

## Economic Substance Regulations and their lifecycle for businesses in the UAE

### Overview

The United Arab Emirates (UAE) introduced Economic Substance Regulations (ESR) in 2019. These regulations required UAE entities and branches conducting certain geographically mobile activities to maintain adequate substance in the country. The purpose of the ESR is to prevent businesses, typically multinational corporations, from artificially shifting profits to jurisdictions that impose little or no income tax without having substantial activities in that jurisdiction to take advantage of their tax laws.

### Non-compliance

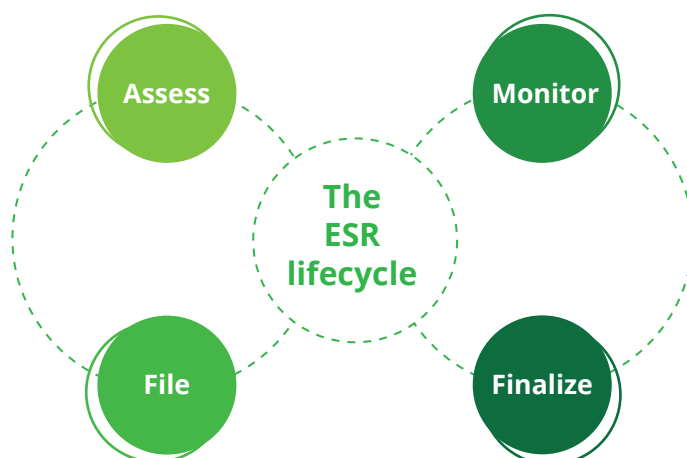
Given the serious consequences of non-compliance with the ESR, businesses should ensure they stay on top of their compliance obligations. It is critical to ensure there is adequate governance in place to avoid paying hefty penalties (of up to AED 400,000) and suspension of trade licenses among others.

### ESR and Corporate Tax in the UAE

- It is currently unclear whether the ESR will continue to be enforced given the recently announced Corporate Tax (CT) regime in the UAE.
- To the extent that entities benefit from tax holidays in free zones, ESR may likely continue to apply.
- Until official clarification is provided, businesses should continue ensuring they are compliant with their respective ESR obligations.

### ESR lifecycle and best practices

Based on our experience advising clients on ESR matters, we have created this document in order to provide businesses with the guidance needed on the ESR lifecycle, as well as the considerations to maintain ESR best practices.





## Assess

### When?

The start of the financial year.

### Key action points:

- Assess whether the entity will be conducting and deriving income from any Relevant Activities (RA) during the financial year.
- Assess whether the entity will qualify for any exemptions for the financial year.
- Assess whether the entity has adequate Economic Substance (ES) in the UAE for the financial year.
- Steps should be taken to bridge any gaps in substance.



## Monitor

### When?

Throughout the financial year.

### Key action points:

- When there are changes in the entity (e.g., business activities/income streams/business model/ownership structure etc.), businesses should consider the impacts of these changes on the entity's ESR position (i.e., is the entity conducting any additional new RA? Does the entity have adequate substance in the UAE for these new RA?).
- Monitor changes in the ESR.
- Ensure relevant documents evidencing ES are retained (e.g., board meeting minutes, timesheets etc.).



## File

### When?

- ES notifications must be filed within 6 months after the end of the financial year.
- ES reports must be filed within 12 months after the end of the financial year.

### Key action points:

- Ensure that you have access to the online ESR portal.



## Finalize

### When?

After the end of the financial year.

### Key action points:

- Conclude and document:
  1. The RA conducted by the entity during the financial year.
  2. Whether there was adequate ES for each RA conducted.
- Ensure relevant documents to evidence ES are retained.
- Prepare ES notifications and any supporting documentation to be submitted.
- Prepare ES reports and any supporting documentation to be submitted.

## How can Deloitte help?

Since the inception of ESR, Deloitte has assisted various businesses across a variety of industries as they navigate the complexities of ESR. Deloitte provides a wide range of ESR services including:

- Assessing whether businesses are in scope of the ESR.
- Reviewing whether businesses have adequate ES in the UAE.
- Reviewing ESR filings.
- Assisting businesses with queries from authorities and audits conducted by the Federal Tax Authority (FTA).

## Additional Deloitte ES resources

We have created an [ES webpage](#) with a number of useful materials to help businesses navigate their compliance and reporting obligations. The page is regularly updated and includes our webinar recordings, client alerts and a manual to ES compliance.

The ES manual is the first of its kind, and it is aimed at providing comprehensive guidance to UAE businesses with their reporting obligations. The manual will help your business manage the ESR lifecycle, as well as address some of the common pain points including but not limited to changes in the tax/finance teams and/or reallocation of responsibilities that may result in a loss of knowledge, and ultimately incorrect/late filings and penalties. Our ESR manual can also be customized to suit your organization's needs. For more details, please [click here](#).

# CONTACTS

If you have any questions, please feel free to get in touch with one of UAE International tax experts listed below.



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