

Chandrawat  
& Partners

# DOING BUSINESS IN DUBAI

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# TABLE OF CONTENTS

<u>Content</u>	<u>Page No.</u>
Introduction	02
Economic overview	03
Foreign Direct Investment (“FDI”) policy	05
Key sectors	06
Advantages of doing business	08
Types of Companies	09
How to set up a business?	11
Taxation	13
Accounting standards	16
Employment and labor laws	17
How we can help?	19

# Introduction

Dubai, a vibrant and rapidly growing city within the United Arab Emirates, has emerged as a global hub for business and commerce. With its strategic location, world-class infrastructure, favorable business policies, and diverse multicultural environment, Dubai offers an abundance of opportunities for entrepreneurs and corporations alike.

The introduction of doing business in Dubai presents a unique blend of cultural diversity and modernity. This Emirate has successfully positioned itself as a center for trade and investment, attracting both startups and established enterprises from around the world. Its strategic location between Europe, Asia, and Africa has contributed to its status as a gateway for international trade.

The oil economy led to a massive influx of foreign workers, quickly expanding the city by 300% and bringing in international oil interests. The modern emirate of Dubai was created after the UK left the area in 1971. At this time Dubai, together with Abu Dhabi and four other emirates, formed the United Arab Emirates.



# Economic Overview

Dubai's Real Gross Domestic Product ("GDP") grew 2.8% year-on-year in the first quarter of the year to reach AED111.3 billion surpassing average global growth rates for Q1 2023. The surge maintains the robust momentum of growth achieved in 2022, when the emirate experienced a 4.4% expansion of the economy.



Dubai's growth in Q1 2023 is significantly higher than that of some of the most developed countries in the world. Data issued by the Organization for Economic Cooperation and Development ("OECD") indicate a seasonally adjusted growth of 1.6% for OECD countries. The European Union grew by 1.1%, while the US economy grew by 1.8% in the first quarter of the year.

The transportation and storage sector was the biggest contributor to overall growth at 48%. This was followed by the financial and insurance sector, which accounted for 15%, and trade at 10%, according to data issued by the Dubai Data and Statistics Establishment of the Dubai Digital Authority.

The trade sector recorded a 1.2% growth in the first quarter of 2023, compared to the same period in 2022, bringing an added value of AED25.5 billion. The sector accounted for 22.9% of the economy and contributed 10% of overall recorded Q1 2023 growth. It encompasses a wide range of companies dealing in various consumer and capital goods. Trade, which has a notable impact on various other activities, includes some of the largest companies in the country and the region, whose commercial activities cover a wide range of consumer and capital goods.

Financial and insurance activities recorded a growth of 3.2% in the first quarter of 2023, contributing 12.7% to the GDP and AED14.2 billion in added value. The sector accounted for 15% of Dubai's overall Q1 growth. Data from the UAE Central Bank indicated a 3.5% growth in credit balances and a 14.9% growth in deposit balances compared to the same period last year.

Meanwhile, other economic sectors experienced a growth rate of 1.5% in the first quarter of 2023, contributing a combined 35.5%.



# FOREIGN DIRECT INVESTMENT ("FDI") policy

Dubai foreign direct investment, part of the Department of Economic Development ("DED") in Dubai, provides essential information and invaluable support to foreign businesses looking to invest in Dubai's thriving economy and take advantage of its global strategic importance.

Dubai FDI, an initiative of DED, is committed to positioning Dubai as the preferred investment destination globally by offering investors unparalleled opportunities and support services blended with best practices. Dubai FDI aims to reach potential investors through a network of global support units and partnerships with local, federal, and private investment promotion agencies.

Dubai FDI promotes investment opportunities in Dubai and supports international investors to establish a presence here whilst taking advantage of Dubai's strategic location to access the Middle East, North Africa, and South Asia ("MENASA") region. Dubai FDI assists in the identification of sector-specific opportunities and provides connections to a network of both government and non-government para-promotion agencies and business facilitators to reach out to investors worldwide.

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# Key sectors

## Real estate

The Dubai real estate market has demonstrated resilience and adaptability, drawing investors who seek to capitalize on the city's booming tourism industry and expatriate population. Moreover, initiatives such as freehold property ownership for foreigners have played a pivotal role in enticing international investors to participate in the real estate sector.

## Tourism

The city's relentless pursuit of world-class attractions, luxurious hospitality, and entertainment options has transformed it into a sought-after global tourist destination. Projects like the Burj Khalifa, Dubai Mall, and Palm Jumeirah have not only boosted the tourism sector but have also ignited ancillary businesses, making investments in hospitality, leisure, and entertainment equally attractive.

## Financial sector

The Dubai International Financial Centre ("DIFC") serves as a financial-free zone, offering a conducive environment for financial institutions, banks, and fintech companies. Its regulatory framework, coupled with a favorable tax regime, has positioned Dubai as a regional financial hub, attracting investors seeking exposure to the Middle East and North Africa markets.



## Technology and innovation

The government's vision to transform Dubai into a "smart city" has led to significant investment in technology infrastructure and startups. Initiatives like Dubai Internet City and Dubai Silicon Oasis have fostered a vibrant ecosystem for tech companies, encouraging investment in areas such as artificial intelligence, blockchain, and cybersecurity.

## Healthcare

The city's commitment to providing world-class medical facilities has led to the establishment of advanced hospitals and clinics, attracting medical tourists from around the globe. Additionally, investment opportunities exist in medical research, pharmaceuticals, and telemedicine, aligning with Dubai's aspirations to become a hub for healthcare excellence.

## Renewable energy

The Dubai Clean Energy Strategy aims to provide 75% of the city's energy from clean sources by 2050. Investment opportunities exist in solar power projects, energy-efficient technologies, and sustainable infrastructure, aligning with global efforts to combat climate change.



# Advantages of doing business

The convenience of doing business in Dubai is among the key factors which make many international businesses choose to set up their operations in this emirate. During the past 3 years, Dubai has rapidly devolved from an oil-exporting economy to a technology-led business hub. This evolution has made it one of the most lucrative centers to do business in the Middle East. As a result, more international businesses are choosing to establish their operations in Dubai.

Another key factor that imparts an immediate attraction to investors is the tax benefits that they enjoy. Since there are no direct taxes on the possession or operation of foreign ownership, there is no need to worry about paying any kind of income or property taxes while establishing a business in Dubai.

The free zones and exemption on corporate and individual taxation offered by the government of Dubai further boost the attraction of the city. There are no worries about paying the heavy amount of taxes required in other countries.

Besides being a hassle-free destination for doing business, Dubai also presents many other benefits to its inhabitants. It is strategically located on the Arabian Peninsula, a fact that makes it a great destination for a variety of businesses. The city is home to some of the most sought-after shipping lines in the world such as the Dubai Creek that connects the Persian Gulf to the Arabian Sea.

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# Types of companies

## Partnership

In a Joint Partnership company, there is no minimum capital requirement for the establishment. A UAE national owns a minimum of 51% of the business and foreign equity partnership does not exceed 49%. A Partnership is one of the best and easiest forms of companies to establish in Dubai.

## LIMITED LIABILITY COMPANY ("LLC")

An LLC can be established by a minimum of two and a maximum of fifty shareholders whose liability is limited to the value of their share in the company's capital. The company must have 51% participation from a UAE national.

The rest 49% can remain with the investor. The minimum capital required to set up LLC is 300,000 dirhams in Dubai. In this type of company, either the UAE national or the foreign partner must operate as an active member in managing the operations of the organization. The Companies Law prohibits the LLC's engagement in businesses such as insurance, banking, and investment of money for others.

## Free Zone Company

A Free Zone company formation in Dubai is one of the most popular types of business structure encouraged in Dubai. Free zone allows businesses set up in Dubai with 100% foreign ownership.

Companies in a free zone have the leverage of conducting all kinds of businesses such as trading, service, and industrial activities. Here are some of the benefits of operating in a Free Zone:

- 100% Ownership
- Can be formed by only one individual.
- One can open bank account in Dubai.
- 100% Secrecy maintained.
- Less Renewal Charges.
- Can be liquidated anytime.
- One can do international business.

## Offshore Company

This type of company refers to conducting business operations outside the geographical boundaries of its native nation. As an example a person living and operating a business in the UK can open an offshore account Dubai for the benefit of the firm.

Dubai offers a business-friendly environment, state-of-art infrastructure and simple registration process for offshore companies. Dubai is one of the well-known nations in the world for establishing an offshore company.



# How to set up a business?

Setting up a business in Dubai can be an exciting endeavor due to its strategic location, business-friendly policies, and vibrant economy. The process involves several key steps:

**Market Research:** Begin by conducting thorough market research to understand the demand for the product or service in Dubai. Identify the target audience, competitors, and potential challenges.

**Legal Structure:** Choose the appropriate legal structure for the business, such as a sole proprietorship, partnership, limited liability company ("LLC"), or free zone entity. Each structure has its benefits and requirements.

**Business Name and Licensing:** Select a suitable business name that complies with the regulations. Register the name and obtain the necessary licenses and permits from the Department of Economic Development ("DED") or relevant free zone authority.

**Location:** Decide whether to establish the business within a Dubai-free zone or on the mainland. Free zones offer tax benefits and 100% foreign ownership, while mainland businesses require a local partner or agent.

**Local Sponsorship:** If setting up on the mainland, find a local sponsor who will hold a minority stake (51%) in the business. This is mandatory for certain types of businesses.

**Capital Requirements:** Ensure the necessary capital to cover registration fees, licenses, permits, and initial operational expenses.

**Registration:** Register the business with the relevant authorities. For mainland businesses, this involves registering with the DED, while free zone businesses register with the specific free zone authority.

**Visa and Work Permits:** Apply for visas and work permits for both employers and employees. Each legal structure and free zone may have different visa requirements.

**Bank Account:** Open a business bank account in a local bank to manage financial transactions and meet operational needs.

**Taxation and Customs:** Understand the tax regulations and customs duties that apply to business activities. Dubai has minimal taxes, but compliance is crucial.

**Marketing and Branding:** Develop a strong marketing strategy to promote the business. Leverage both traditional and digital marketing methods to reach the target audience.

**Network and Partnerships:** Build a network within Dubai's business community. Attend industry events, workshops, and seminars to establish valuable partnerships.

**Compliance and Renewals:** Stay compliant with all legal and regulatory requirements. Renew licenses and permits on time to avoid any disruptions to the business operations.

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# Taxation

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## Income Tax

The UAE Federal Government does not impose taxes on the wealth of companies and individuals in the UAE, and contrary to some reports, the ruling family of Dubai has indicated that Dubai will never resort to taxation as a means of relieving debt, so it is unlikely that we will see any income tax levied in the years to come. However, if an individual earns an income in Dubai, but is a tax resident of another country, the person may be liable to declare the income and pay taxation on it.

## Corporate tax

Corporate tax is a form of direct tax levied on the net income or profit of corporations and other entities from their business. Companies incorporated in Dubai are required to pay taxes on their earnings, but not all companies have to do so. Corporate taxation in Dubai is limited only to banks and oil companies. Other types of companies in Dubai are not subject to corporate tax.





The authorities in UAE have announced the introduction of corporate tax from 1st June, 23. The law stipulates that a taxable person or business will be subjected to a 9% corporate tax from the start of their first financial year commencing on or after June 1, 2023.

The calculation method for the taxable income is different for the two types of taxable business: the tax for banks is calculated according to their audited financial statements, while for oil companies the tax is due according to their concession agreements.

Oil companies also have to pay other types of taxes in Dubai, like royalties. Please consider that the companies mentioned above are not subject to withholding taxes on remitted dividends and interests abroad.

## VAT

Since January 2018, the value-added tax ("VAT") has been imposed for the purchase of specific goods and services in Dubai. This is set at a 5% rate and was introduced as a recommendation of the International Monetary Fund ("IMF") and the local financial authorities in the UAE. Healthcare and education, plus the basic foodstuff are subject to the VAT in Dubai. The non-essential goods are levied with an excise tax ranging from 50% to 100%.

## The excise tax in Dubai

The excise tax is another important levy that was introduced in Dubai in 2017. It is also an indirect tax that applies to goods with a high harming potential on human health. The goods for which the excise tax is imposed are carbonated and energy drinks and tobacco and related products.

The rates of the excise tax in Dubai are 50% for carbonated drinks and 100% for energy drinks and tobacco.





# Accounting standards

Dubai, a hub of business and finance, places significant importance on accounting standards to ensure transparency, accuracy, and comparability in financial reporting. The adoption and implementation of International Financial Reporting Standards ("IFRS") have been central to Dubai's accounting framework. These standards provide a globally accepted set of guidelines that enable consistent reporting across various industries and jurisdictions.

The Dubai Financial Services Authority ("DFSA") oversees financial regulations within the Dubai International Financial Centre ("DIFC"), a major financial free zone. The DFSA has adopted a principles-based approach, aligning its regulations with IFRS to promote a high level of consistency and credibility in financial reporting.

One key advantage of adhering to international accounting standards is the facilitation of cross-border transactions and investments. Investors and stakeholders from around the world can easily comprehend and assess the financial health of Dubai-based entities, fostering trust and encouraging foreign investment.



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# Employment and Labor Law

The Labor Law regulates employment terms such as work hours, leave, termination rights, and medical benefits. The Labor Law overrides any conflicting provisions in an employment contract that are deemed less beneficial to the employee. Certain FTZs, such as Dubai International Finance Center or Abu Dhabi Global Market, have their labor laws.

## Emiratization requirements

To overcome structural divisions in the labor market, the UAE government launched an Emiratization campaign that mandates the inclusion of Emiratis in the workforce, particularly in the private sector. Emiratization aims to increase the number of Emiratis participating in the job market and their contribution to the economy. The UAE encourages Emiratization across levels through the establishment of a special department, quotas, and incentives.

## Visa requirements

An employer entity in the UAE must ensure its employees are authorized to work in the UAE by providing a one- to three-year employment visa, residence permit, and Emirate ID. Employees may then sponsor their families to reside in the UAE. Where required, a three-month mission visa can be obtained for overseas staff or visitors.

The UAE introduced a long-term residency visa which will be issued for five or ten years and renewed automatically. The eligibility criteria for both five- and ten-year visas is wide and covers several qualifying cases, including property investors, entrepreneurs, outstanding talent and researchers, students with promising scientific capabilities, and their respective family members.

## WAGE PROTECTION SYSTEM ("WPS")

The UAE Ministry of Human Resources and Emiratization mandates the use of the electronic salary transfer system to pay wages via authorized financial institutions in the UAE.

The system allows the Ministry to create a database that records wage payments in the private sector to guarantee their timely and full payment. Companies located in certain Free Trade Zone ("FTZ") are not required to use the WPS.



## HOW WE CAN HELP ?

Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.

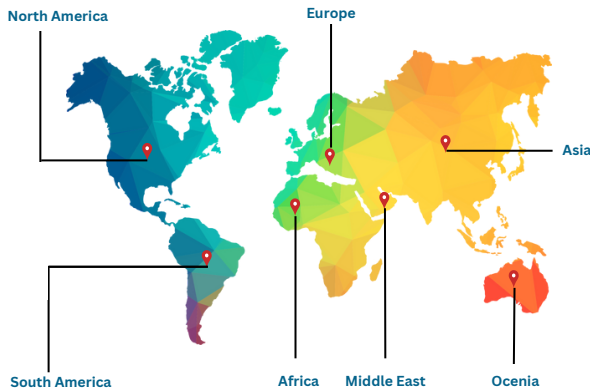
Our experts can help set clear objectives, outline actionable steps, and identify opportunities for growth and expansion.

Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.

Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC"), or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.

Our team can investigate and identify any licenses, permissions or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.

## SERVING CLIENTS WORLDWIDE



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