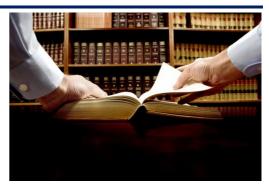
### Afridi &Angell

افريدي وانجــل

# 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).

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

#### **The Authors**



Bashir Ahmed Managing Partner bahmed@afridi-angell.com

Bashir is the managing partner of Afridi & Angell. He advises clients on cross-border, general corporate and commercial, private equity, banking, licensing and maritime matters.



Saurbh Kothari Senior Associate saurbh@afridi-angell.com

Saurbh joined Afridi & Angell in 2008 and is a senior associate in the corporate and commercial team. He advises both local and international clients on a broad range of corporate/commercial and employment matters.



**Dimple Soni** Paralegal dimple@afridi-angell.com

Dimple is a paralegal at Afridi & Angell's Dubai office. She assists lawyers on a wide range of corporate, commercial, and dispute resolution matters.







#### Afridi & Angell

Founded in 1975, Afridi & Angell is a full-service UAE law firm in its fifth decade at the forefront of the legal community. From the beginning, our hallmarks have been a commitment to quality, unsurpassed knowledge of the law and the legal environment, and crafting of innovative business solutions. Licensed in the three largest Emirates of Abu Dhabi, Dubai and Sharjah as well as the Dubai International Financial Centre, our practice areas include banking and finance; corporate and commercial law; arbitration and litigation; construction; real estate; infrastructure projects; energy; project finance; maritime (wet and dry); and employment. We advise local, regional and global clients ranging in size and sophistication from start-ups, sole proprietorships, family-owned businesses, entrepreneurs and investors to some of the world's largest public and private companies, governments and quasi-government institutions. We attract and retain clients with our dedication to practical guidance focused on their business needs supported by decades of experience here in our home jurisdiction, the UAE.

Afridi & Angell is the exclusive member firm in the UAE of top legal networks and associations, most notably Lex Mundi, the world's leading network of independent law firms, and World Services Group.

#### www.afridi-angell.com

Afridi & Angell's inBrief provides a brief overview and commentary on recent legal announcements and developments. Comments and opinions contained herein are general information only. They should not be regarded or relied upon as legal advice.