UAE Economic Substance

Flowchart

Does the Licensee conduct a Relevant Activity?

No

Regulations do not apply

Yes

Required to file a Notification

Is the Licensee an Exempt Company?

Yes

No requirement to demonstrate substance in the UAE

No

Required to file an Economic Substance Report, 12 months after financial year end

Does the Licensee earn income from its Relevant Activity?

No

No requirement to demonstrate substance in the UAE for the financial year

Yes

Is the Relevant Activity a “Holding Company Business”?

Yes

Does the Licensee meet the compliance requirements from its Regulatory Authority

No

Licensee subject to exchange of information with foreign competent authority (including penalties)

Is the Licensee a “High Risk IP Licensee”?

Yes

Automatic exchange of information with foreign competent authority

No

Does the Licensee meet the additional substance requirements for “High Risk IP Activity”?

No

Licensee meets the UAE economic substance requirements

Yes

Does the Licensee direct and manage in the UAE?

No

Is the Licensee directed and managed in the UAE?

Yes

Does the Licensee have adequate employees, expenditure and physical assets in the UAE?

No

Yes

Licensee meets the UAE economic substance requirements

Does the Licensee perform the Core Income Generating Activities in the UAE?

No

Yes

Does the Licensee have adequate employees and premises

Yes

Does the Licensee have adequate employees and premises

No

No

Licensee meets the UAE economic substance requirements

[Insert relevant MoF disclaimer language]
Additional information

First reportable period

- The UAE economic substance regulations apply to Licensees with a financial year commencing on or after 1 January 2019

Relevant Activities

- Banking Businesses
- Insurance Businesses
- Investment Fund Management Businesses
- Lease-Finance Businesses
- Headquarter Businesses
- Shipping Businesses
- Holding Company Businesses
- Intellectual Property Businesses
- Distribution and Service Centre Businesses

Who are exempt?

- A Licensee that is tax resident outside the UAE;
- An Investment Fund and its underlying SPVs / investment holding entities;
- A wholly UAE resident-owned business that is not part of a multinational group and that only carries on business in the UAE;
- A branch of a foreign entity that is subject to tax on all of its Relevant Income in a foreign jurisdiction;
- Any other Licensee at the direction of the Minister of Finance.

What is a Holding Company Business?

- A Holding Company Business is a Licensee that:
  - Only holds equity interest(s) in juridical person(s); and
  - Only earns dividend and capital gains from its equity interest(s)
- If a UAE entity undertakes any other commercial activity or earns any other forms of income, it cannot be a Holding Company Business. Where the holding of such other assets or the performance of other commercial activities constitute a different “Relevant Activity” (e.g. a Lease-Finance Business), the UAE entity would be subject to the UAE economic substance regulations in respect of that other Relevant Activity.

What are the conditions for a High Risk IP business?

- All of the following conditions must be for an IP Business to be considered as “High Risk”

<table>
<thead>
<tr>
<th>Condition</th>
<th>Description</th>
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<tbody>
<tr>
<td>1. The Licensee did not create the IP asset which it holds for the purposes of its business;</td>
<td></td>
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<tr>
<td>2. The Licensee acquired the IP asset either from:</td>
<td></td>
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<tr>
<td>○ a Connected Person, or</td>
<td></td>
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<tr>
<td>○ in consideration for funding research and development by another person situated in a country other than the UAE;</td>
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<tr>
<td>3. The Licensee:</td>
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<tr>
<td>○ licences the IP asset to one or more Connected Persons, or</td>
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<tr>
<td>○ otherwise generates income from the asset in consequence of activities performed by Foreign Connected Persons</td>
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