

# Tax Newsletter



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## **Dubai: your tax oasis or fata morgana?**

You do business with Dubai or are considering moving there. But what are the tax implications?

- An operating company in Dubai (DubCo) is subject to 9% corporate income tax on its taxable income above 375.000 dirham (approx. EUR 92.000). If DubCo is located in a free zone, no corporate tax is due.
- If your Belgian company (BelCo) is a shareholder of DubCo, dividends and realized capital gains on DubCo shares are taxed at 25% corporate income tax in Belgium, because the Dubai corporate tax rate is lower than 15%. Even if DubCo does not distribute dividends, BelCo may still be taxed at 25% on the net income of DubCo if DubCo lacks sufficient local substance, under the Belgian CFC rules.
- BelCo may also operate through a permanent establishment (PE) in Dubai to conduct its core business there. If that PE is taxed at 9% and has adequate substance, the arm's length profit attributable to that PE is exempt from taxation in Belgium.
- If BelCo distributes a dividend to a Dubai parent company that is subject to Dubai corporate income tax, no Belgian withholding tax applies, provided DubCo holds at least 10% of BelCo for at least one year. DubCo will not be taxed on the dividend thanks to the Dubai participation exemption.
- BelCo must report payments exceeding EUR 100,000 made during the financial year to a Dubai beneficiary on Form 275F attached to its corporate tax return. If not reported, the expenses may become non-deductible and penalties may apply.
- If you are a private shareholder of DubCo, dividends are taxed in Belgium at 30% personal income tax, or 18% if DubCo qualifies as an SME. However, if DubCo is considered an "artificial arrangement" (i.e. a shell company), Belgium may tax you on the income of DubCo under the Cayman tax regime (a look-through taxation).
- If you emigrate to Dubai, you may have to deposit a guarantee in Belgium for two years equal to 10% capital gains tax if you own certain targeted financial assets (e.g. shares). This is because the double tax treaty between Belgium and the UAE does not provide for exchange of information and tax collection assistance.
- As a tax resident of Dubai, you are not subject to personal income tax, since Dubai does not have a personal income tax regime.
- Warning: if you return to Belgium within 24 months after emigrating, Belgium may still tax your Dubai income under Belgian personal income tax.