28-member bloc will remove UAE from tax-haven blacklist

Rachna Uppal | Senior Analyst Business & Finance GCC | r.uppal@castlereagh.net

The EU's decision to remove the Gulf state from its blacklist of tax havens will come into effect on October 10, according to reports this week. The move will come as a welcome relief to the authorities in the UAE, which have consistently argued that the state is fully complying with OECD regulatory and transparency requirements of its tax regime. For EU companies, the removal will also help ease compliance and additional oversight procedures associated with doing business with a state on the list.

The EU's Code of Conduct Group has increasingly focussed its attention on global low- or no-tax jurisdictions to ensure that corporations investing or operating there are not just benefiting from preferential tax regimes but have a substantial economic purpose. The EU argues its blacklist encourages included territories to push forward with reforms targeting tax evasion and promoting transparency.

Some states within the EU felt the UAE's entry onto the list in March this year was unjustified, and that the country should be given more time to comply with tax requirements. Italy, in particular, allegedly put up quite a fight, but in the end was unable to singlehandedly ensure the UAE's exclusion from the list.

The UAE's economic substance rules came into effect on April 30. The rules apply to companies engaged in core income generating activities in banking, insurance, fund management, and financing and leasing, among others. A detailed paper by Ernst & Young outlines the impact of these laws on business operations in the UAE, as well as penalties in the case of non-compliance.[1]

Proof in the Pudding

Much of the UAE's consternation at its inclusion in the blacklist concerned the reputational implications. There is a widespread perception that the UAE, and more specifically the city state of Dubai, offers low-tax incentives to attract companies and businesses, especially into free zones, where there is no corporate tax.

However, while the UAE is progressing towards a more internationally streamlined tax regime, the test will really be the extent to which authorities enforce the new laws and regulations.

Moreover, it will be harder to shake off widespread concerns about some other questionable financial transactions; Dubai still grapples with accusations of money laundering and corruption, a characteristic both of its geographical location at the crossroads of South Asia and Africa and its rapid economic development, aided by the lack of stringent and legal and regulatory frameworks.

Again, measures to address this are being taken: a new anti-money laundering law was passed in the UAE last year; the UAE central bank is taking a bigger role in regulating the financial sector; and the perceived level of public sector corruption is low. Yet, the issue almost always amounts to enforceability of laws and, particularly in Dubai, the continued perception of dodgy property transactions paid for with cases full of cash. While international political pressure and domestic legislative progress may avoid future inclusions on lists such as the EU's, until these rules and regulations are more widely and fairly enforced, they will be seen as mere lip service and reputational challenges will likely remain.

Sources:

[1] https://taxinsights.ey.com/archive/archive-news/uae-enacts-economic-substance-rules.aspx

