

Where UAE Businesses Are Losing Tax on Outbound Investments

UAE based groups have and continue to deploy capital across borders at an accelerating pace. At times, the right structuring behind it does not keep up with it.

Over the past years, the conversation in the UAE boardrooms has shifted. It is increasingly about how UAE based businesses and families are deploying capital outward, into operating businesses, real estate, funds, listed or hybrid portfolios, and certain global acquisitions.

UAE is a maturing economy and a maturing corporate tax regime has prompted many groups to review their outbound structures.

Based on what we are seeing on the ground, the leakages tend to fall into five consistent categories. Each one is avoidable. Each one compounds over time.

The focus has shifted to diversification and a generation of UAE business owners who have built significant wealth in the UAE are now asking what comes next.

What has not kept pace with this is momentum of outbound structuring.

In several cases we encounter, we have noticed that investments are being made across borders in ways that create immediate and sometimes, even ongoing tax leakage. Not because of aggressive planning failures, but simply because structuring was not considered early enough.



In most outbound investments, the issue is not complexity, it is timing.

The structuring is often considered too late, when the options are already constrained.



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Withholding Tax Drag on Foreign Income

One of the most persistent and underappreciated leakages is withholding tax on dividends, interest, and royalties from foreign investments.

A UAE based investor holding foreign assets directly is typically subject to withholding tax deducted at source in the jurisdiction where the income arises. In many cases, the applicable rate is significantly higher than it would be for an investor holding through a properly structured vehicle with access to a relevant tax treaty.

What is often overlooked is that this is not just a question of the headline rate. In practice, treaty relief or refund mechanisms are often not accessed or operationalised.

As a result, investors frequently end up bearing the full withholding tax cost, even where a lower effective rate may have been available.

The leakage accumulates in the background. There is no tax bill nor any moment of pain that prompts a review. This is simply a permanent drag and cost on returns, year after year.

Capital Gains Exposure on Exit from Foreign Assets

UAE investors are generally aware that foreign jurisdictions impose capital gains tax. The issue is not awareness, but timing. The planning window is almost always at the point of acquisition, not disposal.

Jurisdictions such as the United Kingdom, India, and much of Europe impose tax on gains arising from locally situated assets, particularly real estate and certain shareholdings.

The planning window is almost always at the point of acquisition, not disposal. Where structuring is considered upfront, the tax impact can often be reduced or deferred.

At the same time, local reliefs, exemptions, or beneficial regimes available in the source jurisdiction are often not fully considered or accessed. By the time a disposal is being considered, the options are typically constrained.

Unintended Taxable Presence in Foreign Markets

As UAE businesses expand globally, the risk of unintentionally creating a taxable presence in a foreign jurisdiction receives insufficient attention.

The triggers often arise due to regular commercial activities. A sales director working from another country. A project team operating on the ground. A local distributor with authority to conclude

contracts on behalf of the business.

Each of these instances, depending on the jurisdiction and the specific circumstances, may give rise to a permanent establishment. This does not only create corporate tax and compliance exposure but also requires an attribution of profits to that presence under transfer pricing principles.

In practice, this is where the real exposure arises, as the allocation of profits is often challenged and rarely supported by a contemporaneous analysis.

In many cases, the exposure is only identified at a much later stage.

Informal Cross Border Funding and Transfer Pricing Exposure

The introduction of Transfer Pricing regulations has changed the compliance landscape for cross border intragroup arrangements in a way that many businesses have not yet fully absorbed.

We often see UAE groups funding overseas subsidiaries through informal arrangements. Interest free loans extended without documentation. Management charges levied without a clear basis or benchmarking.

Historically, these arrangements were often tolerated because there was no UAE tax consequence to the pricing. That position has changed.

Transfer pricing rules now apply under the UAE Corporate Tax regime. Intragroup transactions are required to be priced on an arm's length basis.

For many owner managed groups and family businesses, this is an entirely new compliance dimension.

Foreign Asset Succession and Estate Tax Exposure

This is often the most underappreciated risk in the UAE, and in many respects the most consequential.

The UAE does not impose an inheritance tax. This is a significant structural advantage for UAE business owners and private clients. However, the absence of legislation in the UAE does not eliminate estate or succession tax exposure on foreign situated assets.

That exposure is generally determined by the rules of the jurisdiction where the assets situated and not the jurisdiction of residence of the owner.

As portfolios of foreign assets grow, this becomes an increasingly important dimension for planning and particularly for business families and private business owners that are thinking about succession across generations.

What This Means in Practice

None of the aspects described above require aggressive tax planning to address. They require timely, considered advice at the point of investment, and periodic reviews of existing structures as the environment evolves.

The businesses and families that manage outbound tax exposure well generally treat cross border structuring as part of the investment decision, not after the transaction is carried out.

For UAE based groups actively deploying capital overseas, the more relevant question is whether the investments already made are being held in a way that protects the return.

In many cases, they are not. Importantly, in most situations, the positions are still recoverable, if analysed and addressed early.

Coming Next

In our next note, we will look at how UAE based groups should be thinking about structuring outbound investments in practice. This will include common holding structures, jurisdictional considerations, and how to align commercial objectives with tax efficiency from the outset.

How Andersen Can Support

Andersen in the United Arab Emirates advises owner managed businesses and regional groups on Cross Border Structuring, Corporate Tax and Transfer Pricing.

Should you like to discuss further, we would be happy to connect.

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