

Tax Alert

United Arab Emirates

This alert is designed to provide a brief synopsis of the impending Corporate Tax and Value Added Tax (VAT), that is currently in discussion.

The Ministry of Finance announce plans to draft a law to introduce Corporate Tax and Value Added Tax (VAT).

The undersecretary from the Ministry of Finance (MoF) in the United Arab Emirates (UAE) announced in July 2015 that they were conferring to draft a new law which relates to possibly introducing corporate tax and value added tax within the Emirate. The law is currently being drafted and it was alleged to be completed in the third quarter of this year (2015).

In a report issued by the International Monetary Fund (IMF) in August 2015, it was highlighted that the UAE could generate up to 7.4 per cent. in extra revenue by introducing such tax. There is currently no personal income tax or value added tax (VAT) payable within the United Arab Emirates which has been known as a tax haven.

The UAE is largely a corporate tax free country, bar foreign banks who are currently taxed at 20 per cent, foreign oil companies which are taxed on incremental rates, the imposed municipality tax of 5 per cent on rental value and a 10 per cent local tax on hotel services. Once the new law has been approved and imposed, it could see corporate tax enforced on all foreign and domestic businesses who are based in the UAE.

Alongside this, the application of VAT has been in discussion for many years between the GCC states. The rate of VAT has not yet been confirmed, however a report by the IMF has recommended that this should be set at approximately 5 per cent, with 10 per cent for corporate income tax and 15 per cent to be excised on automobiles.

Should the treaty be approved, it will see all GCC member states including the UAE form a national VAT department as part of the MoF. This will lead to various rules and regulations being imposed in relation to VAT and compliance. The MoF stated that an “immediate announcement will be made once a final agreement on imposing a VAT law is reached” and that the “concerned sectors and entities will have around 18 months after imposing the law to implement and fulfil the requirements of their tax obligations.”

To aid the compulsion of tax, the MoF are forming a Federal Tax Authority. “The draft of the corporate tax law and the value-added tax law has been discussed with the local and federal governments,” Younis Haji Al Khouri, an undersecretary at the MoF said. Currently, the UAE and Bahrain are the only corporate tax free countries in the GCC.

News reports have suggested that “the Ministry of Finance, in coordination with the UAE’s local entities, have prepared draft laws on creating a federal tax authority, a draft law for tax procedures and a draft law for VAT, which include the components agreed upon in the GCC draft law.”

The date of imposing corporate tax and value added tax has not yet been announced, although it is expected that an assertion is imminent.

Contact us

Once the law has been approved, we can use a combination of reason and instinct, to work with you to develop a strategy that helps you both understand and manage your tax liability in a transparent and ethical way.

To discuss how this update may implicate your business or to have a related discussion, please do not hesitate to contact us.

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2. UAE says VAT plan delayed by disagreement in region (Arabian Business online)
3. Eighteen month grace period when value added tax is implemented in the UAE, ministry says (The National)
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5. UAE studying implementation of VAT, corporate tax (Emirates 7/24 online)