

## Legal Structures for Business

Previously, each emirate followed its own procedures governing the operations of foreign business interests. Since 1984, steps have been taken to introduce a codified companies' law which is applicable throughout the UAE. Federal Law No. 8 of 1984, as amended by Federal Law No. 13 of 1988 - the "Commercial Companies Law" - and its by-laws have been issued and in basic terms the provisions of the Law are as follows:

Unless you open your business in Dubai within one of the free trade zones, where 100% foreign ownership is permitted, the Federal Law stipulates a total local equity of not less than 51% in any commercial company and defines seven categories of business organisations which can be established in the UAE. It categorises and defines the requirements in terms of shareholders, directors, minimum capital levels and incorporation procedures. It further lays down provisions governing conversion, merger and dissolution of companies.

The seven categories of business organisations defined by the law are:

- General partnership company
- Partnership-en-commendam
- Joint venture company
- Public shareholding company
- Private shareholding company
- Limited liability company
- Share partnership company

## Limited Liability Company (LLC)

A Limited Liability Company can be formed by a minimum of two and a maximum of 50 persons whose liability is limited to their shares in the Company's capital. The time required to form a company will be approximately 1-2 weeks from the date of receipt of all the documents. and procedures and the breakdown of the cost can be given upon request.

The Majority of Companies with expatriate partners have opted for this Limited Liability Company, due to the fact that this is the only option which will give maximum legal ownership i.e. 49% to the expatriates for a trading license.

Fifty-one per cent participation by UAE nationals is the general requirement for the Limited Liability Companies. Therefore the normal shareholding pattern for an LLC will be:

Local sponsor(Partner) - 51% and Foreign Shareholder (s) - 49%

Minimum capital required is AED 300,000 (US\$ 82,000), and should be contributed in cash. Whilst foreign equity in the Company is not permitted to exceed 49%, profit and loss distribution can be agreed mutually.

Several steps are required to establish a Limited Liability Company in Dubai, and these will include the following: -

Selecting a commercial name for the Company and having it approved by the Licensing Department of the Economic Department.

Drawing up the Company's Memorandum of Association and having it notarized by a Notary Public in the Dubai Courts.

Seeking approval from the Economic Department and applying for entry in the Commercial Register.

Once the approval is granted, the Company will then be entered into the Commercial Register and have its Memorandum of Association published in the Ministry of economy and Commerce's Bulletin. The license will then follow, which will be issued by the Economic Department.

The Company should then be registered with the Dubai Chamber of Commerce and Industry.

## Branch Offices

---

Foreign companies are permitted to establish wholly owned branches and representative offices in the U.A.E.; however, these offices are limited in the activities they may conduct within the U.A.E. (Article 314 of the Commercial Companies Law).

Only UAE nationals or companies 100% owned by UAE nationals may be appointed as local agents. Local agents (sometimes referred to as sponsors) are not involved in the operational side of the company, but merely assist in obtaining visas, labour cards etc, and are paid a lump sum and/or a percentage of the profit or turnover.

The main difference between a representative office and a branch office is that a representative office theoretically is limited to gathering information and soliciting orders and projects to be performed by the company's head office. In this regard, representative offices also are limited in the number of employees they may sponsor (typically three or four). A representative office serves as an administrative and marketing center for the foreign company. By contrast, a branch office is a full-fledged business, permitted to perform contracts or conduct other activities as Specified in its license.

**To establish a branch or representative office in Dubai, a foreign commercial company should proceed as follows:**

- Apply for a licence from the Ministry of Economy and Commerce, submitting an agency agreement with a UAE national or 100% UAE owned company. Before issuing the licence, the Ministry will:
- forward the application to the Economic Department to obtain the approval of the Dubai government;
- forward the application specifying the activity that the office or branch will be authorised to undertake in the UAE, to the Federal Foreign Companies Committee for approval;
- Once this has been done, the Ministry of Economy and Commerce will issue the required Ministerial licence specifying the activity to be practised by the foreign company;

- The branch or office should be entered in the Economic Department's Commercial Register, and the required licence will be issued;
- The branch or office should also be entered in the Foreign Companies Register of the Ministry of Economy and Commerce;
- Finally the branch or office should be registered with the Dubai Chamber of Commerce and Industry.

## Professional Firms

---

Professional firms are those which consist of professionals and practitioners and practice non-commercial activities. In setting up a professional firm, 100% foreign ownership, sole proprietorships or civil companies are permitted. The firms, which are registered as professional companies or firms may only practice specific activities and not extend that to any commercial business. These activities include the following services:

- Legal practice and consultancy
- Auditing, Organizing and keeping accounting records and books
- Civil engineering and architecture consultancies.
- Managerial and economic consultancies and studies
- Technical services
- Medical and curative services
- Educational services

### **Procedures for licensing the practice of the work:**

- a. The partnership agreement needs to be organised between the partners according to the applicable procedure
- b. The agreement needs to be authenticated according to the law.
- c. Apply to the Department of Economic Development in order to obtain the license that is specified on the relevant.

To select a desired business activity, please refer to the Standard Classification of Economic Activities published by the Chamber and Department of Economic Development.