

UAE and Israel Sign Tax Treaty

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On Monday, 31 May 2021, the UAE and Israel signed a tax treaty in order to boost economic cooperation. It is expected that, following ratification later this year, the treaty will come into effect on 1 January 2022. The move comes following: (i) the peace deal between Israel and the UAE in August 2020, normalising diplomatic relations for the first time since the creation of Israel; and (ii) the UAE Ministry of Finance announcing last October that a preliminary agreement with Israel to avoid double taxation had been reached.

The UAE Ministry of Finance acknowledges that there are significant benefits to tax treaties, including:

- promotion of development goals and diversification of sources of national income;
- removal of barriers relating to cross-border trade and investment flows;
- elimination of double taxation, additional taxes and fiscal evasion; and
- encouragement of exchange of goods, services and capital movements.

According to the Israeli Government’s announcement, the treaty is based on the Organisation for Economic Co-operation and Development Model Tax Convention on Income and on Capital (OECD Model) and covers areas including double-taxation, non-discrimination, exchange of information and anti-avoidance. It is understood that the applicable withholding tax rates will be:

- **Interest:** 0% - 10%, depending on the identity of the recipient of the interest payment;
- **Dividends:** 0% - 15%, depending on the identity of the recipient of the interest payment; and
- **Royalties:** 12%,

with the 0% rate available to governmental entities and pension funds only.

The introduction of the tax treaty will enable further influx of investment and trade between the two countries, in line with the aim to unlock economic potential in the region. Recent deal announcements include the UAE’s Mubadala signing a non-binding memorandum of understanding with Delek Drilling to purchase a \$1.1b stake in the Tamar natural gas field in the

east Mediterranean. [It remains to be seen what additional bilateral agreements, including relating to security, telecommunications, energy, healthcare and culture are entered into in the future.]

Bracewell has a breadth of experience on advising on trade and investments in the UAE, Israel and the region. If you are interested to know more, please contact [**Ro Lazarovitch**](#), [**Tom Swarbrick**](#) or [**Shayan Najib**](#).