

Setting up your Business in UAE

Issues to consider

The UAE has a vibrant free economy, a significant proportion of its revenues arising from exports of oil and gas. The establishment of free zones has been an important feature of a diversification policy and reform of property laws gave a major boost to real estate and tourism sectors.

Dubai and Abu Dhabi have been ranked the top two cities in the Middle East region for quality of life, according to the latest edition of a global survey. Long-time investors include a wide range of multinational companies headquartered across the globe. Special economic zones and free zones offer 100 per cent ownership, repatriation of profit and capital as well as exemptions from taxes. Corporate taxes are reserved only for branches of foreign banks and oil-producing companies.

Infrastructure in the UAE is second to none. Telecommunications, including mobile and fixed telephony as well as internet access is on par, if not better, than the world's largest international business hubs. Investors benefit from an abundant supply of human resource skills, courtesy of professionals migrating to the emirate from nearly every country in the globe. E-government websites, free zone authorities as well as chambers of commerce and industry provides new entrants with helpful information and guidance. However there are a number of issues which you must consider when you are looking to set up your business in UAE.

This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Establishment (a branch of your overseas business)

- Not a separate legal entity but an extension of the overseas parent company
- No limited liability or ring-fencing of the (country) operations
- Must file **Branch office** accounts, prepared under UAE Company Law, at Ministry of Economy.
- UAE is introducing Value Added Tax(VAT) from 2018 January. Must file periodical VAT Returns

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Partnership Company:

- Only for two or more UAE nationals.
- Jointly and unlimitedly, to the extent of their personal assets.
- Must adhere with the new Commercial Companies Law ("New CCL") from July 2017, and are required to amend their existing memoranda and articles of association ("Articles") to mirror and comply with the changes introduced in the New CCL.
- UAE is introducing Value Added Tax (VAT) from 2018 January. Must file periodical VAT Returns.

Limited Liability Company:

- Members (partners) have limited liability
- Profits are allocated to members
- Must Adhere with the new Commercial Companies Law ("New CCL") From July 2017, and are required to amend their existing memoranda and articles of association ("Articles") to mirror and comply with the changes introduced in the New CCL
- UAE is introducing Value Added Tax (VAT) from 2018 January. Must file periodical VAT Returns.

Single Member Limited Liability Company:

- Only one member (UAE National)
- Profits are allocated to member.
- UAE is introducing Value Added Tax (VAT) from 2018 January. Must file periodical VAT Returns.

Bankruptcy law

The UAE government has issued a new bankruptcy law with effect from December 2016.

Key points

- Current insolvency regime repealed
- Application is wider – not just commercial traders
- New financial restructuring committee to be appointed
- New balance sheet insolvency test
- Modernized restructuring and insolvency procedures, although still court-driven "Bankruptcy by default" (also known as the 30 day rule) has been rescinded
- Proceedings for bounced checks stayed if rescue procedures initiated
- New minimum threshold (AED100,000) for creditor-initiated insolvency proceedings

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How much Corporation Tax will the business pay?

There are no corporate taxes in the UAE. The only exception is banks and telecommunications which are regulated under the Central Bank and the Telecommunications Regularity Agency (TRA).

What if we use UAE to set up our holding company?

There are no corporate taxes in the UAE neither on profit nor dividend paid.

What if we make cross-border transactions between group companies?

UAE follows internationally recognised Transfer Pricing (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

Typical transactions between affiliated entities that are covered by TP regulations are:

- Sale and purchase of goods
- Provision of management services
- Property rental charges
- Transfer of intangible assets e.g. trademarks, patents
- Sharing of knowledge, expertise, business contacts etc.
- Provision of financial support e.g. inter-group loans and charging a "market" interest on loans

A business is not required to prepare a Transfer Pricing Report proving the arm's length basis of transactions.

However even if an entity is exempt from the UAE's transfer pricing regime it may fall under the scrutiny of the other international tax jurisdictions where it transacts. There may also be other tax regulations which ensure transactions are undertaken at a commercial value.

What Employment Taxes and Social Security will need to be paid?

There are no Personal taxes in the UAE, no social security tax, only pension plan contribution is made for UAE nationals.

What is Value Added Tax (VAT) and should the business be registered?

VAT is a "goods and services tax" on supplies made, the standard rate of which is 5%. If a business makes taxable supplies in excess of AED 375,000 in any 12 months then it MUST be registered for VAT.

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There are three types of supply

- Taxable – must charge VAT on supplies, can reclaim input VAT
- Exempt – cannot charge VAT nor reclaim input VAT
- Zero rated - VAT will be charged at 0% and can claim input VAT

The supply of most types of goods and services in UAE would be classed as Taxable supplies. However when these supplies are made to companies which are outside of the UAE advice needs to be sought as to what rate of VAT, if any, to use.

Can we provide Share option plans to our staff?

Many companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

UAE does not have approved share option plans and the only way to implement that is via share sale and transfer agreements as and when such shares become due provided other rules of company laws remain true such as the percentage of UAE nationals' holding or the minimum value of a share.

How else can we compensate our employees?

UAE has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Pensions, private medical insurance, life and disability cover are now commonplace benefits provided by many UAE businesses to their workforce.

Flexible benefit packages are also gaining in popularity, giving employees options on how they wish to "spend" their benefits allowance; which can range from "purchasing" additional holiday entitlement to obtaining full family medical cover.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or email us directly.

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