



Investment in the United Arab Emirates

KPMG in the UAE

AUDIT ■ TAX ■ ADVISORY

Introduction

This booklet is published by KPMG in the United Arab Emirates (UAE) for the benefit of its clients, potential clients and employees who are interested in the business environment of the UAE. The main purpose of this booklet is to describe in broad terms the requirements of local laws and provide general information on business conditions in the UAE that influence the establishment of businesses in the UAE.

KPMG's presence in the Lower Gulf dates from 1973. With over 400 professional staff, and 14 partners, we operate from offices in Dubai, Abu Dhabi, Jebel Ali, Fujairah, Sharjah and Muscat.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG in the UAE

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Chapter 1

United Arab Emirates - Brief outline

1.1 Overview

The UAE, a federation of seven sovereign Emirates, was formed in 1971 and has since enjoyed rapid development in all business sectors. It consists of the Emirates of Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain, Ras Al Khaimah and Fujairah. Prior to forming the federation, each Emirate was a sheikhdom that was governed by a sheikh from the most influential tribe in the area.

1.2 Political system

The Supreme Council, consisting of the Rulers of each Emirate, is the country's highest authority. It appoints the federal government and ratifies federal legislation.

His Highness Sheikh Khalifa bin Zayed Al Nahayan, Ruler of Abu Dhabi, is the President of the federation, while His Highness Sheikh Mohammed bin Rashid Al Maktoum, Ruler of Dubai, is the Vice President and Prime Minister of the federation.

Legislative process

Federal legislation is initiated and policy decisions are made by the Federal Cabinet consisting of the Council of Ministers led by the Prime Minister.

The country's parliament, the Federal National Council (FNC), assists the Council of Ministers in a consultative capacity. The formation of the FNC is considered a positive step towards promoting peoples' participation in development, political and economic fields. According to the constitution, the FNC consists of 40 members drawn proportionately from each Emirate.

Each Emirate has its own institutions of local government who pass laws applicable to that individual Emirate. However, federal law is applicable to the UAE as a whole and overrides the provisions of local legislation.

Political development

In 1971, the UAE became a member of the Arab League. Since then, the country has also become a member of other international organisations such as the United Nations, the International Monetary Fund, the International Labour Organisation, Organisation of Petroleum Exporting Countries (OPEC), the Organisation of Arab Petroleum Exporting Countries, the World Health Organisation, and International Organisation for Industrial Development, to name but a few. The UAE is a strong supporter of Arab unity.

Gulf Co-Operation Council

The UAE is also one of the six member countries of the Gulf Co-operation Council (GCC), the others being Kuwait, Saudi Arabia, Bahrain, Qatar and Oman. The GCC aims to promote political stability and economic integration amongst member countries.

1.3 Geography and climate

The UAE lies on the southern shores of the Arabian Gulf and covers an area of about 77,700 square kilometres which is divided as follows: Abu Dhabi - 67,340 square kilometres, Dubai – 3,885 square kilometres, Sharjah – 2,590 square kilometres, Ajman - 259 square kilometres, with the remaining 3,626 square kilometres being divided between Ras Al Khaimah, Fujairah and Umm Al Quwain. Abu Dhabi includes a number of islands of which the most important in economic terms are the Abu Dhabi island itself, Das, Sadiyat, Umm-Al-Nar and Zirku. Dubai, a city-state, was founded in 1833. It enjoys approximately 70 km of coastline.

The country is primarily made up of arid desert and salt-flats, with a major part of its coastline along the Arabian Gulf, although there is also a short coastline on the Gulf of Oman, running from northeast to southwest.

The UAE is four hours ahead of Greenwich Mean Time (GMT + 4 hours).

The country has a sub tropical climate. It is generally hot and humid throughout summer (May to September) with the temperature ranging between 35 and 45 degrees Celsius, and humidity between 60 and 100 percent. It is pleasant during winter with a temperature of between 18 and 25 degrees Celsius with low humidity.

1.4 Population and language

The estimated total population of the UAE was approximately 4,320,000 in 2004 as per the UAE Annual Central Bank report for 2005. Of the above, the population in Abu Dhabi was estimated at 1,678,000, while it was approximately 1,306,000 and 678,000 in Dubai and Sharjah respectively.

The UAE has a high standard of living with 100 percent primary school enrolment. It is estimated that nearly three quarters of the population are expatriate mainly from the Asian subcontinent followed by those from Iran, Egypt and Europe.

The official language is Arabic. English is an accepted business language and is widely spoken in commercial and government organisations although most government correspondence and forms are in Arabic.

The UAE is an Islamic nation and the legal system is based on Islamic doctrines. The holy month of Ramadan is determined by moon sightings and moves earlier by approximately 10 days each year. In this holy period, Muslims fast during the day. However, non-Muslims are not expected to fast during this period, but it is a punishable offence to

smoke, drink or eat in public. It is important for business people to anticipate commercial slowdowns during the holy month of Ramadan.

1.5 Currency

The official currency of the UAE is the Dirham (AED). Notes are issued in denominations of 1000, 500, 200, 100, 50, 20, 10 and 5 and coins in 1 Dirham, 50 and 25 fils.

The UAE Dirham is a convertible currency. Since the end of 1980, the Dirham has been pegged to the US Dollar and is presently pegged at AED 3.6725 to US\$1 (Central Bank). In the UAE, there are no exchange controls.

Credit cards are widely accepted and automatic teller machines are conveniently located in all the Emirates.

1.6 Infrastructure

The UAE has excellent infrastructure in financial services, communications, transport and other support services.

Financial Services

The Central Bank of the United Arab Emirates formally commenced operations on December 11, 1980 with its main objective being to direct monetary, credit and banking policy and supervise the implementation of these policies in accordance with the State's general policy. There are many other domestic and foreign banks operating in the UAE that extend a full range of facilities to the foreign investor. In addition to banks, there are many insurance brokers, financial advisors and other financial services providers. With the advent of the Dubai International Financial Centre, the UAE is set to become a global financial hub.

Telecommunications

Telephone, telex, facsimile and e-mail facilities are widely available and connections are provided within a few days and are reliable. Local telephone calls are free within each Emirate. A full range of Internet services is available making global information and communication quick and easily accessible.

Airports

Work is underway on the world's largest airport, the Dubai World Central International Airport in Jebel Ali. Six international airports are in operation, in Abu Dhabi, Al Ain, Dubai, Sharjah, Ras Al Khaimah and Fujairah. Major foreign airlines operate from the country and connections are available to most parts of the world.

Seaports

The UAE offers excellent shipping infrastructure due to its pre-eminent position as the centre of cargo traffic in the Middle East. Major seaports on the Arabian Gulf are Mina Zayed in Abu Dhabi, Port Rashid and Port Jebel Ali in Dubai, Port Khalid in Sharjah and Port Saqr in Ras Al Khaimah. These ports are used by the world's major shipping lines and offer a turnaround time comparable to any developed port in the world. The UAE offers excellent ship repair facilities at Dubai dry-dock, Abu Dhabi Ship Building Yard and Ajman Ship Repair Yard, with Dubai dry-dock being one of the largest dry docks in the world.

Road transport is well organised and readily available for transhipments over land to other Middle East locations.

Chapter 2

The Economy

2.1 Key economic indicators

The United Arab Emirates is one of the leading economies in the Gulf with the oil-producing sector playing an important role in the country's economy. Oil and product exports in the UAE in 2004 averaged 2.53 million barrels per day according to the International Monetary Fund (IMF) Country Report, July 2006.

The non-oil sector is however, assuming more influence with significant growth in trading, construction, manufacturing, tourism, banking and financial services sectors. Dubai has, over the years, diversified into trading and has emerged as the leading commercial, services and re-export centre of the Middle East. Sharjah, in addition to its oil and gas resources, is rapidly emerging as a manufacturing centre, and Abu Dhabi is continuing to invest heavily in the petrochemicals sector.

The IMF Country Report of July 2006 states that the GDP of the UAE was AED 330,511 million in 2004 with the main sources of GDP being crude oil, wholesale and retail trade, transportation, manufacturing, real estate, government services, construction, finance and insurance.

The total value of exports and re-exports from Dubai to the rest of the world amounted to AED 303.9 billion in 2004 (including exports from Free zones and re-export of non-monetary gold) according to the 2006 UAE yearbook. At the end of July 2006, the UAE's foreign reserves stood at approximately US\$29 billion.

2.2 Economic and fiscal policy

Since the early 1980s, two main economic objectives of the UAE Government have been to reduce reliance on hydrocarbons and boost private sector investment. This strategy is being followed in a bid to offset the country's vulnerability to fluctuations in oil prices and to facilitate economic growth and stability.

The fact that there are no restrictions on current and capital account transactions helps implement these objectives as does the fact that foreign entities may repatriate dividends, profits, interest or royalties without restriction, with the exception of foreign banks which are required to obtain the Central Bank's approval before repatriating their profits.

The UAE aims to promote free trade with minimum restrictions on foreign trade and investment.

The policy of the UAE government to encourage foreign investment is always in evidence with new industrial and commercial developments frequently being announced.

A programme of Emiratisation is in place in the UAE (i.e., the policy of replacing expatriate workers with UAE nationals) that aims to cut the rate of unemployment amongst nationals and reduce the dependence on overseas workers. Certain industry sectors are required to employ more UAE nationals than other sectors.

2.3 Tourism

With the intention of decreasing reliance on petroleum revenues, the UAE is rapidly developing a reputation as one of the world's leading tourism destinations. According to the 2006 UAE yearbook, tourism is worth more to Dubai than its oil income. Amongst the projects aimed at developing the tourism industry is the annual Dubai Shopping Festival, a one-month event of entertainment and shopping promotions that draws visitors from all over the world.

Various construction projects, which are at different stages of completion, will substantially increase the number of hotels in the UAE with many of these being situated in unique developments such as "The Palm" and "The World", which are man-made islands off the coast of Dubai.

Chapter 3

Investing in the UAE

3.1 Investing in the UAE

The UAE has long maintained a policy of encouraging foreign investment. From a financial perspective, the stable UAE Dirham and lack of exchange restrictions, coupled with the ability to repatriate capital and profits makes the UAE a very attractive proposition when considering setting up a business in the region. As described in other sections of this publication, there are minimal trade barriers and tariffs within the region allowing an investor the freedom to trade goods at a competitive price.

The development of the Free Trade Zones provides many locations within which a foreign investor can set up a 100 percent owned business with each Free Zone focussing on certain types of investment. An easily available skilled workforce, modern communication, sea/air transport network, excellent infrastructure and the geographical location of the United Arab Emirates all serve to provide the foreign investor with a stable and reliable investment climate.

Over the past years many multinational businesses have chosen to locate their regional headquarters in the UAE, which has led to Dubai gaining a reputation as a regional distribution centre, with Abu Dhabi retaining the more traditional oil and gas industries.

A new property law introduced in 2006 has eased restrictions on the purchase of property, and allows non-UAE nationals the right to purchase freehold property in designated areas in Dubai.

As the UAE develops and its reputation as a regional business hub strengthens, more and more business is attracted, creating healthy market competition and a wide choice for consumers whose spending habits are increasing year on year. Due to its geographical location and many attractions, the UAE is experiencing a growing number of visitors and this contributes to the excellent quality of life enjoyed by local and expatriate residents alike.

Chapter 4

Business entities

4.1 Types of vehicles available to set up business in the UAE

Foreign businesses can operate in the UAE in the following forms:

- a) A limited liability company
- b) A branch or a representative office of a foreign company
- c) As part of a private or public joint stock company
- d) As partner in a simple limited partnership
- e) As part of a joint venture
- f) Providing services as a professional or a consultant through a civil company

It is necessary to comply with both federal and local legislation (as applied by the Ministries of the Federal Government and the Economic Department in each Emirate) to carry out business in the UAE. Despite the importance of the role played by the relevant local authorities, much of the legislation that is applicable, when conducting business in the UAE is of federal origin, for example, the Commercial Companies Law (Federal Law No. 8 of 1984, as amended) (“the Companies Law”), the Labour Law and the Commercial Agencies Law.

In addition to the formation of the appropriate legal entity, all commercial organisations must obtain a trade licence, renewable annually, from the local Economic Department/Municipality of the respective Emirate. In the case of a free zone company, this licence is obtained from the appropriate free zone authority. (For free zones, see Chapter 6).

4.1.1 Establishing a commercial entity

Following are the different forms available:

Limited Liability Companies

The most popular form of business entity for foreign investors is the limited liability company (“LLC”). An LLC can be formed by a minimum of 2 and a maximum of 50 persons whose liability is limited to their share capital. 51 percent of the share capital in such companies must be held by UAE nationals while 49 percent may be held by investors other than UAE nationals. In practice, however, the shareholders can come to an arrangement whereby a higher percentage of profit may be assigned to the minority shareholder and this arrangement can be incorporated into the memorandum and articles of the LLC. Responsibility for management of the LLC may be vested with

either the majority or the minority shareholder or with third parties. According to the Companies Law, the issued share capital of the company should not be less than AED 150,000, however, Dubai Department of Economic Development requires a minimum share capital of AED 300,000. Although the Companies Law states that companies engaged in banking, insurance or financial services must be public joint stock companies, local lawyers advise that in practice, the Central Bank may license an LLC to undertake such activities, provided the LLC's capital is deemed sufficient (generally in the region of 50 million AED). The capital requirements are reviewed on a case-by-case basis. UAE nationals or UAE wholly owned companies are generally required to hold at least 60 percent of the shares of an LLC that undertakes banking, insurance or financial services.

Branch or representative office of a foreign company

The Companies Law allows foreign companies (including those wholly owned by non-UAE nationals) to establish a branch office in the UAE. Approval of the Ministry of Economy and Commerce (MEC) is required before applying to the relevant local authorities for commercial registration and a trade licence. Certain activities may require approval of other Ministries. A branch may not carry out any commercial activity in its own name. The branch may only negotiate and enter into contracts on behalf of the parent company, and if goods and services are required to fulfil that contract, they would have to come directly from the parent. Local lawyers advise that if incidental support is needed to fulfil the contract, e.g., goods are delivered by the parent company to the customer and those goods need to be installed at the customer's premises, the branch is able to carry out this type of activity.

A foreign company may also establish a representative office in the UAE. Such representative offices may undertake marketing and promotional activities on behalf of their parent company, but are not permitted to trade.

A foreign company that wishes to set up a branch or a representative office in the UAE must appoint a local service agent or "sponsor" who is either a UAE national or a locally registered company that is wholly owned by UAE nationals. Whilst this agent does not gain any right to the business, he fulfils certain functions concerning local and federal government requirements.

Public and Private Joint Stock Companies

A public joint stock company must have a minimum of 10 founder members and must be managed by a board of between 3 and 12 directors. The chairman of the board of directors and a majority of the directors must be UAE nationals. 51 percent of the shares must be held by UAE nationals, with a minimum of twenty percent – maximum forty five percent - being owned by the founder members. These companies are suitable primarily for large projects or operations, since the minimum capital requirement is AED 10 million for a public shareholding company. The law states that companies engaged in banking, insurance or financial services must be public joint stock companies.

A private joint stock company shares most of the same characteristics as a public joint stock company apart from a minimum capital requirement of AED 2 million and only 3 founder members. In addition, the shares of a private joint stock company cannot be offered to the public.

General Partnership

Partners in a general partnership can only be UAE nationals. Each partner is jointly and severally liable for all liabilities of the partnership.

Simple Limited Partnership

A simple limited partnership is defined as a company established by one or more general partners who are fully and jointly liable for all debts and liabilities of the company to the extent of all their assets, and one or more limited partners, whose liability is limited to their share of the capital of the company. Although, all the general partners must be UAE nationals, it is possible for a foreign individual or company to participate in a simple limited partnership.

Joint Participation (Venture)

A joint participation (venture) is defined as a company established with two or more partners who share in the profits and losses of one or more commercial businesses being carried out by one of the partners in his own personal name. Since the partner doing the business will be doing so in his own name without declaring or indicating the presence of other partners, the actual existence of this type of company is restricted to the arrangement between the partners, and does not extend to third parties. In practice, joint ventures are seen as offering a suitable structure for companies working together on specific projects.

4.1.2 Practising as a professional consultant – Establishing a “civil company”

In order to practice as a professional rendering consulting or other professional services, for example, architecture and engineering consultancies, a “legal partnership” which is commonly known as a “civil company” must be set up. This type of entity is used where the activities carried out by the entity involve the use of intellectual faculties, acquired information or skills. Civil companies are not subject to the Companies Law (therefore do not have the limited liability feature), but instead are governed by the Civil Code and local law. Licenses to operate such an entity must be obtained from the relevant Government department and from the Municipality. Civil companies may be 100 percent foreign owned but if so, the company requires a local service agent. If there is a local participant and that participant owns a substantial share of the company (i.e., 15 percent - 20 percent) then the requirement for a local service agent is waived. All civil companies must register with the local Chamber of Commerce.

4.1.3 Appointing a commercial agent or distributor

Not all foreign businesses wish to have a direct presence in the UAE and it is not necessary to do so in order to make direct sales to customers in the UAE. For those businesses that wish to be represented in the UAE, it may be advantageous to appoint a commercial agent. There are two types of commercial agencies as described below:

Registered Commercial Agencies

Registered commercial agencies are governed by the Commercial Agencies Law that stipulates that a commercial agent must be a UAE national or a company that is wholly owned by a UAE national. There are certain requirements as to the content of commercial agency agreements, which must be formally notarised and registered with the Ministry of Economy and Commerce.

Unregistered Commercial Agencies

Parties to such an agreement cannot benefit from the protection afforded by the Commercial Agencies Law but such agreements are seen as binding commercial contracts. Unregistered commercial agents must be authorised to trade in the UAE but do not need to be UAE nationals or wholly national owned companies.

4.2 Accounting and audit requirements

The Companies Law requires locally registered companies and branches of foreign companies to appoint auditors to audit their annual financial statements. In practice, audited financial statements are generally required to be submitted at the time of renewing the trade licence.

Chapter 5

Taxation

5.1 Scope of corporate income tax

The UAE does not have any all-encompassing tax legislation at the federal level. Some of the Emirates have issued their own income tax decrees and these are quite similar in nature and text. The information below applies to the Emirates, in general, unless there is a material difference – in which case this is mentioned specifically. Although in theory the decrees impose tax on the income of all corporate entities, in practice, tax is currently only enforced on foreign oil companies and branches of foreign banks. As the tax legislation is theoretically applicable to all corporate entities, no blanket guarantee can be given regarding the exemption of other corporate entities from corporate income tax. Furthermore, specific tax advice should always be sought in case there are amendments or changes to legislation or current practice.

None of the decrees are detailed or voluminous and are, therefore, open to interpretation. The treatment of contentious items of income and expenditure can only be decided with certainty by entering into discussions with the tax authorities. There is no concept of precedence and all cases have to be agreed on a case-by-case basis.

There is no personal income tax on any form of personal income.

5.1.1 Taxation of foreign oil companies

Corporate income tax is enforced on foreign oil companies, i.e., companies transacting in oil or oil rights, including crude oil or other hydrocarbon materials produced in the Emirates. Although the tax rate applicable to oil companies is generally 55 percent, the amount of tax actually paid by the oil companies is calculated on the basis of a rate agreed in individual concessions between the relevant company and the respective Emirate, which is in turn based on operating profits. Any difference between the rate set out in the decree and the rate stated in the concession agreement is termed a 'make-up' payment.

5.1.2 Taxation of branches of foreign banks

Broadly, branches of foreign banks are taxed at 20 percent of their taxable income in the Emirates of Abu Dhabi, Dubai, Sharjah and Fujairah. The basis of taxation does not differ significantly between the Emirates. Dubai, Sharjah and Fujairah have issued specific tax legislation for branches of foreign banks. Abu Dhabi does not have a specific decree for banks.

Head office overhead expenses charged to branches are permissible as deductions for tax purposes provided that the amount charged is approved by the head office auditors, has been recorded in the books of account of the branch and does not exceed up to 2½ percent of the income of the branch.

Specific provisions and write-offs are allowed as a deduction only where there is evidence of such write-off. General provisions are not allowed as deductions in the calculation of taxable income.

Capital expenses cannot be fully written off in one year. Rates of depreciation are included in the income tax decree issued by each Emirate.

5.2 Taxes other than income tax

5.2.1 Customs duty

On January 1, 2003, the GCC countries formed a Customs Union thus removing the barriers to free trade between member states. Consequently, a flat rate of duty of 5 percent was imposed on most imported goods apart from listed exemptions at the first point of entry into the GCC. Those goods may then move freely between GCC countries without the imposition of further duty. It should be noted that the free trade zones are not considered to fall within the GCC Customs Union.

Each GCC country has a protective duty items list that specifies certain items upon which a higher rate of duty will be charged. The aim of this list is to protect the national industry from imports from other countries.

5.2.2 Social security and pension payments

Under Federal Law No. 7 of 1996, the Pensions and Social Securities Law, where a company employs a UAE National, both the employer and the employee must make social security and pension contributions to the General Pension and Social Security Authority. These contributions are based on the salary received by the employee and are payable at the following rates:

Public employer	:	15 percent
Private employer	:	12.5 percent
Employee	:	5 percent

There is no requirement for the employer of an expatriate or for the expatriate to make social security contributions.

5.2.3 Stamp Duty and Transfer Taxes

Apart from a 2 percent registration fee on the transfer of legal title in respect of the sale value on property acquisitions (1.5 percent on purchaser's account and 0.5 percent on seller's account), there is no other stamp duty or transfer tax in the UAE.

5.2.4 Withholding Taxes

There are no withholding taxes in the UAE.

5.2.5 Sales Taxes

There is currently no sales tax legislation in the UAE. However, the UAE government is reviewing the practicality of implementing value added tax (VAT). The Emirate of Dubai, Dubai Municipality levies a 30 percent 'sales tax' on the sale of alcohol. A special liquor license is required to buy alcohol from an authorised liquor shop, for consumption at home. Only non-Muslims with a valid residence visa may obtain a liquor license. It is our understanding that this 'sales' tax is not levied in other Emirates.

5.2.6 Other indirect taxes

In the Emirate of Dubai, Dubai Municipality levies a 10 percent tax on hotel revenues. This is passed on to the consumer by way of room/service charges. We understand this is not charged in Abu Dhabi.

The Dubai Municipality also levies a 5 percent tax on the rental income of residential buildings. This tax is often passed on to the residential tenant in the form of increased rent. The Abu Dhabi Municipality has confirmed that no such charge is levied in Abu Dhabi at this time.

5.3 Double taxation treaties

The UAE has entered into Avoidance of Double Taxation Agreements with the following countries concerning income, capital or both:

Country	Treaty type	Country	Treaty type
Algeria	income	Mongolia	income
Austria	income	Morocco	income and capital
Armenia	income and capital	New Zealand	income
Belarus	income and capital	Pakistan	income
Belgium	income and capital	Poland	income and capital
Canada	income and capital	Romania	income and capital
China	income	Singapore	income
Czech republic	income and capital	Sudan	income
Egypt	income	Syria	income
Finland	income	Thailand	income
France	income and inheritance	Tajikistan	income
Germany	income and capital	Tunisia	income and capital
India	income and capital	Turkey	income
Indonesia	income	Turkmenistan	income
Italy	income	Ukraine	income and capital
Korea	Income	Yemen	income
Malaysia	income		

The UAE has also entered into Avoidance of Double Taxation Agreements concerning transport with Singapore, Switzerland, the Netherlands, Turkey, the U.S., the Maldives, Syria, the UK, Australia, Azerbaijan, Sri Lanka, India and the Czech republic.

Some of the above treaties are awaiting ratification.

Chapter 6

Free Trade Zones

6.1 Why invest in a Free Trade Zone

The establishment of Free Trade Zones (FTZs) in the UAE has been one of the most significant and promising initiatives taken to attract foreign investment. Dubai was the first Emirate to establish a FTZ in Jebel Ali. The general benefits of being located in a FTZ are set out below:

- 100 percent foreign ownership;
- no restrictions on profit repatriation;
- no exchange controls;
- a guarantee of no corporate and personal income taxes for 15 - 50 years from set up;
- availability of offices, factory premises and warehouses;
- excellent port, airport and road transport infrastructure;
- efficient utilities and modes of communication;
- no import or export duties, (except for sales made from FTZs into the UAE and the rest of the GCC);
- No recruitment restrictions, and special assistance in obtaining work permits for expatriate staff.

6.2 Location of Free Trade Zones

Dubai

Dubai has seen a dramatic rise in the number of free trade zones. Each zone has a focus on a particular type of industry. The names and industry focus of the many free zones within Dubai are listed below:

- Jebel Ali Free Zone - manufacturing, heavy industry and distribution. It also encompasses:
 - Dubai Cars and Automotive Zone: re-export of automobiles
 - Dubai Gold and Diamond Park: dealing in precious metals and stones
- Dubai Airport Free Zone - light industry, assembly, distribution, service industries such as insurance

- Dubai Technology and Media Free Zone – this zone includes:
 - Dubai Internet City: information and communications
 - Dubai Media City: media related business
 - Knowledge Village: education and learning establishments
- Dubai Metals and Commodities Centre - aims to attract the world’s leading precious metals, jewels and commodities traders. This zone also includes a manufacturing facility and a diamond-trading bourse.
- Dubai International Financial Centre (DIFC) - This free zone focuses on financial institutions and financial service firms and aims to establish the UAE as a leading financial centre. The zone is subject to a comprehensive regulatory regime that follows international standards. The regulatory authority in the DIFC is the Dubai Financial Services Authority.
- Dubai Healthcare City - aims to attract providers of healthcare, medical education and research.
- Dubai Maritime City-in the process of being created and aims to attract companies engaged in vessel design, manufacture, repair and maintenance and marine management and related services.

Other free trade zones in Dubai include Dubai Aid and Humanitarian City, Dubai Techno Park, Dubai Auto Parts City, Dubai Textile City, Heavy Equipment and Trucks Free Zone, Dubai Flower Centre Free Zone, Dubai Carpet Free Zone, and Dubai Outsource Zone.

Abu Dhabi

Abu Dhabi Free Trade Zone - The objective of this free zone was to establish Abu Dhabi as a major bulk commodity-trading base to further the development of other existing industrial zones in the Emirate.

Higher Corporation for Specialized Economic Zones (HCSEZ) – The HCSEZ establishes specialized economic zones across a range of industries in Abu Dhabi. The benefits of the zones are similar to those in free trade zones.

Sharjah

Hamriyah Free Zone – Established in Sharjah, this free zone caters to industrial, manufacturing, processing and assembling industries. Sharjah is the only Emirate with ports on the Arabian Gulf’s east and west coast with direct access to the Indian Ocean.

Sharjah Airport International Free Trade Zone - this aims to capitalise on Sharjah’s excellent access to both East and West by attracting light manufacturing, storage and distribution business together with service industries.

Ras al Khaimah

Set up on May 1, 2000 on Al Hulayla Island, this free trade zone aims to attract all types of investment with an aggressive marketing plan that aims to turn this zone into the leading free trade zone of the northern Emirates.

Fujairah

Fujairah Free Trade Zone, located near Fujairah Airport attracts manufacturing, distribution and general trading industries.

Ajman

Ajman Free Trade Zone again aims to attract all types of business from heavy manufacturing industry to professional service companies.

Umm al Quwain

This free trade zone is known as the Ahmed Bin Rashed Port and Free Zone and aims to attract light industrial development.

6.3 Business vehicles available to the foreign investor

An independent free zone authority governs each FTZ. The rules and regulations of each FTZ do not differ substantially, all being simple yet comprehensive. The UAE Companies Law is not applicable in the FTZs.

In most FTZs there is a combination of two or all of the following three types of business vehicles available to the foreign investor:

Free Zone Company (FZCo)

A FZCo has the following characteristics:

- Limited liability
- A minimum of two shareholders
- Minimum share capital is dependant on the FTZ

Free Zone Establishment (FZE)

A FZE has the following characteristics:

- Limited liability
- A maximum of one shareholder
- Minimum share capital is dependant on the FTZ

Branch of a Foreign Company

A branch has the following characteristics:

- Governed by the rules and regulations of the parent company
- The activities of a branch in a free zone depend on the type of license issued to the branch. It can carry out commercial activities in the free zone, if it receives a license that allows it to do so

6.4 Types of license

To operate in a FTZ, all businesses need a license. The type of license depends primarily on the nature of the activity undertaken. Generally, in most FTZs a combination of the following types of licenses are available to the foreign investor:

Trading license

This enables companies to carry out general trading activities, as specified in the license.

Industrial license

This license is required for the manufacture of products.

Service license

A service license is necessary where the activities undertaken are of a service nature.

6.5 Accounting and audit requirements

As FTZs have their own laws and regulations, the accounting and audit requirements can differ between free zones. For example, Jebel Ali Free Zone and Dubai Airport Free Zone require limited liability entities to lodge annual accounts, together with an audit report, within three months of the end of the entity's financial year. However, limited liability entities in the Dubai Technology and Media Free Zone are not subject to this requirement. Branches are not required to lodge audited accounts with free zone authorities.

Chapter 7

Labour

7.1 UAE Labour Law

The Federal Act No. 8 of 1980 as amended by Law No. 12 of 1986 (“the Labour Law”), administered by the Federal Ministry of Labour and Social Affairs (“the Ministry”) in the UAE, regulates employment terms such as hours of work, leave, termination rights and medical benefits. The provisions of the Labour Law override any conflicting provisions in any contract of employment that are less beneficial to the employee.

Businesses are encouraged to employ UAE nationals and expatriates can be employed only after approval from the Ministry and on obtaining work permits. A specimen form of labour contract in Arabic is available from the Ministry and is widely used, although other forms of contracts are enforceable, if registered, provided they comply with the Labour Law. There are two basic forms of contract, those with a specified term and those with an unspecified term. The Labour Law applies to both types of contract with the main difference being the end of service benefits (see below).

There are no trade unions in the UAE. In the event of a dispute between the employer and the employee or in the interpretation of the Labour Law, the Ministry initially acts as an adjudicator to resolve the dispute. If a party wishes to appeal a decision of the Ministry, it can take its case to court.

7.2 Compensation package

Salaries and benefits offered to employees vary from one organisation to another. The remuneration structure also varies although two of the commonly used structures are:

- Breaking up the total emoluments into separate amounts for basic pay, house rent allowance (HRA), travel allowance and other expatriate benefits like medical, leave passage and gratuity. This structure is popular with a majority of the companies including some multinational companies in the country.
- A gross package that consists of the basic pay element and an allowance element (covering all allowances).

Social Security

In respect of UAE nationals there is a state security fund, General Social Security and Pensions Authority, requiring contributions by the employer and the employee. For more details, please refer to section 5.2.2 of this booklet. Insurance such as workmen’s compensation against industrial injuries is common in industrial establishments.

End of service benefits

In accordance with the UAE Labour Law, an employee who has completed a period of one or more year's service is entitled to end of service benefits on termination of employment. Days of absence from work without pay are not included when calculating the period of service. The employee's end of service benefits generally include gratuity, accrued leave encashment, pay in lieu of notice period and repatriation ticket (where applicable).

Gratuity is payable in accordance with UAE Labour Law and is as follows:

Specified duration contract

- Twenty-one days basic salary for each year of service for the first five years of service;
- Thirty days basic salary for each year of service thereafter on condition that the total gratuity does not exceed twenty-four months basic salary.

If an employee resigns, prior to completion of the contract period of a specified duration contract, gratuity is not payable. However, where an employee completes five years service, gratuity is payable on resignation even if the contract is for a specified period and the employee resigns before the end of this period.

Unspecified duration contract

On termination or resignation after five years of service, gratuity is payable on the same basis as that for employment contracts of specified duration.

If an employee resigns within five years, gratuity is calculated as follows:

- Where continuous service is over one year but less than three years, the employee is entitled to one third of the gratuity as described for the specified duration contract above
- Where continuous service is more than three years but less than five years, the employee is entitled to two-thirds of the gratuity as described for the specified duration contract above.

The maximum amount of gratuity payable is equivalent to twenty-four months basic salary.

If the employee is a UAE national, their gratuity is paid to the General Social Security and Pensions Authority.

Sick pay

If an employee has completed more than 6 months of the probation period in continuous service of the employer and falls ill, he is entitled to sick leave not exceeding 90 days

whether continuous or otherwise, in respect of each year of service. Such leave shall be calculated as follows:

- Full pay for the first 15 days
- Half pay for the next 30 days
- Without pay thereafter

Normally a medical certificate is required for being absent for two consecutive days due to medical reasons.

Holidays

In addition to annual leave, which is usually 30 calendar days, employees are entitled to full pay for official holidays and public holidays which are officially declared by the Government, generally on the following occasions:

- New Year's day (Islamic calendar)
- New Year's day (Gregorian calendar)
- Eid Al Fitar
- Eid Al Adhah
- Birthday of the Prophet
- Accession day
- National day

7.3 Visa and permit requirements

Laws and procedures regarding entry, employment and residency within the UAE change constantly, and up to date legal advice should be sought.

In general, all visitors, except citizens of the GCC states and transit visitors who do not leave the airport must obtain visas to enter the UAE. There are several types of visas and permits available in the UAE and the type of visa or permit required will depend on the purpose of entry to the UAE. Citizens of certain exempted countries can automatically obtain a limited period entry permit on arrival.

Visitors with Israeli stamps on their passports are banned from entry to the UAE.

7.3.4 Employment visa

This is intended for those entering the country for employment purposes, but in practice employees often enter on a visit visa that is then converted to an employment visa.

Employment visas are issued by the Ministry. In general, a business can recruit either expatriate or local staff subject to certain requirements. Employers must apply to the Ministry for visas for individual members of staff, although certain categories of employer may obtain group visas that permit the employment of a specified number of staff without

personal particulars. An informal employment quota is allocated to the employer based on the size of the business, but numbers may be increased if adequate reasons are given and the employer is in good standing as regards compliance with labour regulations. As a business grows, to encourage Emiratisation, the Ministry may impose a quota requiring the employer to engage a minimum percentage of local staff. Some industries, such as banking, are required to employ a much higher percentage of UAE nationals than other industries. In 2006, the UAE implemented a law under which companies with over 100 employees are required to emiratise their secretarial and human resources managerial positions. This includes all managerial and supervisory positions within the human resources field be it executive, administrative, financial, professional or clerical. Persons occupying these positions should be responsible for executing tasks relating to human resources, starting from planning and directing human resources to labour relations, wages and incentives, and personnel issues.

An employment visa allows entry for 60 days during which time employment permit formalities must be completed for the employee, and they must obtain a residence permit (refer to 7.3.6).

The consent of the employer is needed to transfer an employment visa to a new employer even at the end of a fixed term employment contract, to avoid the employee receiving a visa ban. Certain categories of employees are prohibited from transferring their visa even with the consent of the employer. However, these rules keep changing.

A sponsor may agree to release an employee from his sponsorship either at the end of his contract or for a mutually agreed reason during the tenure of a contract.

7.3.5 Residence visa

This visa is issued to those intending to live in the UAE who do not enter under another category visa (for example: it is often issued to wives and children of individuals already resident in UAE). It allows the bearer 60 days to convert their visa to a residence permit (refer to 7.3.6).

7.3.6 Residence permit

Residence permits allow the bearer to live in the UAE for a period of three years. There are two types of residence permits – either with or without employment. To retain a valid residence permit, a resident of the UAE must not leave the country for more than six months at a time. If an employee does stay away for longer than this, the residence permit is automatically cancelled.

An employee earning in excess of AED 4,000 per month can sponsor his immediate family to obtain a residence permit and so reside in the country.

If a family member chooses to work, they will require a 'no objection' letter from their sponsor (i.e., their spouse or parent). Their employer will then provide them with a labour card but their spouse / parent will remain their sponsor unless the employer insists on sponsoring them, in which case, they will become holders of an employment visa.

7.3.7 Labour card

Once the employee has entered the UAE (or paid the requisite fee to forego re-entry) he must undergo a medical check. The current fee for the medical test and certificate is 200 AED for the test and 300 AED for the issue of a health card. The employer must then obtain a labour card for the employee from the Ministry of Labour and Social Affairs within 30 days of the employee's entry into the UAE.

7.3.8 Health card

Every resident is required to obtain a health card from the local hospital. The health card entitles subsidised medical treatment at the health clinic/hospital issuing the health card. Alternatively, one can have medical insurance through an agency recognised by the labour authorities, who regulate such entities in each Emirate.

7.4 Immigration card for business

A business in the UAE must fulfil certain requirements before employing staff and submitting visa applications on behalf of their employees or other persons. It must register with the Immigration Department and submit the required documentation to obtain a business Immigration Card (renewable every three years) and also register with Ministry of Labour and Social Affairs on obtaining its trade licence. The business must also appoint a representative to deal with the immigration and labour departments. Once the business has been operating for three months it is advisable, but not compulsory, that the business obtains a transit visa option on their business immigration card. This allows the business to obtain 14-day transit visas. At this time application may also be made for a visit visa option to be added to the business immigration card.

Chapter 8

Working conditions

8.1 Lifestyle

8.1.1 Social environment

There is little crime in the UAE and the country is clean, with modern facilities. Foreign newspapers, magazines, films and videos are readily available though these may be subject to censorship. Alcohol is available for consumption by non-muslims in certain Emirates and may be consumed at home, in hotels and on licensed club premises. There is also a wide range of entertainment available such as the cinema or desert safaris, and there are many sporting facilities, restaurants and hotels. Women are permitted to work and can drive and move about unaccompanied.

8.1.3 Transport

The UAE has a comprehensive road network with driving on the right hand side of the road.

Taxis are the main form of public transport. Visitors may hire a car if they hold an international driving licence.

Major international car rental companies operate in the UAE.

8.1.4 Education

There are government schools in all the Emirates providing free primary and secondary education to UAE nationals.

There are private foreign schools offering the academic curriculum of the UK, the U.S. and other countries such as Italy, Japan, Iran, France, Germany, India and Pakistan as well as the International Baccalaureate.

8.1.5 Medical services

The Department of Health and Medical Service provides medical care to all UAE nationals, visitors and resident expatriates. The department issues health cards to individuals that entitle them to subsidised consultation and free medicines.

Fees on medical examination by consultants / specialists in hospitals are less for health card holders than for non-card holders while UAE nationals who hold health cards are exempt from these charges.

Expatriate visitors on visit and transit visas can make use of government health services offered by paying a fee to a general practitioner or specialist, only twice during their stay in UAE, without paying any health card fees. Otherwise they may use private facilities.

8.4 Working hours

Normal hours of work are eight hours a day (exclusive of breaks). Hours of work may be increased to nine hours a day in commercial establishments, hotels, cafes and for guards and any other operations where such increase is authorised by order of the Minister of Labour and Social Affairs.

Normal working hours are generally reduced by two hours a day during the holy month of Ramadan.

Where the circumstances of work require an employee to work more than the normal number of hours, overtime payments are made at 25 percent or 50 percent in excess of his/her usual rate of pay, depending on the number and timing of excess hours worked.

Friday is the weekend except for daily paid employees. Where circumstances require an employee to work on Friday, the employee is given a day off in lieu or is entitled to receive 150 percent of his daily basic pay. Government departments and the private sector generally work five days a week commencing from Sunday. Banks generally operate Saturday to Thursday.

Appendix I

KPMG in the UAE

KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. We operate in 144 countries and have more than 104,000 professionals working in member firms around the world.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. KPMG International provides no client services.

KPMG in the UAE offers Audit, Tax, and Advisory services to a large range of clients in the financial, industrial, commercial, governmental and institutional sectors. Further, due to our experience and depth of knowledge, we are able to offer information and advice on setting up operations in the UAE. KPMG's principal offices in the UAE are in Dubai, Abu Dhabi and Sharjah. KPMG in the UAE has established an International Tax Practice in its Dubai office to address the tax requirements of local and international businesses. The office operates across a range of business lines and works closely with KPMG member firms globally, in particular in the Middle East region.

Appendix II

KPMG's offices in the UAE

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