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Private Client Trends in the UAE

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What's the impact of the introduction of corporate tax on private clients and their structures?

In our discussions with clients and professional intermediaries, we've observed that many are unaware of significant changes affecting offshore structures due to new tax regulations in the UAE. The introduction of corporate tax and the concept of the "place of effective management" now mean that most offshore structures, traditionally used for tax optimization, are now subject to UAE corporate tax.

This is particularly relevant for structures where the client acts as the sole shareholder, director, and account signatory, resulting in a place of effective management in the UAE. This development has emerged as a crucial point of consideration in the last six months, highlighting a gap in awareness among clients about the tax implications for their offshore entities.

If I am a new client setting up a structure, what are the options?

For new clients establishing structures today, it's essential to consider the spectrum of control. There are two main paths to explore:

1. **For Maximum Control:** The DIFC Foundation offers a local solution with maximum control. It provides an exemption under Article 17, allowing for the Foundation to be treated as an Unincorporated Partnership and thus act as a transparent vehicle for tax purposes. This exemption means the foundation will most likely be exempt from paying any corporate tax, whilst also providing a robust solution for succession planning.

2. **For Maintaining Offshore Assets:** Clients preferring to keep their assets offshore, should critically assess various control aspects of their offshore entity. This involves looking at several layers of control:

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- **Shareholding:** Identifying the shareholder is crucial for both control and succession planning. Direct ownership by the client offers control but also poses a succession planning challenge.
- **Directorship:** The control exerted through directorship is vital. To avoid bringing the company within the scope of UAE corporate tax, decisions should not be made by clients residing in the UAE. Alternatives include appointing offshore or corporate directors.
- **Investment Decisions:** Analysing who makes the investment decisions is another layer of control.
- **Banking Operations:** Considering who manages the inflows and outflows from the company's bank accounts is also crucial.

Addressing these control levels and ensuring the management and decision-making processes are conducted outside the UAE can provide a viable solution for those wishing to maintain offshore assets while navigating the new tax landscape effectively.

What else is happening from a regulatory perspective?

About two years ago, the private client space witnessed significant regulatory changes, especially in the DIFC and other regulatory bodies. These changes aimed to simplify business operations, including allowing Single Family Offices to become unregulated, a move that was welcomed by the industry. Additionally, there were updates to the Foundations Law, all occurring within the last 12 to 24 months. Recently, the focus has shifted primarily to UAE Corporate Tax.

In the realm of funds, substantial changes are affecting how Foreign Funds market themselves in the UAE. Now, offshore managers and funds must market onshore exclusively through agents to professional investors or via a regulated feeder in a recognized financial jurisdiction. This development marks a significant shift in the fund space locally.

The regulatory adjustments stem from the observation of foreign fund structures, particularly those managed from within the UAE or GCC, that were not previously regulated in accordance with local standards due to being offshore.

This situation presented a risk to investors, as these managers were raising capital without local Regulatory accountability. The new rules aim to protect investors by ensuring that fund managers or investment advisors operating in the GCC are accountable not only to the offshore Regulator, but to a local Regulator as well, enhancing investor protection and accountability in the financial sector.

What type of clients continue to arrive in the UAE?

Over the past 24 months, there has been a notable influx of Russian clients into the UAE, although this trend has decelerated in the last year. Recently, there's been a rise in wealthy individuals and business entities from China relocating to the UAE.

Additionally, there's a significant shift in the professional sector, with numerous hedge funds moving to Dubai and Abu Dhabi. This movement is driven by the UAE's appealing tax benefits, desirable lifestyle, and the advantage of operating across different time zones, making it an attractive hub for business.

A crucial development enhancing the UAE's appeal is the emerging talent pool within the region. Previously, while many managers were interested in establishing operations in the Middle East, the challenge was finding the right talent. This scenario is changing as more hedge fund managers relocate, bringing substantial teams from various jurisdictions. This influx of professionals is enriching the local talent pool, marking a significant shift and likely encouraging more managers to consider the region for their operations.

What's the potential impact of the removal of the UAE from the FATF Grey list?

The UAE's removal from the grey list significantly boosts Dubai and the UAE's credibility. Previously, the absence of corporate tax and a perceived but unenforced regulatory regime might have attracted less desirable clients and individuals. However, the last year has marked a shift, with regulators adopting a strict approach to enforcement.

This period has seen an increase in inspections and the issuance of fines across financial free zones and the mainland. Such stringent regulatory measures enhance the UAE's reputation, making it a more attractive destination for foreign investment. This newfound credibility is expected to draw more companies seeking a reputable jurisdiction for operations and capital attraction. ■