



Dubai introduces new law on the taxation of foreign banks

Dubai's new tax law for foreign bank branches eases concerns over higher taxes after UAE Corporate Tax intro.

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A new piece of legislation (Law No. (1) of 2024 on Taxation of Foreign Banks Operating in the Emirate of Dubai (the "2024 Law")) was issued into law by His Highness Sheik Mohammed bin Rashid Al Maktoum, the Ruler of Dubai on 1 March 2024. This law repeals the existing legislation governing the taxation of branches of foreign banks operating in the Emirate of Dubai, which had been in force since 1996. This new legislation should serve to address concerns regarding the potential increased tax burden on branches of foreign banks operating in Dubai, following the introduction of UAE Corporate Tax from 1 June 2023.

Background

Under the 1996 legislation ([Regulation No. \(2\) of 1996 Concerning Collection of Tax from Branches of Foreign Banks in the Emirate of Dubai](#) (the "1996 Regulation")), branches of foreign banks operating in Dubai were subject to a tax rate of 20% on their taxable profits (the "1996 Dubai Banking Tax").

[Federal Decree Law No. \(47\) of 2022 on the Taxation of Corporations and Businesses](#) (the "Corporate Tax Law") introduced a federal corporate tax on the taxable income of taxable persons (including branches of foreign banks operating in Dubai) at a rate of 9% (the "UAE Corporate Tax"). Prior to the introduction of the 2024 Law, it was unclear on the face of the Corporate Tax Law and 1996 Regulation whether the profits of branches of foreign banks operating in Dubai would be subject to both the Corporate Tax and the 1996 Dubai Banking Tax.

The 2024 Law

The 2024 Law, which applies to all branches of foreign banks holding a licence from the Central Bank of the UAE to operate in Dubai ("Licensed Branches"), including Licensed Branches operating in special development zones and free zones (but excluding those Licensed Branches generating income from business conducted within or through the Dubai International Financial Centre (the "DIFC")), functions such that, whilst profits arising to Licensed Branches operating in Dubai (but not in the DIFC) will be subject to both UAE Corporate Tax and tax under the 2024 Law, the combined rate of such taxes will not exceed a combined rate of 20% (i.e. the same rate as the 1996 Dubai Banking Tax).

Similarly to the 1996 Regulation, this 2024 Law imposes an annual headline tax rate of 20% on the taxable income of Licensed Branches (the "2024 Dubai Banking Tax"). However, unlike under the 1996 Regulation, the 2024 Law provides that if a Licensed Branch pays UAE Corporate Tax under the

Corporate Tax Law, the rate of such UAE Corporate Tax (currently 9%) will be deducted from the headline 2024 Dubai Banking Tax rate (20%), ensuring that the total combined tax rate on the taxable income of Licensed Branches remains at the level set out in the 1996 Regulation (i.e. 20%). This prevents the introduction of the UAE Corporate Tax from increasing the tax burden on Licensed Branches to a level higher than that set out in the 1996 Regulation.

In practice, the 2024 Dubai Banking Tax rate applicable to Licensed Branches which are also subject to UAE Corporate Tax will be calculated in the following way:

20% (headline 2024 Dubai Banking Tax rate) minus 9% (the current rate of UAE Corporate Tax) = 11% (the adjusted 2024 Dubai Banking Tax Rate). Aggregating the 9% and 11% total a combined 20% tax rate.

The manner in which the 2024 Law is drafted means that, should the rate of UAE Corporate Tax change, the headline rate of 2024 Dubai Banking Tax will be adjusted accordingly so that the combined rate always remains at 20%.

Licensed Branches generating income from business conducted within or through the DIFC, and which do not qualify as Qualifying Free Zone Persons under the Corporate Tax Law, will only be subject to UAE Corporate Tax on their taxable income at a rate of 9%.

Penalties

Amongst other administrative tax matters, the 2024 Law has also updated the penalties payable by Licensed Branches in the event of tax evasion, late payment or administrative violations. For tax evasion, the penalty is a fine equal to twice the amount of the evaded tax; for late payment of a tax or fine, the penalty will be a fine at a rate of 2% of the value of the unpaid tax or fine for each month of delay (with a part of a month being treated as a whole month); and for an administrative violation, the fine will be decided on a per violation basis (with the fine not to exceed 500,000 Dirhams per violation (with the amount of the original fine doubling where the same violation is committed again within two years)).