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## The benefits of Dubai's tax treaties

Dubai's role for multinational business is expanding from a strategic trading centre to encompass more and more head-office service function (international human resources, information technology, treasury, finance, intellectual property, marketing and advertising). This update examines the tax drivers that are contributing to this trend.

Most businesses operating in Dubai benefit from a benign tax environment. Although an income tax law was enacted over thirty years ago, in practice this law is not enforced. The tax environment within Dubai is thus attractive to potential investors. Since Dubai is part of the wider United Arab Emirates (UAE), this attraction is supplemented by the UAE's tax treaty network. The UAE government has signed over forty tax treaties.

The principal advantage of the UAE's tax treaty network to Dubai investors is that international income streams that flow to companies incorporated within Dubai from tax treaty partner states could potentially qualify for relief from source country taxes (primarily withholding tax discounts, capital gains tax protection) and, in many cases, a stronger definition of what constitutes a permanent establishment.

In addition, the repatriation of income from Dubai companies to parent companies located in tax treaty partner states might also offer tax deferral/saving benefits. This is because of the double taxation relief provisions, particularly where those provisions allow relief under the tax exemption method.

The interaction of a favourable local tax environment and a developed tax treaty network has given rise to technical debate on whether companies incorporated in Dubai qualify for treaty benefits, particularly in the context of the residence article in those treaties that use the OECD model wording.

As Dubai becomes increasingly adept, from a general commercial perspective, at housing head-office service functions, debate on the application of the UAE tax treaty network will take on an increasing momentum.

*Mark Stevens, Dubai*