

UAE Employment contracts: Limited or Unlimited

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October 2014

Note: Important changes have been introduced to the UAE Labour Law. Scroll down to the bottom of the article to read more.

Watch the video below to find out more:

Choosing the right type of contract at the outset of any employment relationship is important to mitigate risk. Do you know the types of contracts that are available and the main differences?

Under the UAE Labour Law No. 8 of 1980 (as amended) (the “UAE Labour Law”), applicable to all employers in the UAE (save for those based in the Dubai International Financial Centre (“DIFC”)), there are two types of employment contract employers can issue to employees; limited term or unlimited term contracts.

There are various distinctions between the two types of contract including the treatment of statutory end of service gratuity entitlement and termination consequences.

Limited term contracts

1. What is a limited term contract?

A limited term contract is a fixed term contract and is normally linked to the duration of the UAE residency visa (i.e. two or three years, depending on the location of the employer). It will automatically terminate at the end of term unless terminated earlier by either party, or renewed by both parties.

2. When is it appropriate to use a limited term contract?

Limited term contracts are useful where an employer needs to engage employees for specific projects and the lengths of those projects are known in advance.

3. How may a limited term contract be terminated?

Limited term contracts generally have no notice provision and simply expire at the end of the term or on the date specified in the contract (unless terminated earlier by either party – see answers to questions 5 and 6 below).

Summary dismissal by the employer is allowed on the basis of one of the 11 exhaustive grounds under Articles 88 and 120 of the UAE Labour Law. An employee may validly resign prior to the expiry of the contract under the provisions of Article 121 of the law.

4. How may a limited term contract be renewed?

A limited term contract may be renewed with the consent of both parties, or alternatively, at the end of the contract, the parties could agree to convert the agreement to an unlimited term contract.

5. What if an employer wants to terminate the contract early?

Under the UAE Labour Law an employee is entitled to “early termination compensation” of a minimum three months’ remuneration, including salary and allowances, (or the remainder of the term of the contract if the period remaining is less than three months), if an employer seeks to terminate the contract prior to the end of the limited term.

6. What if an employee wants to terminate the contract early?

Unless the employment contract provides otherwise, if the employee wishes to terminate the limited term contract before the expiry of the term, he will be liable under the UAE Labour Law to pay the employer “early termination compensation” of half of three months’ remuneration, including salary and allowances, or half of the remuneration for the residual period if the contract has fewer than three months to run.

7. What happens if the limited term contract contains a notice period?

Where notice is provided for in a limited term contract, this will have to be provided to the other party in addition to any early termination compensation due.

8. How is end of service gratuity calculated under a limited term contract, where the employer terminates the contract?

An employee who has completed one year or more of continuous service is entitled to end of service gratuity calculated as follows:

- 21 calendar days’ basic pay for each year of the first five years of service.
- 30 calendar days’ basic pay for each additional year.

Provided that the entire total remuneration does not exceed two years’ pay.

An employee is not entitled to end of service gratuity where he has been terminated summarily for gross misconduct pursuant to the provisions of the UAE Labour Law.

9. How is end of service gratuity calculated under a limited term contract, where the employee resigns?

An employee is not entitled to an end of service gratuity if he resigns with fewer than 5 years of service. If he has over 5 years of service, he is entitled to the same end of service gratuity as if he resigned on an unlimited contract (see answer to question 16 below).

10. Checklist for a limited term contract.

Under the UAE Labour Law, a limited term employment contract must, as a minimum specify:

- the date of its conclusion;
- the date on which work begins;
- the nature of the work;
- the workplace;
- the amount of the remuneration; and
- the duration.

Unlimited term contracts

11. What is an unlimited term contract?

An unlimited term contract is open-ended and may be terminated for various reasons under the UAE Labour Law (see answer to questions 13 and 14 below).

12. When is it appropriate to use an unlimited term contract?

Unlimited term contracts are generally viewed to be more flexible and user friendly than limited term contracts. For this reason, an unlimited term contract is more commonly used in the UAE than a limited term contract. It can be used for employees who are intended to be permanent and are not undertaking project work (where the length of the project is known in advance).

13. How may an unlimited term contract be terminated by an employer?

Under the UAE Labour Law, there are two main ways for an employer to legitimately terminate an unlimited term contract:

1. For a 'valid' (i.e. performance related) reason on notice (the UAE Labour Law provides for a minimum notice period of 30 calendar days. However, the parties are entitled to agree on longer notice periods in the contract); or
2. Summarily (without notice and end of service gratuity) for one of the 11 exhaustive gross misconduct reasons set out in Articles 88 and 120 of the UAE Labour Law.

14. How may an unlimited term contract be terminated by an employee?

An employee may resign by providing the employer with the contractual notice period (which must be a minimum of 30 calendar days, or longer, as per the contract of employment).

Alternatively, the employee may resign without notice as set out under Article 121 of the law.

15. How is end of service gratuity calculated under an unlimited term contract, where the employer terminates the contract?

An employee who has completed one year or more of continuous service is entitled to end of service gratuity to be calculated as follows:

- 21 calendar days' basic pay for each year of the first five years of service.
- 30 calendar days' basic pay for each additional year.

Provided that the entire total remuneration does not exceed two years pay.

Note that an employee is not entitled to end of service gratuity where he has been terminated summarily for gross misconduct pursuant to the provisions of the UAE Labour Law.

16. How is end of service gratuity calculated under an unlimited term contract, where the employee resigns?

Where an employee resigns from an unlimited term contract, he will be entitled to an end of service gratuity on the following sliding scale:

- Period of service of between one to three years: 2/3 reduction;
- Period of service of between three to five years: 1/3 reduction. If the period of service is over five years there is no reduction.

17. Checklist of items to include in an unlimited term contract.

Under the UAE Labour Law, an unlimited term employment contract must, as a minimum specify:

- the date of its conclusion;
- the date on which work begins;
- the nature of the work;
- the workplace;
- the amount of the remuneration.

Update: The Minister of Labour introduced some important changes to the UAE labour regulations by means of three decrees issued on 27 September 2015. [Click here to read more.](#)