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## GENERAL CHARACTERIZATION OF OAOI TAXES AND LEGISLATIVE REGULATION

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**Abstract:** *The Arab Emirates have always been distinguished by a flexible taxation system, which was aimed at creating favorable conditions for investors and businessmen. Many types of activities were not subject to fees or duties for a long time. Each Emirate had its own Tax Decrees providing for certain tax regulations. The decrees of some Emirates were not always detailed, but described the basis of taxation. There were few differences in what taxes were paid in the Arab Emirates by citizens and what taxes were paid by residents as well*

*The tax system was based on "Muslim law," which does not recognize most common types of taxes. Separate Decrees were applied only in the case of companies involved in oil and gas exploration and production, as well as certain petrochemical companies under specific state concession agreements. This explains the absence of a single document containing the basic concepts and principles of taxation in the country.*

*This article reveals the peculiarities of taxation that have been introduced in the UAE in recent years.*

**Keywords:** *taxes, tax system, taxation, tax rates, tax regulation*

**Introduction.** The UAE is one of the most developed federal states in the Middle East, consisting of seven emirates. Its favorable geographical location, the presence of Free Economic Zones (FEZs), active construction of hotels, amusement parks, office centers, residential and commercial real estate and other circumstances constantly attract foreign investors and businessmen.

The UAE government offers numerous incentives to the business community aimed at developing their activities and increasing economic activity. The total number of economic licences registered in all emirates of the country rose to about 652,885 licences at the end of June 2020, up 4,201 from May of that year, according to the latest figures recorded by the National Market Surveillance Agency (National) [1].

The total number of sole proprietorships in 2021 increased to 304,948 or a 1.3 percent increase from 2020.

With about 80 percent of the population in the UAE being expats, i.e. people who have come from other countries, various reforms are being implemented in the country to clarify the ways in which foreigners live and do business.

The UAE leadership is taking drastic measures to diversify its economy, creating a favorable environment to attract foreign investment and entrepreneurs.

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**Main provisions.** One of the prerequisites for tax reform was the innovation of the Organization for Economic Cooperation and Development (OECD) in 2021, when it presented to the world the BEPS 2.0 plan, which contains model rules to address taxation issues [2]. The UAE cooperates with many OECD countries and is also a member of the "GCC" a regional closed international organization of the Cooperation Council for the Arab States of the Gulf (GCC; English: Cooperation Council for the Arab States of the Gulf; Arabic: (ق.م.ع.ج) [3]. Therefore, changes in the tax system aimed at international standardization and prevention of "harmful tax practices" is highly relevant.

The "Competent Authority" for the purposes of bilateral or multilateral agreements and for the conduct of international exchange of information for tax purposes is the UAE Ministry of Finance. The Federal Tax Authority is responsible for the administration and collection of Arab Emirates corporate tax. During the period, the UAE Ministry of Finance has done a great deal of work to harmonize legislation, which indicates a fundamental transformation of tax regulation.

**Materials and methods.** The research is based on the analysis of legal documents. This method includes the study of basic laws, regulations, decrees, and other legal documents related to the UAE tax system, which allows you to understand the basic principles and structure of tax legislation.

**Results and discussion.** In recent years, the optimization of tax legislation has become an urgent requirement of the time, which is due to the country's resource-oriented economy, i.e. the presence of oil reserves, which in 2021 amounted to 110 billion barrels (OPEC data for 2021). At current production rates (on average - 3.7 million barrels per day) and oil can be used for at least 80 years. The UAE government is constantly looking for alternatives to economic development related to science-intensive production, the financial sector and cryptocurrencies.

Starting from June 1, 2021, in connection with the implementation of the provisions of Federal Decree Law No. 26/2020 into law, foreign citizens can own a 100% stake in a local company, if only such a company of "strategic importance," which is subject to additional regulation. In this case, capital can be distributed in different ratios according to the Memorandum of Association.

All companies are registered with the UAE Department of Economic Development, in accordance with the established requirements. The main advantage provided to companies is many different opportunities and options for registration. The company registration process changes periodically, in accordance with the adoption of new UAE laws. To register a company in the UAE, you need to choose the form of a legal entity and decide on the activities, as well as choose a license. If the company has several types of activities, choose a license for each.

All these aspects required the optimization of tax legislation. Some tax issues are reflected in official documents:

1. The UAE Constitution [4];
2. Federal Law No. 1, 1972 (defines the competence of various UAE ministries and the competence of ministers);
3. Federal Decree-Law (FDL) No. 13, 2016 (creation and basic working conditions of the tax service); created Federal Tax Unit;
4. FDL No. 28, 2022 (tax procedures);
5. FDL No. 47, 2022 (taxation of legal entities).

In the UAE, legislative regulations characterizing the UAE tax system are also



widespread, aimed not only at increasing the state budget, but also at eliminating harmful tax practices (Harmful Tax Practices). Today, this is a serious global problem in the modern world. The UAE government understands that aggressive fiscal optimization methods lead to significant financial losses. By supporting and stimulating the shadow sector of the economy in the country, it is possible to reduce the level of security due to the risks associated with the financing of terrorism.

The strengthening of the importance of the tax system is associated with decision No. 82 of the Ministry of Finance of the UAE, which defines the categories of tax residents obliged to keep audited financial statements (the basis is article 52 of the Law on Corporate Taxation of the Company).

The law provides for the introduction of a new corporate tax regime in the UAE, which will come into force for tax periods starting on or after June 1, 2023. The law consists of 60 pages and includes 70 articles explaining the taxation of enterprises in certain working conditions [5].

In 2023, the Federal Tax Service FTA announced a partial change in tax laws. The innovations did not radically change the fiscal system, but became more logically built in accordance with the realities of today's state of business in the UAE. In order to create more attractive conditions for international investment, amendments to the fiscal code (Nos. 5, 6 and 7) were adopted in April 2023, and (Nos. 82, 83) in which the Ministry of Finance (MOF, Ministry of Finance) made additions recommended by the UAE Federal Tax Service (FTA, Federal Tax Authority).

Changes from 2023 The UAE government, introducing an alternative strategic plan for the development of the economy, introduced relevant legislative changes and issued Decision No. 5 of 2023, which entered into force on June 1, 2023. It specifies which conditions must be met to be able to change the tax period.

Taking into account the above, measures are being taken in the UAE to simplify the calculation of taxable income of enterprises. To do this, adjustments are made to account for the gains or losses recorded in the financial statements. Practice shows that it is thanks to the existing simplified methods of taxation that the Emirates attract a huge amount of foreign investment.

Hence the *de minimis* requirements, which are introduced by the Corporate Tax Act, would substantially limit access to preferential taxation for many businesses.

Non-resident investors wishing to open a company in the UAE must have permanent representation in the emirates, such as an office branch [6]. Such enterprises are formally subject to taxes, but due to the fact that taxation in the UAE is based on a territorial concept, the tax rate will depend on the policies of a particular emirate.

In the case of registering a branch of a foreign bank in the UAE, the company is usually taxed at a rate of 20%. The Ministry of Finance (for trading companies and banks), and the Ministry of Industry (for industrial enterprises) of the UAE for renewing the necessary licenses, have established such types of fees for companies as;

1) a fee for issuing and renewing a trade license, which forms local budgets. It is expressed as 10% of the total cost of renting all the company's premises, as well as 5% of the cost of accommodation and arrangement of employees in the country;

2) trading license fees and profits of certain legal entities are paid once a year, for the period from January 1 to December 31.

In the Emirates, there are also free trade zones with their own rules and laws, including in the field of taxation. Companies registered in one of the free trade zones may be given tax breaks for a period of 15 to 50 years with the possibility of extension.

At the same time, double taxation was excluded from state bodies.



In 2016, to maintain the tax system in the UAE, the Federal Tax Office (FTA) was established, a government body that acts as the responsible for collecting and managing federal taxes in the UAE, including value added tax (VAT) and excise taxes.

**Value added tax.** Expanding the UAE tax system, we will dwell on the characteristic of VAT value added tax, the payment of which must be carried out by all companies registered with the tax authorities and located on the mainland of the UAE and in free zones. The UAE cabinet may designate a specific free zone as a "designated zone." In this case, tax will not be levied on enterprises located on its territory [7].

Registration as a VAT taxpayer is mandatory in the following cases:

- there is reason to assume that the taxable turnover in the next 30 days will exceed the registration threshold (for example, a contract is concluded); at the end of the month, the taxable turnover for the previous 12 months actually exceeded the registration threshold;
- the company receives services to be included in reporting under the reverse charge method for an amount exceeding the registration threshold. It is also possible to be proactive

The company receives services to be included in reporting under the reverse charge method for an amount exceeding the registration threshold. It is also possible to initiate registration after exceeding the threshold of taxable transactions in the amount of 187,500 AED.

Registration with the UAE Federal Tax Office and receipt of Tax Reference Number (TRN) - Company Tax Number - takes an average of 20 business days. After registration with the Federal Tax Administration and receipt of the VAT payer number, the company is obliged to submit a VAT return quarterly (and for companies with an annual turnover of more than 150 000 000 AED as well as pay the resulting VAT).

Consumers pay 5% VAT on the cost of goods and services they purchase in the UAE. The state also levies a 5% tax on companies registered to pay VAT in the supply of goods and services at each stage of the supply chain.

At the same time, special types of goods that are not taxed are allocated in the country. For example, in 2020, the state exempted from VAT some personal protective equipment used during the COVID-19 pandemic, such as medical and textile masks, chemical disinfectants and antiseptics.

The rate of 0% VAT applies to: export of goods and services outside the GCC; transportation and delivery of certain sea, air and ground cargo such as ships and aircraft; residential real estate in the primary market, which was sold within the first 3 years from the end of construction; international transportation; investment precious metals such as gold and silver; delivery of education and health care services.

The VAT declaration also indicates the obligation of the taxable person on VAT - the difference between VAT accrued on the supply of goods and services for a given tax period and VAT incurred during purchases. If the amount of the output tax exceeds the amount paid on the purchase of the input fee, then the difference between them must be paid to the FTA. If the amount of purchase tax exceeds the amount of deliveries, then the output tax is returned to the taxable person. The difference can also be included in the next payment. VAT declaration is filed online on the FTA website.

Since November 2018, tourists and guests of the UAE can take advantage of VAT refunds from purchases made by them within the country. This can be done using the FTA electronic system at airports and international maritime stations. VAT refund is possible subject to the following conditions:

1. Goods must be purchased from a seller who participates in the "Tourist Tax Refund Scheme."
2. Goods must be part of the Federal Tax Administration's tax refund scheme.



The buyer must have a clear intention to leave the UAE with the purchased goods within 90 days from the date of delivery.

***UAE corporate tax*** (hereinafter referred to as CPN) is a federal tax and represents a mandatory fee to the UAE federal budget by legal entities of residents and non-residents who receive income in this country or work in its territory [8].

In individual UAE jurisdictions, this tax is also called "corporate income tax" or "enterprise income tax." The introduction of the CPN deprives the UAE of the status of a tax-free country. Since the UAE is currently a modern global center for business and investment, when forming the CPN, the country's leadership relied on the best international taxation practices aimed at accelerating the development and transformation of the economy to achieve strategic goals.

It should be noted that the CPN regime in the UAE entered into force for financial years starting on or after June 1, 2023. For CPN purposes, the place of residence is not determined by the place of residence or permanent residence, but by specific factors specified in the Corporate Tax Act. If a person does not satisfy the conditions for recognition as a resident or non-resident, he will not be considered a taxpayer and, therefore, will not fall under the CPN. At the same time, all companies located in the UAE must apply for registration of the CPN. According to the Law, the presence of zero income in the past year and the absence of income in the current and next years, does not exempt the company from this action.

Certain types of enterprises or organizations are exempt from corporate tax due to their significance and contribution to the social structure and economy of the UAE.

The law also exempts certain types of income from this tax. This means that taxable persons are not subject to CPN on such income and cannot take into account the costs associated with it.

The UAE Ministry of Finance (MOF) has issued Cabinet Decision No. (75) of 2023 on administrative penalties for violations related to Federal Decree-Law No. 47 of 2022 on taxation of corporations and enterprises [9].

### **Conclusion.**

1. Thus, the Corporate and Business Taxation Law that has been adopted applies to both local and foreign companies operating in the country. One of its key aspects is how it establishes the tax nexus for non-resident legal entities (corporate entities) deriving income from real estate in the UAE.

2. Individuals staying within the UAE for more than 180 days and companies existing for at least a year can obtain tax residency status from the Federal Tax Authority and be exempted from paying fees in the country of citizenship. In addition to corporate levy, local legislation provides for excise and tourist taxes and VAT.

3. Tax residency implies that a person (individual/legal entity) operates within the fiscal system of a particular country. The vast majority of individuals are by default tax residents of their country of origin.

4. When choosing the tax residency of a natural person, a lot of factors should be taken into account, including, the following:

- The rules for determining tax status by the state of current residence/destination country;
- Tax rates in the destination country;
- Presence / absence in the country of interest of special fiscal schemes (non-dom, benefits for new residents) and investment immigration programs;

5. The need to clearly comply with the requirements of tax legislation for the life of society and the state as a whole determines the use of various measures of state coercion. Among these measures, an important role belongs to legal responsibility for non-fulfillment or improper fulfillment of the obligation to pay taxes. Taking into account the above, any tax offenses are of a financial and legal nature, since in all cases it is a violation of the requirements of tax





legislation, which is part of financial legislation

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## БІРІККЕН АРАБ ӘМІРЛІКТЕРДЕГІ САЛЫҚТАРДЫҢ ЖАЛПЫ СИПАТТАМАСЫ ЖӘНЕ ЗАҢҒА САЙ РЕТТЕУ

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**Түйін.** Араб Әмірліктері әрқашан инвесторлар мен бизнесмендер үшін қолайлы жағдай жасалған икемді салық жүйесімен ерекшеленді, толық қызмет түрлері ұзақ уақыт бойы алымдар мен алымдарға жатпайды. Әмірліктің белгілі бір салық ережелерін көздейтін жеке Салық жарлықтары болды. Кейбір әмірліктердің жарлықтары әрқашан ретте-тегжейлі болмады, бірақ салық салу негіздері сипатталды. Араб Әмірліктерінде азаматтардың қандай салықтарды төлейтіні және тұрғындардың салықтарын төлейтіні бойынша қандай шығындар аз болды.

Салық жүйесі салықтардың көп тараған түрін мойындамайтын «мұсылман құқығы» негізінде құрылды. Жекелеген мұнай мен газды барлау және өндірумен айналысатын компанияға, сондай-ақ нақты мемлекеттік концессиялық келісімдер бойынша қауіпсіздік мұнай-химиялық қауіпсіздікке қатысты ғана қолданылды. Бұл еліміздегі салық салудың негізгі ұғымдары мен принциптерін құжаттың жоқтығын анықтайды.

Бұл мақала БАӘ-де соңғы жылдары салық салудың ерекшеліктері ашады.

**Түйін сөздер:** салықтар, салық жүйесі, салық салу, салық ставкалары, салықтық реттеу

## ОБЩАЯ ХАРАКТЕРИСТИКА НАЛОГОВ ОАЭ И ЗАКОНОДАТЕЛЬНОЕ РЕГУЛИРОВАНИЕ

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**Резюме.** Арабские Эмираты всегда отличались гибкой системой налогообложения, которая была направлена на создание благоприятных условий для инвесторов и бизнесменов. Многие виды деятельности долгое время не облагались пошлинами и пошлинами. В каждом эмирате были свои собственные налоговые указы, предусматривающие определенные налоговые правила. Указы некоторых Эмиратов не всегда были подробными, но описывали основы налогообложения. Было мало различий в том, какие налоги платили в Арабских Эмиратах граждане и какие налоги платили резиденты.

Налоговая система была основана на «мусульманском законе», который не признает наиболее распространенных видов налогов. Отдельные указы применялись только в отношении компаний, занимающихся разведкой и добычей нефти и газа, а также отдельных нефтехимических компаний по специальным государственным концессионным соглашениям. Этим объясняется отсутствие единого документа, содержащего основные понятия и принципы налогообложения в стране.

В данной статье раскрываются особенности налогообложения, которые были введены в ОАЭ в последние годы.

**Ключевые слова:** налоги, налоговая система, налогообложение, налоговые ставки, налоговое регулирование.

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