



Taxation In The United Arab Emirates

UAE TAX

This document aims to provide a brief outline of the laws and treaties in force in the UAE, an overview of the taxation regime in the UAE including a summary of the UAE double taxation treaties with other countries.

The UAE Federation was established in 1971. The seven Emirates that make up the UAE were given the constitutional right and choice to join the Federal judicial system or to maintain their own independent system. Except for Dubai and Ras Al Kaimah who maintain their own judicial systems, the other Emirates joined the Federal system.

The federal government however maintains exclusive jurisdiction in a number of areas such as foreign affairs, defence, health and education with the individual emirates retaining jurisdiction in other matters including municipal work and natural resources.

With an open economy that has one of the world's highest per capita income with a sizeable annual trade surplus the UAE has undergone a unprecedented transformation into a modern state with a high standard of living.

The UAE economy is considered throughout the GCC to be among the most liberal and most diversified in the region. According to a reference guide produced by BKR to the main tax rates at present in force in 15 countries of the EU, in other European and Middle Eastern countries, the UAE is the only country where no taxation is applicable with the exception of branches of international banks, hotels and major oil and gas companies.

There is no federal tax legislation in the UAE, instead each Emirate has its own tax law. The following taxes are not applicable in the UAE:

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

There are currently legislations in force in the Emirates of Abu Dhabi, Dubai and Sharja establishing a general corporate tax regime:

- The Abu Dhabi income tax decree of 1965
- Sharja Income Tax decree of 1968
- Dubai Income Tax decree of 1969

In practice however only oil, gas and petrochemical companies and branch office of foreign banks are required to pay taxes.

There is no personal income tax to be paid by the residents of the UAE. However, there is a system of compulsory pension contributions for employees who are UAE nationals (approx 5% of the salary) and authorities are studying a proposal to create similar systems for expatriates too.

Personal Tax

There is currently no personal income tax 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.

These charges are then collected by the municipality from the hotels and restaurants.



Corporate Tax

Definitions:

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

A chargeable person shall be charged taxes on a sliding scale (as shown below) except that the tax charged be reduced by the credit aggregate of oil dealt in for the a 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.

Carrying on trade or business means the:

- Selling of goods or rights in the Emirate
- Operating any manufacturing, industrial or commercial enterprise in the Emirate
- Letting any property located in the Emirate; or
- Rendering services in the Emirate (excluding the purchasing of goods or rights in the Emirate)

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.

Abu Dhabi

No taxes are currently imposed other than:

- Taxes on oil and gas companies at rates specified in the relevant concession agreement;
- Flat rate on annual profits of branches of foreign banks; and
- Flat rate service tax on hotel services and entertainment

However, according to the Abu Dhabi Income Tax Decree of 1965 every chargeable person who conducts trade or business shall be subject to a sliding scale up to a maximum of 55% as follows:

Income less than AED 1,000,000	0%
Income equal to or more than 1,000,000 but less than 2,000,000	10%
Income equal to or more than 2,000,000 but less than 3,000,000	20%
Income equal to or more than 3,000,000 but less than 4,000,000	30%
Income equal to or more than 4,000,000 but less than 5,000,000	40%
Income more than 5,000,000	55%

Dubai

In Dubai all companies are required by law to pay tax on their earnings. The rates of tax are also calculated on a sliding scale up to a maximum of 55%. In practice however only oil, gas and petrochemical companies and branch offices of foreign banks are required to pay tax.

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

Income less than AED 1,000,000	0%
Income equal to or more than 1,000,000 but less than 2,000,000	10%
Income equal to or more than 2,000,000 but less than 3,000,000	20%
Income equal to or more than 3,000,000 but less than 4,000,000	30%
Income equal to or more than 4,000,000 but less than 5,000,000	40%
Income more than 5,000,000	55%

With the exception of banks and oil companies no corporate tax is in practice payable by businesses in Dubai. Oil companies' pay up to 55% tax on UAE sourced taxable income and banks pay 20% tax on taxable income. The taxable income of banks is calculated by reference to their audited financial statements whereas that of oil companies is calculated by reference to their concession agreements. Oil companies also pay royalties on production.

Customs duties are very low and there are many exemptions. Goods imported and intended for re-export often benefit from customs duty as do manufacturers on the import of their machinery, raw materials and spare parts used for industrial purposes.

Sharjah

The Sharjah Income tax Decree 1968 specifies that the taxable income of every chargeable person for each income tax year after the date of this Decree shall be subject to tax on the following scale:

Income less than AED 1,000,000	0%
Income equal to or more than 1,000,000 but less than 2,000,000	10%
Income equal to or more than 2,000,000 but less than 3,000,000	20%
Income equal to or more than 3,000,000 but less than 4,000,000	30%
Income equal to or more than 4,000,000 but less than 5,000,000	40%
Income more than 5,000,000	55%

The Sharjah Income Tax Decree of 1968 provides that income tax is payable by a chargeable person who's income has derived from carrying out business of trade in Sharjah. A chargeable person shall be taxed on his profits on a sliding scale for branch offices of foreign banks and oil, gas and petrochemical companies. Taxation is 55% of every Dirham provided that the tax charged is reduced by the credit aggregate of oil dealt in for that fiscal year and provided that the total reductions allowable to all chargeable persons shall not exceed the credit aggregate of oil dealt in that fiscal year.

Customs duties are levied on most goods imported into Sharja at the rate of 5% duty which is charged on the CIF (cost, insurance, freight) value of the goods at the UAE port of clearance of the goods and the provision of the bill of entry.



Property Tax

In most Emirates tax is payable by residential tenants at a rate of 5% of the annual rent and for commercial tenants at 10% of the annual rent.

In Abu Dhabi a property tax is charged on the renewal and obtaining of a business license. These taxes are assessed 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, all residential properties are subject to an annual property tax payable to the Dubai Municipality. Dependent upon the employment status of the tenant a tax of between 5-15% will be payable. All professional, managerial and other senior employees in commercial and industrial sectors are charged at the rate of 5% of their annual rent, whereas in the banking sector the rate increases to 15%.

In Sharjah, all leased residential properties are subject to an annual property tax payable to the Sharjah Municipality. This tax will be equal to 2% of the annual rent shown in the tenancy agreement.

Double Taxation

The UAE's double taxation treaties are actually designed to make it an even more attractive destination and prospect for those individuals and companies who originate from countries with aggressive taxation policies.

The treaties are in place to further reduce any potential taxation burdens being levied against foreign companies and citizens operating in the UAE and Dubai who remit their profits abroad.

Although corporate tax is currently not levied in the UAE the provisions of the treaties do not state that such income must be taxed to qualify for benefits.

Thus, dividend income paid by a UAE company to a company which has a double taxation treaty with the UAE may not be taxable in the hands of the foreign parent corporation even though it has not been taxed in the UAE.

Many countries have anti-avoidance provisions which either set minimum levels of tax from income to benefit from tax treaties or set out lists of low-tax countries which do not qualify under tax treaties.

The main agreements formed are:

- Agreements on taxation depending on the income resulting from air transport
- Agreements on avoidance of double taxation on income & profits resulting from international air transport
- Agreements on avoidance of double taxation on income & capital & evasion of taxes
- Agreements on avoidance of double taxation on income & capital

Currently are double taxation treaties between the UAE and the following 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

