Compensation & Assignment Practices in the United Arab Emirates (UAE)

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INTRODUCTION

Each country and city pose unique challenges relative to the work environment, local and expatriate staffing and total rewards package. However, in the United Arab Emirates (UAE), this challenge can get even more complicated since it is more attractive and common to hire expatriates "expats" than locals.

This paper explores some of the drivers and complexities surrounding this issue and what companies may want to consider when structuring both local and expat compensation and benefits – particularly allowances to secure competitive hiring of both.

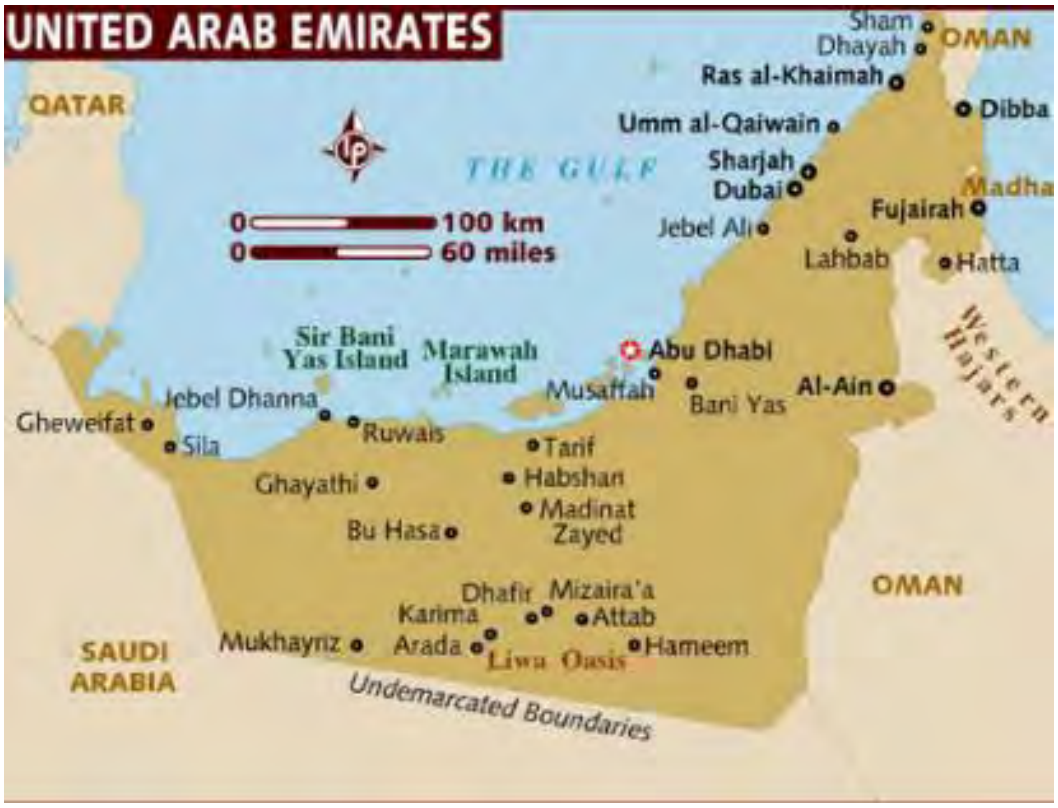
The UAE, is one of sixteen countries comprising the Middle East and one of six countries in the Gulf Cooperation Council (GCC). GCC member states are: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE. The GCC is mentioned in this paper to provide a frame of reference to the UAE.

According to the 2010 statistics in the 2013 Towers Watson report, The Implementation of the Labour Quotas in GCC, expatriates in the UAE made up around 90% of the population and 95% of the workforce, with Western expatriates being the most prominent.

The UAE is home to around 250,000 British expatriates, the largest Western contingent. The population of US workers is estimated around 40,000 and mainly located in Dubai.

Statistical Overview of UAE

United Arab Emirates (UAE) is a nation composed of seven states (emirates). Formally united in 1971, each of the seven emirates (Ajman, Ras al-Khaimah and Fujairah, umm al-Qaiwain, Sharajah, Abu Dhabi, and Dubai) offers modern cities intermingled with the country's Islamic traditions, making this region along the Persian Gulf a special place to live and work.



- ✓ **Capital**: Abu Dhabi
  Population: 9,266,971 (2016)
- ✓ **Median Age:** 33.5
- ✓ **UAE Workforce (2010):** 4.2% Nationals – 95.8% Expatriates
- ✓ **Official Language**: Arabic
- ✓ **Currency**: UAE Dirham (Written as AED or Dhs)
- ✓ **Time Zone**: GST (Gulf Standard Time) = UTC/GMT +4 hours
- ✓ **Emergency Number**: 997 (Fire Department), 998 (Ambulance), 999 (Police)
- ✓ **Electricity**: 240 V, 50Hz, Type G Power Sockets
- ✓ **Drives on the**: Right side of the road
- ✓ **Driving Conditions:** High rate of fatalities, so be knowledgeable and aware. Expats are able to rent a vehicle with international driver's license.
- ✓ **Major Religions**: 95% Muslim (80% Sunni, 15% Shia), 4% Christian
- ✓ **Climate:** Generally is very hot and very sunny. The hottest months are July and August, when average maximum temperatures reach above 50 °C (122.0 °F) on the coastal plain
  Culture: As a result of the high Muslim population, much of the country's culture is shaped by Islamic values and beliefs. As an expat, it is very important to respect Islamic code and followers, regardless of whether you are Muslim or not.
- ✓ **Compensation**: In the Middle East countries, including the UAE states of Abu Dhabi and Dubai, compensation plans will typically include other components, such as allowances, in addition to base salary.

- ✓ **UAE Taxes:** No Personal Income Tax or Local Tax, is currently levied in the UAE. Social Security is only levied on Nationals. No wealth, inheritance, estate or gift tax is imposed on individuals in the UAE. Based on the foregoing, there are no individual tax compliance requirements. Value Added Tax is nonexistent today but there is discussion for approving such a regime with a proposed implementation date of January 1, 2018.

- ✓ A tax-free income is the primary cost-of-living benefit of UAE. Expatriates working in Dubai or Abu Dhabi have zero tax levies against income. An expatriate earning US$100,000 in UAE may realize the full amount.

> According to Stephen Daas, Chief Operating Officer of Global Tax Network US, LLC, "a US citizen or resident alien working in the UAE may qualify for the foreign earned income exclusion in their US return if they are in UAE for at least a 12-month consecutive period or a full calendar year. Thus, anyone making no more than exclusion amount (US$101,300 for 2016 and US$102,100 for 2017) will typically have no US income tax in the UAE. In that instance, the employer can use tax equalization to offset the cost of allowances paid for the assignment. If there is no tax equalization, the tax savings essentially becomes a "Cost of Living" benefit to the employee. If the employee makes more than the exclusion, tax equalization protects them from the added US tax cost on assignment allowances. One tax difference for using a home or host payroll is that US social security tax is required to be paid for both the employer and employee if the employee is on US payroll."

Property or municipality taxes do exist in some areas. For example, in Dubai, residential tenants pay 5% of their annual rent as a municipality tax. Sales tax in some form exists. For example, in the UAE there is a 30% tax on alcohol purchases, service charges at restaurants, hotel accommodations, with an additional "Tourist Dirham" tax in Dubai.

Importantly, a residence visa is required to live or work in the UAE. Immigration matters for any foreign locality should be fully vetted prior to initiation.

We strongly encourage companies who are considering assignments in the UAE or any GCC country to consult with their tax provider and immigration attorney before asking any employee to embark on an international assignment.

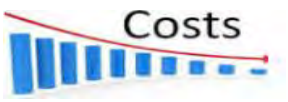
Why do so many organizations in UAE and GCC countries prefer to hire expats?

Many reasons explain the living practices (some of which arise from employer and employee perceptions), while others relate to the policies and the realities of the labor markets both locally and abroad. The overriding drivers are:

Skills and Productivity Perceptions

Perceptions play an important role in the jobs nationals are offered. Many multi-national employers perceive nationals as less skilled, less motivated, and less productive. Even some local employers have reservations about nationals.

While the Government has introduced several measures to drive the nationalization agenda, private organizations find it difficult not only to attract nationals with the right skill set, but also to retain them. **In the efforts to meet this objective, organizations typically differentiate in pay by providing a premium to Emirates either through a higher basic salary or a national allowance.** With some variation between positions, the technical requirement of the job and the availability of skilled local talent, **this premium differentiates the pay between Emirates and expatriates by 65% at basic salary.** This differentiation in pay is typically witnessed at the entry-level positions and diminishes with progression into senior management roles.



From a compensation perspective, the salary curve in the region is traditionally steep, but employees must make their own social security provisions**.** Nationals are more expensive because minimum wage requirements, mandatory pension contributions, end of service gratuity payments, and local payroll taxes do not apply to expatriates.

In general, the Middle East countries, with their attractive combination of high salaries and extremely low taxation, have long been a magnet for expats. Away from the Gulf States, however, increasing volatility and political instability are of major concern.

Expat Abundance

Another reason driving the hiring of Expats vs. Nationals is availability. Because the UAE has been a region supporting international commerce for quite some time, there appears to be an abundance of "available expats", whereby new projects or new companies looking to enter the labor market in the UAE have experienced ease in hiring expats who are currently on assignment from another employer and will resign from such assignment for a better offer in either compensation or position. This, coupled with expats whose assignments are about to come to an end, and they wish to extend.

Employers feel that both the risk and the learning curve is low in hiring another employers' expats as both the cultural and social integration has already occurred and less costly because relocation to the UAE has also happened. From an expat's perspective the opportunities in the UAE often present as easier to get promoted or additional compensation by remaining in the UAE than repatriating back to the home country.

Why are allowances and variable payments important to a compensation plan and/or global mobility policy?

Competitive remuneration packages, coupled with the lure of a tax-free environment and a comfortable lifestyle, have allowed the GCC, especially in the UAE to attract talent from around the globe. This often results in the foreign workforce taking up medium-term job opportunities, making it difficult to move these employees out of the region.

Expat remuneration trends have had a huge impact, to the extent that benefits-in-kind – such as housing and education allowances – are now commonly also offered to local employees. However, there are some very stark differences in approach, particularly in the pay mix at the most senior levels.

For example, CEOs' total packages between UAE and the US look like something this

	UAE	US
Fixed Base Salary	80%-85%	20-30%
Short-Term Incentives	10%-15%	15-25%
Long-Term Incentives	3%-5%	40-60%

UAE VIP Benefits - over 50% of companies who responded to the 2014 MetLife UAE Employee Benefit Trends Study states, that they have special benefit packages for executives (executives, managers and directors). Most common benefits are:

- Supplemental health benefits, additional coverage such as accidental death and life insurance, auto insurance (48%)
- Allowances for personal home staff (47%)
- Retirement planning (42%)

While there are overriding influences on the GCC markets, it would be a mistake to group them too closely, as each market has its own dynamics. Compensation mix in the UAE noted in the study are: 57% Basic Salary, 36% Fixed Allowances; 7% Variable Payments.

What is the business strategy behind compensation and assignment policies?

The region's successful bid for Expo 2020 continues to drive up optimism for business growth over the coming years, and in turn, this is creating a shortage of the best candidates to help take organizations forward. As a result, ***93% of CFOs in the region find it challenging to secure skilled, professional-level employees. Almost half (48%) say that the primary reason for this is the lack of niche, technical experts.***

Competitive remuneration packages that include allowances and variable payments are important to attract and retain local national talent as well as locally-hired foreign nationals or those on a host country or split payroll basis. The attractive nature of an income tax-free environment, plus the availability of housing and comfortable lifestyle are major factors in driving UAE-specific compensation plans with variations for different cities.

In order to circumvent Expats from voluntarily resigning prior to the assignment end-date, many employers are now adapting claw back payment provisions within the assignment agreement. This locks in their resource for the duration of the assignment or at least receiving financial reimbursement related to relocation, allowances, and other premiums paid to the Expat should they break the assignment agreement.

How do the local labor laws impact a compensation plan/strategy?

As per UAE Labor Law, the liability owed to employees is 5.75% of final salary for every year of employment up to 5 years of employment, increasing to 8.22% of final salary per year after 5 years. As employment tenures en masse continues to grow, the End of Service Benefit (EoSB) liability immediately increases by 43% after 5 years of employment, representing an ever more important factor.

Why is there a disconnect between local talent and foreign companies?

The demographic "youth bulge" represents one of the greatest opportunities, as well as one of the greatest challenges, faced by the Arab World. With more than half of its population under 25 years old and the **world's highest regional youth unemployment rate**, the Middle East and North Africa region stands at a critical juncture. This youthful populace could turn into either a "youth dividend" or a "youth liability", contingent upon the region's ability to create an enabling environment that fulfills young peoples' aspirations.

The government provides in-patient and out-patient services free of charge to UAE nationals and GCC residents. UAE Nationals private sector social security contributions are made by both employees (5% of salary) and employers (12.5% of salary).

This talent issue is of such great interest that in 2014 the World Economic Forum conducted a study on "Rethinking Arab Employment." One of the areas looked at specifically is what they referred to as youth unemployment compensation.

Nine main perceptions emerged as the major causes of youth unemployment in GCC countries from the stakeholder consultations. Although too complex to detail, they are important, and awareness of them is critical. They are:

1. There is a skills mismatch inhibiting nationals from being employed in the private sector.
2. Young nationals are not taking enough responsibility for their lives.
3. There is cultural resistance to doing certain jobs, for example sales and vocational work.
4. Public sector employment incentives render private sector employment unattractive.
5. Labor regulations are too rigid for national employees.
6. The business environment is non-conducive for entrepreneurship and small and medium-sized enterprises (SMEs).
7. The economy is not sufficiently diversified.
8. There is a lack of private sector consultation in public decision-making.
9. The private sector is not investing enough in young nationals.

These perceptions should be considered and addressed when making decisions to hire local talent or expats.

What are areas of top challenge?

Retirement - Internationally portable retirement solutions designed for foreign nationals are needed to create better security upon retirement. The UAE End of Service Benefit (EoSB) gratuity for foreign nationals is unlikely to provide sufficient income for retirement. Exclusion from host country social security systems, means most foreign nationals may also miss out on their home country pension plans. 61% of employees are concerned they will not have enough money to live comfortably in retirement. Retirement planning advice and a retirement plan that functions well for internationally mobile employees could help employees take action, offer the prospect of higher engagement and could be a major differentiator for the company in the employment market.

Other top challenges reported by companies for the Gulf Region can be categorized as follows:

- Cultural / Religious / Political / Language / Safety & Security
- Administration / Remuneration Review / Tracking and Costs / Flexibility
- Housing / Availability of Quality Housing / High Rental Costs
- Visa and Immigration / Compliance and Changing Immigration Laws / Visa Restrictions
- Cost / Tax costs / Cost Effectiveness
- Other / Children Education / Reluctance to Move Again

With the differences and challenges of hiring locals or expats, what policy development fundamentals should the company consider for various expat assignment types?

Like other assignments, consider what are the drivers for the assignment. Expat assignments in the UAE are for a wide range of business reasons, such as:

- Transferring skills
- Managing specific projects
- Training of junior employees
- Setting up new operations in the region

The employers are mostly affiliates of foreign multinational organizations, but they also include UAE-based companies looking to incorporate international talent to build their bench-strength. There are also diverse industry sectors, from energy to finance as well as telecom, engineering, construction, transportation, and high-demand consumer goods.

The assignment value-proposition is two-fold. First, how is the assignment experience is going to benefit the employee, and secondly, how is the company going to support the assignment? Personal benefits of assignments vary, but some commonly reported are: career development, enhanced expertise and global mindset, understanding of other cultures and how business is conducted in other countries, and the self-confidence that comes from succeeding personally and professionally in a complex and challenging environment. The following matrix reflects multiple policies and practices for allowances and benefits of various assignment types.

Executive Summary - Allowances and Benefits

Common Assignment Types/Definitions	**Term Key**				
Short-term - 3 to 12 months international (ST ISA) **Long-term** - up to five years international (LT ISA) **Local Plus** - up to five years international (for foreign nationals) **Fly-In Fly-Out** (Commuter versus Business Travelers) inter-regional or intra-regional **Local Hires** - Locally hired nationals	**Core** - Allowance or Benefit is a core component of policy **Optional** - Allowance or Benefit is a business choice or offered based upon qualifying criteria **No** - Allowance or benefit is typically not part of policy				
Relocation Allowances and Benefits	**Short-Term ISA**	**Long-Term ISA**	**Local Plus**	**Fly-In-Fly-Out**	**Local Hires**
Pre-view Trip	No	Core	Core	No	No
Cost of Living Allowance (COLA)	Core	Core	No	No	No
Goods and service differential (usually included in COLA)	Core	Core	No	No	No
Relocation/Resettlement Allowance	Core	Core	Core	No	No
Mobility Service Premium/Incentive/Foreign Service Premium	No	Optional	No	No	No
Hardship/Danger Premium	Optional	Optional	Optional	No	No
Shipment of household goods	No	Core	Core	No	No
Final Move	Core	Core	Core	No	No
At Host Allowances & Benefits					
Settling-In and Destination Services	Optional	Core	Core	No	No
Temporary Living	Core	Core	Core	No	No
Housing & Utilities Allowance	Core	Core	Optional	No	Optional
Furniture Allowance	No	Optional	No	No	Optional
Major Appliance Allowance	No	Optional	No	No	No
School Search Assistance	No	Core	Core	No	No
Education Allowance	No	Core	Core	No	Optional
Transportation Allowance	Core	Core	Core	Core	Optional
Car Rental and/or Driver	Core	Core	Core	Core	Optional
Language Assistance	No	Core	Core	No	No
Cultural Assistance	No	Core	Core	Core	No
Spouse Assistance	No	Core	Core	No	No
Home/Annual Leave	Core	Core	Core	No	No
Tax Assistance (TEQ)/Tax Prep	Core	Core	Core	No	No
Other Benefits					
Life & Accident Insurance	No	Optional	Optional	No	Optional
Long-term Disability	No	Optional	Optional	No	Optional
Private Medical Benefits	No	Optional	Optional	No	Optional
Loans	No	Optional	Optional	No	Optional
Mobile Phones	No	Optional	Optional	Optional	Optional
Home/Annual Leave Benefits	No	Optional	Optional	No	Optional
Pension	No	Optional	Optional	No	Optional
End of Service Benefit (EoSB)	No	Core	Core	Core	Core

Summary

The world of business is constantly changing, and globalization, if not already, is becoming a necessary component to a wide variety of industries. To become and remain competitive, companies must re-think their traditional talent development plans to incorporate international assignments.

The United Arab Emirates and Gulf Cooperation Council region is a complex and challenging destination for international assignments. The intention of this paper was to provide information that would further understanding of the drivers of UAE compensation and allowance practices**.**

It is strongly recommended that companies consult with subject matter experts in the areas of policy development, immigration, global tax and assignment management, before sending employees on an international assignment or modifying existing assignment agreements and global mobility policies.

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