Update on the proposed introduction of corporate taxation in the UAE

On 30 June 2015, the United Arab Emirates (UAE) Ministry of Finance (MOF) published its 2014 Annual Report (Report).¹ One of the initiatives outlined in the Report is the establishment of a tax system within the UAE by creating a tax department to collect and implement federal taxes. In line with this initiative, the Report indicated that the MOF’s corporate tax policy has been approved by the UAE Cabinet, a corporate tax law has been drafted and a common value added tax (VAT) law framework for Gulf Cooperation Council (GCC) countries has also been drafted.

The Report further stated that the MOF has prepared a draft law on the establishment of a Federal Tax Authority which has been referred to the Ministry of Justice’s technical committee for legislation. As per the UAE Constitution, this draft law will be submitted for the approval of the UAE Cabinet, the Federal National Council and the Supreme Council, before it is presented to the President for signature. Once the President has signed the law, it will be published in the Official Gazette and come into force after a certain period specified under the law.

In related news reports,² His Excellency (HE) Younis Haji Al Khouri, Undersecretary of the MOF, has been quoted as saying that “The draft of the corporate tax law and the value added tax law has been discussed with the local and federal governments.” In addition, it is reported that while the authorities are still in the process of evaluating the social and economic impact of these proposed laws, it is expected these draft laws will be finalized in the third quarter of this year, according to HE Al Khouri. However, there has been no statement on the proposed tax rate(s) or as to when these laws are expected to take effect.

Based on the Report, the MOF is considering the introduction of corporate tax in the UAE to meet its objective of developing and ensuring the sustainability of the Federal Government’s financial resources. Based on the above information, it appears that concrete steps have been taken towards meeting this objective although no specific timeline has been set for the implementation of corporate taxation in the UAE.
The current level of completion of the MOF’s initiative on the establishment of a taxation system in the UAE indicates that the MOF is in advanced stages of this initiative. However, the actual introduction of corporate tax may still be some time away. The interaction of a Federal corporate tax with tax legislation at specific Emirate levels (the UAE is a Federation consisting of seven Emirates including Abu Dhabi and Dubai) may cause some challenges. Also, the creation and staffing of a Federal Commission for Taxes (Tax Authority) will take some time in a country where there is currently no tax compliance requirement (with the exception of oil and gas producing companies and branches of foreign banks).

The Undersecretary neither commented on a date of introduction nor on an actual tax rate. In respect of an introduction date, it is expected the MOF will allow businesses sufficient time in preparation of an actual corporate tax starting date. In respect of the actual tax rate(s), it is expected they will be “competitive” in this region, especially within the GCC.

It is recommended that businesses closely follow developments and announcements from the MOF to be prepared for the possible financial and administrative consequences of corporate tax introduction in the UAE.

Endnotes
   http://en.fujairahnews.net/News.aspx?id=9760&sid=5;
   http://gulfnews.com/business/economy/uae-to-finish-drafting-corporate-tax-vat-laws-this-quarter-1.1544584; and
For additional information with respect to this Alert, please contact the following:

**Ernst & Young Middle East, Abu Dhabi**
- Tobias Lintvelt +971 2 417 4507 tobias.lintvelt@ae.ey.com

**Ernst & Young Middle East, Dubai**
- Stijn Janssen +971 4 332 4000 stijn.janssen@ae.ey.com
- Michelle Kotze +971 4 701 0100 michelle.kotze@ae.ey.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited.
All Rights Reserved.

EYG No. CMS575

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com