

FAQS ON ECONOMIC SUBSTANCE REGULATIONS

What is Economic Substance Regulation (ESR)?

On 30 April 2019, the UAE Cabinet issued the Cabinet of Ministers Resolution No.31 of 2019 (concerning economic substance regulations in the UAE, “the Regulations”), requiring all in-scope UAE entities (“Relevant Entities”) that carry on certain activities (“Relevant Activities”) to have demonstrable economic substance in the UAE.

**Notification & reporting for ESR started from 1st Jan 2020 onwards.*

What are ‘Relevant Entities’?

Relevant Entities refers to all the licensed entities or persons licensed by the competent authority in U.A.E (including Free Zone Authority); except the companies owned by the Federal Govt. or Govt. of Emirate of U.A.E or any Govt. authority or body having more than 51% ownership.

What are the “Relevant Activities”?

Banking Businesses	Insurance Businesses	Investment Fund Management Businesses
Lease-Finance Business	Headquarters Businesses	Shipping Businesses
Holding Company Businesses	Intellectual Property Businesses	Distribution & Service Centers Businesses

What are the requirements for ESR compliance?

- Assess the ESR applicability on the business & submit ESR notification to the Regulatory Authority
- Satisfy the Economic Substance Test & submit annual ESR report to the Regulatory Authority

What is an ESR Notification?

Licensed businesses shall notify the Regulatory Authority with the required information starting from 1st Jan 2020 onwards. (The deadline to submit notification will be announced by the Regulatory Authority).

What is an Economic Substance Test?

Licensed entities carrying out a Relevant Activity are required to satisfy Economic Substance Test, within 12 months of the end of each Financial Year of a Licensee, commencing on or after 1 January 2019. Adequate qualified full time employees, physical assets and expenditure in UAE, Core-Income Generating Activities "CIGA" undertaken, directed & managed in the UAE are few factors to qualify the Economic Substance Test.

What is an ESR Report?

The final step of ESR compliance is preparing and submitting an annual ESR report with required information, within 12 months after the end of each Financial Year.

What is the penalty for non-compliance?

Failure to comply would result in administrative penalties (not less than AED 10,000 but not exceeding AED 50,000 in the first year, increased to an amount not less than AED 50,000 but not exceeding AED 300,000 in the subsequent year), subject to a six-year limitation period. Additional penalties such as suspending, revoking or not renewing the UAE Relevant Entity's trade license may also apply.

ESR NOTIFICATION DEADLINES BY REGULATORY AUTHORITIES

Name of Regulatory Authorities	Due date for ESR notification
Dubai Silicon Oasis	25th May 2020
Dubai Airport Free Zone (DAFZ), RAK Economic Zone (RAKEZ)	31st May 2020
Dubai Aviation City Corporation	7th June 2020
Dubai International Financial Centre (DIFC)	12th June 2020
Dubai Multi Commodities Center (DMCC), RAK International Corporate Center, Ajman Free Zone, Abu Dhabi Global Markets, Sharjah Airport Free Zone, Hamriyah Free Zone	30th June 2020

HOW CAN WE HELP YOU?



- Analyze the company structure & identify the entities that qualify for ESR as per their business activities
- Perform an assessment on the current compliance level of the company as per the ESR
- Review transactions of the company to identify the outsourced activities
- Conduct ESR test on the company & prepare the information for ESR reporting
- Share insights on ESR requirement with your team & prepare compliance checklist
- Assistance in submission of the notification information & ESR report with the Regulatory Authority

For further details you can reach out to us at: UHY JAMES CHARTERED ACCOUNTANTS

Corporate Office : Level 6, Clover Bay Tower, Business Bay,

PO Box: 118863, Dubai, UAE

Phone +971 4 277 0606

Email: dubai@uhy-ae.com

Branches: Sharjah, Fujairah & Abu Dhabi Global Market (ADGM)