

inBrief



The United Arab Emirates' (UAE) Corporate Tax Regime: Globally Competitive and Business Friendly

By Shahram Safai, Doneen Ennis, Shruti Baghel, Matthew Rosenberg
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Businesses often seek a favourable environment that fosters growth and offers tax savings. In this inBrief, we discuss the UAE's tax-friendly landscape which stands out globally, drawing entrepreneurs, family offices and businesses that are eager to thrive in a jurisdiction with fewer restrictions and attractive exemptions and reliefs.

The UAE has become a major financial hub in the recent few years and is one of the easiest countries in which to do business. With the recent introduction of the Corporate Tax (CT) framework under Federal Decree Law 47 of 2022 (CT Law), the UAE aligned its fiscal policy with international tax standards and best practices, particularly pursuant to the goals of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) project, which further solidifies the UAE's position as a competitive business centre.

Tax Landscape

The UAE's CT structure is designed to levy a modest 9% tax rate on businesses with profits (income after deduction of expenditure incurred wholly and exclusively for the purposes of a taxable person's business) exceeding AED 375,000. This remains notably low compared to, for instance, Portugal, a traditionally favoured European country, with a 21% CT rate on profits exceeding €25,000 (approximately AED 95,000).

Portugal's tax structure presents a notable contrast to the UAE's, with implications for businesses. Portugal's Value Added Tax (VAT) of 23% far exceeds the UAE's 5%, in addition to levying a 25% withholding tax on dividends, interest, and royalties, adding complexity for businesses involved in cross-border trade. Comparatively, the UAE offers 0% withholding tax. Further, Portugal imposes a capital gains tax of up to 28%, while the UAE's corporate tax rate is set at 9%.

Internationally Competitive and Connected

To facilitate and promote cross-border transactions and to continue to grow as a financial hub, the UAE has 137 Avoidance of Double Taxation Agreements and Bilateral Investment Treaties with other countries and the European Union (EU). These agreements are aimed at reducing double taxation and facilitating cross-border businesses. This approach encourages investment flows between treaty partners by reducing or even eliminating withholding taxes.

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In addition, the UAE offers significant incentives to foreign investors through its 10-year Golden Visa program, which provides individuals with the opportunity to live, work, and invest in the UAE without the need for a local sponsor. The UAE also provides targeted incentives for technology and innovative startups, including funding opportunities, incubator programs, and tax exemptions to foster innovation and business growth.

No Personal Income Tax

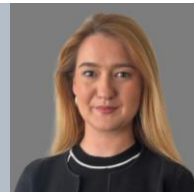
One of the key advantages of the UAE's favourable tax environment is the absence of personal income tax on wages, earnings, income from real estate investments and other types of investment income. This is in contrast to many European Union jurisdictions, where personal income tax rates often exceed 40% or even 50% for high-earning taxpayers.

Tax Relief and Exemptions

The CT Law provides for specific exemptions (for instance, the participation exemption), tax groupings for efficiency and preferential rates for qualifying small businesses and businesses engaged in specific sectors (innovation or technology). The aim of these tax exemptions and reliefs is to encourage corporate transactions, reduce the tax burden on emerging businesses and to stimulate economic growth within the UAE.

UAE Corporate Tax Law – A Business Attraction Tool

The UAE's 9% CT rate, 5% VAT rate, absence of personal income tax (in most cases), 0% withholding tax rate, certain tax exemptions, international tax agreements and ease of doing business make it an unparalleled and highly competitive destination for multi-nationals, entrepreneurs, investors and family offices. As a result, the UAE CT regime acts as a tool to attract businesses to this highly business-friendly environment, especially in contrast to higher-tax jurisdictions in the EU, North America and Asia. ■



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Doneen is a real estate associate based in Dubai. Her expertise encompasses a wide range of areas and she excels in skilfully navigating intricate corporate and property landscapes. Her notable experience includes advising on large real estate investment sales and purchases, conducting corporate real estate due diligence reports for a large international hotel group, and preparing high-level due diligence reports for financing matters related to real estate assets. Doneen is also part of the tax team, advising clients in relation to corporate tax matters within the UAE.



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Shruti's practice focuses on Direct and Indirect Tax, including Corporate Income Tax, Transfer Pricing, Value Added Tax and Goods and Services Tax. She is experienced in undertaking compliance (monthly and annual reports) and tax refund assignments for Clients from varied sectors, including, Manufacturing, Real Estate, Automobile, FMCG, and Information Technology.



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Matthew has over four years of experience in cross-border and domestic corporate transactions in various practice areas including mergers and acquisitions, capital markets, private equity and general corporate advisory matters.

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