

QUICK GUIDE

ESTABLISHING A FREE ZONE COMPANY IN DUBAI

In Dubai, a Free Zone Company is a company with a physical presence in one of Dubai's Free Zones. Companies located in Dubai's Free Zones are exempt from certain provisions of the UAE company law. In particular, unlike most commercial companies established in Dubai outside of the Free Zones, non-UAE nationals may own the all the shares in a Free Zone Company.

There are numerous Free Zones in the UAE, such as the Jebel Ali Free Zone, Dubai International Financial Center and Dubai Media City. Each Free Zone Authority has its own regulations which govern the licensing and operating procedures within the Free Zone. They vary largely according to the kinds of permitted activities, the facilities offered, the level of oversight and regulation, and the operating costs. Free Zone entities may take the form of singly owned subsidiaries and establishments, companies with numerous shareholders, or company branch offices, each with different share capital requirements.

This guide discusses some of the factors to consider when establishing a Free Zone entity in Dubai. We describe some of common and distinguishing features of Free Zone entities in Dubai, and briefly set out the formation procedures. This guide is general, is not exhaustive, and is not regularly updated; therefore, it should not be relied upon as legal advice.

Common Features:

- **No taxes:** The UAE government authorities do not impose taxes or duties on Free Zone entities, unless the entity is engaged in the trade of restricted goods.
- **100% Foreign Ownership:** Individuals and companies which are not UAE nationals may own all the shares in a Free Zone entity.
- **Custom Duties:** Free Zone trading entities do not pay UAE custom duties on goods until the goods are taken outside the free zone and into the non-free zone areas of the UAE.
- **Services:** UAE and regional companies operating outside of the Free Zone have easy access to services provided by the Free Zone entities.
- **No Emiratization:** Free Zone Authorities typically do not enforce and implement the UAE quota requirements for employing UAE nationals in the Free Zone.

Distinguishing Features:

- **Permitted Activities:** Each Free Zone has a list of permitted activities. Dubai Internet City focus on the licensing of IT companies; whilst, Dubai Knowledge Village is oriented towards providing educational services. Prior to selecting a Free Zone,



an investor must first determine whether their intended activity is permitted within the particular Free Zone.

- **Available Facilities:** The available facilities and infrastructure vary among Free Zones. Jebel Ali Free Zone for example, has easy access to a leading global sea port, Jebel Ali Port; and therefore, it serves as the primary logistics hub in the region. Dubai Airport Free Zone and Dubai World Central Free Zone are adjacent to Dubai's airports; and companies located there, can take advantage of the logistical support by the respective Free Zones. Dubai Silicon Oasis Free Zone, operates an incubation center to support technology start-ups, and has dedicated licensing packages for start-up companies. The Dubai Multi Commodities Centre Free Zone offer flexi-desk facilities which allow a company to lease a desk or office on a time share basis, in order to decrease the costs associated with establishing a physical presence. Finally, any company wishing to establish in a Free Zone must determine the availability of the appropriate office, warehousing facilities or land. The waiting lists in certain Free Zones oftentimes exceed a year.
- **Formation and Leasing Costs:** Licensing costs are similar in the majority of Dubai's Free Zones. Although they are significant, investors should also determine the share capital requirements, both in terms of the minimum value of each share (which may affect apportionment considerations) and the minimum overall amount. The leasing costs also vary greatly. Investors must pay close attention to the available lease durations, be it for offices, warehouses or land. In addition, the number of employee residency permits to which a free zone entity is entitled, is proportionate to the leased space. Certain Free Zones such as the Dubai International Financial Centre and the Dubai Multi Commodities Centre Free Zone permit foreigners to purchase office facilities. Dubai is currently experiencing strong economic growth; and therefore, local lease rates and purchase prices are increasing steadily.
- **Regulatory Oversight:** Certain Free Zones apply strict health and safety regulations. The Jebel Ali Free Zone, for example, have dedicated engineers which oversee a licensee's construction of any facility within the Free Zone and require certain approvals through the design, construction and commissioning stages. In addition, Free Zones may be subject to Dubai municipal and governmental regulations for the production and handling of foodstuffs, hazardous goods or other restricted items. The Dubai International Financial Centre has its dedicated Commercial Laws and English language Common Law Courts. Further, all financial service providers in the Free Zone are overseen by the Dubai Financial Services Authority, which is



modelled on the leading financial services regulators, and which actively enforce its regulations. The oversight helps ensure that financial services provided in the Free Zone are of a high standard; however, companies seeking to provide such services incur significant compliance costs.

Formation Procedures Overview:

Kanaan Advocates & Legal Consultants has extensive experience in establishing free zone entities, not just in Dubai, but throughout the UAE. The approval process is typically a three step process. First the application form and the trade name is requested. Once approved, the necessary corporate documents are submitted for the Free Zone Authority's initial approval. Once the initial approval is granted, the applicant must arrange for its physical premises, and obtain the approval of the specialized regulatory authorities; following which, the Free Zone Authority will issue the trade license.

To establish a Free Zone entity we will require documentation identifying the prospective shareholders, such as passport copies of the shareholders and directors, corporate documents, and certificates of good standing. We will also require declarations and resolutions which express the prospective shareholders' desire to establish the Free Zone Entity, and which provide the incorporator and the manager with the required authorities. These documents must be notarized and authenticated in accordance with the recognized procedures in the UAE.

Any application for the establishment of a Free Zone entity must include the full names and addresses of the prospective shareholders, the number of shares and the value of the shareholdings. In addition the application form must include the names and addresses of the shareholders, the directors, the company secretary, and the manager. Finally, if required under the Free Zone regulations, the application form should also include the Free Zone entity's proposed memorandum and articles of association.

Although we may establish the Free Zone entity on behalf the applicants, Free Zones have residency requirements for directors and managers. As such, they must provide proof of entry to the Free Zone Authority during the application process; and subsequently the Free Zone entity must provide them with a residency visa. Please note that all Free Zones Authorities have discretion in approving the establishment of the Free Zone entity, and may require additional assurances and requirements once they have reviewed the applications.