

# Guide to Establishing A Business in the U.A.E

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## Introduction:

With its fast growing population, geographical location and strong economy with a clear vision, starting a business in the U.A.E. can be extremely profitable. However, choosing the correct business vehicle and local partner is crucial for the safety and security of your company and investment over the long term.

Sunday to Thursday is the standard working week in the U.A.E with Friday and Saturday being the national weekend. The time zone is +4hrs GMT which allows the UAE to continue to operate internationally throughout the world, with many seeing the region as the MENA business hub.

Firstly, it is important to note that foreign direct investment is promoted and foreign entities are welcomed in the United Arab Emirates to help grow the economy. The UAE offers lucrative investment incentives and opportunities to local and international businesses which are not as easily accessible internationally. No corporate or income tax, no personal income tax, no foreign exchange controls, 100% repatriation of capital and profits, are just a few benefits amongst many others which attract foreign investors to the country.

However, if you are wishing to succeed in the market you have to have a physical presence on the ground as part of the commercial culture of the Middle East. People in the region prefer to deal with someone they know and trust by building personal relationships and this helps demonstrate commitment to the country and the region.

This brief guide aims to outline the different types of business vehicles available to foreign investors before providing comment on the things to consider whilst starting a business in the U.A.E.

## Establishment Options in the U.A.E.

### Limited Liability Company (LLC)

A Limited Liability Company (LLC) is the most commonly used vehicle for setting up in the U.A.E as a foreign investor and is often the only choice for many business activities.

An LLC can be formed by a minimum of two and a maximum of fifty shareholders whose liability is limited to their shares in the company's capital. At least 51% of the share capital of the company should be owned by UAE National(s) or a 100% owned UAE Company (Sponsors). In the UAE, there is no minimum capital required (to be contributed in cash or in kind) for the LLC. Although the maximum foreign equity contribution (individuals or corporates) in a LLC is 49%.

Profits can be allocated in different percentages as agreed by the Sponsors and Foreign Shareholders of the company. With the approval of the Sponsors, it is possible for the legal documents of an LLC to contain the following provisions designed to protect the interests of a foreign minority shareholder; appoint all directors, appoint the general manager and through a power of attorney the entire business operations of the company can be exclusively managed and controlled by the foreign shareholder(s).

As far as further safeguarding of the Foreign Shareholders interest is concerned, this can be done by way of shareholders resolutions and certain related security documents.

### Branch Office

Setting up a branch office of foreign company in Abu Dhabi is easy and an attractive prospect for clients is that it can be 100% foreign owned. A branch office is not a separate legal entity, but rather an extension of the parent company abroad. As such, a branch office will, when conducting business in the UAE, be acting on behalf of the foreign parent and as such be linked to all contracts entered into in the UAE. Depending on the parent companies tax jurisdiction, profits earned by the branch will be taxable in the home country. (Please speak with your tax professional to see of the potential implications).

In order to establish a branch office, a National Service Agent (NSA) will need to be appointed. The NSA must be a UAE national (or a 100% UAE owned company). The NSA is normally in charge of dealing with local, and Federal authorities for the purposes of obtaining necessary

documentation for the branch office and its staff; such as approvals, licences (including their renewal), labour cards and visas.

The NSA is not a shareholder and does not have any rights in the company. The NSA will enter into a service agreement with the branch office, under which the agent will provide services in consideration of the payment of a fixed annual fee, or percentage of the profits or transactions undertaken by the branch office. This is a matter for negotiation.

The Branch can only undertake certain business activities (as advised by the relevant Governmental Departments) and of those which fall within its main objects and scope of business as outlined in the foreign company's articles of association (or other legal documents) to ensure that the business activities that the foreign company is intending to carry out, and that it is competent to carry out the activity in the UAE.

Although there is no capital requirement for a branch of a foreign company, the Ministry of Economy requires that the foreign company places a bank guarantee to the value of AED 50,000. This must be deposited for the duration of the branch remains registered, and will be called upon if the foreign company leaves the country without undertaking the formalities required before public authorities for the de-registration of a branch office. It is not possible to withdraw the sum until de-registration of the Branch office and if done so beforehand, hefty daily fines will be administered.

### Representative Trade Office

This can be used to promote a foreign company in the U.A.E and introduce its products to the U.A.E companies as a non-trading 'shop-window'.

The Trade Representative Office is allowed to perform in the following manner:

Contact clients to acquaint them with its foreign establishment and companies that it represents their services and production in order to widen its distribution circle.

Contact exporters and the sellers of materials and semi-manufactured material needed by the authorities it represents and removing barriers that obstruct the arrival of these materials to the authorities quickly.

Inform the authorities that it represents about the complaints it receives on its products, and to soften any difficulties related to the distribution of the products.

The Trade Representative Office is forbidden to do the following:

- Export, import or sell except what it imports of the commercial samples of goods that are manufactured by the company or establishment that it represents for the sake of promotion.

- Promote products and/or services that are not manufactured or presented by the company or establishment that it represents.
- Make contact directly with consumers.

Again, there is no need for Sponsor and the foreign party can own 100% of the business but a NSA will be required as per the Branch of a Foreign Company along with the Ministry of Labour bank guarantee of AED 50,000.

### Professional Service Licence

Professional business is defined as “work based on investing mental talents and acquired information”. A Professional Licence/Civil Company is a business for professionals in recognized fields such as doctors, lawyers, engineers and accountants. A Civil Company can only practice professional business and is 100% owned by professional partners. An NSA is necessary but unlike a Foreign Branch there is no requirement for the bank guarantee.

### Free-Zones

Setting up as a Free Zone entity allows the investor to own the business 100% without the need of a local Sponsor or National Service Agent. There are numerous Free Zones in the UAE and they are centered on one or more business industry categories and only offers related industry licences to these sectors. The key restriction of a free zone entity is that it is principally permitted to conduct business solely within its relevant free zone and is limited to performing solely those activities specified in its licence.

### Commercial Agent (Exclusive Distributor)

Companies unwilling to establish their own entity in the UAE but are still interested in finding access to their products within the UAE or seeking to offer their services, may appoint a commercial agent in accordance with the provision of Federal Law No.18 of 1981 Regulating Commercial Agencies and amending laws thereof. Such agent may promote and sell the company’s products and services. However companies may have one agent to cover the whole UAE emirates or one agent in each emirate.

## Things to Consider When Starting a Business in the U.A.E

### Choose the correct U.A.E Partner (Sponsor)

The U.A.E partner is not obliged to contribute financially or practically to the running of the company, and as the 51% shareholder, has the power to terminate the businesses operations without consultation if the proper agreements are not in place. For this reason, choosing the correct U.A.E partner is critical to an organizations success within the U.A.E.

The U.A.E partner can be in the form of an individual Emirati or a 100% fully owned Emirati Company. Having a U.A.E company as a partner is often a more secure and robust solution for the foreign company and there are a number of companies which have been established with the sole purpose of assisting foreign entities establish a business presence in the U.A.E.

It is also worth noting that, should a business fail, there is a personal risk to the owner, since debt and financial irregularities are considered to be serious offences, and the person may not be allowed to leave the country. This risk is greater if loans have been taken out from U.A.E-based banks rather than home-country ones (whether the business is in a free zone or not).

### The need for office space

It is required by U.A.E law that all companies have a 12 month commercial lease in Dubai and minimum 6 months in Abu Dhabi on office space (plus warehouse depending on the activity) in order to obtain their trade license. Due to the high demand of office space in the U.A.E, this is often one of the largest costs for companies establishing in country.

### Next Steps

If you are looking to establish your company in the U.A.E and would like further information and a consultation with one of our directors, please contact PRO-Partnership on [info@propartnergroup.com](mailto:info@propartnergroup.com) or give us a call direct on the numbers below and we will happily meet with you to discuss your establishment options further.

Many thanks,

The PRO Partner Group team

#### Abu Dhabi Office

<http://goo.gl/vD0Z9U>

102, Building C-54

Al Nahyan Camp

PO Box 63297

Tel: +971 (0)2 448 4810

#### Dubai Office

<https://goo.gl/hEtBBA>

1111, Regal Tower

Business Bay, Dubai

PO Box 393697

Tel: +971 (0)4 456 1761

Email: [info@propartnergroup.com](mailto:info@propartnergroup.com)

Website: [www.propartnergroup.com](http://www.propartnergroup.com)