

A Guide to Federal Taxes in the UAE

The tax system in the UAE can be complicated for some people to understand. This is the reason why people in Dubai prefer to hire tax consultancy services.

We have created a quick guide to give you a brief about the taxation system here.

The Remarkable Taxation System of UAE

The taxation system in the UAE will amaze you. The UAE does not levy income tax on individuals. However, it levies corporate tax on oil companies and foreign banks. . Also there are no inheritance taxes as well. In fact, Value Added Tax was also introduced in the region only after 2018. The tax on goods and service is quite low, that is, around 5%.

Excise tax is levied on certain products, which are considered harmful to the environment and human health.

Federal Taxes in UAE

Let's have a look. Like we have already mentioned, the UAE does not levy a tax on income, no applicable individual tax, which makes income tax returns not applicable except for corporate taxes for certain specific industries such as oil & gas and foreign banks. And this applies to all Emirates residents, including freelancers and self-employed individuals.

1. Individual Tax

There is no individual tax in UAE. However, there is a pension scheme for UAE and GCC nationals (not applicable for non-GCC nationals employed in UAE). This pension scheme stipulates that any company employing UAE or GCC nationals should register with Pensions and Social Security Authority ("GPSSA"),

Only UAE national employees who hold a 'family book' are entitled to be enrolled in the GPSSA pension scheme. In contrast, GCC nationals qualify for registration solely based on their nationality.

Both employee and employer share in contributing to the pension fund which is eventually used as end of service benefit for the employee.

In case of private companies, contribution is as below,

- 12.5% of his salary to be contributed by the employer.
- 2.5% of his salary is contributed by the Government
- 5% is contributed by employee by way of deduction from his salary

This is applicable to companies registered in the free trade zones too. Once an employee is registered for Pension scheme, they are not entitled to receive end of service gratuity

Non GCC nationals are exempted from this requirement.

2. Corporate Tax

The UAE does not have a federal corporate income tax regime. Instead, corporate income tax is determined under the respective Tax Decrees issued by the government of each individual Emirate (of which there are seven that make up the United Arab Emirates). Some of the Emirates have also issued specific Banking Tax Decrees, which impose corporate income tax on branches of foreign banks operating in each respective Emirates.

Notwithstanding the above, corporate income tax is currently practically only enforced on foreign oil companies engaged in upstream petroleum activities, certain companies engaged in petroleum related activities and branches of foreign banks.

Businesses registered in the UAE free trade zones (FTZs) are exempted from this tax for a stipulated period, and typically they offer "tax holidays" or tax exemptions (usually reference to corporate income tax) to businesses set up in the respective free zone, which can also be extended if the authorities find it necessary. There are around 45 such free trade zones in the country.

3. Double Taxation

The United Arab Emirates favours strategic global partnerships, and so has been steadily expanding its Double Taxation Agreements (DTA) and Bilateral Investments Treaties (BIT) network. So far, the UAE has secured nearly 115 DTAs and 78 BITs in order to be able to reduce or exempt taxes on investments and profits.

4. Tourist Facility Tax

Tourists have to pay the following taxes at hotels, restaurants, and resorts as facility tax.

- Tourism fee (6%)
- Municipality fee (10%)
- 10% on the room rate
- Service charge (10%)
- City tax (6-10%)

In Dubai, hotels charge 'Tourism Dirham Fee' per room per night of occupancy (for a maximum of 30 consecutive nights) ranging from AED 7 to 20 depending on the category/grade of the hotel.

In May 2016, it was announced that hotels in Abu Dhabi would charge a new additional fee of 4 percent of hotel stay bill and AED 15 charges per night per room.

In Ras Al Khaimah, hotels charge AED 15 tourism fee per room per night

5. Property Transfer Tax

This tax, as the name suggests, is usually charged in the UAE at the transfer of property. The tax rate varies by Emirate. For instance, it is 4% in Dubai. The burden of this tax maybe shared by the buyer and the seller based on mutual agreement but as per prevalent practices usually it is paid by the buyer.

6. Inheritance Tax

In UAE, there is no regime for inheritance tax. In case there is no Will made, the inheritance is determined according to Islamic Sharia principles. The provisions for registering wills in UAE are mostly useful for non-Muslims. These Wills can be registered in mainland or in the financial free zone such as DIFC.

7. Other Compliances

a) Economic Substance Regulations

This is applicable to corporates. As UAE's a member of the OECD Inclusive Framework, it issued Economic Substance Regulations on 30 April 2019. This law applies companies conducting any of below 9 types of activities

Banking Business, Insurance Business, Investment Fund management Business, Lease - Finance Business, Headquarters Business, Shipping Business, Holding Company Business, Intellectual property Business ("IP"), Distribution and Service Centre Business.

The company to whom it applies, need to review if it has conducted any of above activity and if yes, should file a notification within 6 months from the end of the financial year and to file a return if it has earned revenue from such activities during the financial year to which it relates.

The law is more from view of reporting only and to meet the compliance

b.) Country by Country reporting (CbCR)

CbCR requirements are applicable to the UAE-headquartered Multinational Groups with 'financial reporting years' starting on or after January 1st 2019 and having total consolidated group revenue equal to or more than AED 3.15 billion. The law is more from view of reporting only and to meet the compliance

c.) UAE ultimate beneficial owner law ("UBO")

Under the UBO Regulations, a company must maintain the register of UBOs, Register of nominee directors/managers and Register of shareholders.

The UBO Regulations provide a comprehensive framework on reporting and registering beneficial interests (including identities of UBOs) and nominee directors. The UBO Regulations will aim to promote transparency, prevent financial fraud and tax evasion, and improve corporate governance in the UAE.

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There is no mandatory requirement to hire a tax consultant in UAE but due to various compliances in place and evolving tax environment, it is always a wise decision to hire a tax consultant as it can save from hassles at a later date. Usually all medium to large businesses employ professional audit and tax consultancy firms to keep them updated with changes in the tax environment.

Premier Brains is one of the top auditing, tax consultancy and business advisory firms with one of the best expert tax advisory services. If you own a business in any part of the UAE, it's a good idea to have a qualified and experienced tax consultant.

If you would like to discuss any tax related matters please drop us an email at info@premier-brains.com or call us at + 971 4 3542959.

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