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Asia-Pacific Region



Doing Business in
UAE

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Doing Business in UAE

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Introduction

This guide is written for companies and individuals interested in doing business in United Arab Emirates. It outlines key facts and figures on the UAE economy business infrastructure, laws and taxation. This information contained herein is for guidance only and no responsibility for loss from action taken based on any material herein can be accepted. It is recommended readers obtain further information and professional advice prior to making any decision

About JHI

JHI is a flourishing worldwide network of approximately 130 member firms in 55 countries. The largest association of its kind, JHI exists to enhance the ability of member firms and their clients to drive business locally and internationally through a variety of distinctive programs and services.

Its members are respected leaders, offering a broad range of accounting, auditing and management consultancy services in every business sector. They play key roles in setting the course for the profession. This extends to JHI members who serve in leading positions with worldwide bodies such as the Forum of Firms, an organization of international firms that perform audits of financial statements that are, or may be, used across national borders. Potential new members are subject to a rigorous selection process based on criteria including the quality of practice, reputation and geographical location.



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Doing Business in UAE



JHI in UAE

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Doing Business in UAE



Key Facts

Population: 5.2 million
(2009 estimate)
Currency: Dirham (AED)
1US\$=AED 3.673
Dialling Code: +971

Language: Arabic and English
Widely used: Malayalam, Hindi and Urdu
Fiscal Year: January - December
Time Zone: +4 hours GMT

Business hours:
Private sector 9 am - 6 pm
Government departments 8 am - 2 pm
Malls 10 am- 10 pm
Most retail shops 9 am - 1 pm and 4 pm - 9/10pm

Public holidays:
New Year 1st January
Eid Al Fitr (end of Ramadan)*
Eid Al Adha (feast of the Sacrifice)*
Birthday of the Prophet*
Ascension of the Prophet*
Islamic New Year*
UAE National Day 2nd December

* based on the moon phases and sightings and hence dates not fixed.

Political Overview

United Arab Emirates (UAE) was created on 2nd December 1971. It is a Federal Sovereign State comprising of seven Emirates viz. Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain, Ras Al Khaimah, Ajman and Fujairah. Each Emirate is headed by a Sheikh (Ruler). The seven Rulers constitute the Federal Supreme Council which is the highest federal political authority and governing body in the country.

UAE shares its border with Saudi Arabia and Oman and has a land mass of 83,600 square kilometres and a total population now estimated at 5.2 million (2009) UAE's foreign population is 80%.

The Federal Supreme Council elects the President and the Vice-President of the UAE from the members of the Supreme Council. The current President is HH Sheikh Khalifa Bin Zayed Al Nahyan who is also the Ruler of Abu Dhabi. The current Vice-President and Prime Minister of the UAE is HH Sheikh Mohammad Bin Rashid Al Maktoum who is also the Ruler of Dubai. Policy decisions of the Federal Supreme Council are implemented by the Federal Council of Ministers sometimes referred to as the Cabinet or Executive Authority.

Doing Business in UAE

The Supreme Council is primarily responsible for policy decisions pertaining to federal matters which include foreign affairs, defence & security, communication including postal and telecommunication, public health, currency, education, nationality & immigration, labour and social security and other enumerated matters. Federal matters are regulated through federal ministries (such as Ministry of Labour, Ministry of Defence, Ministry of Interior, Ministry of Finance & Industry, Ministry of Economy etc).

Under the Constitution, each Emirate Ruler is independent for its affairs except for matters which are specifically reserved to the Federal Government by the Constitution or by Federal legislation.

For carrying business, each Emirate is separate and licence is required for business to be carried in each Emirate. Even in case of federal law such as Commercial

Companies Law, implementation is at the Emirate level by issue of licence by the competent authority in each Emirate

The Federal National Council comprises 40 members representing the seven emirates. The number of seats assigned to each emirate is based on its population. The selection of representatives, who are appointed for two calendar years, is at the discretion of the ruler of each emirate. Under the Constitution, the FNC has a consultative role, including serving the people and the nation, consolidating the principles of shura (consultation) in the country, examining and amending proposed federal legislation, questioning ministers and holding them accountable for their respective ministries, and discussing the annual budget

First phase of the democratic process began in the UAE in December 2006 with half the members of the FNC being elected for the first time, and this democratic experiment is expected to continue in the future.

Legal and Judicial System

The legal system of the UAE is both constitutional and based on Islamic and civil code principles. The applicable sources of law in the UAE are the Constitution itself, federal and local Emirate laws and regulations, Islamic Shariah, and the prevailing customs and practice.

The federal judiciary comprises the Federal Supreme Court, the Federal Courts of Appeal (civil and sharia), and the Federal Courts of First Instance (civil and sharia). The Federal Supreme Court consists of five judges including a President of the Court, appointed by presidential decree and endorsed by the Supreme Council. The judges decide on the constitutionality of federal laws and arbitrate on inter-emirate disputes and disputes between the Federal Government and the emirates.

Under the Constitution each Emirate is permitted to maintain its own legislative body and judicial authority. Accordingly, there are federal and local

courts in UAE. All the Emirates with the exception of Dubai and Ras Al Khaimah have merged their judicial systems into Federal Judicial Authority which runs under the supervision of the Ministry of Justice.

Dubai and Ras Al Khaimah maintain their local independent courts.

There are two main types of laws-federal and local . Federal laws are applicable to the UAE as a whole and issued by the legislative body or the Ministers as described above.

Local decrees or orders only apply to a particular Emirate. A local decree is passed by the Ruler or Crown Prince of a particular Emirate and a local order is issued by a member of the Royal family of that Emirate.

As per the Constitution, in case of conflict between local and federal law, the federal law will prevail.

Doing Business in UAE

Economy

According to OPEC's 2005 report, the UAE has the world's fifth largest proven reserves of crude oil (9 percent of total world reserves), and fourth largest reserves of natural gas (5 percent of the world total). These reserves are expected to last for more than 100 years at current production levels.

UAE Government has pursued a strategy to create an enabling business environment that is conducive to growth as a result of which UAE is known as an international centre for trade, finance and services and has attracted major global companies. UAE Government emphasises continued diversification away from dependence upon oil and gas to non-oil industries and services.

Adoption of free market policies and regulations in the UAE has led to impressive growth rates and a trend towards sustainable and diversified development. The non-oil sectors that led the way to growth in recent years were manufacturing, trade, construction & real estate, and hotels & tourism.

Dubai and other Emirates have pursued development through Free Zones which permit 100% foreign ownership which are attractive for foreign investors. UAE Government gives emphasis to development of infrastructure. The first phase of Dubai Metro was launched in September 2009 as planned-first in the Arab Gulf Co-operation Council region comprising six countries (Saudi Arabia, United Arab Emirates, Sultanate of Oman, Kuwait, Qatar and Bahrain). Detailed feasibility work is being carried out for countrywide rail network and work expected to commence in 2010.

UAE is an important supporter of the multilateral trading system. As per World Economic Forum's Global Competitive Index 2009-10, UAE is ranked 23 (as against 31 in 2008-09)

UAE is politically and economically stable with free market policies, zero personal and corporate taxes (excepting foreign bank branches and oil companies) and free movement of capital and profits.

United Arab Emirates: Selected Macroeconomic Indicators 2005-09

| | 2005 | 2006 | 2007 Est. | 2008 Proj. | 2009 Proj. |
|--|---|-------|--------------|---------------|---------------|
| Output and prices | (Annual % change, unless otherwise stated) | | | | |
| Nominal GDP (in billions of AED) | 496.5 | 602.9 | 661.7 | 970.9 | 936.6 |
| Nominal GDP (in billions of U S dollars) | 135.2 | 164.2 | 180.2 | 264.4 | 255.0 |
| Real GDP (at factor cost) | 8.2 | 9.4 | 6.3 | 7.4 | 3.3 |
| Real oil and gas GDP | 1.6 | 6.5 | -1.6 | 3.6 | -0.2 |
| Real non-oil GDP | 10.8 | 10.4 | 9.1 | 8.6 | 4.4 |
| CPI inflation (average) | 6.2 | 9.3 | 11.1 | 12.7 | 6.7 |
| Public finances | (In % of GDP, unless otherwise indicated) | | | | |
| Revenue | 41.0 | 49.6 | 50.4 | 48.1 | 41.1 |
| Oil | 30.8 | 38.1 | 35.4 | 39.5 | 30.3 |
| Non-oil | 10.3 | 11.5 | 14.9 | 8.6 | 10.8 |
| Expenditure and net lending | 21.0 | 21.2 | 25.2 | 24.9 | 29.0 |
| Budget Balance | 20.0 | 28.4 | 25.2 | 23.2 | 12.1 |
| Monetary sector | (Annual % change) | | | | |
| Credit to private sector | 44.5 | 36.9 | 40.1 | 39.2 | 23.9 |
| Broad money | 33.8 | 23.2 | 41.7 | 25.2 | 13.7 |

Doing Business in UAE

United Arab Emirates: Selected Macroeconomic Indicators 2005-09 (Cont'd)

| | 2005 | 2006 | 2007 Est. | 2008 Proj. | 2009 Proj. |
|--|--|-------|--------------|---------------|---------------|
| External Sector | (In billions of U.S. dollars, unless otherwise indicated) | | | | |
| Exports of goods | 117.2 | 145.7 | 170.3 | 259.9 | 234.0 |
| Oil and gas | 55.0 | 70.2 | 73.8 | 109.2 | 80.8 |
| Imports of goods | -74.5 | -88.1 | -116.6 | -176.8 | -179.1 |
| Current account balance | 24.3 | 37.1 | 29.0 | 45.4 | 22.3 |
| Current account balance(in percent of GDP) | 18.0 | 22.6 | 16.1 | 17.2 | 8.7 |
| Gross official reserves | 21.3 | 28.0 | 77.9 | 38.1 | 53.5 |
| Real effective exchange rate (2000=100) | 96.0 | 101.2 | 103.6 | 109.9 | 111.9 |

Sources: UAE Authorities and IMF staff estimates



Taxation in UAE

As mentioned earlier, United Arab Emirates is a Federation of seven Emirates-Abu Dhabi, Dubai, Sharjah, Ajman, Ras Al Khaimah, Umm Al Quwain and Fujairah, and each individual Emirate continues to exercise all its judicial and political powers except those that are not assigned to the Federation by the federal constitution or by agreements transferred to the federal government.

The federal government however maintains exclusive jurisdiction in a number of areas, such as foreign affairs, defence, health and education while the individual

emirates retain exclusive jurisdiction in other matters including those relating to municipal work and natural resources of the Emirates concerned

There is no federal tax legislation in the UAE, instead each Emirate has its own tax Decrees which often predates the formation of UAE. These are presently not enforced except in case of foreign bank branches and oil and petrochemical companies who pay corporate income tax by special agreement with the Ruler of each of the Emirates.

Federal Taxes and Levies

Corporate Income Tax

Presently, there is no federal corporate income tax. However foreign bank branches pay tax of 20% of the profits of branch as per separate agreement with each Emirate.

Oil and petrochemical companies pay income tax of 50%-55% of the net profit as per separate concession agreement with each Emirate.

Branch Profits Tax

Presently, there is no branch profit tax except of foreign bank branches and oil and petrochemical companies (see above).

Capital Gains Tax

Presently, there is no capital gains tax.

Goods & Service Tax

Presently, there is no goods and service tax. However, the Government is conducting a study to examine the

feasibility of imposing VAT. At this stage it is not clear at what point in time this will be implemented.

Dividend Distribution Tax

Presently, there is no dividend distribution tax.

Fringe Benefits Tax

Presently, there is no fringe benefits tax.

Wealth Tax

Presently, there is no wealth tax.

Gift Tax

Presently, there is no gift tax.

Estate Duty

Presently, there is no estate duty.

Personal Tax

Presently, there is no personal tax.

Minimum Alternate Tax

Presently, there is no minimum alternate tax.

Local Taxes (at Emirate level)

Stamp Duty

There is no stamp duty. However, there are various fixed transaction charges for processing of visa, work permit,

notarization, vehicle registration and other services from government departments.

Payroll Tax

There is no payroll tax. However, in case any UAE National is employed in the private sector, then the employer must pay monthly contribution to a pension fund at the rate of 12.5% of the contribution salary

(i.e. basic salary and allowances). Additional contribution of 5% is due from the employee which the employer deducts from the employee's salary and pays to the pension fund.

Land & Property Tax

2% registration tax is payable on sale/transfer of properties. (1% by seller and 1% by the buyer).

On rented property (residential and commercial) 5% of rental value is payable in Dubai and Abu Dhabi to the Municipality on licence issue/renewal. In Sharjah the rate is 2%.

In case of hotels, serviced apartments and clubs, 10% of the room and other revenue is payable to the Municipality in Dubai. In Abu Dhabi the rate is 6%

Other Taxes

Customs & Central Excise

There is no Central Excise Duty

Under the terms of the Gulf Co-operation Council, a unified customs tariff of 5% of the c.i.f. value applies to the taxable imports of all of the GCC member states as from 1 January 2003.

Tobacco and tobacco products are subject to a 100% customs duty, and for alcohol the rate is 50%.

Exemptions from customs duties apply in the UAE and other GCC member states, to various items including basic foodstuffs, raw materials for manufacturing industries, spare parts for civilian airlines, diplomatic and consular missions' imports, imports for military and internal security forces, personal effects and charitable organizations' imports.

Tax Holidays and Incentives

Economic zones

Each of the seven Emirates has its own free zones. These free zones have various benefits such as:

- 100% foreign ownership
- no restriction on repatriation of capital or income
- no customs duty for imports into free zone or other UAE free zones

- no personal or corporate income tax
 - single window licensing procedures
- These have been explained above.

Exports

There are no special incentives for exports.

Special incentives

An entity manufacturing goods in UAE can export its goods to GCC countries without duty if its manufacture

involves 40% value addition and the entity is owned 51% by GCC National.

Foreign Tax Relief

Tax credit under tax treaties

Although these provisions exist under the Treaties, they are of academic use since there is no personal or corporate income tax in UAE.

Unilateral tax credit where there is no tax treaty

Not applicable

Related party transactions

In the absence of taxation, there are no detailed rules for such transactions.

Double taxation treaties

UAE has signed double tax avoidance treaties with a number of countries such as:

Algeria, Armenia, Austria, Azerbaijan, Belgium, Belarus, Bulgaria, Canada, China, Czech Republic, Egypt, Finland, France, Germany, India, Indonesia, Italy, Jordan, Korea,

Lebanon, Luxembourg, Malaysia, Malta, Mauritius, Mongolia, Morocco, Mozambique, Netherlands, New Zealand, Pakistan, Philippines, Poland, Romania, Seychelles, Singapore, Spain, Sri Lanka, Sudan, Syria, Tajikistan, Thailand, Tunisia, Turkey, Turkmenistan and Ukraine.

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Immigration to UAE

Citizens of certain countries (UK, France, Italy Germany, Netherlands, Belgium, Luxembourg, Switzerland, Austria, Sweden, Norway, Denmark, Portugal, Ireland, Greece, Cyprus, Finland, Malta, Spain, Monaco, Vatican, Iceland, Andorra, San Marino, Liechtenstein, United States of America, Canada, Australia, New Zealand, Japan, Brunei, Singapore, Malaysia, and Hong Kong) are allowed to enter UAE without prior visa and are permitted to stay for one month.

Citizens of Arab Gulf Co-operation Council do not require a visa.

All other visitors who wish to visit and stay must obtain a Visa in advance through a sponsor from UAE (such as UAE National, entity licensed to carry business in UAE, hotels & hotel apartments, or relative/friend resident in UAE). Licensed hotels and hotel apartments can arrange Tourist Visa for tourists visiting UAE.

All expatriates employed in UAE must have a valid work permit to work in UAE and the employee's passport stamped with a residence visa which is usually valid for 3 years renewable for similar period. Businessmen who are partners or shareholders in local business entities are also given 3 years residence visa renewable for similar period.

Spouses and dependents can be sponsored by a person resident in UAE if he meets salary criteria.

80% of the population comprises of expatriates and their dependents.

In general, nationality or permanent residence is not given to expatriates based on stay or birth in UAE.

Doing Business in UAE



Establishing a Business in UAE

Introduction

Business can be done in UAE in the following ways:

- within the various Free Zones in UAE
- outside the Free Zone
- offshore companies

Within Free Zones, 100% foreign ownership of business is possible.

In non-Free Zone areas, 51% local ownership is mandatory and some businesses (such as real estate, commercial agency, and publishing) require 100% local ownership

Any movement of goods from the Free Zone into non-Free Zone area is deemed to be imports into UAE and subject to customs duty.

Non free zone area-overview

In non-Free Zone area, various forms of businesses are as under

- Sole proprietorship
- Commercial Agencies
- Entities under Commercial Companies Laws (Federal Law of 8 of 1984)
 - General partnerships
 - Limited partnerships
- Joint participation company
- Partnership limited with shares
- Public joint stock company
- Private joint stock company
- Limited liability company
- Branch of a foreign company

Free zone area-overview

Business can be established in a Free Zone with 100% foreign ownership. Following forms of business are possible

- Branch of a foreign company or an existing UAE based legal entity
- Free Zone Establishment (“FZE”) in which the sole shareholder is an individual or corporate

- Free Zone Company (“FZCO”) in which there are two or more shareholders who could be individuals or corporate

Suffix “FZE” or “FZCO” could vary in different Free Zones.

Offshore companies-overview

Offshore company is a limited liability company similar to an entity which can be incorporated in other offshore jurisdictions (such as Channel Island/British Virgin Islands etc). Such an offshore company can be used as a holding company vehicle, and for owning properties in

designated areas where foreign ownership of properties is permitted. An offshore company cannot do business with residents in UAE. Such offshore companies can be set up in Dubai and Ras Al Khaimah.

We now examine the above structures in detail including applicability of such structures for foreign investment.

Setting up of Non-Free Zone Entities

Sole proprietorship

This entity is 100% registered in the name of an individual (also called Establishment). This is generally restricted to UAE Nationals and other GCC Nationals (i.e. nationals of

Saudi Arabia, Sultanate of Oman, Bahrain, Kuwait and Qatar). The sole proprietor has unlimited liability for his business. This type entity is not suitable for foreigners.

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Commercial agencies

Foreign company not wishing to have physical presence can appoint an agent or distributor registered with Ministry of Economy under Commercial Agency Law No. 18 of 1981. For an agency to be registered following principal conditions are required to be fulfilled:

- Agent must be a UAE National or a company owned 100% by UAE Nationals.
- Agent must have exclusivity.
- UAE or each Emirate.
- Agency agreement must be notarized and legalized by UAE Embassy.
- Agency agreement must be subject to UAE laws.

Above registration gives protection to the Agent against improper termination, and the principal against illegal imports. However, registration of Agency may also make it difficult for principals to terminate the Agreement.

It is also possible for principal to carry on trade with UAE importers without registering the Agency under the above law. Such unregistered agencies are governed by general law under the Commercial Code, and are not subject to protection of Agency law.

General partnership

This consists of two or more partners who are jointly and severally liable with respect to all their assets for the obligations of the company. This type of entity is

restricted to UAE Nationals. Hence, this entity is not suitable for foreigners.

Limited partnership

This consists of one or more general partners who are jointly and severally liable with respect to all their assets for the obligations of the company, and one or more silent partners who are liable for the obligations of the

company to the extent of their share in the capital. However, all general partners must be UAE Nationals. Hence, this type of entity is not suitable for foreigners.

Joint participation company

This is a company between two or more partners to divide the profit and losses of one or more commercial enterprises undertaken by one of the partners in his own name. The contract is not expected to be disclosed to third parties dealing with the venture. Third parties only have recourse against the partner with whom they have dealt with but if the existence of the joint venture is disclosed to third parties by act of the partners, the partners jointly become liable to third parties. Decisions of the joint venture have to be made by consent of the

all the partners unless otherwise provided in the agreement. Joint venture agreement regulates the obligations between the parties and the method of profit distribution and this contract is not subject to registration.

This type of entity is used for specific contracts and projects where the foreigner expects to do business for a defined or short period of time within existing licensed entity, and no separate registration is required.

Partnership limited with shares

This is similar to limited partnership but with negotiable shares

This consists of one or more general partners who are jointly and severally liable with respect to all their assets for the obligations of the company, and one or more shareholding partners who are liable for the obligations

of the company to the extent of their shares in the capital. Capital of the company is divided into negotiable shares. However, all general partners must be UAE Nationals. Hence, this type of entity is not relevant to foreigners.

Public joint stock company (PJSC)

This is an entity with capital divided into equal negotiable shares, and the shareholder is liable only to the extent of his share in the capital. This is similar to a public listed company as known in common law countries. Minimum capital required to form a PJSC is AED 10 million (AED 40 million for banking company and AED 25 million for investment companies, and AED 50 million for insurance companies). A PJSC must have 10 founder members (this may be relaxed by the government in case of government owned companies or other cases), management vested in a Board of Directors with Chairman and majority directors being UAE Nationals and 51% shares must be held by UAE Nationals. Founder members must hold at least 20% of the capital but not more than 45% of the capital. At

least 55% is required to be offered to the public-this could include foreigners if permitted by the Articles.

Various regulatory requirements have to be complied with for forming a PJSC including the preparation of founder's agreement, founders committee, and a prospectus for public issue of shares supported by business plan and feasibility studies, auditor's certificate, due diligence survey, memorandum and articles of association in approved format, and other compliance requirements.

Considering the various restrictive rules, a PJSC is inappropriate for foreigners, except by way of portfolio investments in companies where foreigners are permitted.

Private joint stock company

This is similar to Public joint stock company except that there is no invitation to public for share subscription. Minimum capital required is AED 2 million and minimum number of shareholders is 3. Chairman and majority of directors have to be UAE Nationals. All provisions applicable to public joint stock company are applicable

to this entity, except the provisions pertaining to public subscription.

Considering the restrictive rules, a private joint stock company is inappropriate for foreigners.

Limited liability company (“LLC”)

LLC is closest to the concept to private limited company as understood in common law and is widely used by foreigners to conduct business in UAE. Hence we will examine this in detail.

- Important features of LLC are as follows:
- Memorandum of Association must be signed by partners before Notary Public
- LLC shall not engage in the business of insurance, banking, investment of money on behalf of other parties;
- Minimum of two Partners; maximum 50;
- Minimum capital required in Dubai, AED 300,000 - each share of AED 1,000; (although minimum capital stipulated as per law is AED 150,000);
- 51% shares to be held by UAE Nationals, at all times;
- Each Partner’s liability is limited to nominal value of capital;
- There is no issue of share certificates;
- Profit/loss distribution ratio can be different from % of capital amount;
- LLC shall not offer its shares for public subscription;
- Transfer of shares shall be restricted and existing partners shall have the first right of refusal;
- Management may be entrusted to one or more Managers (equivalent to Directors), selected from amongst partners or outside party (number not to exceed five);
- If the number of partners exceeds seven, a Supervisory Board is to be formed;
- Directors shall be responsible for preparing annual accounts and get them audited within three months from the end of the financial year and hold the Annual General Meeting within four months from the end of the financial year;
- Notice of Annual General Meeting to be sent by registered post (21 days before Annual General Meeting);
- Partners may attend the Annual General Meeting personally or through a proxy
- Register of Partners, Minutes of Directors and Partners has to be maintained;
- 10% of the net profit shall be transferred to a legal reserve (until such reserve is equal to 50% of the paid up capital) which is not available for distribution.

Special approvals for certain activities

Licence is issued by the Competent Authority in each Emirate (e.g. Department of Economic Development in Dubai).

For certain activities special or initial approval or No Objection Certificate is required from other authorities such as

| Authority | Activity |
|------------------------------|--|
| Ministry of Health | Pharmacy |
| Department of Health | Medical clinics |
| Ministry of Communication | Telecommunication and wireless |
| Department of Civil Aviation | air transport and air cargo |
| Central Bank | Financial institutions, banks and money exchange and brokerages |
| Ministry of Industry | New industrial projects/expansion |
| Ministry of Education | Nurseries, private schools & institutes |
| Customs authority | Sea cargo, clearing & freight forwarding |
| Ruler’s office | Lawyers and legal consultancy |
| Dubai Municipality | Engineering & contracting |
| Ministry of Defence | Explosives and arms |
| Ministry of Economy | Chartered accountants and auditors |
| Ministry of Information | Publishers and printers, bookshops, newspapers, magazines, advertising, news agencies, translation offices, cassettes and video film shops |

Branch of a foreign company

A branch of foreign company can be established for carrying the activities of the parent company. Branch does not have a separate legal entity of its own but is considered a part of the parent company. Generally, this will be in the form of promotional activities of the parent company or carrying out non-trading service activities of the parent company. In general, trading activities (import/export of goods) are not permitted to be carried by the branch

It is mandatory for this type of entity to appoint a local service agent (sponsor) who is not financially liable or

responsible for the business or activities of the branch. However, he is responsible for rendering sponsorship services against an agreed amount of fees for services such as visas, labour permits, registration of the branch, renewal of licenses and other agreed services. Ownership and financial liability is with the parent company.

In general, the branch can carry out limited activities, and the procedures are long drawn.

Setting up of Free Zone Entities

Companies established in the free zones are deemed to be outside of UAE, and are subject to Free Zone regulations of the concerned Free Zone, since there is no Federal Free Zone Law. In the absence of specific regulations under the Free Zone laws, other UAE laws

will apply to the free zone entities to the extent there is no specific provision in the Free Zone regulations. There are several free zones in different Emirates, with Dubai being a pioneer in the development of multiple free zones with emphasis on niche areas.

Dubai

Jebel Ali Free Zone (www.jafza.ae)
Dubai Airport Free Zone (www.dafza.gov.ae)
Dubai Internet City (www.dic.ae)
Dubai Media City (www.dubaimediacity.com)
Knowledge Village (www.kv.ae)
Dubai International Financial Centre (www.difc.ae)
Dubai Multi Commodities Centre (www.dmcc.ae)
Gold and Diamond Park (www.goldanddiamondpark.com)
Dubai Maritime City (www.dubaimaritimecity.ae)
Dubai Silicon Oasis (www.dso.ae)
Dubai Outsource Zone (www.dozone.ae)
Dubai Logistics City (www.dwc.ae/dwc_dubai_logistics_city.html)
International Media Production Zone (www.impz.ae)
Dubai Studio City (www.dubaistudiocity.com)
Dubai Healthcare City (www.dhcc.ae)

Dubai Biotechnology & Research Park (www.dubiotech.com)
Dubai Techno Park (www.technopark.ae)
Energy & Environment Park (www.enpark.ae)
Dubai Sports City (www.dubaisportscity.ae)
Dubai International Academic City (www.diacedu.ae)
Jebel Ali Free Zone and Dubai Airport Free Zones are well known for their trading and distribution activities, having invested heavily in infrastructure facilities. In the same way, other free zones are focused on their niche activities.
Dubai International Financial Centre aims to become an important financial centre in the Middle East with its own full fledged rules and regulations based on common law and has a fair presence of international financial institutions and ancillary service providers.

Sharjah

Sharjah Airport International Free Zone (www.saif-zone.com)

Hamriyah Free Zone (www.hfza.ae)

Ajman

Ajman Free Zone (www.afza.gov.ae)

Ras Al Khaimah

Ras Al Khaimah Free Zone (www.rakftz.com)

Fujairah

Fujairah Free Zone (www.fujairahfreezone.com)

Umm Al Quwain

Ahmed Bin Rashid Free Zone
(e-mail: abrpaftz@emirates.net.ae)

Websites give details of the procedures, cost of operation, facilities & incentives available and other useful information.

Free zones are formed with a view to attract foreign investment. Principal benefits of the free zone are

- 100% foreign ownership (i.e. no local partner or sponsor)
- guaranteed income tax exemption for specified number of years (15 years or in some cases 50 years) with option to renew the tax exemption
- no customs duty for imports of goods into free zone or other UAE free zones

- single window clearance for facilities including licensing, work permits and residence visa.
- no currency restrictions and free repatriation of capital and profits

Free zone entities may buy from UAE non-free zone areas. Free zone entity can make a sale through a distributor or agent for whom purchase from the free zone entity will constitute import into UAE and custom duty will be leviable. Free zone entities can make a sale of goods to UAE licensed entities outside the Free Zone if such entities are allowed to import goods per licence, and may trade with entities within the free zone or outside UAE.

Doing Business in UAE

Commercial & Residential Property

UAE does not have a federal law governing ownership or registration of immovable properties ownership. Each of the Emirates has its own rules and regulations.

In general, UAE Nationals are allowed to own freehold properties in their own name or companies 100% owned by UAE Nationals.

In most cases, GCC Nationals are also permitted to own freehold properties in their names.

Foreigners are allowed to lease properties. Foreigners can own freehold properties and apartments in designated or notified areas in Dubai, Ajman and Ras Al Khaimah. In Abu Dhabi foreigners can own apartments and surface rights but cannot have rights over underlying land.

Foreign ownership of properties is a recent phenomenon and banks and financial institutions do offer mortgage against completed properties and approved off-plan projects.

For sale and transfers, registration fees are 2% of the property value. Each Emirate has its Land Department for registration of properties and recording mortgages. There is no capital gains on transfer of properties.

Strata laws for apartments, recovery of service and maintenance charges and other property laws are evolving gradually in different Emirates..

Employment

As mentioned above, 80% of the population comprises of foreigners-expatriate employees and their dependents.

Labour matters in the UAE are governed by Federal Law No. 8 of 1980 as amended ("UAE Labour Law"). Special labour related regulations are applicable in some of the free zones in the UAE. In the absence of such regulations, UAE Labour Law shall prevail.

UAE Labour Law applies to all staff and employees working in the UAE, whether UAE nationals or expatriates. However, certain categories of individuals are exempted from the Law as listed below:

- Staff and workers employed by the federal government, government departments of the member emirates, the municipalities, public bodies, federal and local public institutions and those staff and workers employed in federal and local governmental projects.
- Members of the armed forces, police and security units.
- Domestic servants.
- Agricultural workers and persons engaged in grazing of animals.

UAE Labour Law covers all aspects of the employer-employee relationship including matters related to employment contracts, restrictions on the employment of juveniles and women, maintenance of records and files, wages, working hours, leave, safety and protection of employees, medical and social care, codes of discipline, termination of employment contracts, end of service benefits, compensation for occupational diseases, labour inspections, penalties and employment related accidents, injuries and death.

The UAE does not allow the formation of trade unions.

In order to employ any expatriate employee in the UAE, Ministry of Labour will approve an application prior to the employee entering the UAE. Based on such approval, work permit and employment visa can be applied for the employee who will then enter the country. After undergoing medical tests, work permit and the standard labour contract will be registered with the Ministry of Labour. The employee will be issued a Work permit card and his passport will be stamped with residence visa.

Where the intended employee is a UAE national, an employment contract may be entered into at any time. Employment contracts for non-nationals must be drawn in the format approved by the Ministry on an application made by the employer. Employment contracts for national employees need not, however, be in writing and the terms and conditions of employment may be proved by any means of proof admissible by law.

Usually contract of employment contract can be terminated by giving 30 days notice unless the contract provides otherwise.

As per UAE Labour Law, initial probation period can be for a maximum period of 6 months, and during the probation period, both the employer and the employee may terminate the employment contract with immediate effect without providing a valid reason or notice.

Law does not prescribe any minimum wages, but an employee with a monthly wages of less than Dhs. 4,000 (plus accommodation allowance), will not be able to sponsor his spouse or children for the purpose of residing in the country. These are immigration regulations and do not form part of the UAE Labour Law.

In addition, in order to sponsor a house-maid or domestic help in the UAE, person sponsoring must draw a minimum wages of Dhs. 6,000 per month.

Wages may be paid on a monthly, weekly, or daily basis. The parties may mutually agree on the manner in which wages are paid or remitted.

The maximum prescribed working hours for an adult employee is eight hours per day or forty-eight hours per week. However, the working hours may be increased to nine hours per day in the case of persons employed in trades, hotels, cafeterias, and as guards. Persons who hold executive/administration positions however are not entitled to overtime pay.

In case overtime, additional payment of 25% of wages shall be made for normal working days (50% in case of holidays and night overtime time from 9 pm to 4 am)

For every year of service, an employee is entitled to annual leave of not less than the following:

- Two days leave for every month if his service is more than six months and less than one year.
- A minimum of thirty days annually, if his service exceeds one year.

On termination, an employee who completes one year or more in continuous service shall be entitled to gratuity at the end of his service. The gratuity shall be calculated on last wages drawn as follows:

- 21 days wages for each year of the first five years.
- 30 days wages for each additional year on condition that the total of the gratuity does not exceed the wages of two years.

UAE nationals employed in both the public and private sectors are entitled to pensions under the Pensions & Social Securities Law, Federal Law No. (7) of 1999. For a person employed in the public sector, contributions are equivalent to 5% of the contributory pension salary to be paid by the employee and 15% of the contributory pension salary payable by the employer. As for the private sector, the government shall bear 2.5%, and 12.5% share shall be payable by the employer as contributions to the Authority.

The Pensions & Social Services Law also provides for the amount to be paid as a pension to eligible UAE nationals on reaching the retirement age of 60, or disability pension in the case of an employee becoming disabled and unable to work. It further covers the amount of pension payable to beneficiaries on the demise of an employee.

All disputes between the employer and employee must be submitted in writing to the Ministry of Labour, and both the parties will be summoned for hearing and presenting their case. Based on such hearing, the Ministry of Labour will give the recommendations, and if the parties do not accept the recommendations, then the matter can be referred to court.