



# Corporate Tax – General Guide

## Corporate Tax Guide | CTGGCT1

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## 1. Glossary

**Accounting Income:** The accounting net profit or loss for the relevant Tax Period as per the Financial Statements prepared in accordance with the provisions of Article 20 of the Corporate Tax Law.

**Accounting Standards:** The accounting standards specified in Ministerial No. 114 of 2023.

**Accrual Basis of Accounting:** An accounting method under which the Taxable Person recognises income when earned and expenditure when incurred.

**Auditor:** An independent Person licensed and registered by the competent authorities of the UAE, that is appointed and remunerated by a private pension fund or a private social security fund to audit its Financial Statements.

**Business:** Any activity conducted regularly, on an ongoing and independent basis by any Person and in any location, such as industrial, commercial, agricultural, vocational, professional, service or excavation activities or any other activity related to the use of tangible or intangible properties.

**Business Activity:** Any transaction or activity, or series of transactions or series of activities, conducted by a Person in the course of its business.

**Cash Basis of Accounting:** An accounting method under which the Taxable Person recognises income and expenditure when cash payments are received and paid.

**Commercial Property:** Immovable Property or part thereof:

- a. used exclusively for a Business or Business Activity.
- b. not used as a place of residence or accommodation including hotels, motels, bed and breakfast establishments, serviced apartments and the like.

**Corporate Tax:** The tax imposed by the Corporate Tax Law on juridical persons and Business income.

**Corporate Tax Law:** Federal Decree Law No. 47 of 2022 on the Taxation of Corporations and Businesses.

**Corporate Tax Payable:** Corporate Tax that has or will become due for payment to the FTA in respect of one or more Tax Periods.



**Designated Zone:** A designated zone as defined in Federal Decree-Law No. 8 of 2017 on Value Added Tax, and its amendments, and which has been specified as a Free Zone for the purposes of the Corporate Tax Law.

**Dividend:** Any payments or distributions that are declared or paid on or in respect of shares or other rights participating in the profits of the issuer of such shares or rights which do not constitute a return of capital or a return on debt claims, whether such payments or distributions are in cash, securities, or other properties, and whether payable out of profits or retained earnings or from any account or legal reserve or from capital reserve or revenue. This will include any payment or benefit which in substance or effect constitutes a distribution of profits made in connection with the acquisition or redemption or cancellation of shares or termination of other ownership interests or rights or any transaction or arrangement with a Related Party or Connected Person which does not comply with Article 34 of the Corporate Tax Law.

**Double Taxation Agreement:** An international agreement signed by two or more countries for the avoidance of double taxation and the prevention of fiscal evasion on income and capital.

**Excluded Activities:** Any activities determined by a decision issued by the Minister and conducted by a Qualifying Free Zone Person from which non-Qualifying Income is derived.

**Exempt Person:** A Person exempt from Corporate Tax under Article 4 of the Corporate Tax Law.

**Extractive Business:** The Business or Business Activity of exploring, extracting, removing, or otherwise producing and exploiting the Natural Resources of the UAE, or any interest therein as determined by the Minister.

**Federal Government:** The government of the UAE.

**Financial Asset:** Financial asset as defined in the Accounting Standards applied by the Taxable Person.

**Financial Liability:** Financial liability as defined in the Accounting Standards applied by the Taxable Person.

**Financial Statements:** A complete set of statements as specified under the Accounting Standards applied by the Taxable Person, which includes, but is not limited to, statement of income, statement of other comprehensive income, balance sheet, statement of changes in equity and cash flow statement.



**Financial Year:** The Gregorian calendar year, or the twelve-month period for which the Taxable Person prepares Financial Statements.

**Foreign Partnership:** A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the laws of a foreign jurisdiction.

**Foreign Permanent Establishment:** A place of Business or other form of presence outside the UAE of a Resident Person that is determined in accordance with the criteria prescribed in Article 14 of the Corporate Tax Law.

**Foreign Tax Credit:** Tax paid under the laws of a foreign jurisdiction on income or profits that may be deducted from the Corporate Tax due, in accordance with the conditions of Article 47(2) of the Corporate Tax Law.

**Free Zone:** A designated and defined geographic area within the UAE that is specified in a decision issued by the Cabinet at the suggestion of the Minister.

**Free Zone Person:** A juridical person incorporated, established, or otherwise registered in a Free Zone, including a branch of a Non-Resident Person registered in a Free Zone.

**FTA:** Federal Tax Authority, being the Authority in charge of administration, collection and enforcement of federal taxes in the UAE.

**General Interest Deduction Limitation Rule:** The limitation provided under Article 30 of the Corporate Tax Law.

**Government Controlled Entity:** Any juridical person, directly or indirectly wholly owned and controlled by a Government Entity, as specified in a decision issued by the Cabinet at the suggestion of the Minister.

**Government Entity:** The Federal Government, Local Governments, ministries, government departments, government agencies, authorities and public institutions of the Federal Government or Local Governments.

**IFRS:** International Financial Reporting Standards.

**IFRS for SMEs:** International Financial Reporting Standards for small and medium enterprises.



**Immovable Property:** Means any of the following:

- a. Any area of land over which rights or interests or services can be created.
- b. Any building, structure or engineering work attached to the land permanently or attached to the seabed.
- c. Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

**Interest:** Any amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic Financial Instrument and other payments economically equivalent to interest, and any other amounts incurred in connection with the raising of finance, excluding payments of the principal amount.

**Islamic Financial Instrument:** A financial instrument which is in compliance with Sharia principles and is economically equivalent to any instrument provided for under Article 2(2) of Ministerial Decision No. 126 of 2023, or a combination thereof.

**Licence:** A document issued by a Licensing Authority under which a Business or Business Activity is conducted in the UAE.

**Licensing Authority:** The competent authority concerned with licensing or authorising a Business or Business Activity in the UAE.

**Local Government:** Any of the governments of the Member Emirates of the Federation.

**Mandated Activity:** Any activity conducted by a Government Controlled Entity in accordance with the legal instrument establishing or regulating the entity, that is specified in a decision by the Cabinet at the suggestion of the Minister.

**Market Value:** The price which could be agreed in an arm's-length free market transaction between Persons who are not Related Parties or Connected Persons in similar circumstances.

**Membership and Partner Interests:** The equity interests owned by a member or a partner in the juridical person, which entitles the member or the partner to a share of the profits, determined with reference to the member's or the partner's capital contribution, and which may be transferred to others.

**Membership or Partnership Capital:** The capital paid to a juridical person where the paid capital is divided into membership or partnership interests by a Person in order



to be a member or partner and have the rights of membership or partnership in that juridical person.

**Minister:** Minister of Finance.

**Ministry:** Ministry of Finance.

**Natural Resources:** Water, oil, gas, coal, naturally formed minerals, and other non-renewable, non-living natural resources that may be extracted from the UAE's Territory.

**Net Interest Expenditure:** The Interest expenditure amount that is in excess of the Interest income amount as determined in accordance with the provisions of the Corporate Tax Law.

**Non-Extractive Natural Resource Business:** The Business or Business Activity of separating, treating, refining, processing, storing, transporting, marketing or distributing the Natural Resources of the UAE.

**Non-Free Zone Person:** Any Person who is not a Free Zone Person.

**Non-Resident Person:** The Taxable Person specified in Article 11(4) of the Corporate Tax Law.

**Ordinary Shares:** The category of capital stock or equivalent ownership interest, which gives its owner, on a share-by-share basis, equal entitlement to voting rights, profits, and liquidation proceeds.

**Parent Company:** A Resident Person that can make an application to the FTA to form a Tax Group with one or more Subsidiaries in accordance with Article 40(1) of the Corporate Tax Law.

**Participating Interest:** An ownership interest in the shares or capital of a juridical person that meets the conditions referred to in Article 23 of the Corporate Tax Law.

**Participation:** The juridical person in which the Participating Interest is held.

**Permanent Establishment:** A place of Business or other form of presence in the UAE of a Non-Resident Person in accordance with Article 14 of the Corporate Tax Law.

**Person:** Any natural person or juridical person.



**Personal Investment:** Investment activity that a natural person conducts for their personal account that is neither conducted through a Licence or requiring a Licence from a Licensing Authority in the UAE, nor considered as a commercial business in accordance with the Federal Decree-Law No. 50 of 2022 Issuing the Commercial Transactions Law.

**Preferred Shares:** The category of capital stock or equity interest which gives its owner priority entitlement to profits and liquidation proceeds ahead of owners of Ordinary Shares.

**Qualifying Activities:** Any activities determined by a decision issued by the Minister and conducted by a Qualifying Free Zone Person from which Qualifying Income is derived.

**Qualifying Free Zone Person:** A Free Zone Person that meets the conditions of Article 18 of the Corporate Tax Law and is subject to Corporate Tax under Article 3(2) of the Corporate Tax Law.

**Qualifying Group:** Two or more Taxable Persons that meet the conditions of Clause Article 26(2) of the Corporate Tax Law.

**Qualifying Income:** Any income derived by a Qualifying Free Zone Person that is subject to Corporate Tax at the rate specified in Article 3(2)(a) of the Corporate Tax Law.

**Qualifying Infrastructure Project:** A project that meets the conditions of Article 14 of Ministerial Decision No. 126 of 2023.

**Qualifying Infrastructure Project Person:** A Resident Person that meets the conditions of Article 14(2) of Ministerial Decision No. 126 of 2023.

**Qualifying Investment Fund:** Any entity whose principal activity is the issuing of investment interests to raise funds or pool investor funds or establish a joint investment fund with the aim of enabling the holder of such an investment interest to benefit from the profits or gains from the entity's acquisition, holding, management or disposal of investments, in accordance with the applicable legislation and when it meets the conditions set out in Article 10 of the Corporate Tax Law.

**Qualifying Public Benefit Entity:** Any entity that meets the conditions set out in Article 9 of the Corporate Tax Law and that is listed in a decision issued by the Cabinet at the suggestion of the Minister.



**Real Estate Investment:** Any investment activity conducted by a natural person related to, directly or indirectly, the sale, leasing, sub-leasing, and renting of land or real estate property in the UAE that is not conducted, or does not require to be conducted through a Licence from a Licensing Authority.

**Recognised Stock Exchange:** Any stock exchange established in the UAE that is licensed and regulated by the relevant competent authority, or any stock exchange established outside the UAE of equal standing.

**Redeemable Shares:** The category of capital stock or equity interest which the juridical person issuing this instrument has agreed to redeem or buy back from the owner of this instrument at a future date or after a specific event, for a predetermined amount or with reference to a predetermined amount.

**Related Party:** Any Person associated with a Taxable Person as determined in Article 35(1) of the Corporate Tax Law.

**Resident Person:** The Taxable Person specified in Article 11(3) of the Corporate Tax Law.

**Revenue:** The gross amount of income derived during a Tax Period.

**Ship:** Any structures normally operating, or set for operating in maritime navigation regardless of its power and tonnage.

**State Sourced Income:** Income accruing in, or derived from, the UAE as specified in Article 13 of the Corporate Tax Law.

**Subsidiary:** A Resident Person in which the share capital or Membership or Partnership Capital, as applicable, is held by a Parent Company, in accordance with Article 40(1) of the Corporate Tax Law.

**Tax Deregistration:** A procedure under which a Person is deregistered for Corporate Tax purposes with the FTA.

**Tax Group:** Two or more Taxable Persons treated as a single Taxable Person according to the conditions of Article 40 of the Corporate Tax Law.

**Tax Loss:** Any negative Taxable Income as calculated under the Corporate Tax Law for a given Tax Period.

**Tax Period:** The period for which a Tax Return is required to be filed.



**Tax Registration:** A procedure under which a Person registers for Corporate Tax purposes with the FTA.

**Tax Registration Number:** A unique number issued by the FTA to each Person who is registered for Corporate Tax purposes in the UAE.

**Tax Return:** Information filed with the FTA for Corporate Tax purposes in the form and manner as prescribed by the FTA, including any schedule or attachment thereto, and any amendment thereof.

**Taxable Income:** The income that is subject to Corporate Tax under the Corporate Tax Law.

**Taxable Person:** A Person subject to Corporate Tax in the UAE under the Corporate Tax Law.

**Turnover:** The gross amount of income derived during a Gregorian calendar year.

**UAE:** United Arab Emirates.

**Unincorporated Partnership:** A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the applicable legislation of the UAE.

**Withholding Tax:** Corporate Tax to be withheld from State Sourced Income in accordance with Article 45 of the Corporate Tax Law.

**Withholding Tax Credit:** The Corporate Tax amount that can be deducted from the Corporate Tax due in accordance with the conditions of Article 46(2) of the Corporate Tax Law.



## 2. Introduction

### 2.1. Overview

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (“Corporate Tax Law”) was signed on 3 October 2022 and was published in Issue #737 of the Official Gazette of the United Arab Emirates (“UAE”) on 10 October 2022.

The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits (“Corporate Tax”) in the UAE.

The provisions of the Corporate Tax Law shall apply to Tax Periods commencing on or after 1 June 2023.

### 2.2. Purpose of this guide

This guide is designed to provide general guidance on Corporate Tax in the UAE with a view to making the provisions of the Corporate Tax Law as understandable as possible to readers. It provides readers with:

- an overview of the main Corporate Tax rules and procedures, including the determination of the Corporate Tax base, the calculation of Corporate Tax, the filing of Corporate Tax Returns, and other related compliance requirements; and
- assistance with the most common questions businesses might have.

### 2.3. Who should read this guide?

This guide should be read by those who want to know more about the Corporate Tax regime in the UAE. It is intended to be read in conjunction with the Corporate Tax Law, the implementing decisions and other relevant guidance published by the FTA.

### 2.4. How to use this guide

The relevant articles of the Corporate Tax Law and the implementing decisions are indicated in each section of the guide.

This guide is split into chapters by topic. This includes an initial chapter that explains where to seek further assistance should further questions arise based on the content of this guide, or on areas that are not specifically dealt with here.



Subsequent chapters are organised by subject matter to cover the fundamentals of the Corporate Tax regime in the UAE. This includes what Corporate Tax is, who is subject to Corporate Tax, what types of income are taxable, and how a Taxable Person's Corporate Tax liability is calculated. There is also a chapter covering the Corporate Tax administration process, from Tax Registration and record keeping to submitting returns and making payments.

It is recommended that the guide is read in its entirety to provide a complete understanding of the definitions and interactions of the different rules. Further guidance on some of the areas covered in this guide can be found in topic specific guides.

In some instances, simple examples are used to illustrate how key elements of the Corporate Tax regime function. The examples in the guide:

- show how these elements operate in isolation and do not show the interactions with other provisions of the Corporate Tax Law that may occur. They do not, and are not intended to, cover the full facts of the hypothetical scenarios used nor all aspects of the Corporate Tax regime, and should not be relied upon for legal or tax advice purposes; and
- are only meant for providing the readers with general information on the subject matter of this guide. They are exclusively intended to explain the rules related to the subject matter of this guide and do not relate at all to the tax or legal position of any specific juridical or natural person.

## 2.5. Legislative references

In this guide, the following legislation will be referred to as follows:

- Federal Decree-Law No. 28 of 2022 on Tax Procedures is referred to as "Tax Procedures Law";
- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as "Corporate Tax Law";
- Cabinet Resolution No. 44 of 2020 on Organising Reports Submitted by Multinational Companies is referred to as "Cabinet Resolution No. 44 of 2020";
- Cabinet Decision No. 116 of 2022 on the Determination of Annual Income Subject to Corporate Tax is referred to as "Cabinet Decision No. 116 of 2022";
- Cabinet Decision No. 37 of 2023 Regarding the Qualifying Public Benefit Entities for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as "Cabinet Decision No. 37 of 2023";



- Cabinet Decision No. 49 of 2023 on Specifying the Categories of Businesses or Business Activities Conducted by a Resident or Non-Resident Natural Person that Are Subject to Corporate Tax is referred to as “Cabinet Decision No. 49 of 2023”;
- Cabinet Decision No. 55 of 2023 on Determining Qualifying Income for the Qualifying Free Zone Person for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 55 of 2023”;
- Cabinet Decision No. 56 of 2023 on Determination of a Non-Resident Person’s Nexus in the State for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 56 of 2023”;
- Cabinet Decision No. 75 of 2023 on the Administrative Penalties for Violations Related to the Application of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 75 of 2023”;
- Cabinet Decision No. 81 of 2023 on Conditions for Qualifying Investment Funds for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 81 of 2023”
- Ministerial Decision No. 43 of 2023 Concerning Exception from Tax Registration for the Purpose of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 43 of 2023”;
- Ministerial Decision No. 68 of 2023 on the Treatment of all Businesses and Business Activities Conducted by a Government Entity as a Single Taxable Person is referred to as “Ministerial Decision No. 68 of 2023”;
- Ministerial Decision No. 73 of 2023 on Small Business Relief for the Purposes of the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 73 of 2023”;
- Ministerial Decision No. 82 of 2023 on the Determination of Categories of Taxable Persons Required to Prepare and Maintain Audited Financial Statements for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 82 of 2023”;
- Ministerial Decision No. 83 of 2023 on the Determination of the Conditions under which the Presence of a Natural Person in the State would not Create a Permanent Establishment for a Non-Resident Person for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 83 of 2023”;
- Ministerial Decision No. 97 of 2023 on Requirements for Maintaining Transfer Pricing Documentation for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 97 of 2023”



- Ministerial Decision No. 105 of 2023 on the Determination of the Conditions under which a Person may Continue to be Deemed as an Exempt Person, or Cease to be Deemed as an Exempt Person from a Different Date for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 105 of 2023”;
- Ministerial Decision No. 114 of 2023 on the Accounting Standards and Methods for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 114 of 2023”;
- Ministerial Decision No.115 of 2023 on Private Pension Funds and Private Social Security Funds for the Purposes of Federal Decree-Law No. 47 of 2022 is referred to as “Ministerial Decision No.115 of 2023”;
- Ministerial Decision No. 116 of 2023 on the Participation Exemption for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 116 of 2023”;
- Ministerial Decision No. 120 of 2023 on the Adjustments Under the Transitional Rules for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 120 of 2023”;
- Ministerial Decision No. 125 of 2023 on Tax Group for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 125 of 2023”;
- Ministerial Decision No. 126 of 2023 on the General Interest Deduction Limitation Rule for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 126 of 2023”;
- Ministerial Decision No. 127 of 2023 on Unincorporated Partnership, Foreign Partnership and Family Foundation for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No.127 of 2023”;
- Ministerial Decision No. 132 of 2023 on Transfers Within a Qualifying Group for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 132 of 2023”;
- Ministerial Decision No. 133 of 2023 on Business Restructuring Relief for the Purposes of Federal Decree Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 133 of 2023”;
- Ministerial Decision No.134 of 2023 on the General Rules for Determining Taxable Income for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 134 of 2023”;



- Ministerial Decision No. 139 of 2023 Regarding Qualifying Activities and Excluded Activities for the Purposes of Federal Decree Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 139 of 2023”;
- Federal Tax Authority Decision No. 5 of 2023 on Conditions for Change in Tax Period for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 5 of 2023”;
- Federal Tax Authority Decision No. 6 of 2023 on Tax Deregistration Timeline for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 6 of 2023”; and
- Federal Tax Authority Decision No. 7 of 2023 on Provisions of Exemption from Corporate Tax for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 7 of 2023”.

## 2.6. Status of this guide

This guidance is not a legally binding document, but is intended to provide assistance in understanding the provisions relating to the Corporate Tax regime in the UAE. The information provided in this guide should not be interpreted as legal or tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every case. It is based on the legislation as it stood when the guide was published. Each person’s own specific circumstances should be considered.

The Corporate Tax Law, the implementing decisions and the guidance materials referred to in this document will set out the principles and rules that govern the application of Corporate Tax. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.

## 3. Getting Additional Help

### 3.1. Government support channels

The UAE government has made a range of resources available to help the public understand and comply with the Corporate Tax regime. Readers of this guide may find it helpful to refer to the following sources for additional information:

- Ministry of Finance website
- FTA website
- Corporate Tax Law
- Explanatory Guide on Corporate Tax Law
- Corporate Tax FAQs
- Corporate Tax Law Implementing Decisions on the Ministry of Finance and FTA websites
- Corporate Tax FTA Decisions on the FTA website



## 4. What is Corporate Tax?

### 4.1. Chapter summary

This chapter sets out a brief overview of the core principles of Corporate Tax and how the Corporate Tax system functions as a whole. This provides a foundation for the information given in the following chapters.

### 4.2. What is Corporate Tax?

Corporate Tax is a form of direct tax levied on the Taxable Income of corporations and other Businesses. Corporate Tax is sometimes also referred to as 'Corporate Income Tax' or 'Business Profits Tax' in other jurisdictions.

Corporate Tax is charged on a wide range of Business profits, and those subject to Corporate Tax in the UAE include not only companies but also certain partnerships, unincorporated entities and natural persons conducting a Business or Business Activities.

Corporate Tax is paid on an annual basis with reference to the Tax Period of a Taxable Person. A Tax Period is the Financial Year or part thereof for which a Tax Return needs to be filed. The Financial Year is the period of 12 months for which Financial Statements are prepared.<sup>1</sup> Payment of Corporate Tax is due within nine months from the end of the applicable Tax Period.<sup>2</sup>

The UAE Corporate Tax regime applies to Tax Periods commencing on or after 1 June 2023.<sup>3</sup>

### 4.3. How does Corporate Tax work?

Taxable Persons are subject to Corporate Tax on their Taxable Income - this is their Accounting Income with certain adjustments made for Corporate Tax purposes.

Generally, Corporate Tax is imposed on Taxable Income at the following rates:

- 0% (zero percent) on the portion of the Taxable Income not exceeding AED 375,000.

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<sup>1</sup> Article 57 of the Corporate Tax Law.

<sup>2</sup> Article 48 of the Corporate Tax Law.

<sup>3</sup> Article 69 of the Corporate Tax Law.



- 9% (nine percent) on the portion of the Taxable Income exceeding AED 375,000.

### Example 1: Calculation of Corporate Tax

A LLC is a company incorporated in the UAE. In the Tax Period ending March 2025, A LLC generated Revenue of AED 8 million and incurred expenses of AED 2 million, resulting in a net profit of AED 6 million per its Financial Statements.

A LLC's Taxable Income for its Tax Period will be the accounting net profit (or loss) of the business, after making tax adjustments for certain items specified in the Corporate Tax Law. For the purposes of this example, A LLC does not need to make any tax adjustments, thus its Taxable Income will be AED 6 million for the Tax Period.

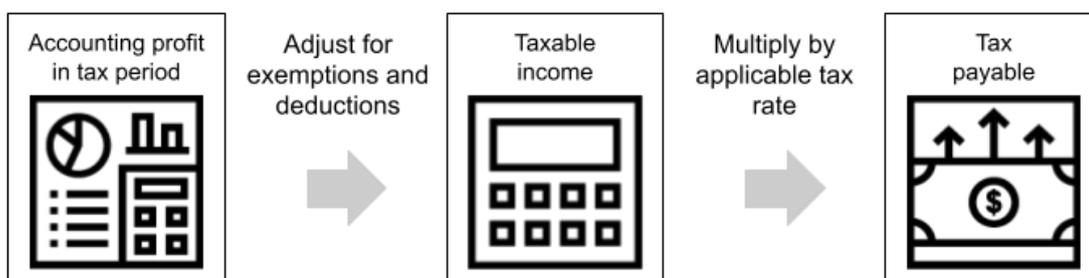
A LLC's Corporate Tax liability will be calculated as follows:

- The first AED 375,000 of Taxable Income will be subject to Corporate Tax at 0%:  
 $\text{AED } 375,000 \times 0\% = \text{AED } 0$
- The portion of the Taxable income exceeding AED 375,000 will be subject to Corporate Tax at 9%:  
 $(\text{AED } 6,000,000 - \text{AED } 375,000) \times 9\% = \text{AED } 5,625,000 \times 9\% = \text{AED } 506,250$

A LLC's UAE Corporate Tax liability for the Tax Period will be AED 506,250.

In order to calculate its UAE Corporate Tax payable, A LLC will need to consider if there are any available tax credits to reduce its UAE Corporate Tax liability (see Section [9.3](#)).

### Corporate Tax for Taxable Persons



Specific rules cover the identification of Taxable Persons subject to Corporate Tax (see Section [5](#)). The rules cover all companies and other legal entities (i.e. juridical persons) as well as individuals (i.e. natural persons) conducting a Business or Business Activity. As the UAE does not have an equivalent tax on the income of natural persons, this approach is intended to provide for a level playing field on the tax



treatment between incorporated businesses and unincorporated businesses undertaken by natural persons.

Employment income and other specific types of income earned by natural persons based in the UAE and natural persons based in foreign jurisdictions, are not within the scope of the UAE Corporate Tax regime (see Section [5.3.3](#)).

Both incorporated and unincorporated businesses, including businesses operated by natural persons, can potentially benefit from small business relief if they meet the relevant requirements. This means that these businesses would not need to pay Corporate Tax (see Section [7.2](#)) but they will be required to meet the compliance obligations provided for in the Corporate Tax Law for each Tax Period. This includes the obligation to register for Corporate Tax purposes, file a Tax Return and retain all relevant documents and records to support their Corporate Tax filings.

Provided that the relevant conditions are met, certain categories of Persons, known as Exempt Persons, are exempt from Corporate Tax, notably:

- Persons that are part of, or operate under the ownership and control of, the Federal Government or the Local Governments of the UAE;
- certain entities that are established for specific public welfare or social aims, such as certain public benefit entities;
- oil and gas and other Natural Resource activities that are taxed at the Emirate-level; and
- certain pensions or social security funds and investment funds.

Further details on Exempt Persons and the relevant qualifying conditions can be found in Section [5.7](#).

Taxable Persons must calculate their Taxable Income on an annual basis using their accounting net profit or loss for the relevant period as set out in their Financial Statements (i.e. their Accounting Income) as the starting point for this calculation. A number of adjustments should be applied to exclude specific Exempt Income, or to limit the amount of deductions available on expenditure (see Chapter [6](#)).

The Corporate Tax regime also provides for the carry-forward and transfer of available Tax Losses (see Section [6.7](#)), and requires Taxable Persons to specifically account for transactions with Related Parties and Connected Persons using the arm's length principle (see Section [6.6](#)).



A 0% rate of Corporate Tax applies to Qualifying Income earned by certain Free Zone entities (known as Qualifying Free Zone Persons). Further details can be found in Section [5.5](#) and Section [9.2.2](#).

The Corporate Tax regime also includes targeted reliefs designed to allow certain intra-group transactions to be undertaken without giving rise to a Corporate Tax liability. These are set out in Chapter [7](#).

Where Persons conduct Business together, either as groups of companies related by ownership, or as partnerships, special rules may apply for the calculation and payment of Corporate Tax. These are set out in Chapter [8](#).

Taxable Persons are required to self-assess their Corporate Tax liabilities by submitting a Tax Return on an annual basis and to pay the Corporate Tax liability to the FTA. Tax Returns must be filed and payments made within nine months from the end of the Taxable Person's Tax Period (see Section [10.5](#)).

Other key aspects of the administration of Corporate Tax are set out in Chapter [10](#).



## 5. Who is subject to Corporate Tax?

### 5.1. Chapter summary

This chapter provides an overview of who is subject to Corporate Tax and who is specifically exempted. The chapter sets out the types of Persons that are subject to Corporate Tax and the activities that are within scope of the tax. It covers the main exemptions that apply to certain types of entities, such as Government Entities or Qualifying Public Benefit Entities. It also sets out treatments that apply to Free Zone businesses, and Family Foundations.

### 5.2. Taxable Persons

Persons subject to Corporate Tax are known as Taxable Persons.<sup>4</sup> Taxable Persons are either Resident Persons or Non-Resident Persons as defined under Article 11 of the Corporate Tax Law.<sup>5</sup>

In broad terms, Corporate Tax applies to:

- Juridical persons (such as corporations) that are incorporated in the UAE or foreign juridical persons that are effectively managed and controlled in the UAE (see Section [5.3.1](#));<sup>6</sup>
- Non-resident juridical persons (foreign juridical entities) that have a Permanent Establishment in the UAE (see Section [5.4.1](#));<sup>7</sup>
- Non-Resident Persons deriving State Sourced Income (see Section [5.4.3](#));<sup>8</sup>
- Non-resident juridical persons that have a 'nexus' in the UAE by virtue of earning income from Immovable Property in the UAE (see Section [5.4.4](#));<sup>9</sup> and
- Natural persons who conduct Business or Business Activities in the UAE and have a Turnover of over AED 1,000,000 per Gregorian calendar year from such Business or Business Activities (see Section [5.3.3](#)).<sup>10</sup>

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<sup>4</sup> Article 1 of the Corporate Tax Law.

<sup>5</sup> Article 11(2) of the Corporate Tax Law.

<sup>6</sup> Article 11(3)(a) and 11(3)(b) of the Corporate Tax Law.

<sup>7</sup> Article 11(4)(a) of the Corporate Tax Law.

<sup>8</sup> Article 11(4)(b) of the Corporate Tax Law.

<sup>9</sup> Article 11(4)(c) of the Corporate Tax Law and Cabinet Decision No. 56 of 2023.

<sup>10</sup> Article 11(3)(c) and 11(6) of the Corporate Tax Law and Article 2(1) of Cabinet Decision No. 49 of 2023.



### 5.3. Resident Taxable Persons

There are specific rules for determining whether natural persons and juridical persons are Resident Persons for Corporate Tax purposes.

#### 5.3.1. Resident juridical persons

A juridical person refers to an entity incorporated or otherwise established or recognised under the laws and regulations of the UAE, or under the laws of a foreign jurisdiction, that has a legal personality separate from its founders, owners and directors. Separate legal personality means that the entity has its own rights, obligations and liabilities distinct from its founders or owners.

A juridical person is a Resident Person for the purposes of Corporate Tax if it is either:

- incorporated or otherwise established or recognised in the UAE (this includes juridical persons incorporated, established or otherwise registered in Free Zones);<sup>11</sup> or
- incorporated or otherwise established or recognised outside the UAE but is effectively managed and controlled in the UAE.<sup>12</sup>

Examples of juridical persons that are incorporated or otherwise established or recognised in the UAE include Joint Liability Companies, Limited Partnership Companies, Limited Liability Companies (LLCs), Public Joint Stock Companies (PJSCs), Private Joint Stock Companies (PJSCs), foundations, trusts that have been established under the UAE mainland legislation, and other entity forms that have a separate legal personality under the applicable UAE mainland legislation or Free Zone regulations. UAE branches of a domestic or foreign juridical person are regarded as an extension of their head office and, therefore, are not considered separate juridical persons.<sup>13</sup>

#### 5.3.2. Effective management and control

Determining residence for Corporate Tax purposes solely on the basis of place of incorporation may not reflect the economic reality of where the business is actually managed or controlled. Accordingly, determination of residence for Corporate Tax purposes will take into account whether the juridical person incorporated or otherwise recognised in a foreign jurisdiction is effectively managed and controlled in the UAE,

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<sup>11</sup> Article 11(3)(a) of the Corporate Tax Law.

<sup>12</sup> Article 11(3)(b) of the Corporate Tax Law.

<sup>13</sup> Article 11(5) of the Corporate Tax Law.



in line with tax regimes in other countries that apply the concepts of “central management and control” and “place of effective management” rules for this same purpose.

Whether a juridical person is effectively managed and controlled in the UAE needs to be determined with regard to the specific facts and circumstances of the juridical person and its activities. A key factor is where key management and commercial decisions that are necessary for the conduct of the juridical person’s Business are in substance made. This could be the place where the highest level of decisions that are essential for the management of the juridical person are made, or where decisions that play a leading part in the management of a company from an economic and functional perspective are made. Typically, this will be where a company’s board of directors (or any equivalent body for other types of juridical persons) makes these decisions.

However, depending on the specific facts and circumstances, other factors such as where the controlling shareholders make decisions, the location of another Person or body to which the board has delegated its decision-making powers, or the location where the board members or executive management of the juridical person reside may also need to be considered. It is important to note that there can only be one place of effective management and control at any one time.

For a juridical person to be considered effectively managed and controlled in the UAE, it is not necessary for its board members (or equivalent) to be resident in the UAE.

#### **Example 2: Juridical person effectively managed and controlled in the UAE**

C Ltd is a limited company registered in a foreign jurisdiction.

C Ltd is mainly owned by an individual who resides in the UAE (Mr D). C Ltd’s annual board meetings are held outside of the UAE, in the country where the company is registered. These meetings are attended by local directors whose only involvement in the company is attending such meetings.

The local directors do not receive information that would enable them to reasonably reach commercial decisions and they always follow the suggestions of Mr D. Mr D provides these suggestions remotely from his home in the UAE.

Based on these facts, it is likely that C Ltd is effectively managed and controlled from the UAE, as the local directors simply agree with all suggestions made by Mr D, and Mr D provides such suggestions from the UAE.



### 5.3.3. Resident natural persons

Residence for Corporate Tax purposes is not determined by where a natural person resides or is domiciled. For natural persons, residence for Corporate Tax purposes is concerned with the person's business connection to the UAE. It is this connection, rather than other factors such as nationality or where a person is physically present, that gives the UAE the powers to levy Corporate Tax on an individual's Business or Business Activity.

This approach means, for example, that natural persons conducting Businesses or Business Activities in the UAE are Resident Persons for Corporate Tax irrespective of their nationality, whether they hold a residency visa in the UAE, whether their income is sourced in the UAE or from abroad, or how much time they may physically spend in the UAE.

Specifically, Corporate Tax only applies to natural persons who are engaged in Businesses or Business Activities in the UAE and earn Turnover from these Businesses or Business Activities in excess of AED 1,000,000 in a Gregorian calendar year.<sup>14</sup> This includes sole establishments and individual partners in Unincorporated Partnerships that conduct a Business or Business Activity in the UAE (see Section [8.2.1](#)). A sole establishment is a trading Business owned by a natural person, where the proprietor is not separate from the Business. This is because of the direct relationship and control of the natural person over the Business and their unlimited liability for the Business' debts and other obligations. In such case the natural person trades in his own name instead of through a separate legal entity.

Business is defined as any economic activity, whether continuous or for a set period of time, conducted by any Person.<sup>15</sup> It is implied in the definition that the activity is conducted with the intention of generating profits, and that some system and organisation exist for the activity conducted. However, a Business or Business Activity does not necessarily need to make a profit.

The definition includes any industrial, commercial, agricultural, vocational, professional or service activity, excavation activity and any other activity of an independent character related to the use of tangible and intangible property. This should be interpreted broadly to include any activity related to the development, sale, production, manufacturing, exploitation, marketing or distribution of physical and intangible properties.

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<sup>14</sup> Article 11(3)(c) of the Corporate Tax Law and Article 2(1) of Cabinet Decision No. 49 of 2023.

<sup>15</sup> Article 1 of the Corporate Tax Law.



The term “vocational” is to be interpreted as a skilled craft or trade, and “profession” is an occupation in which skill is applied to the affairs of others to meet their needs. Common examples of professional activities include accountancy, consulting, architecture, medical and legal services.

Whilst Business includes vocational, commercial, industrial and professional activities, it does not include employment, and Corporate Tax does not apply to a natural person’s salary, wages and other employment income. It also does not include income from Personal Investments and Real Estate Investments.<sup>16</sup>

In this regard, Personal Investments are activities that a natural person undertakes in their personal capacity and not through a Licence (or not required to be undertaken through a Licence), and the activities are not considered a commercial business under Federal Decree-Law No. 50 of 2022 issuing the Commercial Transactions Law.<sup>17</sup>

Real Estate Investments are activities undertaken by an individual in relation to the direct or indirect sale, lease, sub-lease and rental of land or real estate property in the UAE that are not conducted through a Licence (or are not required to be conducted through a Licence).<sup>18</sup>

Although a Business is typically carried on continuously and there is repetition of commercial activity, the definition allows for a short-term commercial activity to be considered a Business for Corporate Tax purposes.

For further details on taxable Business or Business Activities for natural Persons, readers are advised to consult Cabinet Decision No. 49 of 2023 on Specifying the Categories of Businesses or Business Activities Conducted by a Resident or Non-Resident Natural Person that are Subject to Corporate Tax.

#### **5.3.4. Impact of Double Taxation Agreements on Resident Taxable Persons**

In some cases, due to cross-border activities, a Person may be resident for Corporate Tax purposes in more than one jurisdiction. For example, a company may be incorporated in one jurisdiction but effectively managed and controlled in another. If these criteria are used, as in the UAE, to determine the tax residence of a juridical person, this company would be tax resident in both jurisdictions.

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<sup>16</sup> Article 2(2) of Cabinet Decision No. 49 of 2023.

<sup>17</sup> Article 1 of Cabinet Decision No. 49 of 2023.

<sup>18</sup> Article 1 of Cabinet Decision No. 49 of 2023.



In instances where there is an in-force Double Taxation Agreement between the UAE and that other jurisdiction, this agreement will, in general, contain provisions to determine where that Person would be considered as resident. These provisions take precedence over the treatment under the Corporate Tax Law and its implementing decisions.<sup>19</sup>

In general, Double Taxation Agreements include rules to solve dual residence situations for juridical persons either based on the place of effective management criterion or through the mutual agreement procedure.

#### **5.4. Non-Resident Taxable Persons**

A juridical person is subject to Corporate Tax if it is not a Resident Person under the conditions above, but either:

- has a Permanent Establishment in the UAE; or<sup>20</sup>
- derives State Sourced Income (subject to a 0% Withholding Tax); or<sup>21</sup>
- earns income from Immovable Property in the UAE.<sup>22</sup>

##### **5.4.1. Non-Resident Person with a Permanent Establishment in the UAE**

The concept of a Permanent Establishment is used in tax regimes across the world to determine if and when a foreign juridical person has established sufficient presence in a country to warrant the direct taxation of their profits in that country. Generally, a country only has the right to tax the profits of a foreign business if that business has a Permanent Establishment in that country.

A Non-Resident Person may have a Permanent Establishment in the UAE if:

- they conduct a Business through a fixed or permanent place in the UAE.<sup>23</sup> This could for example include an office, a factory or a building site lasting for more than 6 months where the Business is wholly or partly conducted; or
- another Person has and habitually exercises an authority to conduct a Business or Business Activity in the UAE on behalf of the Non-Resident Person.<sup>24</sup> This includes situations where the Person concludes contracts in the UAE on behalf of the Non-Resident Person or negotiates contracts without the need for any

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<sup>19</sup> Article 66 of the Corporate Tax Law.

<sup>20</sup> Article 11(4)(a) of the Corporate Tax Law.

<sup>21</sup> Article 11(4)(b) of the Corporate Tax Law.

<sup>22</sup> Article 11(4)(c) of the Corporate Tax Law and Article 2(1) of Cabinet Decision No. 56 of 2023.

<sup>23</sup> Article 14(1)(a) of the Corporate Tax Law.

<sup>24</sup> Article 14(1)(b) of the Corporate Tax Law.



material modification by the Non-Resident Person. For example, where a Business regularly sends out sales representatives to the UAE who agree and sign contracts in the UAE.<sup>25</sup>

#### 5.4.2. Preparatory and auxiliary activities

A Non-Resident Person is not considered to have a Permanent Establishment in the UAE if the activities conducted through the fixed place of business are of a preparatory and auxiliary nature.<sup>26</sup> For the purpose of assessing whether the activities of a Non-Resident Person are of a preparatory and auxiliary nature, the mere physical presence of a natural person in the UAE will not automatically create a Permanent Establishment for a Non-Resident Person. The circumstances in which the physical presence of a natural person would not result in a Permanent Establishment include where such presence is a consequence of a temporary and exceptional situation.<sup>27</sup>

The presence of a natural Person in the UAE shall be considered a consequence of a temporary and exceptional situation where all of the following conditions are met:<sup>28</sup>

- The presence of the natural person in the UAE is a consequence of exceptional circumstances of a public or private nature.
- The exceptional circumstances cannot reasonably be predicted by the natural person or the Non-Resident Person.
- The natural person did not express any intention to remain in the UAE when the exceptional circumstances end.
- The Non-Resident Person does not have a Permanent Establishment in the UAE before the occurrence of the exceptional circumstances.
- The Non-Resident Person did not consider that the natural person is creating a Permanent Establishment or deriving income in the UAE as per the tax legislation applicable in other jurisdictions.

#### 5.4.3. Non-Resident Person that derives State Sourced Income

Any Person that is a Non-Resident Person and receives State Sourced Income is subject to Corporate Tax on this income by way of Withholding Tax if the income is not attributable to a Permanent Establishment of the Non-Resident Person in the UAE.<sup>29</sup>

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<sup>25</sup> Article 14(5) of the Corporate Tax Law.

<sup>26</sup> Article 14(3)(d) of the Corporate Tax Law.

<sup>27</sup> Article 14(7)(a) of the Corporate Tax Law.

<sup>28</sup> Article 2(1) of Ministerial Decision No. 83 of 2023.

<sup>29</sup> Article 12(3)(b) of the Corporate Tax Law.



Income is considered to be State Sourced if:

- it is derived from a Resident Person;<sup>30</sup> or
- it is derived from a Non-Resident Person in connection with the Non-Resident Person's Permanent Establishment in the UAE;<sup>31</sup> or
- it is derived from activities or contracts performed in the UAE, assets located in the UAE, capital invested, rights used, or services performed or benefitted from in the UAE.<sup>32</sup>

State Sourced Income may include:

- income from the sale of goods in the UAE;<sup>33</sup>
- income from movable or Immovable Property in the UAE;<sup>34</sup> or
- income from the disposal of shares of a Resident Person.<sup>35</sup>

In instances where a Non-Resident Person earns State Sourced Income only and where this income is not attributable to a Permanent Establishment in the UAE, the income is currently subject to a 0% Withholding Tax. Practically, this means no Corporate Tax liability arises in this situation.

#### **5.4.4. Non-resident juridical person that has a nexus in the UAE (derives income from UAE Immovable Property)**

Corporate Tax is also applicable when there is a nexus between a Non-Resident juridical person and the UAE. The nexus is the connecting link for Corporate Tax purposes.

Cabinet Decision No. 56 of 2023 specifies that when any Non-Resident juridical person earns income from Immovable Property in the UAE, the Non-Resident juridical person will have a nexus in the UAE.<sup>36</sup> As a result, Non-Resident juridical persons are subject to Corporate Tax on income attributable to the Immovable Property in the UAE.<sup>37</sup>

Immovable Property includes rights over areas of land, buildings, structures, or engineering work permanently attached to land or seabed, or any fixture or equipment

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<sup>30</sup> Article 13(1)(a) of the Corporate Tax Law.

<sup>31</sup> Article 13(1)(b) of the Corporate Tax Law.

<sup>32</sup> Article 13(1)(c) of the Corporate Tax Law.

<sup>33</sup> Article 13(2)(a) of the Corporate Tax Law.

<sup>34</sup> Article 13(2)(d) of the Corporate Tax Law.

<sup>35</sup> Article 13(2)(e) of the Corporate Tax Law.

<sup>36</sup> Article 2(1) of Cabinet Decision No. 56 of 2023.

<sup>37</sup> Article 12(3)(c) of the Corporate Tax Law.



which makes up a permanent part of the land or is permanently attached to a building, structure, engineering work or seabed.<sup>38</sup> Taxable Income attributable to Immovable Property includes income derived from a right in rem, sale, disposal, assignment, direct use, letting (including subletting) and any other form of exploitation of Immovable Property.<sup>39</sup>

#### **5.4.5. Impact of Double Taxation Agreements on Non-Resident Taxable Persons**

In some situations, related to cross-border activities, double taxation may occur due to the overlap in the taxing rights claimed by different jurisdictions.

The definition of Permanent Establishment in the Corporate Tax Law generally follows the principles provided in Article 5 of the OECD Model Tax Convention on Income and Capital. A Non-Resident Person may need to consider these principles and the relevant provisions of any Double Taxation Agreement between the country of residence of the Non-Resident Person and the UAE, in their assessment of whether they have a Permanent Establishment in the UAE.

If a Non-Resident Person has a Permanent Establishment in the UAE under a specific Double Taxation Agreement, the primary taxing rights on the income earned from the activity of the Permanent Establishment will be allocated to the UAE, as the source State. However, each case will need to be determined considering the nature of the Business of the Non-Resident Person and its own facts and circumstances, as well as the terms of the applicable Double Taxation Agreement.

In instances where the terms of a Double Taxation Agreement are inconsistent with the provisions of the Corporate Tax Law, the terms of the Double Taxation Agreement would prevail.<sup>40</sup>

#### **5.5. Free Zone Persons**

When a Free Zone Person meets certain conditions, it will be considered as a Qualifying Free Zone Person and is eligible for a 0% Corporate Tax rate on its Qualifying Income.<sup>41</sup> The 0% Corporate Tax rate is available to Qualifying Free Zone

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<sup>38</sup> Article 1 of Cabinet Decision No. 56 of 2023.

<sup>39</sup> Article 2(2) of Cabinet Decision No. 56 of 2023.

<sup>40</sup> Article 66 of the Corporate Tax Law.

<sup>41</sup> Article 3(2)(a) of the Corporate Tax Law.



Persons until the expiry of the tax incentive period provided for in the legislation of the relevant Free Zone (unless renewed).<sup>42</sup>

In order to be considered as a Qualifying Free Zone Person, a Free Zone Person must meet the following requirements:

- derive Qualifying Income from relevant transactions (see Section [5.5.1](#));<sup>43</sup>
- maintain adequate substance in the UAE (see Section [5.5.4](#));<sup>44</sup>
- satisfy the de minimis requirement (see Section [5.5.5](#));<sup>45</sup>
- have not elected to be subject to Corporate Tax (see Section [5.5.6](#));<sup>46</sup>
- comply with the transfer pricing rules and documentation requirements under the Corporate Tax Law;<sup>47</sup> and
- prepare and maintain audited Financial Statements for the purposes of the Corporate Tax Law.<sup>48</sup>

The Minister may prescribe additional conditions to be met by a Free Zone Person in order to be considered as a Qualifying Free Zone Person.<sup>49</sup>

For further details on the Free Zone Corporate Tax regime, readers are advised to consult Cabinet Decision No. 55 of 2023 on Determining Qualifying Income for the Qualifying Free Zone Person<sup>50</sup> and the Ministerial Decision No. 139 of 2023 Regarding Qualifying Activities and Excluded Activities.<sup>51</sup>

### 5.5.1. Qualifying Income

Qualifying Income is the income that can benefit from the 0% Corporate Tax rate.

Unlike ordinary Taxable Persons, Qualifying Free Zone Persons are not entitled to a 0% rate on their first AED 375,000 of Taxable Income that is not considered as Qualifying Income. Therefore, any Taxable Income that is not Qualifying Income will be taxed at the general rate of 9% (see Section [9.2.2](#)).

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<sup>42</sup> Article 18(4) of the Corporate Tax Law.

<sup>43</sup> Article 18(1)(b) of the Corporate Tax Law and Article 3 of Cabinet Decision No. 55 of 2023.

<sup>44</sup> Article 18(1)(a) of the Corporate Tax Law

<sup>45</sup> Article 4 of Ministerial Decision No. 139 of 2023.

<sup>46</sup> Article 18(1)(c) of the Corporate Tax Law.

<sup>47</sup> Article 18(1)(d) of the Corporate Tax Law.

<sup>48</sup> Article 5(1)(b) of Ministerial Decision No. 139 of 2023.

<sup>49</sup> Article 18(1)(e) of the Corporate Tax Law.

<sup>50</sup> Cabinet Decision No. 55 of 2023.

<sup>51</sup> Ministerial Decision No. 139 of 2023.



Qualifying Income includes:<sup>52</sup>

- Income derived from transactions with other Free Zone Persons, except for income derived from Excluded Activities;<sup>53</sup>
- Income derived from transactions with any Non-Free Zone Person, domestic and foreign, only in the case of Qualifying Activities that are not Excluded Activities; and
- Any other income where the de minimis requirement is satisfied.

For further details on Qualifying Income, readers are advised to consult Cabinet Decision No. 55 of 2023 on Determining Qualifying Income for the Qualifying Free Zone Person and Ministerial Decision No. 139 of 2023 Regarding Qualifying Activities and Excluded Activities.

### 5.5.2. Excluded Activities

Qualifying Income does not include income derived from Excluded Activities.<sup>54</sup> The Excluded Activities are listed in Ministerial Decision No. 139 of 2023 Regarding Qualifying Activities and Excluded Activities, and include:<sup>55</sup>

- Transactions with natural persons, except in relation to certain Qualifying Activities;
- Banking, insurance, finance and leasing activities that are subject to the relevant regulatory oversight of the relevant competent authority in the UAE, except for certain exceptions;
- Ownership or exploitation of UAE immovable property, other than Commercial Property located in a Free Zone provided such activity in relation to Immovable Property located in a Free Zone is conducted with other Free Zone Persons;
- Ownership or exploitation of intellectual property assets; and
- Activities that are ancillary (which serve no independent function) to the above activities.

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<sup>52</sup> Article 3(1) of Cabinet Decision No. 55 of 2023.

<sup>53</sup> Article 3 of Ministerial Decision No. 139 of 2023.

<sup>54</sup> Article 3(1)(a) and (b) of Cabinet Decision No. 55 of 2023.

<sup>55</sup> Article 3 of Ministerial Decision No. 139 of 2023.



### 5.5.3. Qualifying Activities

Qualifying Income includes income derived from transactions with Non-Free Zone Persons only in respect of Qualifying Activities.<sup>56</sup> These activities are defined in Ministerial Decision No. 139 of 2023, and include:<sup>57</sup>

- Manufacturing of goods or materials;
- Processing of goods or materials;
- Holding of shares and other securities;
- Ownership, management and operation of Ships;
- Reinsurance services subject to the regulatory oversight of the relevant competent authority in the UAE;
- Fund management services subject to the regulatory oversight by the relevant competent authority in the UAE;
- Wealth and investment management services subject to the regulatory oversight by the relevant competent authority in the UAE;
- Headquarter services to Related Parties;
- Treasury and financing services to Related Parties;
- Financing and leasing of Aircraft, including engines and rotatable components;
- Distribution of goods or materials in or from a Designated Zone to a customer that resells such goods or materials, or parts thereof or processes or alters such goods or materials or parts thereof for the purposes of sale or resale;
- Logistics services; and
- Any ancillary activities (which serve no independent function) to the above activities.

### 5.5.4. Adequate substance requirements

To meet the adequate substance requirements, a Free Zone Person must have their core-income generating activities (e.g. the activities that are of central importance) performed within the Free Zone, these can be undertaken by the Free Zone Person or outsourced to a Related Party or third party who is located in a Free Zone. The Qualifying Free Zone Person must also have adequate supervision over any activities that are outsourced to a Free Zone Related Party or third party.<sup>58</sup>

The Qualifying Free Zone Person (or its outsourced party) must be able to demonstrate that it has adequate staff and assets, and that it incurs adequate operating expenditures within the Free Zone.

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<sup>56</sup> Article 3(1)(b) of Cabinet Decision No. 55 of 2023.

<sup>57</sup> Article 2 of Ministerial Decision No. 139 of 2023.

<sup>58</sup> Article 7 of Cabinet Decision No. 55 of 2023.



As businesses vary, 'adequate substance' is determined on a case-by-case basis, following the test criteria. This may include the number of qualified full-time employees, adequate operating expenditure and physical assets. In any case, the analysis also takes into account the nature and level of activities performed by the Qualifying Free Zone Person, the Qualifying Income earned, and any other relevant facts and circumstances.

#### 5.5.5. The de minimis requirement

For a Free Zone Person to be a Qualifying Free Zone Person, the de minimis requirements must be met.<sup>59</sup>

The de minimis requirements are met where the non-qualifying Revenue in a Tax Period does not exceed the lower of:<sup>60</sup>

- AED 5,000,000; and
- 5% of total Revenue (calculated as total amount of non-qualifying Revenue ÷ total Revenue).

The de minimis requirement allows a Qualifying Free Zone Person to earn a small or incidental amount of non-qualifying Income without being disqualified from the Free Zone Corporate Tax regime.<sup>61</sup> Where the requirement has been met, income that does not fulfil the first two categories of Qualifying Income (see Section [5.5.1](#)) will be treated as Qualifying Income.<sup>62</sup>

The total amount of non-qualifying Revenue as well as the amount of total Revenue (for the second limb of the de minimis requirement) are adjusted for by removing the following Revenues:

- Revenue attributable to a domestic or foreign Permanent Establishment of the Qualifying Free Zone Person;<sup>63</sup> and
- Revenue attributable to the following transactions:
  - Transactions with Non-Free Zone Persons in respect of Commercial Property located in a Free Zone;<sup>64</sup> and

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<sup>59</sup> Article 5(1)(a) of Ministerial Decision No. 139 of 2023.

<sup>60</sup> Article 4 of Ministerial Decision No. 139 of 2023.

<sup>61</sup> Article 4 of Cabinet Decision No. 55 of 2023.

<sup>62</sup> Article 3(1)(c) of Cabinet Decision No. 55 of 2023.

<sup>63</sup> Article 4(3)(b) of Cabinet Decision No. 55 of 2023.

<sup>64</sup> Article 4(3)(a)(1) of Cabinet Decision No. 55 of 2023.



- Transactions with any Persons in respect of Immovable Property that is not Commercial Property located in a Free Zone.<sup>65</sup>

### 5.5.6. Election to be taxed at the general rates of Corporate Tax

A Qualifying Free Zone Person can elect to be taxed at the general rates of Corporate Tax.<sup>66</sup> The election will be effective from either the commencement of the Tax Period in which the election is made, or the commencement of the following Tax Period and for the following four Tax Periods, after which the election can be made again.<sup>67</sup>

In addition, if a Qualifying Free Zone Person fails to meet any of the conditions above at any particular time during a Tax Period, it will cease to be eligible for the 0% Corporate Tax rate from the beginning of that Tax Period and will be taxed at the general rates of Corporate Tax for five Tax Periods starting with the Tax Period in which the conditions have not been met.<sup>68</sup>

A Free Zone Person that makes an election to be taxed at the general rates of Corporate Tax will cease to be, or not become, a Qualifying Free Zone Person, as they no longer satisfy the conditions. As a result, restrictions from applying certain provisions of the Corporate Tax Law will no longer apply. This means, for example, that the Free Zone Person can become a member of a Tax Group or elect for the small business relief subject to meeting the relevant conditions.

#### **Example 3: Excluded Activity**

E LLC is a Free Zone Person, and generates all of its income from leasing a property which is not located in a Free Zone. As this is Revenue from an Excluded Activity, this income is not Qualifying Income.

As E LLC only earns non-qualifying Revenue, it will not satisfy the de minimis requirement and, therefore, will not be considered a Qualifying Free Zone Person.

<sup>65</sup> Article 4(3)(a)(2) of Cabinet Decision No. 55 of 2023.

<sup>66</sup> Article 19(1) of the Corporate Tax Law.

<sup>67</sup> Articles 18(1)(c) of the Corporate Tax Law and Article 5(2) of Ministerial Decision No. 139 of 2023.

<sup>68</sup> Article 18(2) of the Corporate Tax Law and Article 5(2) of Ministerial Decision No. 139 of 2023.



#### **Example 4: Qualifying Income**

F LLC and G LLC are both Free Zone Persons. F LLC (a Qualifying Free Zone Person) owns a number of warehouses located in a Free Zone.

During the Tax Period, F LLC sells one of its warehouses to G LLC. As the transaction is between two Free Zone Persons, and the sale relates to Commercial Property in a Free Zone, the income earned on the sale is Qualifying Income and is eligible for the 0% Corporate Tax rate subject to meeting the other relevant requirements.

#### **Example 5: De minimis requirements**

H LLC is a Free Zone Person that sells vehicles to other Free Zone Persons. During the Tax Period it has a total Revenue of AED 80,000,000. H LLC maintains adequate substance in the Free Zone, has not made an election to be subject to UAE Corporate Tax under the general rates, and complies with the transfer pricing rules and other documentation requirements set out in the Corporate Tax Law.

During the Tax Period, it undertakes a small number of transactions with individuals and earns AED 4,500,000 of Revenue. The remaining AED 75,500,000 meets the requirements to be considered as Qualifying Income.

As transactions with individuals are generally Excluded Activities, and Revenue from these sales exceeded the de minimis threshold of AED 4,000,000 (being the lower of 5% of AED 80,000,000 and AED 5,000,000), H LLC will not be eligible to be a Qualifying Free Zone Person.

## **5.6. Family Foundations**

There are a number of different structures that are used to manage personal wealth and investments for asset protection, succession, philanthropic and other reasons. These include, for example, a contractual trust, a private trust company or a foundation to hold and manage personal assets and investments.

Whilst some of these structures and arrangements are by default treated as fiscally transparent for Corporate Tax purposes, some types of trusts and foundations have a separate legal personality, such as foundations established in ADGM or DIFC. These types of entities are treated the same as any other juridical person, with their income being within the scope of Corporate Tax. Where these types of entities are merely used to hold and manage personal assets and wealth on behalf and for the benefit of beneficiaries who are natural persons, this will result in an inconsistent Corporate Tax



treatment compared with if instead the natural persons were to hold and manage the assets directly.

Therefore, entities that are considered as “Family Foundations” for Corporate Tax purposes can, subject to meeting certain conditions, apply to the FTA to be treated as an Unincorporated Partnership (see Section [8.2.1](#)).<sup>69</sup> If the application is approved, the Family Foundation will be treated as tax transparent and the beneficiaries would be seen as directly owning or benefiting from the activities and assets of the Family Foundation. Where the FTA approves this application, the Family Foundation shall be treated as an Unincorporated Partnership effective from the commencement of the Tax Period in which the application is made, or from the commencement of a future Tax Period, or any other date determined by the Authority.

## 5.7. Exempt Persons

### 5.7.1. Types of Exempt Persons

Exemptions from Corporate Tax are provided for particular Persons where there are strong public interest and policy justifications for not subjecting them to tax. These Persons are known as “Exempt Persons”.<sup>70</sup>

Exempt Persons fall into one of four categories:

- Automatically Exempt Persons: Government Entities;
- Exempt if they notify the Ministry of Finance, and meet relevant conditions: Extractive Businesses and Non-Extractive Natural Resource Businesses;
- Exempt if listed in a Cabinet Decision and meet relevant conditions: Government Controlled Entities and Qualifying Public Benefit Entities; and
- Exempt upon application to, and approval by, the FTA:<sup>71</sup>
  - Public and private pension or social security funds;
  - Qualifying Investment Funds;
  - Juridical persons incorporated in the UAE that are wholly owned and controlled by certain Exempt Persons; and
  - Any other Person as may be determined in a decision issued by the Cabinet at the suggestion of the Minister.

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<sup>69</sup> Article 17(1) of the Corporate Tax Law and Article 5 of Ministerial Decision No. 127 of 2023.

<sup>70</sup> Article 4(1) of the Corporate Tax Law.

<sup>71</sup> FTA Decision No. 7 of 2023.



If an Exempt Person no longer meets the criteria for exemption, generally, they cease to be an Exempt Person from the beginning of the Tax Period in which they no longer meet the criteria and will be subject to Corporate Tax on all of their Taxable Income.<sup>72</sup> In certain temporary and unforeseen circumstances, the Person can make an application to the FTA to continue to be treated as an Exempt Person, despite temporarily not meeting the criteria for exemption.<sup>73</sup>

### **5.7.2. Automatically Exempt Persons**

This category covers Government Entities which include the Federal Government, Local Governments, government departments, government agencies, authorities and public institutions of the Federal Government or Local Governments.

Government Entities are essentially considered administrative bodies that carry out government functions under the control of the UAE Federal Government or Emirate-level Governments. It is internationally common for a government to exempt its own activities from taxation, as those activities are generally conducted as part of their governmental and public duties.

Government Entities are exempt automatically, meaning that they do not have to apply to the FTA for exempt status as long as they meet the necessary requirements.<sup>74</sup>

However, a Government Entity shall be subject to Corporate Tax if it conducts a Business or Business Activity under a Licence issued by a Licensing Authority. Any Business or Business Activity conducted by a Government Entity under a Licence issued by a Licensing Authority shall be treated as an independent Business, and the entity will be subject to Corporate Tax in relation to that licensed Business or Business Activity and will be required to register for Corporate Tax.<sup>75</sup>

### **5.7.3. Exempt Persons if they notify the Ministry, and meet relevant conditions**

This category includes both Extractive Businesses and Non-Extractive Natural Resource Businesses. Where these Businesses meet the relevant conditions, they will be exempt from Corporate Tax.<sup>76</sup> Where an Extractive Business or Non-Extractive

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<sup>72</sup> Article 4(5) of the Corporate Tax Law.

<sup>73</sup> Article 4(6)(b) of the Corporate Tax Law and Articles 2, 3 and 4 of Ministerial Decision No. 105 of 2023.

<sup>74</sup> Article 5(1) of the Corporate Tax Law.

<sup>75</sup> Article 5(2) of the Corporate Tax Law.

<sup>76</sup> Article 7(1) and Article 8(1) of the Corporate Tax Law.



Natural Resource Business conducts an independent Business that is not ancillary to its ordinary business and this Business accounts for more than 5% of their total Revenue, it will be required to register with the FTA for Corporate Tax.<sup>77</sup>

The UAE Constitution considers the Natural Resources in each Emirate to be the public property of that Emirate, and Persons engaged in the extraction and exploitation of Natural Resources are typically subject to some form of Emirate-level taxation. Accordingly, if certain conditions are met, Persons engaged in the Extractive Business and/or Non-Extractive Natural Resource Business are exempt from Corporate Tax.

An Extractive Business involves the activity of exploring, extracting, removing or otherwise producing and exploiting Natural Resources;<sup>78</sup> in the context of the Corporate Tax Law, a Non-Extractive Natural Resource Business involves the steps which take a Natural Resource product from its raw, extracted form to its final point of sale.<sup>79</sup>

The rules for Non-Extractive Natural Resource Businesses are similar to those for Extractive Businesses. In each case, a Person is exempt from Corporate Tax if they:

- have a right, concession or Licence issued by a Local Government to undertake their Extractive Business or Non-Extractive Natural Resource Business;<sup>80</sup>
- are effectively subject to tax under the applicable legislation of an Emirate;<sup>81</sup> and
- have notified the Ministry of Finance of their Exempt Person status and their compliance with the applicable conditions.<sup>82</sup>

A Person is considered effectively subject to tax under the applicable legislation of the Emirate if the Local Government imposes a tax on income or profits, a royalty or revenue tax, or any other form of tax, charge, levy or fiscal measures in respect of such Person's Extractive or Non-Extractive Natural Resource Business.<sup>83</sup>

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<sup>77</sup> Article 7(3) and Article 8(3) of the Corporate Tax Law.

<sup>78</sup> In this instance, "Natural Resources" are defined as water, oil, gas, coal, naturally formed minerals and other non-renewable, non-living natural resources that may be extracted from the UAE's Territory. This means renewable resources, such as solar energy, wind, animals, and plant materials are not considered "Natural Resources" for the purpose of assessing whether a Person may be exempt from Corporate Tax under Articles 4(1)(c) or 4(1)(d) of the Corporate Tax Law.

<sup>79</sup> Article 1 of the Corporate Tax Law.

<sup>80</sup> Articles 7(1)(a) and 8(1)(a) of the Corporate Tax Law.

<sup>81</sup> Articles 7(1)(b) and 8(1)(c) of the Corporate Tax Law.

<sup>82</sup> Articles 7(1)(c) and 8(1)(d) of the Corporate Tax Law.

<sup>83</sup> Articles 7(6) and 8(6) of the Corporate Tax Law.



Additionally, a Non-Extractive Natural Resource Business must not derive income from Persons outside of the scope of Corporate Tax (e.g. natural persons who do not undertake a Business or Business Activity).<sup>84</sup> This limits the exemption to Businesses that engage solely in transactions with other businesses, as opposed to with an end customer or consumer.

Thus, if the Person derives income from any person who is not within the scope of the Corporate Tax Law (e.g. natural persons who do not undertake a Business or Business Activity) or from any other Person that is not a business or other organised entity, this exemption from Corporate Tax will not be available.

#### **5.7.4. Exempt if listed in a Cabinet Decision and meet relevant conditions**

##### **5.7.4.1. Government Controlled Entities**

Government Controlled Entities are juridical persons that are directly or indirectly wholly owned and controlled by one or more Government Entities and are listed in a Cabinet Decision.

Government Controlled Entities need to be wholly owned and controlled by a Government Entity. Such entities may be set up where, for reasons of accountability or management, these entities need to be legally separated from the Government Entity.

A Mandated Activity is any activity conducted by a Government Controlled Entity in accordance with the legal instrument establishing or regulating the entity, that is specified in a decision issued by the Cabinet. Not all activities of a Government Controlled Entity would automatically be considered a Mandated Activity. If a Government Controlled Entity conducts Business or Business Activities that is not its mandated activities, it shall be subject Corporate Tax on those Business or Business Activities.

##### **5.7.4.2. Qualifying Public Benefit Entities**

Qualifying Public Benefit Entities that meet the necessary requirements can apply to the Ministry to be listed in a Cabinet Decision and be exempt from Corporate Tax. Cabinet Decision No. 37 of 2023 has been published and lists all entities considered as Qualifying Public Benefit Entities.

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<sup>84</sup> Article 8(1)(b) of the Corporate Tax Law.



Qualifying Public Benefit Entities play a critical role in the social and cultural fabric of the UAE. In recognition of this, these entities can be exempt from Corporate Tax, provided they meet certain conditions.

In order to be exempt from Corporate Tax, public benefit entities must be established and operated either:

- Exclusively for a public benefit activity. The Corporate Tax Law sets out a non-exhaustive list of 'worthy purpose categories' that may entitle a public benefit entity to this exemption. The categories are umbrella terms that would cover any related public benefit activities: religious, charitable, scientific, artistic, cultural, athletic, educational, healthcare, environmental, humanitarian, animal protection or other similar purposes;<sup>85</sup> or
- As a professional entity, chamber of commerce, or similar entity operated exclusively for the promotion of social welfare or public benefit.<sup>86</sup>

Additionally, in order to be exempt from Corporate Tax, the entity must:

- Not conduct a Business or Business Activity, except for activities which are directly related to the entity's charitable or public benefit purpose;<sup>87</sup>
- Use its income and assets solely for the purposes for which it was established, or as payment for necessary and reasonable expenditure;<sup>88</sup> and
- Not use any of its income or assets for the personal benefit of its shareholders, members, trustees, founders or settlors (except where its shareholders, members, trustees, founders or settlors are Qualifying Public Benefit Entities, Government Entities or Government Controlled Entities).<sup>89</sup>

If a public benefit entity meets these conditions, it will need to apply to the Ministry of Finance to be listed in a Cabinet Decision No. 37 of 2023 Regarding the Qualifying Public Benefit Entities and become a Qualifying Public Benefit Entity. A Qualifying Public Benefit Entity will be exempt from Corporate Tax from the beginning of the Tax Period in which it is listed in a relevant Cabinet Decision.<sup>90</sup>

For the purposes of monitoring compliance with the exemption requirements, the FTA may request any relevant information or records from a Qualifying Public Benefit Entity

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<sup>85</sup> Article 9(1)(a)(1) of the Corporate Tax Law.

<sup>86</sup> Article 9(1)(a)(2) of the Corporate Tax Law.

<sup>87</sup> Article 9(1)(b) of the Corporate Tax Law.

<sup>88</sup> Article 9(1)(c) of the Corporate Tax Law.

<sup>89</sup> Article 9(1)(d) of the Corporate Tax Law.

<sup>90</sup> Article 9(2) of the Corporate Tax Law.



to verify that the entity continues to meet the relevant conditions to be exempt from Corporate Tax.<sup>91</sup> The information requested must be provided within the timeline specified by the FTA<sup>92</sup> and may include, for example, books and records to demonstrate that the resources of the Qualifying Public Benefit Entity were used only for its stated public benefit purpose, copies of agreements entered into by the Qualifying Public Benefit Entity, and details of its employees, officers and fiduciaries. The list of Qualifying Public Benefit Entities will be updated periodically, if needed, to add or remove entities from the existing list.<sup>93</sup>

For further details on Qualifying Public Benefit Entities, readers are advised to consult Cabinet Decision No. 37 of 2023 on Qualifying Public Benefit Entities.<sup>94</sup>

#### **5.7.5. Exempt Persons upon application to the FTA**

The following Persons are exempt from Corporate Tax where an application has been approved by the FTA, demonstrating that they meet the necessary requirements:<sup>95</sup>

- A public pension fund or social security fund, or a private pension fund or social security fund that is subject to regulatory oversight of the competent authority in the UAE and meets certain conditions;<sup>96</sup>
- A Qualifying Investment Fund,<sup>97</sup> and
- A juridical person incorporated in the UAE that is wholly owned (directly or indirectly) and controlled by the following Exempt Person:<sup>98</sup>
  - a Government Entity,
  - a Government Controlled Entity,
  - a Qualifying Investment Fund that meets the relevant conditions specified in Cabinet Decision No. 81 of 2023;
  - a public pension fund or social security fund; or
  - a private pension, fund or social security fund that meets the relevant conditions specified in Ministerial Decision No. 115 of 2023.

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<sup>91</sup> Article 9(3) of the Corporate Tax Law.

<sup>92</sup> Article 9(3) of the Corporate Tax Law.

<sup>93</sup> Article 3 of Cabinet Decision No. 37 of 2023.

<sup>94</sup> Cabinet Decision No. 37 of 2023.

<sup>95</sup> Article 4(3) of the Corporate Tax Law and FTA Decision No. 7 of 2023.

<sup>96</sup> Article 4(1)(g) of the Corporate Tax Law and Ministerial Decision No. 115 of 2023.

<sup>97</sup> Article 4(1)(f) of the Corporate Tax Law.

<sup>98</sup> Article 4(1)(g) of the Corporate Tax Law.



### 5.7.5.1. Public pension funds and social security funds

Public pension funds and social security funds are typically initiated, sponsored and governed by a Federal or Local Government Entity. However, as the entitlement to receive the benefits from these funds and any surplus assets of the fund normally rests with the beneficiaries, they are not typically considered to be wholly owned and controlled by the Government Entity which oversees them.

Recognising their importance, public pension funds and social security funds can make an application to the FTA to be exempt from Corporate Tax.

### 5.7.5.2. Private pension and social security funds

The same Exempt Person status may be available to certain private pension funds or social security funds that meet the relevant conditions following an application to and approval by the FTA to be exempt from Corporate Tax.<sup>99</sup>

To be eligible for exemption from Corporate Tax, these private pension funds and social security funds need to be subject to regulatory oversight of a competent authority in the UAE, and must have a pool of assets that have been designated as "pension plan assets" or "fund assets" by law or a contract governing the establishment and operation of the funds.<sup>100</sup>

These assets must be solely used to finance the pension plan benefits or end of service benefit.<sup>101</sup>

Additionally, the plan members/beneficiaries must have a right or a contractual claim or entitlement to the assets or earnings of the fund.<sup>102</sup>

The fund must have an Auditor, which is required to confirm annually that the requirements for the fund to be exempt have been complied with.<sup>103</sup>

Income received by the fund can only come from:<sup>104</sup>

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<sup>99</sup> Article 4(1)(g) of the Corporate Tax Law.

<sup>100</sup> Article 4(1)(g) of the Corporate Tax Law and Articles 2(1) and 3(1) of Ministerial Decision No. 115 of 2023.

<sup>101</sup> Articles 2(1) and 3(1) of Ministerial Decision No. 115 of 2023.

<sup>102</sup> Article 2(2) of Ministerial Decision No. 115 of 2023.

<sup>103</sup> Articles 2(4) and 3(3) of Ministerial Decision No. 115 of 2023.

<sup>104</sup> Articles 2(3), 3(2) and 4 of Ministerial Decision No. 115 of 2023.



- investments or deposits held solely for the benefit of the fund and the investments do not constitute a Business operated by the fund;
- underwriting commissions charged for the fund;
- rebates given to fund managers that are not considered payment for their services; or
- any other income earned through investments for the benefit of plan members or beneficiaries.

For further details on how private pension funds or social security funds may be exempt from Corporate Tax, readers are advised to consult Ministerial Decision No. 115 of 2023 on Private Pension Funds and Private Social Security Funds.

### 5.7.5.3. Qualifying Investment funds

The UAE is a leading asset and wealth management hub, and offers a range of investment fund regimes and fund vehicles that cater to a wide variety of fund manager and investor requirements.

Whilst there are various structures that collective investment funds may take, the term 'investment fund' refers to a contractual arrangement or legal entity whose primary purpose is to pool investor funds and invest such funds in accordance with a defined investment policy.

Regardless of the type of investment fund, the Corporate Tax Law seeks to ensure the tax neutrality of investment funds so that investors, whether domestic or foreign, are in the same or a similar tax position as if they had invested directly in the underlying assets of the fund. In recognition of the neutrality principle, an investment fund that meets the relevant conditions can make an application to the FTA for exemption from Corporate Tax as a Qualifying Investment Fund.<sup>105</sup>

In order to qualify for exemption, the investment fund must meet all of the following conditions:

- The fund or its manager must be subject to the regulatory oversight of a UAE or foreign competent authority;<sup>106</sup>
- Interests in the fund must be traded on a Recognised Stock Exchange, or must be marketed and made available sufficiently widely to investors;<sup>107</sup> and

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<sup>105</sup> Article 10(1) of the Corporate Tax Law.

<sup>106</sup> Article 10(1)(a) of the Corporate Tax Law.

<sup>107</sup> Article 10(1)(b) of the Corporate Tax Law.



- The main or principal purpose of the fund is not to avoid Corporate Tax.<sup>108</sup>

In addition, depending on the types of investment funds, readers are advised to consult on the additional conditions specified in Cabinet Decision No. 81 of 2023 On Conditions for Qualifying Investment Funds.

#### **5.7.6. Registration and record keeping obligations of Exempt Persons**

There is no requirement for Government Entities, Government Controlled Entities, Extractive Businesses and Non-Extractive Natural Resource Businesses to register with the FTA for Corporate Tax purposes, if they do not have a Business or Business Activity that is subject to Corporate Tax.<sup>109</sup> However, Exempt Persons are required to maintain records which evidence their exempt status for 7 years from the end of the Tax Period to which they relate.<sup>110</sup> This includes any information, accounts, documents and records to enable the Exempt Person's status to be readily ascertained by the FTA.

Although ordinarily exempt, Government Entities, Government Controlled Entities, Persons engaged in Extractive Businesses that meet the conditions under Article 7 of the Corporate Tax Law, and Persons engaged in Non-Extractive Natural Resource Businesses that meet the conditions under Article 8 of the Corporate Tax Law, may sometimes conduct Business that is within the scope of Corporate Tax.

For example, this occurs when a Government Entity has a Licence to conduct a commercial activity in its own name.<sup>111</sup> This could be, for example, in order to enter into partnership with a private sector Business to develop infrastructure, or in order to sell goods or services. These licensed activities are treated as if they are an independent Business and, insofar as the relevant taxable Business Activity is concerned, the Exempt Person will be treated as if they were a Taxable Person and subject to the obligations set out in the Corporate Tax Law, including, for example, to register for Corporate Tax and file a Tax Return in relation to their taxable Business or Business Activity.<sup>112</sup>

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<sup>108</sup> Article 10(1)(c) of the Corporate Tax Law.

<sup>109</sup> Article 2(1) of Ministerial Decision No. 43 of 2023.

<sup>110</sup> Article 56(2) of the Corporate Tax Law.

<sup>111</sup> Article 5(2) of the Corporate Tax Law.

<sup>112</sup> Articles 5(3) and 5(4) of the Corporate Tax Law.



### **Example 6: Government Entity conducting independent Business**

A Federal Government Authority, which is a Government Entity and Exempt Person for Corporate Tax purposes, offers tours of its offices to the public on Tuesdays and Wednesdays. The Authority charges an admission fee for these tours and has been issued with a Licence to conduct this Business. This is the only Business conducted by the Authority.

As the Authority is conducting a Business under a Licence, the Authority will be treated as a Taxable Person in relation to this Business only. The Authority must maintain Financial Statements and calculate the Taxable Income of the Business as if it were a separate and independent Business.

This does not impact the exempt status of the Authority and, therefore, it is not subject to Corporate Tax on any of its other income derived from its non-licensed activities that are an extension or part of the Government's sovereign and public functions.



## 6. What is subject to Corporate Tax?

### 6.1. Chapter summary

This chapter introduces the key concept of Taxable Income and explains how it is calculated. It provides details on exempt forms of income, allowable deductions and reliefs and the adjustments needed to determine the final Taxable Income amount. It also includes a description of transactions and arrangements between Related Parties and Connected Persons, including an explanation of the arm's length principle and the application of transfer pricing rules. This chapter also covers the treatment of Tax Losses and transitional rules.

### 6.2. Taxable Income

All tax laws define what is subject to tax, known as the tax base. For Corporate Tax purposes, the tax base is a Taxable Person's Taxable Income. The Taxable income is determined as follows:

- Resident Persons are subject to Corporate Tax on their income from both inside and outside the UAE.
- Non-Resident Persons with a Permanent Establishment or a nexus in the UAE are subject to Corporate Tax on income attributable to that Permanent Establishment or nexus. If the Non-Resident does not have a Permanent Establishment or a nexus in the UAE but derives income from the UAE, that income would be subject to withholding tax at the rate of 0%.
- Natural persons are only subject to Corporate Tax on the Taxable Income of their Business or Business Activity derived from the UAE, or from outside the UAE if it is connected to the Business or Business Activity being carried out in the UAE.

Taxable Income is determined by applying the adjustments set out in Section [6.2.2](#) to a Taxable Person's annual Accounting Income, which should be taken from the Financial Statements that are produced in accordance with accepted accounting standards. Accounting standards that are accepted in the UAE for Corporate Tax purposes are the International Financial Reporting Standards (IFRS), or IFRS for small and medium-sized entities (IFRS for SMEs) for a Taxable Person with Revenue of AED 50,000,000 or less in the relevant Tax Period.<sup>113</sup>

For those that already maintain accepted Financial Statements, these can be used in calculating Taxable Income and, provided evidence is maintained regarding any

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<sup>113</sup> Article 20(1) of the Corporate Tax Law and Article 4 of Ministerial Decision No. 114 of 2023.



adjustments made, generally, there is no need to maintain two sets of records. This limits administrative burdens and ensures consistency in reporting.

For some businesses, becoming subject to Corporate Tax may involve new requirements to maintain Financial Statements, although there are certain administrative simplifications to support these businesses and manage such burdens. For example, eligible businesses may benefit from small business relief, meaning they do not need to calculate their Taxable Income and have reduced record keeping requirements (see Section [7.2](#)).<sup>114</sup>

Taxable Persons can prepare Financial Statements using the Cash Basis of Accounting rather than the Accrual Basis of Accounting if their Revenue does not exceed AED 3,000,000 for the relevant Tax Period.<sup>115</sup> Businesses may also be able to apply to the FTA to make use of the Cash Basis of Accounting rather than the Accrual Basis of Accounting in exceptional circumstances.<sup>116</sup>

### 6.2.1. Tax Period

A Taxable Person's (other than a natural person) Tax Period is their Financial Year, or part thereof, for which a Tax Return is required to be filed.<sup>117</sup> This is usually the 12 month period for which they prepare their Financial Statements. If the Taxable Person does not prepare Financial Statements, their Financial Year will be the Gregorian calendar year (i.e. 1 January - 31 December).<sup>118</sup> The Tax Period of a Taxable Person which is a natural person is always the Gregorian calendar year.

If a Taxable Person wishes to change their Tax Period, they can make an application to the FTA to change the start and end date of their Tax Period.<sup>119</sup> This can be particularly relevant for Taxable Persons (whether incorporated in the UAE or elsewhere) that form part of a multinational group to avoid having to prepare two sets of accounts based on different periods.

For further details on change in Tax Period, readers are advised to consult FTA Decision No. 5 of 2023 on Conditions for Change in Tax Period.

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<sup>114</sup> Article 21 of the Corporate Tax Law.

<sup>115</sup> Article 2(1) of Ministerial Decision No. 114 of 2023.

<sup>116</sup> Article 2(2) of Ministerial Decision No. 114 of 2023.

<sup>117</sup> Article 57(1) of the Corporate Tax Law.

<sup>118</sup> Article 57(2) of the Corporate Tax Law.

<sup>119</sup> Article 58 of the Corporate Tax Law.

### 6.2.2. Adjustments

The following adjustments should be considered in relation to a Taxable Person's Accounting Income to determine their Taxable Income:

- Unrealised gains or losses;<sup>120</sup>
- Exempt Income;<sup>121</sup>
- Deductions;<sup>122</sup>
- Reliefs for specific transaction types;<sup>123</sup>
- Transfer pricing adjustments relating to transactions between Related Parties or Connected Persons;<sup>124</sup> and
- Tax Losses.<sup>125</sup>

Further detail on each of these adjustments is provided below.

Other adjustments may be required in other specific cases, such as when determining the Taxable Income in relation to:

- Transfers within a Qualifying Group,
- Claiming business restructuring relief, and
- A partner in an Unincorporated Partnership.<sup>126</sup>

### 6.3. Unrealised gains and losses

It is common for assets or liabilities held by a Business to change in value for accounting purposes even where no actual transactions have taken place. For example, assets on the balance sheet may be revalued, or holdings of foreign currencies or loan liabilities denominated in a foreign currency may fluctuate with exchange rates.

As the value of an asset or liability changes, gains or losses could arise even where there has been no actual disposal or transfer (i.e. "realisation") of the asset or liability. Thus, where an asset has appreciated (i.e. increased in value) without being realised (e.g. sold), a Taxable Person could face potential tax liabilities despite receiving no

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<sup>120</sup> Article 20(2)(a) of the Corporate Tax Law.

<sup>121</sup> Article 20(2)(b) of the Corporate Tax Law.

<sup>122</sup> Article 20(2)(d) of the Corporate Tax Law.

<sup>123</sup> Article 20(2)(c) of the Corporate Tax Law.

<sup>124</sup> Article 20(2)(e) of the Corporate Tax Law.

<sup>125</sup> Article 20(2)(f) of the Corporate Tax Law.

<sup>126</sup> Article 6 of Ministerial Decision No. 134 of 2023.



cash payment that could be used to fund the tax liability. A similar (but opposite) consideration also arises in relation to the Taxable Person's liabilities.

Taxable Persons are required to include any realised or unrealised gains and losses reported in the Financial Statements in the calculation of their Taxable Income, if they would not subsequently be recognised in their income statement.<sup>127</sup> This is unless they make the election to use the realisation basis as outlined in Section [6.3.1](#).

### **6.3.1. Election to use the Realisation Basis**

For the purpose of calculating their Taxable Income, businesses who prepare their Financial Statements using the Accrual Basis of Accounting may elect to take into account gains and losses on a realisation basis.<sup>128</sup> Broadly, this election can be made either in relation to all assets and liabilities that are subject to fair value or impairment accounting under the applicable accounting standards (i.e. IFRS or IFRS for SMEs), or just those that are classified as capital under IFRS or IFRS for SMEs.<sup>129</sup>

Where the election has been made, the Taxable Person must exclude any unrealised gains and losses when the value of a non-Financial Asset changes.<sup>130</sup>

Additionally, where the election has been made, the Taxable Person will also exclude any change in the value of a liability or a Financial Asset when calculating gains or losses, unless they are calculating the gain or the loss upon the realisation of the liability or the Financial Asset.<sup>131</sup>

Upon realisation of the asset or liability, the Taxable Person will need to include any amounts that were not previously taken into account for Corporate Tax purposes as a result of the adjustments mentioned above.<sup>132</sup>

Realisation includes selling or disposing of the asset or liability, transferring it, settling it, or writing it off in accordance with the accounting standards applied by the Taxable Person (i.e. IFRS or IFRS for SMEs).<sup>133</sup>

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<sup>127</sup> Article 2(1) of Ministerial Decision No. 134 of 2023.

<sup>128</sup> Article 8(1) of Ministerial Decision No. 134 of 2023.

<sup>129</sup> Article 20(3) of the Corporate Tax Law.

<sup>130</sup> Articles 2(3)(a) and 2(4)(a) of Ministerial Decision No. 134 of 2023.

<sup>131</sup> Articles 2(3)(b) and 2(4)(b) of Ministerial Decision No. 134 of 2023.

<sup>132</sup> Articles 2(3)(c) and 2(4)(c) of Ministerial Decision No. 134 of 2023.

<sup>133</sup> Article 9(2) of Ministerial Decision No. 134 of 2023.



The decision to make, or not make, an election to apply the realisation basis must be made by the Taxable Person during their first Tax Period, and will be deemed irrevocable except under exceptional circumstances and pursuant to approval by the FTA.<sup>134</sup> If the Taxable Person does not make the election to apply the realisation basis in their first Tax Period then this will be considered an irrevocable election in itself.

#### **Example 7: Fair value gain on land**

During the Financial Year ending 31 December 2025, C LLC, a UAE resident company, recognised a revaluation gain in its Financial Statements of AED 10,000,000 in respect of some land which is measured at fair value. The original cost of the land was AED 50,000,000 and following the revaluation the net book value of the land is AED 60,000,000. The land was not sold at the end of the Tax Period and, therefore, the revaluation gain is considered 'unrealised'.

If no election is made, C LLC would be subject to tax on the unrealised gain of AED 10,000,000 in relation to the Tax Period ending on 31 December 2025. However, if C LLC elects to apply the realisation basis in respect of all assets and liabilities that are subject to fair value or impairment accounting, then the company would not have to include the revaluation gain of AED 10,000,000 when calculating their Taxable Income for this Tax Period.

#### **Example 8: Loss below original cost**

During the Financial Year ending 31 December 2025, S LLC, a UAE resident company, recognised a revaluation loss in its Financial Statements in respect of an asset measured at fair value. The original cost of the asset was AED 250,000, and following the revaluation the net book value of the asset is AED 200,000.

The asset has not been sold at the end of the Tax Period. The revaluation loss of AED 50,000 is considered 'unrealised'.

### **6.4. Exempt Income**

Several exemptions are provided for within the Corporate Tax regime.<sup>135</sup> The purpose of these exemptions is to either:

- exempt income and capital gains arising from the activity of another juridical person or a foreign branch on the basis that it has already been taxed; or

<sup>134</sup> Article 8(3) of Ministerial Decision No. 134 of 2023.

<sup>135</sup> Articles 22 to 25 of the Corporate Tax Law.



- align the UAE Corporate Tax treatment with international standards, and in particular in relation to the taxation of international transportation.

These exemptions are symmetrical: any expenditure incurred in deriving Exempt Income cannot be deducted for Corporate Tax purposes.<sup>136</sup> If expenditure is incurred for deriving both Taxable Income and Exempt Income, it must be apportioned, so that only the proportion of expenditure incurred wholly and exclusively for deriving Taxable Income will be deductible. If the proportion is not identifiable, then an appropriate proportion can be deducted if determined on a 'fair and reasonable' basis, having regard to all relevant facts and circumstances.<sup>137</sup>

What is fair and reasonable will depend on the circumstances and facts of each case. In many cases, there will be more than one method of apportioning expenses which is fair and reasonable to use. The fair and reasonable approach chosen should accurately reflect the underlying activity, should not be unnecessarily burdensome and complex for the Taxable Person to determine and justify, and for the FTA to understand and review.

Specific rules determine whether or not exemptions apply in particular circumstances. These are discussed in more detail below.

#### **Example 9: Apportionment of expenditure relating to Exempt Income**

C LLC is a UAE resident company which sells food and drink products in the UAE and around the world. As a result of its global operations, it has Permanent Establishments in several other countries. All of these countries impose corporate income tax, or a similar tax to Corporate Tax at a rate of more than 9%. C LLC has elected to exempt income and related expenditure from these Permanent Establishments when calculating its Taxable Income in accordance with the Foreign Permanent Establishment exemption rules under Article 24 of the Corporate Tax Law. (For further details on Foreign Permanent Establishment exemption, see Section [6.4.3](#))

C LLC enters into many contracts with suppliers and customers, both in the UAE and at its Permanent Establishments around the world. C LLC uses a Dubai-based legal firm to review and advise on all these global agreements. For this service, C LLC pays a fixed annual fee of AED 12,000,000. In the past year, C LLC's legal advisors reviewed 120 contracts - 85 in respect of its Taxable Income generating activity and 35 in respect of its Exempt Income generated by its Foreign Permanent Establishments.

<sup>136</sup> Article 28(2)(b) of the Corporate Tax Law.

<sup>137</sup> Article 28(3) of the Corporate Tax Law.



When calculating its Taxable Income, C LLC cannot claim the deduction of the total cost of the legal services. This is because some of the legal work related to the Foreign Permanent Establishments and, as the income from these are exempted from Corporate Tax due to the election made by C LLC, any related expenditure must also be excluded from the calculation of Taxable Income.

Only the proportion of expenditure incurred wholly and exclusively for deriving Taxable Income will be deductible. However, C LLC pays a fixed fee for legal services and the expenditure incurred in relation to its Taxable Income cannot be identified. It is therefore necessary to determine an appropriate proportion on a fair and reasonable basis.

As C LLC can identify the proportion of contracts which were sent for review in relation to its Taxable Income and Exempt Income generating activities, one of the possible ways that C LLC could determine the amount of the legal costs that would be deductible could be to apportion the expenditure according to the split of Taxable Income and Exempt Income generating activities based on the number of contracts. In other words, when calculating its Taxable Income, C LLC could claim a deduction of AED 8,500,000 (AED 12,000,000 x 85/120) related to its Taxable Income generating activity and consider the remaining AED 3,500,000 of legal expenses as attributable to Exempt Income earned by the Foreign Permanent Establishments and, therefore, not deductible.

The above approach assumes that the amount of work associated with each contract is equal. If, for example, C LLC received an itemised statement showing the amount of time their legal advisors spent on each contract, the legal fee could be apportioned according to the time spent on each contract. If the itemised statement revealed that the foreign contracts were more complex, and the legal advisors spent half of their time (and, therefore, half of the fees) reviewing the 35 foreign contracts, C LLC could claim a deduction of AED 6,000,000 (AED 12,000,000 x 50%), and consider the remaining AED 6,000,000 of legal expenses as attributable to Exempt Income earned by the Foreign Permanent Establishments and, therefore, not deductible.

These are just two illustrative ways that C LLC could apportion the legal fees and, depending on the facts and circumstances. Other methods may also be considered appropriate.



#### 6.4.1. Domestic dividends

Dividends, and other profit distributions, received from a Resident Person are exempt from Corporate Tax. There are no additional conditions a Taxable Person has to meet in order to benefit from this exemption.<sup>138</sup>

This reflects a distinction between payments a juridical person makes in order to earn its profits, and distributions it makes out of its profits which will already have been taxed under the Corporate Tax regime. This exemption also covers distributions made by a Resident Free Zone juridical person (whether qualifying or not) to another Resident Person.

##### **Example 10: Distributions received from a juridical person that is a Resident Person**

C LLC owns and operates a hotel in the UAE. C LLC's Accounting Income for the Tax Period was AED 8,000,000.

The income was mainly derived from operating the hotels it owns. However, it also owns 50% of F LLC, a UAE resident company. During the Tax Period, F LLC paid C LLC AED 700,000 in dividends. C LLC did not incur any expenditure in relation to its ownership of F LLC.

As dividends received from UAE Resident Persons are exempt from Corporate Tax, this amount should be excluded when calculating Taxable Income.

C LLC's Taxable Income (assuming no other adjustments), is therefore AED 7,300,000 (AED 8,000,000 – AED 700,000).

#### 6.4.2. Income exempt under the participation exemption

##### 6.4.2.1. Distributions received from foreign juridical persons

Dividends and other profit distributions received from foreign juridical persons are exempt from Corporate Tax if the recipient has a Participating Interest in the foreign company.<sup>139</sup> A Participating Interest is a significant long-term ownership interest in the shares or capital of a juridical person (the "Participation") that provides the basis for the exercise of some level of control or influence over the activities of the Participation. A Participating Interest exists where all of the following conditions are met:

<sup>138</sup> Article 22(1) of the Corporate Tax Law.

<sup>139</sup> Article 22(2) and 22(3) of the Corporate Tax Law.



- The Taxable Person has an ownership interest of 5% or greater in the shares or capital of the Participation which has been held, or is intended to be held, for a period of at least 12 months;<sup>140</sup>
- The Taxable Person is entitled to at least 5% of distributable profits and at least 5% of liquidation proceeds of the Participation;<sup>141</sup>
- No more than 50% of the Participation's assets consist of ownership interests that would not have qualified for an exemption from Corporate Tax if they were held directly by the Taxable Person.<sup>142</sup>
- The Participation is subject to Corporate Tax, or a similar tax, in the country in which it is resident at a rate of at least 9% (i.e. the "subject to tax" requirement).<sup>143</sup> A Participation is considered to meet this requirement for a given Tax Period when it is resident for tax purposes in a foreign jurisdiction throughout this same Tax Period, and:<sup>144</sup>
  - that jurisdiction has a headline statutory tax rate of at least 9%, or
  - it can demonstrate that it is subject to an effective tax on profits, income or equity of at least 9% in that jurisdiction.

The relief applies to various types of ownership interests.<sup>145</sup> Ownership interest includes holding any one or a combination of the following instruments:<sup>146</sup>

- Ordinary Shares;
- Preferred Shares;
- Redeemable Shares;
- Membership and Partner Interests; and
- Other types of securities, capital contributions and rights that entitle the owner to receive profits and liquidation proceeds.

In addition, an ownership interest with a historical acquisition cost of AED 4,000,000 or greater can qualify for the participation exemption.<sup>147</sup>

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<sup>140</sup> Article 23(2)(a) of the Corporate Tax Law.

<sup>141</sup> Article 23(2)(c) of the Corporate Tax Law.

<sup>142</sup> Article 23(2)(d) of the Corporate Tax Law.

<sup>143</sup> Article 23(2)(b) of the Corporate Tax Law.

<sup>144</sup> Article 6(1) of Ministerial Decision No. 116 of 2023.

<sup>145</sup> Article 3 of Ministerial Decision No. 116 of 2023.

<sup>146</sup> Article 2 of Ministerial Decision No. 116 of 2023.

<sup>147</sup> Article 8 of Ministerial Decision No. 116 of 2023.



The participation exemption will not apply if, under the Corporate Tax legislation applicable in the foreign jurisdiction, the Participation can claim a deduction for the dividend or other distributions made to the Taxable Person.<sup>148</sup>

#### **Example 11: Exempt income from a Participating Interest**

J LLC, a UAE resident company buys a 10% shareholding in K LLC, a juridical person resident in Country A and fully subject to tax in Country A, in the Tax Period ending 31 December 2025 for AED 1,000,000. This 10% shareholding entitles J LLC to receive 10% of K LLC's distributable profits and 10% of liquidation proceeds (if K LLC is liquidated).

In the Tax Period ending 31 December 2026, J LLC receives AED 14,000,000 in cash dividends from K LLC. The dividends will be exempt under the participation exemption.

In the Tax Period ending 31 December 2027, J LLC sells part of its shareholding in K LLC, after which it is left with a 3% shareholding in K LLC. The disposal will be exempt under the participation exemption.

In the Tax Period ending 31 December 2028, J LLC receives AED 3,000,000 in cash dividends from K LLC. This dividend will not be exempt because the conditions for the Participating Interest are no longer satisfied (i.e. holding 5% or greater, or acquisition cost in excess of AED 4,000,000 in the shareholding and being entitled to receive at least 5% of K LLC's distributable profits and liquidation proceeds of K LLC).

#### **6.4.2.2. Participation exemption for other income and gains**

Other income and gains may also be exempt if they are derived from a Participating Interest. This applies to holdings in both Resident and Non-Resident Participations. The requirements for a Participating Interest in both a Resident and Non-Resident are the same, save that in relation to a Participation Interest in a Resident, a Participation in a Qualifying Free Zone Person or an Exempt Person is considered to meet the subject to tax requirement.<sup>149</sup> If a Taxable Person holds a Participating Interest for a period of at least 12 months, or has the intention to do so, it will be exempt from Corporate Tax on:

<sup>148</sup> Article 23(6)(a) of the Corporate Tax Law.

<sup>149</sup> Article 23(4) of the Corporate Tax Law.



- Gains or losses on the transfer, sale, or other disposition of the whole or part of the Participating Interest;<sup>150</sup>
- Foreign exchange gains or losses in relation to a Participating Interest;<sup>151</sup> and
- Impairment gains or losses in relation to a Participating Interest.<sup>152</sup>

Expenditure incurred in relation to the acquisition, transfer, sale, or other disposition of the whole or part of the Participating Interest will not be deductible.<sup>153</sup> This includes professional fees, due diligence costs, litigation costs, commissions and brokerage fees, and other associated costs.<sup>154</sup>

Only income received by the Taxable Person in their capacity as a shareholder (i.e. as an owner of the ownership interest) can be exempt. Other income earned from the Participation from other relations, such as that of a debtor-creditor (e.g. Interest income received) or buyer-seller (e.g. service fee received), will remain subject to Corporate Tax.<sup>155</sup>

For further details on the participation exemption, readers are advised to consult Ministerial Decision No. 116 of 2023 on Participation Exemption.<sup>156</sup>

#### **6.4.3. Foreign Permanent Establishment exemption**

To eliminate or reduce potential international double taxation, a Resident Person can make an election when determining its Taxable Income to have income derived from Foreign Permanent Establishments exempted from Corporate Tax in the UAE.<sup>157</sup>

Where such an election is made, the Resident Person will not need to include the following items in their Taxable Income:

- Income, and associated expenditure, in any of its Foreign Permanent Establishments;<sup>158</sup> and
- Losses in any of its Foreign Permanent Establishments.<sup>159</sup>

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<sup>150</sup> Article 23(5)(b) of the Corporate Tax Law.

<sup>151</sup> Article 23(5)(c) of the Corporate Tax Law.

<sup>152</sup> Article 23(5)(d) of the Corporate Tax Law.

<sup>153</sup> Article 10(1) of Ministerial Decision No. 116 of 2023.

<sup>154</sup> Article 10(2) of Ministerial Decision No. 116 of 2023.

<sup>155</sup> Article 11 of Ministerial Decision No. 116 of 2023.

<sup>156</sup> Ministerial Decision No. 116 of 2023.

<sup>157</sup> Article 24(1) of the Corporate Tax Law.

<sup>158</sup> Article 24(2)(b) of the Corporate Tax Law.

<sup>159</sup> Article 24(2)(a) of the Corporate Tax Law.



In addition, any Foreign Tax Credit that would have been available if the election had not been made will not be available to be used by the Resident Person.<sup>160</sup>

In determining income and associated expenditure, a Resident Person and its Foreign Permanent Establishments must be treated as separate and independent Businesses. Any transactions which take place between them must be treated as having taken place at Market Value.<sup>161</sup>

In the case of deciding to exclude the income, expenses and losses of the Foreign Permanent Establishments from the calculation of Taxable Income, the election will only apply to the Resident Person's Foreign Permanent Establishments which are subject to Corporate Tax, or a tax of a similar character to Corporate Tax, in the relevant foreign country at a rate of not less than 9% (i.e. the "subject to tax requirement").<sup>162</sup>

The election must apply to all foreign Permanent Establishments that meet the subject to tax requirement.<sup>163</sup> A Resident Person may not elect to apply the exemption for specific Permanent Establishments.

### Example 12: Exempt Income from Foreign Permanent Establishments

K LLC is a UAE resident corporation. In addition to its main business operations being conducted in the UAE, K LLC has Foreign Permanent Establishments in three foreign jurisdictions, Country A, Country B and Country C. After applying all relevant adjustments, K LLC's Taxable Income for the Tax Period was AED 15,600,000. This included the following income and expenditure from each of its Foreign Permanent Establishments:

Country	Country A	Country B	Country C
Gross Income (AED)	750,000	2,550,000	3,700,000
Expenditure (AED)	200,000	3,400,000	1,750,000

K LLC decides to make an election to not take into account income and expenditure from its Foreign Permanent Establishments. While the Foreign Permanent

<sup>160</sup> Article 24(2)(c) of the Corporate Tax Law.

<sup>161</sup> Articles 24(4) and 24(5) of the Corporate Tax Law.

<sup>162</sup> Article 24(7) of the Corporate Tax Law.

<sup>163</sup> Article 24(6) of the Corporate Tax Law.



Establishments in Country A and Country B are subject to tax similar in character to Corporate Tax at a rate of more than 9% in their respective countries, the corporate income tax rate in Country C is 5%. This is below the Corporate Tax threshold and means that the income and expenditure related to K LLC's Foreign Permanent Establishment in Country C will remain part of its Taxable Income. The exemption does not apply in this case.

Even though the Foreign Permanent Establishment in Country A made a profit in the Tax Period, whilst the Foreign Permanent Establishment in Country B made a loss, K LLC must apply the exemption to all its Foreign Permanent Establishments that meet the "subject to tax" requirement. It cannot select solely to include the losses from Country B without including the profits from Country A.

K LLC Taxable Income	15,600,000
Less	
Country A Permanent Establishment Income	750,000
Country B Permanent Establishment Income	2,550,000
Plus	
Country A Permanent Establishment Expenditure	200,000
Country B Permanent Establishment Expenditure	3,400,000
Equals	
K LLC final Taxable Income	15,900,000

#### 6.4.4. Income from operating aircraft or ships in international transportation

The UAE is a major international logistics and transportation hub and, in recognition of this, income earned by a Non-Resident Person from the operation of aircraft or ships



in international transportation is exempt from Corporate Tax if certain conditions are met.<sup>164</sup>

In this regard, the Non-Resident Person should be in the Business of:

- International transport of passengers, livestock, mail, parcels, merchandise or goods by air or sea;
- Leasing or chartering aircrafts or ships used in international transportation; or
- Leasing of equipment which is integral to the seaworthiness of ships or airworthiness of aircrafts used in international transportation.<sup>165</sup>

In addition, the exemption only applies if the country in which the Non-Resident Person resides provides an equivalent exemption from Corporate Tax, or a similar tax, to UAE Resident Persons engaged in the operation of aircraft or ships in international transportation.<sup>166</sup> This is known as the “reciprocity” principle and is consistent with international norms in the taxation of international transportation.

## 6.5. Deductions

### 6.5.1. General deductibility rules

Accounting Income is calculated by deducting a business’s expenditure from the Revenue generated in the same period. However, not all expenditure recognised under general accounting rules is deductible for Corporate Tax purposes. Non-deductible expenditure will need to be added back to Accounting Income when calculating Taxable Income.

The general rule is that expenditure must be incurred wholly and exclusively for the purposes of the Taxable Person’s Business and must not be capital in nature for the expenditure to be deductible for Corporate Tax purposes.<sup>167</sup> Additional specific deduction rules are applicable for entertainment and Interest expenditure.

### 6.5.2. Wholly and exclusively incurred expenditure

It is necessary to consider the purpose for incurring the expenditure to assess whether it can be deducted for Corporate Tax purposes. For it to be fully deductible, the expenditure needs to be incurred “wholly and exclusively” for Business purposes,

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<sup>164</sup> Article 25 of the Corporate Tax Law.

<sup>165</sup> Article 25(1) of the Corporate Tax Law.

<sup>166</sup> Article 25(2) of the Corporate Tax Law.

<sup>167</sup> Article 28(1) of the Corporate Tax Law.



which means that the full amount has been incurred solely for these purposes. If the expenditure is incurred for non-Business purposes, then it must be added back when calculating Taxable Income.<sup>168</sup>

**Example 13: The importance of a Taxable Person's purpose when incurring expenditure**

If an individual operating through a sole establishment carries on a Business administering an online sales platform and such individual pays for dental work for themselves, then it is likely that such expenditure will not have been incurred for the purposes of the Business. Rather, it was incurred for their own private purposes and the expenses would not be deductible for Corporate Tax purposes.

Furthermore, if a company that owns an online sales platform pays for the dental work of its owner (shareholder) who is not involved in the operation of the company, then such expenditure also will not have been incurred for the purposes of the Business. The expense was for the purpose of providing a personal benefit to an owner and as such the expenses would not be deductible for Corporate Tax purposes.

If expenditure is incurred partly for Business purposes and partly for some other purposes, the amount must be apportioned so that only the part relating to the derivation of Taxable Income will be allowed as a deduction. This includes any identifiable part or proportion of the expenditure incurred wholly and exclusively for Business purposes, as well as an amount that has been apportioned determined on a fair and reasonable basis.<sup>169</sup>

What is fair and reasonable will depend on the circumstances and facts of each case. In many cases, there would be more than one method of apportioning expenses which is fair and reasonable to use. The fair and reasonable approach chosen should accurately reflect the underlying activity, should not be unnecessarily burdensome and complex for the Taxable Person to determine and justify, and for the FTA to understand and review.

**Example 14: Apportionment of non-business expenditure**

Mr A is a florist. He owns a delivery van which is primarily used for collecting supplies and making deliveries to customers. However, outside of regular business hours, Mr A uses the van for personal errands, such as shopping and driving his children to school.

<sup>168</sup> Article 28(2)(a) of the Corporate Tax Law.

<sup>169</sup> Article 28(3) of the Corporate Tax Law.



Throughout the Tax Period, Mr A recorded the mileage of his business and personal journeys. The mileage records revealed that journeys made for a business purpose accounted for 60% of the use of the van, while the remaining 40% of use related to Mr A's personal use of the van.

Mr A's Accounting Income for the Tax Period is AED 4,500,000. Vehicle expenses were calculated to be AED 120,000.

The vehicle expenses were not incurred wholly and exclusively for the purposes of Mr A's Business and a deduction can, therefore, not be claimed on the vehicle expenses in full. However, as Mr A can identify the proportion which relates to Business use (60% of journeys), AED 72,000 (60% of AED 120,000) can be claimed as an expense deduction. The remaining 40% (AED 48,000) cannot be deducted as an expense for Corporate Tax purposes.

In order to reflect that 40% of vehicle expenses are disallowed, when calculating his Taxable Income, Mr A must add AED 48,000 back to his Accounting Income. Mr A's Taxable Income, assuming that no other adjustments need to be made, would thus be AED 4,548,000 (AED 4,500,000 + AED 48,000).

### 6.5.3. Capital expenditure

Capital expenditure is expenditure that creates an enduring benefit to a business and is not deductible for Corporate Tax purposes. This is in contrast to revenue expenditure which supports the day-to-day operations of the business. For example, purchasing a long-term asset like machinery would be a capital expense but paying for routine maintenance to keep the machinery running would be a revenue expense. The question of whether expenditure is of a capital or revenue nature will depend on the particular facts and circumstances, and will need to be determined on a case by case basis.

While capital expenditure is not deductible, the depreciation of the costs of capital assets is a deductible expense for Corporate Tax purposes. Depreciation is an accounting concept which allows for the cost of an asset to be spread over the life of the asset (representing the reduction of the asset's value), even though there is no cash outlay to the business.



### **Example 15: Capital or revenue expenditure**

If a building contractor buys a car for use by office staff, this car will bring an enduring benefit to the business, and will be treated as a capital asset. Therefore, the expenditure incurred in acquiring this vehicle will likely not be deductible for Corporate Tax purposes.

The costs of maintaining this vehicle will be deductible as they do not provide an enduring benefit to the business.

On the other hand, if the same car was purchased by a car dealership business to be resold, then the costs of acquiring the vehicle would likely be treated as deductible for Corporate Tax purposes, as in this case, the car is more akin to inventory and the cost would be revenue in nature.

### **Example 16: Capital or revenue expenditure**

A cake shop buys a computer for use by office staff, and this computer has an expected useful economic life of 5 years.

The initial expenditure for acquiring this computer will likely be treated as capital expenditure and not be deductible for Corporate Tax purposes, as this expenditure brings an enduring benefit to the business. If the business recognises a depreciation expense over the useful life of the asset, then this expenditure is deductible in the year the depreciation expense is recognised.

## **6.5.4. Special rules for the deductibility of certain expenses**

### **6.5.4.1. Interest expenditure**

Businesses regularly borrow money and take out loans for a wide variety of reasons, for example to purchase business assets, to meet costs, or increase working capital. As a result, Interest is a common business expense.

Interest expenditure can be deducted when calculating Taxable Income for the Tax Period in which it is incurred.<sup>170</sup> However, there are some limitations on the deduction of Interest expenditure.<sup>171</sup>

<sup>170</sup> Article 29 of the Corporate Tax Law.

<sup>171</sup> Articles 30 and 31 of the Corporate Tax Law.

## General Interest Deduction Limitation Rule

The Corporate Tax Law refers to the amount of Interest that is deductible as Net Interest Expenditure. Net Interest Expenditure is the difference between the amount of Interest expenditure incurred (including any carried forward Net Interest Expenditure) and the Interest income derived during a Tax Period.<sup>172</sup>

When the Net Interest Expenditure exceeds AED 12,000,000 in a Tax Period, the amount of deductible Net Interest Expenditure is the greater of:

- 30% of EBITDA (earnings before the deduction of Interest, tax, depreciation and amortisation) for a Tax Period, calculated as the Taxable Income for the Tax Period with adjustments for:<sup>173</sup>
    - Net Interest Expenditure for the relevant Tax Period,
    - Depreciation and amortisation expenditure taken into account in determining the Taxable Income for the relevant Tax Period, and
    - Any Interest income or expenditure relating to historical financial assets or liabilities held prior to 9 December 2022.
- and,
- the de minimis threshold of AED 12,000,000.<sup>174</sup>

This is known as the “General Interest Deduction Limitation Rule”.

For the purpose of the General Interest Deduction Limitation Rule, any amount on Islamic Financial Instruments that is economically equivalent to Interest under a conventional financing arrangement will be treated as Interest.<sup>175</sup>

Any Net Interest Expenditure disallowed in a Tax Period by the General Interest Deduction Limitation Rule can be carried forward and utilised in the subsequent 10 Tax Periods in the order in which the amount was incurred, subject to the same conditions.<sup>176</sup>

The General Interest Deduction Limitation Rule does not apply to:

- Banks;<sup>177</sup>

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<sup>172</sup> Article 30(2) of the Corporate Tax Law.

<sup>173</sup> Article 30(1) of the Corporate Tax Law and Article 9(1) of Ministerial Decision No. 126 of 2023.

<sup>174</sup> Article 8 of Ministerial Decision No. 126 of 2023.

<sup>175</sup> Article 4 of Ministerial Decision No. 126 of 2023.

<sup>176</sup> Article 30(4) of the Corporate Tax Law.

<sup>177</sup> Article 30(6)(a) of the Corporate Tax Law.



- Insurance Providers;<sup>178</sup> or
- Natural persons undertaking a Business or Business Activity in the UAE.<sup>179</sup>

In addition, Resident Persons who are responsible for, or who facilitate the provision, maintenance, or operation of Qualifying Infrastructure Projects, i.e. specific long-term infrastructure projects that meet the following conditions, shall not be subject to the General Interest Deduction Limitation Rule in relation to Net Interest Expenditure incurred from the financing of these projects. A project will be considered as a Qualifying Infrastructure Project where all the following conditions are met:<sup>180</sup>

- It is exclusively for the public benefit of the UAE;
- It is exclusively for the purposes of providing transport, utilities, education, healthcare or any other service within the UAE as may be specified by the Minister;
- Its assets may not be disposed of at the discretion of the relevant Qualifying Infrastructure Project Person;
- The assets provided, operated or maintained by the project should last, or be expected to last for at least ten years, or another period as may be specified by the Minister;
- The project assets are situated in UAE's Territory;
- All of the project's Interest income and Interest expenditure arise in the UAE; and
- The project satisfies any other conditions that may be prescribed by the Minister.

If Net Interest Expenditure is below the AED 12,000,000 de minimis threshold for a Tax Period, the General Interest Deduction Limitation Rule does not apply.<sup>181</sup> This means that, subject to the provision of Article 30 of the Corporate Tax Law, the full amount of Interest expenditure incurred in a Tax Period can be deducted.

Additionally, limitations on the deduction of Interest may impact the commerciality of some financing arrangements. As such, financing arrangements agreed prior to the publication date of the Corporate Tax Law (i.e. 9 December 2022), and that meet the other conditions specified in Ministerial Decision No. 126 of 2023, are not subject to the General Interest Deduction Limitation Rule restrictions.<sup>182</sup>

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<sup>178</sup> Article 30(6)(b) of the Corporate Tax Law.

<sup>179</sup> Article 30(6)(c) of the Corporate Tax Law.

<sup>180</sup> Article 14(c) of Ministerial Decision No. 126 of 2023.

<sup>181</sup> Article 8(1) of Ministerial Decision No. 126 of 2023.

<sup>182</sup> Article 11 of Ministerial Decision No. 126 of 2023.



### Example 17: General Interest Deduction Limitation Rule

C LLC has Revenue of AED 150,000,000, adjusted EBITDA of AED 130,000,000 and Profit Before Tax of AED 60,000,000 for its Financial Year ending 31 December 2025. In 2025, C LLC incurs costs including Interest expenditure of AED 80,000,000. C LLC also receives Interest income of AED 30,000,000, resulting in a Net Interest Expenditure of AED 50,000,000.

C LLC may deduct its Net Interest Expenditure of AED 50,000,000 up to the greater of 30% of its adjusted EBITDA or the de minimis of AED 12,000,000. 30% of C LLC's adjusted EBITDA of AED 130,000,000 would be AED 39,000,000, which is above the de minimis and, hence, is the maximum deductible Net Interest Expenditure in 2025.

C LLC's total Net Interest Expenditure in 2025 is AED 50,000,000 and C LLC may only deduct AED 39,000,000 of Net Interest Expenditure in this Tax Period. AED 11,000,000 of Net Interest Expenditure would be disallowed in 2025 and carried forward to the subsequent Tax Periods (up to 10 Tax Periods).

In the Financial Year ending 31 December 2026, C LLC had Revenue of AED 200,000,000, adjusted EBITDA of AED 180,000,000 and Profit Before Tax of AED 140,000,000. C LLC incurs Interest expenditure of AED 80,000,000 and also receives Interest income of AED 60,000,000, resulting in a Net Interest Expenditure of AED 20,000,000 for 2026.

In 2026, 30% of C LLC's adjusted EBITDA of AED 180,000,000 would be AED 54,000,000, which is above the de minimis and, hence, is the maximum deductible Net Interest Expenditure in 2026. C LLC can deduct all of its Net Interest Expenditure in the period of AED 20,000,000, as well as an additional amount up to AED 34,000,000 of Net Interest Expenditure in the period. Hence, it may utilise its carried forward Net Interest Expenditure of AED 11,000,000 from 2025 and further reduce its Taxable Income in 2026. This would result in a Taxable Income of AED 129,000,000 for 2026.

### Specific Interest deduction limitation

No deduction is allowed for Interest expenditure incurred on a loan obtained, directly or indirectly, from a Related Party in respect of any of the following transactions:

- A dividend or profit distribution to a Related Party;<sup>183</sup>

<sup>183</sup> Article 31(1)(a) of the Corporate Tax Law.



- A redemption, repurchase, reduction or return of share capital to a Related Party;<sup>184</sup>
- A capital contribution to a Related Party;<sup>185</sup> or
- The acquisition of an ownership Interest in a Business that is, or becomes, a Related Party following the acquisition.<sup>186</sup>

The purpose of this provision is to prevent the Corporate Tax base from being eroded by transactions and arrangements between Taxable Persons and their Related Parties for the sole or main purpose of creating deductible interest expenditure where the income derived from the relevant transaction or arrangement can benefit from an exemption from Corporate Tax.

Whilst generally these deductions are not allowable for Corporate Tax purposes, the deduction restriction does not apply if the Taxable Person can demonstrate that the main purpose of obtaining the loan and carrying out the transaction is not to gain a Corporate Tax advantage.<sup>187</sup> This will be based on the specific facts and circumstances applicable to each transaction. However, if it can be demonstrated that the Related Party receiving the Interest is subject to Corporate Tax or a similar tax in a foreign country at a rate of at least 9% on the Interest income, then no Corporate Tax advantage will be deemed to have arisen.<sup>188</sup>

#### **Example 18: Interest expenditure**

M LLC is a UAE resident company which operates hotels globally. M LLC is wholly owned by P Ltd registered in Country A, a foreign jurisdiction. During the Tax Period ending December 2026, M LLC borrowed money from an unrelated commercial lender to finance the completion of a new hotel complex and paid AED 14,000,000 in Interest.

During the same Tax Period, M LLC borrowed funds from Q LLC at a rate higher than the rate offered by the unrelated commercial lender and paid AED 4,000,000 in Interest. The purpose of this loan was to enable M LLC to make a dividend payment to P Ltd. Q LLC is registered in Country B, a foreign jurisdiction, and is wholly owned by P Ltd - the same company which owns M LLC, making Q LLC a Related Party of M LLC.

Q LLC is not subject to Corporate Tax, or any similar tax, on the Interest received.

<sup>184</sup> Article 31(1)(b) of the Corporate Tax Law.

<sup>185</sup> Article 31(1)(c) of the Corporate Tax Law.

<sup>186</sup> Article 31(1)(d) of the Corporate Tax Law.

<sup>187</sup> Article 31(2) of the Corporate Tax Law.

<sup>188</sup> Article 31(3) of the Corporate Tax Law.



M LLC's EBITDA in Tax Period ending December 2026 was AED 55,000,000. The total Interest expenditure in the Tax Period was AED 18,000,000 and no Interest was earned. Additionally, M LLC had AED 7,500,000 of Net Interest Expenditure carried forward from the previous Tax Period ending December 2025.

In line with the rules on deductions for Interest expenditure, M LLC can only deduct Net Interest Expenditure if it is less than 30% of EBITDA. This means that M LLC can deduct up to the greater of 30% of its adjusted EBITDA or the de minimis of AED 12,000,000. 30% of M LLC's adjusted EBITDA of AED 55,000,000 would be AED 16,500,000, which is above the de minimis and, hence, is the maximum deductible Net Interest Expenditure.

When determining Net Interest Expenditure, any disallowable expenditure must be excluded.

Given that C LLC obtained the loan from Q LLC to make a dividend payment, the interest on this loan is disallowed automatically by Article 31 of the Corporate Tax Law, unless the taxpayer can show that the main purpose of obtaining this loan is not to gain a Corporate Tax advantage. M LLC did not obtain the loan on an arm's length basis, and based on the facts above, the only reason M LLC obtained a loan was to claim interest and reduce its taxable income

Thus, this amount must be excluded and no deduction can be claimed for Corporate Tax purposes. M LLC's Net Interest Expenditure for the Tax Period ending December 2026 is, therefore, AED 14,000,000 (AED 18,000,000 – AED 4,000,000).

As M LLC's Net Interest Expenditure of AED 14,000,000 is lower than the limit of AED 16,500,000, the brought forward Net Interest Expense can be utilised at the amount of AED 2,500,000 (AED 16,500,000 – AED 14,000,000). The carried forward Net Interest Expenditure is then reduced to AED 5,000,000 (AED 7,500,000 – AED 2,500,000). The maximum amount M LLC can claim as a deduction for Net Interest Expenditure in the Tax Period ending December 2026 is AED 16,500,000.

Given that the Net Interest Expenditure is AED 14,000,000, and M LLC was allowed to utilise AED 16,500,000, a further deduction of AED 2,500,000 is made from Accounting Income when calculating its Taxable Income. As above, the disallowed AED 4,000,000 will also be adjusted for.

The remaining carried forward Net Interest Expenditure amount of AED 5,000,000 can be carried forward and deducted in the subsequent 10 Tax Periods after the interest expenditure arose in the order in which the amount was incurred and subject to the



same interest capping rules.

For further details on the General Interest Deduction Limitation Rule, readers are advised to consult Ministerial Decision No. 126 of 2023 on the General Interest Deduction Limitation Rule.

#### 6.5.4.2. Entertainment expenditure

It is common for costs to be incurred to entertain customers, shareholders, suppliers, or other business partners. However, this type of entertainment often contains a private element that would prevent the expenditure from being wholly and exclusively incurred for Business purposes.

As the private element can be difficult to estimate and apportion when looking at entertainment expenditure, a 50% deduction is allowed for Corporate Tax purposes in all cases of this type of expenditure.<sup>189</sup>

Entertainment expenditure includes expenditure in connection with meals, accommodation, transportation, admission fees, as well as facilities and equipment used in connection with such entertainment.<sup>190</sup>

Entertainment expenditure may include personal non-business expenditure, requiring the expenditure to be apportioned. Where the entertainment expenditure is not wholly and exclusively incurred for the purposes of the business, a Taxable Person will need to identify the appropriate proportion to be treated as entertainment expenditure and only 50% of that proportion will be deductible.

#### Example 19: Entertainment expenditure

A family owned company owns a box at a football stadium, which is only used to entertain the company's clients. There is a business purpose so the wholly and exclusively rule is satisfied. In this case, 50% of the cost would be treated as deductible as entertainment expenditure. The remaining 50% is not deductible.

Conversely, if the box was used by the owner's (the shareholder's) own family, the expenditure would be disallowed entirely as this would be personal consumption without a business purpose.

<sup>189</sup> Article 32(1) of the Corporate Tax Law.

<sup>190</sup> Article 32(2) of the Corporate Tax Law.



The deductibility limitation does not apply for expenditure incurred for staff entertainment. This means that, for example, the cost of internal entertainment such as staff parties can be fully deducted for Corporate Tax purposes unless the staff are family members and the event is private in nature (such as a wedding).

#### **Example 20: Entertainment expenditure**

R LLC is a manufacturer of IT equipment, which recently decided to expand its operations by opening a new factory. In order to celebrate the opening of the new factory and generate sales, R LLC entertained a number of customers at the new facility. R LLC's Accounting Income for the Tax Period was AED 7,000,000, which included AED 300,000 of business entertainment expenditure.

As only 50% of business entertainment expenditure is an allowable deduction for Corporate Tax purposes, AED 150,000 must be added back to R LLC's Accounting Income when calculating its Taxable Income. Therefore, assuming there is no other adjustment which must be made, R LLC's Taxable Income for the Tax Period is AED 7,150,000.

#### **6.5.5. Non-deductible expenses**

Aside from the circumstances discussed above, deductions are also specifically disallowed for:

- Expenditure not incurred for the purposes of the Taxable Person's Business;<sup>191</sup>
- Expenditure incurred in deriving Exempt Income;<sup>192</sup>
- Losses not connected with or arising out of the Taxable Person's Business;<sup>193</sup>
- A donation, grant or gift made to an organisation that is not a Qualifying Public Benefit Entity (see Section [5.7.4.2](#));<sup>194</sup>
- Any fines and penalties, other than amounts awarded as compensation for damages or breach of contract;<sup>195</sup>
- Bribes;<sup>196</sup>

<sup>191</sup> Article 28(2)(a) of the Corporate Tax Law.

<sup>192</sup> Article 28(2)(b) of the Corporate Tax Law.

<sup>193</sup> Article 28(2)(c) of the Corporate Tax Law.

<sup>194</sup> Article 33(1) of the Corporate Tax Law.

<sup>195</sup> Article 33(2) of the Corporate Tax Law.

<sup>196</sup> Article 33(3) of the Corporate Tax Law.



- Dividends, profit distributions or benefits of a similar nature paid to an owner of the Taxable Person;<sup>197</sup>
- Amounts withdrawn from the Business by a natural person who is a Taxable Person or a partner in an Unincorporated Partnership;<sup>198</sup>
- Corporate Tax;<sup>199</sup>
- Recoverable input VAT;<sup>200</sup>
- Tax on income imposed outside the UAE (however, tax relief may be available as a Foreign Tax Credit);<sup>201</sup> and
- Contributions made by employers to a private pension fund in respect of its employees which are not paid in the Tax Period or are in excess of 15% of the employee's total remuneration in the relevant Tax Period.<sup>202</sup>

## 6.6. Transactions between Related Parties and Connected Persons, and transfer pricing rules

Where two parties are closely linked, their relationship may influence any transactions between them. There are rules in place to ensure that these closely linked parties (known as Related Parties) do not manipulate the values of transactions between themselves in order to obtain a Corporate Tax advantage.

Related Parties must apply the “arm’s length principle” when entering into a transaction or arrangement with each other. This means that the price of a transaction between Related Parties should be the same as if the transaction had taken place between two unrelated independent parties.<sup>203</sup>

Where the price of the transaction or arrangement between Related Parties is not considered to be at arm’s length, the FTA will adjust the Taxable Person’s Taxable Income to achieve the arm's length result that best reflects the circumstances of the transaction or arrangement.<sup>204</sup>

If the FTA makes an adjustment to a transaction or arrangement involving a Taxable Person to meet the arm’s length standard, it shall also make a corresponding

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<sup>197</sup> Article 33(4) of the Corporate Tax Law.

<sup>198</sup> Article 33(5) of the Corporate Tax Law.

<sup>199</sup> Article 33(6) of the Corporate Tax Law.

<sup>200</sup> Article 33(7) of the Corporate Tax Law.

<sup>201</sup> Articles 33(8) and 47 of the Corporate Tax Law.

<sup>202</sup> Article 5(2) of Ministerial Decision No. 115 of 2023.

<sup>203</sup> Article 34(2) of the Corporate Tax Law.

<sup>204</sup> Article 34(8) of the Corporate Tax Law.



adjustment to the Taxable Income of the Related Party that is a party to the relevant transaction or arrangement.<sup>205</sup>

Ministerial Decision No. 134 of 2023 sets out the adjustments that must be made when calculating the Taxable Income from the transfer of an asset or liability between Related Parties.<sup>206</sup>

If a foreign tax authority makes an adjustment to a transaction or arrangement involving a Taxable Person to meet the arm's length standard, the Taxable Person can make an application to the FTA to make a corresponding adjustment to its UAE Taxable Income.<sup>207</sup>

A corresponding adjustment is an adjustment to the Corporate Tax liability of a UAE Taxable Person following a primary adjustment made by a foreign tax authority to the taxable base of a Related Party to the UAE Taxable Person, so that the allocation of profits by both jurisdictions is consistent. The purpose of such an adjustment is to prevent double taxation (or double non-taxation) which could arise as a result of the primary transfer pricing adjustment.

#### 6.6.1. Related Parties

Broadly, a Related Party is an individual or juridical person that has a pre-existing relationship with another Person through ownership, Control or kinship (in the case of individuals). With respect to ownership and Control, it is internationally common to set the related party ownership threshold at 50% or more, on the basis that a simple majority is typically sufficient to exert influence and direction over another entity.

Two Persons are considered Related Parties for Corporate Tax purposes if they are:

- Two or more natural persons related to the fourth degree of kinship or affiliation, including by adoption or guardianship;<sup>208</sup> This would include the following:
  - The first-degree of kinship and affiliation includes a natural person's parents and children, as well as the parents and children of their spouse;
  - The second-degree of kinship and affiliation additionally includes a natural person's grandparents, grandchildren, and siblings, as well as the grandparents, grandchildren, and siblings of their spouse;

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<sup>205</sup> Article 34(10) of the Corporate Tax Law.

<sup>206</sup> Article 3 of Ministerial Decision No. 134 of 2023.

<sup>207</sup> Article 34(11) of the Corporate Tax Law.

<sup>208</sup> Article 35(1)(a) of the Corporate Tax Law and Federal Law No. 5 of 1985 on the Issuance of Civil Transactions Law, and its amendments.



- The third-degree of kinship and affiliation additionally includes a natural person's great-grandparents, great grandchildren, uncles, aunts, nieces and nephews, as well as the great-grandparents, great grandchildren, uncles, aunts, nieces and nephews of their spouse;
- The fourth-degree of kinship and affiliation additionally includes a natural person's great-great-grandparents, great-great-grandchildren, grand uncle, grand aunt, grandniece, grandnephew and first cousins, as well as the great-great-grandparents, great-great-grandchildren, grand uncle, grand aunt, grandniece, grandnephew and first cousins of their spouse.
- A natural person and a juridical person where:
  - The natural person, or one or more Related Parties of the individual, are shareholders in the juridical person, and the natural person, alone or together with its Related Parties, directly or indirectly owns a 50% or greater ownership interest in the juridical person; or
  - The natural person, alone or together with its Related Parties, directly or indirectly Controls the juridical person.<sup>209</sup>
- Two or more juridical persons where:
  - One juridical person, alone or together with its Related Parties, directly or indirectly owns a 50% or greater ownership interest in the other juridical person; or
  - One juridical person, alone or together with its Related Parties, directly or indirectly Controls the other juridical person; or
  - Any Person, alone or together with its Related Parties, directly or indirectly owns a 50% or greater ownership interest in or Controls such two or more juridical persons;<sup>210</sup> or
- A Person and its Permanent Establishment or Foreign Permanent Establishment;<sup>211</sup>
- Two or more Persons that are partners in the same Unincorporated Partnership;<sup>212</sup> or
- A Person who is the trustee, founder, settlor or beneficiary of a trust or foundation, and the trust or foundation, including the trust's or foundation's Related Parties.<sup>213</sup>

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<sup>209</sup> Article 35(1)(b) of the Corporate Tax Law

<sup>210</sup> Article 35(1)(c) of the Corporate Tax Law

<sup>211</sup> Article 35(1)(d) of the Corporate Tax Law

<sup>212</sup> Article 35(1)(e) of the Corporate Tax Law

<sup>213</sup> Article 35(1)(f) of the Corporate Tax Law



### 6.6.2. Control

For the purposes of determining whether two or more Persons are Related Parties, Control means the ability of a Person, in their own right or by agreement, to influence another Person including through the ability to, among others:

- Exercise 50% or more of the voting rights of another Person;<sup>214</sup>
- Determine the composition of 50% or more of the board of directors of another Person;<sup>215</sup>
- Receive 50% or more of the profits of another Person;<sup>216</sup> or
- Determine, or exercise significant influence over, the conduct of the Business and affairs of another Person.<sup>217</sup>

### 6.6.3. Connected Persons

Payments or benefits provided by a Taxable Person to its Connected Persons are deductible only to the extent that the payment or benefit corresponds with the Market Value of the service or benefit provided by the Connected Person, and where the payment or benefit is incurred wholly and exclusively for the purposes of the Taxable Person's Business.<sup>218</sup>

For example, an owner of a business will be able to deduct their salary when determining the Business' Taxable Income but only insofar as this salary corresponds with the Market Value. In order to determine if the value of a service or benefit provided matches its Market Value, the arm's length principle should be applied.<sup>219</sup>

Connected Persons capture a broader group of Persons than Related Parties. A Connected Person of a Taxable Person is:

- A natural person who directly or indirectly owns an ownership interest in, or Controls, the Taxable Person (for example, the individual owner of a limited liability company);<sup>220</sup>

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<sup>214</sup> Article 35(2)(a) of the Corporate Tax Law

<sup>215</sup> Article 35(2)(b) of the Corporate Tax Law

<sup>216</sup> Article 35(2)(c) of the Corporate Tax Law

<sup>217</sup> Article 35(2)(d) of the Corporate Tax Law.

<sup>218</sup> Article 36(1) of the Corporate Tax Law.

<sup>219</sup> Article 36(5) of the Corporate Tax Law.

<sup>220</sup> Article 36(2)(a) of the Corporate Tax Law.



- A director or officer of the Taxable Person (for example, a Managing Director of a limited liability company);<sup>221</sup> or
- A Related Party of either of the above Persons (for example, a son of the owner of a limited liability company).<sup>222</sup>

This limitation does not apply to a company whose shares are traded on a Recognised Stock Exchange, or a Taxable Person that is subject to the regulatory oversight of a competent authority in the UAE.<sup>223</sup>

### **Example 21: Related Parties, Control and Connected Persons**

Mr B is a first cousin of Ms C.

Mr B owns 75% of B LLC.

Ms C owns 20% of C LLC. She owns preferential shares which entitle her to 60% of the voting rights in C LLC.

Ms C is also a partner in an Unincorporated Partnership, JKL Partners. The other partner is a UAE corporation, D Ltd.

Mr B and Ms C are Related Parties - they are related to the fourth degree of kinship.

Mr B and B LLC are Related Parties - Mr B is an individual who owns more than 50% of the juridical person B LLC.

Mr B and C LLC are Connected Persons - Mr B is an individual who is related to Ms C and Ms C owns more than 50% of the voting rights in C LLC.

Ms C and C LLC are Related Parties - Ms C is an individual who Controls a juridical person, C LLC, as she holds more than 50% of the voting rights in C LLC.

Ms C and D Ltd are Related Parties - they are partners in the same Unincorporated Partnership.

B LLC and D Ltd are unrelated juridical persons.

Ms C and B LLC are Connected Persons - Ms C is Mr B's first cousin and Mr B owns

<sup>221</sup> Article 36(2)(b) of the Corporate Tax Law.

<sup>222</sup> Article 36(2)(c) of the Corporate Tax Law.

<sup>223</sup> Article 36(6) of the Corporate Tax Law.



more than 50% of B LLC.

#### 6.6.4. Transfer pricing

Transfer pricing rules aim to ensure that the price of a transaction is not influenced by the relationship between the parties involved. In order to achieve this and to avoid artificially profit shifting, the internationally recognised arm's length principle is used for transactions between Related Parties and Connected Persons. The transfer pricing rules apply to both cross-border and domestic transactions carried out by juridical persons and individuals.

##### 6.6.4.1. General transfer pricing disclosure requirements

Taxable Persons may be subject to certain transfer pricing disclosure requirements in case of entering into transactions or arrangements with Related Parties, which may allow the FTA to conduct a comprehensive and reasonable transfer pricing risk assessment, and confirm whether these transactions with Related Parties and Connected Persons have been conducted in accordance with the arm's length principle.<sup>224</sup>

The FTA can require a Taxable Person to disclose information regarding their transactions and arrangements with their Related Parties and Connected Persons, together with their Tax Return.<sup>225</sup>

The purpose of maintaining transfer pricing related information is to describe how the Taxable Person has determined the transfer prices of transactions with Related Parties and Connected Persons, and why those transfer prices are sufficiently comparable to prices applied by independent parties in a similar situation.

A Taxable Person must comply with a request issued by the FTA to provide information which supports the arm's length nature of its transactions or arrangements with its Related Parties and Connected Persons. This information must be submitted within 30 days following the request, or by any such other later date as directed by the FTA.<sup>226</sup>

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<sup>224</sup> Article 55 of the Corporate Tax Law.

<sup>225</sup> Article 55(1) of the Corporate Tax Law.

<sup>226</sup> Article 55(4) of the Corporate Tax Law.



#### 6.6.4.2. Master file and local file

In addition to the submission of a general transfer pricing disclosure form, Taxable Persons need to maintain a 'master file' and a 'local file' if their Revenue in the relevant Tax Period is AED 200,000,000 or more, or they are part of a Multinational Enterprise Group (MNE) with total consolidated group revenue over or equal to AED 3,150,000,000 in the preceding Financial Year.<sup>227</sup>

Generally, a master file is a 'blueprint' of a group's activity, containing information on its economic activities in different jurisdictions and its overall transfer pricing policy.

On the other hand, a local file contains more detail than a master file, specifically in relation to Related Party and Connected Persons transactions undertaken by group members. The purpose is to provide functional and economic analysis to support the arm's length basis of its transactions.

#### 6.7. Tax Losses

Where a Taxable Person's deductible expenditure exceeds its income that is subject to Corporate Tax, it will have negative Taxable Income. This is known as a Tax Loss. Many businesses make losses at some point in their lifecycle. For example, a new business may initially have losses while it is investing in growing its Business, or a more mature Business may make a loss over a period because of a temporary, adverse trading environment.

Businesses who have a Tax Loss will be able to use the Tax Loss to reduce Taxable Income in future Tax Periods (provided the necessary conditions are met).<sup>228</sup> This is to ensure that the amount of Corporate Tax paid by Businesses would (subject to certain conditions) be the same irrespective of when such profits or losses arise. In certain circumstances, Tax Losses can also be used to offset against the Taxable Income of another Business.

A Taxable Person cannot claim Tax Loss relief for:<sup>229</sup>

- Losses incurred before the date of commencement of Corporate Tax;
- Losses incurred before a Person becomes a Taxable Person; or
- Losses incurred from an asset or activity that generates income which is exempt from Corporate Tax.

<sup>227</sup> Article 2(1) of Ministerial Decision No. 97 of 2023.

<sup>228</sup> Article 37(1) of the Corporate Tax Law.

<sup>229</sup> Article 37(3) of the Corporate Tax Law.



A Taxable Person cannot claim Tax Losses for the Tax Period in which they have elected to benefit from small business relief.

### 6.7.1. Tax Loss relief

A Taxable Person can carry forward Tax Losses and offset them against Taxable Income in subsequent Tax Periods, subject to meeting certain conditions.<sup>230</sup> These Tax Losses carried forward can be used to reduce the Taxable Person's income in the Tax Period by a maximum of 75% of that Taxable Income.<sup>231</sup> This ensures that Corporate Tax is applied to the economic unit that generates Taxable Income as a whole.

Taxable Persons must use available Tax Losses in a Tax Period before any remaining Tax Loss can be carried forward to the next period, or transferred to another Taxable Person subject to meeting the required conditions. For example, if a Taxable Person has carried forward Tax Losses of less than 75% of their Taxable Income, they must use all of the Tax Losses in the current period and cannot choose to carry these Tax Losses forward.<sup>232</sup> Tax Losses cannot be carried back to previous Tax Periods.

#### Example 22: Carried forward Tax Losses

C LLC is a UAE resident company. In the Tax Period ending 31 December 2026 it makes a Tax Loss of AED 6,000,000.

For the Tax Periods ending 31 December 2027 and 31 December 2028 respectively, C LLC has Taxable Income of AED 5,000,000 per year.

C LLC will be subject to Corporate Tax as follows:

- In the Tax Period ending on 31 December 2026, C LLC makes a Tax Loss and there are no amounts to be taxed.
- In the Tax Period ending on 31 December 2027, C LLC has Taxable Income of AED 5,000,000. This means that the maximum Tax Loss that can be used to offset against its Taxable Income is  $\text{AED } 5,000,000 \times 75\% = \text{AED } 3,750,000$ . C LLC will have a final Taxable Income of AED 1,250,000 (AED 5,000,000 – AED 3,750,000). This means that C LLC must pay Corporate Tax of AED 78,750 (AED 375,000 x 0% + AED 875,000 x 9%).

<sup>230</sup> Article 39 of the Corporate Tax Law.

<sup>231</sup> Article 37(2) of the Corporate Tax Law.

<sup>232</sup> Article 37(4) of the Corporate Tax Law.



C LLC will have Tax Losses of AED 2,250,000 (AED 6,000,000 – AED 3,750,000) to carry forward.

In the Tax Period ending on 31 December 2028, C LLC has Taxable Income of AED 5,000,000. The maximum Tax Loss that can be used to offset against its Taxable Income is AED 5,000,000 x 75% = AED 3,750,000. This means that the full amount of Tax Losses of AED 2,250,000 brought forward are available to be offset against the Taxable Income of AED 5,000,000 in this Tax Period.

C LLC will have a final Taxable Income of AED 2,750,000 (AED 5,000,000 – AED 2,250,000). This means that C LLC must pay Corporate Tax of AED 213,750 (AED 375,000 x 0% + AED 2,375,000 x 9%). C LLC will have no Tax Losses to carry forward.

(Amounts in AED)	31/12/2026	31/12/2027	31/12/2028
Taxable Income (pre-Tax Loss relief)	(6,000,000)	5,000,000	5,000,000
Tax Loss utilised	0	3,750,000	2,250,000
Final Taxable Income	0	1,250,000	2,750,000
Tax Loss carried forward	6,000,000	2,250,000	0
Corporate Tax Payable	0	78,750	213,750

### 6.7.2. Tax Losses and change of ownership

Specific rules apply for juridical persons that have Tax Losses carried forward and have had a change of ownership in the Tax Period.

A Tax Loss can be carried forward by a Taxable Person provided the owners of the Taxable Person continuously hold at least 50% ownership from the start of the period in which the Loss is incurred to the end of the Tax Period in which the Tax Loss is used to offset against Taxable Income.

If there is a change in ownership of more than 50%, Tax Losses can still be carried forward provided the same or similar Business is carried on following the change in ownership.<sup>233</sup>

<sup>233</sup> Articles 39(1)(a) and 39(1)(b) of the Corporate Tax Law.



These rules do not apply where the Taxable Person's shares are listed on a Recognised Stock Exchange.<sup>234</sup>

### 6.7.3. Transfer of Tax Losses

Tax Losses may be transferred between Taxable Persons that are Resident juridical persons, where all of the following conditions are met:<sup>235</sup>

- one entity has a direct or indirect ownership interest of at least a 75% in the other, or a third entity has a direct or indirect ownership interest of at least 75% of the shares in both;
- they share the same Financial Year;
- they prepare their Financial Statements using the same accounting standards;
- none of the Persons are Exempt Persons or Qualifying Free Zone Persons.

Taxable Persons must meet the qualifying common ownership conditions from the start of the Tax Period in which the Tax Loss is incurred to the end of the Tax Period in which the transferred Tax Loss is used before they are able to transfer Tax Losses.<sup>236</sup>

The Taxable Person who transfers the Tax Losses will have the amount of the Tax Losses available to them, reduced by the amount they have transferred.<sup>237</sup>

Transferred Tax Losses can reduce the recipient's Taxable Income by a maximum of 75% of their Taxable Income in that Tax Period.<sup>238</sup> There is no corresponding minimum amount of Tax Loss which must be transferred, however the maximum that can be transferred to the recipient is 75% of their Taxable Income in that Tax Period.

A single Taxable Person may transfer their Tax Losses to more than one Taxable Person provided that in each case the relationship of the recipient Taxable Person with the Taxable Person transferring their Tax Losses meets the relevant conditions. Similarly, a recipient company can claim Tax Losses from more than one transferring company provided that the total Tax Loss offset does not exceed 75% of the recipient's Taxable Income and that all other conditions for the transfer of Tax Losses are met.

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<sup>234</sup> Article 39(3) of the Corporate Tax Law.

<sup>235</sup> Article 38(1) of the Corporate Tax Law.

<sup>236</sup> Article 38(1)(d) of the Corporate Tax Law.

<sup>237</sup> Article 38(2)(c) of the Corporate Tax Law.

<sup>238</sup> Articles 38(2)(a) and 38(2)(b) of the Corporate Tax Law.



### Example 23: Transfer of Tax Losses

C LLC owns 75% of the shares of F LLC and both meet all the requirements to qualify for the transfer of loss relief.

C LLC makes a loss of AED 2,000,000 and F LLC makes a profit of AED 2,000,000 in the same Tax Period. C LLC chooses to transfer AED 1,500,000 of Tax Losses to F LLC. This is the maximum amount that F LLC can offset against its Taxable Income. This gives F LLC a final Taxable Income of AED 500,000. The remaining AED 500,000 of unutilised losses is carried forward by C LLC to the subsequent Tax Period.

(Amounts in AED)	C LLC	F LLC
Taxable Income / (Loss)	(2,000,000)	2,000,000
Tax Loss transferred	1,500,000	0
Tax Losses received	0	(1,500,000)
Final Taxable Income / (Loss)	(500,000)	500,000
Tax Loss carried forward	(500,000)	0

## 6.8. Determination of Taxable Income

Calculating Taxable Income is a two-step process:

- The Taxable Person must first determine their Accounting Income. This will be based on Financial Statements prepared according to accounting standards recognised in the UAE (IFRS or IFRS for SMEs). Qualifying Free Zone Persons and any other Taxable Persons with revenue over AED 50 million must prepare and maintain audited Financial Statements.
- The second step is to apply the relevant adjustments to the Accounting Income to arrive at the Taxable Income amount.<sup>239</sup>

Taxable Persons have to submit a Tax Return to the FTA within 9 months after the end of each Tax Period.<sup>240</sup>

<sup>239</sup> Article 20(2) of the Corporate Tax Law.

<sup>240</sup> Article 53(1) of the Corporate Tax Law.



The Tax Return is self-assessed, and Taxable Persons must provide their Accounting Income and details of any relevant adjustments, such as exemptions and reliefs claimed.

#### Example 24: Calculation of Taxable Income

C LLC is a UAE resident company. At the end of its most recent Tax Period, its Financial Statements show an Accounting Income of AED 10,000,000. It has previously made an election to exempt its income from its Foreign Permanent Establishment in Country B. C LLC also has carried forward Tax Losses of AED 2,000,000.

Its Accounting Income for the most recent Tax Period includes the following items:

- Dividends received from UAE Resident companies: AED 1,000,000;
- Income from its Foreign Permanent Establishment in Country B: AED 1,500,000;
- Net Interest Expenditure: AED 7,000,000; and
- Entertainment expenditure: AED 500,000.

In order to determine its Taxable Income, C LLC must make the following adjustments to the Accounting Income in respect of these items:

- Domestic dividends are Exempt Income for Corporate Tax purposes. As a result, the dividend income of AED 1,000,000 should be excluded from C LLC's Accounting Income;
- C LLC has made an election to exempt its income from its Foreign Permanent Establishment. As a result, the income from its Permanent Establishment in Country B of AED 1,500,000 should also be excluded from C LLC's Accounting Income (assuming the relevant conditions have been met);
- Net Interest Expenditure is deductible in full as it is less than the de minimis Net Interest Expenditure of AED 12,000,000; and
- Only 50% of entertainment expenditure is an allowable expense for Corporate Tax purposes. As a result, 50% of the expenditure (AED 500,000 x 50% = AED 250,000) must be added back to C LLC's Accounting Income.

C LLC's Taxable Income is therefore:

Accounting Income	10,000,000
Less: Domestic dividends	(1,000,000)
Less: Foreign Permanent Establishment income	(1,500,000)
Add: Interest expenditure	0



<i>Add:</i> Entertainment expenditure	<u>250,000</u>
<b>Taxable Income</b>	<b>7,750,000</b>

C LLC can use its carried forward Tax Losses to reduce its Taxable Income by up to 75% of its Taxable Income. As the amount of carried forward Tax Losses of AED 2,000,000 is less than 75% of its Taxable Income (AED 7,750,000 x 75% = AED 5,812,500), C LLC can use all of its available Tax Losses in this Tax Period.

C LLC's final Taxable Income is therefore:

Taxable Income	7,750,000
<i>Less:</i> Tax Losses	<u>(2,000,000)</u>
<b>Final Taxable Income</b>	<b>5,750,000</b>

## 6.9. Transitional rules

In order to compute the Corporate Tax liabilities for a Taxable Person's first Tax Period, it is necessary for Taxable Persons to have both an opening and a closing balance sheet. The opening balance sheet for the first Tax Period should be the closing balance sheet on the last day of the Person's Financial Year that ends immediately before its first Tax Period commences.<sup>241</sup>

If no accounts were prepared for the previous Financial Year, a closing balance sheet will have to be prepared under an appropriate accounting standard, as applicable and regardless of whether the Cash Basis of Accounting or Accrual Basis of Accounting is applied.

Ministerial Decision No. 120 of 2023 includes certain adjustments a Taxable Person may make (by way of an election) in relation to intangible assets, Immovable Property, and Financial Assets and Financial Liabilities owned by the Taxable Person before it becomes subject to Corporate Tax.<sup>242</sup> These elections must be made on the submission of the Taxable Person's first Tax Return, and are deemed irrevocable except under exceptional circumstances that require FTA approval.<sup>243</sup>

In relation to Immovable Property, if Immovable Property owned by the Taxable Person prior to the Taxable Person's first Tax Period is recorded on a historical cost

<sup>241</sup> Article 61(1) of the Corporate Tax Law.

<sup>242</sup> Ministerial Decision No. 120 of 2023.

<sup>243</sup> Articles 2(5), 3(4) and 4(3) of Ministerial Decision No. 120 of 2023.



basis in the Financial Statements, the Taxable Person can elect in its first Tax Period to adjust its Taxable Income in calculating the gain on the disposal of any Immovable Property in order that only gains accruing while within the scope of Corporate Tax will be taxed. The Taxable Person can select whether they use a 'time apportionment method' or a 'valuation method' when determining the amount of the gain that shall be excluded.<sup>244</sup>

The 'valuation method' allows the Taxable Person to exclude the amount of the gain that would have arisen at the start of their first Tax Period had the Immovable Property been disposed of at Market Value and the cost of the Immovable Property was the higher of the original cost and the net book value.<sup>245</sup> This would require the Taxable Person to determine the Market Value of the Immovable Property at the start of their first Tax Period on the basis as set out in Ministerial Decision No. 120 of 2023.

Alternatively, the Taxable Person could choose to use the 'time apportionment method' to exclude the amount of the gain that would have arisen at the start of their first Tax Period.<sup>246</sup> This allows the Taxable Person to exclude a proportion of the total gain in accordance with the proportion of time the Immovable Property was owned prior to the start of the Taxable Person's first Tax Period and the time of disposal of the Immovable Property.

For intangible assets, any apportionment must be on the basis of time apportionment;<sup>247</sup> while for Financial Assets and Financial Liabilities, any apportionment must be on the basis of valuations at the start of the period where the assets came within the scope of Corporate Tax.<sup>248</sup>

For further details on these transitional rules, readers are advised to consult Ministerial Decision No. 120 of 2023 on the Adjustments Under the Transitional Rules.

### **Example 25: Valuation Method**

Before their first Tax Period, S LLC acquired a Financial Asset from a company, W LLC. S LLC records the Financial Asset on a historical cost basis at AED 70,000 in its Financial Statements.

<sup>244</sup> Article 2 of Ministerial Decision No. 120 of 2023.

<sup>245</sup> Article 2(2)(a) of Ministerial Decision No. 120 of 2023.

<sup>246</sup> Articles 2(2)(b) and 2(4) of Ministerial Decision No. 120 of 2023.

<sup>247</sup> Articles 3(2) and 3(3) of Ministerial Decision No. 120 of 2023.

<sup>248</sup> Article 4(2) of Ministerial Decision No. 120 of 2023.



At the beginning of its first Tax Period in June 2023, an independent expert valued the Financial Asset at AED 100,000. When filing its first set of Tax Returns, S LLC made an election to adjust its Taxable Income for the purposes of calculating gains or losses on all Financial Assets and Financial Liabilities owned before the start of their first Tax Period.

In 2025, S LLC sold the Financial Asset for AED 120,000. As S LLC has elected to use the valuation method, S LLC will only be taxed on the portion of the gain that can be attributed to periods after 1 June 2023.

As a result, S LLC will only need to recognise the gain of AED 20,000 (AED 120,000 – AED 100,000) rather than the full gain of AED 50,000 (AED 120,000 – AED 70,000).

### **Example 26: Time Apportionment Method**

G LLC purchases and develops properties in the UAE. G LLC purchased a Dubai property on 1 June 2022, and recognises this on the historical cost basis of AED 2,000,000.

When filing its first Tax Return for the Tax Period ended 31 May 2024, G LLC made an election to adjust its Taxable Income for the purposes of calculating gains or losses on the Dubai property using the time apportionment method.

On 1 June 2024, G LLC sold its Dubai property for AED 3,500,000. G LLC has elected to use the time apportionment method for the purposes of determining how much of the gain shall be excluded. Given that the Immovable Property was owned for two years in total and G LLC owned the property for a year before their first Tax Period, this means that half of the gain can be excluded for the purposes of determining G LLC's Taxable Income.

As a result, G LLC will only need to recognise, for Corporate Tax purposes, a gain of AED 750,000, as this is the portion of the full gain of AED 1,500,000 that can be attributed to the time between 1 June 2023 and 1 June 2024.



## 7. Reliefs

### 7.1. Chapter summary

This chapter provides an overview of the reliefs available under the Corporate Tax Law. Specifically, it sets out small business relief, relief for transfer of assets and liabilities between companies in a Qualifying Group and business restructuring relief.

### 7.2. Small business relief

Small business relief is provided to eligible UAE businesses, and reduces their Corporate Tax burden and compliance costs in the Corporate Tax regime, primarily by alleviating the burden of having to calculate and pay Corporate Tax in each relevant Tax Period where the conditions are satisfied.

Any eligible Taxable Person with Revenue equal to or below AED 3,000,000 in a relevant Tax Period and all previous Tax Periods (ending on or before 31 December 2026), can elect to be treated as having no Taxable Income in that period and **will not be obliged to calculate its Taxable Income or complete a full Tax Return.**<sup>249</sup> Where a Taxable Person has elected to benefit from small business relief, they will still be able to carry forward any unutilised Tax Losses<sup>250</sup> and disallowed Net Interest Expenditure<sup>251</sup> arising from prior Tax Periods to be used in future Tax Periods in which small business relief no longer applies.

To be eligible for small business relief, the Taxable Person in question must not be a Constituent Company of a Multinational Enterprise that is required to prepare a Country-by-Country Report under the UAE's Country-by-Country Reporting legislation.<sup>252</sup> In addition, a Qualifying Free Zone Person cannot claim small business relief.<sup>253</sup>

For the Tax Period that a Resident Person elects to benefit from small business relief, the Resident Person will not be required to maintain transfer pricing documentation, if applicable. However, they will still be required to apply the arm's length principle.<sup>254</sup>

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<sup>249</sup> Article 2(1) of Ministerial Decision No. 73 of 2023.

<sup>250</sup> Article 37 of the Corporate Tax Law and Article 4 of Ministerial Decision No. 73 of 2023.

<sup>251</sup> Article 30 of the Corporate Tax Law and Article 5 of Ministerial Decision No. 73 of 2023.

<sup>252</sup> Article 3(1) of Ministerial Decision No. 73 of 2023 and Cabinet Resolution No. 44 of 2020.

<sup>253</sup> Article 3(2) of Ministerial Decision No. 73 of 2023.

<sup>254</sup> Article 21(2)(e) of the Corporate Tax Law.



For further details on small business relief, readers are advised to consult Ministerial Decision No. 73 of 2023 on Small Business Relief, and the Corporate Tax Guide on Small Business Relief.

#### **Example 27: Electing for small business relief**

Mr X operates a Business in Abu Dhabi. He is a Resident Person for Corporate Tax Purposes. His Tax Period ends on 31 December each year. To date, Mr X's Revenue has never exceeded the small business relief threshold of AED 3,000,000 per Tax Period in any Tax Period. In the most recent Tax Period ending 31 December 2025, Mr X derived Revenue of AED 2,000,000.

Mr X is eligible to benefit from small business relief as his Revenue for the 31 December 2025 Tax Period does not exceed AED 3,000,000, which is also the case for previous years' Tax Periods. In order to benefit from the relief, he must make an election in his Tax Return.

Mr X will be treated as having no Taxable Income for the 31 December 2025 Tax Period. This means that he will not have to calculate his Taxable Income, and will have no Corporate Tax liability in the Tax Period.

#### **Example 28: Carried forward unutilised Tax Losses when electing for small business relief**

C LLC is a UAE Resident company. In the Tax Period ending 31 December 2025, C LLC's Revenue was AED 1,700,000. At the beginning of the Tax Period, C LLC had unutilised Tax Losses of AED 400,000. In the prior year, C LLC's Revenue did not exceed the AED 3,000,000 relief threshold.

C LLC elects for small business relief for the Tax Period ending 31 December 2025. C LLC's carried forward Tax Losses cannot be used in this Tax Period, but can be carried forward and used in future Tax Periods in which the small business relief is not elected provided the relevant conditions are met.

In the Tax Period ending 31 December 2026, C LLC sold a factory to B LLC for AED 5 million, resulting in its Revenue exceeding the AED 3 million (per Tax Period) small business relief eligibility threshold. In this case, C LLC will not be eligible for small business relief for the Tax Period Ending 31 December 2026.

C LLC will need to determine its Taxable Income for the 31 December 2026 Tax Period. To the extent C LLC has a positive Taxable Income, it is able to utilise its Tax Losses



of AED 400,000 brought forward from the prior Tax Period, subject to the 75% utilisation restriction. Should there be any remaining Taxable Income following the utilisation of the available Tax Losses, any Taxable Income exceeding AED 375,000 will be taxable at 9%.

### 7.3. Transfers within a Qualifying Group

It is a common practice for closely related Businesses to transfer assets and liabilities between each other for operational reasons. Ordinarily, there would be a taxable gain or loss where an asset or liability is transferred for an amount different to its net book value. However, Corporate Tax relief is available where an asset or liability is transferred between members of a Qualifying Group which allows the transfer to take place without giving rise to a Corporate Tax liability.<sup>255</sup>

Taxable Persons will be treated as being members of the same Qualifying Group if they meet all of the following conditions:<sup>256</sup>

- The Taxable Persons are juridical persons that are Resident Persons, or Non-Resident Persons that have a Permanent Establishment in the UAE;<sup>257</sup>
- Either Taxable Person has a direct or indirect ownership interest of at least 75% in the other Taxable Person, or a third Person has a direct or indirect ownership interest of at least 75% in each of the Taxable Persons;<sup>258</sup>
- None of the Persons are an Exempt Person;<sup>259</sup>
- None of the Persons are a Qualifying Free Zone Person;<sup>260</sup>
- The Financial Year of each of the Taxable Person ends on the same date;<sup>261</sup> and
- Both Taxable Persons prepare their Financial Statements using the same accounting standards.<sup>262</sup>

Where an election is made to apply the transfer within a Qualifying Group provisions, assets or liabilities held on capital account that have been transferred between

<sup>255</sup> Article 26(1) of the Corporate Tax Law.

<sup>256</sup> Article 26(2) of the Corporate Tax Law.

<sup>257</sup> Article 26(2)(a) of the Corporate Tax Law.

<sup>258</sup> Article 26(2)(b) of the Corporate Tax Law.

<sup>259</sup> Article 26(2)(c) of the Corporate Tax Law.

<sup>260</sup> Article 26(2)(d) of the Corporate Tax Law.

<sup>261</sup> Article 26(2)(e) of the Corporate Tax Law.

<sup>262</sup> Article 26(2)(f) of the Corporate Tax Law.



members of a Qualifying Group are treated as being transferred at the net book value of the asset or liability so that no gain or loss arises.<sup>263</sup>

The amount paid or received for the transfer will be treated as being equal to the value at which the transferor (the Taxable Person that transferred the asset or liability) records the transferred asset or liability.<sup>264</sup>

When calculating their Taxable Income, and unless and until the asset is subsequently transferred or sold to a third party, the transferee will exclude any depreciation, amortisation or other change in the value of the transferred asset or liability to the extent that it relates to the gain or loss that arose to the transferor that has not been subject to Corporate Tax due to the application of the relief for transfers within a Qualifying Group.<sup>265</sup>

Upon realisation of the asset or liability, the transferee will need to include any amount that has not been recognised for Corporate Tax purposes, other than any such amount that arose prior to the most recent acquisition where the relief did not apply.<sup>266</sup>

An election must be made by the transferor to apply this treatment and both the transferor and transferee must maintain a record of the agreement to transfer the asset or liability at net book value.<sup>267</sup>

The election is made alongside the Tax Return for the Tax Period in which the transfer occurs.<sup>268</sup> This election is irrevocable and will apply to all future transfers of assets and liabilities held on capital account by the transferor within the Qualifying Group in all future Tax Periods.<sup>269</sup>

The relief will be clawed back if, within two years of the transfer, there is a subsequent transfer of the asset or liability outside of the Qualifying Group, or either the transferor or transferee ceases to be a member of the same Qualifying Group.<sup>270</sup> In either of these scenarios, the transferor shall treat the transfer as having taken place at Market Value at the date of the original transfer, and shall account for any gain or loss that arises as a result in the Tax Return for the Tax Period in which the subsequent transfer

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<sup>263</sup> Article 3(4) of Ministerial Decision No. 132 of 2023.

<sup>264</sup> Article 26(3)(b) of the Corporate Tax Law.

<sup>265</sup> Article 4(1) of Ministerial Decision No. 134 of 2023.

<sup>266</sup> Article 4(2) of Ministerial Decision No. 134 of 2023.

<sup>267</sup> Articles 3(1) and 6 of Ministerial Decision No. 132 of 2023.

<sup>268</sup> Article 3(2) of Ministerial Decision No. 132 of 2023.

<sup>269</sup> Article 3(3) of Ministerial Decision No. 132 of 2023.

<sup>270</sup> Article 26(4) of the Corporate Tax Law.



occurred.<sup>271</sup> If the transferor no longer exists (for example, they have ceased to carry out a Business), the transferee would be responsible for meeting any Corporate Tax obligation on the deferred gain or loss.<sup>272</sup>

### Example 29: Relief for transfers within a Qualifying Group

C LLC and D LLC are both manufacturing businesses wholly owned by X LLC. C LLC and D LLC also meet all other conditions to be considered as members of a Qualifying Group.

During the Tax Period, D LLC won a large contract to supply goods to a new customer. In order to manufacture these goods, it needs specialist machinery. C LLC had this kind of machinery and, due to a recent change in its clients' needs, no longer requires the machinery. C LLC transferred the machinery to D LLC. C LLC did not request payment and D LLC did not pay for the machinery. At the time of the transfer, the net book value of the machinery was AED 800,000 and its Market Value was AED 1,200,000. D LLC uses the fair value method of accounting and as a result, recognised the asset at a net book value of AED 1,200,000 for accounting purposes.

For Corporate Tax purposes, the machinery can be treated as having been transferred at the asset's net book value, AED 800,000. This means that when calculating their Taxable Income, C LLC will be treated as having received AED 800,000 and D LLC will be treated as having paid AED 800,000 for the machinery. As a result, no gain or loss will arise for C LLC for Corporate Tax purposes.

(Amounts in AED)	C LLC	D LLC
Amount deemed to have been received for Corporate Tax purposes	800,000	n/a
Less: Net book value of the machine brought forward	(800,000)	n/a
Gain / loss arising for Corporate Tax purposes on the transfer of the machine	0	n/a

<sup>271</sup> Article 26(5) of the Corporate Tax Law.

<sup>272</sup> Article 5 of Ministerial Decision No. 132 of 2023.



### Example 30: Subsequent transfer

One year later D LLC lost the contract with the large customer and therefore no longer required the specialist machinery. As a result, D LLC sold the machinery to a third party for AED 1,500,000.

The relief shall no longer apply because there is a subsequent transfer of the asset outside of the Qualifying Group within 2 years. As a result, C LLC (the original transferor) shall treat the transfer from C LLC to D LLC as having taken place at Market Value at the date of the transfer, and shall include a gain of AED 400,000 (AED 1,200,000 – AED 800,000) in the Tax Return for the Tax Period in which D LLC subsequently transferred the asset.

Given that the transferor has paid Corporate Tax on the gain arising on the original transfer (due to the clawback), this means that the original gain does not need to be taken into account by the transferee. Therefore, for the purposes of calculating the gain / loss that will be subject to Corporate Tax for D LLC, the tax treatment would follow the accounting treatment, meaning that the taxable gain for D LLC will be AED 300,000 (AED 1,500,000 – AED 1,200,000).

For further details on Transfers within a Qualifying Group, readers are advised to consult Ministerial Decision No. 132 of 2023 on Transfers Within a Qualifying Group.

## 7.4. Business restructuring relief

In certain circumstances, where an entire Business or an independent part of a Business is transferred in exchange for shares or other ownership interests, business restructuring relief may apply to eliminate the Corporate Tax impact of these transactions. Under this relief, no gains or losses need to be taken into account when calculating the Taxable Income for either party.<sup>273</sup>

In order for this relief to apply, all of the following conditions need to be met:

- The transfer is undertaken in accordance with, and meets all the conditions imposed by, the applicable legislation of the UAE;<sup>274</sup>
- The Taxable Persons are Resident Persons, or Non-Resident Persons that have a Permanent Establishment in the UAE;<sup>275</sup>

<sup>273</sup> Article 27(1) of the Corporate Tax Law.

<sup>274</sup> Article 27(2)(a) of the Corporate Tax Law.

<sup>275</sup> Article 27(2)(b) of the Corporate Tax Law.



- None of the Persons are an Exempt Person;<sup>276</sup>
- None of the Persons are a Qualifying Free Zone Person;<sup>277</sup>
- The Financial Year of each of the Taxable Persons ends on the same date;<sup>278</sup>
- The Taxable Persons prepare their Financial Statements using the same accounting standards;<sup>279</sup> and
- The transfer is undertaken for valid commercial reasons which reflect economic reality.<sup>280</sup>

An individual can use this relief in order to transfer their Business to an incorporated entity as long as the relevant conditions are satisfied.

Where business restructuring relief applies, the assets and liabilities transferred will be treated as being transferred at their net book value at the time of transfer so that neither a gain nor a loss arises.<sup>281</sup>

This is an optional relief, and the Person that transferred the Business ('the transferor') can choose whether to elect for the relief to apply on a case-by-case basis.<sup>282</sup> Both the transferor and transferee need to maintain a record of the agreement to transfer the Business at net book value.<sup>283</sup>

The relief is available where a Business is transferred in exchange for ownership interests and other forms of consideration (such as cash). Where other forms of considerations are part of the overall consideration for the Business transfer, the Market Value of any other form of consideration cannot exceed the net book value of the assets and liabilities transferred, or 10% of the nominal value of the ownership interests issued.<sup>284</sup>

When calculating their Taxable Income, the transferee will exclude any depreciation, amortisation or other change in the value of the transferred assets and liabilities to the extent that the change in value relates to the gain or loss that arose to the transferor

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<sup>276</sup> Article 27(2)(c) of the Corporate Tax Law.

<sup>277</sup> Article 27(2)(d) of the Corporate Tax Law.

<sup>278</sup> Article 27(2)(e) of the Corporate Tax Law.

<sup>279</sup> Article 27(2)(f) of the Corporate Tax Law.

<sup>280</sup> Article 27(2)(g) of the Corporate Tax Law.

<sup>281</sup> Article 27(3)(a) of the Corporate Tax Law.

<sup>282</sup> Article 4 of Ministerial Decision No. 133 of 2023.

<sup>283</sup> Articles 4(1) and 9 of Ministerial Decision No. 133 of 2023.

<sup>284</sup> Article 2 of Ministerial Decision No. 133 of 2023.



that has not been subject to Corporate Tax due to the application of business restructuring relief.<sup>285</sup>

Upon realisation, the transferee will need to include any gain or loss that has not previously been recognised for Corporate Tax purposes in respect of the assets and liabilities since the most recent acquisition to which business restructuring relief did not apply.<sup>286</sup>

Tax Losses transferred as part of a business restructuring may only become carried forward Tax Losses available for the transferee if the transferee continues to conduct a similar Business or Business Activity following the transfer.<sup>287</sup> This will usually mean that:

- the transferee uses some or all of the same assets that were used by the transferor prior to the transfer;
- the transferee has not made significant changes to the core identity or operations of the Business since the transfer; and
- any changes that have been made have resulted from the development or use of assets, services, processes, products or methods that existed before the transfer.
- This relief will not apply if, within two years of the initial transfer:
  - The shares or other ownership interests in either the transferor or the transferee are sold, transferred or otherwise disposed of, in whole or part, to a Person that is not a member of the Qualifying Group (as defined in Section [7.3](#)) to which the transferor or the transferee belong;<sup>288</sup> or
  - There is a subsequent transfer or disposal of the Business or independent part of the Business which was transferred.<sup>289</sup>

In either of these scenarios, the transferor shall treat the transfer as having taken place at Market Value at the date of the transfer, and shall account for any gain or loss that arises as a result in the Tax Return for the Tax Period in which the subsequent transfer occurred.<sup>290</sup> If the transferor is no longer a Taxable Person (for example, they have ceased to exist or cease to have a Permanent Establishment in the UAE), or if they are an individual, the transferee would be responsible for meeting any Corporate Tax obligation on the deferred gain or loss.<sup>291</sup>

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<sup>285</sup> Article 5(1) of Ministerial Decision No. 134 of 2023.

<sup>286</sup> Article 5(2) of Ministerial Decision No. 134 of 2023.

<sup>287</sup> Article 5 of Ministerial Decision No. 133 of 2023.

<sup>288</sup> Article 27(6)(a) of the Corporate Tax Law.

<sup>289</sup> Article 27(6)(b) of the Corporate Tax Law.

<sup>290</sup> Article 27(7) of the Corporate Tax Law.

<sup>291</sup> Article 8 of Ministerial Decision No. 133 of 2023.



### Example 31: Business restructuring relief

F LLC is a UAE resident company that sells agricultural machinery. Z LLC is a UAE resident company that operates an agricultural machinery repair business.

During the Tax Period, Z LLC bought F LLC's business in return for 20% of the shares in Z LLC. The net book value of F LLC's business at the time of transfer was AED 2,300,000. The Market Value of the shares received by F LLC was AED 2,700,000, which equals the Market Value of the business. Z LLC measures assets at fair value and, therefore, recognised the assets and liabilities of the business at a net book value of AED 2,700,000 for accounting purposes.

For Corporate Tax purposes, the business will be treated as having been transferred to Z LLC at its net book value, AED 2,300,000. This means that when calculating their Taxable Income, F LLC will be treated as having received AED 2,300,000 and Z LLC will be treated as having paid AED 2,300,000 for the business. As a result, no gain or loss accrues to F LLC or Z LLC.

(Amounts in AED)	F LLC	Z LLC
Amount deemed to have been received for Corporate Tax purposes	2,300,000	n/a
Less: Net book value of the Business brought forward	2,300,000	n/a
Gain / loss arising for Corporate Tax purposes on the transfer of the Business	0	n/a

### Example 32: Subsequent transfer

One year later, Z LLC sold the business for AED 3,000,000. Business restructuring relief shall no longer apply because there is a subsequent transfer of the Business which was transferred. As a result, F LLC (the transferor) shall treat the original transfer from F LLC to Z LLC as having taken place at Market Value at the date of the transfer, and F LLC shall take into account a gain of AED 400,000 (AED 2,700,000 – AED 2,300,000) in the Tax Return for the Tax Period in which Z LLC subsequently sold the Business.

Given that the transferor has paid Corporate Tax on the gain arising on the original transfer (due to the clawback), this means that the original gain does not need to be



taken into account by the transferee. Therefore, for the purposes of calculating the gain / loss that will be subject to Corporate Tax for Z LLC, the tax treatment would follow the accounting treatment. This means that the taxable gain for Z LLC will be AED 300,000 (AED 3,000,000 – AED 2,700,000).

For further details on business restructuring relief, readers are advised to consult Ministerial Decision No. 133 of 2023 on Business Restructuring Relief.<sup>292</sup>

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<sup>292</sup> Ministerial Decision No. 133 of 2023.



## 8. Special regimes

### 8.1. Chapter summary

This chapter sets out the treatment of partnerships and Tax Groups under the Corporate Tax Law. It explains what is meant by a partnership and how it is taxed. It also introduces the requirements associated with forming a Tax Group and explains how to calculate the Taxable Income of a Tax Group.

### 8.2. Taxation of partnership and their partners

#### 8.2.1. Unincorporated Partnerships

Individuals, companies and other legal entities may join with others to form a partnership, usually established under a contract and jointly conduct Business or hold investments. Partnerships can take a range of different forms, and can be incorporated, such as Limited Liability Partnerships (LLPs), or Unincorporated Partnerships, such as general partnerships and joint ventures (JVs).

Incorporated partnerships (see Section [8.2.2](#)) have a separate legal personality from their partners and are treated as a juridical person that is subject to Corporate Tax at the partnership level.

However, where a partnership does not have a separate legal personality, each partner is treated as:

- conducting the Business of the partnership;<sup>293</sup>
- having a status, intention, and purpose of the partnership;<sup>294</sup>
- holding assets that the partnership holds;<sup>295</sup> and
- being party to any arrangement to which the partnership is a party.<sup>296</sup>

In this case, the Unincorporated Partnership is not considered a Taxable Person in its own right, as it is not considered a juridical person.<sup>297</sup> This means that the partnership itself is not subject to Corporate Tax, and each partner is subject to Corporate Tax on their income from the partnership.<sup>298</sup> The activities of the partnership are treated as

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<sup>293</sup> Article 16(2)(a) of the Corporate Tax Law.

<sup>294</sup> Article 16(2)(b) of the Corporate Tax Law.

<sup>295</sup> Article 16(2)(c) of the Corporate Tax Law.

<sup>296</sup> Article 16(2)(d) of the Corporate Tax Law.

<sup>297</sup> Article 2 of Ministerial Decision No. 127 of 2023.

<sup>298</sup> Article 16(1) of the Corporate Tax Law.



being carried out by the partners, and each partner is taxed in proportion to their distributive share in the partnership.

### 8.2.1.1. Taxable Income of partners in an Unincorporated Partnership

Partners in an Unincorporated Partnership are taxed in accordance with the wider Corporate Tax regime. In particular, individuals that are partners in an Unincorporated Partnership are taxed on the same basis as if they were conducting Business on their own. Therefore, they are only subject to Corporate Tax on income arising from categories of Business and Business Activities that are subject to Corporate Tax for individuals (see Section 5.3.3).

However, the partners in an Unincorporated Partnership may make an application to the FTA for the Unincorporated Partnership to be treated as a Taxable Person (i.e. to have the Corporate Tax liability be determined and assessed at the level of the partnership).<sup>299</sup>

Once the application is approved, and to the extent there are any individuals who are partners in that Unincorporated Partnership, Cabinet Decision No. 49 of 2023 will no longer be applicable in relation to the activities of those individual partners in the Unincorporated Partnership, as the Unincorporated Partnership, and not the partners, is treated as conducting the Business (unless the partners conduct other business or business activities separate from the Unincorporated Partnership). This means that all partnership income will be Taxable Income subject to Corporate Tax for the Unincorporated Partnership. The application will be deemed irrevocable except under exceptional circumstances and pursuant to approval by the FTA.<sup>300</sup>

Where the application for an Unincorporated Partnership to be treated as a standalone Taxable Person has been approved by the FTA, any Taxable Income for the partnership will be excluded from the Taxable Income of the partner.<sup>301</sup> The partners will also exclude any gains or losses on the transfer, sale or disposal of all or part of their interest in the Unincorporated Partnership if this interest meets the conditions of the participation exemption (see Section [6.4.2](#)).<sup>302</sup>

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<sup>299</sup> Article 16(8) of the Corporate Tax Law.

<sup>300</sup> Article 3(1) of Ministerial Decision No. 127 of 2023.

<sup>301</sup> Article 6(1) of Ministerial Decision No. 134 of 2023.

<sup>302</sup> Article 6(2) of Ministerial Decision No. 134 of 2023.



The Unincorporated Partnership needs to notify the FTA in case of any partner joining or leaving the Unincorporated Partnership within 20 business days.<sup>303</sup>

For further details on Unincorporated Partnerships, readers are advised to consult the relevant Ministerial Decisions, including Ministerial Decision No. 127 of 2023 on Unincorporated Partnership, Foreign Partnership and Family Foundation<sup>304</sup>

### **8.2.1.2. Allocation of partnership assets, liabilities, income and expenditure**

Where an Unincorporated Partnership has not made an application to be treated as a standalone Taxable Person:

- A partner's distributive share is the share of partnership profits they are entitled to under the partnership agreement. Where the distributive share cannot be determined (e.g. if there is no partnership agreement), the FTA can prescribe the manner in which profits shall be allocated amongst the partners.<sup>305</sup>
- Any partnership assets, liabilities, income or expenditure will be allocated to each partner in proportion to their distributive share in the partnership.<sup>306</sup>

Where an Unincorporated Partnership has not made the election to be treated as a Taxable Person, a partner in the Unincorporated Partnership should follow the ordinary steps outlined in Chapter [6](#) when calculating their Taxable Income. A partner's Taxable Income is based on their share of the partnership's income, expenses, assets and liabilities. They should also take into account:

- expenditure incurred directly by the partner in conducting the Business of the partnership;<sup>307</sup> and
- Interest expenditure incurred by the partner in relation to contributions made to the capital account (e.g., cash or assets) of the partnership.<sup>308</sup>

This expenditure needs to meet the normal rules for deductibility of business expenses. For example, a partner will not be allowed to deduct expenditure relating to personal travel or home rent given that neither of this expenditure is incurred for the purposes of the business.

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<sup>303</sup> Article 3(2) of Ministerial Decision No. 127 of 2023.

<sup>304</sup> Ministerial Decision No. 127 of 2023 and Ministerial Decision No. 134 of 2023.

<sup>305</sup> Article 16(3) of the Corporate Tax Law.

<sup>306</sup> Article 16(3) of the Corporate Tax Law.

<sup>307</sup> Article 16(4)(a) of the Corporate Tax Law.

<sup>308</sup> Article 16(4)(b) of the Corporate Tax Law.



Any Interest paid to a partner by the partnership on their capital account will be treated as an allocation of income to the partner.<sup>309</sup> This forms part of the partner's Taxable Income and is, therefore, not a deductible expense for the partner in calculating their Taxable Income.

Where a partner receives a salary, draw down or other income derived from their profit share, these amounts will be treated as allocations of income to the partner and will, therefore, usually be taxable on the partner as a distributive share of any partnership profits.

### Example 33: Taxation of an Unincorporated Partnership

An Unincorporated Partnership (X Partnership) has three partners, Miss A and Mr B who are individuals, and C LLC, a juridical person. All partners have the same Financial Year.

Miss A is entitled to 40% of partnership profits while Mr B and C LLC are entitled to 30% each.

During its most recent Tax Period, X Partnership had a net Accounting Income of AED 9,000,000. This was made up of income of AED 15,000,000 and expenses of AED 6,000,000. The income and expenditure would be allocated as follows:

Miss A (40% share of assets, liabilities, income or expenditure):

Income	6,000,000
Expenditure	<u>(2,400,000)</u>
<b>Accounting Income</b>	<b>3,600,000</b>

Mr B (30% share of assets, liabilities, income or expenditure):

Income	4,500,000
Expenditure	<u>(1,800,000)</u>
<b>Accounting Income</b>	<b>2,700,000</b>

C LLC (30% share of assets, liabilities, income or expenditure):

Income	4,500,000
Expenditure	<u>(1,800,000)</u>

<sup>309</sup> Article 16(5) of the Corporate Tax Law.



**Accounting Income**

**2,700,000**

Each partner would then need to make their own tax adjustments to calculate their Taxable Income.

### 8.2.1.3. Application to be treated as a Taxable Person

As noted above, partners in an Unincorporated Partnership can make an application to be taxed at the partnership level, with the partnership itself becoming a Taxable Person.<sup>310</sup> This application will apply from the commencement of the Tax Period in which the application is made or from the commencement of a future Tax Period, or any other date determined by the FTA.<sup>311</sup>

The effect of this treatment is to ensure that Taxable Income is calculated at the partnership level rather than at the individual partner level. Whilst all partners remain jointly and severally liable for the Corporate Tax Payable for all Tax Periods in which they were partners, a single partner will need to be appointed as the partner responsible for complying with Corporate Tax related obligations on behalf of the partnership.<sup>312</sup>

### 8.2.2. Incorporated partnerships

Where a partnership is incorporated in the UAE and has a separate legal personality, as is the case for Limited Liability Partnerships and Limited Partnership Companies, they will be treated as a juridical person for Corporate Tax purposes. Their treatment will, therefore, be the same as other juridical persons such as Limited Liability Companies and Public Joint Stock Companies.

### 8.2.3. Tax treatment of a foreign partnership

A Foreign Partnership is a relationship established by contract between two or more Persons, such as a partnership or trust or any other similar association of Persons, in accordance with laws of a foreign jurisdiction. Foreign partnerships will be treated as Unincorporated Partnerships for the purposes of UAE Corporate Tax if:

- the foreign partnership is not subject to tax in the foreign country or territory;<sup>313</sup>

<sup>310</sup> Article 16(8) of the Corporate Tax Law.

<sup>311</sup> Article 16(10) of the Corporate Tax Law.

<sup>312</sup> Article 16(9)(c) of the Corporate Tax Law.

<sup>313</sup> Article 16(7)(a) of the Corporate Tax Law.



- each partner in the foreign partnership is individually subject to tax in respect of their distributive share;<sup>314</sup>

This means that in order for the Foreign Partnership to be treated as an Unincorporated Partnership for UAE Corporate Tax purposes, such partnership must be treated as not taxable in its own right in the foreign country or territory where it was formed, and the partners should be taxed on their distributive share of income received by or accrued to the partnership, subject to the tax residence of the partners and the respective tax treatment of income earned by the partners in the country of formation. Additionally, the foreign partnership must submit an annual declaration to the FTA to confirm that these conditions are met.<sup>315</sup> Moreover, the foreign country or territory and the UAE must have adequate arrangements in place for the purpose of sharing tax information regarding the partners in the foreign partnership.<sup>316</sup>

Where these conditions are met, the foreign partnership will be treated as an Unincorporated Partnership and each of the partners treated as individual Taxable Persons, unless an application is made to the FTA to be taxed at the partnership level, with the foreign partnership itself becoming a Taxable Person.

### 8.3. Tax Group regime

Companies under common ownership can form a Tax Group, subject to meeting the relevant conditions.<sup>317</sup> This allows the Tax Group to be treated as a single Taxable Person, reducing the compliance burden on individual companies by consolidating accounts and eliminating intra-group transactions, and increasing flexibility in the utilisation of Tax Losses.<sup>318</sup>

Businesses and business activities conducted by a Government Entity can also apply for this treatment.<sup>319</sup>

For further details on Tax Groups, readers are advised to consult the relevant Ministerial Decisions, including Ministerial Decision No. 125 of 2023 on Tax Groups.<sup>320</sup>

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<sup>314</sup> Article 16(7)(b) of the Corporate Tax Law.

<sup>315</sup> Article 4(1)(a) of Ministerial Decision No. 127 of 2023.

<sup>316</sup> Article 4(1)(b) of Ministerial Decision No. 127 of 2023.

<sup>317</sup> Article 40(1) of the Corporate Tax Law.

<sup>318</sup> Article 3 of Ministerial Decision No. 114 of 2023.

<sup>319</sup> Articles 2 and 3 of Ministerial Decision No. 68 of 2023.

<sup>320</sup> Ministerial Decision No. 125 of 2023 and Ministerial Decision No. 68 of 2023.



### 8.3.1. Requirements to form a Tax Group

In order to form a Tax Group, a Parent Company must make an application to the FTA. The application must be made by the Parent Company and each of the Subsidiaries seeking to become members of the Tax Group. Both the Parent Company and its Subsidiaries must be resident juridical persons under the Corporate Tax Law and under a relevant Double Taxation Agreement (if applicable), have the same Financial Year, and prepare their Financial Statements using the same accounting standards.<sup>321</sup> No member of the Tax Group can be an Exempt Person<sup>322</sup> or Qualifying Free Zone Person.<sup>323</sup>

In addition, there are ownership requirements such that the Parent Company must directly or indirectly:

- own at least 95% of the share capital of the Subsidiary;<sup>324</sup>
- hold at least 95% of the voting rights in the Subsidiary;<sup>325</sup> and
- be entitled to at least 95% of the Subsidiary's profits and net assets.<sup>326</sup>

A Parent Company or Subsidiary must not be considered resident for tax purposes in another jurisdiction under a relevant Double Taxation Agreement.<sup>327</sup> This may require the Parent Company or Subsidiary to maintain documentation to confirm that it is not resident for tax purposes in another jurisdiction, such as a confirmation from the relevant tax authority of the other jurisdiction.<sup>328</sup>

### 8.3.2. Formation and cessation of a Tax Group

A Tax Group will be formed from the beginning of the Tax Period specified in the application submitted to the FTA. The FTA may also determine the formation date as being the beginning of any other Tax Period.<sup>329</sup>

A Tax Group will cease to exist if the FTA approves the dissolution of the Tax Group, or if the Parent Company no longer meets the necessary conditions throughout the

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<sup>321</sup> Articles 40(1)(a), 40(1)(g) and 40(1)(h) of the Corporate Tax Law.

<sup>322</sup> Article 40(1)(e) of the Corporate Tax Law.

<sup>323</sup> Article 40(1)(f) of the Corporate Tax Law.

<sup>324</sup> Article 40(1)(b) of the Corporate Tax Law.

<sup>325</sup> Article 40(1)(c) of the Corporate Tax Law.

<sup>326</sup> Article 40(1)(d) of the Corporate Tax Law.

<sup>327</sup> Article 3 of Ministerial Decision No. 125 of 2023.

<sup>328</sup> Article 3 of Ministerial Decision No. 125 of 2023.

<sup>329</sup> Article 41(1) of the Corporate Tax Law.



relevant Tax Period.<sup>330</sup> The FTA may also dissolve or change the Parent Company of a Tax Group at the FTA's discretion based on information available to the FTA. If this happens, the FTA will notify the Parent Company.<sup>331</sup>

### 8.3.3. Joining or leaving a Tax Group

A Subsidiary is able to join an existing Tax Group by applying to the FTA with the Parent Company.<sup>332</sup> Newly established Parent Companies or Subsidiaries can join an existing Tax Group from the date of their incorporation, and do not have to wait until the beginning of the following Tax Period.<sup>333</sup>

A Subsidiary must leave an existing Tax Group if:

- an application to leave the Tax Group by the Parent Company and that Subsidiary is approved by the FTA; or
- if the Subsidiary no longer meets the relevant conditions to remain in the Tax Group.<sup>334</sup>

A Parent Company of a Tax Group can also make an application to the FTA to be replaced by another Parent Company without discontinuing the Tax Group if the new Parent Company meets all of the conditions satisfied by the former Parent Company.<sup>335</sup> An application can also be made if the former Parent Company ceases to exist and the new Parent Company or a Subsidiary is its universal legal successor.

A company will be treated as having left the Tax Group from the beginning of the Tax Period in which it no longer meets the conditions.

### 8.3.4. Compliance with Corporate Tax requirements

The Parent Company represents the Tax Group and is responsible for complying with the Tax Group's Corporate Tax obligations.<sup>336</sup> Nevertheless, both the Parent Company and each Subsidiary are jointly and severally liable for Corporate Tax Payable by the Tax Group for each of the Tax Periods in which they are members of

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<sup>330</sup> Article 40(11) of the Corporate Tax Law and Ministerial Decision No. 125 of 2023.

<sup>331</sup> Article 40(13) of the Corporate Tax Law.

<sup>332</sup> Article 40(9) of the Corporate Tax Law.

<sup>333</sup> Article 5(5) of Ministerial Decision No. 125 of 2023.

<sup>334</sup> Article 40(10) of the Corporate Tax Law.

<sup>335</sup> Article 40(12) of the Corporate Tax Law.

<sup>336</sup> Article 40(5) of the Corporate Tax Law.

the Tax Group.<sup>337</sup> This liability can be limited to one or more members of the Tax Group if approved by the FTA.<sup>338</sup>

### 8.3.5. Taxable Income of a Tax Group

To determine the Taxable Income of a Tax Group, the Parent Company must consolidate the financial accounts of each subsidiary for the relevant Tax Period by the way of aggregation. It must eliminate transactions between the members of a Tax Group, including adjustments from valuations, and transactions between two or more members of the same Tax Group.<sup>339</sup>

The unutilised Tax Losses of a subsidiary that joins a Tax Group will become carried forward losses of the Tax Group.<sup>340</sup> These are known as “pre-grouping Tax Losses”. Pre-grouping Tax Losses that are carried forward can only be used to offset the Taxable Income of the Tax Group insofar as this income is attributable to the subsidiary which brought the Tax Losses into the Tax Group.<sup>341</sup> The pre-grouping Tax Losses that are to be carried forward to be utilised in the Tax Group cannot exceed the 75% Tax Loss relief limit. The limit will be applied to the Taxable Income of the Tax Group (see Section [6.7.1.](#)).<sup>342</sup>

If a new Subsidiary joins an existing Tax Group, the unutilised Tax Losses of the existing group cannot be used to offset the Taxable Income of the new Subsidiary.<sup>343</sup> If a Subsidiary leaves a Tax Group, the Subsidiary will retain any unutilised pre-grouping Tax Losses brought into the Tax Group, but any Tax Losses incurred while it was a Subsidiary of the Tax Group will remain with the Tax Group.<sup>344</sup>

The 75% cap on the utilisation of carried forward Tax Losses and the limitation on Tax Losses carry forward are applicable at the level of the Tax Group.<sup>345</sup>

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<sup>337</sup> Article 40(6) of the Corporate Tax Law.

<sup>338</sup> Article 40(7) of the Corporate Tax Law.

<sup>339</sup> Article 42(1) of the Corporate Tax Law and Article 6 of Ministerial Decision No. 125 of 2023.

<sup>340</sup> Article 42(3) of the Corporate Tax Law.

<sup>341</sup> Article 42(3) of the Corporate Tax Law.

<sup>342</sup> Article 7 of Ministerial Decision No. 125 of 2023.

<sup>343</sup> Article 42(4) of the Corporate Tax Law.

<sup>344</sup> Article 42(6) of the Corporate Tax Law.

<sup>345</sup> Article 42(5) of the Corporate Tax Law.



### Example 34: Formation of a Tax Group

C LLC is a UAE resident company. C LLC acquired F LLC (another UAE resident company) on 31 March 2026.

F LLC wholly owns Z LLC (another UAE resident company). C LLC owns 100% of the share capital and holds 100% of the voting rights of F LLC. F LLC owns 100% of the share capital and holds 100% of the voting rights of Z LLC. All of the companies use the same accounting standards and have the same Financial Year.

Although C LLC does not *directly* own any share capital or hold any voting rights in Z LLC, it does so indirectly through its ownership of Z LLC's owner, F LLC. C LLC, therefore, meets the ownership requirements of F LLC and Z LLC in order to form a Tax Group, as C LLC indirectly owns over 95% of the share capital and voting rights of both F LLC and, by extension, Z LLC.

C LLC (as the Parent Company), F LLC and Z LLC made an application to form a Tax Group, effective from the Tax Period beginning 1 September 2026.

The application to form a Tax Group was approved by the FTA. At the end of the Tax Group's first Tax Period on 31 August 2027, each group company's Accounting Income for the year, before consolidation, is as follows:

C LLC	AED 10,000,000
F LLC	AED 8,000,000
Z LLC	AED 9,000,000

During that period, F LLC and Z LLC received dividends from UAE resident companies totalling AED 3,000,000, and C LLC spent AED 250,000 on client entertainment. C LLC had AED 5,500,000 of brought forward Tax Losses from its previous Tax Period (1 September 2025 - 31 August 2026).

In order to determine its Taxable Income for the period, C LLC must first consolidate, by way of aggregation, the Accounting Income of each company in the group and then make the necessary tax adjustments, including applying its Tax Losses, at a group level.



Domestic dividends are Exempt Income for Corporate Tax purposes. As a result, the dividend income of AED 3,000,000 should be excluded from C LLC's Accounting Income.

Only 50% of entertainment expenditure is an allowable expense for Corporate Tax purposes. As a result, 50% of the expenditure (AED 250,000 x 50% = AED 125,000) must be added back to C LLC's Accounting Income.

C LLC's Taxable Income is therefore:

C LLC - Accounting Income	10,000,000
F LLC - Accounting Income	8,000,000
Z LLC - Accounting Income	<u>9,000,000</u>
<b>Consolidated Accounting Income</b>	<b>27,000,000</b>
Domestic dividends	(3,000,000)
Entertainment expenditure	<u>125,000</u>
<b>Taxable Income</b>	<b>24,125,000</b>

As the Parent Company, C LLC's Tax Losses incurred before grouping can be set off against the Taxable Income of the Tax Group. C LLC can, therefore, reduce the Tax Group's Taxable Income by a maximum of 75% for the relevant Tax Period (AED 24,125,000 x 75% = AED 18,093,750). As the amount of carried forward Tax Losses is less than this, C LLC can use the whole of its AED 5,500,000 of Tax Losses in this Tax Period. The Tax Group's final Taxable Income is therefore:

<b>Taxable Income of Tax Group</b>	<b>24,125,000</b>
Tax Losses	<u>(5,500,000)</u>
<b>Final Taxable Income</b>	<b>18,625,000</b>

This is the Tax Group's Taxable Income which should be reported to the FTA for the Tax Period ending on 31 August 2027.

The Tax Group's Corporate Tax liability will be as follows:

0% x 375,000	0
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9% x 18,250,000

1,642,500

**Corporate Tax Payable**

**1,642,500**

On 4 November 2027, C LLC sold 50% of its shares in F LLC. As C LLC no longer holds sufficient shares in F LLC, and indirectly in Z LLC, the conditions for these three companies to remain in a Tax Group are no longer met. The Tax Group will cease to exist from the beginning of the Tax Year starting 1 September 2027.



## 9. How is any Corporate Tax liability calculated?

### 9.1. Chapter summary

This chapter sets out how to apply Corporate Tax to Taxable Income and compute how much Corporate Tax is due. This calculation will be done in a Tax Return. The chapter also describes the available tax credits and explains how these should be applied.

### 9.2. Applicable Corporate Tax rates

The amount of Corporate Tax due in a Tax Period is calculated by applying the appropriate Corporate Tax rate to the Taxable Person's Taxable Income (see Chapter [6](#)).

#### 9.2.1. General tax rates

Corporate Tax applies to Taxable Income at the following rates:<sup>346</sup>

Taxable Income not exceeding AED 375,000	0%
Taxable Income exceeding AED 375,000	9%

Any single Taxable Person only gets to apply a 0% rate to their first AED 375,000 once per Tax Period. This continues to apply where multiple Persons have come together to form a single Taxable Person. If individual companies form a Tax Group, or an Unincorporated Partnership applies to be taxed at the partnership level, only the Taxable Person (i.e. either the Tax Group or the partnership) will be able to apply the 0% rate to the first AED 375,000 of its collective Taxable Income.

For further details on the Taxable Income threshold, readers are advised to consult Cabinet Decision No. 116 of 2022 on the Taxable Income Threshold.

<sup>346</sup> Article 3(1) of the Corporate Tax Law.



### Example 35: Application of Corporate Tax rates to Tax Groups

If three individual companies had Taxable Income each of AED 5,000,000 then each company would pay tax of AED 416,250, a total of AED 1,248,750. Each company's Corporate Tax liability calculation would be as follows:

Rate	Taxable Income (AED)	Corporate Tax Payable (AED)
0%	375,000	0
9%	4,625,000	416,250
Total Corporate Tax due per company		416,250
Total Corporate Tax Payable for all three companies		1,248,750

If these companies formed a Tax Group, the Corporate Tax due on their total Taxable Income of AED 15,000,000 would be AED 1,316,250. The Tax Group's Corporate Tax liability calculation would be as follows:

Rate	Taxable Income (AED)	Corporate Tax Payable (AED)
0%	375,000	0
9%	14,625,000	1,316,250
Total Corporate Tax Payable for all three companies		1,316,250



## 9.2.2. Corporate Tax rates for Qualifying Free Zone Persons

Corporate Tax applies to Qualifying Free Zone Persons at the following rates:<sup>347</sup>

Qualifying Income	0%
Taxable Income that is not Qualifying Income	9%

The Corporate Tax rate applied to Qualifying Free Zone Persons depends on whether income is Qualifying Income or not (see Section [5.5](#)).

A Qualifying Free Zone Person is subject to the standard 9% Corporate Tax rate without being disqualified from the Free Zone regime on the following income:

- Income that is attributable to a domestic or a foreign Permanent Establishment;<sup>348</sup>
- Income derived from Commercial Property located in a Free Zone where the transaction is with a Person who is not a Free Zone Person;<sup>349</sup> and
- Income derived from residential and other non-Commercial Property located in a Free Zone.<sup>350</sup>

Income from these above sources is treated as regular Taxable Income that does not benefit from the 0% rate.

Unlike ordinary Taxable Persons, Qualifying Free Zone Persons are not entitled to a 0% rate on their first AED 375,000 of Taxable Income that is not Qualifying Income. Therefore, any Taxable Income that is not Qualifying Income will be subject to tax at the general rate of 9%.

## 9.2.3. Withholding Tax rate

At the time of enacting the Corporate Tax Law, the rate of Withholding Tax was 0%.<sup>351</sup> Withholding Tax should be deducted by a Resident Person from a payment made to a Non-Resident for certain categories of State Sourced Income derived by the Non-Resident Person, and remitted to the FTA. Tax credits are given to Taxable Persons

<sup>347</sup> Article 3(2) of the Corporate Tax Law.

<sup>348</sup> Article 5 of Cabinet Decision No. 55 of 2023.

<sup>349</sup> Article 6(1)(a) of Cabinet Decision No. 55 of 2023.

<sup>350</sup> Article 6(1)(b) of Cabinet Decision No. 55 of 2023.

<sup>351</sup> Article 45(1) of the Corporate Tax Law.



who have had Withholding Tax deducted from payments to them. (See Section [9.3.1](#) for more information on Withholding Tax Credit).

As the rate of Withholding Tax is currently 0%, this means that, currently, no tax needs to be withheld.

### 9.3. Tax credits

In some cases, Taxable Persons may be entitled to credits which they can use to offset against their Corporate Tax liability. These credits arise if they have paid tax on the same income already, either in the UAE or in a foreign country.

#### 9.3.1. Requirements for the Withholding Tax Credit

Withholding taxes are a common form of collecting income tax on cross-border transactions. Under these regimes, tax is deducted at the source when certain payments are made to, for example, overseas Persons. Sometimes withholding taxes are also levied on domestic transactions. Typically, the payor of the income is charged with the task of deducting the tax from certain kinds of payments and remitting that amount to the tax administration.

Withholding taxes usually apply to certain types of activities by foreign parties, or activities that do not typically require a Person to register for tax, for example, dividends and interest payments in certain countries.

As part of the introduction of Corporate Tax, the UAE has introduced a Withholding Tax that applies to certain categories of income paid to a Non-Resident Person to the extent the income is not attributed to a Permanent Establishment in the UAE.<sup>352</sup> However, the rate of this tax is 0% meaning that, currently, no tax will need to be withheld.

If the rate is changed in future, a Non-Resident Person who becomes subject to Corporate Tax would be able to reduce their Corporate Tax Payable by any Withholding Tax that has already been deducted in the same Tax Period.<sup>353</sup> This is known as Withholding Tax Credit. Any excess Withholding Tax Credit will be refunded.<sup>354</sup>

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<sup>352</sup> Article 45(1) of the Corporate Tax Law.

<sup>353</sup> Article 46(1) of the Corporate Tax Law.

<sup>354</sup> Article 46(3) of the Corporate Tax Law.



### 9.3.2. Foreign Tax Credit

Corporate Tax Payable may be reduced by any available Foreign Tax Credit for the same Tax Period.<sup>355</sup> Foreign Tax Credit is the amount of foreign taxes paid on foreign sourced income which has not been exempted. This relief is unilateral and does not rely on a Double Taxation Agreement or any other reciprocal action from the foreign taxing jurisdiction.

In order to apply Foreign Tax Credit, the pre-tax foreign income must be included in the Taxable Income of the UAE Resident Person. The amount of Corporate Tax due should be calculated based on the overall Taxable Income, and Foreign Tax Credit can then be deducted from the amount of Corporate Tax Payable.

The amount of Foreign Tax Credit cannot exceed the amount of Corporate Tax due on the foreign source income,<sup>356</sup> and a Foreign Tax Credit cannot be carried forward or back.<sup>357</sup> No refund will be given for unutilised Foreign Tax Credit. In addition, Foreign Tax Credit can only be applied after any Withholding Tax Credit has been applied.<sup>358</sup>

Taxable Persons must maintain all necessary records for the purposes of claiming Foreign Tax Credit.<sup>359</sup> This could include, for example, Withholding Tax certificates, statements of payments or assessments by the relevant foreign tax authority.

#### **Example 36: Application of Foreign Tax Credit**

C LLC is a UAE resident company that does business through Permanent Establishments in a number of foreign countries.

During the Tax Period, C LLC paid AED 300,000 in foreign taxes on the AED 1,500,000 of income it earned in foreign countries. C LLC has not made an election to exempt the income from its Foreign Permanent Establishments.

At the end of the Tax Period, C LLC's Corporate Tax liability was AED 1,000,000. C LLC can reduce its Corporate Tax liability using available Foreign Tax Credit. However, the amount of Foreign Tax Credit is limited to the amount of Corporate Tax that would have been paid in the UAE on the foreign income (AED 1,500,000 x 9% = AED

<sup>355</sup> Article 47(1) of the Corporate Tax Law.

<sup>356</sup> Article 47(2) of the Corporate Tax Law.

<sup>357</sup> Article 47(3) of the Corporate Tax Law.

<sup>358</sup> Article 44 of the Corporate Tax Law.

<sup>359</sup> Article 47(4) of the Corporate Tax Law.



135,000). This is less than the amount of tax C LLC paid in the foreign countries. The surplus amount (AED 300,000 – AED 135,000 = AED 165,000) cannot be carried forward or back and will not be refunded.

The amount of Corporate Tax due is therefore AED 1,000,000 – AED 135,000 = AED 865,000.

### 9.3.3. Impact of Double Taxation Agreements on Foreign Tax credits

Double Taxation Agreements between the UAE and other countries will generally provide for methods for the elimination of double taxation. In the event that a Resident Person derives foreign source income from a country with which the UAE has an in-force Double Taxation Agreement, the agreement with that country will generally provide either for the exemption method, the credit method or the application of both methods depending on the nature of the income and the specific provisions of the Double Taxation Agreement.

The provisions of Double Taxation Agreements take precedence over the Corporate Tax Law if the terms of the Double Taxation Agreement are inconsistent with the Corporate Tax Law.<sup>360</sup> This treatment is internationally common and accepted.

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<sup>360</sup> Article 66 of the Corporate Tax Law.



## 10. Administration of Corporate Tax

### 10.1. Chapter Summary

This chapter explains how the Corporate Tax Law will be administered. It includes information for Taxable Persons on their administrative compliance responsibilities, such as registration, filing, and payment, as well as further guidance on clarifications and assessments, record keeping obligations and the general anti-abuse rule.

### 10.2. Registration and Deregistration

All Taxable Persons should register for Corporate Tax with the FTA and obtain a Tax Registration Number for Corporate Tax.<sup>361</sup> This needs to be done before a deadline to be determined by the FTA. All Taxable Persons are encouraged to register for Corporate Tax as soon as they become aware that they will be within the scope of Corporate Tax.

Non-Resident Persons that do not have a Permanent Establishment in the UAE and only earn State Sourced Income can choose not to register for Corporate Tax purposes. However, Non-Resident Persons that have a nexus in the UAE (arising from earning income from Immovable Property in the UAE – see Section [5.4.4](#)) are required to register.<sup>362</sup>

The FTA can, at its discretion, register a Person for Corporate Tax if, on the basis of information available to it, the FTA believes the Person is a Taxable Person.<sup>363</sup>

If a Corporate Tax registered Person ceases to be a Taxable Person for any reason, they should file a Tax Deregistration application with the FTA.<sup>364</sup> Tax Deregistration will only take place when all Corporate Tax liabilities and penalties due have been paid, and all Tax Returns have been filed.<sup>365</sup> If the Tax Deregistration application is approved by the FTA, the FTA will deregister the Person for Corporate Tax purposes, with effect from the date of cessation of the Business or from such other date as may be determined by the FTA.<sup>366</sup>

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<sup>361</sup> Article 51(1) of the Corporate Tax Law.

<sup>362</sup> Article 4 of Cabinet Decision No. 56 of 2023.

<sup>363</sup> Article 51(3) of the Corporate Tax Law.

<sup>364</sup> Article 52(1) of the Corporate Tax Law.

<sup>365</sup> Article 52(2) of the Corporate Tax Law.

<sup>366</sup> Article 52(3) of the Corporate Tax Law.



Failure to submit a deregistration application within 3 months of the date the entity ceases to exist, cessation of the Business, dissolution, liquidation or otherwise, will result in a penalty of AED 1,000, and a further AED 1,000 on the same date monthly, up to a maximum of AED 10,000.<sup>367</sup>

For more details on the Tax Deregistration timelines refer to FTA Decision No. 6 of 2023 on Tax Deregistration Timeline.

Where a Person does not comply with the Tax Deregistration requirements, the FTA may, at its discretion and based on the information available to it, deregister the Taxable Person. This Tax Deregistration will be effective from the later of the last day of the Tax Period that the Taxable Person satisfied their Corporate Tax obligations or the date the Taxable Person ceases to exist.<sup>368</sup>

### 10.3. Financial Statements

Financial Statements record the financial activities and performance of a Business, and are a key element of Corporate Tax Law. A Taxable Person's Accounting Income (profit or loss) as stated in the Financial Statements is used as the starting point for calculating Taxable Income.

Taxable Persons that earn Revenue that does not exceed AED 3,000,000 in the Tax Period may use the Cash Basis of Accounting.<sup>369</sup>

Once a Taxable Person's Revenue exceeds AED 3,000,000 in the Tax Period, they must prepare Financial Statements using the Accrual Basis of Accounting except under exceptional circumstances and following the FTA's approval.<sup>370</sup>

Taxable Persons must prepare Financial Statements in accordance with IFRS. However, Taxable Persons that earn Revenue that does not exceed AED 50,000,000 may apply IFRS for SMEs.<sup>371</sup>

Applying IFRS creates a common definition of Accounting Income across business types and industries. For further details on accounting standards for Corporate Tax,

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<sup>367</sup> Cabinet Decision No. 75 of 2023.

<sup>368</sup> Article 52(4) of the Corporate Tax Law.

<sup>369</sup> Article 2(1) of Ministerial Decision No. 114 of 2023.

<sup>370</sup> Article 20(1) of the Corporate Tax Law and Article 2 of Ministerial Decision No. 114 of 2023.

<sup>371</sup> Article 4(2) of Ministerial Decision No. 114 of 2023.



readers are advised to consult Ministerial Decision No. 114 of 2023 on the Accounting Standards and Methods for Corporate Tax Purposes.<sup>372</sup>

The FTA can, by notice or by issuing a decision, request a Taxable Person to submit the Financial Statements used to determine their Taxable Income.<sup>373</sup> Where a Taxable Person is a partner in an Unincorporated Partnership, the FTA can request the partner to submit Financial Statements that show both the partnership's overall assets, liabilities, income and expenditure, and the partner's distributable share of assets, liabilities, income and expenditure.<sup>374</sup>

Some Taxable Persons may be required to maintain audited Financial Statements. This means that the Financial Statements must be checked by an external licensed auditor.<sup>375</sup>

The following Persons are required to maintain audited Financial Statements:<sup>376</sup>

- A Taxable Person deriving Revenue exceeding AED 50,000,000 during the relevant Tax Period; and
- A Qualifying Free Zone Person.

For further details on audited Financial Statements, readers are advised to consult Ministerial Decision No. 82 of 2023 on Maintaining Audited Financial Statements.<sup>377</sup>

#### **10.4. Applications and elections**

In order to apply some of the provisions in the Corporate Tax Law, Taxable Persons will need to make the relevant elections or applications.

Elections can be applied unilaterally by Taxable Persons, and do not require an approval from the FTA to give effect to the Corporate Tax treatment. In order for an election to become effective, it is only necessary for a Taxable Person to inform the FTA of their decision. No action or confirmation from the FTA is needed. Taxable Persons can elect to:

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<sup>372</sup> Ministerial Decision No. 114 of 2023.

<sup>373</sup> Article 54(1) of the Corporate Tax Law.

<sup>374</sup> Article 54(3) of the Corporate Tax Law.

<sup>375</sup> Article 54(2) of the Corporate Tax Law.

<sup>376</sup> Article 2 of Ministerial Decision No. 82 of 2023.

<sup>377</sup> Ministerial Decision No. 82 of 2023.



- Benefit from the small business relief;<sup>378</sup>
- Exempt their Foreign Permanent Establishment income;<sup>379</sup>
- Account for gains and losses on a realisation basis;<sup>380</sup>
- Be subject to Corporate Tax at the general rate, if they are a Qualifying Free Zone Person;<sup>381</sup>
- Apply the relief in relation to transfers in a Qualifying Group;<sup>382</sup>
- Apply the business restructuring relief;<sup>383</sup> and
- Apply Transitional Relief.<sup>384</sup>

Unlike elections, applications require approval by the FTA. For example, a group of companies cannot form a Tax Group without having made an application and received an approval from the FTA.<sup>385</sup> Provisions which require a Taxable Person to make an application cannot take effect until the FTA has approved the application.

Taxable Persons will be required to demonstrate that they meet any necessary criteria, and the FTA can ask for any additional information it requires to make its decision. The following is a non-exhaustive list of aspects of the Corporate Tax Law which require an application from a Taxable Person to the FTA:

- To be exempt from Corporate Tax, if the Person is a public pension fund or a public social security fund, a private pension fund or a private social security fund that meet the relevant conditions, or a Qualifying Investment Fund;<sup>386</sup>
- To be exempt from Corporate Tax, if they are a juridical person that is wholly owned and controlled by certain types of Exempt Persons<sup>387</sup> and meet the relevant condition (e.g. used exclusively for holding assets or investing funds for the benefit of the Exempt Person);<sup>388</sup>
- To continue to be exempt from Corporate Tax if the Person temporarily fails to meet the conditions of exemption;<sup>389</sup>

<sup>378</sup> Article 21(1) of the Corporate Tax Law and Ministerial Decision No.73 of 2023.

<sup>379</sup> Article 24(1) of the Corporate Tax Law.

<sup>380</sup> Article 20(3) of the Corporate Tax Law and Ministerial Decision No.134 of 2023.

<sup>381</sup> Article 19(1) of the Corporate Tax Law.

<sup>382</sup> Article 26 of the Corporate Tax Law and Ministerial Decision No. 132 of 2023.

<sup>383</sup> Article 27 of the Corporate Tax Law.

<sup>384</sup> Ministerial Decision No. 120 of 2023.

<sup>385</sup> Article 40(1) of the Corporate Tax Law.

<sup>386</sup> Article 4(3) of the Corporate Tax Law.

<sup>387</sup> Article 4(1)(h) of the Corporate Tax Law.

<sup>388</sup> Articles 4(1)(h) and 4(3) of the Corporate Tax Law.

<sup>389</sup> Article 4(6)(b) of the Corporate Tax Law and Ministerial Decision No. 105 of 2023 .



- To treat a Government Entity's taxable Businesses as a single Taxable Person;<sup>390</sup>
- To treat an Unincorporated Partnership as a single Taxable Person;<sup>391</sup>
- To treat a Family Foundation as an Unincorporated Partnership;<sup>392</sup>
- To request a clarification from the FTA;<sup>393</sup>
- To request a refund from the FTA;<sup>394</sup>
- To adjust Taxable Income following an adjustment by a foreign tax authority;<sup>395</sup>
- To move from the Cash Basis of Accounting to Accrual Basis of Accounting;<sup>396</sup>
- To form, join or leave a Tax Group, replace a Parent Company in a Tax Group, or cease to be a Tax Group;<sup>397</sup>
- To deregister for Corporate Tax;<sup>398</sup> and
- To change their Tax Period.<sup>399</sup>

## 10.5. Tax Returns and payments

Consistent with Corporate Tax being a self-assessed regime, Taxable Persons should pay Corporate Tax and file their Corporate Tax Return within 9 months from the end of the relevant Tax Period.<sup>400</sup> For example, a Taxable Person with a Financial Year ending on 31 December is required to file their Tax Return and pay Corporate Tax on or before 30 September the following year.

Submitting a Tax Return late or a delay in making a payment of Corporate Tax Payable will result in a penalty of:

- AED 500 for each month of delay, or part thereof, for the first twelve months;
- AED 1,000 for each month of delay, or part thereof, from the thirteenth month onwards.<sup>401</sup>

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<sup>390</sup> Article 5(6) of the Corporate Tax Law.

<sup>391</sup> Article 16(8) of the Corporate Tax Law.

<sup>392</sup> Article 17(1) of the Corporate Tax Law.

<sup>393</sup> Article 59(1) of the Corporate Tax Law.

<sup>394</sup> Article 49(1) of the Corporate Tax Law.

<sup>395</sup> Article 34(11) of the Corporate Tax Law.

<sup>396</sup> Article 20(6) of the Corporate Tax Law.

<sup>397</sup> Articles 40(1), 40(3), 40(9), 40(10), 40(11) and 40(12) of the Corporate Tax Law.

<sup>398</sup> Article 52(1) of the Corporate Tax Law.

<sup>399</sup> Article 58 of the Corporate Tax Law.

<sup>400</sup> Articles 48 and 53 of the Corporate Tax Law.

<sup>401</sup> Cabinet Decision No. 75 of 2023.



The Tax Return can be submitted by the Taxable Person, or another Person who has the right to do so on the Taxable Person's behalf, for example, a tax agent or a legal representative.

Where a Tax Group has been formed, the Parent Company will be required to file Tax Returns on behalf of the whole Tax Group. There is no need for a separate return to be filed for each member of the Tax Group.<sup>402</sup>

In addition to the information required in the Tax Return, the Taxable Person must also provide any other information reasonably required by the FTA, including for example, the Financial Statements used to calculate Taxable Income.<sup>403</sup>

## 10.6. Clarifications and assessments

Certainty is an important hallmark of an efficient tax regime, and it is considered international best practice to create a stable tax environment in which Persons can be certain about their Corporate Tax treatment.

Tax clarifications provide an opportunity for Persons to obtain certainty on their tax position upfront. A Person can apply to the FTA for a clarification regarding the application of the Corporate Tax Law.<sup>404</sup>

The FTA may undertake an assessment of a Person's Corporate Tax affairs under specific circumstances and conditions to be prescribed by the FTA.<sup>405</sup>

If the tax position reported by the Taxable Person is not accurate, or administrative requirements have not been fulfilled, the Taxable Person may be liable for penalties under the Tax Procedures Law and the Corporate Tax Law.<sup>406</sup>

## 10.7. Record keeping

Taxable Persons are required to maintain records and documentation that:

- support the information provided in a Tax Return or in any other document to be submitted to the FTA;<sup>407</sup> and

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<sup>402</sup> Article 53(7) of the Corporate Tax Law.

<sup>403</sup> Article 53(3) of the Corporate Tax Law.

<sup>404</sup> Article 59(1) of the Corporate Tax Law.

<sup>405</sup> Article 60(1) of the Corporate Tax Law.

<sup>406</sup> Article 60 of the Corporate Tax Law, Tax Procedures Law and Cabinet Decision No. 75 of 2023.

<sup>407</sup> Article 56(1)(a) of the Corporate Tax Law.



- enable the Taxable Person's Taxable Income to be readily ascertained by the FTA.<sup>408</sup>

The FTA may request that a Taxable Person submits the Financial Statements used to determine their Taxable Income for a given Tax Period.<sup>409</sup> These documents should, therefore, be maintained by all Taxable Persons.

Apart from Financial Statements, the Corporate Tax Law does not specify which records or documentation should be maintained, or the format in which they should be kept. This reflects the fact that the records and documentation required will differ according to the type and complexity of the Business that the Taxable Person conducts.

Notwithstanding differences between Taxable Persons, the information maintained should typically include, but it is not limited to:

- A record of the Taxable Person's transactions in the Tax Period;
- A record of the Taxable Person's assets, including details of any purchases or disposals;
- A record of the Taxable Person's liabilities; and
- A record of any stock held at the end of the Tax Period.

Examples of specific documents which might be kept include but are not limited to:

- Bank statements;
- Loan or financing documentation;
- Sale and purchase ledgers;
- Invoices or other records of daily earnings, such as till rolls;
- Order records and delivery notes; and
- Other relevant business correspondence.

There is no requirement that these documents are maintained in their original format and it may be possible to keep them in an alternative format. For example, paper receipts could be scanned and stored electronically.

Failure of a Taxable Person to keep the required records and other information specified in the Tax Procedures Law and Corporate Tax Law will result in one of the following penalties:

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<sup>408</sup> Article 56(1)(b) of the Corporate Tax Law.

<sup>409</sup> Article 54(1) of the Corporate Tax Law.



- AED 10,000 for each violation;
- AED 20,000 in each case of repeated violation within 24 months from the date of the last violation.<sup>410</sup>

### 10.7.1. Exempt Persons

Exempt Persons must maintain records that enable the Exempt Person's status to be readily ascertained by the FTA.<sup>411</sup> The documentation required will depend on the reason that a Person is exempt from Corporate Tax.

### 10.7.2. How long should records be kept?

Taxable Persons and Exempt Persons must keep records and documents for seven years following the end of the Tax Period to which they relate.<sup>412</sup>

This requirement applies to the Tax Period to which the documents relate, and not the Tax Period in which they were created. For example, if a Taxable Person uses the cash basis accounting method, they may have invoices or bills which were raised in a Tax Period before the one in which they were paid. In this instance, the seven-year period starts from the Tax Period in which the invoices or bills were paid.

Taxable Persons and Exempt Persons are responsible for maintaining all their records and documents. Taxable Persons must provide the FTA with any information, documents or records reasonably required by the FTA when requested to do so. The records must therefore be easily accessible if the FTA requests them.

## 10.8. General anti-abuse rule

A general anti-abuse rule is used to prevent the use of 'abusive' transactions or arrangements, which may be legal within the parameters of the Law, but are not in-line with the Law's intended spirit and purpose.<sup>413</sup>

The rule allows the FTA to counteract or adjust Corporate Tax advantages obtained as a result of transactions or arrangements which are considered to be abusive (by the application of a test).<sup>414</sup> The test is whether, having regard to all of the relevant circumstances, it can be reasonably concluded that the transactions and

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<sup>410</sup> Cabinet Decision No. 75 of 2023.

<sup>411</sup> Article 56(2) of the Corporate Tax Law.

<sup>412</sup> Articles 56(1) and 56(2) of the Corporate Tax Law.

<sup>413</sup> Article 50(1) of the Corporate Tax Law.

<sup>414</sup> Article 50(3) of the Corporate Tax Law.



arrangements were entered into without a valid commercial reason and their main purpose is to obtain a Corporate Tax advantage that is not consistent with the intention of the Law.<sup>415</sup>

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<sup>415</sup> Article 50(1) of the Corporate Tax Law.

## 11. Updates and Amendments

Date of amendment	Amendments made
September 2023	<ul style="list-style-type: none"><li data-bbox="740 427 963 461">• First version</li></ul>