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International tax

United Arab Emirates Highlights 2016

Investment basics:

Currency – UAE Dirham (AED)

Foreign exchange control – No

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually.

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

Foreigners generally may only own up to 49% of a UAE-registered company, although they may increase their shareholding to 100% in respect of companies set up in free trade zones.

Corporate taxation:

Residence – In practice, a company that is incorporated in the UAE is considered resident, provided: (1) all of the shares of the company are beneficially owned by residents of the UAE; or (2) all or substantially all of the company's income is derived by the company from the active conduct of a trade or business other than an investment business in the UAE; and (3) all or substantially all of the value of the company's property is attributable to property used in that trade or business.

Basis – Income tax decrees have been issued by five of the seven Emirates (i.e. Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qaiwan, Ras Al Khaimah and Fujairah), but currently only are enforced on the income of oil and gas exploration and production companies, branches of foreign banks and certain petrochemical companies under specific government concession agreements, at flat rates of 50%/55% (Dubai/Abu Dhabi).

Taxable income – There are no taxes imposed on the income of companies, except for oil and gas exploration and production companies and branches of foreign banks.

Taxation of dividends – No

Capital gains – No

Losses – N/A

Rate – Branches of foreign banks are taxed at rates agreed with the ruler of the Emirate in which they operate, generally at a flat rate of 20%. As noted above, oil and gas exploration and production companies are taxed at flat rates of 50%/55% (Dubai/Abu Dhabi).

Surtax– No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – The UAE offers several free trade zones with renewable 50-year tax holidays and exemption from import duty on goods brought into that free zone.

Withholding tax:

There are no withholding taxes in the UAE.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – A transfer charge is levied on the transfer of real property. The rate varies according to the local jurisdiction.

Social security – The UAE does not impose social security taxes on foreign employees. Employer pension contributions for national employees are 12.5% of the "contribution calculation salary." In addition, national employee contributions are levied at 5% of the contribution calculation salary.

Stamp duty – No

Transfer tax – No, but see "Real property tax," above.

Other – Municipal taxes are imposed on certain hotel and leisure services and property rentals. Annual rental income of residential and commercial tenants is taxed at 5% and 10%, respectively.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – Annual financial statements must be filed with the Ministry of Commerce by companies and branches located outside the free trade zones. Entities located within a free trade zone report to the free zone authority of the relevant zone. These entities have never officially been requested to file or report financial statements to any ministry/authority located outside the free zone.

Compliance for corporations:

There are no compliance obligations on companies in the UAE.

Personal taxation:

Basis – Individuals are not taxed on their income.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – A transfer charge is levied on the transfer of real estate property. The rate varies according to the local jurisdiction.

Inheritance/estate tax – There is no inheritance tax regime. Inheritance, in the absence of a will, is dealt with in accordance with Islamic Sharia'a principles.

Net wealth/net worth tax – No

Social security – See above under "Other taxes on corporations."

Compliance for individuals:

There are no compliance obligations on individuals in the UAE.

Value added tax:

Taxable transactions – It is expected that VAT will be introduced by 2018, although specific details of the regime are yet to be released at the time of writing.

Source of tax law: Income tax decrees issued by five of the seven Emirates (Dubai, Sharjah, Abu Dhabi, Ajman and Fujairah) make up the UAE tax laws

Tax treaties: The UAE has concluded around 60 income tax treaties

Tax authorities: Ministry of Finance

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