



## Special Purpose Vehicles

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## Table of contents

Overview .....	3
Definitions .....	3
Practical Guidance .....	3
Legal foundations.....	3
Banking and regulatory recognition.....	3
Cross-border tax efficiency .....	4
Shareholder alignment and governance.....	4
Risk segregation and asset protection.....	4
Comparative perspectives .....	4
Practical hurdles and risk mitigation .....	5
Comparison with common law.....	5
Checklist for practitioners.....	5
Related Content .....	6
Authors .....	7
Notes .....	9

## Overview

Special purpose vehicles (SPVs) have become a central structuring tool in the United Arab Emirates (UAE), but their value goes far beyond incorporation formalities. In the Jebel Ali Free Zone Authority (JAFZA), SPVs are not mere “paper companies”. They are increasingly used by international clients as flexible vehicles to manage banking access, safeguard shareholder arrangements, and optimise cross-border investments.

SPVs in JAFZA are deployed to ring-fence real estate holdings, manage regional joint ventures, and provide tax-efficient conduits for inbound capital. What distinguishes the JAFZA SPV regime is its balance between operational simplicity and recognition by local banks and regulators, which international counsel often underestimate.

This Practice Note explains the key features of JAFZA SPVs, outlines how they are used in practice, and situates them in the broader UAE structuring landscape. While international practitioners may be familiar with SPVs conceptually, the JAFZA model reflects local legal and regulatory dynamics that are critical for cross-border planning.

## Definitions

- *SPV*: Special purpose vehicle which is a legal entity created to isolate financial and legal risk, typically holding assets or executing a specific project.
- *DIFC*: Dubai International Financial Centre.
- *JAFZA*: Jebel Ali Free Zone Authority which is one of the UAE's largest free zones, offering incorporation frameworks for companies, including SPVs.
- *FZCO*: Free zone company which is a company incorporated within a free zone, enjoying certain tax and ownership benefits under free zone regulations.
- *Beneficial ownership declaration*: Mandatory filing and identifying ultimate beneficial owners as per Cabinet Decision No. 109/2023 On the Regulation of the Real Beneficiary Procedures.
- *GCC*: Gulf Cooperation Council.
- *Substance requirements*: Regulatory criteria assessing economic presence in the UAE under Cabinet Decision No. 57/2020 Determining the Economic Substance Requirements.
- *OECD*: Organisation for Economic Co-operation and Development.
- *Ring-fencing*: Structuring technique where liabilities are legally isolated within the SPV.
- *Cross-border tax efficiency*: Structuring ownership and cash flow through jurisdictions to minimise tax leakage and maximise treaty benefits.
- *Shareholder arrangements*: Contractual and structural mechanisms (e.g., preference shares or reserved matters) to align investor interests.
- *UAE*: United Arab Emirates.

## Practical Guidance

### Legal foundations

#### *Federal legal framework*

SPVs in the UAE rest on a multi-layered legal foundation. At the federal level, the key authority is Federal Decree-Law No. 32/2021 On Commercial Companies which governs the formation and operation of corporate structures. Federal Decree-Law No. 32/2021 replaced the previous Federal Law No. 2/2015 On Commercial Companies, introducing enhanced corporate governance requirements and modernized company structures.

Complementing this is Cabinet Decision No. 109/2023 which imposes transparency and disclosure requirements on all UAE entities, including SPVs. Cabinet Decision No. 109/2023 mandates that companies maintain accurate beneficial ownership registers and submit annual declarations to relevant authorities.

#### *JAFZA regulatory framework*

Within JAFZA, SPVs are regulated by the Jebel Ali Free Zone Companies Implementing Regulations 2016, which aligns closely with federal laws while offering investors additional structuring flexibility. The Jebel Ali Free Zone Companies Implementing Regulations 2016 permit various company types, including free zone companies (FZCOs) that can serve as effective SPV structures.

### Banking and regulatory recognition

#### *Banking access and due diligence*

In practice, the ability of a SPV to open a bank account often determines its utility. JAFZA SPVs enjoy recognition among major UAE banks because of JAFZA's long-established reputation and compliance framework. Clients must nevertheless expect

enhanced due diligence under Cabinet Decision No. 109/2023 requiring declarations of beneficial ownership, proof of address and documentation of source of funds.

*Practical example: European investment group*

A European investment group recently established a JAFZA SPV to hold real estate assets in Dubai, and banking onboarding was smoother than parallel attempts in the Dubai International Financial Centre (DIFC) due to JAFZA's domestic track record and established banking relationships.

## Cross-border tax efficiency

*Treaty network access*

SPVs in JAFZA are frequently used to structure inbound and outbound investments. While the UAE introduced a 9% corporate tax rate, JAFZA SPVs benefit from access to the UAE's extensive network of double tax treaties, potentially reducing withholding tax exposure on outbound distributions.

*Economic substance compliance*

Practitioners must account for Cabinet Decision No. 57/2020 which requires demonstrating real activity through adequate expenditure, physical presence, and decision-making in the UAE.

*Case study: Investment restructuring in the Gulf Cooperation Council (GCC)*

A GCC-focused investment group restructured subsidiaries through a JAFZA SPV to optimise treaty benefits while ring-fencing liability across jurisdictions. The structure successfully reduced withholding taxes on dividend distributions by 15% while maintaining operational flexibility for regional investments.

## Shareholder alignment and governance

*Corporate flexibility*

SPVs are particularly useful for housing complex shareholder arrangements. Unlike mainland limited liability companies governed by Federal Decree-Law No. 32/2021, JAFZA SPVs allow multiple share classes and tailor-made articles of association, providing minority investors with protection.

*Contractual framework*

Shareholder agreements remain critical to ensure enforceability under the Jebel Ali Free Zone Companies Implementing Regulations 2016 and Federal Law No. 5/1985 On the Civil Transactions Law of the United Arab Emirates State. Proper documentation must address voting rights, transfer restrictions, and dispute resolution mechanisms.

*Joint venture example*

In practice, a joint venture between a UAE family office and a European private equity fund used a JAFZA SPV to embed reserved voting rights, reducing the risk of deadlock or future disputes.

## Risk segregation and asset protection

*Liability ring-fencing*

One of the defining advantages of SPVs is their role in risk segregation. JAFZA SPVs are ideal for ring-fencing project finance or real estate assets, ensuring liabilities remain isolated within each vehicle.

*Licensing considerations*

Practitioners must confirm whether additional licensing is required if the SPV engages in activities beyond passive holding. Pure holding activities typically require only a holding company license, while trading or operational activities may necessitate additional permits.

*Multi-project structure example*

A multinational corporation recently structured multiple JAFZA SPVs to hold distinct real estate projects, containing litigation risks within each vehicle and shielding the group's broader assets.

## Comparative perspectives

While JAFZA remains the most widely recognised SPV jurisdiction, alternatives do exist.

The DIFC and the Abu Dhabi Global Market (ADGM) adopt English common law, providing international familiarity and predictability in dispute resolution. However, banking onboarding can be more challenging due to enhanced scrutiny of financial free zone entities.

The RAK International Corporate Centre (RAK ICC) offers cost-effective, offshore-style, restricted purposes companies, though banking recognition can be more limited.

The Dubai Multi Commodities Centre (DMCC) has launched new SPVs and holding licenses (2025), offering flexibility without office requirements and with 0% tax for qualifying free zone persons.

The Majan International Business Centre also permits SPVs, though its uptake remains limited.

Internationally, the United Kingdom (UK) Supreme Court in [Prest v Petrodel Resources Ltd \[2013\] UKSC 34](#)<sup>[1 p.9]</sup>, reaffirmed the limited grounds for piercing the corporate veil, reinforcing the robustness of SPVs. Similarly, the Eastern Caribbean

Supreme Court in C BVIHCM 2013/0123 highlighted the risks of misusing SPVs in shareholder disputes. These international precedents reinforce that UAE SPVs align with global best practices, while JAFZA's domestic recognition by banks and regulators often provides the decisive practical advantage.

## Practical hurdles and risk mitigation

### *Banking onboarding challenges*

Despite their advantages, SPVs face implementation challenges. Banking onboarding may extend into several months, particularly for structures with non-resident shareholders or complex ownership chains. Enhanced due diligence under Federal Decree-Law No. 10/2025 Regarding Combating Money Laundering Crimes, Combating the Financing of Terrorism and the Financing of Arms Proliferation, requires comprehensive documentation of fund sources and business purposes.

### *Substance compliance planning*

Compliance with Cabinet Decision No. 57/2020 requires advance planning for directors, office space, and operational activities where applicable. For pure holding companies, requirements are generally less stringent but still mandate proper record-keeping and UAE-based management decisions.

### *Market perception management*

Counterparties sometimes perceive free zone SPVs as offshore shells, requiring careful documentation to establish credibility. Addressing these issues at the outset can determine whether an SPV structure succeeds or fails in practice.

### *Corporate tax monitoring*

With the introduction of Federal Decree-Law No. 47/2022 On the Taxation of Corporations and Businesses, practitioners should closely monitor guidance from the Federal Tax Authority regarding SPV classification, exemptions and reporting requirements.

## Comparison with common law

International clients often approach UAE SPVs with the mindset shaped by Cayman, BVI, or Delaware structures. The JAFZA model reflects civil law foundations but aligns with international commercial practice.

### *Formation and substance*

- Common law offshore: Cayman or BVI SPVs are quick to incorporate with minimal substance.
- JAFZA: Subject to Cabinet Decision No. 57/2020, adding compliance obligations but enhancing credibility.

### *Regulatory oversight*

- Common law offshore: Offshore SPVs face increasing scrutiny due to transparency initiatives and correspondent banking restrictions with the Organisation for Economic Co-operation and Development (OECD).
- JAFZA: Governed by the Jebel Ali Free Zone Companies Implementing Regulations 2016 and federal corporate tax and beneficial ownership rules.

### *Banking recognition and market perception*

- Common law offshore: Offshore SPVs face scrutiny due to OECD transparency.
- JAFZA: Enjoys stronger domestic banking recognition.

### *Governance flexibility*

- Common law offshore: Relies heavily on contractual arrangements through shareholder agreements.
- JAFZA: Governance embedded in articles of association and ancillary contracts, enforceable under Federal Law No. 5/1985.

### *Tax positioning*

- Common law offshore: Traditionally tax-neutral but face potential blacklisting and treaty limitation provisions.
- JAFZA: UAE's expanding treaty network provides genuine structuring advantages when substance rules are met.
- Key distinction: JAFZA SPVs sit between offshore shells and full operational companies, offering credibility and tax treaty access, with compliance obligations.

## Checklist for practitioners

### *Pre-formation*

- Confirm licensing requirements for intended activities.
- Assess economic substance obligations.
- Prepare beneficial ownership documentation.

- Plan banking strategy and documentation.

*Post-formation*

- Complete beneficial ownership filings.
- Establish substance compliance framework.
- Execute shareholder agreements and governance documents.
- Monitor Federal Tax Authority guidance updates.

## **Related Content**

### **Legislation**

- Federal Decree-Law No. 32/2021 On Commercial Companies
- Federal Law No. 5/1985 On the Civil Transactions Law of the United Arab Emirates State
- Cabinet Decision No. 109/2023 On the Regulation of the Real Beneficiary Procedures
- Cabinet Decision No. 57/2020 Determining the Economic Substance Requirements
- Federal Decree-Law No. 47/2022 On the Taxation of Corporations and Businesses
- Federal Decree-Law No. 10/2025 Regarding Combating Money Laundering Crimes, Combating the Financing of Terrorism and the Financing of Arms Proliferation

### **Regulations**

- Jebel Ali Free Zone Companies Implementing Regulations 2016

### **Cases**

- [Prest v Petrodel Resources Ltd \[2013\] UKSC 34](#)<sup>[1 p.9]</sup>
- Re C BVIHCM 2013/0123 (Eastern Caribbean Supreme Court)

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**Biography**

Abubaker Karmustaji is a co-founding partner and the Head of the Dispute Resolution Practice at SAT & Co, a leading law firm based in the United Arab Emirates. An accomplished Emirati advocate, he has full rights of audience before all courts in the UAE and is authorized to act as a Private Notary.

Abubaker has built a strong reputation in the legal community for his depth of knowledge, sharp analytical skills, and strategic approach. He has a wealth of experience handling complex disputes across sectors including international shipping, oil & gas, property management, and financial transactions.

Abubaker is particularly adept at managing cases involving both civil and criminal litigation, often with significant cross-border elements. His clients value his methodical and results-driven approach, as well as his unwavering dedication to protecting their rights and interests.



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Tanya Visakan is a certified paralegal at SAT & Co, bringing a wealth of experience from both legal and supply chain backgrounds. Over ten years, she has developed a unique skill set that combines meticulous legal process management with leadership expertise gained as Head of Supply Chain.

Tanya is an Associate Member of the National Association of Licensed Paralegals (UK), holding NALP certification and currently advancing her legal expertise through ongoing studies in UK law. She plays a pivotal role in preparing and coordinating legal documents essential to high-stakes litigation and dispute resolution. Tanya actively supports case strategy

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Her competence covers numerous legal fields including dispute resolution, employment and family law, real estate tenancy, corporate and commercial law, and arbitration.

## Notes

1. <sup>[p.4]</sup> <sup>[p.6]</sup> <https://www.supremecourt.uk/cases/uksc-2013-0004>