nbf
*In good hands*

REFINITIV®
An LSEG Business

# NBF KNOWLEDGE SERIES
# CORPORATE TAX IN UAE
## Creating resilience through change

**Tuesday 2nd May 2023**

**Novotel, Fujairah**

**9:00AM – 1:30PM**

## Agenda

The United Arab Emirates' economy remains robust, with real GDP forecast to grow by 3.6% in 2023, according to S&P gobal ratings. This is followed by an estimated 7.6% expansion last year as bumper hydrocarbon revenues and a buoyant non-oil sector enabled the country – and the wider Gulf – to outperform the global economy.

A flurry of initial public offerings by government-related entities in Dubai and Abu Dhabi has added further lustre to the UAE's capital markets, diversifying and deepening the emirates' bourses and enabling foreign and local institutions to invest directly in the country's key industries.

The introduction of corporate tax from mid-2023 follows the successful implementation of value added tax (VAT) in 2018 and is a further sign of the growing maturity and stability of the UAE, whose economic performance is decreasingly tethered due to fluctuations in crude prices.

Corporate tax may seem anathema to a country long perceived as a low-to-zero tax jurisdiction, but its introduction is consistent with the ambitions of the Organisation for Economic Co-operation and Development (OECD) which wants to reform the global tax system to better combat tax avoidance and ensure multinationals pay their fair share.

Yet implementing a wholly new and complete corporate tax system is a complex, daunting task for companies large and small. The National Bank of Fujairah's seminar brought clarity to the key issues surrounding the law as well as setting it within the context of the broader economic outlook both at home and abroad.

TAX

Presentation | 1

# Global and Regional Economic Outlook

## SPEAKER

**Nikita Pavlov,** EMEA Director at London Stock Exchange Group

Rising interest rates should make investors re-think what they consider to be a reasonable return, the event's first speaker, Nikita Pavlov, explained. In the prolonged era of ultra-low interest rates, 3 per cent was seen as a decent annual return. Not so now, when investors can earn the same from a savings account following a prolonged series of interest rate rises.

Yet United States president Joe Biden's decision to seek re-election in 2024 should mean that the Federal Reserve's 0.5 per cent interest rate rise in early May will be the last ahead of next November's vote, said Mr. Pavlov. Decisions by the Fed impact economies worldwide with a lag of 6-9 months, he noted.

Mr. Pavlov also highlighted mounting speculation that the dollar's status as the world's reserve currency was in peril. Yet the dollar maintains more than 50 per cent share of Central Bank reserves worldwide, while the greenback has also performed better – and will continue to perform better – than other hard currencies such as the pound and euro over the next four years, he predicted.

Rising costs, both for consumers and the public and private sectors, will hamper efforts to become more sustainable if eco-friendly alternatives are more expensive than continuing with current practices, he warned.

Somewhat counterintuitively, Mr. Pavlov said a high interest rate environment should not spur investors to increase the weight of fixed income assets in their portfolios, explaining that bonds and sukuk were conservative instruments.

The expected dividend yield across listed equities in the Middle East and North Africa is 3.5 per cent, which Mr. Pavlov said shows why stocks are a better investment than bonds as well as earning similar returns shareholders also own part of the companies in which they are invested.

UAE bank sector deposits have more than quadrupled since 2007, Refinitiv data shows, with savings by non-residents a factor in this growth. This reflects investors' confidence in both the dirham's dollar peg and the country's geopolitical and macroeconomic stability, said Mr. Pavlov. Non-resident bank deposits will continue to increase, he predicted.

Oil prices, which underpin the Gulf's economies and state revenues, will largely remain within a range of $75-90 a barrel over the next four years, although the maximum and minimum within this timeframe could be as low as $60 and as high as $120, Mr. Pavlov added.

Presentation | 2

# Overview of the UAE Corporate Tax Law

## SPEAKER

**Mohamed Elswefy,** Partner, Ernst and Young

The OECD aspires to a minimum 15 per cent corporate tax rate worldwide that would be applicable to multinational companies, Mr. Elswefy explained as he began the second presentation.

Imagine, for example, a company headquartered abroad with subsidiaries across multiple countries: it should pay at least 15 per cent corporate tax in each jurisdiction.

As such, if the company has operations in a corporate tax-free country such as the United Arab Emirates the tax it could have paid in the UAE will be paid in its home country instead. That's in addition to the domestic corporate tax it pays there already.

Such situations are central to the UAE's decision to introduce corporate tax – why should other countries' public finances benefit from profits earned in the UAE? As well as boosting and diversifying federal government revenue, corporate tax will also improve the UAE's regulatory infrastructure, said Mr. Elswefy.

The tax law itself is vast, comprising around 20 chapters and 70 articles, he explained. There are about a further 40 ministerial and cabinet decisions that are in the process of being announced to clarify ambiguities within the law's text.

Corporate tax rate will be zero up to a taxable income of AED 375,000, and 9% for income above this threshold, said Mr. Elswefy.

The corporate tax rate for multinationals with a permanent establishment in the UAE is still to be announced and will likely be revealed in the next few weeks.

Individual partners in an unincorporated partnership will each be liable separately for corporate tax, Mr. Elswefy warned. Similarly, individuals who although non-resident in the UAE spend a certain amount of time working in the country each year – perhaps six months – will be viewed as having a permanent establishment here and so will also be subject to corporate tax. A branch, a factory or an office would all be classed as permanent establishments.

Free zone companies, while granted longer exemptions from corporate tax, nonetheless must register for the tax and meet certain conditions in order to be granted a 0% rate for the time being. Also, companies generating annual revenue of more than AED 50 million must submit audited financial statements.

Government entities will be exempt from corporate tax but will be specifically named as such by the government, said Mr. Elswefy. Family offices will be liable for corporate tax.

Taxable income is calculated from an entity's net profit before certain adjustments, deductions and additions are made in order to arrive at a figure for its taxable income.

Of course, companies suffer bad years as well as good; losses can be carried forward indefinitely and can offset up to 75% of taxable profits in the following year, Mr. Elswefy explained.

Domestic dividends will be exempt from corporate tax.

Mr. Elswefy advised groups of domestic companies owned by the same person or entity to form a corporation together because this would be more efficient than each company filing corporate tax returns separately. Within the same group, losses from one company can be offset against profits from another.

Companies will be liable for corporate tax from July 1, 2023, or January 1, 2024, depending on their financial year. They must register before filing their first corporate tax return. All related documents must be kept for at least seven years.

Corporate tax will apply to almost all companies conducting business activities under commercial licences in the UAE.

# Panel Discussion

## MODERATOR

**James Faulkner,** Director, LSEG

## PANEL PARTICIPANTS

**Brian Martin Mulholland,** Chief Financial Officer at National Bank of Fujairah
**Mohamed Elswefy,** Partner at EY
**Muhammad Yaseer Zeni,** Founder, Wayz ERP

Mr. Faulkner, the moderator, began the discussion by asking Mr. Mulholland about the biggest challenges that UAE companies face in ensuring they are compliant with the new corporate tax law.

Mr. Mulholland said the biggest issue was simply that the private and public sectors were starting from scratch. While business owners and leaders have extensive experience in growing and managing their companies, adopting a complete set of corporate tax rules and obligations is something new for them.

The uncertainty, at first, can be daunting, but once a company's management team gets started it can take practical steps to become compliant. The most crucial aspect is to begin early, said Mr. Mulholland.

Mr. Elswefy warned that companies, especially larger groups, were often ill-equipped in terms of possessing the in-house resources to complete the tasks necessary to meet corporate tax obligations.

He urged companies to restructure their activities to maximise tax efficiency. For example, if a company has operations both onshore and in free zones it could make sense to switch some to the latter in order to legally pay less corporate tax.

Yet companies should not become too obsessed with modifying the way they operate, he warned, because first, a company must be profitable. Paying corporate tax shows a company is succeeding in what it does, and if management and owners make changes early it will be less likely to impact its operations negatively.

Mr. Elswefy said there were three main aspects to corporate tax: the cost of tax, the cost of compliance and potential cost or implications should a company fail to comply with the law.

Although the headline corporate tax rate is 9 per cent, no company will actually pay that percentage, he noted, urging companies to hire expert consultants to ensure they are compliant. Like Mr. Mulholland, Mr. Elswefy stressed businesses should start sooner rather than later.

Further clarity on what exactly constitutes a permanent establishment, which is therefore liable for corporate tax, is one of the key legal definitions still pending, he noted.

Mr. Zeni, whose company builds and supplies Enterprise resource planning (ERP) software to businesses, said one of the biggest challenges was ensuring data accuracy. Inaccurate data can put companies at high risk of being found non-compliant and receiving penalties and fines.

Automated data processing, rather than relying on human inputting, can save time and money. Corporations with multiple subsidiaries or constituent companies must also ensure data is standardised so that it can be merged and compiled into a single report.

Cleaning up non-standardised data can be extremely difficult, if not impossible, Mr. Zeni warned. He highlighted how implementing an ERP system can avoid this potential pitfall because it will refuse to accept data that does not meet in-built criteria that ensures the data complies with corporate tax law requirements.

Mr. Mulholland said the new corporate tax law would not change National Bank of Fujairah's relationships with its customers and that his bank was there to partner with its clients. He also welcomed the introduction of corporate tax, predicting the reinvested revenues raised from the new tax would help grow the UAE's economy.

Mr. Elswefy referred back to the UAE's introduction of VAT in January 2018 and stressed the dangers of companies underestimating the time and processes involved in understanding and meeting the obligations of the corporate tax law.

This led Mr. Zeni to again highlight the benefits of deploying an ERP system, which once it has processed the inputted data will suggest a tax profit and loss figure. From there, a company's tax consultant can then decide what should be filed. They may make some adjustments, but the ERP system can calculate the tax profit and loss, which is different from an accounting profit and loss.

Mr. Zeni explained the so-called MoSCoW method, which is a business technique that he said can be applied to determining a company's data requirements to become compliant to corporate tax rules. This model consists of "must have", "should have", "could have" and "won't have (this time)".

This process goes through a number of iterations and is not a one-time exercise, he stressed.

Provisions are not expenses and so will have to be added to taxable income if and when they are recovered, noted Mr. Elswefy. How bad debts owed to a company will be calculated in its taxable income remains uncertain, as are the conditions under which provisions can be written off.

# Panel Discussion

Companies should ask themselves some fundamental questions, said Mr. Elswefy. These include:

- Do we have the proper tax governance in place?
- What do we mean by tax governance?
- Are we clear regarding our approach towards tax and how we manage tax?
- Do we know the responsibilities of each person within the organization when it comes to tax?
- What are our key tax risks?

## Key Recommendations

- Business owners and management should start planning for corporate tax immediately if they have not done so already.
- Multiple companies or subsidiaries under common ownership should restructure to become a single corporation in order to maximise tax efficiency.
- Maximise data accuracy and consistency to ensure your business is compliant with the corporate tax law, noting this may seem laborious initially but will save time and money and reduce risk in the long run.
- Decide whether your company will perform its duties relating to corporate tax in-house or outsource these to a specialist third party. The latter approach may prove a wise idea initially – at least until a company is able to develop its in-house capabilities.
- While becoming corporate tax-compliant is absolutely essential, do not let these new requirements distract you from running your business successfully. First, a company must be profitable.

**Click here** to view the event recording.