



مدينة الشارقة للنشر
Sharjah Publishing City

منطقة حرة | Free Zone

هيئة الشارقة للكتاب
Sharjah Book Authority

Sharjah Publishing City Free Zone (SPC FZ) Economic Substance Regulations

Supporting Guidance

June 2020

Background

As part of the UAE's commitment as a member of the OECD Inclusive Framework, and in response to an assessment of the UAE's tax framework by the European Union ("EU") Code of Conduct Group on Business Taxation, the UAE introduced a Resolution on the Economic Substance (Cabinet of Ministers Resolution No.31 of 2019, the "Regulations") on 30 April 2019. Guidance that provides further clarity on the application of the Regulations was issued on 11 September 2019. The Regulations require UAE onshore and free zone companies and other UAE business forms that carry out any of the "Relevant Activities" listed below to maintain an adequate "economic presence" in the UAE relative to the activities they undertake.

Relevant Activities:

- Banking Business
- Insurance Business
- Investment Fund management Business
- Lease - Finance Business
- Headquarters Business
- Shipping Business
- Holding Company Business
- Intellectual property Business ("IP")
- Distribution and Service Centre Business

Please refer to the Regulations, and the Resources section in this guidance for Ministry of Finance definition for each of the activities above.

Scope of Application

The provisions of this Resolution shall not apply to any commercial company (as defined in Article 1 of the Commercial Companies Law) in which the Government of the State, or the Government of any Emirate of the State, or any governmental authority or body of any of them has at least 51% direct or indirect ownership in its share capital.

First reportable Financial Year

The Regulations apply to financial years starting on or after 1 January 2019. Example:

- A UAE company with 1 January 2019 - 31 December 2019 financial year: First assessable period would be 1 January 2019 - 31 December 2019.
- A UAE company with 1 April 2019 - 31 March 2020 financial year: First assessable period would be 1 April 2019 - 31 March 2020. No need to comply with the Regulations for the period 1 January 2019 - 31 March 2019.

Businesses that are required to file Economic Substance Regulation (ESR) notification by 30 Jun 2020

- Only businesses that have a financial year commencing on or after 1 January 2019 and ending before 31 December 2019 are required to submit a Notification by 30 Jun 2020.
- A UAE company with financial year ending after 31 December 2020, will be required to file ESR notification by a later date. SPC FZ will provide further communication in this regard.

Annual Notification (ESR Notification)

All SPC FZ licensed entities conducting relevant activities are required to notify SPC FZ of the following annually:

- Whether or not the licensee is carrying on a relevant activity
- If the licensee is carrying on a relevant activity, whether or not all or any part of the licensee's gross income in relation to the relevant activity is subject to tax in a jurisdiction outside the UAE.
- The date of the end of the licensee's financial year (Accounting Reference Period).

Economic Substance Return

A Licensee that is carrying on a Relevant Activity from which they earn income during a financial period, will be further required to provide the following no later than twelve months after the last day of each financial period:

- 1) Satisfy the Economic Substance Test
- 2) File an Economic Substance Return in respect of the financial period as per the format that will be provided in subsequent communications by SPC FZ.

Note: if a licensee is exempt or carries on a relevant activity but does NOT derive income from that activity, it is not required to file an ESR Return.

Economic Substance Test

For each financial period in which a Licensee earns income from a Relevant Activity, it will need to meet an Economic Substance Test in relation to that activity. The Economic Substance Test requires a Licensee to demonstrate that:

- the Licensee and Relevant Activity are being directed and managed in the UAE;
- the relevant Core Income Generating Activities (CIGAs) are being conducted in the UAE; and
- the Licensee has adequate employees, premises and expenditure in the UAE.

Source : Ministry of Finance

ESR Contact Details

For ESR queries please email at services@spcfz.com



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Relevant Resources related to ESR

UAE Ministry of Finance

Cabinet of minister's resolution no. 31 of 2019 concerning economic substance regulations

<https://www.mof.gov.ae/en/lawsAndPolitics/CabinetResolutions/Pages/312019.aspx>

Economic Substance Regulations, Ministry of Finance

<https://www.mof.gov.ae/en/StrategicPartnerships/Pages/ESR.aspx>

Relevant Activities Summary

<https://www.mof.gov.ae/en/StrategicPartnerships/Documents/Economic-Substance-Relevant-Activities-Summary.pdf>

Relevant Activities Guide

https://www.mof.gov.ae/ar/StrategicPartnerships/Documents/Relevant%2BActivities%2BGuide%2B_April%2B2020.pdf

Economic Substance Flowchart

[https://www.mof.gov.ae/en/StrategicPartnerships/Documents/Economic-Substance-UAE-Economic-Substance-Flowchart%20\(1\).pdf](https://www.mof.gov.ae/en/StrategicPartnerships/Documents/Economic-Substance-UAE-Economic-Substance-Flowchart%20(1).pdf)