



TOP 5 CHALLENGES OF DOING BUSINESS IN THE UAE

The UAE has become a business hub for investors looking for a central location for international expansion. UAE's favorable tax structure, simple legal framework, and business-friendly atmosphere make it a popular destination for businesses and investors. The process of setting up a business in the UAE is quite easy compared to other western countries, but some processes can be complex. If you are interested in setting up a business or expanding an existing one, research is essential before getting started. You will most likely run into these challenges in doing business in the UAE.

1. Taxation

VAT was introduced across the UAE on 1st January 2018 at a standard rate of 5%. Business owners who have taxable supplies and imports exceeding AED 375,000 must register for VAT. Those businesses with supplies and imports under AED 187,500 may choose to register for VAT voluntarily if they are below the mandatory registration threshold. Companies may also voluntarily register if their expenses exceed the voluntary registration threshold. The latter opportunity is intended to enable start-up businesses with no turnover to register for VAT voluntarily. Businesses are also required to comply with requirements such as filling out VAT returns, keeping records, de-registering for VAT, and reconsideration for VAT. Regardless of whether businesses think they should be VAT-registered, they still should keep their financial records anyway, in case the Ministry of Finance will need to establish whether they should be registered.

For many years, businesses have enjoyed zero income tax on profits, but this is about to change. Corporate Tax (CT) in the UAE is set to be implemented for fiscal years starting on or after 1 June 2023. A 0% rate will be imposed on companies with taxable income up to AED375,000. 9% corporate tax will be imposed on businesses with taxable income exceeding AED375,000. A different tax rate will be enforced for large multinationals that meet specific criteria set with reference to 'Pillar Two' of the OECD Base Erosion and Profit Shifting (BEPS) project. Businesses are required to register for UAE CT. CT returns will need to be filed electronically annually and non-compliance may result in penalties. It has been also announced that free zone businesses will be subject to CT, but CT incentives will continue to be provided to businesses that comply with all regulatory requirements and do not conduct business with the mainland. Further details on the compliance obligations of free zone businesses will be provided in due course.

It is also important for investors and business owners to know the double taxation agreement between your home country and the country where you want to establish your business. It would be necessary for you to identify how it may affect your income as an individual or as a business. You should also be able to know how certain types of income, such as dividends, property income, and pensions should be taxed. The agreements can reduce certain foreign tax obligations as well as provide relief from foreign taxation.



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2. Work permits and visas

Employers must obtain vast knowledge of UAE labor laws when operating a business in the UAE. To live and work here, every employee needs a work permit along with a residence permit. Employers should provide this and bear all costs involved. This may be challenging as it requires a lot of paperwork. Documents will be processed by the LLC or branch office if the employer is located in the mainland, or by the applicable Free Zone Authority for free zone companies. Further, employees must also be provided with insurance, though in some emirates, such as Ras Al Khaimah, this may not be mandatory. Employers and employees may face significant penalties if they fail to comply with immigration and labor procedures and requirements.

3. Setting up a bank account

UAE bank accounts have become increasingly difficult to open due to increased regulatory frameworks and Economic Substance Requirements. To strengthen the effectiveness of its AML/CFT regime, the United Arab Emirates (UAE) made a high-level political commitment in February 2022. Now, UAE banks demand detailed information about your business's economic substance. All other information regarding an investor's business should also be available to banks at all times. In fact, a number of banks in the northern emirates have put in place blanket due diligence requirements, which adds another hurdle for business owners. All these requirements may sound tedious, but as long as you have the complete paperwork, you should be able to open a bank account in the UAE.

4. Compliance with ESR and UBO regulations

Keeping financial statements credible and complying with regulatory requirements can be challenging for businesses. As regulations such as Ultimate Beneficial Ownership (UBO), Economic Substance Regulations (ESR), Anti-Money Laundering (AML) and VAT have become more critical, conducting annual audits has become more vital. In order to ensure compliance, companies are expected to maintain proper documents and file reports or notifications. As per UBO & ESR laws, even companies going through liquidation must maintain records. Businesses should take note that non-compliance may result in penalties and sanctions.

5. Social and cultural norms

Traditions of Islam are woven into the local culture and it places great emphasis on what is permissible and what is not permissible in the country. Before entering the market, you should understand the Islamic religion and values of the place. Sharia Law applies to all aspects of life, including business. However, there is a great deal of diversity and complexity in the UAE which is currently home to over 200 nationalities. UAE encourages tolerance among various cultures and civilizations, promotes gender equality, and guarantees equal rights to both genders. The business culture here is more conservative compared to other countries in the west.



Establishing a business in the UAE won't seem so difficult when you seek the help of the right people. Strohal Legal Group will guide you through the maze and help you in setting up your company in a professional and time-efficient manner. Whether you are an international corporate or a small family business, we speak your language and know what you need. This makes us the trusted partner for more than 500 European clients, whom we advised on doing business in the UAE. We also regularly support our clients on tax issues, employment law, visa requirements and all kinds of investment and business law.

Strohal Legal Group is an international business law firm focusing on the Gulf region (GCC) and Southeast Asia (ASEAN) advising clients on local and cross-border M&A transactions and corporate, business, and labour law matters, company establishments, energy & climate law as well as tax law matters. Through our country desks and partner firms in Austria, the Ukraine, and Russia, the firm is also well connected in Europe.