UAE

Dual Licensing Regime: Free Zone and On-Shore

The Abu Dhabi Department of Economic Development (**DED**) has launched the first phase of its Dual Licence Regime.

Companies registered in one of the Abu Dhabi Free Zones will be able to hold dual licences allowing them to establish and operate an onshore branch in the Emirate of Abu Dhabi without going through the full branch registration process.

Eligibility and Requirements

Dual licensing will be available to companies (but not branches set up in such Free Zones) that are registered in an Abu Dhabi Free Zone.

Previously, a branch of a Free Zone company in Abu Dhabi had to have its own address and, therefore, a separate office. The DED has lifted this condition. A branch of a dual licence holder will not require its own separate address in order to be registered with the DED and may operate from the same office as its parent company. However, it will still be possible for the branch to have its own address.

In addition, unlike other Emirates, a local service agent will not be necessary for the establishment of a dual licence branch since the parent company will effectively act as the sponsor (national agent). By waiving this requirement, companies interested in acquiring a dual licence are able to avoid the additional costs and paperwork associated with these arrangements, as well as the time spent finding a suitable agent. However, the branch of a dual licence company will not have its own Establishment Card and it will be the responsibility of the parent company to sponsor the branch employees. This should make the hiring process easier as it will not be necessary to go through the standard onshore immigration channel in order to obtain work permits.

The company wishing to obtain a dual licence will need to appoint a manager of the branch with the usual Power of Attorney to ensure that he has the requisite authority to act on behalf of the dual licence branch.

The Dual Licence scheme is part of a wider strategy designed to stimulate economic growth in Abu Dhabi by easing the limitations placed on foreign investors. The DED has indicated that the second phase of this initiative is underway and will aim to further extend the eligibility for dual licences to more types of companies.

Bahrain

Implementation of VAT

The Bahraini Council of Ministers and the Shura Council have approved the bills for the unified GCC VAT Agreement and the draft VAT law. The law establishing the Bahrain tax authority, the National Agency for Gulf Taxes, has also been approved.

VAT will be imposed in Bahrain at the standard rate of 5% in accordance with the unified GCC VAT Agreement effective from 1 January 2019, making Bahrain the third GCC country to implement VAT after the UAE and KSA.

According to the draft VAT law, the VAT Regulations, which are expected to contain the detailed application of the Law, will be published within 15 days of the effective date of the Law (i.e. by 15 January 2019).

Key Elements

The key elements of the VAT regime in Bahrain are as follows:

1. VAT Registration

Every company or person carrying on an economic activity in Bahrain will have to estimate their expected annual revenue starting from 1 January 2019 to determine if they are required to register. The registration timetable will be based on the value of taxable supplies with larger taxpayers required to register first. The detailed timetable will be announced shortly.

The mandatory and voluntary registration thresholds in Bahrain are based on the unified GCC VAT Agreement.

2. Zero-rated Supplies

Bahrain has followed the UAE's approach with a wide list of supplies that will be zero-rated such as:

- Oil and Gas
- Education services
- Healthcare services
- Construction and sale/lease of new residential buildings
- Local transport services

Furthermore, the export of goods and services, the international transportation of goods and passengers, the supply of investment grade precious metals, the supply of specified medicine and medical equipment were required to be zero-rated under the unified GCC VAT Agreement. But unlike the UAE and KSA, Bahrain will also zero-rate 94 items of food (such as fish, bread, eggs, fruits and vegetables) in accordance with the unified GCC VAT Agreement.

3. Exempt Supplies

Similarly to the UAE and KSA, Bahrain will exempt certain supply of financial services as well as the supply of bare land such as:

- Sale and lease of real estate
- Margin-based financial services
- Life insurance and re-insurance

4. Government Supplies

Supplies by the Government will be taxable unless they are provided in its capacity as a public authority.

5. VAT Group

The VAT Law will allow companies in the same group to register as a tax group enabling a single company to file a VAT return for the entire group.

6. VAT Returns

VAT returns will be required to be submitted within a month following the end of a tax period which will be a minimum of one month as is currently the case in the UAE.

7. Books and Records

Proper books and records are required to be maintained for a period of three years.

8. Steps to be Taken

Companies typically require between three and six months in order to be ready for VAT. Given that there is two months remaining for the implementation of VAT in Bahrain, businesses should begin their preparation for VAT immediately.

The key areas to focus on in order to implement VAT are the following:

- Plan: budget for VAT implementation (e.g. training, resources, IT systems), set up VAT Steering Committee and assign responsibilities
- VAT Impact Assessment: undertake VAT impact assessment, assess transitional provisions and classify VAT treatment of all business transactions
- Training: train employees on impact of VAT on accounting and reporting processes
- IT: analyse existing accounting systems capability for VAT reporting and consider upgrade or new system
- Processes: determine changes required to existing accounts payable processes and documentation including invoices and record keeping
- Cash flow: assess cash flow impact and working capital requirements
- Pricing: consider impact of VAT on pricing and demand and consider whether absorbing the cost of VAT is appropriate
- Contracts: review current contracts with suppliers and customers and include VAT clauses in new contracts
- Customer & Supplier Management: communicate with existing suppliers and customers to notify them of impact of VAT and negotiate with new suppliers and customers
- Compliance: establish whether required or able to register for VAT and register on time.

This document is delivered for informative purposes only.

It does not constitute a reference for agreements and/or commitments of any nature.

For any further clarification or research please contact:

Renato Giallombardo
Partner

Rome
+39 06 478751
rgiallombardo@gop.it

Riccardo Sensi
Partner

Abu Dhabi
+ 971 2 815 3333
rsensi@gop.it

Elise S. Paul-Hus
Of Counsel

Rome
+39 06 478751
epaulhus@gop.it

gop.it

INFORMATION PURSUANT TO ARTICLE 13 OF LEGISLATIVE DECREE NO. 196/2003 (Data Protection Code)

The law firm Gianni, Origoni, Grippo, Cappelli and Partners (hereafter "the Firm") only processes personal data that is freely provided during the course of professional relations or meetings, events, workshops, etc., which are also processed for informative/divulgation purposes. This newsletter is sent exclusively to those subjects who have expressed an interest in receiving information about the Firm's activities. If it has been sent you by mistake, or should you have decided that you are no longer interested in receiving the above information, you may request that no further information be sent to you by sending an email to: relazioniesterne@gop.it. The personal data processor is the Firm Gianni, Origoni, Grippo, Cappelli & Partners, whose administrative headquarters are located in Rome, at Via delle Quattro Fontane 20.