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Corporate Tax For Natural Persons

DETERMINING TAXABLE NATURAL PERSONS

Introduction to UAE Corporate Tax for Natural Persons

The UAE's introduction of a federal Corporate Tax (CT) represents a significant development in the country's economic landscape. While the law primarily focuses on taxing the profits of corporations and businesses, it also has specific implications for natural persons (individuals) who engage in commercial activities. The fundamental principle is that CT is levied on business profits, not on personal income like salaries or private investments.

The Distinction: Business Activity vs. Personal Income

For a natural person in the UAE, the key to understanding CT is to determine whether their income-generating activity is considered a "Business Activity." This distinction is crucial because only income derived from a "Business Activity" is subject to CT, and only if it exceeds the established threshold.

This determination can be made using a simple "Core Test" based on three characteristics:

- **Commerciality:** Is the activity performed with the intention of making a profit? This involves the systematic and deliberate offering of goods or services to others for a fee.
- **Continuity:** Is the activity conducted on a regular, consistent, and ongoing basis? A one-off transaction or a hobby is unlikely to be classified as a "Business Activity."
- **Complexity:** Does the activity involve a certain level of organization, structure, or investment, such as having a brand, a website, a team, or dedicated business premises? This also includes having a trade license.

If an activity demonstrates all or most of these characteristics, it is considered a Business Activity.

The Critical Role of a Commercial License

The single most definitive factor in determining whether an activity is a "Business Activity" is the requirement for a commercial or trade license. If an individual is legally required to obtain a license to perform a service or sell a product, the income from that activity is almost certainly considered taxable under the CT law, provided it meets the turnover threshold.

- **Example:** A designer working as a full-time employee for a company earns an exempt salary. However, if that same designer registers for a freelance license to offer their services to multiple clients on the side, the income from that freelance work is treated as a "Business Activity." If their annual income from this freelance work exceeds the **AED 1 million turnover threshold**, they become subject to Corporate Tax obligations.

RESIDENCY IN UAE FOR NATURAL PERSONS

UAE Corporate Tax Residency for Natural Persons

The UAE's Corporate Tax (CT) law has a specific way of defining tax residency for individuals. It's important to understand that having a residency visa or being a citizen does not automatically make you a tax resident for CT purposes. The key factor is whether you conduct a "Business or Business Activity" in the UAE.

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1. Resident Person for Corporate Tax Purposes

You are considered a **Resident Person** for UAE Corporate Tax purposes if:

- You physically reside in the UAE **and** you conduct a business or business activity in the UAE.
- You reside **outside** the UAE (i.e., your primary home is in another country) **but** you still conduct a business or business activity in the UAE.

In both of these scenarios, you become a "Taxable Person" under the CT law, but only if your annual turnover from that business activity exceeds the AED 1 million threshold.

Key takeaway: The definition of a "Resident Person" for Corporate Tax is directly tied to the act of conducting a business in the UAE, not just your physical presence or visa status.

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2. Non-Resident Person for Corporate Tax Purposes

You are considered a **Non-Resident Person** for UAE Corporate Tax purposes if you do not meet the criteria to be a Resident Person.

A Non-Resident Person can still be a taxable person, but only under specific circumstances:

- **Permanent Establishment (PE):** You have a fixed place of business (e.g., an office, a branch) in the UAE from which you carry out business. In this case, you are only taxed on the income directly attributable to that PE, and only if the turnover from the PE exceeds AED 1 million annually.
- **State-Sourced Income:** You earn income that accrues in or is derived from the UAE, but is not from a business activity you conduct here.

3. Addressing Dual Residency with Double Taxation Agreements (DTAAs)

A natural person can be considered a tax resident in two different countries under their respective domestic laws. This is known as **dual residency**, and it's where a **Double Taxation Agreement (DTAA)** becomes essential.

The DTAA between two countries uses "tie-breaker" rules to determine which country has the primary right to tax a person's income. These rules are typically applied in a hierarchical order:

1. **Permanent Home:** The individual is a resident of the country where they have a permanent home available to them.
2. **Centre of Vital Interests:** If a permanent home is available in both countries, the individual is a resident of the country where their personal and economic ties are closer.
3. **Habitual Abode:** If the "centre of vital interests" cannot be determined, the individual is a resident of the country where they habitually live.
4. **Nationality:** If the above tests are inconclusive, the individual is a resident of the country of which they are a citizen.

If the DTAA determines that an individual is a tax resident of another country, the UAE will treat them as a Non-Resident Person for Corporate Tax purposes. In this scenario, the UAE can only tax their income from a Permanent Establishment in the UAE, provided the turnover threshold is met.

Dual Residency without DTA (Double Taxation Agreement)

It would be very rare for a natural person to face a double taxation issue due to the lack of a Double Taxation Agreement (DTAA) with the UAE. The UAE has an extensive network of DTAAs, with over 137 agreements in place, covering most major economies and trading partners. This extensive network is specifically designed to provide legal certainty and prevent double taxation for individuals and businesses operating across borders.

1. Dual Residency and Taxable Income

- **No "Tie-Breaker" Rules:** Without a DTAA, there are no "tie-breaker" rules to determine a single country of residency for tax purposes. Both countries (the UAE and the other country) would apply their own domestic laws to determine tax residency.
- **Worldwide Income Principle:** If the individual is a Resident Person under UAE Corporate Tax law (for example, by having a permanent home in the UAE), the UAE could assert its right to tax the individual's worldwide business income.

The other country could do the same, as the individual would also be considered a tax resident there under their domestic laws.

2. Corporate Tax Complications

- **No Automatic Foreign Tax Credit:** The UAE's domestic Corporate Tax law does provide for a Foreign Tax Credit to mitigate double taxation, but its application can be more straightforward with a DTAA in place. Without a DTAA, the individual would have to rely solely on the domestic laws of both countries to seek relief from double taxation.
- **Difficulty in Claiming Relief:** The process of claiming a foreign tax credit or other forms of relief can be more complicated and challenging without a DTAA. The individual would need to understand the specific tax laws of both countries and navigate their different administrative processes.
- **Potential for Higher Tax Burden:** In some cases, the relief provided under domestic laws might not fully offset the tax paid in the other country, leading to a higher overall tax burden. This is the very situation DTAAs are designed to prevent.

TAX IMPLICATIONS BASED ON RESIDENCY

The tax obligations of a natural person under the UAE Corporate Tax (CT) law are fundamentally determined by their residency status and where the income is earned. The law makes a clear distinction between a **Resident Person** and a **Non-Resident Person**.

1. The Worldwide Income Principle for Resident Natural Persons

A natural person who is a resident of the UAE is subject to Corporate Tax on their **worldwide income** from a business or business activity. This means that if a UAE resident individual's total turnover from a business activity—whether conducted in the UAE or another country—exceeds the AED 1 million threshold, their entire taxable income from that business is subject to UAE Corporate Tax.

Taxation of Foreign-Sourced Income: The key factor is whether the foreign business income is related to your UAE business. According to the guidance from the UAE Federal Tax Authority, if a natural person engages in a completely independent business in a foreign country that is unrelated to their business activities in the UAE, the income from that foreign business will **not** be subject to taxation in the UAE

To be very clear, as a UAE resident, you would only be subject to UAE Corporate Tax on income from a business you operate in another country if that income is a part of, or directly connected to, your business activities in the UAE.

- **Example:** A UAE resident consultant has a business with clients in both the UAE and Europe. If their total annual turnover from all clients (UAE and European) exceeds AED 1 million, their entire taxable income (from both sources) is subject to UAE Corporate Tax.

It is important to note that a UAE resident natural person can benefit from foreign tax credit provisions under the law. This means that any Corporate Tax (or a similar tax) paid on their foreign income in the other country can be used to reduce the amount of CT payable in the UAE, preventing double taxation.

2. The UAE-Sourced Income Principle for Non-Resident Natural Persons

A natural person who is a non-resident of the UAE is only subject to Corporate Tax on their income that is **sourced from the UAE**. The law defines "UAE-sourced income" as income derived from a non-resident's permanent establishment (PE) in the UAE or other income derived in the UAE.

- **Permanent Establishment (PE):** This is the key concept for non-residents. A non-resident is generally considered a taxable person if they have a PE in the UAE, which is a fixed place of business (e.g., an office, a branch, a factory) from which they carry out their business.

- **Taxable Income:** A non-resident natural person is only taxed on the income that is directly attributable to their PE in the UAE, provided it exceeds the AED 1 million threshold. Income earned outside of their UAE-based business is not subject to UAE Corporate Tax.
- **Example:** A non-resident consultant from the UK conducts a small amount of business in the UAE through a temporary office. If their total annual turnover from that UAE-based business exceeds AED 1 million, they would be subject to UAE CT on that specific income. However, the income they earn from their UK business (which has no connection to the UAE PE) would not be subject to UAE CT.

Understanding What "Worldwide" Income Includes

The term "worldwide" includes any income you earn from your business, no matter where in the world you earn it.

- **It's not a separate business:** This rule applies when the foreign income is part of the same business you operate in the UAE. For example, if your UAE-based consultancy business signs a new client in another country and you travel there to provide the service, the income from that service is part of your UAE business's revenue.
- **It's different from a separate business:** This is different from running a completely separate, independent business in another country. For example, if you run a consultancy in the UAE and also have a completely separate, unrelated business in another country, the income from that separate business would generally not be combined with your UAE business income for tax purposes.

TAX CONSEQUENCES: NATURAL PERSONS

1. The Core Principle

The fundamental rule is that a natural person who is a resident of the UAE is only considered a "taxable person" and liable for Corporate Tax on their business or business-related income if their total annual turnover from those activities exceeds **AED 1 million** within a single Gregorian calendar year.

This threshold acts as a a key differentiator, distinguishing between casual or small-scale business activities and more substantial, income-generating enterprises.

2. What Counts as "Turnover"?

"Turnover" refers to the total revenue or gross income earned from your business activities. This includes all sales, fees, and other income streams generated from your business, regardless of where the income is sourced. For a natural person, this includes income from:

- Unincorporated partnerships.
- Freelance work.
- Consultancy services.
- Any other commercial or business-related activities.

3. What Does Not Count as Turnover?

Crucially, the following types of personal income are explicitly exempt from the Corporate Tax and do not count towards the AED 1 million threshold:

- **Salary and employment income:** Your earnings from a full-time or part-time job.
- **Personal investment income:** Income from bank deposits, savings schemes, and capital gains from selling shares or other securities held in your personal capacity.
- **Real estate income:** Income from an individual's investment in real estate, such as rental income.

What is NOT Considered a Business Activity

Certain activities are typically not classified as business activities unless they are conducted as a regular occupation:

- **Farming**: Selling crops or produce from your own farm is generally not a business activity, unless you operate a permanent store or factory to sell the products.
- **Art and Intellectual Work**: Making and selling your own art or writing and selling your own book is not considered a business activity.
- **Personal Efforts**: Any work where an individual primarily relies on their own physical or mental effort to earn a profit, rather than on significant monetary capital.
- **Agritourism**: Allowing people to visit or stay on your farm for a short period is not considered a commercial business activity.

EXCLUSION FROM CORPORATE TAX

1. Wages and Employment Income

This is the most important exclusion for most people. Any money you earn from a job is **completely exempt** from Corporate Tax.

- **What it includes:** This category covers your regular monthly salary, bonuses, allowances, and any other benefits you receive from your employer.
- **What it doesn't include:** This is different from running your own business. For example, if you are a consultant and your clients pay your company, that is business income, not a wage. But if you are employed by a company and they pay you a salary, that is considered a wage.
- **A special note on Director's Fees:** The document clarifies that even fees a person receives for being on the board of a company are considered a form of wage and are not subject to Corporate Tax.

2. Personal Investment Income

The Corporate Tax law recognizes that individuals make personal investments to grow their wealth. These are not considered a "business" and are therefore **not taxable**.

- **What it includes:** This is income from things you do with your own savings, for yourself, without having a specific business license for it. For example, any profit you make from:
  - Buying and selling stocks and shares on a stock exchange.
  - Getting interest from a savings account or bank deposits.
  - Selling a personal asset like a luxury car, a piece of jewelry, or a family heirloom for a profit.
- **A simple way to think about it:** If your investment activity is large enough to be considered a formal business that requires a license, it might be taxable. But if you're just managing your own money and assets as a private individual, that income is safe.

3. Real Estate Investment Income

The income you make from real estate is also **not subject to Corporate Tax**, provided it's considered a personal investment.

- **What it includes:** This category covers any income from selling, renting, or leasing real estate property in the UAE.
- **Examples:**
  - **Selling property:** If you sell a residential apartment or land for a profit.
  - **Rental income:** If you own one or more properties that you rent out to tenants.
- **The key condition:** The tax law states that this exemption applies as long as your real estate activity is not being conducted through a licensed business. If you were a real estate developer with a company license to buy, sell, and manage properties, then your income from that company would be business income and could be subject to tax. But for an individual simply renting out their own properties, it is not taxable.

By keeping these three categories in mind, a natural person can clearly understand what parts of their income are not a concern under the new Corporate Tax law.

CORPORATE TAX IMPLICATIONS FOR INDEPENDENT SERVICE PROVIDERS

Freelancers (Self Employed Individuals)

The Core Rule: Business Turnover is the Key

For a freelancer, the question of whether they are subject to Corporate Tax comes down to one number: **AED 1 million in total annual turnover.** The tax is not on the profession itself, but on the size of the business activity.

- **When a Freelancer is Taxable:** A freelancer becomes a "Taxable Person" if their total gross income (turnover) from all their self-employed activities exceeds AED 1 million in a single Gregorian calendar year.
    - This is not just for one project; it's the total amount earned from all clients and all freelance businesses they run.
    - Once this threshold is crossed, the freelancer must register for Corporate Tax.
- **When a Freelancer is Not Taxable:** If a freelancer's total annual turnover remains below AED 1 million, they are not considered a Taxable Person under the Corporate Tax Law.

The Crucial "Connection" Rule

A critical point to remember is how the law defines "worldwide income." Income from a business activity conducted outside the UAE is only included if it is **"connected"** to the business activity inside the UAE.

- **When Income is Connected:** If a freelancer has a business based in the UAE and they travel to another country to service a client as part of that same business, the income from that foreign client is considered connected.
- **When Income is Not Connected:** If a freelancer has a completely separate and independent business in another country—for example, a rental property managed by a different entity—the income from that separate business would generally not be considered connected to their UAE freelance business. In this scenario, the freelance income would be taxed in the UAE (if it meets the threshold), and the rental income would be taxed in the other country.

Example: The Freelance Graphic Designer (Claiming SBR)

Let's consider Mr. B, a freelance graphic designer based in the UAE.

- **The Situation:** Over the course of a year, Mr. B works for several international clients and earns a total of **AED 1,300,000**.
- **Business Expenses:** To run his business, Mr. B incurs legitimate costs, such as rent for his home office, software subscriptions, and computer equipment, totaling **AED 450,000**.
- **Small Business Relief (SBR):** The law allows individuals with a turnover below AED 3 million to elect for Small Business Relief. Since Mr. B's turnover of AED 1,300,000 is below this limit, he decides to claim SBR.

Tax Consequences:

1. **Is he a Taxable Person?** Yes, because his total annual turnover of AED 1,300,000 is **above** the AED 1 million threshold. However, by electing for Small Business Relief, his situation changes.
2. **What is his Taxable Income?** By electing for Small Business Relief, he is treated as having **zero** taxable income for the relevant tax period.
3. **How much Tax does he pay?** Because his taxable income is treated as zero, Mr. B pays **no Corporate Tax**.

This example highlights that while a freelancer may become a "Taxable Person" by crossing the AED 1 million turnover threshold, they can still potentially have a zero tax liability by successfully electing for Small Business Relief.

Influencers

An influencer's earnings are not considered a "wage" or "personal investment" but rather income from a **"Business or Business Activity."** This means that as an influencer, you are seen as running your own business.

Like a freelancer, the key factor that determines if an influencer is subject to Corporate Tax is the **AED 1 million annual turnover threshold.**

- **Taxable:** An influencer becomes a **"Taxable Person"** if their total gross income from all their influencer activities exceeds **AED 1 million** within a single calendar year. Once this threshold is met, they must register for Corporate Tax.
- **Non-Taxable:** If an influencer's total annual turnover remains **below AED 1 million**, they are not considered a Taxable Person under the Corporate Tax Law.

Understanding "In-Kind" Consideration

A crucial aspect of an influencer's income is the concept of **"in-kind" consideration.** This refers to non-cash payments or benefits with a real market value that you receive from brands. These are not gifts; they are a form of payment for your services.

- **What it includes:** This can be anything from a free product (like a phone, a piece of clothing, or a car) to free travel, hotel stays, or restaurant meals provided by a brand in exchange for a promotion.
- **How it is taxed:** The market value of these "in-kind" payments must be included in your total turnover. For example, if a brand gives you a luxury watch worth AED 10,000 for a sponsored post, that AED 10,000 counts toward your AED 1 million threshold.

Example: The Lifestyle Influencer

Let’s consider Ms. C, a lifestyle influencer based in the UAE.

- **The Situation:** Over the course of a year, Ms. C earns income from a variety of sources:
  - **Cash:** She receives AED 900,000 in cash payments from various brands for sponsored content and campaigns.
  - **"In-Kind" Payments:** She also receives products and services from brands, which have a total market value of **AED 250,000** (e.g., free electronics, clothing, and paid-for trips).

Tax Consequences:

1. **Is she a Taxable Person?** Yes, because her total annual turnover is calculated by adding both her cash and "in-kind" payments:
    - Cash + In-Kind Payments = Total Turnover
    - AED 900,000 + AED 250,000 = AED 1,150,000
    - Since her total turnover of AED 1,150,000 is **above** the AED 1 million threshold, she is a Taxable Person and must register for Corporate Tax.
2. **What is her Taxable Income?** Here she can elect for Small Business Relief, as the total turnover was lower than 3 million, so no taxable income for this year

INTERACTION WITH SMALL BUSINESS RELIEF

Combining Income Streams

All business-related income streams of a natural person are combined to determine their total annual turnover. For Corporate Tax purposes, it is not enough to consider each business separately; various streams of income from different business activities must be aggregated. This includes income from freelance work, sole proprietorships, and even income from foreign sales if they are related to a business activity conducted in the UAE.

- **Example:** If a person has two businesses—a freelance gig and a small online store—the turnover from both businesses must be added together to see if the AED 1 million threshold is crossed. This is the case even if one of the businesses would, on its own, be below the threshold.

The Dual-Threshold Challenge

A key complication arises from the existence of two distinct turnover thresholds:

1. **AED 1 Million:** Crossing this threshold makes a natural person a **Taxable Person** and requires them to register for Corporate Tax.
2. **AED 3 Million:** This is the eligibility limit for **Small Business Relief (SBR)**. A natural person can only elect for this relief—which effectively makes their taxable income zero—if their total annual turnover is below this amount.

The challenge lies in the gap between these two figures. A person whose combined turnover is, for example, AED 1.5 million would be a taxable person, but they could still elect for SBR and have a tax liability of zero. However, a person whose turnover is AED 3.1 million would not only be a taxable person but would also be **ineligible** for SBR, forcing them to calculate their full taxable income and pay tax on it. This highlights the importance of not just knowing your gross income but also tracking it against both thresholds.

Example: Small Business Relief Interaction

Let’s consider Mr. Z, a multi-talented professional based in the UAE. During a Gregorian calendar year, he has several business activities:

- **Online Store:** He runs an e-commerce store selling home decor. His total turnover from this store is **AED 1.8 million**.
- **Freelance Consultant:** He works as a freelance consultant for various clients, generating a turnover of **AED 1.1 million**.
- **Wages:** He also has a part-time employment contract, earning a salary of **AED 150,000**.

Analysis of the Tax Situation:

Step 1: Calculate Total Business Turnover

First, we must combine all of Mr. Z's business-related income streams. We must **exclude** his wage income, as it is not considered a business activity.

- Total Business Turnover = Online Store Turnover + Freelance Turnover
- Total Business Turnover = AED 1,800,000 + AED 1,100,000 = AED 2,900,000

Step 2: Check Against the AED 1 Million Threshold

- Mr. Z's total business turnover is **AED 2.9 million**, which is **above** the AED 1 million threshold.
- **Result:** Mr. Z is considered a "Taxable Person" and is required to register for Corporate Tax.

Step 3: Check Against the AED 3 Million SBR Threshold

- Mr. Z's total business turnover is **AED 2.9 million**, which is **below** the AED 3 million threshold for Small Business Relief.
- **Result:** Mr. Z is **eligible** to elect for Small Business Relief.

Example: Small Business Relief Interaction

Let's consider Mrs. S, a professional based in the UAE, who earns income from various activities during a calendar year:

- **Real Estate Rental Income:** She owns two apartments in Dubai and receives a total of **AED 2.3 million** in rental income.
- **Online Coaching Business:** She runs an online business providing life coaching services, with a total turnover of **AED 1.5 million**.
- **Freelance Journalism:** She also works as a freelance journalist for several publications, earning a total of **AED 800,000**.

Step 1: Classify and Combine Business Income

The first crucial step is to separate business income from exempt personal income.

- **Business Income:** Her online coaching business and freelance journalism are both considered "Business or Business Activities."
- **Exempt Income:** The rental income from her two apartments is considered "Real Estate Investment Income" and is explicitly excluded from Corporate Tax, provided it is not conducted through a license.

Therefore, only the income from her coaching and journalism activities is combined to determine her total business turnover.

- Business Turnover = Online Coaching Turnover + Freelance Journalism Turnover
- Business Turnover = AED 1,500,000 + AED 800,000 = AED 2,300,000

Step 2: Check Against the AED 1 Million Threshold

- Mrs. S's total business turnover is **AED 2.3 million**, which is **above** the AED 1 million threshold.
- **Result:** She is a "Taxable Person" and must register for Corporate Tax.

Step 3: Check Against the AED 3 Million SBR Threshold

- Her total business turnover of **AED 2.3 million** is **below** the AED 3 million SBR threshold.
- **Result:** She is **eligible** to elect for Small Business Relief.

Deductible and Non Deductible Expenses for Corporate Tax

Deductible Expenses for Natural Persons

For a natural person running a business, not all expenses are created equal when it comes to Corporate Tax (CT). The fundamental rule for an expense to be deductible is that it must be incurred **"wholly and exclusively for the purposes of the Business."** This means there must be a direct link between the expense and the generation of taxable income.

The Principle of Apportionment

A key complication arises when an expense serves a dual purpose—that is, it is used for both a business and for personal reasons. In such cases, the entire expense cannot be deducted. Instead, a natural person must **apportion** the expense and only deduct the portion that is directly attributable to the business.

This apportionment must be based on a reasonable and justifiable method. Common methods include:

- **Usage:** Apportioning based on how much the asset is used for business versus personal use (e.g., mileage for a car).
- **Area:** Apportioning based on the physical space used for the business (e.g., a home office)

Non-Deductible Expenditures for Natural Persons

Under the UAE Corporate Tax Law, a key principle is that a natural person operating a business, such as a **sole proprietorship**, is not separate from their business for tax purposes. This means the person and the business are considered the same entity. This legal identity has a direct and important consequence: any money the owner withdraws from the business for themselves cannot be deducted as an expense.

The Principle of Non-Deductibility

The law explicitly states that amounts withdrawn by a natural person from their business are **non-deductible expenditures**. This applies even if the natural person records these withdrawals as a "wage," "salary," or "commission" in their business's financial records.

- **Why?** A true deductible expense is a cost incurred to earn income from a third party. When a sole proprietor pays themselves, it is seen as an internal transfer of funds from one part of the single tax entity to another. It is essentially the owner distributing profit to themselves, not a legitimate business cost.

- **The Outcome:** Because these amounts cannot be deducted, they are not subtracted from the business's revenue when calculating **Taxable Income**. This directly increases the business's net profit, and consequently, the amount on which Corporate Tax is calculated.

Example: The Software Developer and the Multi-Use Vehicle

Let's consider Mrs. T, a software developer who runs her own business as a natural person in the UAE. She purchases a new car to travel to client meetings, but also uses it for personal errands.

- **The Situation:**
  - **Asset Cost:** Mrs. T purchases a car for **AED 150,000**.
  - **Business Use:** She meticulously tracks her mileage and determines that the car is used for business purposes **60%** of the time.
  - **Related Expenses:** Over the course of the year, she incurs the following costs for the car:
    - Annual Depreciation: **AED 25,000**
    - Loan Interest: **AED 10,000**
    - Fuel and Maintenance: **AED 8,000**

Tax Consequences:

1. **Deductible Expenses:** Mrs. T cannot deduct the full cost of the car or any of the related expenses. She must apportion them based on the 60% business usage.
2. **The Calculation:**
   - **Depreciation Deduction:** The deductible amount is 60% of the total depreciation.
     - AED 25,000 x 60% = AED 15,000
   - **Loan Interest Deduction:** The deductible interest expense is 60% of the total interest paid.
     - AED 10,000 x 60% = AED 6,000
   - **Running Costs Deduction:** The deductible amount for fuel and maintenance is 60% of the total.
     - AED 8,000 x 60% = AED 4,800

3. **The Result:** The total amount she can deduct from her business's taxable income for the car is **AED 25,800** (AED 15,000 + AED 6,000 + AED 4,800). The remaining costs are considered personal expenses and are not deductible.

Example: Maximizing Tax Savings through Apportionment

Let's consider Mrs. T, a software developer who runs her own business as a natural person. She makes two major purchases that serve both her business and personal life, requiring careful expense apportionment to save on Corporate Tax.

The Situation

- **Business Turnover:** Mrs. T's business generates a taxable income of **AED 1,000,000** before accounting for the expenses of her home office and car.
- **The Home Office:** She uses an apartment for both personal residence and a dedicated home office. The business use of this space is **80%**. Her annual expenses related to the apartment are:
    - Annual Depreciation: **AED 25,000**
    - Loan Interest: **AED 10,000**
    - Utilities: **AED 24,000**
- **The Multi-Use Vehicle:** She uses a car for both client travel and personal errands. The business use of this vehicle is **70%**. Her annual expenses related to the car are:
    - Annual Depreciation: **AED 25,000**
    - Loan Interest: **AED 10,000**
    - Fuel and Maintenance: **AED 8,000**

The Tax Consequences: Calculating Deductible Amounts and Savings

1. Calculating Deductible Expenses

First, we calculate the deductible portion of each expense based on the business-use percentages.

Home Office Deductible Expenses (80% Business Use):

- Deductible Depreciation: AED 25,000 x 80% = AED 20,000
- Deductible Loan Interest: AED 10,000 x 80% = AED 8,000
- Deductible Utilities: AED 24,000 x 80% = AED 19,200

- **Total Home Office Deduction:** AED 20,000 + AED 8,000 + AED 19,200 = AED 47,200

Car Deductible Expenses (70% Business Use):

- Deductible Depreciation: AED 25,000 x 70% = AED 17,500
- Deductible Loan Interest: AED 10,000 x 70% = AED 7,000
- Deductible Fuel and Maintenance: AED 8,000 x 70% = AED 5,600
- **Total Car Deduction:** AED 17,500 + AED 7,000 + AED 5,600 = AED 30,100

Total Deductible Expenses:

- AED 47,200 (Home Office) + AED 30,100 (Car) = AED 77,300

2. Calculating Taxable Income and Corporate Tax Savings

- **Taxable Income Before Deductions:** AED 1,000,000
- **Taxable Income After Deductions:** AED 1,000,000 - AED 77,300 = AED **922,700**

Since the Taxable Income was lower than 1 million Threshold, Mrs. T don't have to register for corporate tax.

Example: A Graphic Designer's Salary

a graphic designer who operates her business as a sole proprietorship in the UAE.

- **The Situation:** During a calendar year, Mrs. L's business earns a total turnover of **AED 1.5 million**. She has various legitimate business expenses (e.g., software subscriptions, office supplies) totaling **AED 300,000**.
- **The Withdrawal:** To pay herself, Mrs. L withdraws **AED 150,000** from the business and records this as her annual salary in her business accounts. She believes this is a valid business expense.

Tax Consequences

1. **Calculate Taxable Income:** Mrs. L's initial accounting profit is calculated as turnover minus her deductible expenses and her salary.
   - AED 1,500,000 - AED 300,000 - AED 150,000 = AED 1,050,000
2. **Apply Non-Deductible Rule:** According to the Corporate Tax Law, the AED 150,000 "salary" she paid herself is a non-deductible expense. She must add this amount back to her profit.
   - AED 1,050,000 + AED 150,000 = AED 1,200,000
3. **Final Taxable Income:** Her final **Taxable Income** for the year is **AED 1.2 m**

Corporate Tax Registration for Natural Persons

CT registration is a key compliance obligation for natural persons conducting business activities in the UAE. It's mandatory for those who meet specific criteria and is the first step toward fulfilling their tax duties.

Registration Criteria and Deadlines

A natural person becomes a **"Taxable Person"** and must register for Corporate Tax if their total annual turnover from all business and business activities in the UAE exceeds **AED 1 million**. This includes income from sole proprietorships, freelance work, and partnerships, but **excludes** income from sources like wages, personal investments, and real estate not held under a license.

The deadline for a resident natural person to register is **March 31** of the following year in which their total turnover exceeded the AED 1 million threshold. For example, if your turnover for the 2024 calendar year crossed the AED 1 million mark, you must register by March 31, 2025.

Tax Period (Calendar Year)	Turnover Exceeds AED 1 Million	Registration Deadline
2024	Yes	31 March 2025
2025	Yes	31 March 2026

It's important to note that a natural person has a single Tax Registration Number (TRN) for all their business activities. Therefore, a freelancer with a sole proprietorship, for instance, must combine their turnover from both activities to determine if they meet the threshold.

Penalties for Non-Compliance Failure to register for Corporate Tax by the specified deadline will result in an administrative penalty of **AED 10,000**. The FTA has the authority to impose this penalty for each instance of late registration. Timely registration is crucial to avoid these penalties and ensure full compliance with the law.

Corporate Tax De-registration for Natural Persons

De-registering from Corporate Tax (CT) for a natural person is a process required when they are no longer considered a **Taxable Person** under the law. It's a crucial step to ensure they are no longer subject to tax obligations and to avoid potential penalties.

When to De-register

A natural person must apply for de-registration from Corporate Tax in the following scenarios:

- **Cessation of All Business Activities:** This is the most common reason. A person must de-register if they have completely stopped all business and business activities that made them a taxable person in the UAE. This applies to a freelancer who stops taking on clients or a sole proprietor who closes their business.
- **Death of the Taxable Person:** In the unfortunate event of a natural person's death, their legal representative or heir must initiate the de-registration process on their behalf.
- **Change in Legal Status:** If the person's business is transferred or merged into a juridical entity (a company), de-registration as a natural person is necessary.

It is important to note that a natural person **cannot** de-register simply because their annual turnover has fallen below the AED 1 million threshold. Once registered, they must maintain their registration and file a "nil" tax return for any period where their turnover is below the threshold, unless they cease all business activities entirely.

Criteria and Process

For a de-registration application to be approved by the Federal Tax Authority (FTA), a natural person must fulfill a strict set of criteria and follow the correct process.

Key Criteria to be Fulfilled

- **File All Returns:** The natural person must have filed all outstanding Corporate Tax Returns, including a final return for the period up to the date of cessation.
- **Settle All Liabilities:** All outstanding Corporate Tax and administrative penalties must be fully paid. The FTA will not approve the application if any liabilities are pending.

- **Cessation of all Activities:** The person must be able to provide documentary evidence proving the complete cessation of all their businesses and business activities in the UAE.

The De-registration Process

1. **Deadline:** The de-registration application must be submitted to the FTA within **3 months** from the date the business or business activity ceased. Failure to meet this deadline can result in a penalty of AED 1,000, and a further AED 1,000 for each month of delay, up to a maximum of AED 10,000.
2. **Application:** The application is submitted through the FTA's online portal, EmaraTax.
3. **Required Documents:** The application must be supported by various documents, which may include:
    - Proof of business closure (e.g., license cancellation).
    - Final financial statements up to the date of cessation.
    - An official letter or undertaking stating the person will no longer be conducting any taxable business activities in the UAE.

A natural person has only **one Tax Registration Number (TRN)** for all their businesses. Therefore, they can only de-register when **all** businesses and business activities associated with that TRN have ceased.

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