

MOORE STEPHENS

Doing Business in the United Arab Emirates 2014

Introduction

The guide is intended to assist those interested in doing business in the United Arab Emirates and is only a summary as of January 2014. In order to be aware of specific laws and regulations in more detail, it will be necessary to obtain appropriate accounting and legal advice.

This guide is intended to provide an overview of the financial, commercial and legal infrastructure.

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1. Country profile

Capital City	Abu Dhabi
Other main city	Dubai
Other cities	Sharjah, Ajman, Fujairah, Ras Al Khaimah and Umm Al Quwain
Language	Arabic
Currency	United Arab Emirates Dirham (AED)

The UAE has established itself as a regional strategic trading hub, known for its business friendly environment. The policies of the government to encourage the private and non-oil sectors has seen the UAE develop as one of the largest economies in the Middle East that offers a wide range of investment opportunities, both within and outside designation areas known as the free zones.

Geography

The United Arab Emirates is a federation that comprises seven emirates, which occupy the south eastern corner of the Arabian Peninsula. The constituent emirates are Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Ras Al-Khaimah, and Umm Al-Quwain. The capital is Abu Dhabi, and Dubai is seen as attractive for business and commerce.

The UAE is located on the Eastern coast of the Arabian peninsula, in close proximity to Oman, Saudi Arabia and Qatar. The total area of the UAE is approximately 77,700 square kilometres.

Demographics

Although the population of the UAE is 9.2 million (2012 census), it has a predominantly large expatriate community (about 84%) who come from all over the world.

Currency

The currency of UAE known as the Arab Emirates Dirham (AED), is pegged to the United States Dollar at a fixed rate of AED 3.673: USD 1.

Climate

The climate of the UAE is subtropical-arid with hot summers and warm winters. The emirate basks in virtual year-round sunshine with little rainfall and superb winter (October- April) temperatures which average around 24°C (75°F) during the day, falling to 13°C (56°F) during the night. Summer (May-September) daytime temperatures can rise over 42°C (118°F) and there is high humidity. The hottest months are July and August.

Language

Arabic is the official and national language of the UAE. Apart from Arabic, English is widely used as a second language. Other languages spoken in the UAE include Urdu, Hindi, Persian, Pashto, Malayalam, Bengali, Punjabi, Tamil, Balochi, Russian, Somali, Tagalog, Nepali and Mandarin Chinese.

Major Customs and Practices

Being a highly cosmopolitan society, the UAE has a diverse and vibrant culture. Etiquette is an important aspect of UAE culture and tradition, and whilst in the UAE, visitors are expected to show appropriate manners and etiquette. Observing fast in public places during Ramadan (generally falls on the 9th month of the Islamic calendar) is expected from everyone, including those visiting the UAE.

2. Investment Vehicles

Legal structures

In accordance with the laws of the United Arab Emirates (UAE), the following are the different type of legal structures that foreign entities or nationals can consider for carrying on business or professional activities:

- a limited liability company
- a branch or representative office
- a civil partnership (for professional activities)
- a joint venture
- commercial agency arrangement; and
- onshore and offshore companies in free zones

A limited liability company can be registered in the mainland of any emirate of the UAE with a minimum of two and a maximum of fifty shareholders, and should have UAE Nationals owning at least 51% of the share capital of the company.

A branch or representative office of a foreign company can be established in the mainland of any emirate of the UAE after being approved and licensed by the Ministry of Economy. In accordance with the registration requirements, the parent company should also appoint a UAE National as a National agent of the branch or representative office. However branches of foreign companies established in any of the free zones of the UAE do not require to be registered with the Ministry of Economy or appoint a UAE National as a National agent

A civil partnership can be registered by foreign nationals to practice a vocation or a profession in the mainland of any emirate of the UAE. However, prior approvals from the concerned Government and Local Authorities will be required for such registrations and depending upon the activity, a UAE National will have to be a Partner or Service Agent in the partnership.

A joint venture can be established in the mainland of any emirate of the UAE as an association between two partners to share profits and losses in one or more commercial businesses conducted by one of the partners in his or her own name.

An international company that intends to trade directly with the UAE by supplying goods and services from abroad should appoint a commercial agent within the UAE. The agent must be a UAE National, or a company solely owned by a UAE National. A commercial agency agreement should be signed by the foreign principal and the agent in the UAE which should comply with the relevant provisions of the Federal Commercial Agency Law and the procedures and conditions prescribed therein.

The onshore company in a free zone can be established as a limited liability company or as a branch of a foreign company to carry out trading, industrial or service activities. Unlike the limited liability companies registered in the mainland of any emirate, free zone entities can be 100% owned by foreign nationals or corporate entities. Offshore companies that can carry out approved investment activities in the UAE and trading activities outside the UAE can be registered in the Jebel Ali Free Zone in Dubai and the Ras Al Khaimah Free Trade Zone in Ras Al Khaimah.

Type of licences

The business entities registered in the UAE should obtain at least one licence in the following categories:

- Commercial licenses for trading activity
- Industrial licenses for industrial or manufacturing activity
- Professional licenses for professional and service activity

Licences issued for certain activities need prior approval from the concerned Ministries and/or other related authorities.

All the commercial and industrial entities registered UAE should also register themselves with the Chamber of Commerce and Industry of the relevant emirate.

Shareholding

The capital requirement for a limited liability company registered in the UAE depends upon its legal structure, place of registration and line of activity. It is a requirement that a limited liability company unless registered in a free zone or is specifically exempt, should have one or more UAE Nationals as partners whose shareholding in the company is not less than 51%.

Locations

A business or professional activity can be carried on in any of the seven emirates of the UAE by registering a legal entity. This entity can either be registered in the mainland of the particular emirate or in any of the free zones in the UAE.

Free zones

Free Zones have transformed the economic market of the UAE in the last 25 years. The first Free Zone in the UAE was the Jebel Ali Free Zone, which commenced operations in 1985. The rapid growth of Jebel Ali Free Zone provided a benchmark for other Emirates set up their own Free Zones to attract foreign investment. With the number of Free Zones increasing, their impact on the UAE economy has deepened.

The following are the free zones in the UAE that have been established to cater to a large and diversified business and professional segment of the economy.

Abu Dhabi

1. Abu Dhabi Airport Free Zone (ADAFZ)
2. Industrial City of Abu Dhabi (ICAD 1 and 2)
3. Khalifa Industrial Zone Abu Dhabi (KIZAD)
4. Twofour54 – Abu Dhabi
5. MASDAR City – Abu Dhabi

Dubai

1. Jebel Ali Free Zone, Dubai (JAFZA)
2. Dubai Airport Free Zone (DAFZA)
3. Dubai Multi Commodities Centre & Jumeirah Lake Towers (DMCC & JLT)
4. Dubai Internet City (DIC)
5. Dubai Media City (DMC)
6. International Media Production Zone (DMPZ)
7. Dubai Studio City (DSC)
8. Dubai Knowledge Village (DKV)
9. Dubai International Academic City (DIAC)
10. Dubai Healthcare City
11. Dubai Biotechnology & Research Park (DuBiotech)
12. Dubai Outsourcing Zone (DOZ)
13. Dubai World Central (Dubai Logistics City)
14. Dubai Gold and Diamond Park, (DGDP)
15. Dubai International Financial Centre
16. Dubai Car and Automotive City Free Zone (DUCAMZ)
17. Dubai Flower Center,
18. Dubai Industrial City (DIC)
19. Dubai Silicon Oasis

20. Dubai Carpet Free Zone – Deira
21. Dubai Maritime City
22. Dubai Outsource Zone (DOZ)
23. Dubai Techno Park (TP)
24. Dubai Textile Village

Sharjah

1. Sharjah Airport International Free Zone (SAIF Zone)
2. Hamriyah Free Zone, Sharjah (HFZ)

Ras Al Khaimah

1. Ras Al Khaimah Free Zone (RAK)
2. RAK Investment Authority Free Zone (RAKIA FZ)
3. Ras Al Khaimah Media Free Zone (RAKMFZ)

Ajman

1. Ajman Free Zone (AFZ)

Fujairah

1. Fujairah Free Zone

Umm Al Quwain

1. Ahmed Bin Rashid Free Zone (ABRFZ)

All free zones offer financial incentives to established manufacturing industries in the UAE. These are primarily focused on exemption from all taxes and duties levied on profits or production.

All free zones, besides permitting 100% foreign ownership are subject to reduced or different trade barriers and tariffs. Although licences issued to free zone companies permit them to only operate within the free zone boundaries, they can operate outside these boundaries provided it adheres to the regulations of the UAE Commercial Companies Law and complies with the licensing procedure of the concerned emirate.

The major incentives offered by the UAE Free Trade Zones are:

- 100% foreign ownership with 100% repatriation of capital and profits
- No corporate taxes for 50 years
- No personal income taxes
- Exemptions from customs duties
- Absence of foreign exchange restrictions

Filing requirements

The provisions of the UAE Commercial Companies Law specifies that the audited financial statements of companies registered in the mainland are required to be placed and approved by the shareholders at a General meeting that is convened within four months of financial year end. A copy of the audited financial statements is also required to be submitted to the concerned licensing authorities.

As regards the entities registered in the free zones, a copy the audited financial statements should be filed with the free zone authority within three months of the financial year end.

Dissolution

In accordance with the UAE Commercial Companies Law, a company registered in the mainland should be dissolved in the event of:

- the expiry of company's term or stated purpose
- a resolution to dissolve is passed at the general meeting
- a merger
- losses greater than 50% of the shares capital and the shareholders do not resolve to continue business

The dissolution of entities registered in free zones is carried out in accordance with the regulations laid down by the relevant free zone authority. Under these regulations, a free zone entity can be dissolved through a shareholders resolution or when the losses of the entity exceed the limit prescribed by the free zone authority.

Investment incentives

The incentives for investment in the UAE can be summarized as follows:

- stable dollar based currency
- no restrictions on currency transfers
- low import duties (5%)
- competitive labour costs
- no taxation

UAE international relationships

The UAE is a contracting party to the General Agreement on Tariffs and Trade (GATT) since 1994 and a member of the World Trade Organization (WTO) since 1996. It is also a member of the Greater Arab Free Trade Area (GAFTA) in which all Gulf Cooperation Council (GCC) states participate. The GCC states comprise the UAE, Oman, Saudi Arabia, Qatar and Bahrain.

The UAE has concluded Free Trade Agreements with major countries like Singapore, the European Union, Japan, China, India and Pakistan.

3. Regulations

Commercial Laws

The provisions of the UAE Federal Law No. 8 of 1984 as amended by Federal law No. 13 of 1988 referred to as UAE Commercial Companies Law deals with the type of companies that can be set up in mainland UAE and regulations that they must comply with. For companies registered in the free zones of the UAE, the free zone authorities have issued free zone implementations regulations that are applicable to all such entities.

Import and Exports

Entities registered in any emirate in the UAE intending to import goods into the country should register with the Department of Customs in that particular emirate. The importer should ensure that the goods imported are consistent with the stated activity in their trade licence.

For exports, the carriers or transportation companies should submit to Customs the manifest and obtain an exit permission for presentation with the goods to the customs office.

The UAE Federal Law No. 13 of 2007 on Commodities relates to Import and Export Control Procedures and harmonises the rules and standardises the procedures relating to the import and export of certain identified commodities throughout the UAE. This law bans the export or re-export of strategic commodities, including arms and military hardware, chemical and biological materials, and dual-use items without first obtaining a special license to do so.

Customs

Customs duty is levied on goods that are imported into mainland UAE at the prescribed rate unless they are exempt from duty. However goods can be freely imported into and exported from free zones without payment of any duty by an entities registered in free zones. Any goods that are sold from the free zone into mainland UAE will attract import duty at the prescribed rate.

Government approvals and registration

All business and professional entities that are set up in mainland UAE or the free zones, should be licensed by the appropriate authority. Entities are required to have a physical address in a location that is approved based on the licenced activity. The entities are also required to deposit the share capital in cash into a local bank before the licence to trade is issued by the licensing authority.

Accounting standards

Although the UAE Commercial Companies Law do not specify any accounting standards framework for the preparation of the financial statements, most of the companies apply the International Financial reporting Standards (IFRS) to prepare their financial statements. Accounting firms apply the International Standards on Auditing to conduct audit of the financial statements.

The Free Zone Regulations require that all companies registered within the free zones adopt International Financial Reporting Standards to prepare their financial statements.

The Central Bank of UAE has made it mandatory for banks to prepare their accounts as per International Financial Reporting Standards (IFRS).

Similarly, regulators of publicly listed entities and the Dubai Financial Services Authority (DFSA) have also made it mandatory for companies to prepare their financial statements in accordance with IFRS.

Audit requirements

In accordance with the UAE Commercial Companies Law, all public and private shareholding companies, limited liability companies and branches of foreign companies are required to have their financial statements audited on an annual basis. Similarly, all limited liability companies registered in the free zones are also required to have their annual financial statements audited and a copy submitted to the authority within 120 days of the financial year end.

4. Banking and Capital Markets

Banking system

The UAE has currently 23 local banks and 28 foreign banks.

The Central Bank of the UAE is the banking regulatory authority and is responsible for formulation and implementation of banking, credit and monetary policies.

The Dubai Financial Services Authority ('DFSA') that is established in Dubai is the regulatory authority for the financial entities including, investment banks, asset managers, that are registered in the financial free zone known as Dubai International Financial Centre ('DIFC'). Recently the Abu Dhabi Financial Centre has also been established in Abu Dhabi with the objective of promoting financial services business in Abu Dhabi.

The key documents that are normally required by banks in order to open corporate accounts are as follows:

- Copy of valid trade license or certificate of incorporation
- Copy of the shareholders/board resolution
- Passport copies, including resident permits of signatories, and
- Copy of valid chamber of commerce registration certificate (mainly for limited liability companies and branches of foreign companies)

To open a personal bank account, one would be required to furnish the following:

- Passport copy with valid UAE residence permit
- Proof of address
- A letter from employer in case of a salary accounts

Capital Markets

Dubai Financial Market

Dubai Financial Market (DFM) was established as a public institution having its own independent corporate body. DFM is operating as a secondary market platform for trading in securities issued by public joint-stock companies, bonds issued by the Federal Government or any Local Government and public institution in the country. Currently, there are 65 companies listed on the DFM.

The minimum requirements for an IPO listing on the DFM are as follows:

- Primary local companies listing
- Minimum free float of 55% except family 30%
- 51% UAE minimum ownership
- Lock in period for founders is 2 years
- Offers structure new shares (capital increase)

Abu Dhabi Securities Exchange

The Abu Dhabi Securities Exchange (ADX) was established on 15 November 2000. ADX had 68 listed securities and a market capitalization of AED 929 Billion (\$79.4 billion USD) as of September 30, 2012.

In 2010, ADX became the first market in the region to introduce Exchange Traded Funds (ETFs) trading platform, by listing NBAD's 'OneShare Dow Jones UAE 25' ETF, under the ticker symbol 1UAE, and hence established the necessary infrastructure for diversified investment vehicles.

Dubai International Financial Centre

The Dubai International Finance Centre (DIFC) houses some of the largest financial services, banking, legal and accountancy firms in the world. It was developed on the lines of the financial hubs in New York, London and Hong Kong. Its primary aim is to serve the Middle East, North Africa and South East Asia.

The DIFC focuses on several sectors within the financial industry such as banking services, capital markets, asset management and fund registration, insurance and reinsurance, Islamic finance, business processing operations and ancillary services.

The DIFC was established to create a regional financial centre, offering investors and issues of capital world class regulations and standards. The hallmarks are integrity, transparency and efficiency.

The DIFC offers organisations a highly attractive investment environment including:

- 100% foreign ownership
- No tax on income and profits
- Wide network of double taxation treaties available to UAE incorporated entities
- No restrictions on foreign exchange or capital/ profit repatriation
- Transparent operating environment with high standards of rules and regulations
- Strict supervision and enforcement of money laundering laws
- State of the art infrastructure, data protection/security

The Dubai Financial Services Authority (DFSA)

As the independent regulator of financial and ancillary services undertaken in and from the DIFC, the DFSA licenses, authorities and registers business and individuals who wish to conduct these services in the Centre. The DFSA supervises the activities of authorized firm within the DIFC and enforces the rules and regulations where necessary.

NASDAQ Dubai

NASDAQ Dubai is an international financial exchange based in Dubai.

A key advantage of NASDAQ Dubai is that owners can retain a majority of the shares (up to 75%) after their IPO, and thereby keep control. In 2012, NASDAQ Dubai reduced the minimum market capitalisation requirement for companies to list to USD 10 million, from the previous minimum of USD 50 million. This change opened the door to listings by small and medium-sized enterprises, including family owned business. Currently, there are 10 issues listed on Nasdaq Dubai.

5. Taxation

Income Tax

The UAE has no personal income, corporate or withholding taxes. The country is characterised by an almost complete absence of taxation.

However, foreign banks and oil companies are subject to income tax on income generated in the UAE. While the oil companies pay up to 55% tax based on the terms of the concession agreement, foreign banks pay tax at 20% based on the taxable income that is calculated from the audited financial statements. Oil companies also pay royalties on production.

Municipality Taxes

Municipality service charges at differing percentages are levied on individuals for the various facilities and services like house rentals, restaurant food and beverage charges, hotel room rentals availed by them in the UAE.

Customs Duty

Import duties have been largely standardised at 5%, but there are many exemptions on items such as food, building materials, medical products and any item imported into free zones.

Hospitality Fee

The government of each emirate can introduce a levy for a specific cause which may relate to a long or short term cause. In line with the above, the Government of Dubai has recently introduced a hospitality fee (Tourism Dirham) that ranges from AED 7 to AED 20 per night from guests staying in all hotels, hotel apartments, guest houses and holiday homes to help fund the Expo 2020 projects.



6. Labour Laws

The Labour laws of U.A.E. are administered by the Federal Ministry of Labour and govern all the aspects of employer/employee relations, such as hours of work, leave, termination rights, medical benefits, end of service benefits and repatriation. The Labour Law protects the interest of the employees and overrides conflicting contractual provisions agreed under another jurisdiction, unless they are beneficial to the employee.

However, the UAE Labour Law does not apply to employees working in federal governments, local ministries, government sectors, domestic servants and agricultural workers. Similarly, some of the free zone authorities like the Dubai International Financial Centre (DIFC) have their own employment laws and regulations.

The following are some of the important matters that are covered by the UAE Labour Law.

Employment permits

The employer has to obtain approval from the Ministry of Labour and the General Directorate of Residence and Foreigners Affairs before a residence visa can be obtained for an employee. While the free zone authority grants residency for a period of 3 years to employees, the Ministry of Labour grants a resident visas for 2 years to persons employed in other areas of the UAE.

Wages

There is no minimum wages specified, but wages have to be paid at least once a month. The salary scales differ with regard to the qualification, experience of the employee, skill sets required, type of industry and company in which one is employed. Generally, employment contracts do provide for a review of the initial salary after the probationary period which can extend up to six months.

Under a recent development, the Ministry of Labour has implemented the Wages Protection Scheme (WPS) wherein all employees are required to open a bank account and the employers are required to transfer the remuneration through a specified banking channel. Non-adherence to this requirement could result in heavy fines and the blocking the company's eligibility to obtain new employment permits.

Overtime Pay

The normal working hours are 8 hours per day or 48 hours per week except for employees in hotels, restaurants or other similar operations which may be increased to 9 hours per day. During the month of Ramadan, normal working hours have to be reduced by two hours per day. The time spent by the employees in commuting from their residence to the place of work is not included in the working hours.

Work beyond normal working hours, attract overtime at the rate of 25% above the normal hourly rate. If an employee is required to work between 9:00 pm to 4:00 am, he/she is entitled to his/her normal working hours plus 50% of the normal hourly rate.

If employees work on Fridays on public holidays they are either be granted one day off in lieu or be paid normal working hours plus 50%.

Health Insurance

The employer is responsible for providing the employee with a health card which entitles him/her to free medical treatment in government hospitals in the U.A.E.

The health card is now being replaced and all employers are required to provide a medical insurance to all employees at their cost.

Leaves

Annual Leave

An employee is entitled to annual paid leave at two days for every month if his/her service is more than six months but less than a year. In case the employee has completed one year of service, he/she is entitled to 30 days annual paid leave for every completed year of service. This is in addition to public holidays, maternity leave for women and sick leave.

Sick Leave

After the probationary period, an employee is entitled to a sick leave of not more than 90 days for each year of service computed as follows:

- The first 15 days with full pay
- The next 30 days, with half pay
- The subsequent period, without pay

Maternity Leave

A female employee is entitled to maternity leave for 45 days which includes the time before and after her delivery. She shall be entitled to full pay if she has completed not less than one year of continuous service and half pay if she has less than one year of service. An additional period of 100 days can be granted following the 45 days to the employee without pay upon providing a medical certificate.

Notice Period

The minimum notice period for termination of employment is 30 days. The employee shall be entitled to full pay during the notice period and shall still have to perform duties as instructed by the employer. An employer and employee can mutually agree to a longer notice period but they cannot waive or reduce the minimum period.

The employer may terminate the employee without notice if they commit certain misconduct as stated in the UAE Labour Law and in that case the employee shall not be entitled to end of service benefits.

Compensation Pay

The compensation payable for termination of employment to an employee depends upon the whether the employment contract is "unlimited" or "limited" contract. An unlimited contract can be terminated with a one month notice on either side. In the case of a limited contract, termination of the contract for reasons other than those mentioned in the UAE Labour Law, can require the employer to pay upto 3 month's salary to the employee.

End of Service Benefits

Upon termination of employment, the employee is entitled to end of service benefits that is calculated at 21 days basic salary for every year of the first five years of service and 30 days for every completed year thereafter. The total gratuity should not exceed two years' basic salary. In case the employee under an unlimited period contract resigns after working for at least 1 year the amount of gratuity payable will depend upon the term of service of the employee.

Employment protection legislation

All disputes between the employer and employee are initially adjudicated by the Ministry of Labour and Social Affairs. In case any party wishes to appeal, a case may be filed in the U.A.E. Courts.

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