Taxation in the United Arab Emirates

Personal and corporate taxes, VAT, double tax treaties and other main points of the tax system of the UAE

Taxation in the UAE

The aim of this overview is to provide insight into the UAE tax system as well as its double taxation treaties, and to outline the existing taxation regulations.

After the establishment of the UAE Federation in 1971, all the seven Emirates, except for Dubai and Ras Al Khaimah, have joined the Federal legal system.

The federal government retains control over such crucial areas as foreign affairs, defence, health and education. Municipal work, natural resources and other matters are under the jurisdiction of the individual Emirates.

The UAE is the most prosperous Middle East country with a solid open economy. Its diversified economy enjoys the world's highest per capita income and the sizeable annual trade surplus. This is owing to the unprecedented transformations that have turned this country into the modern nation with high standard of living and highly advanced legal system.

Today, the UAE offers the world's most liberal system of taxation. Moreover, this is alongside with the lowest rates and the simplified methods of reporting, which takes on average only 12 hours per year.

Taxation is one of the key strength that makes the country attractive both for entrepreneurs and for private persons. The UAE ranks first in terms of easing the overall tax payments. This place is evidenced by the latest data cited in The World Bank's "Paying Taxes" report.

The UAE and Qatar share the first place among the top 50 countries in the overall tax ranking:

- Qatar and United Arab Emirates – 1st
- Saudi Arabia – 3rd
- Bahrain – 8th
- Oman – 10th
- Kuwait – 11th
- Lebanon –45t

The UAE is known to be the only country with almost no taxation. The data on the taxes applicable in 15 countries of the EU and in other European and Middle Eastern countries indicate that the UAE is the only country with practically no taxation. Only major petrochemical companies, hotels and representative offices of international banks and are liable to taxation in the country.

All the Emirates collect taxes on the basis of their own laws, as the federal tax legislation is not in place in the UAE. Some taxes are not charged at all, in particular:

- Personal income tax;
- Capital gains ;
- Value-added;
- Withholding;
- Corporate tax.

The general corporate tax regime of the Emirates of Abu Dhabi, Dubai and Sharjah is established on the following documents:

- Abu Dhabi Income tax decree (1965);
- Sharjah Income Tax decree of (1968);
- Dubai Income Tax decree of (1969).

Even though these laws define clear tax rates, however, in reality, only those engaged in oil, gas and petrochemical industries, and representative offices of foreign banks are liable to taxation.

The residents of the UAE are exempted from paying personal income taxes. However, the UAE nationals are liable to the system of pension contributions, which amount about 5% of the salary. The authorities propose creating with the time the same conditions for expats working in the UAE.

Personal Tax

Personal tax is the one which applies on various types of income of physical persons, residing in the country. Such tax includes personal income tax, dividends and interest. At the present time there is no taxation on personal income in the UAE.

Municipality service charges are levied on individuals living and working in the UAE. Service charges of 5-10% are charged on food purchased in restaurants. Hotels charge 10-15% service charge per night on room rates. All these charges are then collected by the municipality from the hotels and restaurants.

Inheritance and gift tax Dubai and other emirates of the UAE

According to the current applicable UAE legislation, there is no inheritance tax in the UAE. Means in the event the person who is the permanent resident of the UAE inherits some assets in the UAE or abroad, there would be no inheritance / gift tax in UAE of whatever nature – independent on level of kindship or the value of the inherited / gifted assets.

Gift tax is also completely absent in the UAE – no matter if the person receiving a gift is a relative or a totally unrelated person.

Absence of inheritance and gift tax is quite a unique feature of the UAE system. Majority of other systems of other countries do implement inheritance and gift tax whereby its rate depends on the relationships of the persons and can reach 50% and more.

Corporate Tax

Definitions - a chargeable person is the entire legal entity or a single subsidiary, which carries out any kind of trade or business within an income tax year. Its activities are implemented through a permanent establishment located on the territory of the Emirate either directly or via the representative office of another legal entity. A chargeable person is not exempted from income taxation. Each subsidiary of a legal entity, which carries on trade, is considered as an independent chargeable person. If a legal entity has a secondary legal entity, which carries on business or trade via permanent establishment in the Emirate, it does not necessarily mean that the parent legal entity is a chargeable person too.

A chargeable person is liable to taxation per sliding scale. For oil companies exception is that the tax is reduced by the credit aggregate of oil, which was dealt during the period of a fiscal year. All the reductions, which were obtained by each chargeable persons, must not exceed the credit aggregate of oil dealt during the same period.

Conduction of business or trade implies:

- Sale of goods or rights in the UAE;
- Operation of any manufacturing, industrial or commercial enterprise in the UAE;
- Provision of any assets located in the UAE;
- Provision of services within the United Arab Emirates (excluding the purchasing of goods or rights in any of the Emirates).

The amount of the taxable income is calculated after subtracting of all the expenditures, which were remunerated by a chargeable person. Deductible disbursements comprise the cost of goods acquired, the business operational expenses, allowances for depreciation, obsolescence and tiredness of both tangible and intangible assets as well as losses sustained by the chargeable person in association with the business.

Abu Dhabi

The following taxes are levied:

- Taxes on oil and gas companies (the rates are specified in the appropriate concession agreement);
- Flat rate on annual profits of representative offices of foreign banks;
- Flat rate service tax on hotel services and entertainment.

As stated in the Abu Dhabi Income Tax Decree of 1965 all chargeable persons, who carry on business or trade, are tax liable according to the sliding scale of up to 55%.

Dubai

All the companies located in Dubai are subject to income taxation. The rates are computed on a sliding scale up to 55%. However, in reality only oil, gas and petrochemical companies and representative offices of foreign banks are liable to taxation.

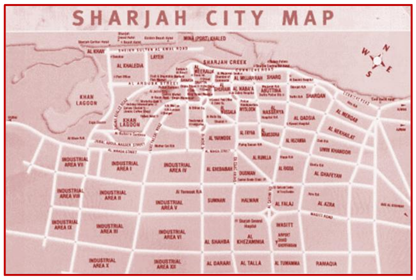
The Dubai Income Ordinance (1969) and the Dubai Income Tax decree (and its amendment of 1970) regulate the way of taxation of the legal entities, which carry on business or trade in Dubai.

In practice, only banks and oil companies are subject to corporate taxation. Rate on taxable income amounts 55% for oil companies and 20% for banks. The income of banks is computed based on their audited financial statements, and the taxable income of oil companies is determined based on their concession agreements. Oil companies are also obliged to pay royalties on production.

The Emirate of Dubai offers very low customs duties. Moreover, numerous exemptions are available. Therefore manufacturers, when importing and re-exporting goods, machinery, raw materials and spare parts that are used for industrial purposes, can derive benefit from customs duties.

Sharjah

According to the Sharjah Income tax Decree 1968, the income of every chargeable person for the period of each income year (after the date of signing this Decree) is subject to taxation.



The income tax is payable by a chargeable person who gains profits from conducting trade or business on the territory of the Emirate. Income of a chargeable person, which was derived from representative offices of foreign banks and oil, gas and petrochemical companies, are taxed based on the sliding scale. The tax amount is up to 55%, and for oil companies is reduced by the credit aggregate of oil, which was dealt during the period of the fiscal year. In real life, similar to other Emirates, Sharjah applies taxes only to oil companies, banks and hotels.

The major portion of goods, which were imported into Sharjah, are liable to customs duties at the rate of 5% that is charged on the CIF (cost, insurance, freight) value of the goods. Charges are applied directly at the UAE port of clearance of the goods at the moment of providing the bill of entry.

Property Tax

Residential and commercial tenants are liable to pay a property tax in the majority of the Emirates. A tax rate for residential tenants amounts 5% of the annual rent and for commercial tenants – 10%.

In the Emirate of Abu Dhabi, a property tax is levied on both the business license obtaining and renewal. In these cases, the property tax amounts at around 5 to 10% of the applicant's annual office rent and 5% of the annual rental of the residence of the manager / license holder.

In Dubai, the annual property tax is levied on all residential properties and is charged by the Dubai Municipality. Property tax at the rate of 5% of the annual rent is charged on all professional, managerial and other employees in commercial and industrial sectors. The tax rate in the banking sector amounts 15%.

In Sharjah, the annual property tax is levied on all leased residential properties and is charged by the Sharjah Municipality. This amounts 2% of the annual rent, and is stated in the lease agreement.

Double Taxation

The double taxation agreements are signed with other countries in order to turn the UAE into the most attractive destination for those from the countries with less favourable tax systems.

The agreements aim at further reduction of all the potential tax payments, which are levied on foreign legal entities and private persons operating in the UAE and moving their earnings abroad. The corporate tax is not charged in the UAE. The provisions of the agreements do not provide that tax should be levied on such income in order for the company to be eligible for these benefits.

Therefore, dividend income, which is paid by a company from the UAE to a company from a country that has double taxation agreement with the UAE, may be not subject to taxation by the foreign parent company. It also affects the cases when the dividend income has not been taxed in the UAE.

Numerous countries have established double taxation anti-avoidance laws that provide the legal framework for minimization of taxation of various income including dividends, percent and royalties under such agreements. There are also some countries that did sign such agreements only in a very limited number. From this point of view the UAE is one of the countries having very large list of these agreements being signed.

The major agreements are:

- Agreements on taxation depending on the income resulting from air transport;
- Agreements on avoidance of double taxation on income and profits resulting from international sea transport;
- Agreements on avoidance of double taxation on income, capital and evasion of taxes;

The following countries have signed double taxation agreements with the UAE:

REGION	COUNTRIES
Africa	*Algeria, Egypt, Morocco, Sudan, Tunisia*
Asia	*China, India, Indonesia, Japan, Malaysia, Mongolia, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Thailand, Turkmenistan*
Europe	*Belgium, Bosnia, Finland, France, Germany, Italy, Malta, Netherlands, Poland, Romania, Spain, Switzerland, Greece, Holland, Belarus, Turkey, Bulgaria*
Middle East	*Jordan, Kuwait, Lebanon, Syria, Yemen*
North America	*Canada*
Australia	*New Zealand*

VAT introduction in the UAE

At the present there is no VAT applicable in the UAE. In the first half of 2016 the UAE authorities have announced the planned introduction of the VAT. The VAT, as according to the latest info available, shall be introduced starting from 01 January 2018. The rate of the VAT would be 5% whereby some products and sectors would be excluded from it. Other GCC countries are also in the process of preparing the legal framework on introduction of the VAT. The rate of VAT in other countries of the GC region is expected to be in the similar range of around 5%.

Tax Residency in the UAE

What is the very important difference of the UAE tax system in comparison to other countries – personal or corporate tax residency in the UAE does not result any tax liability in the country.

As an example – if you opt for the possibility to receive residency over some type of investment program available in some country, for instance, Cyprus, Malta, Switzerland, UK, etc. – after you become the resident of one of these countries, you also become tax resident there with the result of certain tax liabilities. Some countries from this list provide beneficial regime for "investors" category, however this is still taxation and, after some period of time, you may become fully liable. And NONE of these countries provide tax free environment for business.

When analysing the tax system of the UAE for private persons you can clearly outline the fact that there is no taxation in the UAE for private persons at all – coming to the UAE under "investors" category or for regular country's residents. Thus there is no any type of "special" treatment of foreign investors – regulations are the same for every person. This delivers the additional confidence in the system. Special regulations can at all times be reviewed and changed whereby generally applicable regulations are much more reputable and secure.

Once a physical person becomes the UAE tax resident – he can obtain the respective residency certificate from the Ministry of Finance of the United Arab Emirates. This certificate is issued for the period of one year and can be renewed accordingly.

When taking a closer look at the corporate tax residency in the UAE – similar taxation rules apply as well. There is no difference in applicable regime for fully local companies and the companies, registered by foreign investors – acting globally as well as inside the UAE. Onshore UAE companies – main land as well as the ones registered in Free Trade Zones – are eligible to obtain tax residency certificate of the UAE. Once a company has such certificate – it can use the advantages of the double tax treaties network UAE has signed with a great number of countries.

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