

**Regulation No. (2) of 1996**  
**Concerning Collection of Tax from Branches of**  
**Foreign Banks in the Emirate of Dubai<sup>1</sup>**

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**We, Hamdan bin Rashid Al Maktoum, Deputy Ruler of Dubai,**

**Do hereby issue this Regulation.**

**Article (1)**

This Regulation will be cited as “Regulation No. (2) of 1996 Concerning Collection of Tax from Branches of Foreign Banks in the Emirate of Dubai”.

**Article (2)**

The following words will have the meaning indicated opposite each of them unless the context implies otherwise:

Emirate:	The Emirate of Dubai.
DOF:	The Department of Finance.
FAD:	The Financial Audit Directorate at His Highness the Ruler’s Court.
Branch:	A branch of a foreign bank operating in the Emirate.
Tax Base:	The net profits of a Branch which are subject to tax under this Regulation.
Financial Year:	The year commencing on 1 January and ending on 31 December of each Gregorian calendar year.

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*<sup>1</sup>Every effort has been made to produce an accurate and complete English version of this legislation. However, for the purpose of its interpretation and application, reference must be made to the original Arabic text. In case of conflict, the Arabic text will prevail.*

Capital Expenditure:	Expenses of a capital nature, rather than an operating nature, whose benefit may extend to subsequent financial periods.
Regional Management Expenditures:	The supervisory expenses of the regional management existing within or outside of the Emirate.
Central or Joint Expenditures:	The joint operating expenses of all Branches operating within or outside of the Emirate.
Central or Joint Revenues:	The operating revenues generated from the joint investments and activities of the Branches operating within or outside of the Emirate.
Interest in Suspense:	Interest which is due on slow-moving and doubtful debts and which is set aside from the revenues account.
Accounting Policies:	The consistent accounting policies adopted by a Branch in accordance with the accrual basis of accounting and the recognised international accounting standards.
Branch Assets:	The total assets of a Branch before deducting the allowance for doubtful debts, Interest in Suspense related to these debts, and any other allowance.

### **Article (3)**

1. Tax will be calculated at the rate of twenty percent (20%) of the net Tax Base.
2. A Tax Base will be calculated in accordance with the Accounting Policies adopted by the Branch and will be approved by the external auditors of the Branch after making the necessary amendments as per the following rules:
  - a. Head office expenditures may count towards calculating the tax, provided that they are evidenced and recorded in books, that the basis on which they are apportioned is demonstrated, and that they are certified by the external auditors of the head office.
  - b. A Branch will incur part of the Regional Management Expenditures based on the ratio of the Branch Assets to the total assets of the Branches, within or outside of the United Arab Emirates, which benefit from these expenditures.

- c. The sum of the head office expenditures and the Regional Management Expenditures incurred by a Branch must not exceed two and a half percent (2.5%) of the total revenues of the Branch, excluding any interest received or paid by Branches within the Emirate from or to each other.
- d. A Branch will incur part of the Central or Joint Expenditures based on the ratio of the Branch Assets to the total assets of all Branches within or outside of the United Arab Emirates.
- e. The share of a Branch in the net Central or Joint Revenues will be calculated based on the ratio of the Branch Assets to the total assets of the Branches that contribute to these revenues.
- f. General and contingency allowances will not count towards calculating the tax. However, specific allowances for doubtful accounts of customers may count towards the calculation. For this purpose, an allowance will be deemed specific if it is related to a specific doubtful and partially or fully unsecured debt which strongly appears to be unrecoverable in whole or in part.
- g. Interest in Suspense may count towards calculating the tax if they are related to an unsecured and non-performing debt which strongly appears to be unrecoverable in whole or in part.
- h. The total value of fixed assets and Capital Expenditures may not be deducted during the year in which the purchase or disbursement occurs. The assets must be depreciated, and the expenditures must be amortised, over a reasonable number of years as recognised by banks.
- i. Banking transactions between a Branch and the head office and other Branches of the same bank within or outside of the United Arab Emirates, including paid and received interest and commissions, will be conducted based on the prevailing interbank interest rates for various currencies and based on the applicable and recognised interbank commissions and fees.
- j. Losses of a Branch during a Financial Year may be carried forward to the following Financial Year, in which case these losses must be deducted from the Branch's profits for the purpose of calculating the Tax Base. Any remaining balance, if any, will be carried forward only once to the following year. No losses may be deducted from the profits of previous years.

- k. A Branch must apply the Accounting Policies in accordance with the recognised international accounting standards and the instructions of the Central Bank of the United Arab Emirates.
- l. Subject to the provisions of paragraph (b) of this Article and the provisions of Article (4) hereof, a Branch must provide the DOF with a tax return that fairly reflects the Tax Base for the relevant Financial Year, and that is approved by external auditors and accompanied by the audited financial statements of the Branch. The tax return will be considered final only after the FAD audits it and issues its final report in respect thereof.

#### **Article (4)**

- a. A Branch must pay the tax to the DOF, as per the tax return submitted by it for the relevant Financial Year, within no later than the last day of the first quarter of the year following the end of that Financial Year of the Branch.
- b. Where a Branch fails to pay the tax within the time frame referred to in the preceding paragraph, a delay fine of one percent (1%) of the tax amount will be charged for each thirty-day period, or any part thereof, until full payment is made.

#### **Article (5)**

- a. For the purpose of achieving the objectives of this Regulation, the FAD will be entitled to audit all the records, books, and documents required to audit the accounts of Branches.
- b. Upon completion of audit for the relevant Financial Year, the FAD will issue its report on the tax amount payable to the DOF. This report will be final and binding on the Branch after fifteen (15) days from the date on which the Branch is notified of the same unless the Branch submits an objection to the report to the Director of His Highness the Ruler's Court.
- c. The Director of His Highness the Ruler's Court will determine any objection by the Branch to the FAD report, and his decision in this respect will be final.
- d. Subject to the provisions of paragraphs (b) and (c) of this Article and the provisions of Article (4) hereof, a Branch must pay any outstanding balance of the tax within no later than fifteen (15) days from the date on which the Branch is notified of the report of the FAD or of the decision issued in respect of its objection.

- e. Where a Branch pays any amount in excess of the payable tax, it will be entitled to recover that extra amount.

#### **Article (6)**

- a. Where the outstanding tax amount calculated based on the audit is not paid within the time frame prescribed in paragraph (d) of Article (5) hereof, a delay penalty of two percent (2%) of that outstanding amount will be charged for each thirty-day period, or any part thereof, until full payment is made.
- b. Where it is established to the satisfaction of the FAD that a Branch has intentionally committed any violation with the intent to evade the payment of tax, a fine of five percent (5%) of the total amount of tax may be imposed.

#### **Article (7)**

All circulars issued prior the effective date of this Regulation in respect of the collection of tax from Branches of foreign banks are hereby repealed.

#### **Article (8)**

This Regulation comes into force on the day on which it is issued, and will be published in the Official Gazette.

**Hamdan bin Rashid Al Maktoum**

**Deputy Ruler of Dubai**

Issued in Dubai on 31 December 1996

Corresponding to 21 Shaaban 1417 A.H.