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UAE Leveraging New Corporate Rules, Technology-Driven Tax Administration

By Antonio Lanotte*
Vernewell Management Group
Dubai, UAE

I. INTRODUCTION: A LONG-TERM EFFORT TO LEVERAGE TECHNOLOGY

The United Arab Emirates has long embraced digital transformation, leveraging the latest technologies to create new or modify existing processes, cultures, and customer experiences to meet changing business and market requirements.¹ Turning a business into a modern, technology-driven organization is an integral part of the process. One of the biggest mistakes companies around the world tend to make is approaching digital transformation as a one-time project rather than an ongoing process that should continue beyond

* Antonio Lanotte, International Tax Advisor, Chartered Tax Advisor and Senior Auditor, is an Advisory Board Member of Vernewell Management Consultancies Group and Lecturer at Vernewell Academy; Member/Delegate of the Tax Technology Committee CFE — Tax Advisers Europe; Member of the Advisory Council at Blockchain for Europe; Panel of Experts at European Blockchain Observatory & Forum European Commission. He has contributed considerably to the literature on international taxation (TP, VAT), digital transformation (Blockchain, IoT, AI) and circular economy (Green Tech, ESG).

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¹ Digital transformation in the UAE — The UAE topped the region in government service automation. It introduced the eDirham in 2001, launched the eGovernment in 2011, and the smart Government in 2013. These days, we witness the digital government as a part of the fourth industrial revolution, which basically depends on digitization and information technology. Available at <https://u.ae/en/about-the-uae/digital-uae/digital-transformation-in-the-uae>.

adoption of technologies. As time goes on and as technology continues to evolve, businesses will need to continue to adapt to these changes. Embracing a continuous transformation model involves paying close attention to the ever-evolving business and global technology landscape in order to spot emerging trends and implement changes accordingly in due time.

II. THE ECONOMIC SUBSTANCE REGULATIONS

The economic substance regulations are the new cabinet decision endorsed by the UAE ministry through the Cabinet Decision No. 31 on 30 April 2019. The UAE issued economic substance regulations (the “Regulations”) in April 2019, then amended by Cabinet Resolution No. 57 of 2020 in August 2020, which introduced a requirement for UAE entities to maintain an adequate “economic presence” in the UAE relative to the activities they undertake. As per the Economic Substance Regulation (ESR), companies in the UAE are required to demonstrate the economic substance in the relevant activities they carry out within the UAE. The Regulations necessitate UAE onshore and free zone companies and other UAE business firms that carry out any of the “Relevant Activities” mentioned below to sustain a suitable economic presence in the UAE relative to the activities they embark on.

Regarding a given regulation, a few points are to be considered as follows:

1. This regulation applies to all companies holding licenses from any economic department in UAE, any free zone companies including off-shore companies;
2. This regulation does not apply to any companies where directly or indirectly 51% share are held by the federal government or any Emirate government;
3. If the companies do any of the “Relevant Activities” listed below, then it will fall under the purview of the regulation and needs to notify the authorities in the prescribed format provided by the government:

Relevant Activities
● Banking
● Lease Finance
● Holding Company Activities
● Insurance
● Headquarters Activities
● Intellectual Property
● Investment Fund Management
● Shipping
● Distribution and Service Center Activities

An entity must satisfy the following key criteria to meet the Economic Substance Test in relation to any Relevant Activity it carries on:

- Conduct relevant “core income-generating activities” in the UAE;
- Be “directed and managed” in the UAE in relation to that activity, and with reference to the level of activities performed in the UAE;
- Have an adequate number of qualified full-time employees in the UAE; and
- Incur an adequate amount of operating expenditure in the UAE.

An annual economic substance notification is required to be submitted within six months from the end of the last relevant financial period. All the licensees and exempted licensees that undertake a Relevant Activity (irrespective of whether the licensee or exempt licensee has earned income from the Relevant Activity during the financial period) are required to file the notification in the ESR portal on Ministry of Finance’s website.² They will also be required to submit a full ES report within 12 months from the end of their financial year.

If they fail to file an ESR notification, the FTA will impose a fine of AED 20,000 for non-compliance. Those that submit inaccurate information will attract a penalty of AED 50,000. A penalty of AED 50,000 will be slapped on the entities failing to file ESR return and failing to meet the ESR test. If the licensee fails to submit the ESR return and meet the ESR test in the subsequent year a penalty of AED 400,000 will be imposed.

III. CORPORATE TAX LAW BECOMES EFFECTIVE IN 2023

UAE officially issued a federal decree-law on corporate tax at a 9% rate for taxable business profits exceeding AED 375,000. The new law was announced in December 2022 and is set to come into effect for financial years starting June 1, 2023. Federal Decree-Law No. 47 of 2022 on Taxation of Corporations and Businesses (the “Corporate Tax Law”). Businesses

² <https://mof.gov.ae/economic-substance-regulations/>.

will become subject to the new corporate tax law from the beginning of their first financial year that starts on or after 1 June 2023.

The UAE, amongst 137 countries, agreed to implement the OECD’s Two-Pillar approach to reform its International Tax Framework and to implement a minimum corporate tax rate starting 2023.

Following this development, on 31 January 2022, the UAE Ministry of Finance announced the introduction of a federal corporate tax regime on business profits effective for financial years starting on or after 1 June 2023. In this light, licensees operating in UAE will be required to assess the impact of the upcoming regulations to their business and undertake the necessary compliance precautions.

The corporate tax is a form of direct tax levied on the net income or profit of corporations and other entities from their business.

The UAE’s aim is to cement its position as a leading global hub for business and investment accelerate its development and transformation to achieve its strategic objectives reaffirm its commitment to meeting international standards for tax transparency and preventing harmful tax practices.

The corporate taxation (CT) will be applied as follows:

- All businesses and individuals conducting business activities under a commercial licence in the UAE;
- Free zone businesses (the UAE CT regime will continue to honor the CT incentives currently being offered to free zone businesses that comply with all regulatory requirements and that do not conduct business set up in the UAE’s mainland);
- Foreign entities and individuals only if they conduct a trade or business in the UAE in an ongoing or regular manner;
- Banking operations;
- Businesses engaged in real estate management, construction, development, agency and brokerage activities.

A. Corporate Taxation Rates

No.	Taxable Income/Category	Corporate Tax Rate
1.	Taxable income up to AED 375,000	0%
2.	Taxable income over and above AED 375,000	9%
3.	Large multinationals (having consolidated global revenue exceeding EURO 750 million — equivalent to AED 3.15 billion) that meet specific criteria set with reference to “Pillar Two” of the OECD Base Erosion and Profit Shifting Project	Different tax rate

The UAE CT regime will become effective for financial years starting on or after 1 June 2023.

Some useful examples as follows:

- A business that has a financial year starting on 1 July 2023 and ending on 30 June 2024 will become subject to UAE CT from 1 July 2023 (which is the beginning of the first financial year that starts on or after 1 June 2023).
- A business that has a (calendar year) financial year starting on 1 January 2023 and ending on 31 December 2023 will become subject to UAE CT from 1 January 2024 (which is the beginning of the first financial year that starts on or after 1 June 2023).

B. Possible Exemptions

Businesses engaged in the extraction of natural resources are exempt from CT as these businesses will remain subject to the current Emirate-level corporate taxation.

Dividends and capital gains earned by a UAE business from its qualifying shareholdings will be exempt from CT.

Qualifying intra-group transactions and reorganizations will not be subject to CT, provided the necessary conditions are met.

Additionally, CT will not apply to:

- An individual earning salary and other employment income, whether received from the public or the private sector;
- Interest and other income earned by an individual from bank deposits or saving schemes;
- A foreign investor's income earned from dividends, capital gains, interest, royalties and other investment returns;
- Investment in real estate by individuals in their personal capacity;
- Dividends, capital gains and other income earned by individuals from owning shares or other securities in their personal capacity.

IV. NEW TAX RESIDENCY RULES

The UAE government has announced new criteria which will determine when a natural or legal person is to be considered a tax resident. The new criteria move the UAE toward implementation of its corporate tax plan.

The UAE has not had a domestic legal definition of tax residency. In case of a dispute, tax residency has been decided by the text of income tax treaties concluded with other jurisdictions and by criteria established by the Federal Tax Authority.

Previously, tax residency was limited to a requirement of physical presence in the UAE for a period of

minimum 180 days for individual taxpayers along with the availability of an annual lease agreement.

For legal persons, the criteria have included availability of audited accounts and a minimum of one year establishment.

Under the new resolution, the Cabinet Resolution No. 85 of 2022, any legal entity or establishment is a tax resident in the UAE if:

1. It was formed, established, or registered under UAE laws (except branches of foreign legal persons); or
2. It treated as a tax resident under UAE law, more details of which should be forthcoming in the Federal corporate income tax legislation.

Natural persons are considered tax resident in the UAE if:

1. Their principal place of residence and their financial and personal interests are in the UAE; or
2. They have been physically present in the UAE for 183 days or more in a 12-month period; or
3. They are a UAE citizen, UAE resident, or GCC national with a permanent place of residence in the UAE and have been physically present in the UAE for 90 days over a 12-month period, and perform a job or business in the UAE.

The Resolution also deals with special cases where an international agreement such as a tax treaty specifies certain condition to determine tax residency. In this case, the Resolution states that the international agreement shall continue to apply, so that UAE persons assessing their tax residence for the purposes of applying a tax treaty would need to refer to the specific criteria set forth in the treaty itself.

The Resolution set out a procedure where persons can apply to the tax authority for a tax residency certificate. Such a certificate is often a formal requirement for UAE residents wishing to claim tax relief or other benefits in another jurisdiction under the relevant tax treaty.

V. APPLICABILITY OF TRANSFER PRICING RULES AND SOME KEY TAKEAWAYS FROM THE UAE CORPORATE TAX

Transfer pricing rules and documentation requirements will now be aligned with the OECD Transfer Pricing Guidelines — i.e., Master File and Local File. Documentation will require groups of companies to perform benchmarking searches to justify their pricing policies of intercompany transactions.

Some of the main provisions of the UAE Corporate Tax are as follows:

- Natural persons will not be levied a corporate tax on income generated from employment, real estate, investment in shares or other personal income that is not associated with UAE trade or business;

- Non-residents are subject to tax on UAE-sourced income and taxable income from a permanent establishment in the UAE;
- Corporate tax will apply to the adjusted accounting net profit of the business;
- Free zone businesses can still benefit from corporate tax incentives, provided they fulfil all the necessary requirements;
- The extraction of natural resources will be excluded from corporate tax, as it will remain subject to Emirate-level corporate taxation and the branches of foreign banks;
- Domestic, cross-border payments and specified transactions are subject 0% withholding tax;
- Capital gains and dividends are exempt from corporate tax, provided certain conditions are met;
- UAE-resident companies can form a tax group provided certain conditions are met;
- The UAE CT regime allows transfer of tax losses from one group company to another group company with profits, provided certain conditions are met;
- Group relief is provided for qualifying intra-group transactions and restructuring;
- The UAE CT regime will allow a credit for the tax paid in a foreign jurisdiction against the UAE CT liability on the foreign-sourced income;
- Generous loss transfer and utilization rules will be available to businesses;
- Transfer pricing as per the OECD guidelines is applicable; and
- Accounting profit is the method for determining taxable income, as per the international accounting standards, but relaxed for certain taxpayers (e.g., start-ups and small businesses) who may use an alternative mechanism with simplified financial and tax reporting obligations.

VI. BUSINESSES RUN ON INFORMATION: MNE CONSORTIUM BASED ON BLOCKCHAIN WILL SUPPORT THE UAE'S TAX SYSTEM

Businesses run on information. The faster it's received and the more accurate it is, the better. Blockchain is an ideal information tool because it provides immediate, shared, and completely transparent infor-

mation stored on an immutable ledger. Blockchain³ is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network. An asset can be tangible (such as a house, car, cash, or land) or intangible (including intellectual property, patents, copyrights, and branding).⁴ Virtually anything of value can be tracked and traded on a blockchain network, reducing risk and cutting costs for all involved.

The adoption of blockchain⁵ technology presents many legal and regulatory challenges, including consumer protection and the fight against criminal activities. But there is a need in the global economy for a more accessible and innovative financial and tax system that can enhance the taxation of transactions, automate most of the tax processes, and simplify the burdensome administrative requirements. This is particularly true for VAT and goods and services taxation, immovable property sales taxes, and annual tax declarations. The benefits of implementing blockchain can be tremendous, including in terms of transfer pricing due diligence analysis, country-by-country reporting, and exchange of information.

One area of international tax that is particularly suited to the incorporation of blockchain technology is the global exchange of information. In parallel with tax blockchain consortium at the national level, a multinational blockchain consortium is recommended for international exchange of tax information.

Despite having a multilateral framework for the automatic exchange of information based on the Convention on Mutual Administrative Assistance in Tax Matters and the Common Reporting Standard Multilateral Competent Authority Agreement, countries continue to exchange information bilaterally — even if both the sending and receiving parties are signatories of the multilateral compacts. The reason for this is the absence of a central administrator that can collect all the information from the whole group and distribute only the information relevant to various parties. This configuration results in redundancy and a system that is not as efficient and secure as the stakeholders may have hoped. One way to resolve the absence of central authority and address concerns about lack of trust among some countries would be to set up a large-scale consortium blockchain for the exchange of information. Only specified countries would be allowed to participate, and additional countries could be allowed to join based on consensus among the partici-

³ A permissionless blockchain can offer enhanced monitoring of transaction flows, which is particularly important for revenue, customs, and other regulatory agencies.

⁴ A. Lanotte, *The Tokenization of Assets for a Decentralized Future in Europe* (Feb. 2023), available at: <https://www.taxnotes.com/tax-notes-international/cryptocurrency/tokenization-assets-decentralized-future-europe/2023/02/20/7fxz5>.

⁵ Blockchain technology also has the potential to revolutionize systems for recording transactions and their taxation, as well as automating many of the processes that characterize today's tax systems.

pating countries. Smart contracts⁶ embedded in a blockchain could enable tax information to be shared only among the relevant countries, and data could be verified without all the other participating countries knowing the content of the information.

A. Blockchain and Transfer Pricing

World trade is expected to remain subdued in 2023 as multiple shocks weigh on the global economy. WTO economists now predict global merchandise trade volumes will grow by 3.5% in 2023, however, they foresee a 1.0% increase, down sharply from the previous estimate of 3.4%. The WTO estimates that intercompany transactions account for more than 50% of world trade, and around 25% of recent corporate mergers and acquisitions resulted in cross-border transactions. Given the complexity of intercompany transactions and the transparency requirements imposed by various jurisdictions, automating the processes of applying and documenting a proper transfer pricing policy is an attractive goal.

Blockchains can reliably track intercompany transactions and make payments based on predetermined market conditions using smart contracts when the necessary conditions are met. Intangible assets also could be tokenized,⁷ which can be particularly useful for managing transactions involving shared asset ownership, cost-sharing arrangements, and the application of profit-splitting methods. Tokenization could also be useful for optimizing intra-group treasury operations, creating intra-group accounts, improving cash-pooling practices, and determining loan and collateral connection transactions.

In a traditional transfer pricing approach:

1. Documents and correspondence within the company are used to define the role of each party involved;
2. Intra-company agreements are executed manually;
3. There is a high risk of falsified transaction documents;
4. The system relies heavily on paper documents, and data stored on various servers is needed to track the entire supply chain;
5. Payment tracking is based on enterprise resource planning tools.

In a blockchain-based transfer pricing approach:

1. Monitoring of transaction flows and identification of all parties involved are simplified;

⁶ A smart contract is the “translation” or “transposition” into a code (set of instructions) stored in a blockchain of the elements of a contract, so that the fulfillment of certain conditions (control of basic contract data) is automatically verified, which is followed, again automatically, by the realization of predetermined effects.

⁷ A. Lanotte, n.4 above.

2. Agreements are written in self-executing smart contracts;

3. All movements are time-stamped and cryptographically sealed, eliminating the possibility of tampering;

4. All information is stored on distributed ledger technology (DLT) and visible to parties with permissioned access;

5. Payments are executed via a smart contract when specified conditions are met.

Using blockchain technology, MNEs can record intra-firm agreements and other transfer pricing documentation on a distributed ledger. The data is time-stamped and cryptographically secured to improve risk management and prevent data manipulation. Likewise, the tax authorities can easily track the flow of transactions and identify all relevant group entities. Much as financial intermediaries working with various custodial banks can use blockchain for compliance and authorization processes a blockchain can be designed that involves multiple countries, allowing multinational taxpayers to enter a single set of documents into the system and avoid redundant reporting. DLT can be set up so that the relevant tax authorities can only access the information they need.

As a standardized methodology for codifying advance pricing agreements (APAs) in smart contracts the unifying model of Ladleif and Weske⁸ can reflect the essential structure of an APA. In this context, conventional elements can adequately match the computer language components of a smart contract, providing a comprehensive and user-friendly solution for transfer pricing control. Thus, regarding the aspects of an APA that should be reflected in the modeling languages of the smart contract, the analysis shows that the “non-operational” components of the agreement — the so-called legal prose — should be omitted from the agreement as much as possible.

Consequently, the writing process should focus more on quantitative terms and precise concepts than on the use of qualitative terms and overly vague ideas. Alternatively, legal prose could be managed within smart contracts using additional tools directed at the interpretation process such as meta-rules, meta-rules, or artificial intelligence. In addition, software developers should address the problem of blockchain immutability by designing a technical solution to sus-

⁸ Jan Ladleif and Mathias Weske, *A Unifying Model of Legal Smart Contracts* (2019). Legal smart contracts have been a subject of research for decades, especially since the fusion of deontic logic with traditional programming poses significant challenges. The question of how to develop and verify legal smart contracts is becoming increasingly important, not least because of the rapid adoption of blockchain-based smart contracts. The unifying model can be used as a reference for language designers aiming for a holistic representation of legal smart contracts in a model-driven architecture. It can also serve as a basis for comparing existing modeling frameworks, which we demonstrate by applying them to a set of eight distinct languages.

pend automatic code execution whenever parties subsequently change their minds or reach different agreements. Regarding smart contract execution, the results point to a need to establish a blockchain network when sufficient comparative data is available for a transfer pricing analysis. To this end, multinational companies should digitize their transfer pricing data from the “supply chain” and store it in real time on the blockchain. In such a new technical environment, artificial intelligence and data analytics are the necessary tools to read, analyze and process data from the blockchain.

B. Blockchain and VAT

Blockchain technology has several useful characteristics that minimize errors, increase efficiency, track the smallest of micro-transactions, and maintain a tamper-free record with real-time updates. With these characteristics, blockchain can increase a business’s VAT recovery rate and compliance.⁹ The potential of blockchain brings to mind applications for tracking indirect taxes such as VAT, GST, and sales taxes. These taxes often follow chains of transactions¹⁰ and their tax liabilities. For instance, with VAT, which is assessed at each point where value is added for a service or product, tracking the entire chain of transactions would make it much easier to ensure accuracy and compliance. Tax obligations are often triggered by key events that need to be documented and recorded securely, such as the delivery of goods, conclusion of a contract, and the export and import of goods and services. Blockchain maintains a complete,

⁹ Value Added Tax (VAT), is an important source of revenue for many countries in the European Union. Unfortunately, it is also one of the most vulnerable revenue streams for tax evasion and fraud. The VAT Gap, which is the difference between the total amount of VAT due and the amount actually collected, is an indicator of this problem. The latest report by the European Commission on the VAT Gap in 2022 shows that the overall EU VAT Gap decreased by more than €31 billion to €93 billion in 2020 (EU VAT revenue decreased by 6.9%, as well). For comparison, in 2019, the EU-wide VAT Gap amounted to €134 billion. The report is available at: <https://op.europa.eu/en/publication-detail/-/publication/030df522-7452-11ed-9887-01aa75ed71a1>.

¹⁰ A. Lanotte, *Will Supply Chain Evolve With the Digital Disruption?* Fintech Rev. The application of blockchain, in the form of a DLT, has the potential to transform well-established financial institutions and tax administrations by simplifying complex processes such as annual tax returns, VAT/GST, immovable property sales taxes, including the introduction of a digital euro, ensuring faster execution of transactions, improved transparency, auditability of operations, and possibly lowering costs (after a first implementation phase). It is therefore high time for the EU to create the conditions for a “Digital Single Market,” as a corollary, with “decentralized” responsibilities. The “Digital Single Market” can be established on a blockchain-based network, a public “permissioned” distributed ledger, in which all the stakeholders — in particular revenue agencies, customs, peripheral tax offices and agencies, and such — will have a defined role.

tamper-free chain of transaction information, which makes it particularly appealing for tracking tax data.¹¹

Collecting the correct amount of tax depends on accurate, real-time information (smart contracts feed by up-to-date oracles) and decisions. Tax errors, lack of data, and fraudulent activity can all have a significant impact on compliance and recovery.

Blockchain provides a way for all applicable parties to have access to up-to-date, real-time information by ensuring all nodes have the same information at all times.

Real-time tax data is increasingly important as tax administrators around the world are demanding real-time information from businesses in order to assess and support their VAT and GST liabilities and deductions. From a tax administrator’s perspective, blockchain can greatly increase the speed, accuracy, and ease of collecting relevant tax data, thereby improving the quality of VAT and GST compliance while reducing the cost of enforcement.

From the business’s perspective, blockchain can ensure higher rates of VAT recovery with less burden. As blockchain becomes more prevalent and is applied in various arenas, it is important to consider how blockchain might impact VAT, specifically, including impacts to documentation. When it comes to VAT, the invoice¹² is the most critical VAT document. A possible consequence of moving to blockchain is that a VAT invoice may require a digital fingerprint to be considered valid. Derived through the VAT blockchain consensus process, the fingerprint would immediately confirm the block under scrutiny is permanently linked to the previous and subsequent blocks in the chain. The entire history of the commercial chain could be followed and verified by anyone connected to an approved tax auditing program.

For example, blockchain provides transparency and traceability of all transactions by storing every detail of transaction history in blocks, making it easier to ensure all VAT data are accounted for, no matter how

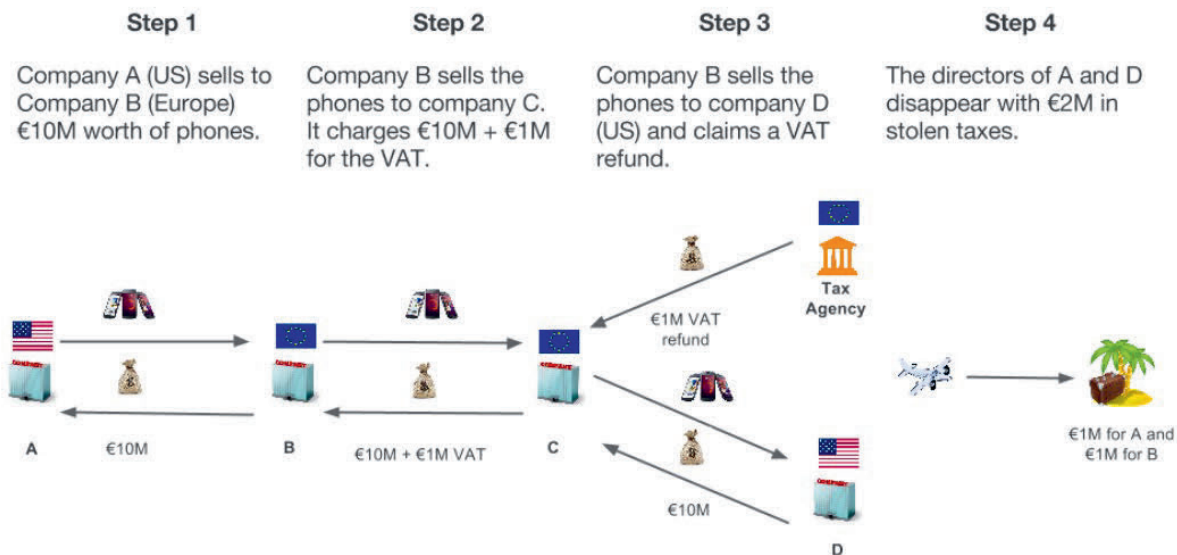
¹¹ A. Lanotte, *The potential of blockchain for VAT recovery and compliance*, Int’l Tax Rev. London (Apr. 22, 2019), available at: <https://www.internationaltaxreview.com/article/2a68tvfyk5zfbtjzt6vwg/the-potential-of-blockchain-for-vat-recovery-and-compliance>.

¹² For example, the European Commission is holding a consultation of the eInvoicing Directive 2014/55/EU which provides for a common European standard on eInvoicing (EN16931) in terms of the content of the invoice (“semantics”) and the format or language used (“syntax”). This review, and report to the European Parliament is required by the Directive. *The consultation is being held between 17 March and 14 April 2023*. The Directive requires all public administrations in Europe to receive and process electronic invoices issued under contracts to which the EU public procurement directives apply. Under the VAT in the Digital Age (ViDA) proposed reforms, and the Digital Reporting Requirements pillar, the structured e-invoicing standard will be extended to intra-community supplies of goods and services. This creates an opportunity to promote digital integration between businesses within the digital single market and to build up the EU’s current position internationally as a leading player in eInvoicing standardization.

small the transaction might be. Data are validated by a consensus of trusted nodes, which means errors are likely to be detected and eradicated before they become a problem, and devices introducing errors lose their status as a trusted node.¹³

¹³ A. Lanotte, *Toward a Digital Supply Chain and a Digital Taxation*, Tax Notes Int'l-US (Jan. 2023). A digital approach to taxation is necessary. The introduction by member states of uncoordinated and separate rules would increase fragmentation across the EU and generate tax uncertainty, hindering competitiveness.

How the carousel fraud works in 4 steps.



Source: Linkurious, *VAT fraud: the mysterious case of the missing trader* (Mar. 25, 2019)

Records cannot be tampered with or erased because they become part of the chain itself, which makes blockchain an ideal method for preventing tax fraud.

Blockchain has other useful features as well, such as:

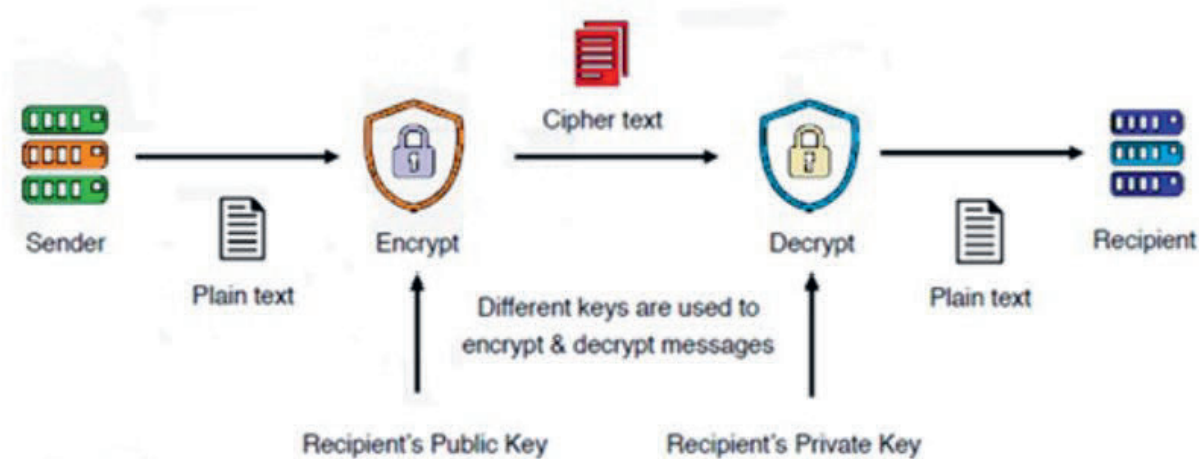
- Communication can happen across multiple ledgers, helping to integrate all data;
- Blockchain offers user controls, meaning only identified users with appropriate user permissions have access to information, and this information is updated in real-time such that ev-

everyone with access has up-to-date information; and

- As for efficiency and speed, when blockchain is set up with appropriately planned incentives for nodes, transaction speeds can be fast because the fastest devices on the network are rewarded for responding quickly.

In the long run, blockchain can be a driving factor in implementing real-time, automated tax processes that ensure compliance, maintain security and transparency, and ease the burden of tracking and reporting taxes.

Source: Medium (Aug. 2022), cited at n.14.



The blockchain embedded in the tax system automatically reduces the time needed to process tax returns, makes the system transparent, optimizes tax operations within firms and provides governments with a constant flow of tax revenues with the lowest possible percentage of losses.

VII. DUBAI (UAE) TO STRENGTHEN ITS LEADING POSITION TOWARDS A METAVERSE ECOSYSTEM

Businesses run on information. The faster it's received and the more accurate it is, the better. Blockchain is an ideal information tool because it provides immediate, shared, and completely transparent information stored on an immutable ledger.¹⁴

The term "Metaverse" is a combination of "meta" meaning "virtual, transcendence" and "verse" a back

formation from "universe." The Acceleration Studies Foundation, a non-profit technology research organization, classified the Metaverse into the following four categories: a virtual world that experiences a flawless virtual story, a mirror world that reflects the current real world, an augmented reality that shows a mixture of augmented information in the real world and life logging, which captures and stores everyday information about people and things.

¹⁴ A. Lanotte, *A Decentralized Education Is the Key for the Fu-*

ture Success, Medium (Aug. 2022), <https://medium.com/@alanotte10/a-decentralized-education-is-they-key-for-the-future-success-7a1790c5710b>.

Source: Medium (Aug. 2022), cited at n.14.

The Metaverse is a powerful mix of blockchain-based and other innovative technologies are converging to give birth to a new iteration of the internet, known as Web3, which promises to decentralize and disintermediate the current Web2 internet, making it easier to create a shared, persistent, three-dimensional virtual world. An open Metaverse is decentralized, al-

lows users to control identity, enforces property rights, aligns incentives, and ensures value accrues to users (not platforms). An open Metaverse is also transparent, permissionless, interoperable, and composable (others can freely build within and across Metaverses), among other criteria.

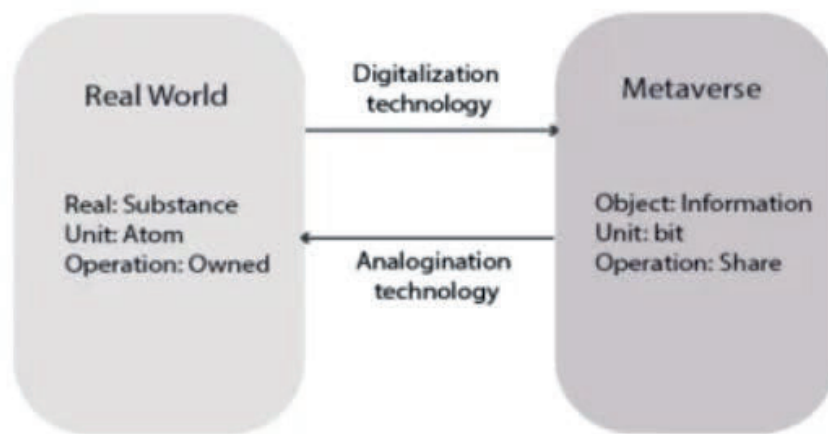


Figure 1.
Relationship between the real world and the Metaverse.

Blockchain Potential in AI

Blockchain 1.0	Blockchain 2.0	Blockchain 3.0
Crypto currency, Currency transfer, Remittance, Digital payment system	Smart contract, Decentralized autonomous organization(DAO), Stock, Bonds, Loans, Mortgages, Smart property	Government, Public, Science, Health, Culture, Art, IoT, Big Data, AI

Table 1.
Blockchain paradigm evolution direction.

Source: Medium (Aug. 2022), cited at n.14.

Blockchain plays an important role in implementing the economic system in Metaverse. The economy of Metaverse without blockchain will eventually be controlled by someone. If the blockchain is not supported, it is difficult for resources or goods used in the Metaverse world to be recognized for their value or to have economic interactions equivalent to the real economy. NFT-based blockchain technology further activated the Metaverse. With the advent of Web3.0 and Blockchain 3.0, Metaverse becomes the world to realize it.

Known as decentralized autonomous organizations (DAOs), these member-owned and controlled organizations are governed by computer software in the form of blockchain-powered smart contracts.

DAOs can be organized around any type of initiative or endeavour, with governance relying upon tokens and voting rights aligned to the controlling membership of the organization.

Can you imagine a way of organizing with other people around the world, without knowing each other and establishing your own rules, and making your own decisions autonomously all encoded on a blockchain? Well, DAOs are making this real. DAOs are

essentially decentralized communities, where members are incentivized to collaborate with one another to drive value. A DAO's financial transactions and rules are recorded on a blockchain. This eliminates the need to involve a third party in a financial transaction, simplifying those transactions through smart contracts. The firmness of a DAO is a smart contract. The smart contract represents the rules of the organization and holds its storage mechanism. No one can edit the rules without people noticing, because DAOs are transparent and public. In comparison to traditional companies, DAOs have a democratized organization. All of a DAO's members need to vote in order to implement any changes, instead of a sole party being able to do so (depending on the company's structure). The funding of DAOs is mainly based on crowdfunding that issues tokens. The governance of DAOs is based on community, while traditional companies' governance is mostly based on executives, Board of Directors, activist investors, etc. DAOs' operations are fully transparent and global, while traditional companies' operations are private, known internally only and not always global.

Source: A. Lanotte, *The DAO: Decentralised Autonomous Organisation*, Medium (Aug. 2022)



The Dubai Metaverse Strategy¹⁵ aims to turn Dubai into one of the world's top 10 Metaverse economies as well as a global hub for the Metaverse community. The strategy aims to build on Dubai's achievement of attracting more than 1,000 companies in the fields of blockchain and Metaverse. It also promotes Dubai's ambitions to support more than 40,000 virtual jobs by 2030. This would further boost Dubai's economy and support the UAE government's vision of increasing the number of blockchain companies by five times the present number.

The Dubai Metaverse Strategy seeks to:

- foster innovation, enhance the Metaverse's economic contributions through R&D collaborations, and promote advanced ecosystems utilizing accelerators and incubators that attract companies and projects to Dubai;

- foster talent and invest in future capabilities by providing the necessary support in Metaverse education aimed at developers, content creators and users of digital platforms in the Metaverse community; and
- develop Web3 technology and its applications to create new governmental work models and development in vital sectors, including tourism, education, retail, remote work, healthcare and the legal sector.

VIII. CONCLUSION

The United Arab Emirates is continuing to embrace digital transformation, leveraging the latest technologies to create new or modify existing processes, cultures, and customer experiences to meet changing business and market requirements. The start of the UAE's corporate tax regime marks a new era for the nation as a growing player on the world economic stage.

¹⁵ Available at: <https://u.ae/en/about-the-uae/strategies-initiatives-and-awards/strategies-plans-and-visions/government-services-and-digital-transformation/dubai-metaverse-strategy>.