

UAE Interest Deduction Limitation Rules: Corporate Tax Compliance Framework

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To (inside your company): CFO • Head of Tax • Treasury • Financial Controllers • Tax Compliance

Executive takeaways

- Features a comprehensive definition of Interest covering traditional debt costs, Islamic financial instruments, and economically equivalent transactions.
- A dual limitation framework applies: a Specific Rule for related party arrangements and a General Rule based on EBITDA calculations.
- The general limitation applies when Net Interest Expenditure exceeds AED 12 million, restricting the deductible amount to the higher of 30% adjusted EBITDA or AED 12 million.
- Includes ten-year carry-forward provisions for disallowed Net Interest Expenditure, with exceptions for Banks, Insurance Providers, and specific projects.

What changed & why it matters

- **Expanded Interest Definition** — The scope is broad, including discounts, premiums, Islamic financial instruments, derivative costs, and finance-raising expenses. *Why it matters:* This prevents base erosion through creative financing structures and ensures comprehensive capture of financing costs.
- **Targeted Anti-Avoidance Rules** — A specific limitation disallows interest on related party loans used for certain purposes if the main purpose is a Corporate Tax advantage. *Why it matters:* This prevents profit shifting through artificial debt loading in related party structures while providing a safe harbor for genuine commercial arrangements.
- **EBITDA-Based General Limitation** — This is a systematic approach limiting excessive interest deductions via a 30% adjusted EBITDA test with an AED 12 million de minimis threshold. *Why it matters:* It ensures interest deductions remain proportionate to economic activity while providing a meaningful threshold for smaller entities.

Action checklist

- Identify and categorize all interest expenditure under the expanded Corporate Tax definition.
- Review related party financing arrangements for potential application of the Specific Interest Deduction Limitation Rule and document commercial purposes.
- Implement procedures to calculate Net Interest Expenditure and adjusted EBITDA.
- Establish tracking systems for the ten-year interest carry-forward and its FIFO utilization.
- Assess eligibility for exceptions, including Banking/Insurance Provider status and Qualifying Infrastructure Project classifications.

Impact matrix

Compliance	H
Systems/ERP	H
Finance/Cash	H
Operations	M
Documentation	H
Training/Change	H

Timeline

- Immediate — identify & classify interest expenditure
- 30 days — implement calculation procedures & system updates
- Ongoing — quarterly limitation testing & carry forward tracking

Take Away

The Interest Deduction Limitation Rules establish a comprehensive framework to prevent base erosion while maintaining flexibility for legitimate financing. The dual approach requires careful analysis of financing structures and robust calculation procedures. Companies must implement systematic tracking of interest expenditure, establish clear documentation for related party arrangements, and utilize available exceptions to optimize their Corporate Tax position.

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