

Corporate Update

Year Ending 2022

New Companies Law

Federal Decree Law No. 32 of 2021 on commercial companies (**New Companies Law**) replaced Federal Law No. 2 of 2015 (**Old Companies Law**) in its entirety and codified certain amendments made to the Old Companies Law in recent years.

The New Companies Law came into legal effect on 2 January 2022 and provided all companies with a period of one year to comply with the changes it introduced.

As a recap, the major key changes introduced by the new legislation in the UAE include: insertion of a legislative basis for Special Acquisition Companies (SPACs); recognition of Special Purpose Vehicles (SPVs) onshore; amendments to foreign investment with the abolishment of the required minimum of 51% UAE shareholding in onshore entities (with the exception of certain “Activities of Strategic Effect”); amendments to a company’s Memorandum of Association (MOA) including reduction in statutory reserve contributions and relaxed quorum requirements for reconvened shareholder meetings; and conclusively, amendments to the legislative requirements of public stock joint company (PSJC) including extended public subscription periods, issuance of shares at a discount and removal of caps on nominal value of shares.

Companies should ensure that their constitutional documents have been updated and are fully compliant by 2 January 2023 as under Cabinet Decision No. 78 of 2022, penalties will be imposed on companies and institutions operating in the UAE who are found to be non-compliant with the provisions of the New Companies Law.

Emerging Landscape

‘Operation 300bn’ was launched in March 2021 and sets out a ten-year comprehensive strategy to increase the UAE’s industrial sector’s contribution to the country’s GDP from the current AED 133 billion to AED 300 billion. The aim of this strategy is to enhance the attractiveness of the industrial sector for investors by updating legislation, including allowing 100% foreign ownership of projects and making dedicated financing available.

The updated legislation, [Federal Decree Law No. 25 of 2022](#) on the regulation and development of the industrial sector (**Industry Regulation Law**) was issued in November 2022 and will become effective in January 2023. It replaces Federal Decree Law No. 1 of 1979 on industry regulation and sets out to enhance integration between the ministry, local economic departments and licensing authorities in free,

economic and specialised zones by standardising the process for issuing industrial licenses.

The **Industry Regulation Law** also sets out to support the 'Make it in the Emirates', a manufacturing initiative launched by the government to enhance the role of the private sector and attract industrial investors through various incentives and competitive advantage. This includes the establishment of a national industrial registry that features an integrated database of industrial projects detailing their contributions to the national economy.

Corporate Tax 2023

Corporate tax has been implemented in many parts of the world, including certain nation states in the Middle East region, and has currently been proposed to be introduced into the UAE in mid-2023.

Federal Decree Law No. 47 of 2022 on taxation of corporations and businesses (**Corporate Tax Law**) has recently been issued and provides, inter alia, that certain categories of business in the UAE shall be required to pay corporate tax at the proposed rate of 9% from 2023. This is in addition to the general VAT duty of 5% on products and services.

Under the Corporate Tax Law, the government will levy a rate of 9% on a company's taxable **profits exceeding AED 375,000**. Corporate tax will be charged on profits for financial years calculated from June 1, 2023. An entity that has a financial year starting on July 1, 2023 ending on June 30, 2024 will be subject to corporate tax from July 1, 2023. Alternatively, the UAE government has indicated that a business with a financial year starting on January 1, 2023 and ending on December 31, 2023 will be subject to tax from January 1, 2024.

The UAE Government has stated that corporate tax will not be levied on salaries or personal income from employment, as well as earnings made from bank deposits, savings schemes and/or real estate investments made by individuals. Also excluded from the corporate tax coverage are "natural resource extraction activities" in the UAE – the exact definition is yet to be clarified. However, entities engaged in these activities are still subject to existing local taxation and VAT.

Other organisations, including government entities, pension funds, investment funds and public benefit organisations will also be exempt under the current law. Free trade zone entities will also be eligible (in certain cases only) to get a zero-tax rate, however the UAE Government has not yet set out the full details. Dividends and capital gains earned by a UAE company from qualifying shareholdings appear also to be tax-free.

Finally, it is important to note that the EU (and other countries worldwide) have taken steps to adopt a plan for a global minimum 15% tax on businesses in order to make taxes more uniform and to prevent governments competing to attract companies.

The recent steps on tax for domestic and international businesses are therefore matters which need to be considered for corporate management and any other

transactions. **Local and international tax advice should be taken to ensure tax and regulatory compliance.**

Conclusion

The leaders of the UAE have emerged from the Covid-19 pandemic with renewed vigor and are dedicated on driving the UAE's economy forward through the development of new legislation and policies which aim to stimulating businesses, support national markets, and create investment opportunities for new products.

The UAE's new Corporate Tax Law and the changing international tax regimes are important matters for any UAE business to consider.

Please note that the information provided in this Corporate Update does not, and is not intended to, constitute legal advice; instead, all information set out above is for general informational purposes only.

If you would like to discuss any legislative changes introduced by the New Companies Law, Corporate Tax Law and/or the Industry Regulation Law, and how they impact your business, please reach out to the Gateley Corporate Department:

Amrik Sangha ASangha@gateleyae.com, Mohammad Mian MMian@gateleyae.com and Niamh Boland NBoland@gateleyae.com