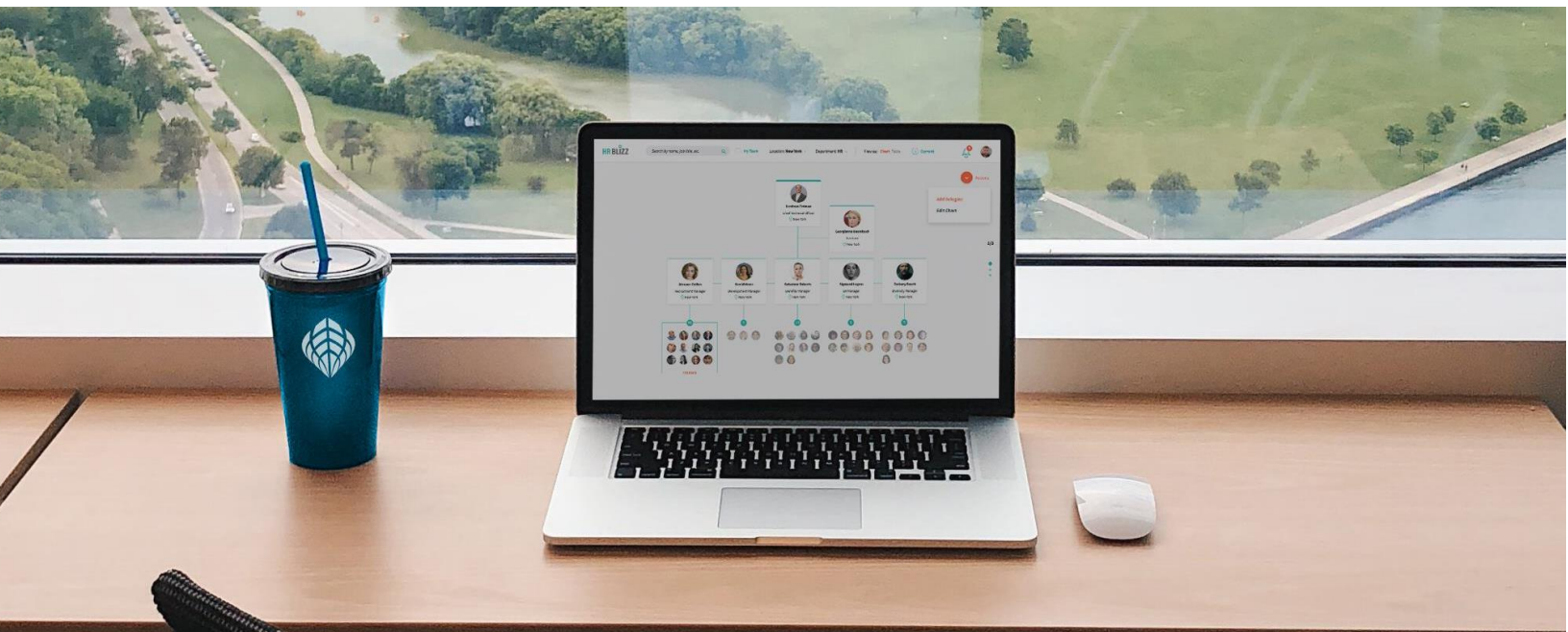




Simplifying Employment  
Tasks Worldwide

# Payroll & Tax Highlights

2020 Global Payroll Country Guide for United Arab Emirates



## UNITED ARAB EMIRATES



June 22, 2020



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# Table of Contents

<b>Doing Business in UAE</b> .....	<b>9</b>
<b>Entity Registration &amp; Incorporation Requirements</b> .....	10
<i>Establishing a Legal Presence in UAE</i> .....	10
<i>Limited Liability Company ("LLC")</i> .....	11
<i>Private Joint Stock Company</i> .....	12
<i>Public Joint Stock Company</i> .....	12
<i>Limited Partnership</i> .....	12
<i>General Partnership (or Joint Liability Company)</i> .....	13
<i>Branch</i> .....	14
<i>Representative Office</i> .....	14
<i>Free Zone Entity</i> .....	14
<i>Accounting and Reporting</i> .....	15
<i>International Financial Reporting Standards (IFRS)</i> .....	15
<b>Financial and Banking System</b> .....	16
<b>Working Week</b> .....	17
<b>Tax &amp; Social Security</b> .....	<b>19</b>
<b>Overview</b> .....	19
<b>Corporate Income Tax</b> .....	19
The United Arab Emirates is a federation of seven Emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Qaiwain, Ras Al-Khaimah, and Fujairah.....	19
<b>Permanent Establishment (PE)</b> .....	20
<b>Withholding tax</b> .....	21
<b>Personal Taxation</b> .....	21
<i>Wage Protection System (WPS)</i> .....	23
<b>Payroll</b> .....	<b>24</b>
<b>Sample Payslip</b> .....	24
<b>Employment Law</b> .....	<b>25</b>
<b>Employment Contract</b> .....	26
<b>Leaves</b> .....	26
<b>Termination, Resignation or Retirement</b> .....	28
<i>Probationary Period</i> .....	28
<i>Term</i> .....	28
<i>Fixed-term contracts</i> .....	28
<i>Unlimited term contract</i> .....	28
<i>Legitimate Causes for Dismissal by the Employer under Article 120</i> .....	29
<i>Legitimate Causes for Termination by Employee under Article 121</i> .....	29
<i>Process for Dismissal/Termination/Disciplinary Measures</i> .....	29



MERCANS

<i>Redundancies</i> .....	30
<i>Notice/Payment in Lieu of Notice</i> .....	30
<i>End-of-Service Gratuity</i> .....	30
<b>Immigration</b> .....	<b>32</b>
<i>Residency Visa Process</i> .....	32



## UAE – the economic growth expected to return by 2021.

The United Arab Emirates' economy looks set to lose further momentum in the first half of 2020, after decelerating for two consecutive quarters in the second half of 2019.

Analysts

forecast the UAE GDP to shrink 2.7% in 2020, which is down 3.7 percentage points from last month's estimate, and to grow 3.1% in 2021.

Growth in 2020 is subject to major uncertainty due to the COVID-19 pandemic and low oil prices. Given the UAE's status as a global logistics and reprocessing hub, a global slowdown and disruptions in supply chains will weigh heavily on the UAE's non-oil sector, which was already facing persistently weak business sentiment and a prolonged real estate downturn.

Mitigating the economic fallout from COVID-19 is the UAE's immediate challenge given its impact on sectors into which the UAE had successfully diversified (through flight disruption, lower transit trade and tourism).

Despite being relatively diversified compared to its GCC neighbors, the UAE remains dependent on regional oil-driven liquidity and is thus also vulnerable to the crash in oil prices. The Emirati government has introduced a policy of fiscal easing to enable economic recovery. Structural reforms stepped up, along with the announcement of a new plan for a fiscal stimulus over the next years and increased public investment ahead of World Expo 2020. By the end of 2019 the government approved a zero-deficit federal budget for 2020, of which 38% has been allocated for social development and social benefits programs, 14% for infrastructure and economic resources and almost 15% for public, higher and university education programs.

The introduction of a 5% VAT in the UAE in 2018 had prompted a moderate rise in inflation,

however in 2019 the country experienced deflation (around -1.9% according to the IMF), mainly due to a continued decline in housing costs. The inflation rate should remain negative in 2020 and increase to a positive rate of 1.5% in 2021, according to the latest World Economic Outlook of the IMF (April 2020).

The UAE has one of the highest per capita income levels in the world and a highly developed welfare system. It also has one of the lowest rates of unemployment in the Middle East (while Dubai enjoys the lowest unemployment level in the world, at around 0.5%) and depends heavily on foreign labor (more than 85% of the workforce). A policy of 'Emiratisation' has been launched to encourage employment of the local workforce.



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# Doing Business in UAE

## Basic Facts

<b>Official State Name</b>	United Arab Emirates
<b>Population</b>	11.08 million
<b>Capital</b>	Abu Dhabi
<b>Major Languages</b>	Arabic
<b>Currency</b>	United Arab Emirates Dirham (AED)
<b>Main Industries</b>	Petroleum, Construction, Textile, Food
<b>GDP Growth</b>	1.7% (2019)
<b>Internet Domain</b>	.ae
<b>International Dialing Code</b>	+971
<b>Dates &amp; Numbers</b>	Dates are usually written in the dd/mm/yyyy format.



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## Entity Registration & Incorporation Requirements

It is easy to understand why doing business in the United Arab Emirates (UAE) is such an attractive concept. A predominately liberal trade regime has contributed to sustaining an impetus for growth in the UAE – which comprises of seven states: Abu Dhabi, Dubai, Ajman, Fujairah, Ras al Khaimah, Sharjah and Umm al Quwain. Doing business in the UAE is considered a fairly easy process by the World Bank's standards, whilst the Index of Economic Freedom classifies the country as 'mostly free' from excessive administrative interference in business matters.

Reforms have created an efficient and well-functioning regulatory system with flexible employment regulations. In comparison to countries in the surrounding region, the UAE is considered one of the least corrupt nations. Dubai and Abu Dhabi, as the capital of the UAE, are the most common states to set up a business. The 30 Free Trade Zones in Dubai, which enjoy benefits of tax exemptions, property ownership and confidentiality amongst other advantages, is another reason why doing business in the United Arab Emirates is an appealing prospect.

### Establishing a Legal Presence in UAE

In order to conduct business in the UAE, a foreign investor is typically required to establish a formal legal presence in the UAE which will typically be through any of the following means:

- Incorporating a local entity;
- Registering a branch or representative office of a foreign company;
- Establishing a free zone entity or free zone branch; or
- Entering into a commercial agency relationship with a local agent.

### Incorporating a Local Entity

Unlike many other jurisdictions, it is not possible to buy shelf-companies in the UAE. While there is no central public platform in the UAE that compiles company information, the Department of Economic Development does disclose certain basic information on registered companies including company name, commercial registration number, company address, contact details and commercial activities.

As a general requirement, locally incorporated entities must obtain a commercial license from the Department of Economic Development (or similar government agency) and, if necessary, authorization from the relevant ministry or government entity in the relevant emirate or free zone.<sup>1</sup>



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Locally incorporated entities may be formed as civil companies or incorporated under Federal Law No. 2 of 2015 Concerning Commercial Companies (the Companies Law). All locally incorporated companies must be established in accordance with the Companies Law. The Companies Law requires companies to adopt one of the following legal forms:

- Limited Liability Company;
- Private Joint Stock Company;
- Public Joint Stock Company;
- Limited Partnership; and
- General Partnership (or Joint Liability Company).

## Limited Liability Company (“LLC”)

The most preferred commercial entity by those wishing to conduct commercial activities in Dubai is the Limited Liability Company (LLC) and is the commonly used commercial entity for companies with non-UAE national element. This is a private company and its shares are not offered to the public. The main fact that attracts the expatriates is that this gives a maximum legal ownership (49%) to them for a trading license. The local sponsor or UAE national’s participation shall be up to 51% and the minimum capital required shall be AED 300,000 which should be contributed in cash and paid up fully on establishment. A minimum of two and a maximum of 50 persons can form a Limited Liability Company. The liability of these persons shall be limited to the extent of their shares in the capital of the Company. The Company can be formed in less than a month after receiving all the documents and complying with the procedures.

You will also be given a license which will serve as an indicator of what services you are allowed to conduct and provide in the said place. It is known that the more activities for setting up business in Dubai that you apply for, the more fees you are about to pay. Therefore, you should be definitely prepared for that. However, you may not engage in the business of insurance, banking or investment of money on behalf of third party.

Following are the requirements for setting up an LLC in Dubai:

- Trade name approval and approval of the Memorandum of Association by the Licensing Department of the Economic Development.
- Attesting of the Memorandum of Association of the Company by a Notary Public in the Dubai Courts.
- Applying for entry in the Commercial Register of the Companies and getting approval from the Department of Economic Development.
- Getting the License from the Department of Economic Development.

Resolution of the Board of Directors, specifying the Representative and his powers, Power of Attorney to the Representative, and Memorandum and Articles of Association and Certificate of Incorporation have to be duly notarized at the place of incorporation, legalized by UAE Embassy,



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attested by UAE Foreign Ministry, and the Arabic translation authenticated before the Ministry of Justice have to be submitted in case of foreign body corporate. Once the approval is granted, the Company will be entered into the Commercial Register and have its Memorandum of Association published in the Ministry of Economy and Commerce's bulletin. Once the Company gets the License issued by the Department of Economic Development, the Company will be registered with the Dubai Chamber of Commerce and Industry.

## **Private Joint Stock Company**

A Private Joint Stock Company is defined as an organization whose capital is divided into negotiable shares of equal value and a partner therein shall be liable only to the extent of his share in the capital of the company, in accordance with the UAE's Commercial Companies Law (the 'Law'). A Private Joint Stock Company has to have a minimum AED 2,000,000 share capital. Shares of a Private Joint Stock cannot be offered to the public. A minimum of three founder members are required to incorporate a Private Joint Stock Company and fifty-one percent (51%) of shares shall belong to a UAE national. A Private Joint Stock Company is formed to carry out commercial or industrial business activities, but is not allowed to conduct professional activities.

A Private Joint-Stock Company is subject to all the rules and regulations that are applicable to Public Joint Stock Companies, except for the rules and regulations relating to public share subscription. A Private Joint Stock Company can be converted into a Public Joint Stock Company after two years of its formation by fulfilling certain requirements.

## **Public Joint Stock Company**

Public Joint Stock Company (PJSC) is defined as an organization whose capital is divided into negotiable shares of equal value and a partner therein shall be liable only to the extent of his share in the capital of the company, in accordance with the UAE Federal Commercial Companies Law (the 'Law'). The Law requires a minimum share capital of AED 10,000,000 of which a minimum of twenty-five percent (25%) must be settled on subscription. In addition, fifty-one percent (51%) of shares of PJSC shall belong to a UAE national and a minimum of fifty-five percent (55%) of shares must be offered to the general public.

Furthermore, PJSC should have at least 10 founding members, except in cases where the government entity is involved. Also, any company in which the State or Public Institutions hold any share should be formed as Public Joint Stock Company. The Board of Directors must have a minimum of three and no more than twelve board members. The chairman, as well as a majority of the board, must be UAE nationals.

## **Limited Partnership**



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A Limited Partnership is a company which consists of one or more joint partners liable, severally and jointly, for the obligations of the company and having the capacity of traders, and one or more silent partners not liable for the obligations of the company other than to the extent of their respective shares in the capital. Silent Partners shall not have the capacity of a trader. Any natural person or corporate person may be a Silent Partner in a Limited Partnership.

The name of a Limited Partnership Company shall consist of the name of one or more of the joint partners with the addition of such indication of the legal form of the company. The name of a Silent Partner may not be included in the name of the company. If such name is added with his consent, the Silent Partner shall be deemed as a Joint Partner to bona fide third parties.

The management of the company shall be limited to the Joint Partners. Decisions shall be unanimously passed by the Joint Partners, unless the Memorandum of Association of the company provides for majority. No variation of the nature of the business of the company or amendment to its Memorandum of Association shall be valid without the consent of all the Acting and Silent Partners.

## **General Partnership (or Joint Liability Company)**

A Joint Liability Company is a company which consists of two or more partners who are natural persons, to be jointly responsible in all their monies for the obligations of the company. A joint partner shall have the capacity of a trader. Such partner shall be deemed to conduct the commercial activities in person in the name of the company. The declaration of the bankruptcy of a Joint Liability Company means the declaration of bankruptcy of all the partners by the power of the Law.

The name of a Joint Liability Company shall consist of the name(s) of one or more partners in addition to the expression "and partners" or any similar meaning, provided that the name of the company shall end with the expression "Joint Liability Company". In addition, the company shall have its own trade name, provided that the name of the company shall be accompanied by such trade name. If the name of a Joint Liability Company contains the name of a person other than a partner in the company and that person is aware of this, that person shall be jointly responsible for the company's obligations against any person that deals with such company in good faith.

The management of the company shall be undertaken by all the partners. Every partner in a joint liability company shall be deemed as the agent of such company and the other partners in connection with the business of the company, unless such management is delegated under the Memorandum of Association of the company or an independent contract to one or more partners or to any person who is not a partner. A partner who is not a manager may not interfere in the management affairs unless agreed otherwise. However, such partner may demand to inspect the works of the company and its books and documents and to make notes



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thereon to the manager of the company. Decisions in connection with the business of the company shall be issued with the unanimous consent of the partners, unless the Memorandum of Association of the company provides otherwise.

## **Branch**

A branch has no separate legal personality and is an extension of the foreign parent company. According to Law number 13 of 2011 free zone companies are allowed to set up branches in the wider Emirate, provided they obtain the proper licence from the Department of Economic Development and the approval of the Ministry of Economy. Branch registrations may not be available to all businesses (in broad terms they are permitted for service providers and contractors) and the trade licence limits the activities of branches to specified permitted activities only.

A branch is wholly owned by its parent company and there is no requirement for UAE nationals to take an 'equity' interest in the business of the branch.

A UAE national service agent, sometimes referred to as a 'sponsor' must, however, be appointed to represent the branch in all administrative dealings with Government departments (such as immigration formalities). The remuneration of the sponsor is normally agreed on an annual fixed fee basis, and is a matter of commercial agreement and can vary depending on the prominence of the sponsor and the precise contribution he makes to the business of the branch. It takes approximately eight to twelve weeks to establish a branch.

## **Representative Office**

A representative office is broadly similar to a branch except, as mentioned above, it is not permitted to undertake any income earning activities. A representative office, however, is also required to recruit the services of a UAE national services agent or sponsor. It takes a similar amount of time to set up a representative office as it takes to set up a branch.

## **Free Zone Entity**

A key feature of a free zone entity is that it is not subject to the foreign ownership restrictions imposed by the Companies Law in the wider UAE (although issues of foreign ownership may still be relevant if the free zone entity is used as a holding company for assets outside the relevant free zone). Free zone entities are also typically granted certain ancillary financial benefits.

A free zone entity will generally take one of the following three forms: a branch of a foreign company, a free zone company or a free zone establishment. There are no minimum capital requirements for branches, while in most free zones, a free zone establishment and a free zone company are typically required to have sufficient capital to conduct their licensed activities (e.g.,



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US\$ 50,000 for DIFC Limited Liability Company). A free zone establishment may be owned by a single individual or company, whereas a free zone company typically requires two or more shareholders.

The key limitation of a free zone entity is that it is generally only permitted to conduct business within the relevant free zone or internationally and is limited to performing solely those activities specified in its license. A free zone entity must typically hold one or more of the following licenses: (i) trading license, (ii) service license, and/or (iii) manufacturing/ industrial license. In order for a free zone entity to engage in sales within the UAE (outside the relevant free zone), the entity will be required to retain the services of a commercial agent or distributor or establish an onshore entity.

## Accounting and Reporting

The UAE Commercial Companies Law No 2 of 2015, which came into force on 1 July 2015, requires all companies to apply international accounting standards and practices when preparing their accounts. The previous Companies Law had required compliance with internationally accepted accounting practices, which had been interpreted to mean IFRS Standards. There has never been a local GAAP in the UAE.

All entities that meet the definition of an SME in the IFRS for SMEs Standard are permitted to use the IFRS for SMEs Standard.

Audit of accounts is mandatory for some forms of entities in the free zone like the free zone companies (FZCO) and free zone establishments (FZE), for branch of local and foreign company audit report may not be necessary in most free zones. In order to finalize the audit it is obvious that the accounting records and documents must be available and well maintained. In UAE the general requirement for businesses is to maintain their records for no less than five years. The Commercial Companies Law states that the audit of accounts are necessary for all companies in the mainland. Generally, though the law stipulates the preparation of the audit report, the submission of the same is not enforced by the authorities and hence many organizations do not follow the same. Some free zones, particularly in the northern emirates do not require the submission of audited accounts for certain companies; one needs to bear in mind that this waiver is only for the submission of audit report to the authorities however the preparation of audit report for the entity itself cannot be overlooked.

## International Financial Reporting Standards (IFRS)

International Accounting Standards Board (IASB) has issued IFRS as the international accounting standard for accomplishing the tasks and activities of financial management. It



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deals with particular types of events and transactions for financial reporting. The IFRS explains a comprehensive way of working for the accountants to maintain their records. The set of principles are designed to ensure a common language that is well understood by the business people and accounting companies across the world.

The Securities and Commodities Authority (SCA) has made it mandatory for the businesses to comply with IFRS as stipulated by the Central bank of the UAE. So, all the companies listed in the NASDAQ Dubai (Formerly known as DIFX), Dubai Financial Market (DFM), or Abu Dhabi Securities Exchange (ADX) is required to manage their accounting records in accordance with International Financial Reporting Standards (IFRS). Therefore, all the companies listed legally on the Abu Dhabi Securities exchange from 2003 onwards are supposed to submit the IFRS financial statements.

## Financial and Banking System

The banking system of the Arab Emirates consists of the Central Bank and other local and foreign banking institutions. The Central Bank of the UAE performs key functions in the economy of the country and is a well-established financial structure. It provides consultations and financial support to the Government of the United Arab Emirates, issues national currency (the United Arab Emirates dirham), keeps control over activities of the UAE banks, etc.

The UAE Central Bank imposes quite strict requirements for licensing of foreign and local banks, as well as for the scope of their services. That is why the financial market of the Emirates offers only reliable and reputable banks with a full range of services for companies and individuals.

Banks are generally from Saturday to Wednesday 8.00am – 3.00pm. and 8.00 am to noon on Thursday and like other businesses they are closed on Fridays. Hours vary significantly during the holy month of Ramadan to accommodate breaking the fast.

With the exception of the entities incorporated in some of the free-zones, all companies in the UAE are required to process their salary payments through the Wage Protection System (WPS). In accordance with the WPS requirements, all salaries must be paid UAE dirhams to the local bank accounts of employees. Non-compliance with the WPS requirement will trigger various sanctions, including suspension of services by the Ministry of Human Resources and Emiratisation.

For additional information regarding WPS, please also see Mercans' blog at:





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<https://mercans.com/blog-human-resources-global-payroll/changes-to-uae-wps-announced/>

## Working Week

According to the UAE Labor Law the working week in Dubai tends to vary between 40 and 48 hours, depending on the particular company's policy. Office hours are usually from 8.30 or 9.00 am to 5.30 or 6.00 pm, but some companies also split the working day into two, usually from 8.00 to 1.00 and 4.00 to 7.00. There is no difference between summer and winter hours. In the month of Ramadan, the working day is reduced to six hours and legally this should apply to all staff, but many companies only apply it to Muslims, who fast during daylight hours

Friday is the Muslim day of rest and in the past many companies had Thursday-Friday as the weekend. However, nowadays the weekend is on Friday and Saturday since taking Thursday off would mean a reduction in the number of operational days in common with much of the rest of the world.

The working hour's related regulations have been summarized below:

Area	Regular Employee	Shift Employee	Female Employee
<b>Workdays (1)</b>	Saturday – Thursday (Friday is the only official weekend day).		Workdays (1)
<b>Weekly Regular Working Hours (1)</b>	Daily Criterion – 8 hours/day	Weekly Regular Working Hours (1)	Daily Criterion – 8 hours/day
<b>Breaks</b>	Min 60 minutes every 5 hours (not part of the working hours i.e. unpaid – employee may not be required to stay at their workplace) (4)	Min 60 minutes every 5 hours (not part of the working hours i.e. unpaid – employee may not be required to	1 hour for nursing mothers (paid break)



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		stay at their workplace) (4)	
<b>Max Stay at the Workplace</b>	10 hours per day	10 hours per day	
<b>Ramadan Working Hours (1)</b>	Daily Criterion – 6 hours/day	Ramadan Working Hours (1)	Daily Criterion – 6 hours/day
<b>Total Maximum Working Hours (Regular + Overtime)</b>	10 hours per day	Total Maximum Working Hours (Regular + Overtime)	10 hours per day
<b>Public Holidays (5)</b>	4 days – Eid Al-Fitr	Public Holidays (5)	3 days – Eid Al-Adha



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# Tax & Social Security

## Overview

The UAE federal government has exclusive jurisdiction to legislate in relation to UAE taxes. However, no federal tax laws have been established to date. Instead, most of the emirates enacted their own general income “tax decrees” in the late 1960s.

In practice, however, the tax decrees have not been enforced to date and, consequently, tax is generally not levied under the decrees on companies operating in the UAE, except for following industries and activities:

- Companies operating in the upstream oil and gas industry are subject to tax at rates specifically negotiated in the relevant concession agreements (up to 55%).
- Specific banking tax regulations have been enacted by certain emirates including Dubai, Sharjah, Abu Dhabi and Fujairah, which apply to UAE branches of foreign banks. Under these banking tax decrees, the income of branches of foreign banks is subject to income tax at the rate of 20%. The tax decrees share common characteristics in the way they have been drafted. The decrees limit the scope of taxation to “bodies corporate” (i.e. companies, branches or similar business registrations) carrying out a trade or business activity in the respective emirate and there is not a provision for the taxation of individuals or unincorporated businesses owned by individuals. Generally, the existing tax decrees levy income tax on companies operating in the respective emirates at rates of up to 55%.

Further, entities established in the free trade zones (FTZ) are entitled to guaranteed tax holidays for renewable periods of between 15 and 50 years from the date the business is established.

The UAE introduced value-added tax (VAT) on January 1, 2018, and is considering the implementation of new corporate income tax laws in the near future.

## Corporate Income Tax

The United Arab Emirates is a federation of seven Emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Qaiwain, Ras Al-Khaimah, and Fujairah.



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Currently, the United Arab Emirates does not have a federal corporate income tax (CIT) regime; however, most of the Emirates introduced income tax decrees in the late 1960s, and taxation is therefore determined on an Emirate-by-Emirate basis.

Under the Emirate-based tax decrees, CIT may be imposed on all companies (including branches and permanent establishments [PEs]) at rates of up to 55%. However, in practice, CIT is currently only enforced in respect of corporate entities engaged in the production of oil and gas or extraction of other natural resources in the United Arab Emirates.

In addition, some of the Emirates have their own specific banking tax decrees, which impose CIT on branches of foreign banks at the rate of 20%.

Free trade zones (FTZs) have their own rules and regulations and generally offer tax holidays to businesses (and their employees) set up in the FTZ for a period between 15 and 50 years (which are mostly renewable).

On the basis of the above, most entities registered in the United Arab Emirates are currently not required to file corporate tax returns in the United Arab Emirates, regardless of where the business is registered.

## Permanent Establishment (PE)

Registration of the company on the territory of the United Arab Emirates may be performed with a partner - resident of the country in case of onshore registration and with full foreign ownership when registering a company in free trade zones. For doing business in the UAE you will need a license from government authority of relevant Emirate.

Furthermore, there are various activities subject to license, including, for example:

- Trading companies;
- Various productions processes;
- Transportation and logistics services;
- Tourism;
- Provision of variety of services to businesses and the public.

In order to perform such activities, if the business is performed in the UAE, it is required to register a company on the domestic market of the Emirates with permanent establishment.

In case of availability of local agent the laws of Arab Emirates allow performance of operations through such specialized agent, authorized to represent the interests of the company.



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When registering Permanent establishment in the UAE such entity constitutes an integral part of the company and performs actions for the benefit thereof. All contracts are entered into on behalf of the parent company or establishment. The establishment is not required to form authorized capital and file financial reports.

When registering establishment or subsidiary in the UAE no risks arise in terms of tax consequences, since Emirates system of taxation exempts virtually all types of business from taxes, regardless of their status - permanent establishment whether or not doing business in the UAE or subsidiaries and branches.

## Withholding tax

The UAE has the reputation of a tax-free country all over the globe. Tax laws are few and are very straightforward. It is one of the countries of the world that truly facilitates business with the help of taxes full or partial exemption both for the residents of the United Arab Emirates and foreign citizens. If you are an entrepreneur working under the UAE law in one of the UAE free trade zones you will be exempt of a number of taxes, including income tax, dividend tax, interest tax and taxes on import and export.

Simplified procedures related to registering a business, promoting investment environment and the government's large-scale projects aimed at sustainable development of the UAE make this country the very welcoming place for entrepreneurs.

In this article we are going to discuss another tax levied in most countries of the world and how it is handled in the UAE – withholding tax.

If you are doing business in one of the UAE free trade zones you are fully exempt from the withholding tax as this tax is not applicable at all. All types of income – corporate and personal – received in the UAE – is free from any UAE withholding tax.

Withholding tax in Dubai is not an exception in the list of taxes both residents and non-residents are exempt of. It is not imposed on locals and foreign citizens. In the UAE there is no withholding tax on interest, royalties or income on real estate. Another important advantage of the tax-free environment in the UAE is that it makes no difference between foreign citizens and residents of the country regarding taxes, including the UAE withholding tax.

Thus, unlike many other countries of the world, the UAE is looking for the ways to truly boost businesses. The absence of the majority of taxes is clear evidence to the fact.

If you are looking for a place to start your business, consider the possibility of placing it in the UAE. Free Trade Zones, exemption of a number of taxes (including withholding tax) and the Emirates' promising prospects to thrive guarantee that your business will have a serious head start in comparison to the same enterprises in other countries of the globe.

## Personal Taxation



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There are currently no Federal or Emirate level personal income taxes imposed on individuals working in the UAE.



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## Social Security

The General Pension and Social Security Authority (GPSSA) handles social security insurance for all the emirates excluding Abu Dhabi. Only UAE nationals who hold a family book, or Gulf Cooperation Council (GCC) national employees, are entitled to be enrolled in the GPSSA pension scheme and are therefore not entitled to receive an end-of service gratuity. UAE nationals not eligible for registration with the GPSSA and expats in the UAE are entitled to receive an end-of service gratuity payment in accordance with the UAE Labor Law. To be eligible to receive GPSSA benefits, UAE nationals must have accumulated at least 25 years of social insurance contributions. The employers in the UAE are liable for mandatory subscriptions for their GCC employees according to the social security law in their home countries in terms of registration and the subscription share for GCC Nationals will be according to the law in their home countries, provided such share does not exceed the share the employer has allocated for their UAE Nationals. In case if it exceeds the UAE national share, the variance (on employer contribution) needs to be borne by the GCC employee. The GPSSA then disburses the contributions to the social insurance authorities of the home states of these GCC Nationals.

Employee's social security contribution is 5% and employer's contribution 12.5%, subject to minimum salary floor of AED 1,000 and maximum salary cap of AED 50,000.

The Abu Dhabi Retirement Pension and Benefits Fund (ADRPBF) manages the social security contributions for UAE nationals in the emirate of Abu Dhabi. Similar considerations and obligations outlined above apply in Abu Dhabi.

## Wage Protection System (WPS)

Effective 1 September 2009, the UAE Ministry of Labor introduced a mandatory electronic salary transfer system in UAE called the WPS. The WPS is compulsory for all employers within the UAE registered with the Ministry of Labor. However, free zone companies are excluded from the WPS. The employer is required to select and formally engage an agent that has been accredited and licensed by the UAE Central Bank for the purposes of the WPS. The employer issues instructions to its bank for payment of salary (the bank can also be an accredited WPS agent).

- The bank sends the payroll details for the employer to the WPS agent engaged by the employer.
- The WPS agent forwards the details to the WPS electronically, which are then transmitted by the system to the Ministry.
- The Ministry confirms to the WPS that the salary file corresponds with the details that are registered with it.
- On the basis of this, the WPS sends the salary file containing the employee payroll details to the WPS agent with an authorization for payment.
- The WPS agent makes the payment of the salaries to the employees. Salaries must be paid in the local currency (UAE dirham).



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# Payroll

Payroll requirements are governed by UAE Labor Law. There is no specific guidance for payslips, however, in general practice, they are released to employees monthly. Payments are controlled as per the Wage Protection System (WPS) for non-free zone companies. The employer will have to transfer salary payments via the WPS within two weeks of their due date, or on the dates specified in the work contract if such salary or wages are paid more frequently than monthly. It is mandatory to have a local employment contract and a salary transfer in UAE dirham.

## Sample Payslip



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PAYSLIP- UAE

<b>Employer</b>		Mercans General Trading LLC		<b>Net Pay:</b>  <b>AED 31,123.38</b>	
<b>Employer address</b>		Media City Concord Tower, Office 2704, Dubai			
<b>Country</b>		United Arab Emirates			
<b>Pay Period</b>		May 2020			
<b>Employee name</b>	John Doe	<b>Email</b>	John.doe@noemail.com		
<b>Employee ID</b>	OA001	<b>Hire date</b>	2020-01-05		
<b>Employee Position</b>	Creative Director	<b>Payment Method</b>	Bank		
Summary					
Pay currency	Entitlements	Deductions	Net pay		
AED	31,123.38	0.00	31,123.38		
Details					
Entitlements	Amount	Currency			
62100 - Basic salary	18,600.00	AED			
62400 - Housing allowance	9,300.00	AED			
62520 - Transportation allowance	3,100.00	AED			
62800 - Expense reimbursement	123.38	AED			
Deductions		Amount	Currency		
Banking details					
Bank name	SWIFT	Beneficiary name	Acc. number	Account currency	Type
RAK Bank - The National Bank of RAK PSC	NRAKAEAK	John Doe	AE644200000033221369111	AED	Primary





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## Employment Law

Employment in the UAE is governed by the UAE Labour Law, Federal Law No. 8 of 1980, as amended and applies to all staff and employees working in the UAE. Certain categories of individuals are exempted from the law, including federal and emirate level government employees, domestic servants and agricultural workers. In addition to the UAE Labour Law, the Ministry of Human Resources and Emiratization (previously the Ministry of Labour) has issued a number of ministerial resolutions and circulars which supplement certain provisions of the UAE Labour Law and in some instances have been used to clarify the application of certain provisions of the UAE Labour Law.

UAE employment law affords certain protections for employees, including setting minimum standards on employing juveniles, working hours, vacation and public holidays, sick leave, maternity leave, employee records, safety standards, termination of employment and end of service gratuity payments. In January 2011, the Ministry of Human Resources and Emiratization introduced, for the first time, a minimum wage limit for different categories of workers.

Employee grievances are handled by a special program run by the ministry, and the ministry must also be informed if an employee is subject to the disciplinary code. Pensions and social security schemes in the UAE are governed by the Pensions & Social Securities Law, Federal Law No. 7 of 1999, as amended which apply to UAE and GCC nationals.

Some free zones have their own employment laws and employee grievance procedures although, these generally mirror the provisions of the UAE Labour Law. In some free zones, for example the DIFC, the free zone's laws will take precedence over the federal employment laws.

Most employees working in the UAE, including in the free zones, have written contracts of employment. The Ministry of Human Resources and Emiratization requires a standard form contract of employment to be entered into and filed with the ministry. Many employers also enter into further, more comprehensive employment contracts with their employees.

UAE federal law also sets out preferences for hiring UAE nationals and, for some administrative positions, requires that only UAE nationals be employed. If a non-free zone company has more than 50 employees, it must employ a minimum percentage of UAE nationals in accordance with the "Emiratization" policy of the UAE federal government as originally expressed in Council of Ministers Order No. 259/1 of 2004 entitled "Resolutions on Training and Employment of UAE Citizens in the Private Sector." The Emiratization policy applies to both the public and the private sector, and both local and international companies operating in the UAE are subject to the Emiratization policy in the sectors for which such guidelines have been formulated.

A key provision of UAE federal employment law is a requirement to pay a statutory end of service gratuity (ESG) to employees upon termination of their employment subject to satisfying



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certain requirements under the UAE Labour Law. The ESG regime in the UAE takes the place of a formal pension regime. ESG is calculated at a rate of 21 days of salary per year for the first five years of service and 30 days for each year thereafter, up to a maximum amount of ESG equal to two years of salary. The calculation of ESG is reduced if employment is terminated by the employee. ESG is payable as a lump sum on termination of employment. The DIFC has its own ESG regime, which is broadly similar to that applied in the wider UAE.

## Employment Contract

For those companies governed by the MHRE, the hiring of any new employee, whether from within the UAE or abroad, requires executing a standard form offer letter and submitting it to the authorities in order to obtain the necessary governmental approvals. The terms of the offer letter must reflect the terms of the final employment contract that will be executed at a later stage.

As part of the process of obtaining the work permit, a template employment contract issued by the MHRE (or relevant free zone authority if the employer is established in a free zone<sup>12</sup>) must be signed by the parties and submitted to the MHRE (or free zone authority). The template employment contract includes basic employment terms and is drafted in English and Arabic.

Due to the basic nature of the MHRE (or free zone authority) template employment contract, it is common practice to execute a supplementary employment contract which includes additional terms that are not reflected in the basic MHRE or free zone employment contract template. Accordingly, it is common for employees in the UAE to hold two employment contracts: (a) a MHRE (or free zone) employment contract; and (b) a private employment contract which describes the employment relationship in more detail.

## Leaves

The statutory leaves for UAE have been summarized in the below table:

Leave Type	Eligibility	Compensation	Leave Duration
<b>Annual Leave</b>	<ul style="list-style-type: none"><li>• Completion of probationary period</li><li>• Employer approval required – 30 days advance notice</li><li>• No carry-forward by employee; max grace period for the employer 60 days</li></ul>	Paid	Year 1-5 – 3 weeks Year 5+ - 4 weeks
<b>Sick Leave</b>	<ul style="list-style-type: none"><li>• Doctor's notice</li></ul>	Paid/Partially-paid/Unpaid	First 2 weeks – fully paid



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			Following next 4 weeks - 50% paid Following anything - unpaid
<b>Bereavement Leave</b>	<ul style="list-style-type: none"><li>• Death of direct family member</li></ul>	Paid	7 days
<b>Marriage Leave</b>	<ul style="list-style-type: none"><li>• Marriage</li></ul>	Paid	15 days ( true copy of Marriage certificate )
<b>Childbirth Leave for Male Employees</b>	<ul style="list-style-type: none"><li>• Birth of a child</li></ul>	Paid	3 - 5 days
<b>Haji Leave</b>	<ul style="list-style-type: none"><li>• Once during service period</li></ul>	Unpaid	2 weeks
<b>Maternity Leave</b>	<ul style="list-style-type: none"><li>• Completion of the probation period</li></ul>	Service Period: Employed atleast 1 year	Before Delivery - 15 days After Delivery - 35 days
<b>Unpaid Leave</b>	<ul style="list-style-type: none"><li>• Employer prior approval</li></ul>	Unpaid	Max durations is defined by the employer.



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## **Termination, Resignation or Retirement**

### **Probationary Period**

Probationary periods are common in the UAE. The maximum period of probation is six months. During or at the end of the probationary period, the employer may terminate the employee's employment, without notice, or end of service gratuity pay. The probationary period is included in the calculation of the employee's total period of service.

### **Term**

Employment contracts may be either for a fixed (limited) time or for an unlimited period of time.

### **Fixed-term contracts**

Where a company is located onshore, fixed-term contracts cannot exceed a two-year term. In the free zones, terms of three years are permitted. The contract can be renewed by mutual agreement at the end of the fixed term for equal or shorter periods. Any extensions will be considered part of the original term and, therefore, should be included in calculating the employee's total period of service.

If either party wishes to terminate a fixed term contract before the expiry date, compensation must be paid to the non-terminating party. In this regard the employer is obliged to pay the employee compensation of three months' salary (or the salary due for the remainder of the contract if less). The employee is obliged to pay the company compensation of 1.5 month's salary (or the salary due for the remainder of the contract if less).

After renewal of the fixed-term contract, either party may terminate the employment on notice. The notice clause can be for a minimum of one month and a maximum of three months. If the contract does not contain a notice provision, three months will be automatically applied. The terminating party must also compensate the other party to the agreement. Compensation can be for a minimum of one month and a maximum of three months. If the contract does not contain a compensation provision, three months will be automatically applied.

### **Unlimited term contract**

An unlimited term contract is for an indefinite period and is effective from the date of commencing employment. It can be terminated by either party for a "valid reason" (generally interpreted to mean any reason attributable to an employee's performance or conduct, and subject to the disciplinary procedure set out in the Labor Law being followed) at any time by giving the other party a notice in writing, subject to the provisions of the Labor Law.



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## **Legitimate Causes for Dismissal by the Employer under Article 120**

Subject to complying with the process stipulated under Section 4.5, an employer is permitted to legitimately terminate the employment contract of an employee without notice and without any end-of service gratuity for the reasons stipulated under Article 120 of the Labor Law as follows:

- Adopting a false identity or nationality or submission of forged documents or certificates
- Dismissal occurring during, or at the end of, the probation period
- Committing a fault that causes substantial material loss to the employer, as long as the employer notifies the labor department of the incident within 48 hours of learning of such fault
- Breach of the workplace safety instructions, as long as the instructions are clearly displayed in writing in the workplace or are verbally communicated to illiterate employees
- Non-performance of material duties stipulated in the employment contract, and the continuance of this failure despite formal investigation and the issuance of a dismissal warning if the non-performance subsists
- Divulging secrets of the workplace
- Conviction of the employee because of a final judgment for an offense involving honor, honesty or public morals
- Drunkenness or operating under the influence of drugs during the employee's working hours
- Assaulting the employer, the manager of the employer or any of the employee's colleagues
- Unjustified absence for more than 20 intermittent days or for more than seven successive days in one year

## **Legitimate Causes for Termination by Employee under Article 121**

An employee is also entitled to terminate the employment contract without notice if any of the grounds related to the employer's conduct stipulated in Article 121 of the Labor Law are present. These grounds are as follows:

- The employer breaches its obligations prescribed in the employment contract or under the applicable laws
- The employer or the employer's representative assaults the employee

## **Process for Dismissal/Termination/Disciplinary Measures**



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Disciplinary penalties expressly permitted by the Labor Law include a warning, suspension, fine, forfeiture of promotion, termination with notice and termination without notice.

The following procedure must be conducted before imposing any disciplinary sanction, including dismissal, upon an employee:

- The employee must be notified in writing of the charge or allegation.
- The employee must be given an opportunity to defend himself/herself against the allegations. In practice, employees will attend a meeting in this regard.
- The matter must be adequately investigated and the employee must be provided with written reasons for any penalty being imposed, which should also be recorded in the employee's personnel file.
- An allegation cannot be raised after the lapse of 30 days from the date of discovery of the violation and a penalty cannot be imposed after the lapse of 60 days from the date on which the disciplinary investigation ended.

## Redundancies

Redundancies are not recognized under the Labor Law. As such, there are no specific economic reasons that would justify a termination. Instead, a redundancy process must fall within the existing termination provisions of the Labor Law.

## Notice/Payment in Lieu of Notice

In accordance with the Labor Law, the minimum notice period for an unlimited contract is 30 days, with a maximum of three months. In a recent amendment to the labor regulations, limited contracts which have been renewed are now subject to an identical notice period requirement. The contract can also be terminated by the employer without notice if the employee is terminated for cause on the grounds outlined under Article 120, as stated in Section 4.3.

Notice cannot be waived or reduced. This means that an employer should pay in lieu of notice if it does not require employees to work their notice period.

## End-of-Service Gratuity

An employee whose contract is terminated or expires and who has completed at least one year of service is generally entitled to an end-of-service gratuity. In the absence of any higher rate agreed by the parties, the end-of-service gratuity is equivalent to 21 days wage<sup>13</sup> for each of the employee's first five years of service and 30 days' wage for each year thereafter.

If the employee resigns and the employment contract is for an indefinite period,<sup>14</sup> the gratuity entitlement is reduced in the following manner:



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- If the employee has more than one year but less than three years of service, the employee will be entitled to one-third of the gratuity.
- If the employee has more than three years but less than five years of service, the employee will be entitled to two-thirds of the gratuity.
- If the employee has more than five years of service, the employee will be entitled to the full gratuity payment.

If the employee resigned from an employment contract for a fixed period and has less than five years of service, they will not be entitled to any gratuity.

End-of-service gratuities are capped at an amount equivalent to two years wages and are proportionately calculated for any partial year worked. An employee is not entitled to an end-of-service gratuity if s/he is dismissed for a reason falling within Article 120 of the Labor Law. Employees employed on fixed-term contracts will also forfeit their end-of-service gratuity if they resign before the expiry of the term and have less than five years of service.

The payment of pension shall be due on the day following the date of end of service. The retirement age is 60 years. All pension payments will be made directly into the bank account of the employee. The pension will be payable for the duration of the life of the employee. Upon death of the employee, the pension will be immediately stopped and redistributed to beneficiaries according to the law. Where pension contributions are paid late, the GPSSA may impose fines against the employer which are calculated at the daily rate of 0.1% of the contributions payable for each day that the contributions are overdue. Similarly, where an employer has failed to register employees with the GPSSA, the employer can be fined AED 5,000 per employee.



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# Immigration

The UAE government requires that individuals seeking to reside in the UAE for employment purposes must be sponsored by their employer.

Below is an overview of the general steps necessary to secure a residency visa. Please note, that some procedures will vary based on the employee's country of citizenship or their immigration status at the time of hire (if you are hired from within the UAE). Also, the immigration processes for free zone may differ from the standard process.

## Residency Visa Process

1. Employer prepares employee's Ministry of Labor Offer Letter
2. Employer obtains the employee's work permit
3. Employer obtain an entry permit for the employee
4. Employee enters the UAE
5. Employee takes the medical test and provides their fingerprints
6. Employee's residency visa issued
7. Emirates ID is issued to the employee





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### A Revolutionary Service Delivery System

Say goodbye to third-party service providers, offshore call centers, fragmented data, and endless chains of sub-contracts.

Mercans cloud-based SaaS Products, HR Blizz™ & Mesaar™, combine the performance of proprietary technologies with a human touch. Cost-effective, they are fully-compliant self-service tools, packed with smart built-in features for your peace of mind. All your data are integrated into single interfaces accessible from everywhere and on any device.

### Trailblazing Cloud-Based SaaS Products

HR Blizz & Mesaar, our Software-as-a-Service platforms, both propose a preconfigured API integration capability with all the major global HRMS platforms, including SuccessFactors, Workday, Oracle HCM, and MS Dynamics. All Mercans systems and processes are GDPR compliant, ISO 9001, 20000, 27001 certified, and SOC 1 and SOC 2 audited. A registered Finpro expert, Mercans is also a member of the Global Payroll Association and the Global Payroll Management Institute.





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