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Volume 105, Q4 2022

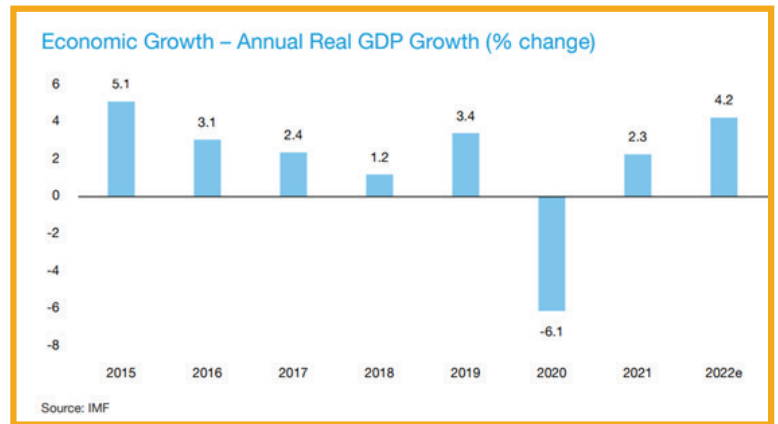
Business Challenges in 2022 and Way forward

Following a year of sluggish growth of 3.8% in 2021, International Monetary Fund (IMF) has revised its forecast with over 5% growth expected in 2022. It would be the highest growth in the past seven years. Overall, economic forecast for MENA is subdued by concerns regarding rising inflation driver by rising food and energy prices.

Globally, 2022 has been challenging for business in the region with one shock after another — the coronavirus pandemic, Russia’s invasion of Ukraine and a resurgence of inflation. Inflation affects all businesses with increased costs and thus can hinder bottom line. Several strategies can be implemented for multi-nationals, including hedging, locking in prices, bulk buying or even revisiting contracts with vendors or looking at alternative procurement partners.

Growth in 2023 will be fueled by two areas:

- 1) SME and MSME sector
- 2) Technology Sector.



SMEs and MSMEs form 94% of all registered businesses in the UAE. Differentiated and specialized Freezones, along with support of government to boost the start-up sector and a series of transformation in Visa rules will continue the growth and recovery from the past economic shocks. A key proof of this includes Dubai’s ranking at fifth globally and first in the Arab world in the UN e-government survey 2022.

2023 will also witness the implementation of corporate taxation for the first time in the country. A major way to cut cost would be evaluation of suitability of free zones in the country which will provide tax free status for those who do not conduct business with the mainland.

A 9% tax rate option will be one of the most competitive globally as well as regionally. Hence, businesses must embrace for tighter global markets while making most of a digitally driven transformational visionary government support.

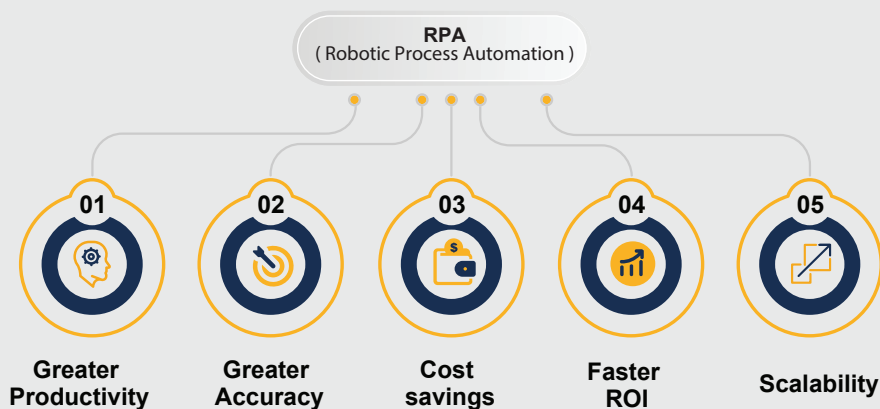


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RPA – One of the most talked about technology

Whilst RPA stands for Robotic Process Automation, a myth to be cleared here is that it DOES NOT involve physical robots. With RPA, we can create software programmes, known as “bots”, that can study, mirror, and then execute rules-based business processes. Robotic Process Automation software bots can interact with any application or system the same way as humans do—the key difference being that RPA bots can operate around the clock, nonstop, much faster and with 100% reliability and precision.

RPA is most useful for automating some of the most mundane and monotonous computer-based tasks performed by humans in the workplace. For example, bots can adapt to any interface and are able to copy-paste, capture web data, calculate, open and move files, log into programs, extract unstructured data and more. Key outcomes that one would benefit from RPA include:



Gartner says worldwide RPA software spending is expected to reach \$2.9 Billion in 2022 and \$11 billion by 2027. The global RPA market size was valued at \$1.40 billion in 2019-by Grand View Research. And as per Computer Economics 2021, 20% of all organizations have adopted RPA in 2021. That is up from the 13% adoption rate in 2020 which in turn is up from 12% in 2019.

Another myth that organizations fall for is that RPA is like a plug-n-play tool that can be installed by clicking on 5 “Next” and 1 “Finish” button; and at the end of which the goals are automatically achieved with their productivity rise by 50% and costs drop by 30%. Unfortunately, that isn’t the case. Some of-the-shelf solutions may be comparatively quicker to deploy but you get what you get, not what you want. Some customized solutions are too expensive. In a market with several baffling options, organizations need to seek the right guidance to select a solution and vendor where one gets value for their money. This is to ensure organizations benefit from a smooth deployment resulting in improved productivity, faster accuracy and reduced cost.



Rahul Dayalal Domadia
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Digital Transformation

Internal Auditor’s obligation in relation to tax

Be it value added tax or corporate tax; an internal auditor needs to have knowledge of the essentials of tax laws to which the company is subject to.

During the preparation of the annual internal audit plan, auditors need to allocate sufficient time to verify the company’s adherence to local tax regulations, it is both risky and costly not adhere to tax laws, not only due to the hefty fines that most tax laws impose on violations but because non-adherence can cost companies much more than money.

We have witnessed over the years several cases of business closures due to non-adherence to tax laws, the truth is that: the easiest way to avoid troubles is to stay straight; calculate your tax properly, pay on time, be aware of all tax laws updates and above all be transparent with the tax department in case of ambiguous cases or mistakes.

The points mentioned in the previous paragraph should be part of each annual audit plan as the risk involved is permanent.

Reporting on compliance with tax laws demonstrates more credibility to the internal auditor and shows the depth of his involvement and commitment to professional standards.



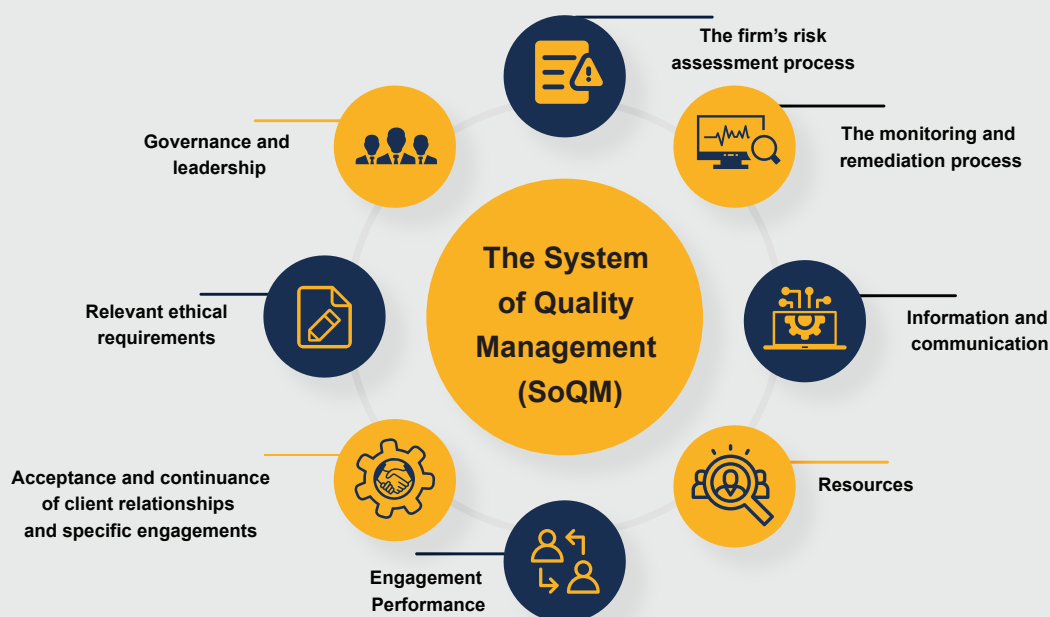
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Proactive approach to quality management with ISQM 1

In September 2020, the International Auditing and Assurance Standards Board (IAASB) issued a new set of Quality Management Standards which includes ISQM 1, ISQM 2 and the ISA 220 (Revised). The International standard of Quality Management (ISQM) 1 applies to all firms performing audits or reviews of financial statements or other Assurance or related services engagements. This implies that the non-audit functions and services like Advisory, Consulting, Risk management, Compliance, and other assurance engagements will also come under the umbrella of quality management.

This presents an opportunity for firms to revisit their quality management systems with the goal of identifying their quality objectives, assessing the quality risks and designing and implementing responses that best address those risks.

Firms are required to have systems of quality management designed and implemented in accordance with ISQM 1 by 15 December 2022. The System of Quality Management (SoQM) addresses the following components:



Additionally, it also addresses the requirements for the following:

- Network Requirements or Network Services
- Evaluating the System of Quality Management
- Documentation

Predominantly as an Audit firm we are aware of the risks associated with an audit engagement and going forward the Firm shall train our staff members from Advisory and Consulting divisions about quality management and its significance and benefits for the staff as well as clients and their stakeholders. There will be an added emphasis on the annual assessment of the SOQM and implementing the required responses to address quality risks and meet the objective of quality management.

The important steps are towards enhancing the quality include reviewing and discussing the new standard, identifying key risks currently faced, redefining the quality management priorities, and ensuring that the system is scalable and flexible for change.

We believe that an all-inclusive approach to quality management is imperative, and we plan to involve all our staff members to adopt, adapt and operate under the new SOQM. This is the beginning of a long journey towards quality enhancement and overall excellence in the work that we do which will go a long way and benefit our clients, stakeholders, and the society at large.



Nimit Ramaiya
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Place of effective management or control – Can this lead to foreign companies and MNCs getting taxed in UAE?

Background:

One of the most important concepts introduced in Public consultation document ('PCD') released by UAE Ministry is the taxability to foreign companies and multinationals that are 'effectively controlled and managed' in UAE, wherein they will be treated as a resident person and will be taxed in UAE on their worldwide income.

The definition of a company which is effectively controlled and managed in UAE has been vaguely provided in PCD wherein it states that one needs to consider the place where the directors or other decision makers of the company make the key management and commercial decisions.

However, given the reference of OECD regulations at various instances in PCD, we can fairly assume that above definition has been designed in line with OECD Commentary in Model Tax Convention Article 4, which states that residency of a dual resident entity is determined to be in the country where its Place of Effective Management ('PoEM') is situated.

It further states that 'PoEM is the place where key management and commercial decisions that are necessary for the conduct of the entity's business as a whole are in substance made.' Also, it provides various factors which needs to be considered to determine the PoEM:



Consequences of becoming a resident in UAE:

A foreign company that is effectively managed and controlled in UAE will be subject to UAE corporate tax on their worldwide income.

Interplay with Transfer Pricing ('TP')

If the transactions of entity (that has a PoEM in UAE) and its group companies outside UAE, are considered to be within the ambit of transfer pricing regulations in UAE, it might increase the compliance burden of such entity to a great extent.

Way forward

The POEM concept assumes significance to foreign companies having nexus with UAE, especially UAE based MNCs having outbound investments. It will be important for MNCs to assess functioning of group's operations and evaluate impact on account of PoEM, if any, on its overseas entities to mitigate associated risks such as unexpected tax payments and penalties.



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PERMANENT ESTABLISHMENT – Upcoming in UAE but already a tangled issue worldwide.

Following the expected release of much awaited final corporate tax law in UAE, it has become imperative not only for companies and legal persons incorporated in UAE, but also for Multinationals and large foreign companies which have a Permanent Establishment (PE) in UAE, to gear up for the upcoming law.

In line with the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention, UAE law proposes to introduce an inclusive definition of PE as under:

Fixed place PE

This triggers where a foreign company has a “fixed place” in the UAE through which its business is wholly or partly carried on and includes branch, office, factory, workshop, real property, building site etc. In a typical fixed place PE scenario, all the following conditions needs to be satisfied:

- Existence of place of business
- Have a fixed place of business i.e., a distinct place with a certain degree of permanence (The fixed place can be owned, rented, leased, etc.) and at disposal as well.
- The business must be carried out wholly or partially through such fixed place.

No PE may arise if activities carried out through “fixed place” in the UAE are preparatory or auxiliary in nature i.e. they support the main business activities of foreign company.

Agency PE

This triggers where a person acting on behalf of the foreign company in UAE has and habitually exercises the authority to conclude contracts or negotiates/concludes contracts without any material intervention by foreign company.

Interplay with Double Taxation Avoidance Agreement

UAE has more than 100 bi-lateral agreements in place with other countries to avoid double taxation. Principles of PE are largely similar across all tax treaties, in line with OECD model framework, however the way in which they are worded, may have different interpretation and related impact.

Attribution of profits in case PE is established

Attribution of profits to PE is probably one of the most complex subjects of the international tax space. Once it is concluded that PE is established then foreign company would be required to allocate appropriate profits to PE.



Aayush Goyal
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Way forward

MNCs having operations in UAE should pro-actively assess risk of PE before applicability of corporate tax and undertake necessary measures to mitigate / minimise any potential PE risk. Further, it would be also important to take into consideration transfer pricing implications upon establishment of PE.

For more information
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While placing great emphasis on establishing professional relations with each of our clients. This enables to work in an atmosphere of openness and trust. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.



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