

SEPTEMBER 2022

MI CAPITAL

Comprehensive Financial Services

KNOWLEDGE Series

Providing Comprehensive Financial Services:
Corporate Finance | Audit & Accounting | Tax and Compliance | Risk &
Assurance | Debt and Equity Advisory | Investment Advisory | Valuations and
Due Diligence | Company Formations | Banking & PRO services

www.micapitalservices.com

Table of Content

- 3** Growth in Mena Region despite the Global Financial Fallout
- 4** UAE Corporate Taxation: Transfer pricing and it's Implementation
- 6** UAE digitizes VAT Refund for Tourists
- 9** Restructure Wealth by setting up a foundation in the UAE
- 11** Upsurge in the UAE company formation
- 13** About Us



Growth in Mena Region despite the Global Financial Fallout

- Weakness across the board in the global economy has led to increased inflation and tighter financial conditions being a global phenomenon. Inflation in certain economies has reached 40-year highs, driving up the cost of living globally.

- As a result of rising energy costs and a shortage of certain goods as a result of the war in Ukraine, economic activity has slowed down across Europe and the United Kingdom. The Ukraine War's knock-on consequences, the collapse of the property market, and an aggressive zero-Covid containment policy have all contributed to China's unusually sluggish growth.

- In the new global environment, the Middle East and North Africa (MENA) countries are following different growth routes. The MENA region is expected to develop by 5.5 percent in 2022 (the strongest rate since 2016) and by 3.5 percent in 2023, according to experts at the World Bank.

- The inflation rate in the MENA region is lower than that in other EMDE regions, although being greater than it was a year ago. Additionally, it is lower than in the US and Europe.

- While Saudi Arabia's oil exports continued to exceed SAR 100 billion for the fifth consecutive month, non-oil exports increased by 26.4% in July. Chemical and related sectors accounted for the largest portion of non-oil exports (34.9%). Saudi Arabia reclaimed its position as China's top crude oil supplier in August.

- As nations recover from the COVID-19 epidemic, persistent supply-demand mismatches slow down economic growth and drive up prices. Prices for food and energy have increased as international tensions have gotten greater.



UAE Corporate Taxation: Transfer pricing and its Implementation

Since the UAE announced corporation tax, all transactions involving connected parties and those that involve related parties are subject to the OECD's transfer pricing recommendations regarding transfer pricing (TP) laws and the arm's length principle.

The rules and processes for valuing transactions inside and between businesses that share ownership or control are referred to as transfer pricing in taxation and accounting.

Five distinct pricing strategies are available: two conventional strategies and three transactional profit strategies.

The following is a list of some conventional transfer pricing techniques

1. The Comparable Uncontrolled Price Approach

To do this comparison, the Comparable Uncontrolled Price technique needs what is known as comparable data. To qualify as similar pricing, the unregulated transaction must meet a set of comparison requirements.

In other words, transactions must be remarkably similar for this method to work. The OECD recommends employing this strategy whenever it is feasible. It is thought to be the most effective and trustworthy way to apply the arm's length principle in a supervised transaction.

2. The Resale Price Approach.

When adequately comparable transactions are available, the resale price approach can be a very beneficial way to determine transfer pricing because third-party sale prices may be relatively easy to access. On the other hand, the resale price technique requires comparables with consistent business environments and accounting procedures.

Some transactional transfer pricing methods are listed below:

3. The Cost-Plus Approach

The cost-plus method (CPLM) gauges a company's efficiency by comparing its gross profits to its total cost of sales. It starts by figuring out the costs the supplier incurred in a controlled transaction between connected businesses. The final step is to add a market-based markup (the "plus" in cost plus) to the total in order to account for a suitable profit. In order to use the cost-plus strategy, a firm must determine the markup fees for analogous transactions between unrelated organizations

UAE Corporate Taxation: Transfer pricing and its Implementation

4. Comparable Profits Analysis

The CPM takes a unilateral stance and frequently ignores information about the transaction's counterparty. Tax authorities are more likely to believe that companies with complex business models, such as high-tech companies with proprietary technology, are not a good fit for the CPM. If organisations utilise data from companies that don't follow the OECD's comparability rules, they run the risk of being audited. The CPM is the type of transfer pricing mechanism that is most common and widely used. Benefits-wise, the CPM is fairly easy to use because all it requires is financial information. This method is especially effective for companies that offer simple-transaction products because it is straightforward to find comparable data.

5. Profit-Splitting Technique

When the associated businesses agree to split the profits, the profit split method is applied. This method examines the terms and conditions of connected, controlled transactions by calculating how profits might be shared among third parties taking part in analogous transactions. The PSM's ability to assess profit allocation holistically rather than just on the basis of transactions is one of its main features. This could help provide a more detailed and accurate assessment of the company's financial performance. When dealing with intangible assets, such as intellectual property, or when numerous controlled transactions are occurring at once, this is especially useful. When the Ministry of Finance (MOF) announced the implementation of corporate tax it announced that it would be following the Organization for Economic Co-Operation and Development (OECD) model. By doing so, it would also introduce a well-established principle of corporate taxation, namely the principle of transfer pricing. Transfer pricing will see a greater scrutiny placed on transactions and financial support between related companies (even if they are in Freezones).

The concept of transfer pricing focuses specifically on business transactions between related companies, common within the region, particularly between multinational companies and in some cases large family-owned businesses within the UAE that are able to control a certain market.

Ultimately the concept prevents a business from paying less tax by exploiting a tax loophole and charging a related business a far lower or far higher fee for a transaction, thus skewing the amount of taxable income and declaring income to be much lower than what it actually is in practice. A simple example of this would be if Business A and Business B are owned by the same person or company. Business A is within the UAE, whereas Business B is in another country and provides management services to Business A. Business A makes AED10,000,000 in taxable income. To reduce this, Business B charges Business A a management fee of AED8,000,000 (when the actual fee would be much less) thus reducing the taxable income to only AED2,000,000 from what should have been a far higher taxable income.

It is not only applicable to services but will equally apply to goods transferred between related entities as well. Although we will have to wait to see exactly what the corporate tax legislation dictates once it is finalized, as mentioned above, the MOF announced it would align itself with OECD principles.

The OECD utilizes the "arm's length principle" when considering transfer pricing. What this means, simply, is that any transactions between related enterprises are on the same terms as they would be if the enterprises were unrelated. Accordingly, no special treatment is given by one enterprise to the other.

V A T

R E F U N D

*UAE digitizes **VAT Refund** for Tourists*

The Federal Tax Authority (FTA) and Planet Tax Free launched a 100% digital VAT-refund programme for travellers on 14th September, 2022.

The announcement was made at a joint press conference with Khalid Ali Al Bustani, Director-General of the FTA, and Eyad Al Kourdi, General Manager of Planet Tax Free, the organisation in charge of managing the tax refund programme for visitors to the UAE.

The new system electronically integrates retail outlets and the tax return scheme to guarantee a simplified digital process for creating, emailing, modifying, and saving invoices for tourists.

According to Al Bustani, "the system generates excellent customer satisfaction scores for its straightforward, efficient, and seamless tax-refund process for qualified travelers."

He continued, noting that the number of transactions, which doubled to 2.31 million in the first eight months of this year, climbed by 104.15 percent during the current year. 1.13 million transactions were recorded in 2021 during the same time frame. Due to the relaxing of international travel restrictions, the total value of tourist VAT refunds increased by 113.48 percent from the beginning of January to the end of August 2022 compared to the same period in 2021.

Al Kourdi for his part added, "Shoppers may quickly finish a transaction, get a digital invoice, and send it straight to Planet Tax Free. For purchases made at a variety of hotels, shopping malls, and other retail places, the electronic tax-refund system is incorporated. For an easy, quick, and hassle-free experience when leaving the UAE, visitors can use one of the more than 100 self-service kiosks located at departure ports."

www.micapitalservices.com

UAE digitizes VAT Refund for Tourists

Officials predicted during the press conference that more than 3.5 million paper invoices will be converted to digital ones. This will have a number of overwhelmingly advantageous effects, including keeping up with the nation's digital transformation strategy, saving businesses up to five minutes per customer (in comparison to printing receipts), lowering friction to maintain public health at the point of sale, and eliminating human error.

A paperless workflow will prevent more than 16,800 trees from being cut down annually and more than 4,000 tonnes of carbon dioxide emissions.

Goods are eligible for Tax Free Shopping

Certain taxable goods except for:

- Goods that have been consumed, fully or partly, in the UAE
- Motor vehicles, boats and aircrafts
- Goods that are not accompanied by the overseas tourist at the time of leaving the UAE

Shop Tax Free

Requirements:

- 100% digital
- 250 Dirhams minimum spend
- The tourist makes an eligible purchase.
- The shop assistant captures information from the tourist's Passport or GCC National ID card using the solution (this should be the same Passport or GCC National ID that was used to enter the UAE).
- The shop assistant enters the transaction purchase price.
- The Tax-Free Tag is attached to the back of the sales receipt.
- The Tax-Free Tag is scanned to link the transaction with the tourist's Passport or GCC National ID card.

Please retain the Tax-Free Tag and sales receipt as you will need this for validation when you leave the UAE.

Validation of Goods

- Before you check in your luggage, take the goods and tagged receipt to one of our validation points.
- Scan or enter your passport number or GCC National ID card.
- Follow the instructions on screen, and if you get a green light, you've completed the validation process.
- If you get a red light, contact one of our Planet staff who are standing next to the validation point for help.
- Choose your preferred refund method – credit/debit card or cash.
- Planet processes the refund*

***If choosing a cash refund, the maximum refund amount is 10,000 AED per tourist. Any additional value over this amount must be paid to a credit/debit card.**

Time needed to complete the procedure

Your Tax-Free Tag needs to be validated within 90 days of the purchase date. For instance: a form issued on 1st of April should be validated by 29th of June. If this is not done, the Tax-Free Tag expires, and the refund cannot be claimed.



How much will you get back?

You will receive 85% of the total VAT amount paid, minus a fee of 4.80 Dirhams per Tax Free Tag.



Airport Locations

Remember to visit our validation staff before you check your luggage – we may need to inspect your goods.

Abu Dhabi Airport

– Common area between all terminals

Dubai Airport

– Terminal 1, 2, 3, and 3 Business

Sharjah Airport

Al Maktoum Airport**

Al Ain Airport**

Ras Al Khaimah Airport**



Seaports

Port Zayed Abu Dhabi**

Port Rashid – Dubai**



Land Borders

Al Ghuwaifat** – At the border with Saudi Arabia

Al Ain** – At the border with Oman

Hatta** – At the border with Oman

**These locations will be available from 16 December 2018. Before that date you can only validate refunds if you depart from Abu Dhabi, Dubai and Sharjah International Airports.

Restructure Wealth by setting up a FOUNDATION in the UAE

Foundations play a similar role to trusts but are very different legal entities. We explain the UAE's three different foundation regimes

Foundations often play a similar role to trusts, especially when it comes to holding and protecting assets and legacy planning. But they have very different legal structures. Most importantly, a foundation is an independent legal entity holding assets in its own right. The foundation meets its founder's wealth protection needs but retains a corporate legal personality. Ownership of assets is not transferred to a trustee. Instead, the foundation is governed by rules set out in a charter and by-laws. These are overseen by a council, chosen by the founder. We have seen a rise in the use of foundations as clients holding assets in the UAE look for a flexible structure for private wealth planning, based on civil law. Still, it's a new financial vehicle in the country and, despite obvious advantages, some hesitate to use them.

Why set up a foundation in the UAE?

References to charters and by-laws may sound complex, but in fact foundations often have a simple structure.

Usually, a client who wants to preserve wealth will ask a lawyer – or corporate service provider – to set up a foundation in his name. The client becomes the founder, and his wife and children are beneficiaries of the foundation. The founder can then sit on the council of members, similar to a board of directors, along with at least one other natural person or legal entity. Checks and balances are provided by a guardian (optional), who controls the actions of the council and offers protection for the founder's wishes.

There are a number of reasons for someone holding assets in the UAE to set up a foundation:

- **Asset protection:** As an independent legal entity, foundations separate individuals from the ownership of assets. This provides protection from creditors and government bodies if the founder gets into financial difficulties.
- **Employee schemes:** Foundations can manage employee pension and retirement plans, as well as company share schemes.
- **Tax-efficient holdings:** Foundations can hold capital income and certain assets. This is tax-efficient, as they are not subject to personal or corporate taxation.
- **Philanthropy:** Founders can set up by-laws to ensure assets are used for charitable purposes.
- **Wealth structuring and inter-generational legacy planning:** By-laws can be created to establish how wealth is distributed from one family member to another.

The differences between foundation regimes in the UAE

In the UAE, foundations can be established under three regimes:

- The Dubai International Financial Centre (DIFC)
- The Abu Dhabi Global Market (ADGM)
- The RAK International Corporate Centre (RAK ICC)

While largely similar, each has slightly different rules and regulations.

The seat of a foundation in the UAE depends on the location of the asset to be protected. That's especially true with property.

Sometimes, clients may choose one regime over the other on the basis of a particular need. Fees and service levels also differ between the three.

All three regimes benefit from the UAE's political stability and enjoy legal systems largely based on English law, although there are small variations between them. Corporate tax is 0% in all three. All offer flexibility and access to a comprehensive network of tax treaties.

Restructure Wealth by setting up a FOUNDATION in the UAE

The Dubai International Financial Centre (DIFC) is the only regime in the UAE that allows a company to be converted into a foundation. DIFC foundations can also have exclusively charitable purposes, which is not the case in the Abu Dhabi Global Market (ADGM).

Foundations can own real estate in Dubai.

While the legal system and courts follow a common law framework, there are specific civil and commercial laws. English law is the main reference in case of ambiguity.

Setting up a DIFC foundation requires:

- one or more founders, who may be either individuals or legal entities
- at least two council members
- a mandatory guardian if the foundation has charitable or specified purposes
- beneficiaries, who must be individuals

Having a registered agent is optional. Foundations must maintain a registered office in DIFC at all times.

The Abu Dhabi Global Market (ADGM)

Foundations here must maintain accounting records but are not required to file with the Registrar. They can own real estate in Abu Dhabi and also benefit from private arbitration of disputes.

Unlike in the other regimes, all applications to set up a foundation must be submitted by an ADGM-licensed company service provider (CSP), whose role includes managing incorporation and continuing statutory filing requirements. Intertrust Group holds the necessary license to fulfil these tasks.

The legal system and courts follow common law. The civil and commercial laws are broadly based on the laws of England and Wales, which apply directly.

Setting up an ADGM foundation requires:

- one or more founders, who may be individuals or legal entities
- at least two council members

- a mandatory guardian if there is no surviving founder
- beneficiaries, who may be individuals or legal entities

Having a registered agent is optional.

Foundations must maintain a registered office in ADGM.

RAK International Corporate Centre (RAK ICC)

RAK ICC appeals to clients requiring complete anonymity as the only regime where information is not publicly accessible. Information related to the foundation is only disclosed when required by relevant authorities.

The RAK ICC legal system follows common law with access to ADGM and DIFC courts. Its civil and commercial laws are broadly based on the laws of England and Wales, which apply directly.

Setting up a RAK ICC foundation requires:

- one founder, who may be an individual or a legal entity
- at least two council members
- a mandatory guardian if the foundation has charitable or specified purposes

Foundations must appoint a registered agent and must maintain a registered office in the UAE.





Upsurge in the UAE company formation

According to the latest figures published by the Business Registration and Licensing (BRL) department at the Department of Economy and Tourism (DET), in H1 2022 Dubai registered a growth of 25 per cent in new business license compared to the same period in 2021. The positive impact of government's new strategic approaches and policy amendments was reflected to accelerate the pace of its sustainable economic growth and diversification.

The new data also reflects Dubai's dynamic entrepreneurial landscape, its globally competitive offerings for businesses and the confidence that local, regional and global investors have in its growth prospects.

- Ease in company policy reforms:

- 1.100% Expat Ownership

Investors of all nationalities can establish and fully own companies in the UAE.

This change came about following the enactment of the Commercial Companies Law in 2020, according to which a foreign company wishing to open a branch and practice its activities in the UAE does not require the presence of a UAE national agent.

As per statistics, within the first 2 days of the introduction of law, 59 foreign investors reportedly took up 100 percent stakes in companies. It is believed that since the Free Zones are concentrated in Abu Dhabi and Dubai, liberalizing economic regulations outside of Free Zones can help attract economic growth especially in the UAE's other five emirates – Ajman, Sharjah, Ras Al Khaimah, Fujairah, and Umm Al Quwain. With the advantage of custom duties and other taxes available in the Free Trade Zones, that shall assist them in leveraging the branding and influence with the UAE government. Full foreign ownership outside the Free Trade Zones could also start a trend as the UAE strives to make its entire business environment more competitive.

Upsurge in the UAE company formation

2. Company setup for high risk and sanctioned countries:

High Risk Countries: Algeria, China, Ethiopia, Israel, Nigeria, Pakistan, Russia, Dominican Republic, Cameroon, Saint Kitts, Lebanon and Nevis

Sanctioned Countries: Cuba, Iran, Iraq, North Korea, Russia, Syria and Ukraine

3. Professional vs Commercial company setup: Professional License (a.k.a. Service license) can be 100% owned by Expats. A local service agent, LSA, (Local Emirati) must be appointed to represent the company in government bodies. The LSA does not have any shareholding capacity in the license, nor do they hold any Profit or Loss division.

While the LSA may not have any shareholding capacity, it may be disagreeable with some expats. DED Mainland allows Service licenses to change their legal structure to a commercial structure. This ensures that the shareholders do not need to be engaged with an LSA, while conducting the same business activities in the mainland.

Other Benefits:

40 Free Zones for Company Incorporation

More than 40 free zones allow tax exemptions and 100% ownership for foreign investors. The UAE also provides these investors great flexibility in selecting the most appropriate zones for establishing their businesses. Free zones are located throughout the UAE, allowing investors to engage in a wide variety of economic businesses and activities..

Golden Visa for Investors

The UAE grants long-term residence visas, for durations that extend from 5 to 10 years, to investors, entrepreneurs, and talented individuals. This allows expatriates and their family members wishing to live, work or study in the UAE to settle, establish their businesses, and enjoy the benefits of extended residency.

Investing in All Economic Activities

Foreign investors can invest in the trade, industry, agriculture, services, education, health and construction along with several other sectors across the UAE. There are more than 2,000 licensed economic activities, with local laws excluding only a very limited number of domains

H1 2022 License Index Report

Number of new business licenses issued during H1 of 2022:



New business licences issued in Dubai during H1 of 2022 per area:



Legal forms of new business licences issued during H1 of 2022:



ABOUT

MI CAPITAL

Comprehensive Financial Services

KNOWLEDGE Series

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 ecosystem allows us to provide our Clients with efficient business solutions across various industries and client segment.

Other useful Resources

• **UAE Corporate Tax Simplified:**

https://www.youtube.com/watch?v=Tp9fKHQaTn8&list=PL6Hq2B2kB5C0sansulf-Ng_NUM_rvH4cs

• **Understanding Corporate Tax in the UAE (Webinar):**

<https://www.youtube.com/watch?v=8C9Ta0hp0kQ>

• **Proposed UAE Corporate Tax Regime Simplified (By MI Capital Services):**

<https://www.youtube.com/watch?v=O5KdVbETdo4>

OTHER TOPICS

- <https://www.micapitalservices.com/company-formation/>
- <https://www.micapitalservices.com/startup-valuations-more-art-than-science/>
- <https://www.micapitalservices.com/latest-vat-updates-and-opportunity-to-benefit-from-significant-penalty-waiver-from-fta/>



MIC
Corporate Services

MIC
Accounting, Tax & Compliance

MIC
Audit



www.micapitalservices.com

Events / Media Presence / Recognitions

MI CAPITAL Services at Startup event in INDIA and recognition and meeting with IFZA Authorities



Events | Media Presence | Recognitions

MI CAPITAL Services presentation about “Doing Business in the UAE”
at the Italian Trade Delegation



www.micapitalservices.com

Events | Media Presence | Recognitions

MI CAPITAL Services media coverage across various platforms and newspapers.

GEMMAKERS

POWERED BY **Surat Times**
An International and Lifestyle Promotional Platform
An Optimal Media Solutions Initiative, A Division of Times Internet Limited

The India-UAE start-up corridor opening new doors

MI Capital is a leading financial services provider in the UAE, offering a wide range of services to its clients. The company has recently opened a new office in India, further strengthening its presence in the region. This move is part of the company's strategic expansion into the Indian market, which is seen as a key growth area for the future. The new office will be staffed with experienced professionals who will provide a high level of service to clients. The company is committed to providing comprehensive financial services to its clients, and this new office is a testament to its commitment to growth and innovation.

UAE businesses gear up for corporate tax compliance

Vistara unveils new service for Abu Dhabi

Emirates Post Group launches its fintech arm

What is three-tiered approach to transfer pricing documentation

The UAE government has announced that it will introduce a new corporate tax regime starting from 2023. This move is expected to have a significant impact on businesses operating in the UAE, as they will need to ensure they are compliant with the new regulations. To assist businesses in this process, Vistara has unveiled a new service specifically designed for Abu Dhabi. This service will provide businesses with the necessary guidance and support to ensure they are fully compliant with the new corporate tax regime. Additionally, the Emirates Post Group has launched its fintech arm, which will focus on providing innovative financial services to its customers. This move is part of the group's broader strategy to diversify its operations and expand its reach into the fintech sector.

UAE Happenings

652,885 private sector companies in UAE remain under prepared for next year's corporate tax

By Ajaya Shastri

UAE: About 652,885 private sector companies in the UAE remain under prepared for next year's corporate tax. This figure was revealed in a report published by a leading financial services provider. The report highlights that many businesses are not fully aware of the new corporate tax regulations and are therefore at risk of non-compliance. It also notes that the government has provided various resources to help businesses understand the new rules, but more needs to be done to ensure widespread awareness. The report calls on businesses to take proactive steps to ensure they are compliant with the new regulations, including seeking professional advice and staying up-to-date with the latest developments.

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 has announced a strategic partnership with a leading Indian real estate developer to open up the country's vast affordable housing market to GCC investors. The market is valued at US\$88.23 billion and offers significant growth potential for investors from the Gulf region. Mi Capital will provide the necessary support and guidance to facilitate these investments, including legal, financial, and operational assistance. This partnership is a key milestone for Mi Capital's expansion into the Indian market and represents a major opportunity for GCC investors to diversify their portfolios and tap into a high-growth sector.



Our Team



Sheetal Soni
Partner



Prateek Toshniwal
Partner



Shubhangi Toshniwal
Partner



Shweta Soni
Head of
Corporate Services



Bharat Bajaj
Banking &
Mortgage Head



Karishma Suwarnakar
Head of Accounts &
Taxation



Palak Gupta
Marketing Head
India



Aquila Noel
Banking Analyst



Ali E.
Accounts Officer



Shanaj KP
Accounts Officer



Namrata Dighe
Operations Analyst



Shadiya P.
HR & Admin Officer



Sabina Vora
Business Development
Executive



Darpana Sarmalkar
Strategic & Business
Development Manager



Yash Jhavar
Corporate Tax
Associate



Nilufar Kausar
Business Development
Manager



Fariya Rafique
Head of Incorporation



Anuj Tosniwal
Branding & PR Head

www.micapitalservices.com

*Our **New** Initiative*



**BANKING
POSSIBILITIES**
Business Banking Simplified

- Connections with 40+ banks worldwide
- Guaranteed opening of a Business IBAN account
 - Priority lane and Fast Track
- The highest success rate in the UAE
 - Free recommendations
 - Single application
 - Free Banking Profile
 - Online status tracking
 - Accept High-Risk businesses
 - Accepting Non-UAE Owners
- Personal introduction with bankers responsible for opening your account

www.micapitalservices.com