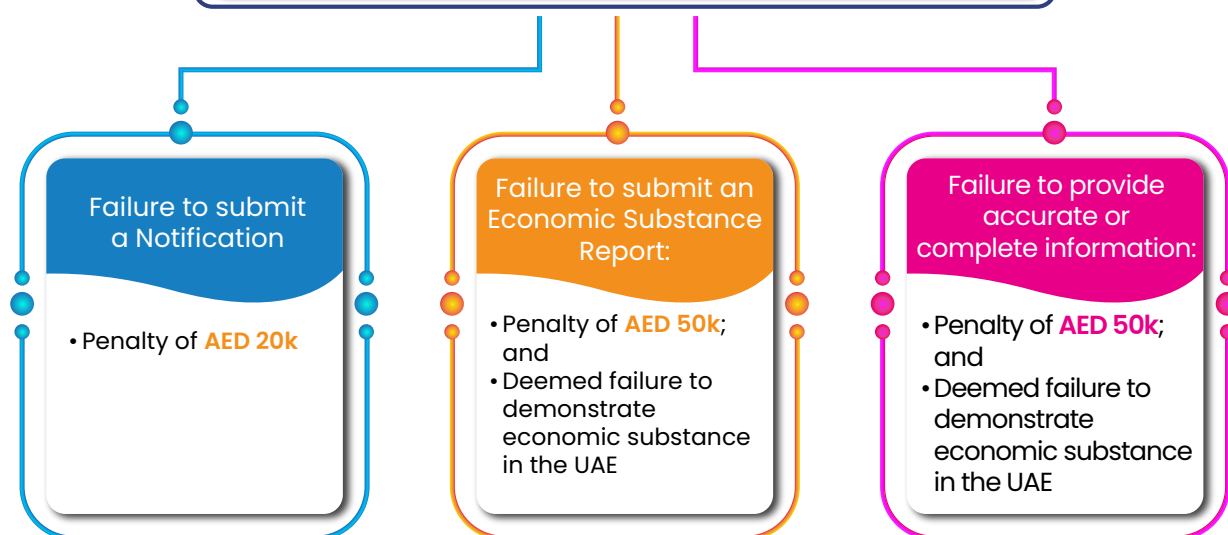
### 68. Will a Licensee receive a confirmation after submitting a Notification or Economic Substance Report?

Yes, an email confirmation will be sent to the email address used to submit the Notification or Economic Substance Report. If a confirmation email is not received within 24 hours please contact [ESRsupport@cbrain.com](mailto:ESRsupport@cbrain.com).

### 69. Can a Licensee change the email address used to receive email correspondence relating to Economic Substance?

Yes, an email confirmation will be sent to the email address used to submit the Notification or Economic Substance Report. If a confirmation email is not received within 24 hours please contact [ESRsupport@cbrain.com](mailto:ESRsupport@cbrain.com).

### 70. What are the penalties for non-compliance?



Failure to demonstrate sufficient economic substance in the UAE for the relevant Financial Year:

#### FIRST FAILURE

- Penalty of AED 50k; and
- Information exchange with foreign competent authority of:
  - Parent company,
  - Ultimate parent company, and
  - Ultimate beneficial owner

#### SECOND CONSECUTIVE INSTANCE OF FAILURE

- Information exchange with foreign competent authority of:
  - Parent company,
  - Ultimate parent company, and
  - Ultimate beneficial owner; and
- Penalty of AED 400k; and
- Trade / commercial licence could be; suspended, withdrawn or not renewed

## ADMINISTRATION

### 71. Are copies of the updated Notification and Economic Substance Report forms available?

Yes, you can find the template Notification form and Economic Substance Report and associated guidance on the Ministry of Finance website.

### 72. Will a business face a late filing penalty if its Exempted Status is denied after the original Economic Substance Report filing deadline for the relevant financial period?

No, if you submit a Notification claiming an exemption from the Economic Substance Regulations and this exemption is denied, you will be given 30 business days to submit your Economic Substance Report from the date the exemption claim was denied. Businesses that willfully, knowingly and intentionally submit improper exemption claims may face penalties.

### 73. If a Licensee has paid a penalty but was subsequently granted an appeal by the FTA for that penalty, how can the Licensee request a refund?

A Licensee that was granted an appeal by the FTA for a penalty that was already paid can request a refund through the e-refund portal on the MoF website using the following link (<https://www.mof.gov.ae/en/mservices/government/govrevenue/pages/revenue-refund.aspx>).

As part of the refund request, the Licensee will be required to provide the following information:

Information	Where can the Licensee find this
Licensee name	Licensee dashboard
RRN no.	eDirham receipt
Transaction date	eDirham receipt
Transaction amount (AED)	eDirham receipt
MoF department	eDirham Call Centre
Dispute type (duplicate payment/excess payment)	Licensee to select
Duplicate RRN (if applicable)	eDirham receipt
Case ID of penalty case	Licensee dashboard
Case ID of appeal case (if applicable)	Licensee dashboard
Dispute remarks	Licensee to provide
Emirates ID, name, mobile number, and email	Licensee to provide
IBAN and bank name	Licensee to provide



## ADMINISTRATION

### 74. What should a Licensee consider before the end of a financial period?

The following is meant as a non-exhaustive list of matters a Licensee should consider (and action, where relevant) before the end of a financial period:

- Assess what (if any) Relevant Activities it has performed during the financial period (applying a "substance over form" approach);
- Assess the amount and type of income earned (if any) from the Relevant Activity during the financial period;
- Hold board meetings with a quorum of directors physically present in the UAE;
- Ensure board meeting minutes are signed and maintained in the UAE;
- Identify the amount and type of expenses and UAE based assets (incl. premises) in respect of the Relevant Activity, and ensure access to assets (incl. premises) can be demonstrated (through agreements and financial records)
- Identify the number of UAE based full-time employees or other personnel (and their qualifications) responsible for carrying on the Licensee's Relevant Activity; and
- Ensure control and supervision over any outsourcing arrangements can be demonstrated, e.g. through contractual agreements.

Additional actions may be required to ensure a Licensee can demonstrate sufficient economic substance in the UAE for a relevant financial period, and the considerations above may differ where a Licensee has either a Holding Company or a High Risk IP Business.



## ADDITIONAL INFORMATION

### 75. Can the Ministry of Finance recommend a company to help us with Economic Substance?

No, the Ministry of Finance cannot recommend a company to assist you with Economic Substance. There are numerous professional services firms in the UAE that should be able to support you.

### 76. If my business is subject to Country by Country Reporting, will I also be required to comply with the Economic Substance Regulations?

If your business carries out a Relevant Activity you are also required to comply with the Economic Substance Regulations.

### 77. If my business is subject to Ultimate Beneficial Owner Reporting, will I also be required to comply with the Economic Substance Regulations?

If your business carries out a Relevant Activity you are also required to comply with the Economic Substance Regulations.

### 78. Can you file an Economic Substance Report immediately after filing a Notification?

Yes, the Economic Substance Filing Portal allows businesses to file an Economic Substance Report immediately after having filed their Notification.

Please note that in some cases there may be a delay in the generation of the Economic Substance Report following submission of the Notification due to high demand. Where your Economic Substance Report is not generated immediately, please do not submit another Notification. The Economic Substance Report will be generated in due course and you will be notified when it is available on your dashboard. If the Economic Substance Report does not appear within 24 hours, please can you contact [ESRsupport@cbrain.com](mailto:ESRsupport@cbrain.com).

### 79. Do the Financial Statements to be submitted along with the Economic Substance Report need to be audited?

No. In the absence of audited financial statements, you can submit unaudited financial statements or management accounts.

### 80. The Economic Substance Report does not require me to provide evidence regarding assets, expenditure, board meetings held in the UAE and other questions asked. Do I need to keep this information on file and if so for how long?

Yes, all businesses should keep relevant supporting information and documentary evidence on file and be ready to provide this information if and when asked by their Regulatory Authority or the FTA. At a minimum, information should be kept on file for a period of six years.

### 81. Is a company that is registered as an offshore free zone company considered tax resident outside of the UAE for ESR purposes?

No, offshore free zone companies are subject to the Economic Substance Regulations in the same way as regular free zone companies or as a company established in mainland UAE.

### 82. Do the supporting documents for an exemption have to be notarized / certified by a public notary or relevant government authority?

No, there is no need for documents to be certified or notarized, but documents to support tax residency in a foreign country or documents to evidence that the income of the UAE branch of foreign company is taxed outside the UAE will need to be issued by the relevant foreign tax authority.

### 83. Will I be required to answer all the questions included in the Economic Substance Report template available on the Ministry of Finance website?

No, the Economic Substance Report is a smart form that automatically selects the relevant questions that must be completed by a Licensee based on the previous responses and information provided.

## ADDITIONAL INFORMATION

### **84. If my licensing authority is a DED, which Regulatory Authority should I select?**

This depends on your Relevant Activity, but in most cases, this will be the Ministry of Economy.

If your main Relevant Activity is Banking or Lease-Finance, you will need to select the Central Bank.

If your main activity is Insurance, you will need to select the Insurance Authority, and for Investment Fund Management activities you will need to select the Securities and Commodities Authority.

### **85. Why can't I select a Holding Company Business and another Relevant Activity?**

A business is only considered a Holding Company Business if it does not undertake any other Relevant Activity. If you are a Holding Company Business but also undertake another Relevant Activity, you should select the other Relevant Activity when filing your Notification

### **86. I can't log in because I haven't received my activation email after creating my MoF account.**

Please check your junk or spam email folder as sometimes the activation email ends up being blocked by spam filters. Otherwise, please send an email to [info@mof.gov.ae](mailto:info@mof.gov.ae)

### **87. Will my Regulatory Authority receive my Notification and Economic Substance Report through the Economic Substance Filing Portal**

Yes, your Regulatory Authority will have access to all your submissions made on the Economic Substance Filing Portal.





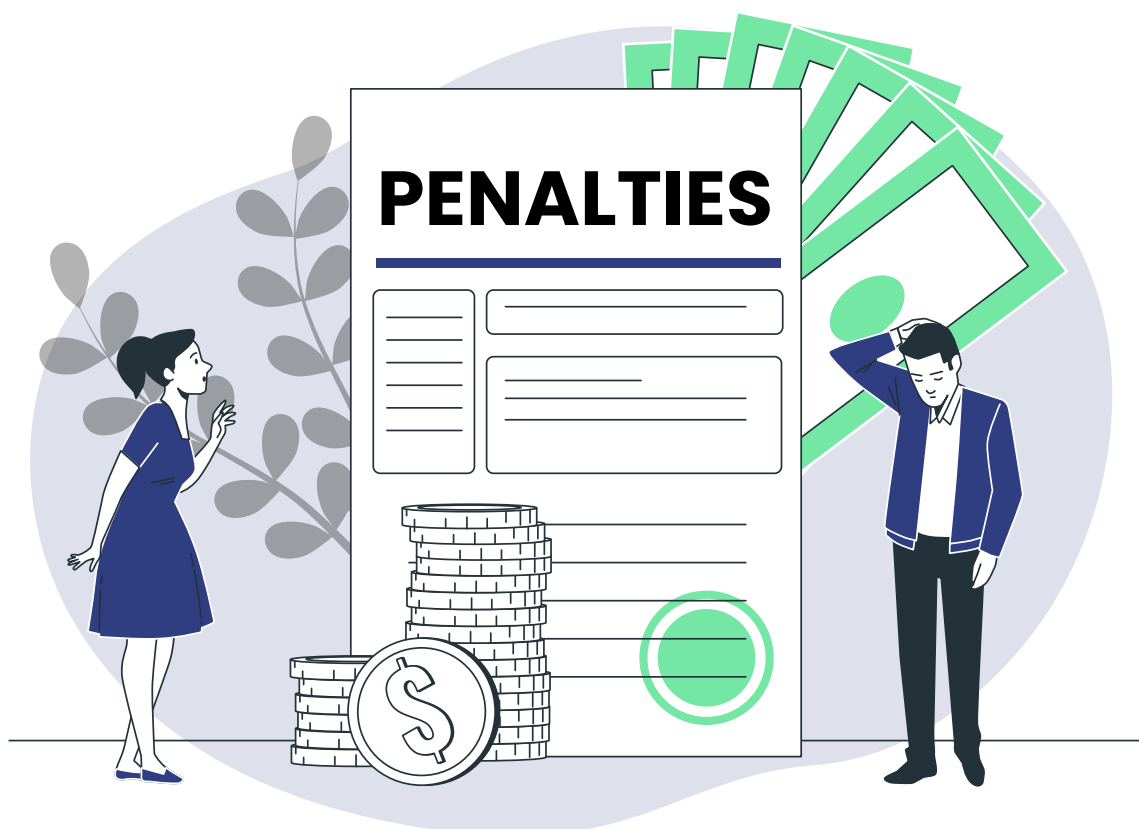
# LEGAL PENALTIES





## ESR ECONOMIC SUBSTANCE REGULATION

- Failure to file the ESR Notification **within 6 months** from the end of the financial year – **AED 20,000.**
- Failure to file the ES Report **within 12 months** from the end of the financial year – **AED 50,000.**
- Failure to meet the Economic Substance Test – **AED 50,000.**
- Repeatedly committed one of the two violations mentioned in points 2 and/or 3 during the following financial year – **AED 400,000.**
- The said penalties can be imposed within 6 years from the date of committing the violation, unless the Licensee or the Exempted Licensee committed a fraudulent act that resulted in inability of the the FTA to impose the said penalties within the stipulated period.
- Providing inaccurate information – **AED 50,000.**
- A penalty for this violation might be imposed within 12 months from the date on which the FTA became aware of the violation unless the Licensee or the Exempted Licensee committed a fraudulent act which resulted in the inability of the the FTA to impose the said penalties within the stipulated period.
- Additional penalties such as suspending, revoking, or not renewing the Licensee's or Exempted Licensee's trade license could also apply.



# ULTIMATE BENEFICIAL OWNER (UBO)





## UBO

## INTRODUCTION

The Resolution introduces new requirements for entities to disclose its beneficial owners which is intended to enhance transparency of the UAE registered entities. These requirements help to develop effective and sustainable executive and regulatory mechanisms and procedures in respect of beneficial owner data.

The New Cabinet Decision mandates that companies licensed to carry on business in the UAE maintain a Register of Partners (or Shareholders) and a Register of "Real Beneficial Owners".

A Real Beneficial Owner is defined as the individual that ultimately controls the licensee, whether directly or indirectly, through at least 25% of the capital.

- The Resolution requires entities licensed in the UAE (unless exempted) to prepare and file Ultimate Beneficial Owner (UBO) register,
- Nominee Director register (if applicable) and a
- Partners or Shareholders register, with the relevant authority

Filing should be done within sixty (60) days from the date the Resolution came into effect, being October 27, 2020, or by the date the entity is established.

## Register Of Ultimate Beneficial Owner

- UBOs are natural persons who ultimately own or control or have the right to vote with minimum 25% shareholding of the company, whether through direct or indirect ownership or who have the right to appoint or dismiss the majority of the Directors / Managers.
- If no natural person satisfies the condition above, then any natural person who exercises control over the company through other means shall be deemed as the UBO.
- If no natural person satisfies both conditions above, then a natural person who is responsible for the senior management of the company will be deemed as the UBO.

## Register of Nominee Director / Manager

Details of Directors / Managers acting in accordance with the instructions of another person.

## Exemptions

- Companies in financial free zones (Abu Dhabi Global Markets and Dubai International Financial Centre).
- Companies which are directly or indirectly wholly owned by Federal or Emirate government.

## Register of Partner / Shareholder

The number of ownership interests held by each Partner or Shareholder and the voting rights attached to such ownership interests and the date of acquisition of ownership interests.

Entities will need to assess who constitutes a Ultimate Beneficial Owner (UBO)(UBO) and consider whether anyone is a nominee Director / Manager.

[The Register of Shareholders / Partners is not a new concept as this is a requirement outlined in the UAE Commercial Companies Law, as well as in respective Free Zone Companies Regulations]. The current Resolution requires additional information to be detailed (for example, voting rights).

Entities must notify the relevant authority of any change or amendment to the information provided within fifteen (15) days of such change or amendment.

If entities do not comply with the Resolution, the UAE Ministry of Economy may impose sanctions on those entities. The list of administrative sanctions is yet to be issued.

## Synopsis

- All entities in the UAE (unless excluded by the Resolution) must prepare registers of UBOs, Shareholders (Partners) and Nominee Directors by 27 October 2020.
- The registers of UBOs and Partners / Shareholder and Nominee Directors are to be filed with the relevant authority by 27 October 2020. Although the filing mechanisms for onshore entities and certain Free Zones have yet to be confirmed.
- Entities must notify the relevant Registrar of any change or amendment to the information provided within 15 days of such change or amendment
- Prepare registers of the UBOs, Partners / Shareholders and Nominee Directors / Managers (if applicable), in accordance with the Resolution.
- Arrange filing with the authorities.
- Maintain the relevant registers on a dedicated company secretarial database on an ongoing basis.
- Inform the relevant authority of any changes or amendments to the information provided.

# **ANTI – MONEY LAUNDERING IN THE UAE**



# TABLE OF CONTENT

- INTRODUCTION

- LEGAL REQUIREMENTS

- WHO IS REQUIRED TO HAVE AN AML POLICY?

- WHEN DO AML/CFT OBLIGATIONS APPLY TO DPMS?

- SUMMARY OF AML/CFT OBLIGATIONS OF DPMS





## AML

### INTRODUCTION

Money laundering is a type of financial crime. It involves taking criminally obtained proceeds (dirty money) and disguising their origins, so they'll appear to be from a legitimate source. Anti-money laundering (AML) refers to the activities financial institutions perform to achieve compliance with legal requirements to actively monitor for and report suspicious activities.

The principle AML/CFT legislation applicable is the Federal Decree-Law No. (20) of 2018 On Anti-Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organisations (the "AML-CFT Law" or "the Law") and implementing regulation, Cabinet Decision No. (10) of 2019 Concerning the Implementing Regulation of Decree Law No. (20) of 2018 On Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organisations (the "AML-CFT Decision" or "the Cabinet Decision").

The estimated amount of money laundered globally in one year is 2% to 5% of global GDP, or US\$800 billion to US\$2 trillion – and that's a low estimate. Money laundering often accompanies activities like smuggling, illegal arms sales, embezzlement, insider trading, bribery and computer fraud schemes. It's also common with organized crime including human, arms or drug trafficking, and prostitution rings.

Anti-money laundering is closely related to counter-financing of terrorism (CFT), which financial institutions use to combat terrorist financing. AML regulations combine money laundering (source of funds) with terrorism financing (destination of funds). Beyond the moral imperative to fight money laundering and terrorist financing, financial institutions also use AML tactics for:

- **Compliance with regulations** that require them to monitor customers and transactions and report suspicious activity.
- **Protection of their brand reputation** and shareholder value.
- **Avoidance of consent orders** as well as civil and criminal penalties that could be levied because of noncompliance or negligence.
- **Reduction of costs** related to fines, employee and IT costs, and capital reserved for risk exposure.

### Legal requirements as per Anti-money laundering law in UAE

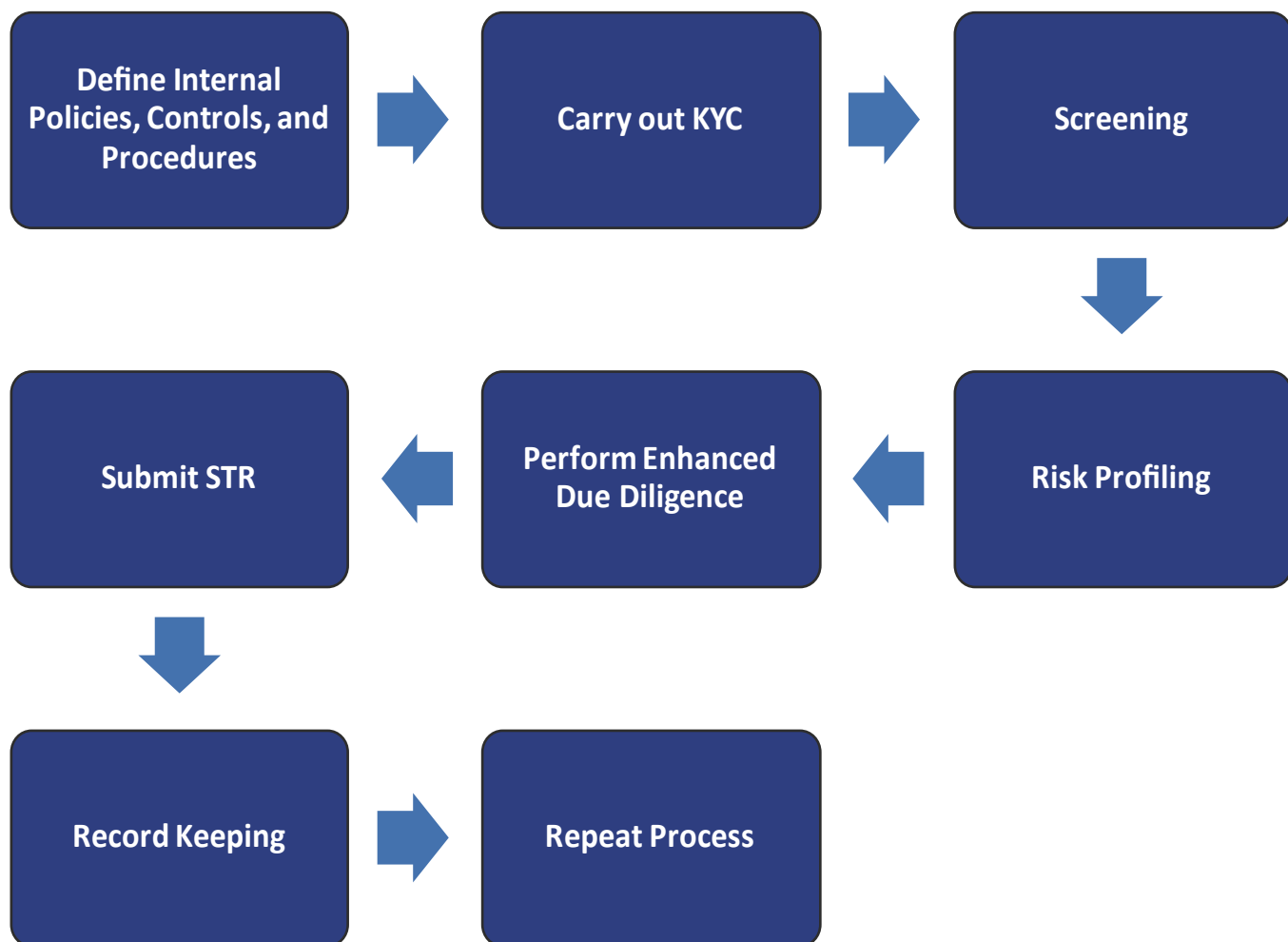
The Anti-Money Laundering Law in UAE requires the FIs and DNFBPs to establish a comprehensive AML/CFT Program including AML Policy for KYC, Screening, Risk Profiling, Governance, STR Filing, and more. The Anti-Money Laundering Policy and AML procedures and guidelines have to be commensurate with the nature and size of the business. The AML Compliance Officer has to ensure that the provisions of the UAE AML Law are complied with.

### Who is required to have an AML policy?

- Auditors and accountants
- Lawyers, notaries and other legal professionals and practitioners
- Company and trust service providers
- Dealers in precious metals and stones (dpms)
- Real estate agents and brokers
- Any other designated non-financial businesses and professions (dnfbps) not mentioned above

### When do AML/CFT obligations apply to DPMS?

- Under the AML-CFT Law and the AML-CFT Decision, DPMS are obliged to apply the required AML/CFT measures when they qualify as DNFBPs.
- This occurs whenever they carry out any single transaction, or series of transactions that appear to be related, whose monetary value equals or exceeds AED 55,000.
- This may include one or more transactions involving the same business relationship or customer, whether related to a single item or set of items; or it may also include one or more transactions which, in the judgment of the dealer, appear to be structured so as to avoid the established threshold.

SUMMARY OF AML/CFT OBLIGATIONS OF DPMS

## DEFINE AND REGULARLY UPDATE INTERNAL POLICIES, CONTROLS, AND PROCEDURES

Define and regularly update internal policies, controls, and procedures to mitigate ML/FT risks in accordance with the nature and size of business

The dealers of precious metals and stones must undertake the following procedures :-

### For cash transactions with **resident**

#### Individuals $\geq$ AED 55000

- Obtain identification documents (EID /PASSPORT)
- Register the information in the FIU goAML platform's dealers in precious metals and stone report (DPMSR)
- Keep records of all documents and information related to above transactions for minimum period of 5 years

### For cash transactions with **Non-resident**

#### Individuals $\geq$ AED 55000

- Obtain identification documents (EID /PASSPORT)
- Register the information in the FIU goAML platform's dealers in precious metals and stone report (DPMSR)
- Keep records of all documents and information related to above transactions for minimum period of 5 years

### For cash/wire transactions with entities &

#### Individuals $\geq$ AED 55000

- Obtain a copy of trade license & identification documents (EID /PASSPORT)
- Register the information in the FIU goAML platform's dealers in precious metals and stone report (DPMSR)
- Keep records of all documents and information related to above transactions for minimum period of 5 years



## KNOW YOUR CUSTOMER (KYC)



Why?



To identify the customer and assess ML/TF risk

Do you have all these information?

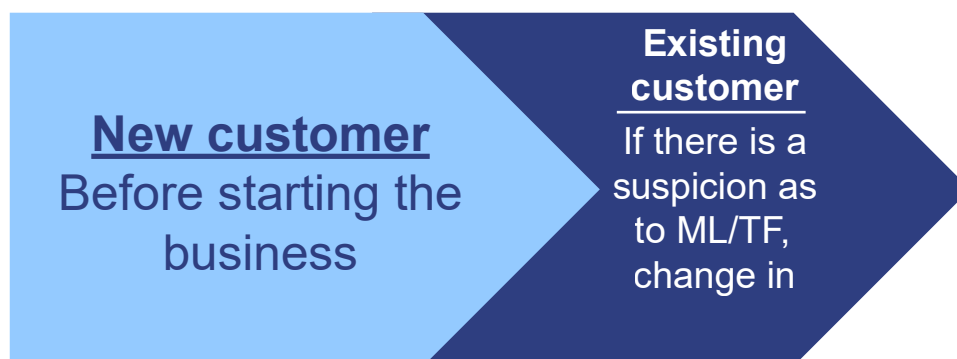
### ➤ For natural person

- Name
- Nationality
- Date of birth
- Place of birth
- Place of work
- Address
- Contact number(home, office, mobile)
- Id card/ passport number
- Occupation type
- Name of employer/nature of self
- employment/nature of business
- Purpose of transaction
- Beneficial owner

### ➤ For companies or business

- Company /business name
- Registration number
- Registered address
- Nature of business
- Partners , directors
- Beneficial owners

When..?



## SCREENING



Why?



To identify if the customer is already a part of UNSCR list or local list

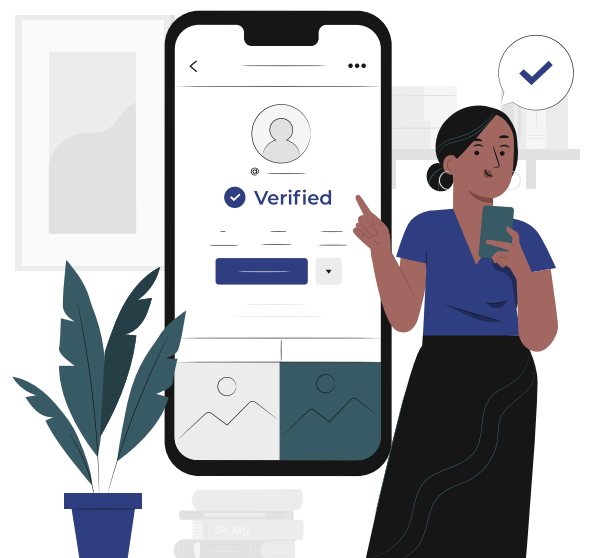


How?



## RISK PROFILING

- **Conduct risk profiling based on**
  1. Customer risk
  2. Enterprise –level risk
  3. Customer/business relationship specific risk
- Geographic state
- Product, service, transaction related risk
- Channel related risk
- Other risk factors



Why?



To implement a risk-based approach to assess and mitigate ML/FT risk

## ENHANCED DUE DILIGENCE

Conduct enhanced due diligence for

- High-risk clients
- PEPs (Politically Exposed Persons)

Ask for the source of funds and seek approval from your Senior management to conduct business

**Why?**

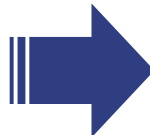


Dealing with high-risk clients and PEPs, require better controls and approval from senior management

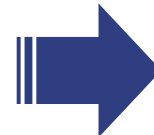
**How?**



KYC form should capture if the customer is a PEP



Ask for more information and verify documents



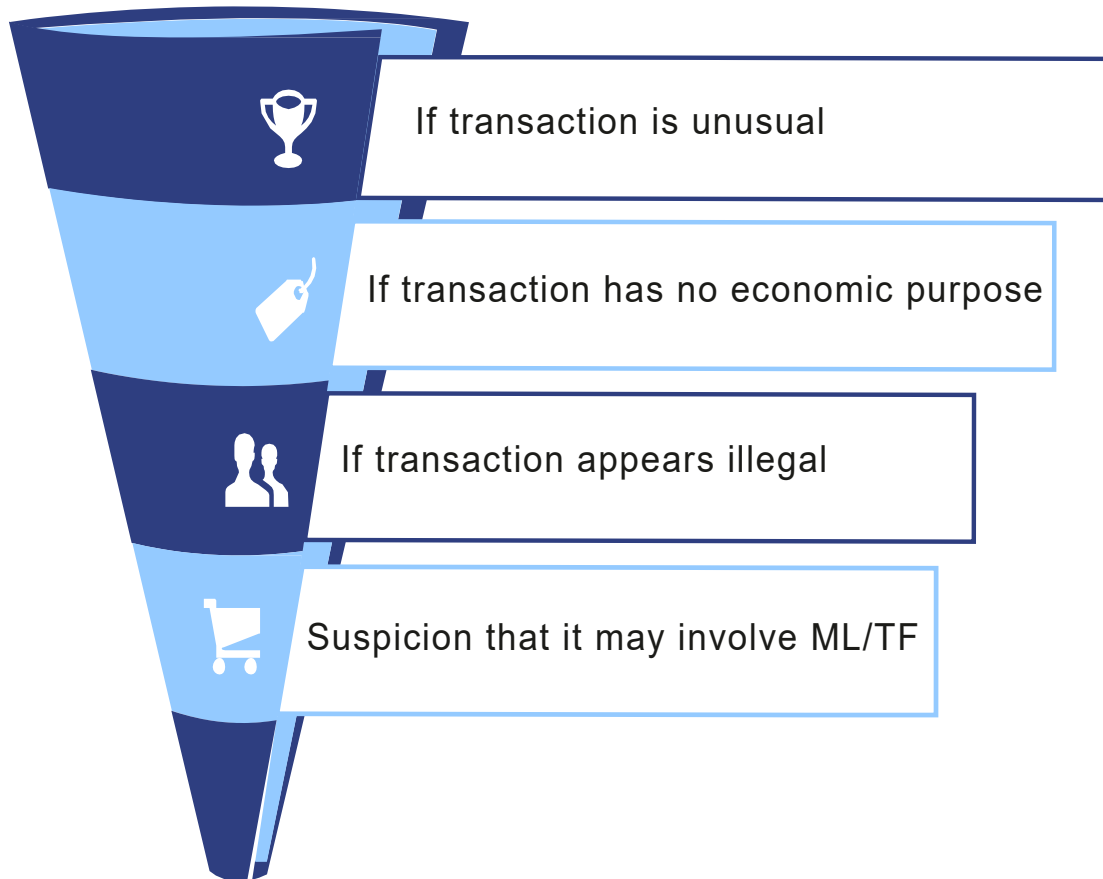
Seek management approval before dealing with the client





## **SUBMIT STR (SUSPICIOUS TRANSACTION REPORT)**

### **When to file STR?**



### **STR Dos and Don'ts**



#### **Do's**

- **Submit STR without any delay**
- **Provide as much information as possible in the STR form**



#### **Don'ts**

- **Disclose the submission to anyone else**
- **Tip-off the person who is reported**

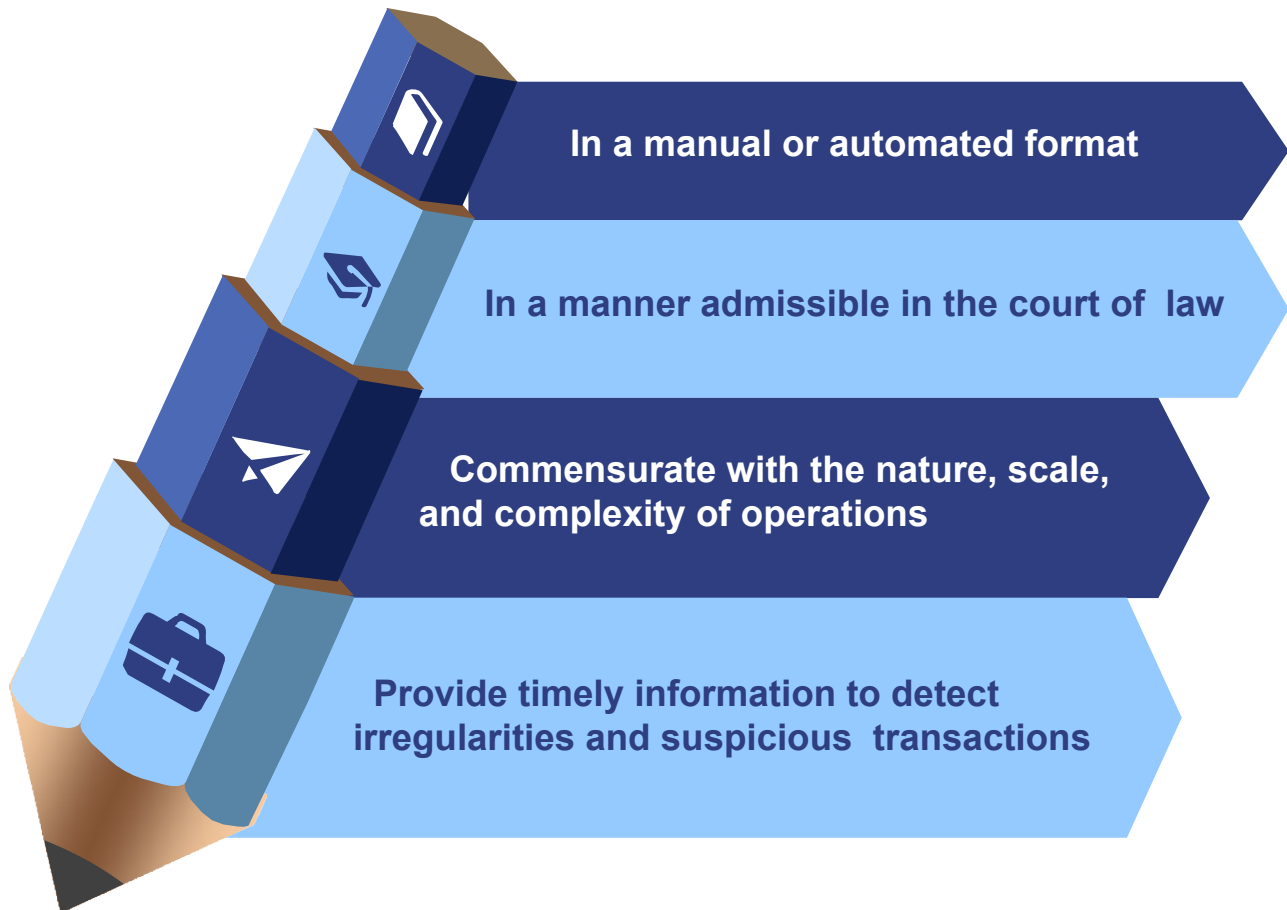
**Why?**



**STR provides valuable information to FIU as to potential ML/TF activities**

## RECORD KEEPING

Maintain detailed records, documents, data and statistics for all financial transaction types, as well as a variety of records types and documents for 5 years.



**Why?**



Record keeping provides audit trail. It helps authorities to establish and trace the criminal or terrorist properties or funds.

## REPEAT PROCESS

**Why?**



A change in client's information requires the entire processes to be repeated.



# LEGAL PENALTIES





## AML – ANTI MONEY LAUNDERING

Fine Amount	Type of Violation
<b>Fine of Dirhams 1 million or more</b>	<ul style="list-style-type: none"> <li>• Failure to take the special measures concerning the customers included in international or local sanction lists before establishing or maintaining business relationship.</li> <li>• Opening or maintaining bank accounts using alias, fictitious or fake names, or numbers, rather than holders' names.</li> <li>• Dealing with unauthorized banks in any way whatsoever.</li> </ul>
<b>Fine of Dirhams 200,000 or more</b>	<ul style="list-style-type: none"> <li>• Not taking enhanced due diligence measures to manage high risks.</li> <li>• Not notifying the Financial Information Unit of a suspicious transaction report when it is not possible to take due diligence measures towards a client before establishing or continuing a business relationship with him or carrying out a transaction for the benefit of the client or in his name.</li> <li>• Failure to respond to FIU's requests for additional information regarding any reported suspicious transactions.</li> <li>• Disclosing, directly or indirectly, to the customer or a third party, the process of, or intention to, report the customer due to suspicions about the nature of business relationship with the customer</li> <li>• Failure to implement the measures identified by the National Committee for Combating Money Laundering in respect of customers from high-risk countries.</li> </ul>

## AML – ANTI MONEY LAUNDERING

Fine Amount	Type of Violation
<b>Fine of Dirhams 100,000 or more</b>	<ul style="list-style-type: none"> <li>• Not taking necessary measures to determine crime risks in his field of work</li> <li>• Failure to identify and evaluate risks that may arise in his field of work when he develops the services he provides or undertakes new professional practices through his establishment.</li> <li>• Not taking due diligence measures towards clients before establishing or continuing a business relationship or executing a transaction in the name of or for the benefit of the customer</li> <li>• Not verifying - using documents or data from a reliable and independent source - the identity of the customer and the real beneficiary or their deputy before or during the establishment of the business relationship or the opening of the account, or before carrying out a process for a client with whom he has no existing business relationship.</li> <li>• Delay in informing the Financial Information Unit of a suspicious transaction report in the event of suspicion or the availability of reasonable grounds to suspect that the business relationship with the customer is related to the crime in whole or in part, or that the client's money subject to the business relationship is from the proceeds of crime or used in it.</li> <li>• Failure to implement due diligence measures towards politically exposed customers prior to establishing or maintain business relationship.</li> <li>• Failure to create records on financial transactions with the customers.</li> </ul>

# OUR TEAM





# OUR TEAM

## Advisory Board Members



**Khalid Abdulla Janahi**

BOD Advisor

- Chartered Accountants in England and Wales, Mr. Janahi holds a BSc in Computer Science and Accountancy from the University of Manchester, UK
- 18 years of experience in business advisory services.
- Chairman of Faisal Private Bank (Switzerland), DMI Administrative Services and Islamic Investment Co. of the Gulf (Bahamas) Ltd



**Ala Khannak**

Advisory Board Member

- A fellow CA from Institute of Chartered Accountants in England & Wales (ICAEW). Graduate in Economics. American University of Beirut (AUB).
- Monitoring and controlling Investments & Responsible for many Investment & Corporate Banking as well as Treasury functions.
- Worked with many Organizations at a senior level



**Dr. Jamil El Jaroudi**

Advisory Board Member

- The first chief Executive Officer of Bank Nizwa, the first Islamic Bank in Oman.
- Holds an MBA from Columbia University in New York and a PhD in Finance from Kellogg School of Management
- He was named 'Islamic Finance Personality of the Year' at the 4th Annual Global Islamic Finance



# OUR TEAM

## MI CAPITAL – Partners & Directors



**Sheetal Soni, CFA, FCA**

Partner

- CFA Charter holder as well as Qualified Chartered Accountant 16+ years of accomplished experience.
- Expertise in Capital Raising, Project and Corporate Financing/Funding, Treasury, Investments, Trade Finance, Financial Modeling, Feasibility Studies, Financial Structuring, M&A and Valuations.



**Prateek Tosniwal, FCA**

Partner

- Strong accounting professional with a Bachelor of Commerce (BCom) focused in International Business/Trade/Commerce from Narsee Monjee College of Commerce and Economics.
- Experienced Senior Tax Accountant with a demonstrated history of



**Mounir Douaidy**

Partner- Tax and Technology

- Mr. Mounir has his professional career built across the UK, France, Lebanon, and the Middle East, with experience in the areas of Financial Accounting, Auditing, Corporate Finance, Management, and Corporate Governance.
- Has also worked on Multilateral convention to Prevent Base Erosion and Profit Shifting BEPS, Transfer Pricing, E-invoice, E-commerce and Digital taxation.



**Khaleefa AlQubaisi**

Partner- Audit

- Graduated from The American University from Washington, Mr. Khaleefa is a veteran leader serving as a Chief Financial Officer at ADNOC.
- He has rich experience of more than 17 years in finance and audit and has been working as a senior leader for the company.



**Mohammad Khannak, CFA**

Director

- Mr. Mohamed is a CFA charter holder and has completed his graduation from American University of Beirut
- He has rich experience in banking and has managed the portfolios of major Middle Eastern clients.
- He also holds directorships of Julius Baer which is one of the well-known wealth management company



# OUR TEAM

## MI CAPITAL – Partners & Directors



**Chadi El Mekhallalati**

Director

- Mr. Chadi is a senior Information & Cyber Security expert with 20 years of experience. In addition to his experience implementing international standards for information and cyber security, his experience also includes project management, business process re-engineering, IT Audit, and risk assessments.
- He has worked with the Ministry of Finance in Lebanon / UNDP for more than 15 years. He has also provided professional services to the World Bank Group, IMF, European Union, OECD, Ministry of Finance in France, Ministry of Finance in France UK and Ericson.



**Fadi A. Damaj**

Director

- Mr. Fadi has 10+ years of accomplishments in ERP & CRM implementations, with in-depth knowledge of a wide array of industries & business verticals.
- He has extensive experience at Microsoft Dynamics NAV (aka Business Central) & Dynamics 365 for marketing, sales, services and field services.
- He played a key role in more than 15 high-profile projects where he worked closely from inception through implementation.



**Sumay Banerjee**

Director

- Commercial banking and corporate finance professional. MBA (Finance) with post graduate diploma in Strategy 16 years of banking & finance experience.
- Key strengths are in relationship based banking, marketing and identifying new business opportunities across local and international markets



**Rachit Poddar**

Director

- Mr. Rachit is a second generation Entrepreneur & Investor. He is also Co-Founder at IVY Growth Associates and through that have invested in more than 40 startups.
- He is the President of Della Leaders Club, Surat Chapter and member of esteemed global organizations like TiE, Institute of Directors London etc.



**Mohammad Saleem**

ED - Client Coverage

- 33 years' experience in the Banking sector.
- Experience across Project & Corporate Financing/Funding, Trade Finance, Equipment Financing under the Lease Structure & many more.
- Identifying new opportunities and cross selling various products for the bank.



**Ramdin Osman**

Director - Mauritius

- With 17 years of experience in the consultancy industry working as a Managing director at Allfinanz Consulting Ltd, Mr. Osman brings rich experience in Corporate Finance, Business strategy, Mergers and Acquisition and Investment Banking. He has worked with various companies ranging from industries like FMCG, Real estate, IT, health tech etc.



## OUR TEAM



**Shweta Soni**  
Head of Corporate Services

- Shweta is an experienced professional, with 4-years of experience.
- Her work at MI CAPITAL Services includes researching on various regulations and their impact on companies, preparing marketing collaterals such as Information Memorandum (IM), Investment Decks, Information packs and so on.



**Shubhangi Tosniwal, CA, CPA**  
Head of Advisory Services

- Shubhangi is a Chartered Accountant, Financial Advisor and Start Up Consultant.
- Former Corporate Financial Advisory Services Officer with 7+ years experience.
- Qualified CPA Australia Graduate with 12th rank from St.Xaviers College, Kolkata.



**Karishma B. Suwarnakar, CA**  
Head of Accounts & Taxation

- Karishma is a Chartered Accountant. She is heading the Accounting, Auditing, Direct, Indirect Taxation & Compliance Department.
- She also assists in Financial Modelling, Valuations, Due Diligence & Corporate Finance, Advisory.
- She also have been working on Transfer Pricing, International Taxation & Structuring.



**Natasha Gupta**  
Head of Human Resources

- Natasha is heading Human Resource department and assist senior management in managing HR policies, programs and in meeting the company's strategic requirements.
- She is a commerce graduate and has experience in developing recruitment strategies, overseeing staff benefits, and more.



**Sanket Shanishchara, CA**  
Head of Debt Advisory

- Sanket is a Chartered Accountant having Experience of over 10 years with Debt Syndication, Debt Restructuring, Financial Modeling, Wealth Management.
- He has worked for multiple industries with all sector banks across multiple categories of corporate debt product.

### Accounting, Tax & Compliance



**CA Tarun Agarwal**  
AM-Advisory Services



**CA Yashashwi Das**  
AM Advisory Services



**CMA Ali Ellilikal**  
Accounts Officer



**CMA Shanaj K P**  
Accounts Officer



**Khyati Nakum**  
Financial Analyst



**Diya Shajan**  
Customer Success Specialist



**Linomon K L**  
Accounts Assistant

### MIC corporate services



**Nilufar Kausar**  
BD Manager



**Muhammed Asad Jalal**  
BD - Executive



**Muhammed Shamlan**  
Operation Executive

### Banking Possibilities



**Aquila Noel**  
Banking Analyst



**Remya Sahadeven**  
Banking Analyst



**Areeb Qasim**  
Banking Analyst

### Admin



**Paola Vega**  
Admin cum BD Executive

### Executive Team- India



**Anuj Tosniwal**  
Branding & PR Head



**CA Siddharth Singhvi**  
AM Advisory Services



**Prateep Patil**  
Accountant



## 50+ PARTNERED REGULATORY AUTHORITIES & FREE ZONE WITHIN UAE



## STRATEGIC PARTNERS AND ALLIANCES



# OUR MEDIA PRESENCE / EVENTS / RECOGNITIONS





**MEDIA PRESENCE / EVENTS / RECOGNITIONS**

## GEMMAKERS

POWERED BY **SuratTimes**

An Adventurous and Lifestyle Promotional Feature  
An Optimal Media Solutions Initiative, A Division of Times Internet Limited

### The India-UAE start-up corridor opening new doors

UAE meets India / Target 2040

In the next 5 years, 10 out of which will be targeted to turn into unicorn by 2025, Abu Dhabi based 'Destination India - Gateway to Growth'. A roundtable on India-UAE start-up ecosystem last month as part of India's Commerce and Industry Mission, Piyush Goyal's visit. The visit was intended to showcase the Indian investment opportunity by bringing together India's investment houses, venture capital firms, private equity and Indian start-ups on a single platform. Goyal revealed how the two countries complement each other and are natural partners meant to work together in areas such as sustainability, space technology, connectivity, artificial intelligence, emerging technologies and more. We are excited to extend our expertise jointly with Tonsil Ventures, to all the growing start-ups looking to make the best out of the India-UAE ties," shares Sheetal Soni, Partner, MI Capital.

India - United Arab Emirates (UAE) cultural, religious and economic ties experienced a renewed stir since the creation of UAE Federation in 1971. Today, UAE stands to be India's third largest trade partner with the bilateral trade value for 2020 reaching USD 43.3 billion. With India plunging into the global start-up ecosystem with such gusto, the cross border partnerships of India start-ups has opened up further collaborative opportunities with the Middle East region.

UAE has responded enthusiastically welcoming the Indian start-up community with open arms and multiple economic initiatives. Recently the Indian Pavilion at Dubai's International EXPO2020 witnessed the launch of a cross-border India-UAE VC fund for start-ups in both countries with a focus on sectors of AI/Health, and GCC countries. The fund aims to invest in a minimum of 50 ventures with-

in the next 5 years, 10 out of which will be targeted to turn into unicorn by 2025, Abu Dhabi based 'Destination India - Gateway to Growth'. A roundtable on India-UAE start-up ecosystem last month as part of India's Commerce and Industry Mission, Piyush Goyal's visit. The visit was intended to showcase the Indian investment opportunity by bringing together India's investment houses, venture capital firms, private equity and Indian start-ups on a single platform. Goyal revealed how the two countries complement each other and are natural partners meant to work together in areas such as sustainability, space technology, connectivity, artificial intelligence, emerging technologies and more. We are excited to extend our expertise jointly with Tonsil Ventures, to all the growing start-ups looking to make the best out of the India-UAE ties," shares Sheetal Soni, Partner, MI Capital.

## UAE Happenings

### 652,885 private sector companies in UAE remain under prepared for next year's corporate tax

By **Ajaya Khokhar**

DUBAI: Most UAE businesses are not yet ready for the 9 percent Corporate Tax that will be levied on companies generating more than Dh375,000 net profit per year from June 2023, which requires thorough accounting and auditing process.

The total number of registered active business licenses in July 2022 amounted to 665,246, a 1.9 percent increase compared to 652,885 licenses issued in December 2019, according to the UAE's National Economic Register (NER).

The register's data showed that over 81 percent of licensed businesses are located in Dubai, Abu Dhabi and Sharjah. Dubai accounts for some 40 percent of the country's total licensed businesses. Abu Dhabi for 23 percent and Sharjah 14 percent. The largest percentage of issued licenses were for limited liability companies, accounting for 40 percent, followed by individual companies accounting for 33 percent.

The UAE Government in January this year said, it will introduce 9 percent corporate tax on businesses with net profits of more than Dh375,000 starting from June 2023, about five-and-a-half years after the introduction of the 5 percent Value Added Tax (VAT) in January 2018. This requires companies to make provision for proper accounting, system and internal financial audit reports, based on which the Corporate Tax will be calculated and filed with the UAE Federal Tax Authority (FTA).

About 80-85 percent of the 665,246 registered active businesses fall under the Micro, Small and Medium Enterprises (MSME) and re-

main below the mandatory VAT threshold of Dh375,000 annual net profit range. Therefore, most of them do not maintain formal accounting practice, let alone publish audited financial reports every year, due to a prolonged non-tax regime in which they used to operate till now.

"All registered businesses, especially those coming under the purview of the Corporate Tax, will have to start formal accounting and auditing process from now on to establish their financial credentials for tax calculation and subsequently file tax returns," Mr Sheetal Soni, Partner of MI CAPITAL Services, says.

"The transition to a tax regime from a non-tax environment in the corporate culture that needs proper documentation, accounting and auditing in addition to transparency and accountability built in the system."

Private businesses will need to strengthen accounting, auditing and tax compliance. They will either have to hire accounts and tax profes-

sionals or outsource these to accounting, auditing firms and tax advisors.

CA Prateek Tonsil, Director at MI CAPITAL Services, says, "Once the new UAE Corporate Tax Law is issued, companies will scramble to start auditing process. However, the tax community might not be able to manage the rise in demand for Corporate Tax filing in short notice."

"So, private businesses should start the consultation process and strengthen the internal accounting and book-keeping process that are crucial for external audit and taxation."

CA Karishma Suwarnakar, Head of Tax and Compliance at MI CAPITAL Services, says, "MI CAPITAL Services understands the challenges and the burden of additional Tax and Compliance for Startups, SMEs and MSMEs and strives to provide cost efficient one stop solution specially designed for Startups, SME and MSMEs in the region including complete Accounting, Tax return filing, and other compliance requirements under one package."

## UAE businesses gear up for corporate tax compliance

Vistra unveils new service for Abu Dhabi

Emirates Post Group launches its fintech arm

Key Takeaways

UAE businesses are gearing up for the 9 percent corporate tax that will be levied on companies generating more than Dh375,000 net profit per year from June 2023, which requires thorough accounting and auditing process.

The total number of registered active business licenses in July 2022 amounted to 665,246, a 1.9 percent increase compared to 652,885 licenses issued in December 2019, according to the UAE's National Economic Register (NER).

The register's data showed that over 81 percent of licensed businesses are located in Dubai, Abu Dhabi and Sharjah. Dubai accounts for some 40 percent of the country's total licensed businesses. Abu Dhabi for 23 percent and Sharjah 14 percent. The largest percentage of issued licenses were for limited liability companies, accounting for 40 percent, followed by individual companies accounting for 33 percent.

The UAE Government in January this year said, it will introduce 9 percent corporate tax on businesses with net profits of more than Dh375,000 starting from June 2023, about five-and-a-half years after the introduction of the 5 percent Value Added Tax (VAT) in January 2018. This requires companies to make provision for proper accounting, system and internal financial audit reports, based on which the Corporate Tax will be calculated and filed with the UAE Federal Tax Authority (FTA).

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Speaker

**CA Karishma Suwarnakar**  
Speaker

UAE Corporate Taxation latest public consultation document issued by Ministry of Finance

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## MEDIA PRESENCE / EVENTS / RECOGNITIONS

**Mi Capital opens doors to India's US\$88.23 bn affordable housing market for GCC investors**

July 26, 2018



Sheetal Soni, CEO - MI Capital

*MI CAPITAL Services participating among the new stars in the startup galaxy event*



**MI CAPITAL Services at Startup event in INDIA  
and recognition and meeting with IFZA Authorities**



## MEDIA PRESENCE / EVENTS / RECOGNITIONS



### MI CAPITAL Services presentation about "Doing Business in the UAE" at the Italian Trade Delegation



MI CAPITAL Services at UAE Business Leaders meeting with CM of Andhra Pradesh Mr. Chandra Babu Naidu



MI CAPITAL Services attends meeting held by Mr. Jai Ram Thakur in Himachal Pradesh



**MEDIA PRESENCE / EVENTS / RECOGNITIONS**

Asia  
**Business Outlook** **TOP 10**  
**MERGERS & ACQUISITIONS**  
**CONSULTANTS FROM ASIA** **2022**



Sheetal Soni, Founder & Partner

A Qualified Chartered Accountant as well as CFA Charter holder, Sheetal Soni holds over 18 years of rich expertise in Capital Raising, Project and Corporate Financing, Funding, Treasury, Investments, Trade Finance, Financial Modeling, Feasibility Studies, Financial Structuring, M&A and Valuations. Over the years Sheetal has worked with numerous clients across UAE, India, Thailand, Africa, China, Hong Kong, Japan, UK, and Germany. Other leadership roles handled by Sheetal include Executive Committee Member, ICAI Dubai Chapter, while he is also the speaker at various platforms: ICAI Dubai Chapter, RBPG-Dubai, KSA IMA Chapter.

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**MI CAPITAL Services provides solutions to clients throughout the entire M&A deal life cycle including Valuations, Due Diligence, Term sheet negotiations, and other transaction support activities for both buy side and sell side**

## MI CAPITAL SERVICES

### Making Trust-worthy Corporate Financial Advisory Solutions Accessible through Experience & Innovation

With speeding growth across sectors and industries, as well as increase in high net-worth individuals in the region, large, mid and small-size organizations, especially startups, are now actively seeking Corporate Finance and Investment Advisory services for their growth objectives. Additionally, increased awareness about economies, markets and financial tools are driving discerning businesses and individuals to look for advisory across an array of verticals such as tax, risk management, and transaction services to name a few. However, given the lack of knowledge of comprehensive financial products and involvement of large sums, businesses want to rely on trustworthy financial advising partners for consultation and execution of capital investments.

Headquartered in Dubai, MI CAPITAL Services is a financial advisory company that is driven by ethics of efficiency and time-bound delivery. With a combined professional experience spanning decades and a track record of successfully delivering solutions in diversified market conditions, MI CAPITAL Services has managed to build trust and reliance in the industry for their effective & high-yielding corporate financial services.

Established in 2018, MI CAPITAL Services was founded by Mr. Sheetal Soni and later joined by Mr. Prateek Tosniwal as partner. Sheetal is a Charter holder and Chartered Accountant who comes in with 18+ years of experience in the field of Corporate Finance, Strategic finance, Investments, Debt Advisory, M&A, Private Equity Advisory, Project Financing, Trade and Working Capital Financing, Alternative Finance, Treasury, Financial Management and Controls, Financial Modeling, Valuations and Feasibility studies. Prateek Tosniwal is a Chartered Accountant with rich experience in the field of debt finance, Startup Advisory and in-

vestments, International Tax Advisory. He possess 7 years of Experience in the field of International Advisory and Structuring and has served many government organizations back in India.

MI CAPITAL Services now has team of 25+ qualified professionals (CFAs, CAs, MBAs) delivering best in class comprehensive financial services in following areas: Corporate Finance, Audit & Accounting, Tax and Compliance, Risk & Assurance, Debt and Equity Advisory, Investment Advisory, Valuations and Due Diligence, Company Formations, Banking & PRO services.

Talking about the factors that are driving growth in the acquisitions consulting space in Asia, Sheetal mentions, "Mergers & Acquisitions in Asia-Pacific remains robust despite strong geopolitical and financial headwinds. Majority of the global M&A deals in Q2 2022, affecting the Technology, Media & Telecom (TMT) sector, were driven by several themes including AI, cloud, cybersecurity, carbon emissions, renewable energy, ESG, and big data. M&A can be a painful process for clients and they feel the need of qualified and experienced professionals to help through the process. This is where MI CAPITAL Services comes in with our experienced team and professionally manages the overall process on behalf of the clients be it sell side or buy side."

#### Strategic Support for Growing Businesses

MI CAPITAL Services caters to the needs of Large public and private sector corporates, Mid-Corporates, SMEs and Startups with "strategic financial" matters. Through-out their professional careers, the founding members analyzed that CEOs and CFOs are capable of handling experienced teams to manage operational finance of the organization, however when it comes to strategic finance matters like valuation, financial modelling, feasibility studies, pre-merger negotiations, post-merger integration etc. they feel the need of external qualified and experienced advisors. Therefore, the team at MI Capital Services has designed an effective blueprint to help CFOs with such support services.

Shedding light on the support strategy utilized to help client, Prateek mentions, "To help companies grow through effective advisory MI Capital Services has developed a 3P support strategy. First being 'people' - we hire and nurture qualified professionals to help deliver best results. Second being 'process' - Well managed international best practice processes that include financial due diligence, pre-merger negotiations, and post-merger integration. And the third virtue being 'product' - A typical



Prateek Tosniwal, Partner

M&A process involves understanding of business, working out valuation models, carrying out detailed due diligence, negotiations, drafting term sheets, and drafting agreements. We see each step involved as a product and work on delivering the best quality "product" to help for an efficient and successful M&A process."

#### On A Path of Unstoppable Growth

Although MI Capital Services is relatively a young entity; however, the firm has been able to scale and capture decent market share in a very short span of time. The credit goes to the guidance provided by their highly reputed and veteran Advisory BOD and passion to perform within experienced partners. Currently, MI CAPITAL Services operates from their offices in UAE and India, with a roadmap to build their presence in 3 more major financial cities covering Europe and America in near future.

Sheetal sheds light on how MI CAPITAL Services plans on expanding its business in light of the boom that the start-up culture has witnessed in the past decade. "Apart from driving market share in traditional M&A space, we aim to contribute to the new age and evolving start-up ecosystem in the region. The Global Startup Ecosystem has witnessed a dramatic growth in the past one decade with over 1000+ Unicorns and the reason behind it is the contribution of developing countries that have come forward to create next gen technological advancements and wealth creation opportunities. We at MI CAPITAL Services have developed a proprietary fintech platform called "Funding Possibilities," with this we wish to contribute to the startup ecosystem with a number of initiatives which will help startups from angel stage till IPO," signs off Sheetal.

# Asia Business Outlook

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## MI CAPITAL SERVICES

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Asia  
**Business Outlook** **TOP 10**  
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**CONSULTANTS FROM ASIA** **2022**

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*Emmanuel Christi Das*  
Emmanuel Christi Das  
Managing Editor

**MI CAPITAL Services recognized among the top 10 Mergers and Acquisitions Advisory firms in Asia**

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