



BAKER TILLY INTERNATIONAL

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COUNTRY

Doing Business in
the United Arab Emirates

Preface

This guide has been prepared by Baker Tilly MKM, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in the United Arab Emirates (UAE).

Baker Tilly International is the world's 8th largest accountancy and business advisory network by combined fee income, and is represented by 138 firms in 104 countries and over 24,000 personnel worldwide. Its members are high quality, independent accountancy and business advisory firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be obtained from any of our independent member firms.

Doing Business in the UAE has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on UAE matters can be obtained from Baker Tilly MKM or Baker Tilly Merali's; contact details can be found at the end of this guide.


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Contents

| | Page |
|--|-----------|
| 1 Fact Sheet | 3 |
| 2 Business Entities and Accounting | 5 |
| 2.1 Free Zones | 5 |
| 2.2 Business Ownership | 5 |
| 2.3 Auditing, Accounting and Filing Requirements | 6 |
| 2.4 Company Registration in Dubai | 6 |
| 3 Finance and Investment | 8 |
| 3.1 Banking and Finance | 8 |
| 3.2 Stock Exchange | 8 |
| 3.3 Foreign Investment Incentives/Restrictions | 9 |
| 4 Employment Regulation and Social Security | 10 |
| 4.1 Entry Service Permit | 10 |
| 4.2 Visiting Visa | 10 |
| 4.3 Employment Visa | 10 |
| 4.4 Trade Unions | 11 |
| 4.5 Social Security System | 11 |
| 4.6 Working Hours | 11 |
| 4.7 Holidays | 12 |

| | | |
|----------|--------------------------|-----------|
| | | Page |
| 5 | Taxation | 13 |
| 5.1 | Corporate and Income Tax | 13 |
| 5.2 | Tax Treaties | 13 |
| 5.3 | Other Taxes | 13 |



1 Fact Sheet

Geography

| | |
|-----------------|---|
| Location | South-eastern tip of the Arabian Peninsula |
| Area | 83,600km ² |
| Land boundaries | Saudi Arabia, Oman and Qatar |
| Coastline | The Gulf of Oman and the Persian Gulf; approximately 1318km but land reclamation projects are extending this figure |
| Climate | Desert. From October to April daytime temperatures are in the 20°C range. Spring and summer are hot and humid with up to 90% humidity and the mercury rising to 45°C+ |
| Terrain | Flat, barren coastal plain merging into rolling sand dunes of vast desert wasteland; mountains in the east |
| Time zone | GMT +4 |

People

| | |
|---------------|--|
| Population | 5.95 million and increasing |
| Ethnic groups | The UAE has one of the most diverse populations in the Middle East. Approximately 85% of the total population is non-citizens. A large number are expatriates on visas, mainly from India, but also from other Middle Eastern countries, as well as Pakistan and the Far East and recently from all over the world |
| Religion | Islam is the official religion |
| Language | Arabic is the official language. Whilst English is widely spoken in business and government circles, all correspondence with government authorities is conducted in Arabic except with free zone authorities which is done mainly in English. Most signage and packaging is bilingual |

Government

| | |
|-----------------|---|
| Country name | The United Arab Emirates |
| Government type | A federation with specified powers delegated to the UAE federal government and other powers reserved to member emirates |
| Capital | Abu Dhabi |

Administrative divisions Seven emirates. Each emirate is ruled by its own Sheikh, commonly known as the Ruler. The Supreme Council, the highest federal authority, is composed of the hereditary rulers of the seven emirates. Each hereditary Sheikh regulates commercial activity and retains control over natural resources, including oil, within their emirate

Economy

GDP – per capita US\$55,200 (2007 est.)

GDP – real growth rate 8.5% (2007 est.)

Labour force 3.119 million (2007 est.)

Currency Arab Emirates Dirham (AED), divided into 100 subunits called Fils

2 Business Entities and Accounting

All businesses, whether industrial, professional, trading or services, must be licensed to operate in the UAE. Licensing procedures vary from emirate to emirate and within different free trade zones; relevant details are available from the individual chambers of commerce in each emirate. For an introduction to company registration in Dubai, see section 2.4.

The Commercial Companies Law and the Trade Agencies Law constitute the primary federal legislative framework controlling commercial activities in the UAE.

2.1 Free Zones

Establishing a business entity in one of the UAE's many free trade zones (FTZs) can be an attractive option for foreign investors. To date FTZs have been successful in attracting a large number of companies and foreign direct investment, as well as expanding net non-oil exports. The major advantages in setting up in a FTZ include:

- 100% foreign ownership of the enterprise
- 100% import and export tax exemptions
- 100% repatriation of capital and profits
- No corporate taxes for 15 years, renewable for an additional 15 years
- No personal income taxes
- Assistance with labour recruitment and additional support services, such as sponsorship and housing.

Investors can either register a new company in the form of a free zone establishment (FZE) or free zone company (FZCo), or simply establish a branch or representative office of their existing or parent company based within the UAE or abroad.

A FZE is a limited liability entity governed by the rules and regulations of the free trade zone in which it is established.

2.2 Business Ownership

Except in FTZs, foreigners are only permitted to own up to 49% of a limited liability commercial company. The remaining 51% must be owned by one or more UAE nationals.

Foreign companies can market their products in the UAE either through a limited liability company or through 100% UAE national-owned distributorships.

There are exceptions to this rule, the most relevant for foreign firms being those for firms operating within FTZs, professional or artisan companies and branches or representative offices. Each of these exemptions allows 100% foreign ownership, but with restrictions on the permissible scope of business activities. Foreign contractors or service businesses require UAE national sponsors, with limited exceptions, one for each emirate in which they do business.

The UAE federal government has updated intellectual property rights laws to be consistent with the World Trade Organisation's (WTO) agreements.

Dirham or foreign currencies can be imported or exported by foreigners or UAE nationals, with the exception of Israeli currency and currencies of those countries subject to United Nations sanctions. Otherwise, all currencies can be freely exchanged in the UAE at market rates.

2.3 Auditing, Accounting and Filing Requirements

All commercial companies are required to keep financial records and to appoint auditors. Federal Law No. 18 of 1993 specifies the books and records that must be maintained by traders.

A company may select any date as its accounting year-end. Companies registered in accordance with the Companies Law generally have their accounting year-end specified in the memorandum or articles of association.

Generally, accounting records can be maintained in English or Arabic, or both. All correspondence pertaining to the entries recorded in the books of accounts must be kept and maintained in a systematic manner to facilitate the audit verification process.

2.4 Company Registration in Dubai

The categories of licence available for doing business in Dubai are commercial, industrial and professional. There are ten activities that can be undertaken per licence. Generally, for normal trading the licence category is commercial. Licences are authorised and approved by the Dubai Economic Department (DED).

The permissible legal forms of commercial companies, pursuant to Federal Law No. 8 of 1984 as amended, are:

- Partnership
- Limited partnership company
- Joint venture company
- Public joint stock company (PJSC)
- Private joint stock company
- Limited liability company (LLC)
- Partnership limited with shares company (PLS)
- Branch of a foreign company.

3 Finance and Investment

3.1 Banking and Finance

The regulatory authority is the UAE Central Bank. Some 47 commercial banks operate with a total of around 370 branches, of which around 27 are foreign banks with a combined total of more than 200 branches. Federal law restricts foreign banks to no more than eight branches each across the UAE.

Federal law requires every commercial bank to have paid-up capital of at least AED40m. There are few investment or merchant banks at present. For medium or long-term industrial finance local companies can approach the Emirates Industrial Bank, set up by the government to help develop the private sector.

Bill discounting can be arranged with commercial banks, either foreign or locally-owned. Leasing and hire purchase are available from local finance companies specialising in this business. Factoring is not practiced in the UAE.

Import and export financing can be arranged through commercial banks; margins are often required. Such margins and the facilities offered by the banks will mainly depend on their relationships with their customers.

Cheques are widely used for settlement. Post dated cheques are also widely used instead of bills of exchange.

3.2 Stock Exchange

The Dubai International Financial Exchange (DIFX) is the international stock exchange between Western Europe and East Asia. It is unique in its region because its standards are comparable to those of leading international exchanges in New York, London and Hong Kong.

The DIFX enables regional and international investors to share in the rapidly growing wealth of its region, which includes the Middle East and the Indian sub-continent. Through the exchange, regional and international issuers can access the regional and international investment they need.

3.3 Foreign Investment Incentives/Restrictions

- No corporate or personal income tax.
- Political stability.
- Drafting of investment law in progress.
- Full tax holiday on profits, businesses and free transfer of financial assets with the absence of restrictions on capital movement.
- The establishment of the Abu Dhabi Stock Exchange.
- Advanced and well-established telecommunications and IT infrastructure.
- Member of the WTO and the Gulf Co-operation Council (GCC).
- 5% customs duties imposed on goods (although numerous consumer goods, commodities and raw materials are exempt).
- Implementation of the GCC custom union (one point entry).
- Double taxation avoidance treaties and free trade agreements with numerous countries.
- Advanced air and sea port services and a modern highway network.
- The strategic location of the UAE, which serves around 1 billion consumers.
- The development of three industrial zones and the establishment of free zones.
- Transparency of economical information and regulation.
- Free movement within UAE and GCC countries.
- Simplified procedures for acquiring trade, industrial or other licenses.
- Simplified procedures for acquiring employment and visiting visas.
- A highly proficient banking sector with international financial services and credit facilities.
- Governmental support and funding for investment projects.
- Ongoing development projects continuing to 2010 and beyond valued at hundreds of billions UAE Dirhams.

4 Employment Regulation and Social Security

The Labour Law governs most aspects of employer/employee relations, such as hours of work, leave, termination rights, medical benefits and repatriation. It is protective of employees in general and overrides conflicting contractual provisions agreed under another jurisdiction, unless they are beneficial to the employee.

4.1 Entry Service Permit

An entry service permit (sometimes referred to as a 14-day stay) is available to business persons and tourists. The permit must be sponsored by a company, commercial establishment, or a hotel licensed to operate within the UAE. The visa, which is non-renewable, is valid for 14 days from the date of issue and the duration of stay is 14 days from the date of entry, exclusive of arrival and departure days.

4.2 Visiting Visa

A visiting visa was historically issued to a company acting as a sponsor and allowed a foreigner to stay in the country for up to 60 days.

However, new rules were issued in July 2008 that detail varying regulations, durations of stay and fees depending on the purpose of the visit.

4.3 Employment Visa

An employment visa or permit is issued by the Immigration Department to allow a foreign national to work in a company in the UAE. Approval must be obtained from the Ministry of Labour and Social Affairs. Sponsorship is required for the permit, and certain restrictions apply to the number of foreigners granted such permits.

The employment visa allows the holder to enter the UAE once for a period of 30 days and is valid for a period of two months. When an employee enters the country on an employment visa the sponsoring company must arrange to complete the formalities of their residence stamp/permit, which is normally issued for three years. The employee must work only with the employer/sponsor and is not permitted to work elsewhere unless formal procedures are followed.

There are no special requirements for departure from the country. Registered immigration violations and police complaints are subject to clearance prior to departure from any UAE airport.

4.4 Trade Unions

Trade unions do not exist. In the case of a dispute between employer and employee, or a dispute in the interpretation of the Labour Law, the Ministry of Labour and Social Affairs will initially act as an adjudicator. If a party wishes to appeal any such decision, it may take its case to court. Strikes and lockouts are forbidden.

4.5 Social Security System

There is no minimum wage in the private sector, although the Ministry of Labour has announced that one will be introduced in the near future.

The UAE does not impose social security taxes on foreign workers. Employer pension contributions for national employees are mandatory at 12.5% of “contribution calculation salary”. In addition, national employee contributions are levied at 5% of the contribution calculation salary.

Employers are required to provide employees with end of service benefits in accordance with federal labour laws. Recent changes in legislation also require employer guarantee deposits of AED3,000 for each sponsored employee. End of service benefit (gratuity) is around one month's basic salary for every year of service after the first three years.

4.6 Working Hours

The week commences on Sunday and extends through Thursday. Friday and Saturday are the official weekend. Government offices are closed on Friday and Saturday.

Private sector and government office hours vary between business, city and government department but are broadly be summarised as:

- Government: 8.00am to 2.00pm
- Private sector: The normal maximum working hours are eight hours per day or 48 hours per week. These hours may be increased to nine hours daily for those in the retail trade, hotels, restaurants and other such establishments.

4.7 Holidays

During the Muslim holy month of Ramadan, normal working hours are reduced by two hours per day.

There are ten days of public holidays (paid) annually. The Hejra calendar is the official calendar of the UAE and is based on lunar change. However, in most communications the Gregorian calendar year is used. This results in religious holidays occurring at different times each year according to the Gregorian calendar.

Employees are entitled to two days of annual leave for every month if they have completed more than six months but less than a year of service. In every completed year of service after the first, employees are entitled to 30 days annual paid leave.

5 Taxation

5.1 Corporate and Income Tax

There is no corporate tax for most companies in the UAE, but income tax is levied on the profits of oil and gas exploration companies and certain petrochemical companies under specific government concession agreements, currently at 50%/55% (Dubai/Abu Dhabi).

Branches of foreign banks are taxed at rates agreed with the ruler of the emirate in which they operate, currently 20%.

- No indirect tax.*
- No individual tax.
- No withholding taxes.
- No tax on capital gains.
- No tax on dividends or any other income.
- No provision for group tax.

*Currently there is no VAT or general sales tax. Although the introduction of VAT was expected in 2008, it has been delayed.

5.2 Tax Treaties

The UAE has concluded more than 30 tax treaties.

5.3 Other Taxes

- Municipal taxes are imposed on hotel services and property rentals.
- Annual rental income of residential and commercial tenants is taxed at 5% and 10% respectively.
- Customs duties are imposed by individual emirates, generally at a rate of 5%, with some exemptions.
- Inheritance, in the absence of a will, is dealt with in accordance with Islamic Sharia principles.

Member Firm Contact Details

Abu Dhabi

Baker Tilly MKM (formerly Al-Rubaie & Co. since 1979)

Chartered Accountants

P.O. Box 46283, Abu Dhabi, UAE

(204) EPICO Building, Liwa Street, Abu Dhabi, UAE

T. +971 2 622 4449 / 6155

F. +971 2 622 6088

E. info@bakertillymkm.com / sumchart@eim.ae / alrubaie@bakertillymkm.com

www.bakertillymkm.com / www.al-rubaie.com

Contact

Mr Munim J. Al-Rubaie

M. +971 50 622 6719

Dubai

Baker Tilly MKM (formerly Al-Rubaie & Co. since 1980)

Chartered Accountants

P.O. Box 103805, Dubai, UAE

STALCO Shipping Tower 303, 53 Al-Mina Road – Opp. Dubai Customs

(between Kuwait Road & Khalid-Bin-Al Waleed Road)

Al-Rafaa, Bur Dubai, Dubai, UAE

T. +971 4 393 9551

F. +971 4 393 9561

E. info@bakertillymkm.com / sumchart@eim.ae / alrubaie@bakertillymkm.com

www.bakertillymkm.com

Contact

Mr Munim J. Al-Rubaie

M. +971 50 622 6719

Baker Tilly Merali's

P.O. Box 123978, Dubai, UAE

Suite 405 A, Habroush Building, Al-Mina Road, Dubai, UAE

T. +971 4 345 3582 / 5492

F. +971 4 345 5493

www.bakertillymeralis.com

Contacts

Mahmud. P. K. Merali

M. +971 50 273 7030

E. mpkmerali@bakertillymeralis.com

Sheen Zhao

M. +971 50 282 3615

E. sheen@bakertillymeralis.com



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INTERNATIONAL**

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WorldHeadquarters

2 Bloomsbury Street
London WC1B 3ST
United Kingdom

T. +44 (0)20 7314 6875

F. +44 (0)20 7314 6876

E. info@bakertillyinternational.com

www.bakertillyinternational.com