United Arab Emirates

including Dubai and Abu Dhabi

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Key facts

Main tax rates

- Corporate tax rate: up to 50 percent [1]
- GST/VAT standard rate: nil
- Personal income tax top rate: nil

Population/GDP

Population: 4.6 million
GDP: US$ 201b (2008)

Currency

AED (dirhams), pegged to the US$ at approximately AED 3.67 to US$1

Membership of economic groups

GCC, GAFTA

Major industries

Oil gas, tourism and financial services

Website of tax/finance authority

www.uae.gov.ae/mofi/ - UAE Government

1 Each Emirate has its tax rules. The corporate tax rate is typically at graduated rates up to 50 percent. However, tax is imposed only on oil-producing activities and on branches of foreign banks.

Introduction

The United Arab Emirates has a rapidly growing economy. It consists of seven Emirates (Abu Dhabi, Dubai, Sharjah, Ras Al Khaimah, Um Al Qawain, Fujeirah and Ajman). The UAE's political and governmental structure is composed within a framework of a federal presidential elected monarchy and composed of a federation of the seven Emirates. The President of the UAE is the ruler of Abu Dhabi whilst the Prime Minister and Vice President is the ruler of Dubai. Each Emirate still retains some autonomy with a percentage of its revenue being allocated to the UAE's central budget. There is no federal income tax system, and each Emirate has its own tax laws (although broadly similar).

United Arab Emirates has in recent years become less dependent on natural resources as a source of revenue, but oil and gas exports (mainly from Abu Dhabi) still constitute a very significant revenue source. Growth in the construction industry, hotels and tourism, the expanding manufacturing base, and a thriving services sector have all helped diversify the UAE economy. The recent global economic down turn has however dampened the property market and financial services and the pace of the construction boom.

There are generally no foreign exchange restrictions, controls, quotas or trade barriers within the UAE. Businesses and individuals may freely remit equity capital, debt capital, dividends, branch profits, interests, royalties, management and technical service fees, and personal savings abroad. There are however restrictions on the level of foreign ownership in UAE entities. Generally, UAE nationals must own a minimum of 51 percent of all public and private shareholding companies as well as limited liability companies. In addition, non-UAE nationals may not be general partners in partnerships. These restrictions do not apply to companies established in free zones.

Recent developments

Following a proposal adopted by the GCC Finance Ministers in 2004 to introduce VAT, whilst deferring a final decision to the respective heads of state, the UAE (and the Dubai Emirate in particular) has been in the forefront of the move to introduce VAT. The UAE had earlier planned to do so in 2009, but in consequence of the global economic meltdown it appears currently uncertain when this would be done. The VAT initiative was driven by the need for more stable government revenues, and the dwindling government revenues following the Customs Union. Other Gulf States are expected to follow the introduction of VAT once the UAE has done so; 2012 was the tentative GCC wide implementation date. A low and single rate is predicted, possibly a maximum rate of 5 percent.

Corporate taxes

General outline

There is no federal corporate income tax. Instead, each Emirate has its own income tax decree. The tax rules in each Emirate are similar. In the case of Abu Dhabi, for example, tax is imposed on companies or on foreign companies carrying on trade or business through a permanent establishment in the UAE. The carrying on of a trade or business comprises of the selling of goods or the right to do so, the operating of any manufacturing, industrial or commercial enterprise in the UAE, the letting of any property located in the UAE, and the rendering of any services. Permanent establishment is defined to include a branch, centre of management or other fixed place of business, and an agent that habitually concludes contracts on behalf of the body corporate. Each branch is treated as separate taxpayers.

Whilst there is tax legislation in the Emirates, in practice tax is imposed only on oil-producing activities and on branches of foreign banks. The tax on oil companies is based on agreements between the oil companies and the government, as may be supplemented by the applicable income tax decree of the Emirate. The tax on banks is based on specific regulations within the respective Emirates; the banks are generally taxed on 20 percent of their profits as adjusted based on the regulations.

Corporate tax rates

Within Abu Dhabi, for example, the tax rate is graduated with income below AED 1 million not being taxed whilst the tax rate on income above AED 5 million is 50 percent. In Fujairah tax is levied at a flat rate of 50 percent. As indicated theses taxes are not generally enforced.

Capital gains taxes

Capital gains are treated as income and are subject to tax at the regular corporate income tax rates.

Position of losses

Under the Abu Dhabi Decree, losses may be carried forward for one year only, and loss carry-forward relief can be obtained only once in five years. Losses may be carried forward indefinitely in the other tax decrees, although under the Dubai Decree the quantum of the deductible losses is restricted in some cases.

Group treatment

There is no group tax consolidation or relief in the UAE.

Withholding taxes

There are no withholding taxes.

Indirect taxes

There is no VAT or other indirect taxes, but as earlier mentioned there are plans to introduce GCC wide VAT in the near future with the UAE expected to be the first of the GCC countries to do so.

The customs tariff is generally 5 percent, in accordance with the uniform tariff of the GCC Customs Union.

Personal taxes

There is no personal income tax.

Social security

Employers of UAE nationals are required to pay monthly pension fund contributions of 12.5 percent, and the UAE nationals are required to pay 5 percent, of the "contribution calculation salary", which is based on the employee's basic salary and allowances. The employer is also responsible for paying to the relevant authority (the GPSSA) the end of service allowance due to the employee under the employment contract.

With effect from January 1, 2009, employers within Dubai are required to pay a flat Health Benefits Contribution (or HBC) per employee into a new compulsory health insurance for the employees. The amount of the HBC has yet to be confirmed, but employers were asked to budget between AED 500 – 800. Under the new arrangement, employers will be responsible for paying the HBC for each of its employees, including UAE nationals and expatriate workers. Employers may at their discretion also opt to provide additional top-up insurance to some of its employees, and may also agree to cover dependants and arrange for any HBC payments to be paid via the payroll system.

Transfer pricing and anti-avoidance rules

There are no specific transfer pricing regulations. In the case of banks, dealings with related branches have to be at specified arm's length rates.

Tax treaties

The UAE has double taxation agreements with many countries, including those with Algeria, Austria, Belarus, Belgium, Canada, China, Czech Republic, Egypt, Finland, France, Germany, India, Indonesia, Italy, South Korea, Lebanon, Malaysia, Mauritius, Morocco, Mozambique, New Zealand, Pakistan, Poland, Romania, Singapore, Spain, Sudan, Syria, Tajikistan, Thailand, Tunisia, Turkey and Turkmenistan.

Other taxes

There are municipal taxes on the rent of properties by foreigners and on the transfer of property, and service taxes in hotels and restaurants.