

Economic Substance Regulations, UAE

- **Brief**

The UAE Cabinet issued the Cabinet of Ministers Resolution No.31 of 2019 (concerning economic substance regulations in the UAE, “the Regulations”), requiring all the Relevant Entities in UAE that carry on Relevant Activities to have economic substance test from 30 April 2019.

- **Relevant Entities**

The Regulations will be applicable to all the Entity in State (i.e. UAE Onshore), Free Zone or Financial Free Zone, who carry on the Relevant Activities.

- **Relevant Activities**

As per the Regulation, following activities shall be considered as “Relevant Activity”-

1. Banking
2. Insurance
3. Investment Fund management
4. Lease-finance
5. Headquarters
6. Shipping
7. Holding company
8. Intellectual property (IP)
9. Distribution and service entre

- **Economic Substance Requirement**

A Licensee must satisfy the following criteria in relation to any Relevant Activity carried on by it.

- Conduct the relevant “core income generating activities” in the UAE;
- Be “directed and managed” in the UAE; and
- With reference to the level of activities performed in the UAE:
 - Have adequate number of qualified full-time employees in the UAE
 - Incur an adequate amount of operating expenditure in the UAE
 - Have adequate physical assets in the UAE.

If a Relevant Entity carries out more than one Relevant Activity, the economic substance requirements must be met for each of the Relevant Activities.

- **Requirement to provide information**

The Relevant Entity is required to report (the prescribed information as per the regulation) on its Relevant Activities to the Regulatory Authority

- **Applicability**

Existing Company: Must comply with the Regulations from 30 April 2019, with the first return due in 2020

New Company: Must comply with the Regulations upon receiving its trade license, with the first return due in 2020 (or later)

- **Penalties**

Failure to comply would result in administrative penalties (not less than AED 10,000 but not exceeding AED 50,000 in the first year, increased to an amount not less than AED 50,000 but not exceeding AED 300,000 in the subsequent year), subject to a six-year limitation period. Additional penalties such as suspending, revoking or not renewing the UAE Relevant Entity’s trade license could also apply.

For further details, please contact us:

RSMA Consultants

M: +971 56 310 0539, Email: rb@rsmaconsultants.com