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CORPORATE VAULT

A Knowledge sharing initiative by Nimai Transaction Advisory Services

Dear Friends,

A very warm welcome to yet another edition of the Corporate Vault.

Countries across the globe have now relaxed restrictions relating to COVID-19. As we move forward from the pandemic, we look forward to a new hybrid in terms of our interactions, with virtual and physical meetings complementing one another to support our workings, instead of eliminating one of the two and losing the benefits that come with it.

The situation in Ukraine has of course taken the world by storm. As we hope and pray for peace to return, the economies across the globe have to grapple with the consequences including the disruption in supply chains and the rising price of oil. Developing and frontier economies will be facing the impact of rising oil prices bringing in inflation at a much faster pace than expected.

Closer to home, UAE has taken a much-anticipated step of announcing the introduction of Corporate Tax from June 2023 onwards. With the onset of Corporate Tax, a regime of enhanced governance, reporting and global standards of compliance will become an essential part of every business. We firmly believe that the introduction of Corporate Tax at 9% will be a very impactful step in the long run to enhance the credibility of this region as a major business and commercial hub. In this edition, Kapil Bansal, Partner at Nira Consulting shares further insights on the background of this landmark decision and what it means for businesses in UAE. Our consulting practice has been successfully assisting clients on various aspects of compliance and business consulting. We are fully geared up to ensure a smooth transition for businesses towards a tax and compliance regime.

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As we conclude, I am also pleased to share a recent client testimonial. It makes our day when we are able to successfully deliver solutions which help our clients grow their businesses. Happy Clients... Happy Us!!



NISARG DUGAD
Managing Partner

WHAT'S NEW? (...Or not)

Ministry of Finance of the UAE Govt. on 31st Jan'22 announced implementation of Corporate Tax in UAE from 1st Jun'23 onwards along with few provisions through a set of FAQs.

The announcement was not a surprise for the Professionals and Businesses operating in UAE, for long the discussion in UAE was “when income tax would come in UAE”, rather, will it come or not.

CORPORATE TAX – THE MUCH-ANTICIPATED LAW IN UAE

Tax in UAE is not a new phenomenon, may be in a different form, but businesses in UAE are always subject to laws that required payment of fees, charges etc. Certainly, taxes in a form wherein businesses are expected to share information along with payment of tax is new to the country.

Transparency in its businesses speaks a lot about a country's financial environment and UAE has taken significant steps in last five years to bring in more transparency in the businesses operating out of UAE, Corporate Tax is another important step in the direction.

WHAT IS CORPORATE TAX?

Investopedia defines **Corporate Tax** as a tax on the **profits** of a corporation. Federal Tax Authority (FTA), the authority given the task of managing tax in UAE, mentions Corporate Tax is a form of **direct tax** levied on the **net income or profit of corporations** and other entities from their **business**.

In the above definition, it is important to note that it is not only corporation, but it does include other entities as well, implying (and clarified in FAQs as well) any business income earned by a Corporate or individual would be covered under the law. Hence, even an individual with a license having business income will be subject to corporate tax.

BACKGROUND OF CORPORATE TAX

Similar to recent enactment of laws like CbCR, ESR, UBO etc. in UAE, even Corp-

orate Tax is driven by UAE commitments towards the efforts of Organization for Eco-

conomic Cooperation and Development's (OECD) to encounter international tax avoidance under its Base Erosion Profit Shifting (BEPS) project.

In May 2018 UAE committed to cooperate in countering of harmful tax practices and abuse of tax treaty, also to improve reporting and

dispute resolution. Further, UAE along with G7 countries, agreed to OECD's Global Minimum Tax at 15% for large MNC.

UAE's resolve towards above commitments lead to introduction of Corporate Tax (CT) in UAE.

KEY HIGHLIGHTS

1. CT will be levied at a 9% standard statutory tax rate on adjusted taxable profits above AED 375,000 (US\$100,000) as a minimum threshold.
2. A different tax rate for large multinationals that meet specific criteria set with reference to OECD's Pillar II will be announced soon.
3. Applicable to all the business having licensed or permits in UAE including Freezones and having commercial Income.
4. Not be applicable on Individual income like salary, rentals from properties, etc., commercial activities for the extraction of natural resources, dividends and capital gains earned by UAE businesses from their qualifying shareholdings (to be defined).
5. Taxes paid in any other country on UAE entities income subject to tax under CT, may be allowed to get a credit of tax paid in other country (Foreign Tax Credits).
6. Interesting feature of Tax Group wherein multiple entities of a business house can form a Single Tax Group and file Single Tax returns. Tax losses of one member of the group would be allowed to set off against the profits of other members of the same Tax group.
7. No requirement for payment of Advance Tax or Provisional returns. Also, it is mentioned that Withholding Taxes will not be applicable on Domestic or Cross Border payments.
8. Freezones in UAE are also subject to UAE CT, however, free zone businesses may enjoy tax incentives if all the regulatory requirements are followed and has no business with UAE Mainland.
9. Carry forward of losses would be allowed and setoff against the profits of subsequent year subject to fulfilment of certain conditions.
10. Also, businesses in UAE would be subject to Transfer Pricing rules for transactions with related parties.

Further, there are many important points that require clarity, such as:

1. Taxation of free zone entities in case having partial business with mainland entities, whether sperate books of accounts will be required?

2. Calculation of Taxable Adjustable profits, allowed and disallowed expenses?
3. Procedure to get the benefits of Tax paid in Foreign Jurisdiction, UAE's proposed

tax rate is lowest in the world therefore tax paid in foreign jurisdiction will always be higher, any benefits due to this?

4. Clarity on transition provisions, for example treatment of losses of periods before the tax regime?

THE FUTURE

It is the need of the hour that businesses should undertake relevant actions to bring their tax affairs up to current international standards and in line with the CT's implementation. Business should start preparing on major areas like:

- Accounting records to get aligned with International Accounting Standards
- Reviewing the Related Party Transactions and preparation of necessary documents as per OECD guidelines for Transfer Pricing
- Identify the problems areas
- Having suitable ERP and accounting manuals/ Statement of Procedures
- Assessing for the ownership structure and re-structuring it wherever required.
- Identify opportunities to rationalize and optimize your corporate structure and business operating model

“It is the need of the hour that businesses should undertake relevant actions to bring their tax affairs up to current international standards and in line with the CT's implementation.”

In view of the above changes, doing business in the UAE will get more expensive, reflecting the effect of the 9% corporate tax on adjusted tax profits, but still the UAE CT tax rate is one of the lowest Tax rates around the world.

Also, more transparency would bring higher confidence of Foreign Investors thus attracting more investments to the Country.

UAE has always been proactive in adopting the global standards and with this introduction of CT it is has proved it again.

We encourage businesses to assess their existing structures and operations in an effort to apply the most efficient business structures and models in light of the CT Law provisions once issued and in effect.



KAPIL BANSAL
PARTNER
NIRA CONSULTING

MOTIVATION & PRODUCTIVITY IN THE NEW WORK – BOUNDARY CONFLICT

Let's rewind to the conventional corporate life a decade ago.

Natasha had fractured her leg, was unable drive the car or walk, but could work from her desk at home. She still had to miss important meetings and waste her leave because of her absence from office!

Joseph struggled to find a nanny for the safe custody of his children during their winter break while his counterparts in the West took their children to the play area in their office!

Ibrahim had to do his pending office work after return from office, only to see the surprised face of his children as to why he is carrying office work home!

“Work space and personal space have always had clearly defined boundaries, breaking of which was a stigma. Today, we live in a world where this boundary has been broken and invaded on either side. Two phrases – ‘Personal life’ and ‘Professional life’ have got combined into one word called ‘Work-life balance’ – the ready mix of work and personal space. Likers will like it, haters will hate it, but it is there to stay.”

What has changed with this paradigm shift? Is it just physical workplace, IT equipment, travel time? Is it all about adapting to the names we have heard more than our own name – zoom, skype, teams?

Let's think beyond - if there is one thing that has been deeply impacted by this changed ‘Corporate Order’ (Alvin Toffler might want to call it the ‘fifth wave’!), it is the areas of Human Capital and Leadership.

How do we ensure employees are not exhausted without defined work timings? How do we achieve employee mental well-

being? How do we bring in a human/social element into our employees? How do managers overcome the ‘out of sight, out of mind’ syndrome during performance appraisals? What would be the right rewards and recognition in this new order? Many more questions in the minds of those inquisitive to adopt and adapt.

These issues are neither passing clouds nor simple slimes which can be ignored by managements. Each one can have a cascading effect on the motivation and productivity of the employees and in turn the overall

productivity of the organization. “Almost a third of the workforce is ready to quit their jobs if asked to work from office full-time” (Ipsos survey, World Economic Forum, 2021). It is in this context that managements need to pull up their socks and pay attention to remote working.

It is not rocket science, but a people science (sometimes, more complicated!) and to get on with the changing trend, I recommend a six-point package to corporates to build a motivated and productive workforce in the ‘New Corporate Order’.



1. Empower Employees, Create Autonomy:

Create decision-makers and in turn create leaders. A successful leader will be one who is successful in creating many other successful leaders. This relieves a leader from micromanagement and can focus on people-related activities which is the starting point for people-welfare thinking in an organization, eventually leading to motivation of employees.

2. Communication is now ‘Come’ for ‘Unification’:

Holds true now more than ever before given diversified work environments and diversified schools of thought. “Lack of effective communication was the fifth largest cause of demotivation of employees in remote working environment” (Stanford University, 2020). This is a wakeup call to increase frequency and modes of communication, but ensure it is not an overkill (another balancing act required!). Alter the forms based on workforce composition. Gen X, Gen Y and

Gen Z have clearly different preferences of communication.

3. A two-way Work-Life

balance: Take home to work – why not? It is not just taking work home, but it can be taking home to work as well that will bridge this work-boundary conflict. If effectively leveraged, this can act as a catalyst to motivation. Flexibility can be offered both by letting employees work at home and by helping employees integrate their families into the workplace.

Sierra Atlantic which introduced “take your parents to work” day to encash on parental guidance to employees at work, respected the Indian culture of seeking advice from parents. This practice reportedly reduced the turnover rate by 50% amongst freshers.

4. Focus on the Big Q:

It is not about just emotions or intelligence or not about both emotions and intelligence, but it should be about emotional intelligence that could explain the abilities to lead an effective life. Management needs to focus more in

developing the Emotional Quotient (EQ) of the employees rather than focus on technical and content-oriented training programs. Regular EQ honing programs and activities are recommended. These deal with self-awareness, self-regulation, self-motivation, social awareness and social skills.

5. Feedback:

There should be constant feedback between the manager and the employee working remotely, breaking the traditional practice of annual appraisals. 360-degree feedback (360 is everywhere, you see ☺) is also highly recommended given that horizontal interface has increased vs. vertical interface in the remote working environment.

6. Bring back MBO:

Managers need to get used to the practice of defining objectives rather than instruction-based style of managing their subordinates. This is because the work place, timing, pace and sequencing of an employee may be out of the manager’s sight and control. Remote working thus commands a change in management style from instruction-based management to Management By Objectives.



APARNA RAMESSH
ASST. VICE PRESIDENT
PEOPLE & CULTURE AT 360tf



CLIENT TESTIMONIAL

We first approached Nimai at the peak of the COVID crisis in 2020 to advise us on our Working Capital requirements. **Mr. Vivek Chandavarkar**, Vice-President of Nimai and **Mr. Nisarg Dugad**, the Managing Partner, efficiently provided us with the right structure and solution which met our requirements. We were very pleased with the services that they offered. *Even when the pandemic brought the working of the corporates to a crashing halt, they were able to find the right solution and liquidity requirement for our Company.*

In 2021, we *approached them again*, having been extremely satisfied with their services in the past, for our further requirements to cover our shipment to Senegal, Africa. The banks in UAE were skeptical to provide Working Capital Financing for shipments into Africa, especially when the goods were not coming into UAE, however, **Nimai team provided us with a well-structured solution** bringing in banks from South Africa to meet our requirements. We commend Mr. Nisarg and Mr. Vivek for their avant-garde approach when it comes to helping Clients to meet their requirements and we highly recommend their services to any Corporate looking to avail financing.

Thank You