Is Income Tax or Corporate Tax an option for the UAE?

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The Dubai Chamber of Commerce and Industry President and CEO, Hamad Buamim recently confirmed that the Dubai government is currently considering a proposal to tax remittances. Whilst I think it is unlikely this proposal will come to fruition, it is worth considering how personal and corporate tax will affect the UAE.

There is presently no income tax for individuals and limited tax for companies based in the UAE. Each emirate has its own corporate tax rate and tax is only imposed on the income of oil and gas exploration companies and branches of foreign banks.

Most countries' tax systems are based on direct taxation imposed on individuals income and property; and indirect taxation imposed on transactions. For example, the tax policy in the European Union is made up of direct taxation which is administered solely by the Member States and indirect taxation affecting the free movement of goods and the provision of services. Other countries are implementing specific purpose taxes such as carbon tax to discourage businesses and industries from emitting greenhouse gases.

The UAE government's expenditure is increasing as it develops the country's infrastructure. It is reasonable for the government to introduce fees to maintain the capital investments it has made. In my opinion, introducing a low level of tax for local and international companies in the UAE is not a bad idea. Implementing taxation will generate income for local and federal governments. However, income is not the only driver behind introducing tax. Taxation will require proper corporate governance for all companies operating within the UAE. Companies will need to implement accurate accounting and auditing mechanisms. Many family run businesses do not yet have such practices and they are not standard across the UAE. It will also increase the demand for local accountants and financial controllers and encourage people to study and develop their skills in these fields.

Requiring companies to file taxation returns will provide the UAE government with valuable knowledge and insight into the companies operating within the UAE. It will also be detrimental to shell companies operating with ulterior motives so the government can remove them from the economy. A number of expatriates contribute minimally to the UAE economy because they send the majority of their income to their home country and so introducing taxation will cause a portion of their income to remain in the UAE. Additionally, it will encourage investment in NGO's and charitable organisations because they will be tax deductable and the UAE community will benefit from a rise in non-profit fundraising for humanitarian, cultural, educational and athletic causes.

A number of countries have double taxation treaties with the UAE. Paying tax locally would not affect companies from these countries because it will be taken into account when they repatriate income to their home countries.

There are a number of negative implications associated with introducing tax and the administrative cost of direct taxation needs to be taken into account. If the tax is a small amount such as one to two percent, there is a real possibility that the governmental cost of administering the tax may be greater than the income received from the tax. The administrative cost is therefore likely to dictate the rate of tax payable.

One of the main attractions for businesses and individuals to relocate to the UAE is its tax-free status. The UAE’s financial model and tax free reputation has resulted in most international and multinational companies choosing the UAE as their headquarters for distribution throughout the Middle East and Africa. Imposing a tax would have a significant impact on emirates such as Dubai and Abu Dhabi which have attracted individuals and businesses based on their low tax profile and tax free zones. If the UAE becomes more expensive for these businesses and individuals, it may cease to be competitive with other Gulf States, resulting in companies relocating and expats moving elsewhere.

The UAE economy was originally based largely on oil and there is concern that its income is too reliant on it. The income has now diversified and the UAE has found other sectors to boost the economy and encourage the growth of the private sector. The UAE has been innovative and creative in establishing 26 special purpose zones including the DIFC, RAK Free Trade Zone, Jebel Ali Free Zone, Ajman Free Zone Authority and the recently announced Al Maryah Island financial free zone in Abu Dhabi. Dubai and Abu Dhabi consistently rank highly as top investment destinations worldwide.

In my opinion, it is unlikely that the UAE will introduce tax on repatriation of capital because it goes against everything that the UAE has developed over the past 20 years. However, introducing a minimum tax rate of one or two percent is worth evaluating because it will benefit the UAE economy by sophisticating its corporate structure as well as earning the government additional income to be invested in the UAE infrastructure. It is important to have an informed debate about fiscal policy within the UAE to ensure nothing is introduced that adversely affects the UAE’s status or diminishes its competitiveness as a trading nation.