



Taxation in United Arab Emirates

The United Arab Emirates (UAE) is located on the southern coast of the Arabian Gulf and is a Federation of seven emirates, Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain, Ras Al Khaimah and Fujairah. The country has been experiencing considerable growth and development since its formation in 1971 due to its liberal economic policies. The population has rapidly increased from around 250,000 in 1971 to an estimated 5 million in 2005.

The UAE's dynamic economic environment and the economic diversification strategy, has been made possible due to the massive investment in the infrastructure comprising of efficient road networks, excellent telecommunications facilities and the links with the outside world through first class ports, both sea and air, which are constantly being upgraded.

In Dubai, hotels, office blocks, shopping malls and entertainment complexes are being developed rapidly and are putting the Dubai property market on the world map. The trigger for much of this expansion was the Emirate's decision to allow non-nationals to purchase freehold property in several property developments such as Nakheel's development of The Palm, Jumeirah and The Palm, Jebel Ali, which are the latest residential island projects currently in Dubai.

The Commercial Companies Law No. 8 of 1984 which establishes seven types of business organizations, addresses amongst other matters minimum capital levels and UAE national equity ownership requirements, the number of directors and shareholders, and other topics relating to the management and administration of businesses. The Commercial Companies Law is in the process of being amended.

Under the present Commercial Companies Law, in most cases foreign ownership is restricted to 49%. There is speculation that this will be increased in the forthcoming Commercial Companies Law. Branches of foreign companies may be registered in the UAE; however a local sponsor or service agent is required in virtually all cases.





Ministerial decree No. 194 of 2004 allows GCC nationals to set up entities in the UAE without UAE National involvement

Corporate Income Tax

The federal government of the United Arab Emirates has not promulgated any tax laws. Most of the individual Emirates have issued corporate tax decrees, but, in practice, taxes are only imposed on oil and gas producing companies at rates set forth in their government concession agreements, and on branches of foreign banks at rates set out in specific tax decrees or fixed in agreements with the Rulers of the Emirates in which the branches operate.

The income tax decrees which have been enacted in each Emirate provide for tax to be imposed on the taxable income of all bodies corporate wherever incorporated, and their branches which carry on trade or business, at any time during the taxable year through a permanent establishment in the relevant Emirates. Bodies corporate are taxed if they carry on trade or business directly in the Emirate or indirectly through the agency of another body corporate.

Abu Dhabi

According to the Abu Dhabi Income Tax Decree, all corporate entities carrying out trade or business in Abu Dhabi are taxable. In practice, tax is imposed as follows:

- a) Corporate taxes on oil and gas producing companies at rates specified in the relevant concession agreement. Oil companies also pay royalties on production;
- b) Branches of foreign banks are assessed a fee at the rate of 20% on annual fees income. The fees income of banks shall be calculated by reference to their audited financial statements.





Tax Decree Number (4) of 1972) every chargeable person who conducts trade or business, including the rendering of any services in Abu Dhabi shall be subject to a sliding scale up to a maximum of 55% as follows:

Taxable income		Rate %
Exceeding AED	Not exceeding AED	
0	1,000,000	Exempt
1,000,000	2,000,000	10
2,000,000	3,000,000	20
3,000,000	4,000,000	30
4,000,000	5,000,000	40
5,000,000	-	55

A “chargeable person” means a body corporate wherever incorporated, or each and every branch thereof, carrying on trade or business at any type during an income tax year through a permanent establishment situated in the Emirate whether directly or through the agency of another body corporate, (and not entitled under an agreement with the Ruler to an exemption from liability to income tax). Two or more such branches of a body corporate so carrying on trade shall each be treated as separate chargeable persons. The fact that a body corporate has a secondary body corporate carrying on trade or business through a permanent establishment in the Emirate shall not in itself constitute that parent body corporate as a chargeable person.

- a) “Carrying on trade or business” means:
- b) Selling goods or rights in such good in the Emirate;
- c) Operating any manufacturing, industrial or commercial enterprise in the Emirate;
- d) Letting any property located in the Emirate; or
- e) Rendering services in the Emirate, (excluding the mere purchasing of goods, or rights in such goods in the emirate.)

A chargeable person in Abu Dhabi shall be charged taxes on a sliding scale as described above except that the tax so charged shall be reduced by the credit aggregate of oil dealt in for that fiscal year so long as the total of all reductions granted to all chargeable persons in that fiscal year shall not exceed the credit aggregate of oil dealt in for that fiscal year.





Taxable income is computed after the deduction of all costs and expenses incurred by a chargeable person earning such income.

Deductible costs and expenses include acquisition cost of goods, the expenses of operating the business, allowances for depreciation, obsolescence and exhaustion of both tangible and intangible assets and losses sustained by the chargeable person in connection with the business.

Dubai

According to the Dubai income tax decree, all companies carrying on trade or business in Dubai are required to pay tax on their earnings. The rates of tax are on a sliding scale up to a maximum of 55 per cent. In practice however, only:

- a) Oil and gas producing companies pay tax at rates specified in the relevant concession agreement. Oil companies also pay royalties on production;
- b) Branches of foreign banks pay tax at a flat rate of 20% on annual profits. The taxable income of banks is calculated by reference to their audited financial statements.





The Dubai Income Tax Ordinance of 1969 and Dubai income tax decree (and its amendment 1970) specifies that an organization that conducts trade or business in Dubai shall be subject to taxation as follows:

Taxable income		Rate %
Exceeding AED	Not exceeding AED	
0	1,000,000	Exempt
1,000,000	2,000,000	10
2,000,000	3,000,000	20
3,000,000	4,000,000	30
4,000,000	5,000,000	40
5,000,000	-	55

A “chargeable person” means a body corporate wherever incorporated, or each and every branch thereof, carrying on trade or business at any type during an income tax year through a permanent establishment situated in the Emirate whether directly or through the agency of another body corporate, (and not entitled under an agreement with the Ruler to an exemption from liability to income tax). Two or more such branches of a body corporate so carrying on trade shall each be treated as separate chargeable persons. The fact that a body corporate has a secondary body corporate carrying on trade or business through a permanent establishment in the Emirate shall not in itself constitute that parent body corporate as a chargeable person.

“Carrying on trade or business” means:

- a) Selling goods or rights in such good in the emirate;
- b) Operating any manufacturing, industrial or commercial enterprise in the emirate;
- c) Letting any property located in the Emirate; or
- d) Rendering services in the Emirate, (excluding the mere purchasing of goods, or rights in such goods in the Emirate.)

A chargeable person in Dubai shall be charged taxes on a sliding scale as described above except that the tax so charged shall be reduced by the credit aggregate of oil dealt in for that fiscal year so long as the total of all





reductions granted to all chargeable persons in that fiscal year shall not exceed the credit aggregate of oil dealt in for that fiscal year.

Taxable income is computed after the deduction of all costs and expenses incurred by a chargeable person earning such income.

Deductible costs and expenses include acquisition cost of goods, the expenses of operating the business, allowances for depreciation, obsolescence and exhaustion of both tangible and intangible assets and losses sustained by the chargeable person in connection with the business.

Sharjah

According to the Sharjah Income Tax Decree, all corporate entities carrying out trade or business in Sharjah are taxable. In practice, tax is imposed as follows:

- a) Oil and gas producing companies pay tax at rates specified in the relevant concession agreement. Oil companies also pay royalties on production;
- b) Branches of foreign banks pay tax at a flat rate of 20% on annual profits. The taxable income of banks is calculated by reference to their audited financial statements.





The Sharjah Income Tax Decree 1968 (and its amendments) specifies that there shall be imposed upon the taxable income of every chargeable person for each income tax year ending after the date of this Decree tax at the following scale:

Taxable income		Rate %
Exceeding AED	Not exceeding AED	
0	1,000,000	Exempt
1,000,000	2,000,000	10
2,000,000	3,000,000	20
3,000,000	4,000,000	30
4,000,000	5,000,000	40
5,000,000	-	55

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“Carrying on trade or business” means:

- a) Selling goods or rights in such good in the Emirate;
- b) Operating any manufacturing, industrial or commercial enterprise in the Emirate;
- c) Letting any property located in the Emirate; or
- d) Rendering services in the Emirate, (excluding the mere purchasing of goods, or rights in such goods in the Emirate.)





Investment Incentives

Several of the Emirates in the UAE have free zones, which offer tax and business incentives aimed at making the UAE a global business and commercial center. The incentives usually include tax holidays for a guaranteed period (most free zones offer a tax holiday of 50 years), 100% foreign ownership, no customs duty within the free zone and “one stop shop” administrative services

Foreign-Exchange Controls

No foreign-exchange controls are imposed by either the federal government of the UAE or the individual Emirates.

Withholding Tax

There are no withholding taxes in the UAE.

Personal Income Tax

No personal taxation currently exists in the UAE.

Capital Gains

There is no capital gains tax in the UAE. For taxpaying entities, capital gains are taxed as part of business profits.





Value Added Tax

There is no VAT in the UAE at present.

Social Security

The UAE does not impose social security taxes on expatriates. UAE-national employees contribute to retirement and pension funds in accordance with specific regulations.

Municipal Tax and Property Tax

Municipal taxes are imposed on hotel services and cinema shows. Service charge percentages vary among the Emirates. A service charge of 5% to 10% is charged on food purchased in restaurants. Hotels charge a 10 to 15% service charge per night on room rates. These charges are usually included in the customer's bill, which the municipality will collect from restaurants and hotels. Individuals living and working in Dubai for example pay a 10% service charge on food purchased in most restaurants. Hotels also charge an additional 15% service charge on the services they provide.

In most of the Emirates, property tax is payable by residential and commercial tenants by reference to the annual rent of residential property, generally at a rate of 5% and for commercial property at a rate of 5 to 10% payable to the local Municipality.

Sale/ Purchase fee

A sale registration fee of 1% of the value of the sale is imposed on the seller, payable to the Dubai Land Department. A purchase registration fee of 1% of the value of the sale is payable by the buyer of the property. The rate can differ in other Emirates





Customs Duty

Please refer to the section on GCC Customs Union.

Tax treaties

The UAE has entered into tax treaties with several countries, including Algeria, Armenia, Austria, Belarus, Belgium, Bulgaria, Canada, China, the Czech Republic, Egypt, Finland, France, Germany, India, Indonesia, Italy, Lebanon, Malaysia, Mauritius, Morocco, Mozambique, New Zealand, Pakistan, Poland, Romania, Singapore, South Korea, Spain, Sri Lanka, Syria, Tajikistan, Thailand, Turkey, Ukraine, and Yemen. Treaties have been concluded with Bosnia-Herzegovina, Jordan, Luxembourg, Malta, Mongolia, the Netherlands, Philippines, Seychelles, Sudan, Tunisia, and Uzbekistan but they have not formally entered into force.

