

COMPANY LIQUIDATION

PROCESS IN UAE



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INDEX



What is liquidation?	01
Types of liquidation in UAE	01
Company Liquidation Process in the UAE	02
Liquidator	02
Liquidation Process for Mainland Companies	05
Liquidation Process for Freezone Companies	07
Frequently Asked Questions	09



Topic 01

WHAT IS LIQUIDATION?

The official process of ending a company's insolvency is called company liquidation. Another common phrase for company liquidation is "winding up" or "closing" a business.

All of the company's assets are liquidated, and the money raised from the sales of those assets is used to cover all outstanding bills and debts. Any remaining funds may then be distributed to the business's stockholders.

TYPES OF LIQUIDATION IN UAE

There are two types of liquidation:

- ◇ Mandatory
- ◇ Voluntary

- ✧ **Mandatory liquidation:** Sometimes referred to as creditor liquidation, is the process of forcing a business to dissolve in order to pay off its debts.
- ✧ **Voluntary liquidation:** A company goes into voluntary liquidation when its owners decide to close it down. It usually begins when a business loses money and decides to close operations.



Topic 02

COMPANY LIQUIDATION PROCESS IN THE UAE

The company liquidation process will vary based on the following criteria:

Type of ownership.

Like - Limited Liabilities
Companies, Civil Companies,
Sole Establishments

Registration Jurisdiction.

The liquidation procedures
for mainland and free zone
companies differ



Topic 03

LIQUIDATOR

YOU MUST APPOINT A LIQUIDATOR TO COMPLETE THIS PROCESS.

✧ What is the role of a liquidator?

A liquidator is a company or agent that is registered in the United Arab Emirates. Usually, it is an audit or chartered accountancy firm that is tasked with acting on behalf of the company to sell its assets and raise the necessary funds to pay off any outstanding debts.

In the event of a compulsory liquidation, the courts may appoint a liquidator, or the shareholders may do so by resolution.

Upon appointment, the liquidator will first issue an official letter of acceptance. The liquidator will draft a statement of affairs and a liquidator's report after completing all of its tasks. These documents are necessary to bring the liquidation process to a close.

A liquidator makes decisions throughout the entire liquidation process. They're responsible for:

Starting the winding-up process:

Following receipt of a shareholders' resolution from the company, the liquidator issues an acceptance letter to commence the process.

Liquidation Notice Publication:

Once the process has begun, a liquidation notice is published in English and Arabic in at least two local newspapers. Liquidators in Dubai can handle the newspaper selection.

Collection and Distribution of Entity Assets:

When necessary, the liquidator supervises the collection and distribution of company assets. They will also assist in settling the company's outstanding liabilities.

Preparation of Statement of Affairs:

To complete the liquidation process, both the liquidator's report and a statement of affairs are prepared.

Preparing Documents

Before beginning the liquidation process, you must first get things in order. You must have the following documents prepared:

- ◇ Copy of your business license. If your business license has expired, you will have to get it renewed before you can begin the process
- ◇ An MOA (Memorandum of Association) with a copy of any changes that have been made
- ◇ Power of Attorney (if there is any)
- ◇ Copies of all shareholder's passports
- ◇ Copies of emirates ID
- ◇ Shareholders' resolution
- ◇ Deregistration application form

Liquidation Notice Period

Businesses are given a notice period by the government during which they can settle any debts. There is a 45-day limit on the notice period. It is best to have completed all necessary tasks (pertaining to your company and your staff) before you start the process. In addition to organizing all necessary paperwork, the following assignments need to be finished:

- ◇ Pay off all pending utility bills
- ◇ Pay off all pending telecommunication bills
- ◇ Obtain bank account closure letter
- ◇ Prepare a liquidation audit report
- ◇ Cancel any visas that have been obtained under their current business license
- ◇ Once these documents are complete, you can begin the process of closing the company.



Topic 04

LIQUIDATION PROCESS FOR MAINLAND COMPANIES

Limited Liabilities Companies L.L.C



Business License
Cancellation



Appointing a
Liquidator



Stages of
Liquidation

Stage 1

- A notarized MOM (meeting minutes) is prepared to document the decision to liquidate the company and the appointment of a liquidator (if necessary).
- Obtain an official letter from a liquidator confirming their appointment by the company.
Apply for cancellation by completing all necessary forms.
- The DED (Department of Economic Development) will issue a certificate of liquidation for the company.
- The company will now publish its liquidation notice, as required.
- Once the notice is published, the liquidation notice period begins. Debtors will have a 45-day grace period in which to submit claims.

Stage 2

- After 45 days, the liquidator will submit a declaration letter to the DED. The letter must state that there are no further objections from anyone during the grace period.
- The company will seek approval from relevant government authorities to cancel their license.
The company's firm card will be cancelled at the Ministry of Human Resources and Emiratisation.
- All company-sponsored visas must also be cancelled.
- All required documents must be collected and submitted in order to receive approval for final cancellation.
- The DED will determine all fees that must be paid.
- After paying all fees, the company can receive a certificate of deregistration.

Civil works companies

Civil works companies on the mainland go through different liquidation processes. They must accomplish the following:

- Complete the appropriate cancellation form.
- Cancel its firm card with the Ministry of Human Resources and Emiratization.
- Cancel all company-issued visas for partners and sponsors.
- Obtain necessary approvals from government bodies.
- Create a partnership cancellation contract and have it notarized.
- Submit all required documents and request cancellation.

Sole proprietorships or establishments

Sole proprietorships or establishments required to apply for the cancellation of their business license through the relevant Department of Economic Development and obtain all relevant clearances from:

- Ministry of Human Resources and Emiratization.
- Directorate for Residency and Foreigners Affairs.
- The respective water and electricity authorities.
- The leasing entity.



Topic 05

LIQUIDATION PROCESS FOR FREEZONE COMPANIES

Freeze Business License

A company's partners or owner(s) may choose to freeze their business license rather than cancel it if they intend to reopen for business soon despite the company's dissolution. After paying a freezing fee, a business license can be kept on hold for a maximum of three years.

The following actions must be completed before a business license can be frozen:

- The company/institution must issue a letter requesting a temporary freeze on their business license.
- The Ministry of Human Resources and Emiratization must issue a letter stating that no sponsored individuals are currently listed on the license.
- A report created by the DED's inspection division.

Company Liquidation

Three types of closures apply to companies operating in free zones:

- The company/institution must issue a letter requesting a temporary freeze on their business license.
- The Ministry of Human Resources and Emiratization must issue a letter stating that no sponsored individuals are currently listed on the license.
- A report created by the DED's inspection division.

A business closure in a free zone requires notifying the local government as well. The internet portal for each free zone can be used to accomplish this. The company director's responsibilities, powers, and duties will also end upon the issuance of a company termination application. Following verification of this application, a local newspaper will publish an announcement. Following this, the company's ultimate termination will start, and letters of termination will be sent out.

If your company is based in the Jebel Ali Free Zone (JAFZA), you must provide the authorities with a winding-up notice three months before you begin the winding-up process. Each free zone has its own set of requirements for company winding up.

In all free zones, it is customary to cancel visas that were obtained on your company's behalf. Before terminating a worker's contract, employers are required to provide a two-month notice period (with pay) and gratuity. The labor law of the United Arab Emirates governs this. As long as the company's trade license is active, employees are permitted to keep their visas.

After completing all of this, businesses must obtain relevant NOCs from utility providers and telecommunication services. After completing all of these steps, they can proceed with the business closure.





Topic 06

FREQUENTLY ASKED QUESTIONS

◇ What particular authorization is required in order to dissolve publicly traded companies?

To cancel a public shareholding company, you should obtain the decision of the Securities and Commodities Authority.

◇ What particular permissions are required in order to dissolve a private shareholding company?

You should get the Ministry of Economy's approval.

◇ What are the steps in closing a civil works company?

- Fill out the required cancellation form.
- Cancel the firm card with the Ministry of Human Resources and Emiratisation.
- Cancel the foreign partners' visas sponsored by the company at the relevant General Directorate of Residency and Foreigners Affairs.
- Collect the necessary approvals from other government bodies to cancel a licence.
- Prepare a notary-authenticated partnership cancellation contract.
- Submit the aforementioned documents and obtain the licence cancellation certificate.

◇ What procedures and documents are needed to cancel a sole proprietorship licence?

For sole proprietorship, you will need a no objection letter from the Ministry of Human Resources and Emiratisation, as well as proof of residence cancellation for non-Gulf nationals.

◇ What are the requirements for freezing a licence?

You have to provide:

- To temporarily suspend licensing, provide a letter from the company or institution,
- a letter from the Ministry of Human Resources and Emiratization, and
- a report from the DED inspection division.

◇ Is it possible to reverse a company's dissolution before the payment voucher is issued?

Yes, provided the DED's Legal Affairs Department gives its approval.

◇ If a business that was founded in one emirate dissolves but still has a branch there, what will happen to the branch?

The branch is going to be closed.

◇ What are the conditions for private liquidation?

- The license's expiration date should have been more than two years.
- The Emirati partner must acknowledge his liability to the company.
- The company must provide supporting documents that strengthen the dissolution request, such as the departure of a partner.
- The company must provide a letter from the Ministry of Human Resources and Emiratization indicating the absence of sponsored individuals on the licence.

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