



# DOING BUSINESS IN UNITED ARAB EMIRATES



United Arab Emirates

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PRESENTED BY



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### Synopsis:

The United Arab Emirates (UAE) is a federation of seven emirates located on the Arabian Peninsula. The seven emirates are Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qaiwan, Fujairah and Ras Al Khaimah. This federation was founded in 1971 and is an active member of the Gulf Cooperative Council (GCC), which includes Saudi Arabia, Kuwait, Oman, Qatar, and Bahrain.



The prosperity of the UAE is based in large part on the country's vast oil and gas reserves, most of which lie in the largest emirate, Abu Dhabi. The UAE has nearly 8% of the world's proven oil reserves and 5% of proven gas reserves.

The UAE, particularly the emirate of Dubai, has long been recognized as the commercial and business hub of the Middle East and beyond. It has developed a leading role in business services, including finance, and has effectively created a logistics hub between east and west. It is home to the busiest man-made port in the world, Jebel Ali. The UAE is home to two of the fastest growing airlines in the world, Emirates and Etihad. Dubai retained its position as world's number 1 international airport for the fourth consecutive year with annual traffic of 88.2 million passengers in 2017. Traffic is projected to reach 90.3 million in 2018 according to initial forecast.

According to IMF, the overall GDP growth of UAE is predicted to be 3.4% as compared to 1.4 % in 2017. Both Oil as well as Non Oil sectors are expected to grow in the current year. International Expo 2020 is expected to bring more than 25 Million business visitors to Dubai and create more than 200000 jobs in various sectors. VAT is expected to bring in additional revenue of AED 12 Billion for the Government in 2018 which is also expected to increase inflation in the country by about 3%.

Although oil and gas production will remain the backbone of the UAE economy for years to come, the non-oil sector of the economy is expanding rapidly. Major growth areas include: aircraft & parts, security and safety equipment; IT equipment and services; medical equipment, services and supplies; architecture, construction, and engineering services; building products; air conditioning and refrigeration equipment; environmental and pollution control equipment. Water and power projects continue to offer opportunity due to the UAE's growing demand for water and electricity. A rapidly developing nation with a population of about 10 Million, the UAE is a leading trading hub in the region.

The UAE is integrated into the world economy and international economic institutions, holding membership in the World Trade Organization and being a signatory to the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Service (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS).

The country has no corporate taxes (with the exception of banks and foreign oil companies that have concessions in UAE oilfields), no income taxes, and a relatively low import duty of 5% excise duty on cigarettes and carbonated drinks and VAT of 5% on supply of goods and services.

## **Reasons - Doing Business in UAE:**

### **1) Robust open and competing economy**

The UAE has a vibrant free economy, a significant proportion of its revenues arising from exports of oil and gas. Successful efforts have been made to diversify away from dependence on hydrocarbons and a solid industrial base has been created, together with a very strong services sector. The establishment of free zones has been an important feature of this diversification policy and reform of property laws gave a major boost to real estate and tourism sectors.

The UAE has established the council of competitiveness to enhance the UAE efforts to achieve sustainable development through the setting up of appropriate legislative frameworks and the provision of developed infrastructure that will further enhance the country's status as a regional and global destination for investments. The council continues its communication with government agencies and the private sector through workshops and meetings, to help co-ordinate efforts and discuss ways to enhance the competitiveness of the state in areas of governance, the regulatory environment for business and other areas.

### **2) Solid infrastructure**

UAE entails of one the finest Infrastructure in the world. Telecommunications, including mobile and fixed telephony as well as internet access is on par, if not better, than the world's largest international business hubs. The road network is constantly upgraded and ports and airports are of world-class standards. In addition, the UAE is creating one of the world's biggest and most efficient cargo handling centres. To date, the Government has invested heavily in infrastructure development, but it has also opened up its utilities and other infrastructure to greater private sector involvement, so much so that public-private partnerships are now the norm.

### **3) Multi-national human resources**

Investors benefit from an abundant supply of human resource skills, courtesy of professionals migrating to the emirate from nearly every country in the globe, as well as the increasing number of UAE nationals that are joining the private sector.

### **4) Tax-efficient business environment**

Special economic zones and free zones offer 100% ownership, repatriation of profit and capital as well as exemptions from taxes. Outside of these areas, significant incentives are being offered to investors and corporate governance provisions ensuring transparency and accountability are being enforced. Corporate taxes are reserved only for branches of foreign banks and oil-producing companies. A negligible 5% tariff is imposed on goods imported from non-Gulf Cooperation Council (GCC) countries, although tobacco and alcohol products are subject to 50% customs duties.

As a major development, excise duty and VAT have been introduced recently. Excise duty ranging between 50 – 100% has been introduced from October 2017 on tobacco products, energy drinks and carbonated drinks. VAT has been introduced with effect from 1st January 2018 on goods and services at a standard rate of 5%. There are very few exemptions such as supply of bare land, residential property, public transport and margin based financial services. Export of goods and services, education and healthcare are zero rated and imports are subject to reverse charge mechanism.

#### **5) Security and stability**

Since its establishment in 1971, the UAE has enjoyed an enviable degree of political stability, unequalled in the region. This has enabled the implementation of consistent sound economic policies and the reinforcing of the country's social structure to produce one of the most tolerant, prosperous, secure and safest societies in the world. Dubai and Abu Dhabi have been ranked the top two cities in the Middle East region for quality of life, according to the latest edition of a global survey. Long-time investors include a wide range of multinational companies headquartered across the globe.

#### **6) Intellectual property protection**

Intellectual property, including patents and trademarks, is legally protected in the UAE and considerable efforts are being made to implement these laws. The country is also a member of international bodies, treaties and conventions that safeguard intellectual property, including the World Intellectual Property Organization (WIPO), World Trade Organization (WTO), Paris Convention, Patent Cooperation Treaty (PCT), WIPO Copyright Treaty, WIPO Performances and Phonograms Treaty (WPPT) and the Rome Convention.

#### **7) Efficient government services**

E-government websites, free zone authorities as well as chambers of commerce and industry provide new entrants with helpful information and guidance.

## **Legal Structures for Setting up Business in Dubai:**

Under United Arab Emirates (UAE) law, there are five types of business establishments applicable to foreign entities interested in establishing a formal presence in the UAE.

A company can create a;

- A) Permanent establishment
- B) Establish a branch or representative office
- C) Create an entity in a UAE Free Zone
- D) Create a civil company (currently limited to Sharjah and Dubai)
- E) Enter into a commercial agency agreement.

The UAE Federal Law No 2 of 2015 on commercial companies requires that each limited liability company established in the UAE have one or more UAE national partner(s) who hold at least 51% of the company's share capital. Companies that undertake certain activities are exempt from the 51% requirement, including oil companies with concession agreements, companies involved in the oil and gas industry, companies that produce electricity and gas, companies involved in treatment of water and transmission and distribution. Firms licensed to provide selected professional services do not require UAE National to be a majority shareholder. But they require to appoint a local service agent. Foreign banks are exempt from having to appoint a local service agent. Companies established in free zones are allowed to have 100% foreign ownership, if the relevant free zone has special provisions regulating the company.

### **A) Permanent Establishments**

There are seven different methods by which this can be achieved:

1. General Partnerships: This entity may only be established between UAE nationals. A general partnership may be established between two or more general partners who are jointly and unlimitedly, to the extent of their personal assets, responsible for the company's liabilities.
2. Limited Partnerships: This entity is comprised of at least one jointly associated partner liable for the partnership's obligations to the full extent of their assets, along with at least one inactive partner liable for the partnership's obligations limited to this partner's capital contributions. This entity usually has one active partner who manages the company and a silent partner who does not participate in day-to-day management.
3. Joint Participation (Ventures): This entity is an association between at least two partners who will share the profit and loss in one or more commercial businesses conducted by one of the partners in his or her own name.

4. Public Joint Stock Companies: This entity comprises any company whose capital is split into publicly subscribed negotiable shares of equal value or any company in which a UAE public body holds any share capital. There is a minimum capital requirement of AED 10 million and that capital must adequately achieve the objectives of the company. This entity requires a minimum of 10 founding members. It is important for foreign companies to understand that anyone who signs the initial memorandum and articles of association will be regarded as a founding member and therefore liable. UAE businesses involving banking, insurance or investment of funds on behalf of third parties must take the form of a public joint stock company.
5. Private Joint Stock Companies: This entity requires a minimum of three founding members who, between them, fully subscribe to a minimum capital of AED 2 million. The shares of private joint stock companies may not be offered for public subscription.

Private joint stock companies may be converted into public joint stock companies if

- (i) the company has operated for two or more financial years,
  - (ii) the shares are fully paid up,
  - (iii) the company has achieved net profits distributable to shareholders of an average of at least 10% of its capital during the two years preceding the application to convert, and
  - (iv) a majority of the shareholders holding at least 75% of the company's shares adopt a resolution of the extraordinary general assembly to convert.
6. Limited Liability Companies (LLC): This entity is defined as an association with a maximum of 50 shareholders and a minimum number of one shareholder. Each partner's liability is limited to the extent of its share participation in the capital of the company. LLCs are no longer required to meet the minimum capital requirements of AED 300,000 (in Dubai) and AED 150,000 (in Abu Dhabi and the other Emirates). A new test of "sufficient capital" is to be adjudged by the Department of Economic Development of the relevant Emirate (including consideration of the size and planned activities of the company). Foreign companies wishing to establish an LLC in the UAE should seek guidance on the current practice of the relevant Emirate regarding minimum share capital.
  7. Partnerships Limited with Shares: This entity is formed by general partners who are jointly liable to the extent of their personal assets and participating partners who are liable to the extent of their share participation in the company. General partners must be UAE nationals. The minimum capital required to form a partnership limited with shares is AED 500,000, and participating partners are prohibited from being involved with the day-to-day management of the partnership. They may, however, participate in its internal administrative affairs.

LLC's are most commonly way of doing business in the UAE, if the client chooses to do business in mainland.



### **B) Branch Offices vs. Representative/Liaison Offices**

A branch office has the same legal identity as its parent company and conducts business under the name of its parent company. While each Emirate has its own licensing rules for branch offices, this type of entity can carry out a variety of activities (as approved by the Department of Economic Development of the relevant Emirate). Branch offices are regarded as fully-fledged businesses permitted to perform contracts or conduct other activities as specified in its license.

Alternatively, a representative/liaison office is limited to promoting its parent company's activities. This means that a representative office is only permitted to perform such activities as gathering information, soliciting orders, and marketing projects to be performed by the company's head office. This type of office is also limited in the number of employees that they sponsor (usually three to four).

### **C) Free Zones**

In contrast, the UAE allows foreign businesses to operate within "free zones." Free zones allow for up to 100% foreign ownership and are subject to reduced or different trade barriers, tariffs, and quotas. However, free zone companies may only operate within the free zone boundaries and are generally limited to performing solely those activities listed in their license(s). If a free zone company chooses to operate outside these boundaries, it must adhere to the requirements of the UAE Commercial Companies Law in compliance with the licensing procedure in the applicable Emirate. Generally, free zones are designated by the government to a specific commercial sector. For a non-exhaustive list of free zones in the UAE, see below.

The major advantages in operating in a free zone are:

- ✓ 100 per cent foreign ownership of the enterprise
- ✓ 100 per cent import and export tax exemptions
- ✓ 100 per cent repatriation of capital and profits
- ✓ No corporate taxes for 15 years, renewable for an additional 15 years
- ✓ No personal income taxes
- ✓ Less burdensome documentation, mostly in English

Different types of licenses that can be issued in a Free Zone in the UAE are:

- ✓ General Trading License
- ✓ Trading/Commercial License
- ✓ Industrial License
- ✓ Service/Consulting/Professional License
- ✓ National Industrial License

There are various free zones located in different emirates of UAE. Most of the free zones are located in Dubai. Depending on the client's requirements, they can choose the most suitable free zone for their business.

### **When not to choose a Free Zone**

There are a few scenarios in which a prospective company might not want to choose to do business in a Free Zone, and should instead opt for a regular joint partnership. These are if a company:

- ✓ Practices a regulated profession
- ✓ Requires a lot of visas or warehouse/office space
- ✓ Plans a long presence in the UAE and wants to reach a wider portion of the UAE market
- ✓ Has a particular UAE company or individual with which to partner

### **D) Civil Company**

It is currently possible in Dubai and Sharjah to create a civil company. These entities are establishments which are sole traders operating under a license. Civil companies are usually not intended to trade (e.g., engage in the purchase and sale of goods, contracting, transport, banking and finance, and other similar transactions) and are typically used by the professions. Civil companies may not be formed within the Emirate of Abu Dhabi.

### **Commercial Agency Agreement**

Foreign companies may engage in a commercial agency arrangement which is defined as any arrangement whereby a foreign company is represented by a UAE agent to distribute, sell, offer, or provide goods or services within the UAE for a commission or profit. The agent must either be a person holding UAE nationality or a company that is 100% owned by UAE nationals. The agent must be registered with the Ministry of Economy. Unless otherwise agreed in writing between a foreign company and its commercial agent, an agent is entitled to receive a commission on the sale of products in his or her designated Emirate, irrespective of whether such sales are made by or through the agent.

All businesses require a license, and licensing procedures vary from Emirate to Emirate. Specific information is available through the following Chambers of Commerce & Industry:

- ✓ Abu Dhabi Chamber of Commerce & Industry
- ✓ Ajman Chamber of Commerce & Industry
- ✓ Dubai Chamber of Commerce & Industry
- ✓ Fujairah Chamber of Commerce & Industry
- ✓ Ras Al Khaimah Chamber of Commerce & Industry
- ✓ Sharjah Chamber of Commerce & Industry
- ✓ Umm Al Quwain Chamber of Commerce & Industry

Proceeding further, UAE Ministry of Economy and Department of Economic Development (DED) in the respective emirate may provide detailed information. Various DED in their respective emirates are as at;

- ✓ Abu Dhabi Department of Economic Development
- ✓ Dubai Department of Economic Development
- ✓ Ras Al Khaimah Department of Economic Development
- ✓ Sharjah Department of Economic Development
- ✓ Fujairah Department of Economic Development

### **Other Business Opportunities:**

- ✓ Offshore Companies: Following the introduction in 2003 of the Regulations for Jebel Ali Free Zone (JAFZ) Offshore Companies, international companies can establish JAFZ offshore companies, with benefits similar to other international offshore jurisdictions. Ras Al Khaimah has, since 2006, allowed for the establishment of offshore companies. Ajman has also recently introduced offshore as well as International Business Companies.
- ✓ Public Sector Procurement: Each Emirate has specific provisions regulating government procurement activities. Public sector work is generally awarded on the basis of the Public Tenders Law, which prescribes minimum standards in relation to government procurement across the UAE. Public defense contracts have their own set of industry-specific rules.
- ✓ Specialized Economic Zones. The UAE has specialized economic zones, such as those established by ZonesCorp in Abu Dhabi, which offer investment incentives such as certain reductions on infrastructure costs, administrative support, simplified approvals processes and residential cities for workers. Companies situated in specialized economic zones are subject to the requirements of the UAE Commercial Companies Law (including the 51% UAE participation requirement described above).
- ✓ Dubai Fast-Track License. The Emirate of Dubai Department of Economic Development (DED) is offering a fast-track trade license that will be valid for 120 days, giving businesses time to not only complete official licensing paperwork and registration but also allow them to hire employees, test products, and establish new ventures. A valid rental contract and business owner's work history are prerequisites for the license. To learn more, contact the Dubai Department of Economic Development.

### **Overview - MBK Auditing**

We are based in Dubai and also have presence in Sharjah and Ras Al Khaimah. We provide complete solutions in setting up business in all Emirates including identifying suitable local partner, company incorporation, opening bank account as well as visa processing for expatriate investors and employees.

We are listed in all Free Zones in UAE as approved auditors and consultants. We are also authorized agents for Offshore companies in Jabel Ali Free Zone and Ras Al Khaimah International Corporate Centre (RAKICC).

### **Disclaimer:**

Last but not the least, as in any business venture, it is sensible to exercise due diligence on everything from the industry you are thinking of entering in the UAE, to the potential partner being considered. Since this document is meant to serve as a general guide, we recommend you to consult us directly for any information required in doing the business in the UAE.