



**ALL YOU NEED  
TO KNOW TO DO  
BUSINESS IN  
THE UAE**

Limitless  
Business  
Avenue∞



Strategically located between Asia, Europe, and Africa, the UAE is known as among the most attractive nations across the globe in terms of foreign direct investment. It has become an ideal business location due to its continuous stream of novel business opportunities, investor-friendly laws and regulations, a robust financial system, amazing infrastructure, and sweeping initiatives to solidify its business environment.

Time and again, the UAE has proven its ability to fortify its business activities, even in the midst of economic cycles and crises. It has successfully steered towards new directions in an effort to reactivate the economy and come out more resilient in the international arena. It has given an astute approach in terms of trade, which has allowed it to become one of the few nations to successfully thrive in the new era

# THE PERFECT LOCATION FOR COMPANY FORMATION

The country offers various options depending on business objectives. Basically, some of the things to consider include proposed activities, expected duration, location, licensing requirements and costs, tax procedures, and many others.

Of course, companies in the UAE must have a valid license to carry out operations within the Emirates or free zones. In addition, it is also important to determine if your business would be better set up in Mainland UAE or in a Free Trade Zone/Free Zone.





# MAINLAND UAE

The most used business forms in Mainland UAE are the Limited Liability Company (LLC), or a branch/hub of a foreign business. The legal forms in Mainland are mostly under Federal Law No. 2 of 2015, the Commercial Companies Law (CCL).

Before, foreign investors may own up to a maximum of 49% of the share capital of a business, with the remaining 51% to be held by an Emirati shareholder or a company wholly owned by Emiratis. However, earlier this year, the UAE has amended the UAE Commercial Companies Law, allowing foreign nationals to have 100% ownership of companies undertaking business in the UAE for over 1,000 business activities.

## Full foreign Ownership

The Cabinet Resolution No. 16 of 2020 further relaxes foreign ownership restrictions for 122 business activities to draw in and provide more opportunities for foreign investors to enter the UAE Mainland market.

The resolution confirms the Positive List of 122 approved economic activities under three main categories—the manufacturing, agricultural and services categories—that will be eligible for over 49% up to 100% Foreign Investor ownership. Among the sectors included in this resolution include:

- Administrative and support services
- Agriculture; Art and entertainment
- Construction
- Educational activities
- Healthcare
- Hospitality and food services
- Information and communication
- Manufacturing
- Professional, scientific and technical activities
- Renewable energy
- Space
- Transport and storage.





# FREE TRADE ZONES OR FREE ZONES

Another option for foreign investors is to set up a business in a Free Zone, a designated area in the country where you can own up to 100% foreign ownership as well as get benefits like import duty and VAT exemptions. These areas have been established solely to draw more foreign investments in the UAE.

Each of the Free Zones in the UAE has its own rules, regulations, and authorities in terms of licensing and registration concerns. Currently, there are about 45 Free Zones in the country, with most of them located in Dubai.

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# ALL THE LEGALITIES TO KNOW

The UAE's legal system is mostly guided by its civil code principles and the Islamic Sharia'h Law. The main key sources include the UAE Federal Constitution; the Federal laws and regulations; the Emirati laws and regulations; Islamic Shari'ah principles; and in some cases, Free Zone regulations.

The following are among the list of documents usually requested by the authorities during company registration purposes:

- Attested and legalized resolution from the parent company to set up a subsidiary in the UAE;
- Attested and legalized certificate of incorporation/trade license of the parent company;
- Passport copy of the directors of the parent company;
- Letter of authorization for a third party to submit documents to the authority on behalf of the parent company.
- Attested and legalized memorandum and articles of association of the parent company;
- Copy of the last financial statements of the parent company;

- (The aforementioned requirements are not required for new companies owned by individuals).

- Business plan;
- Office lease agreement;
- Passport copy of the manager to be appointed for the new company; and
- The resolution confirms the Positive List of 122 approved economic activities under three main categories—the manufacturing, agricultural and services categories—that will be eligible for over 49% up to 100% Foreign Investor ownership. Among the sectors included in this resolution include:

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# THE UAE'S IMMIGRATION SYSTEM

All expats who intend to work full-time in the UAE must apply for a work and residence permit. Employers are therefore required to apply for work permits for their employees. These applications are submitted usually by company-appointed public relations officer (PRO) through the relevant jurisdictional/Free Zone authority's online platforms.

As for UAE nationals, they must get work authorization through the Ministry of Human Resources and Emiratization (MOHRE) when employed by mainland entities. Those working in Free Zones must also get authorization through the Free Zone authority in which the employer is based.

The validity of residence permits usually ranges from one to three years and is renewable; while GCC nationals are exempted from visas and can live in the country without getting a residence permit.

To protect the health of laborers, the government also mandates companies to provide their employees a health insurance.

For an employee to receive his/her final residence permit and Emirates ID, he/she must also undertake and pass a medical fitness test that includes a blood test to check for HIV, hepatitis B and an X-ray to screen for tuberculosis.

In terms of the processing time for the completion of residence permit application, it usually takes two to three weeks.

In addition, applicants can also obtain work authorization and residence permit without exiting the UAE in some cases.



## SPONSORSHIP PROCEDURES

Expats with work and residence permits can sponsor their married partners, children, siblings, and parents, provided they meet the salary requirements (AED 4,000 or AED 3,000 plus AED 1000 accommodation allowance).

These are the documents required from dependents:

- Original passport valid for at least six months and containing at least three blank pages;
- Copy of passport biometric pages;
- Digital passport photo;
- For spouse's sponsorship, a marriage certificate, legalized and translated into Arabic at an authorized translation office in the UAE;
- For children's sponsorship, a birth certificate, legalized and translated into Arabic at an authorized translation office in the UAE;
- Health insurance card; and
- For parents' sponsorship, a proof of relationship document should be obtained from the embassy/consulate of the sponsor's citizenship attested by the UAE Ministry of Foreign Affairs. Meanwhile, here are the documents required from the sponsor:



- Electronic copy of the Labor contract of the sponsor (primary applicant)/salary certificate in Arabic;
- Electronic copy of the registered tenancy contract in the primary applicant's name attested by the jurisdictional municipality;
- Water and electricity bill copy;
- International Bank Account Number (IBAN);
- Scanned copy of the passport and residence visa of the sponsor; and
- Original and copy of Emirates ID card

## ONE-YEAR RESIDENCE PERMIT EXTENSION FOR CERTAIN DEPENDENT CATEGORIES

Some dependents are eligible for a one-year residency visa extension. These include widows, divorced women, and their children. In addition, male dependents aged above 18 that have completed their university studies are also given a one-year extension on their UAE residence permits sponsored by their guardian/university.

# OTHER TYPES OF WORK AND RESIDENCE PERMITS

## FREELANCE PERMIT

This allows expats to carry out business operations as a sole practitioner. In Free Zones, applicants' profession must be related to the activity of the Free Zone.

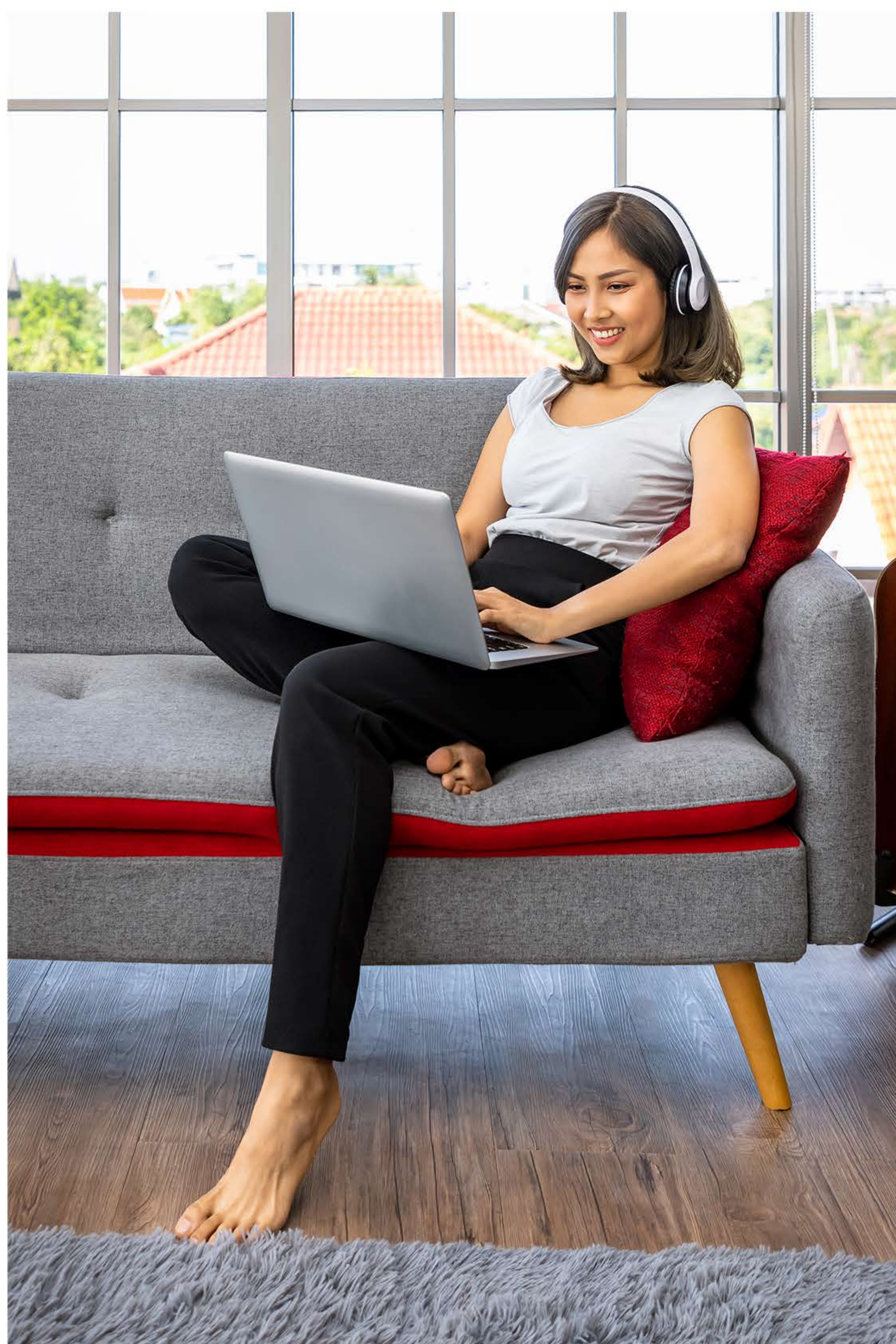
The processing time for freelance work and residence permit application is approximately ten to 14 working days.

## 10-YEAR INVESTOR VISA

Some expats are entitled to apply for a 10-year residence visa in the UAE. These include: Investors in public investments with value of a minimum of AED 10,000,000 and people with specialized talents (in the fields of science and knowledge, culture and arts. These people can also apply for the visa for their spouses and children.

## 5-YEAR INVESTOR VISA

Some expats can also apply for a five-year residence visa in the UAE, including real estate investors (under certain circumstances), entrepreneurs, and outstanding students. The processing time for the completion of this visa usually takes seven to ten working days.







# TAXATION SYSTEM IN THE UAE

The UAE's tax system is one of the main attractions to the region for many business owners and expats. For one, there is no withholding tax, income tax for employees, as well as corporate tax in the country. Capital gains are also not taxable, unless taken from a company that is taxable under income or banking tax decrees.

And even when Value Added Tax (VAT) was introduced in January 2018, the tax on goods and services sold was and continues to remain relatively low, only at 5%. As with any country with taxation system, the UAE also only levies excise tax on products considered by the government as harmful to the health and environment.

In terms of tax incentives, the UAE's several Free Zones also offer benefits like 15-50 year tax holidays, no restrictions on foreign ownership, no restrictions on capital and profit repatriation, and an exemption from import duties on goods brought into the zone. However, much like any taxation system around the globe, there are also penalties for non-compliance with tax rules and regulations in the UAE. The law allows the UAE Federal Tax Authority (FTA) to go back and review the businesses'

transactions from several years ago.

It is also important for businesses to always stay abreast on any updates and clarifications regarding the country's regulatory laws in order to be able to properly adhere with them and stay constantly compliant with the applicable regulations.

Among the practices the Federal Tax Authority conducts is assessment of corporate tax residency. In such case, the applicant is required to provide documents such as valid trade license; establishment contract certified by the relevant authority; passport, UAE residence visa and Emirates ID of the authorized signatory mentioned on the trade license; most recent certified audited financial statements; certified bank statements from a local

UAE bank for the 6 most recent months; tenancy contract/title deed for any business premises in the UAE; template of the tax residency certificate as prescribed by the foreign tax authority; proof of authorization document for the authorized signatory; and tax registration number and vat registered email address (for VAT-registered companies).



## VAT RATES

Usually, VAT is applicable on certain taxable supplies of goods and services in the UAE, as well as imports of goods from outside GCC. However, there are some supplies that may be eligible for either zero-rating or exemption under the UAE laws. Zero rated supplies have a VAT rate of 0% and are considered taxable supplies. This means that they also have a right to recover VAT incurred on expenses. Meanwhile, exempt supplies do not require VAT to be accounted for, but recovering VAT incurred on expenses is limited.

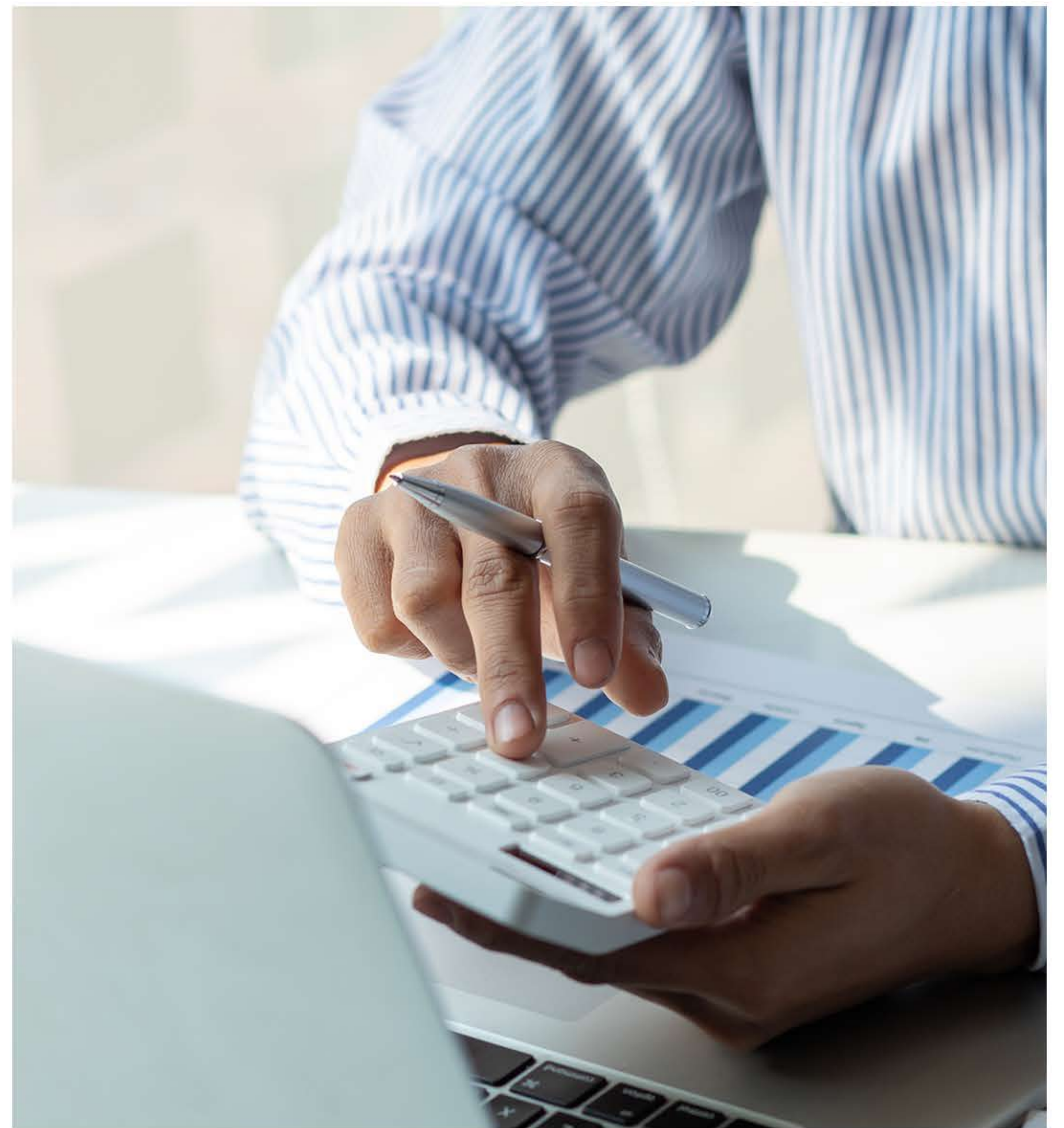
## VAT REGISTRATION

An entity must register for VAT in the UAE under the following circumstances:

- If their supplies exceeded the Mandatory Registration Threshold over the previous 12-month period.
- If it is anticipated that the total value of all supplies will exceed the Mandatory Registration Threshold in the next thirty (30) days.
- If a person makes supplies of Goods or Services, and where no other Person is obligated to pay the Due Tax on these supplies.
- If your taxable supplies and imports exceed AED 375,000.

Meanwhile, below are the requirements included for voluntary registration:

- If your taxable supplies or taxable expenses exceed AED 187,500.
- The Authority will register the Person with effect from the first day of the month, following the month in which the application is made, or from such earlier date as may be requested by the Person and agreed by the Authority.



- If you expect your supplies to exceed the Voluntary Registration Threshold during the next 30 days, provided you present evidence of an intention to incur expenses—which are subject to Tax—in excess of the Voluntary Registration Threshold.

## DOUBLE TAX TREATY

The UAE's large Double Tax Treaty (DTT) network was put in place in a bid to promote its development goals and diversify its sources of national income. With agreements with about 128 nations, the country boasts more double tax treaties than other first-world states like Ireland and Singapore.

Double taxation refers to the situation wherein similar taxes are imposed in two countries on the same taxpayer on the same tax base. Such kind of taxation can jeopardize the exchange of goods, services, and other trade across the border due to the huge amounts of dues that need to be settled. With the presence of double taxation avoidance agreements, individuals and businesses are guaranteed that they are only taxed once.



## ECONOMIC SUBSTANCE

The UAE Economic Substance Regulations (ESR) is the response of the UAE government in order to be removed from the European Union's blacklist of countries that do not meet the criteria on tax transparency, fair taxation, and the implementation of measures to counteract Base Erosion of Profit Shifting (BEPS). The main objective of the UAE Economic Substance Regulations is to prove that subsidiaries of multinational businesses in the UAE have an adequate economic presence in the country, and that they report actual profits corresponding with the economic activities undertaken within the UAE.

The UAE Federal Tax Authority has been appointed as National Assessing Authority to assess all matters related to Economic Substance Test, Notification and Reports.

The regulations apply to all companies, partnership firms who are conducting one or more of the following activities ("Relevant Activity"):

- Banking Business
- Insurance Business
- Investment Fund Management Business
- Lease Finance Business
- Headquarters Business
- Shipping Business
- Holding Company Business
- Intellectual Property Business
- Distribution and Service Centre Business

If your business performs one of the mentioned relevant activity, then you must prove your economic substance in the UAE. Absence of this, as per the regulations, could lead to hefty penalties.

Under some of the relevant activities like Intellectual Property Business, there is an automatic exchange of information with the tax authority of the country where the ultimate parent company belongs.

To perform Economic Substance Test, below are the criterion the subsidiary needs to meet:

- The licensee or company conducts the Core Income Generating Activity ("CIGA") in the UAE (each Relevant activity has some CIGA defined in the regulations)
- The Relevant Activity if directed and managed in the UAE
- With regards to each level of activity, there must be an adequate number of qualified full-time employees physically present in the UAE (whether employed or not), adequate operating expenditure incurred in the UAE, and adequate physical assets in the UAE to conduct such relevant activity





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This Article represents a general overview of the UAE business, investment, and regulatory environment. It shall not be considered or treated in any way or form as an advice or legal opinion

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