

## inBrief



## UAE Economic Substance Requirements (ESR) – New Penalties imposed by the Federal Tax Authority

By Bashir Ahmed, Saurbh Kothari and Dimple Soni | 7 June 2022

Last year we had reported that the Federal Tax Authority (the FTA) has started to impose penalties on entities that have failed to submit their economic substance notifications by the set deadline of 30 June 2020 for the financial period ended on 31 December 2019, and the economic substance reports by the set deadline of 31 December 2020 for the financial period ended on 31 December 2019.

The FTA has now started imposing penalties on entities that had conducted a relevant activity but failed to meet the economic substance test (for example, by failing to demonstrate that the relevant activity was directed and managed in the UAE) for the financial period ended on 31 December 2019. Pursuant to the Cabinet of Ministers Resolution 57 of 2020 concerning the Economic Substance Requirements (**Decision**), the FTA is imposing a penalty of AED 50,000 for failing to meet the economic substance test. If a licensee commits the same offence in the following year, the FTA can impose a penalty of AED 400,000.

Article 17 of the Decision provides that a licensee may appeal against a penalty by filing an appeal to the FTA.

A licensee conducting a relevant activity (as per the Decision) is annually required to file a notification within six months from the end of the relevant financial period, and an economic substance report within 12 months from the end of the relevant financial period.

For a licensee whose financial year ended on 31 December 2021, the deadline to file a notification is 30 June 2022, and the deadline to file an economic substance report will be 31 December 2022. The notification and/or the economic substance report is required to be filed on the Ministry of Finance's portal ([www.mof.gov.ae/en/StrategicPartnerships/Pages/ESR.aspx](http://www.mof.gov.ae/en/StrategicPartnerships/Pages/ESR.aspx)).

Additional information on Economic Substance Requirements can also be found on the Ministry of Finance's website.

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