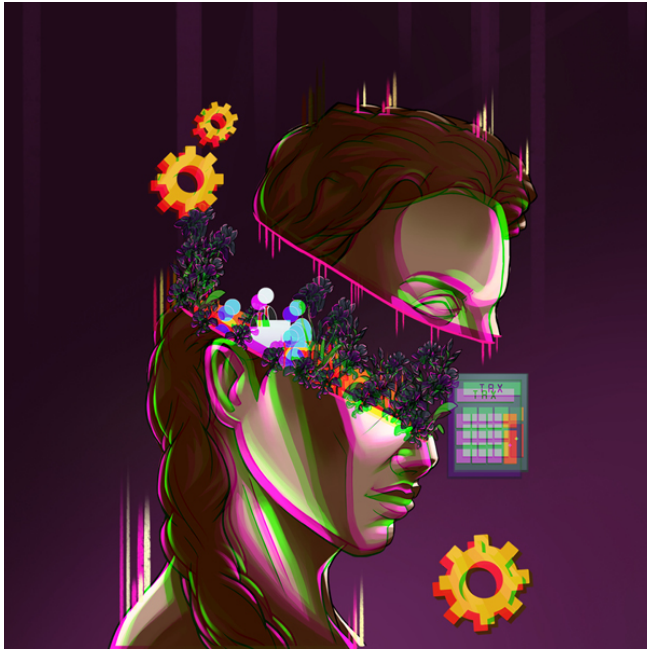


Free Zone incorporation in Jordan

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Introduction and background

The incorporation of companies in Jordan is governed by the Companies Law No. (22) of 1997 (the 'Companies Law') and shares similarities, in terms of its process, with many international regimes. It involves the drafting of a memorandum and articles of association, the formation of a Board of Directors (for Public Shareholding Companies ('PLC's') or a Management Board (for Private Shareholding Companies ('PSC's') and Limited Liability Companies ('LLC's')), the identification of shareholders and their contributed capital, the assignment of Power of Attorney ('PoA') authorisations, and the registration of the company under its respective vehicle at the Ministry of Industry, Trade and Supply (the 'MoITS') by submitting all the required documentation, including the aforementioned, and paying the respective fees.

The facilitation of company registration requires legal expertise for the purposes of identifying and ensuring the submission of all relevant documents and payments. Navigation within the MoITS also proves challenging to persons lacking the requisite experience, and company registration is therefore usually assigned to lawyers with a comprehensive knowledge in corporate law and the practical aspects of company registration. This expertise is also needed for a developing trend, corresponding to the rising investment opportunities and returns on conducting business in Jordan, of incorporating free zone companies.

The incorporation of Free Zone Companies

The incorporation of companies as free zone entities is governed by the Investment Law No. (30) of 2014 (the 'Investment Law'). A "Free Zone" is, as such, defined as a section of land within Jordan specified and separated, which is specifically dedicated to the attraction of investment and commercial activities, including the storage of goods. Free Zones are excluded from the governance of customs and the enforcement thereof, thereby allowing the consideration of products in such Free Zones, in the eyes of the

law, as being located outside of Jordan for the purposes of implementing the Investment Law. A Free Zone Company (a 'FZC') is deemed a "Registered Company" for the purposes of the Investment Law, defined therein as a person registered at the "Investment Commission" established pursuant to the Investment Law.

The advantages of a FZC

The principal advantages of Free Zone incorporation provide incentives to comply with the criteria imposed for such registration. Firstly, and perhaps most importantly, FZC's enjoy tax reductions and exemptions with regard to their: (a) income tax; and (b) general sales tax ('GST'):

- Income tax

Pursuant to Article 14 of the Investment Law, FZC's are exempted from income tax on profits for exporting goods and services outside Jordan, transit trade, sale and assignment of commodities within the boundaries of Free Zones, and the provision and supply of services within Free Zones. This exemption is in lieu of an income tax amounting to 20 per cent imposed on legal persons incorporated in the "Regulated Areas" of Jordan, wherein no exemptions are provided, as under the Income Tax Law No. (34) of 2014 ('Income Tax Law'). Income tax also amounts to 0 per cent on salaries and allowances of non-Jordanian persons working on projects established in Free Zones, pursuant to Article 14 of the Investment Law'

- GST

Pursuant to Article 12 of the Investment Law, a FZC shall be subject to GST of 0 per cent on all services provided for consumption in a Free Zone. Additionally, any forklifts and transportation vehicles accommodating a minimum of 10 passengers, including the driver, which are sold to FZC to transport employees to and from the work establishments of the FZC in Free Zones, shall be exempt from GST pursuant to a Regulation issued for this purpose. However, any goods consumed in Free Zones for purposes other than carrying out the FZC's economic objectives, shall be subject to GST. Additionally, and pursuant to Article 7 of the Law on General Sales Tax No. (6) of 1994 (the 'GST Law'), goods and services sold to duty-free markets shall be subject to a GST of 0 per cent.

Secondly, FZC's are, by virtue of the law, subject to facilitated importation procedures; pursuant to Article 14 of the Investment Law, a FZC shall be exempted from customs fees and all other fees and taxes levied against goods exported from the Free Zone and beyond the local market, as well as all goods imported into the Free Zone, including materials, equipment, machines, preparations and construction materials involved in constructing, establishing, preparing and furnishing all projects undertaken by the FZC in a Free Zone; this includes materials necessary for the constant maintenance of said projects, but does not include service charges.

Other privileges enjoyed by FZC's, as under the Investment Law, include exemptions from licensing fees for buildings and installations in Free Zones, as well as the permission to transfer foreign currencies and profits generated in Free Zones, as regulated by the legislations in force.

Limitations, restrictions and alternatives

The registration of companies as FZC's, however, is limited to certain locations and subject to the satisfaction of the criteria set forth and regulated by the Investment Commission. Article 29 of the

Investment Law allows a FZC to benefit from all facilitations and exemptions offered under the Investment Law without any obligation or necessity to undertake any other procedures to secure such enjoyment, but the Investment Law simultaneously subjects any such registered FZC to the checks and verifications implemented by the Investment Commission. It is then for investors to conduct an analysis on whether or not it is feasible for their ventures to be registered and operated in Free Zones, and legal advice significantly contributes to such analysis.

Where registration in Free Zones is not feasible for an investor, another opportunity to enjoy financial and operative privileges lies in the Aqaba Special Economic Zone ('ASEZ'), regulated by the Aqaba Special Economic Zone Authority ('ASEZA'). The ASEZ provides relatively low-cost land, appropriate for the conduct of business and accompanied by labour force availability, facilitating the establishment and operation of businesses for investors. Financial incentives for investments in the ASEZ are also offered, including, as with Free Zones, tax reductions and exemptions. Other incentives for investment in Jordan which apply to Free Zones and the ASEZ, as well as other Regulated Areas, are laid out in the Regulation on Investment Incentives No. (33) of 2015 ('Investment Incentives Regulation'), furthering the benefits of business investments in Jordan and thereby increasing the returns.

Conclusion

To conclude, the exponential availability of investment opportunities in Jordan has necessitated the undertaking of innovative and incentivising measures to ensure the distribution of such investments across Jordan and the utilisation of labour in different areas. This, in part, founded the purpose for legislating the Investment Law, allocating Free Zones in Jordan, and establishing the Investment Commission to regulate and enhance the growing Jordanian investment sector, particularly pertaining to large foreign investors approaching potential profitability in the region. This has remodelled corporate structuring by adding new procedures and vehicles for company incorporation, and effectively fortifying Jordan's market as such.

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