

CONCLUSION AND TERMINATION OF EMPLOYMENT CONTRACTS IN THE UAE

19 January 2026

This alert discusses key issues regulated by UAE employment law relating to the conclusion and termination of employment contracts, including the basic requirements for formalizing employment relationships, grounds for dismissal, and the procedure for payments and compensation upon termination of employment contracts.

1. Applicable Regulations

Employment relationships in the UAE are governed by the Federal Law No. 33 of 2021 Regarding the Regulation of Employment Relationships (the “**Federal Law**”) and Cabinet Resolution No. 1 of 2022. The main regulator is the Ministry of Human Resources and Emiratization (the “**MOHRE**”).

However, in a number of free zones (e.g., Dubai Media City), federal labor legislation applies alongside local regulations, which clarify federal norms to varying degrees.

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At the same time, the Abu Dhabi Global Market (ADGM) and Dubai International Financial Centre (DIFC) financial free zones apply their own regulations, which differ from the UAE federal legislation. However, this alert does not address issues relating to the legal regime of the ADGM and DIFC.

2. Conclusion of an Employment Contract

Employment contracts in the UAE are only concluded for a fixed term (up to 3 years) and must be registered with the MOHRE (if the company is established in the mainland UAE) or with the administration of the relevant free zone if the company is established in one of the free zones.

A probationary period of up to six months may be established, during which special rules for termination of the employment contract apply. In particular, reduced notice periods apply to termination during the probationary period, and the employer may be entitled to compensation of recruitment costs where the employee resigns and subsequently takes up employment with another employer.

3. Grounds for Termination of an Employment Contract

In accordance with the Federal law, an employment contract may be terminated, inter alia, in the following cases:

- at the initiative of either party, subject to compliance with the notice period;
- by written agreement between the parties;
- upon expiry of the contract if it is not renewed;
- where a work permit cannot be renewed through no fault of the employer;
- in the event of the employee's loss

of capacity to work;

- in the event of the closure of the enterprise.¹

In addition, where termination is initiated by either party, written notice must be given within the period specified in the employment contract, which may not be less than 30 days and not exceed 90 days.²

In certain cases, an employer may terminate an employment contract without prior notice, provided that an internal investigation has been conducted and a reasoned written decision has been issued confirming the employee's breach of employment obligations. Such grounds include, inter alia: causing material damage; disclosure of confidential or trade secret information; prolonged absence without valid reason; submission of forged documents; and others.³

The dismissal of an employee is deemed unlawful if it is related, inter alia, to:

- the employee filing a substantiated complaint with the MOHRE or a lawsuit in court;
- discrimination (on the grounds of gender, race, religion, social origin, etc.);
- pregnancy, maternity leave, or sick leave.

An employee is also entitled to terminate the employment contract without notice where the employer violates the employee's rights, including, in particular, where there is a threat to the employee's life or health, or where the employer requires the employee to perform work not provided for in the employment contract without the written consent of the employee, etc.⁴

In addition, an employee is entitled to seek judicial protection of their rights in cases

¹ Article 42 of the Federal Law.

² Article 43 of the Federal Law.

³ Article 44 of the Federal Law.

⁴ Article 45 of the Federal Law.

of bullying, harassment, violence, unlawful overtime, or where the employee is compelled to perform work that materially differs from the contractual terms.

At the same time, an employee's departure without a valid reason before the end of the employment contract may result in notification to the MOHRE and a restriction on obtaining a new work permit in the UAE for up to one year⁵.

4. Payments upon Termination

Termination payments in the UAE include a mandatory end-of-service gratuity⁶, which is payable to all employees with at least one year of continuous service and is calculated based on the employee's basic salary at the rate of 21 days' pay for each year of service⁷.

Additionally, the employee is entitled to compensation for any accrued but unused annual leave.⁸

Payment in lieu of notice is also due where termination occurs without notice⁹, and in cases of unlawful dismissal resulting from the employee's filing of a complaint with MOHRE or initiating court proceedings, additional compensation of up to three months' salary may be awarded.¹⁰

The employer also usually covers repatriation costs (airfare) and may pay additional compensation where such payments are provided for in the employment contract or the employer's internal policies.

In addition, a mandatory unemployment insurance scheme is in place, providing insurance benefits in the event of termination for reasons beyond the employee's control, provided that the employee has participated

in the scheme for at least one year.

5. Methods for protecting rights

To protect their rights in the event of a labor dispute, the parties may begin with a mediation procedure involving the administration of the relevant free zone if the company is registered in a free zone where such a mechanism exists (e.g., Dubai Media City).

If mediation does not resolve the dispute, or if the employer is not registered in a free zone that provides for mediation, the employee has the right to file a complaint with the MOHRE. The MOHRE considers labor disputes within 14 working days and is authorized to issue binding decisions in disputes with claims of up to AED 50,000.

Where the amount of the claim exceeds AED 50,000, MOHRE generally seeks to reconcile the parties through mediation. If the dispute has not been resolved by MOHRE or if either party disagrees with its decision, the matter may be referred to the court, where cases are generally heard within 30 days.

In cases of unlawful dismissal, the court or regulatory authority does not reinstate the employee, but may award monetary compensation of up to three months' salary, in addition to any other payments due as outlined above.

Violations of labor law provisions are subject to fines ranging from AED 5,000 to AED 1,000,000, which MOHRE may impose on responsible parties depending on the type and severity of the violation.¹¹

⁵ Article 50 of the Federal Law.

⁶ Article 51 of the Federal Law.

⁷ 21 days' salary for each year of service during the first five years of employment, after which the payment increases to 30 days' salary for each subsequent year of

service, provided that the total end-of-service gratuity does not exceed the equivalent of two years' salary.

⁸ Art. 29(9) of the Federal Law.

⁹ Article 43 of the Federal Law.

¹⁰ Article 47 of the Federal Law.

¹¹ Articles 58-64 of the Federal Law.

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The conclusion and termination of employment contracts in the UAE require careful consideration of both federal legislation and the specific rules applicable in free zones. Proper drafting of employment contracts and compliance with termination procedures can significantly reduce the risk of labor disputes and financial losses.

The White Square team is ready to provide expert support on UAE labor law matters and to advise on all aspects of employment relations in accordance with the specific needs of your business.



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