

# UAE – ECONOMIC SUBSTANCE REPORT

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**Effect:** ESR apply to Financial years commencing on or from 01<sup>st</sup> Jan,2019.

## Objective:

To determine the requirements and set out the criteria that confirms that a Licensee that is carrying on an activity in the state has economic substance (To ensure that UAE entities **report actual profits** that are matching with the economic activity undertaken within the UAE)

## Applies:

**All Entities** Registered in State, including a free zone and Financial Free Zone and carries on a **Relevant Activity**.

## Not Applies:

*(Sufficient Evidence must be submitted along with the notification form to claim any of exemptions)*

- An Investment Fund
- Tax Resident out the UAE
- Wholly owned by UAE residents; this is not part of multinational group and that carries on business in the UAE
- A branch of a foreign entity the relevant income of which is subject to tax in foreign jurisdiction
- Any other licensee as determine pursuant to a decision of the Ministry of Finance.

## Relevant Activities:

(a) Banking Business (b) Insurance Business (C) Investment fund Management (d) Lease-Finance Business (‘e) Headquarters Business (f) Shipping Business (g) Holding company Business (h) Intellectual Property Business (i) Distribution and Selling Center business.

(i) **Distribution and Selling Center business:** Following business (a) Purchasing from **foreign connected person** (foreign connected person means an entity that is part of the same group as the licensee) component parts or materials for goods; or goods ready for sale, and reselling such component parts, material or goods or (b) Providing services to foreign connected persons. Which includes transporting and storing components parts, materials and goods ready for sale, managing inventories, taking orders and providing consulting or other administrative services.

**Regulatory Authority:** for ESR purposes each Relevant Activities have different **Authorities includes:** (1) Center bank (2) insurance Authority (3) Security and commodities authority (4) Ministry of Economy (5) Free zones authority (6) Financial Free Zone authority.

## Economic Substance Test (EST)

- Licensee is not required to do ESR in a Financial year in which there is no relevant income.
- Licensee which have **relevant income** in Financial year must satisfy the following criteria to meet EST in relation to Relevant Activity carried on by it: (1) Conduct necessary Core Income Generating Activity (CIGR) (2) Direct & managed in State (3) Adequate full qualified staff, expenditure, physical assets in state etc..

## Notification & Report:

The **notification** must be filled **within Six(6)** months from the Licensee’s Financial year end to their regulatory authority and complete and submit to the same regulatory authority and **Economic Substance Report within 12 months** from the Licensee’s Financial year end.  
An entity is not required meeting the ESR and file an ESR Report for any financial period in which it has not earned income from a relevant activity or if it meets the conditions for being exempt.

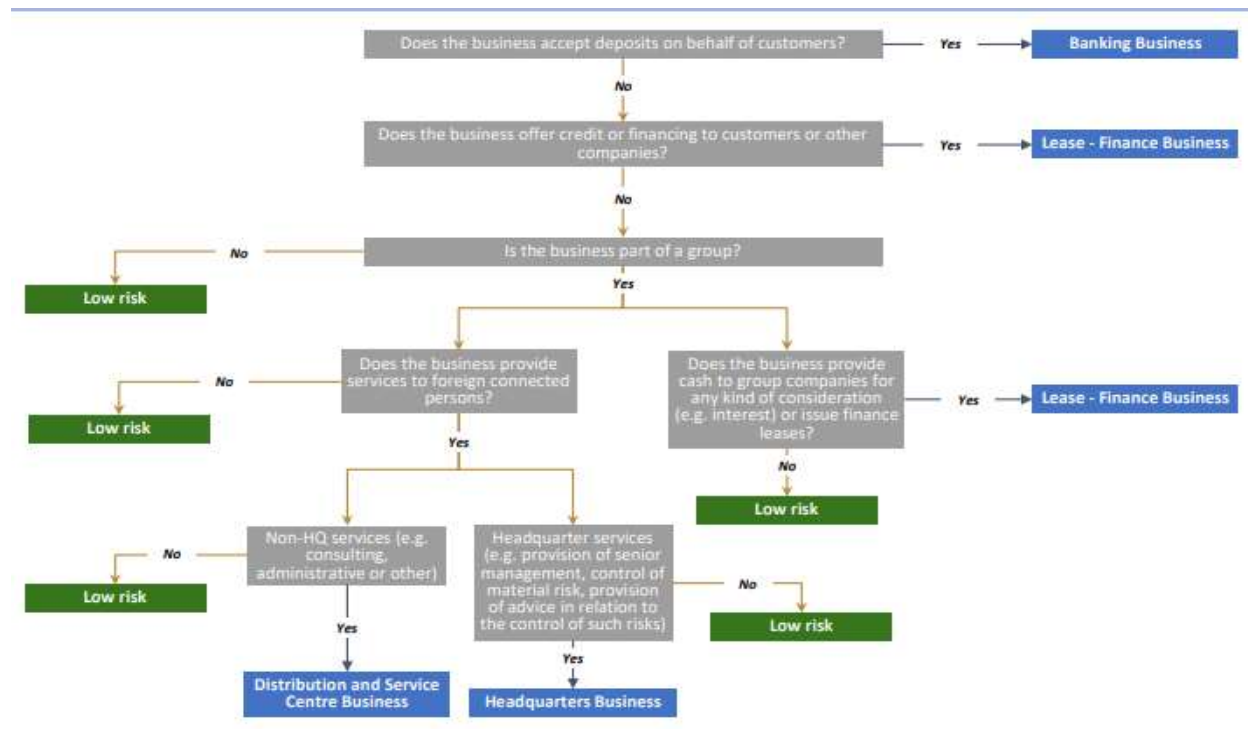
**Records Keeping:** Licensee or Exempted License must retain information or documents for a period of **Six (6) years** from date on which information or documents submitted.

## Penalties:

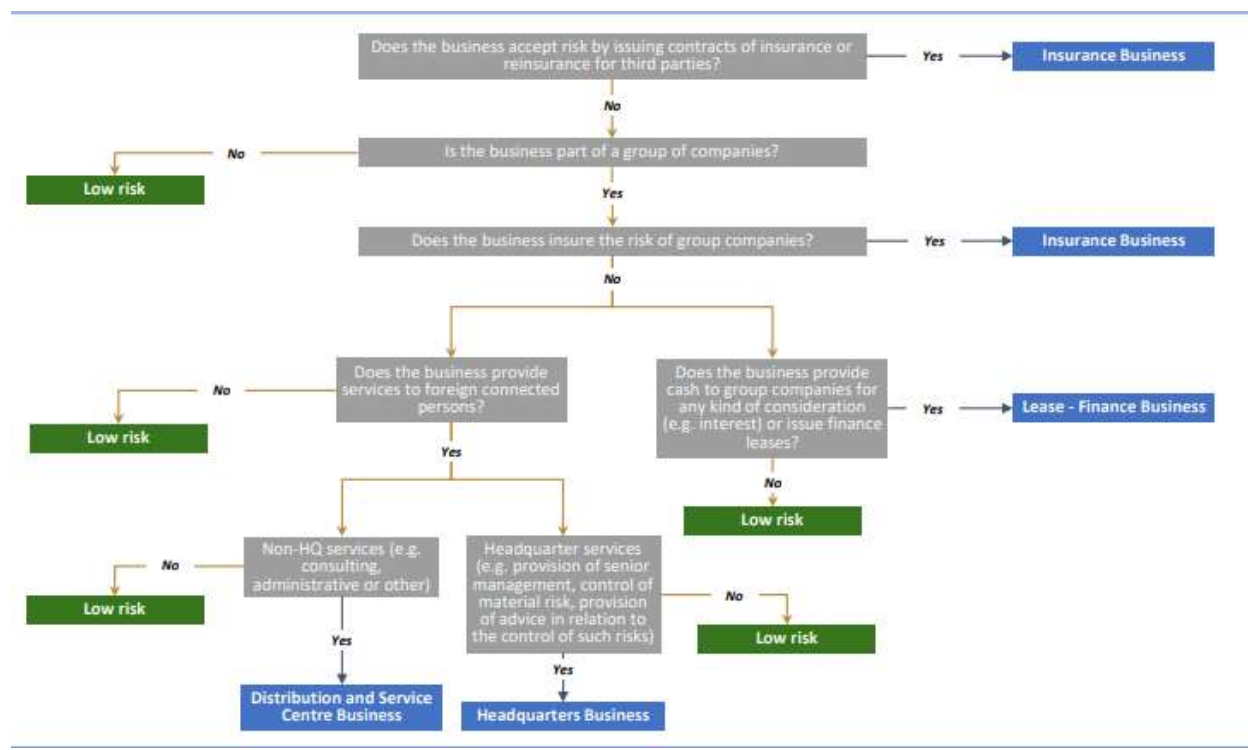
- AED. 20,000/- : Failure to submit A Notification
- AED. 50,000/-: Failure to submit ES Report / Failure to meet EST for each Financial year/ Provide in accurate information.
- AED. 400,000/-: Same violation in the financial year immediately following the financial year in which the violation was committed

Ultimate Beneficial Owner: Individual who owns directly or indirectly 25% or more of share capital of the Licensee or Exempted license.

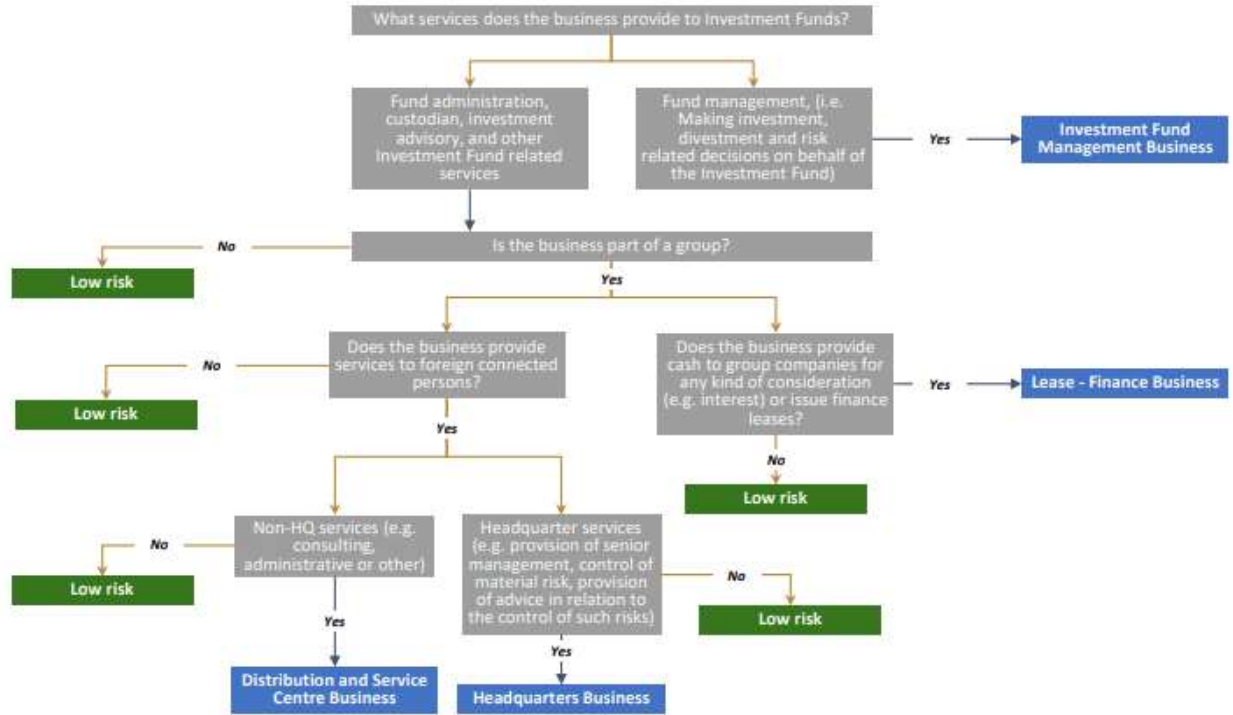
**Banking Business – Relevant Activity Test:**



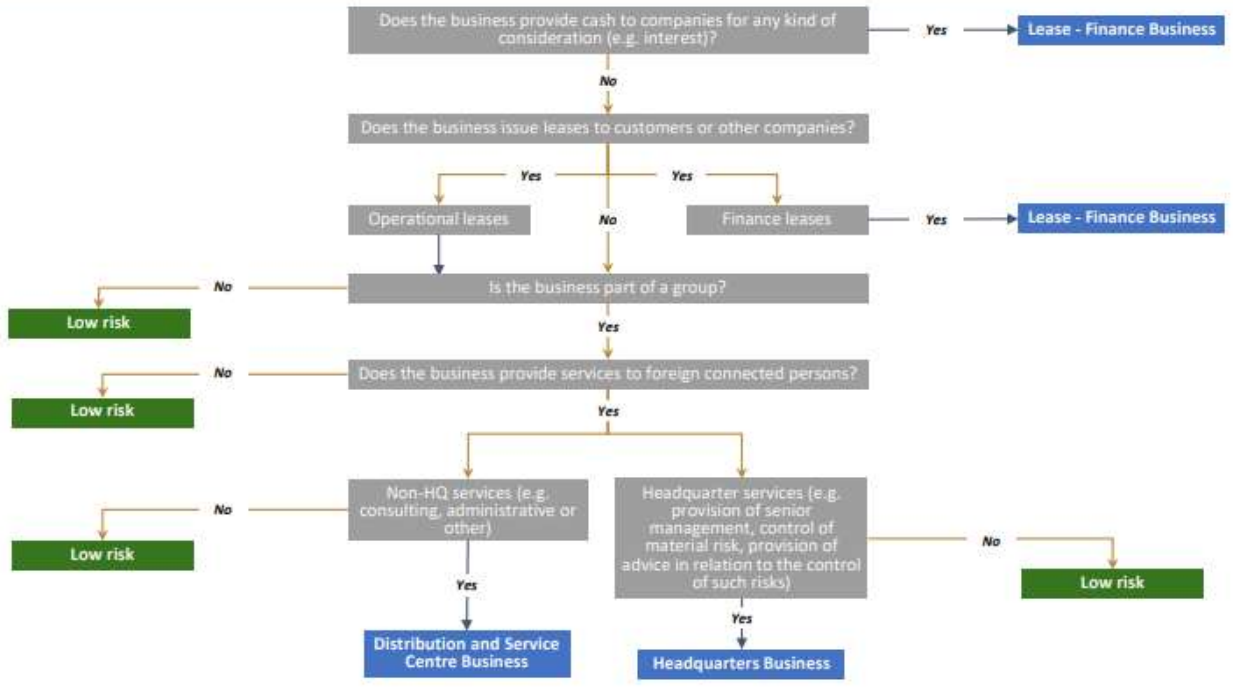
**Insurance Business Test – UAE Relevant Activity Test:**



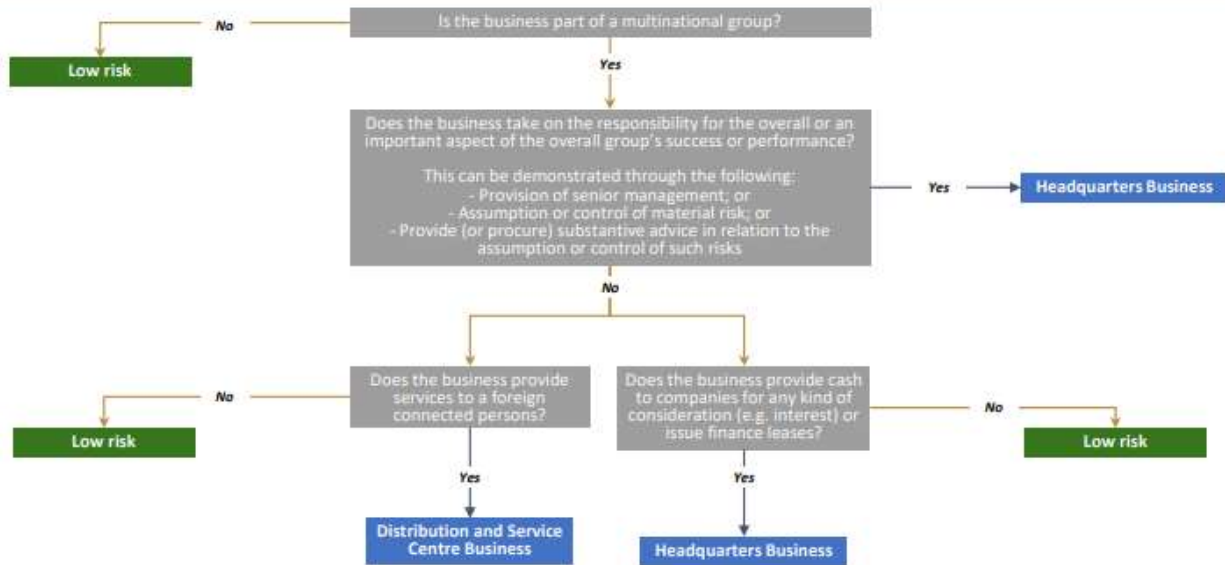
## Investment Fund Management Business – UAE Relevant Activity Test:



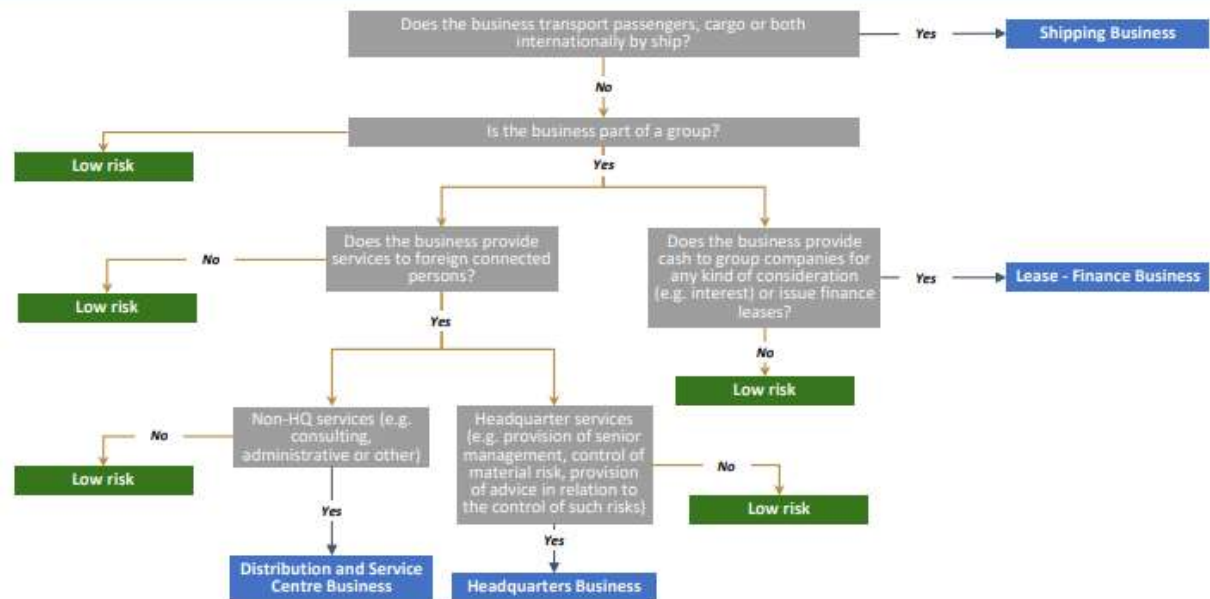
## Lease Finance Business – UAE Relevant Activity Test:



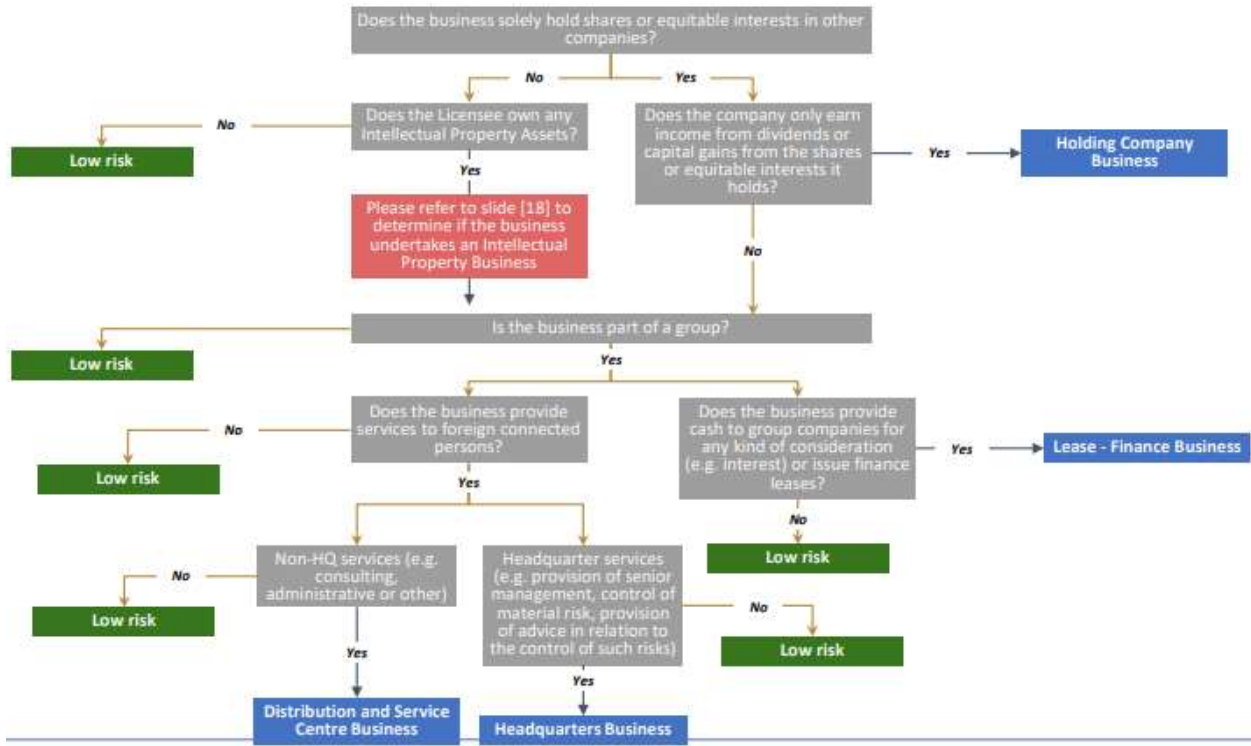
## Headquarter Business – UAE Relevant Activity Test:



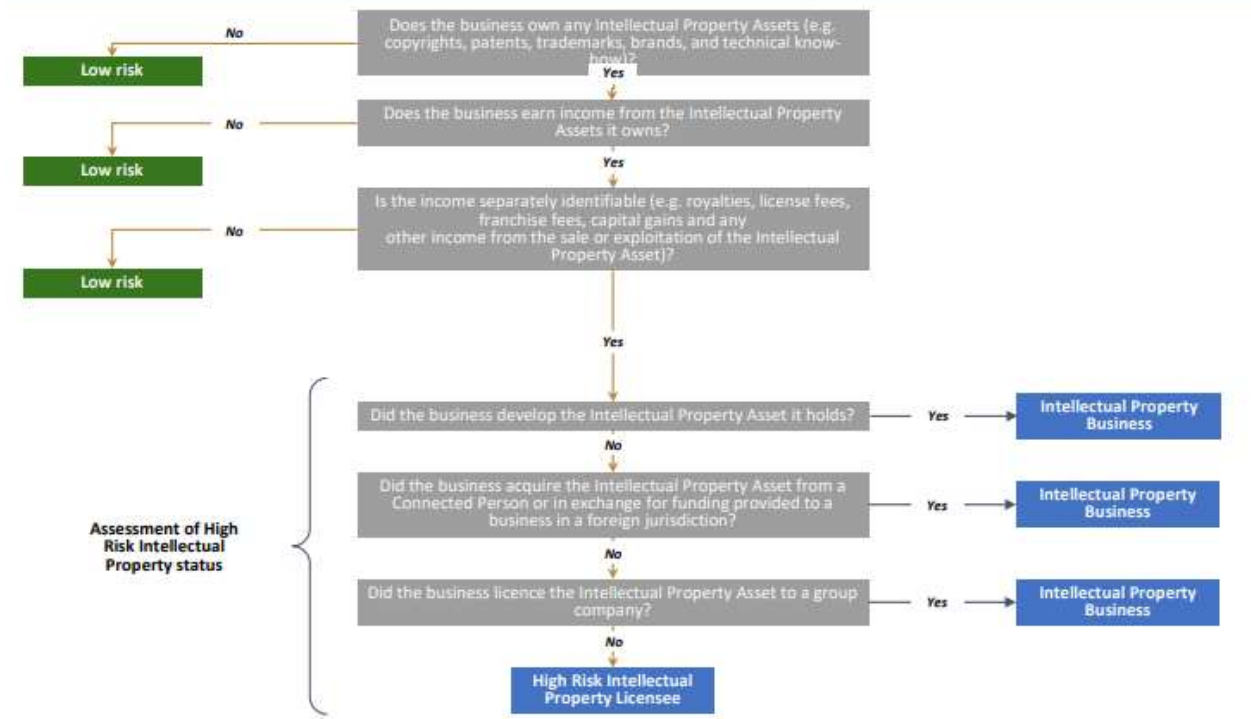
## Shipping Business – UAE Relevant Activity Test:



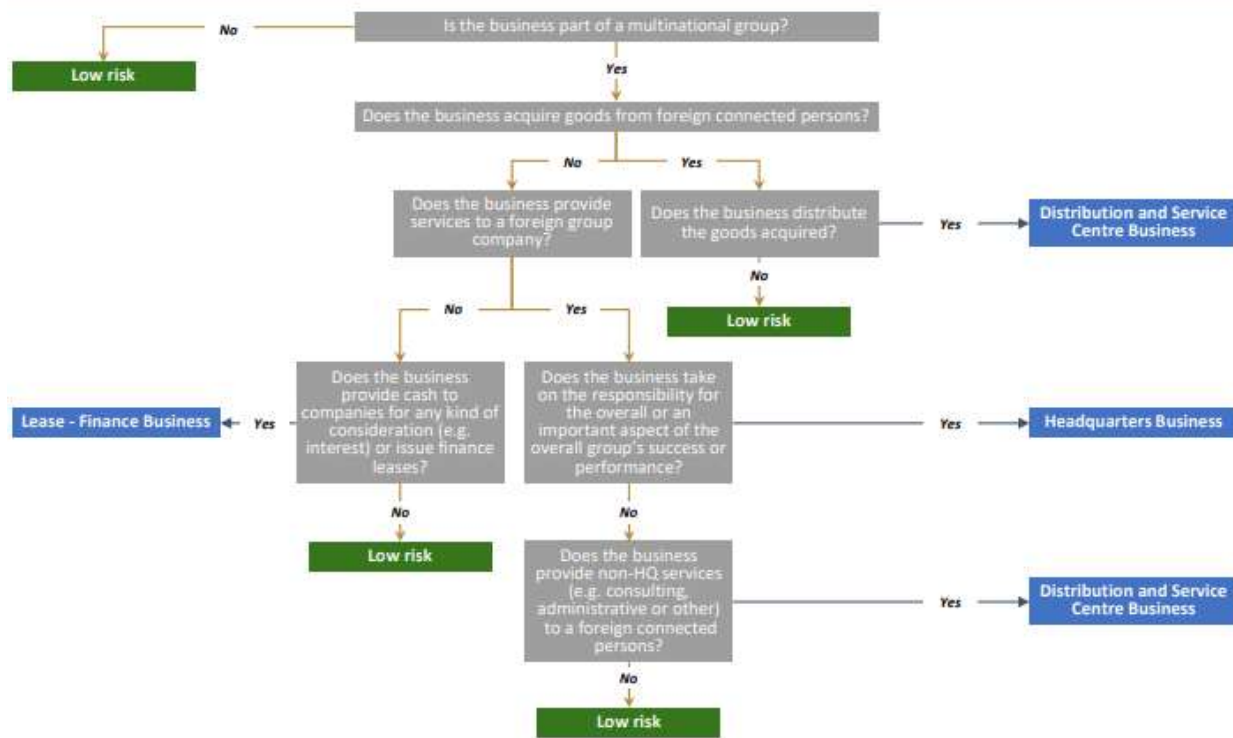
## Holding Company Business – UAE Relevant Activity Test:



## Intellectual Property Business – UAE Relevant Activity Test:



## ESR Distribution and Service Center Business Test – UAE Relevant Activity:



### Economic Substance Test:

What is adequate substance in UAE

What is ESR investigation: includes

What is economic substance regulations in UAE

What is the economic substance regulation in Abu Dhabi / Dubai / RAK

What is the economic substance test

What is ESR processing

When should we file ESR in UAE

- ✓ Licensee is not an exempted license
- ✓ Conduct Relevant Activities in UAE
- ✓ Conducts Core income Generating activity
- ✓ License not required to meet the ES Test in a Financial year in which no Relevant income

ESR Information Requirement:

- ✓ Type of Relevant activity conducted
- ✓ Amount and type of relevant income earned

- ✓ Operating activities incurred for relevant activity
- ✓ Business location, plant, property used for relevant activity
- ✓ Number of employees
- ✓ Core income generating activities in respect of Relevant Activities
- ✓ Financials statements

**What is ESR compliance:**

**What is ESR in business:**

**What is ESR in compliance:**

**What is ESR in the UAE:**

**What is ESR notification in UAE**

ESR (Economic Substance Regulations) refer that every Entity (“ Licensee”) that Carries Relevant Activities and derive Income from Relevant Activities in UAE are required to perform an Economic Substance Test. And Required to file ESR Notification and ESR Report.

**Can we amend ESR notification / Report**

**How do I amend my ESR notification / Report**

**Can we Modify ESR notification / Report**

Yes.

ESR notification or ESR report can amend / modify by clicking on “Request for Amendment” button on Dash board.

**UAE ESR Fines**

**ESR Fines**

**ESR failure submit notification files**

**ESR failure submit ESR Report fines**

**How much is ESR penalty payment**

**What is the penalty for economic substance in UAE**

**What is the penalty for ESR in UAE**

**What is the penalty for ESR notification**

**What is the penalty for ESR report**

**What is the penalty for non filing of ESR notification**

**What is the penalty for non filing of ESR report**

**What is the ESR penalty appeal**

## **Penalty for ESR Notification / ESR Report not submitted on time**

- ✓ AED. 20,000/- : Failure to submit A Notification
- ✓ AED. 50,000/-: Failure to submit ES Report / Failure to meet EST for each Financial year/ Provide in accurate information.
- ✓ AED. 400,000/-: Same violation in the financial year immediately following the financial year in which the violation was committed

A Licensee may appeal a decision of the Federal Tax Authority on ESR Penalties.

### **How do I file an ESR return**

### **How to file ESR notification in UAE**

### **What is the deadline for ESR report / ESR Notification**

### **What is the deadline for ESR submission**

### **What is the reportable period for ESR**

### **How do I file an economic substance report**

### **What is ESR notification in UAE**

### **What is the economic substance obligation**

### **What is ESR reporting in UAE**

### **What is ESR reporting**

### **What is the reporting period for ESR**

### **Due Dates for ESR Notification and ESR Report**

ESR Notification / ESR Report filing through the Ministry of Finance Portal. ESR Notification within 6 months from End of financial year. ESR Report withing 12 months from End of Financial year.

### **Is ESR filing mandatory in UAE**

### **Is ESR mandatory in UAE**

### **Who are eligible for ESR in UAE**

### **Who falls under ESR**

### **Who is ESR applicable in UAE**

### **Who is required to submit ESR**

### **Who needs to file ESR in UAE**

Yes,

applies all Entities Registered in UAE State, including a free zone and Financial Free Zone and carries on a Relevant Activity.

### **What are ESR activities**

### **What is ESR activities**

### **What are ESR Relevant Activities**

### **ESR Relevant Activities**

### **UAE ESR Relevant Activities**

### **What are ESR activities**

### **What are UAE ESR relevant activities**



Includes:

(a) Banking Business (b) Insurance Business (c) Investment fund Management (d) Lease-Finance Business (e) Headquarters Business (f) Shipping Business (g) Holding company Business (h) Intellectual Property Business (i) Distribution and Selling Center business.

**What is ESR audit in UAE**

**What is ESR audit**

**What is ESR in audit**

ESR Audit to evaluate UAE entity meets substance test, which includes Entities Registered in UAE State, including a free zone and Financial Free Zone and carries on a Relevant Activity. Whether they perform adequate the relevant Core income Generating Activities in UAE

**What does ESR stand for finance**

**What is an ESR review**

**What is ESR law Dubai**

**What is ESR processing**

**What is ESR regulation in UAE**

**What is the full form of ESR database**

**What is the full form of ESR in corporate**

**What is the purpose of ESR in UAE**

**What is the purpose of ESR reporting**

**Reason for UAE Government enforce ESR Regulations**

ESR stand for Economic Substance Report, UAE's member of OECD commitment and assessment UAE issued Economic Substance Regulations (Cabinet of Ministers Resolution No. 31 of 2019), (the "Regulations") on 30 April 2019 and Guidance on the application of the Regulations was issued on 11 September 2019 (Ministerial Decision No. 215 of 2019), and Cabinet Decision No. 58/2019 on the Determination of Regulatory Competencies lists the Regulatory Authorities tasked with the administration and enforcement of the Regulations. Amendments to the Regulations were made by Cabinet of Ministers Resolution No. (57) of 2020 on 10 August 2020, and updated Guidance was issued on 19 August 2020 (Ministerial Decision No. (100) of 2020.

**Who is exempt from ESR**

**What is Article 4 of economic substance Regulations**

**What is Article 4 of the Economic Substance Regulations UAE**

**Who are exempted from ESR in UAE**

An Investment Fund

Tax Resident out the UAE

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