

UAE



CORPORATE

TAX

→ SIMPLIFIED

→ HANDWRITTEN
NOTES

CA VIMAL VINOD

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CORPORATE TAX

UAE

- Form of **DIRECT TAX** levied on net income/profit of -

Corporations

other entities
from their business

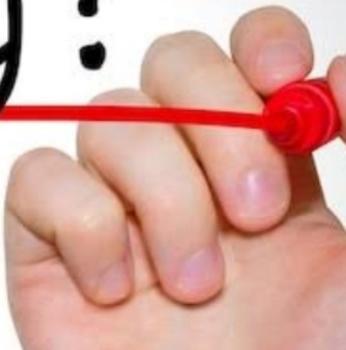


- Applicable for financial years commencing on or after **1 June 2023**.
- Applies to taxable persons earning taxable income exceeding AED **375000**

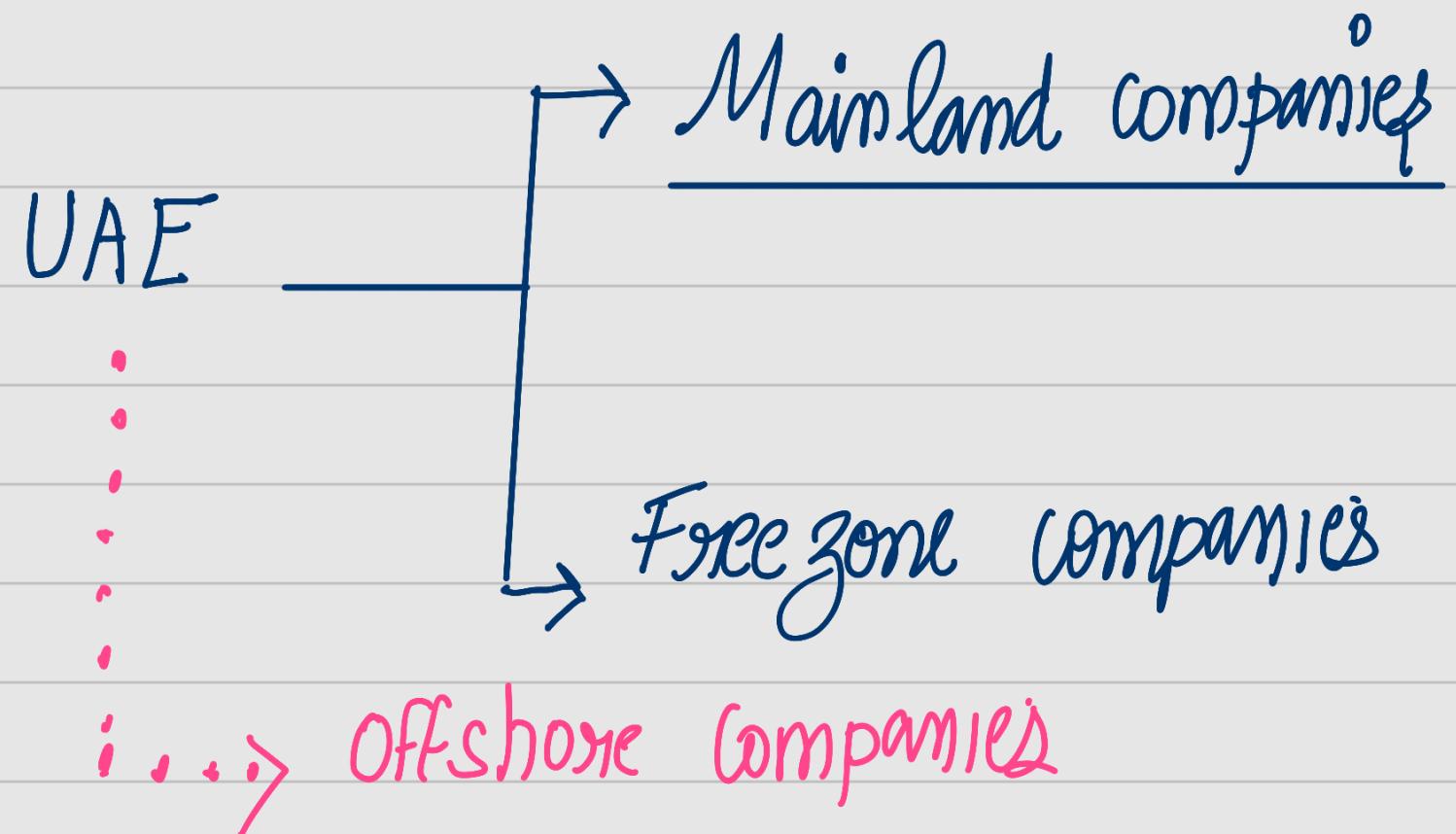
WHY UAE CORPORATE TAX?

- DIVERSIFY REVENUE STREAMS
Reduce reliance on oil income and create more sustainable economic model.
- PROMOTE ECONOMIC GROWTH
Encourage entrepreneurship & innovation within UAE.
- INCREASE GOVERNMENT REVENUE
Fund public services & infrastructure development.

Why?



UAE CORPORATE TAX STRUCTURE



Mainland Companies

 Tax Rate

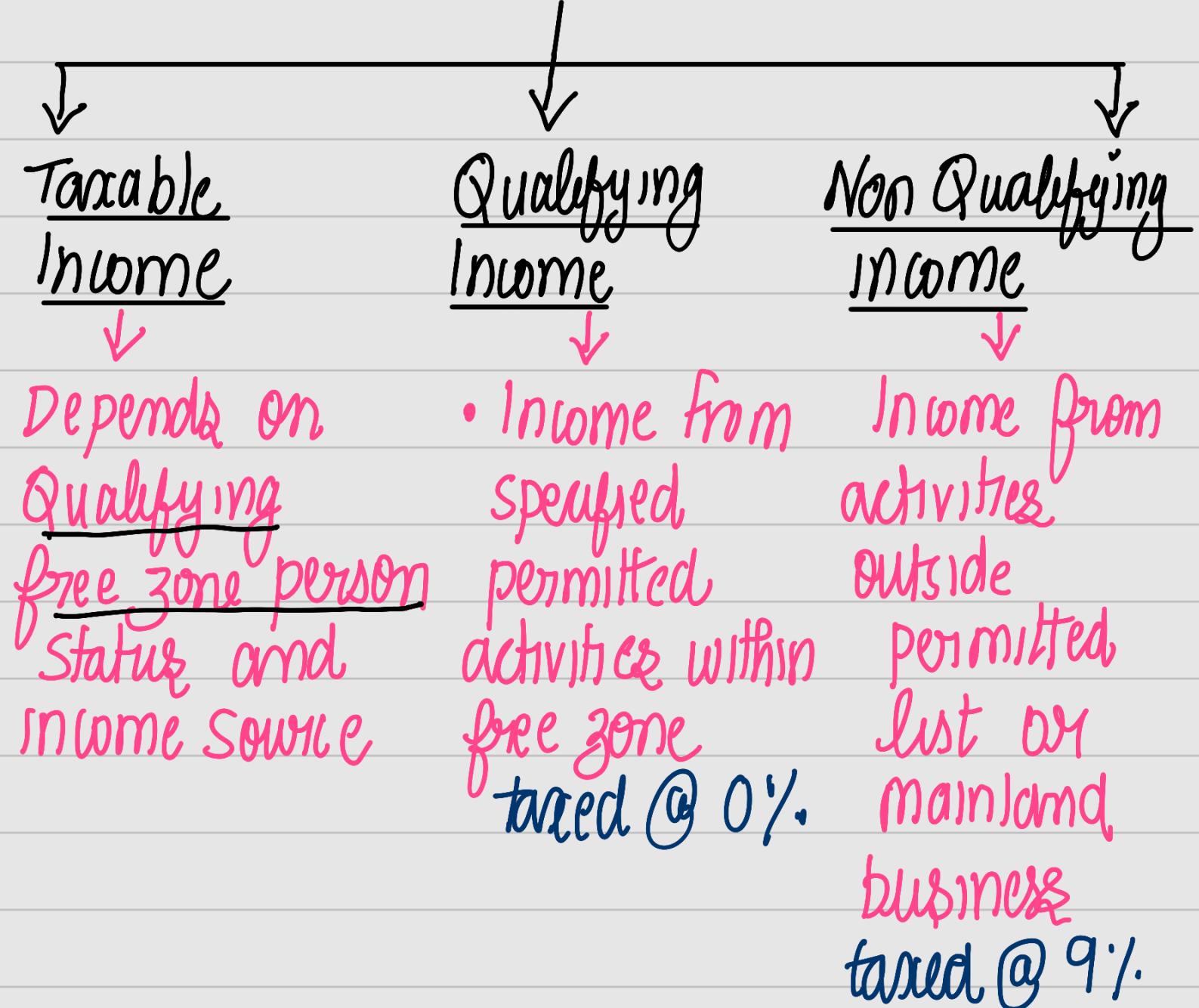
9% on
taxable
income
excluding
AED 375,000

Taxable Income

Profit from commercial activities in UAE

- Small businesses with income below AED 375,000
 - Public benefit entities.

FREE ZONE COMPANIES



[Qualifying Free Zone Person requirements]

- Specific activities mentioned
- Minimum Share Capital
- Physical presence in free zone.

* Offshore Companies : Generally exempt from UAE corporate tax due to being registered outside UAE and not conducting business within its territory.

However
↓

* If offshore company earns income within UAE from activities not exempt under Free zone Regulations → That income may be subject to 9% corporate tax.

IMPLEMENTATION DATE OF CORPORATE TAX

- Effective for Financial years starting on or after 1 June 2023
- One Annual Return to be filed
- Filed 9 months after the end of Financial year.

Eg :

	FY ends on	First Year of CT
W	30 June 23	1 July 23 to 30 June 24
X	30 Sept 23	1 Oct 23 to 30 Sept 24
Y	31 Dec 23	1 Jan 24 to 31 Dec 24
Z	31 March 24	1 April 24 to 31 March 25

TAX RATE

[General]

[Qualifying Freezone person]

Up to
AED
375000

Above AED
375000

0%.

9%.

Qualifying Income

0%.

Non Qualifying
Income

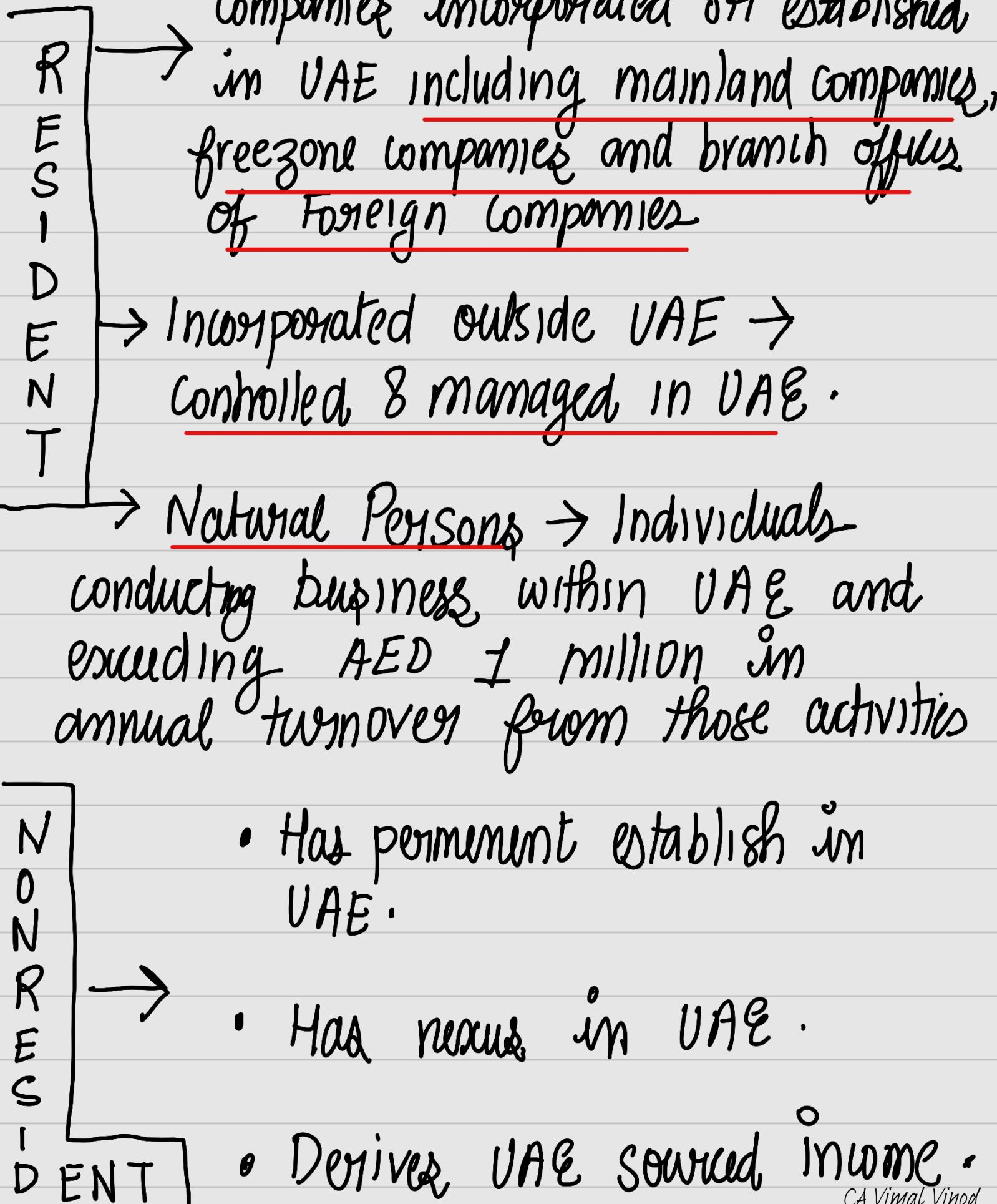
9%.

EXEMPT PERSONS UNDER CT

- UAE Govt entity
- UAE Govt controlled entity
- Person engaged in a non extractive natural resource business in UAE
- Qualifying public benefit entity
- Qualifying investment funds
- Public pension or social security fund or a private pension or social security fund subj to conditions
- UAE juridical persons wholly owned and controlled by certain exempt entities → Subsidiaries of exempt entities engaged in specific activities listed in article 4 of corporate tax law can apply for exemption.



TAXABLE PERSON

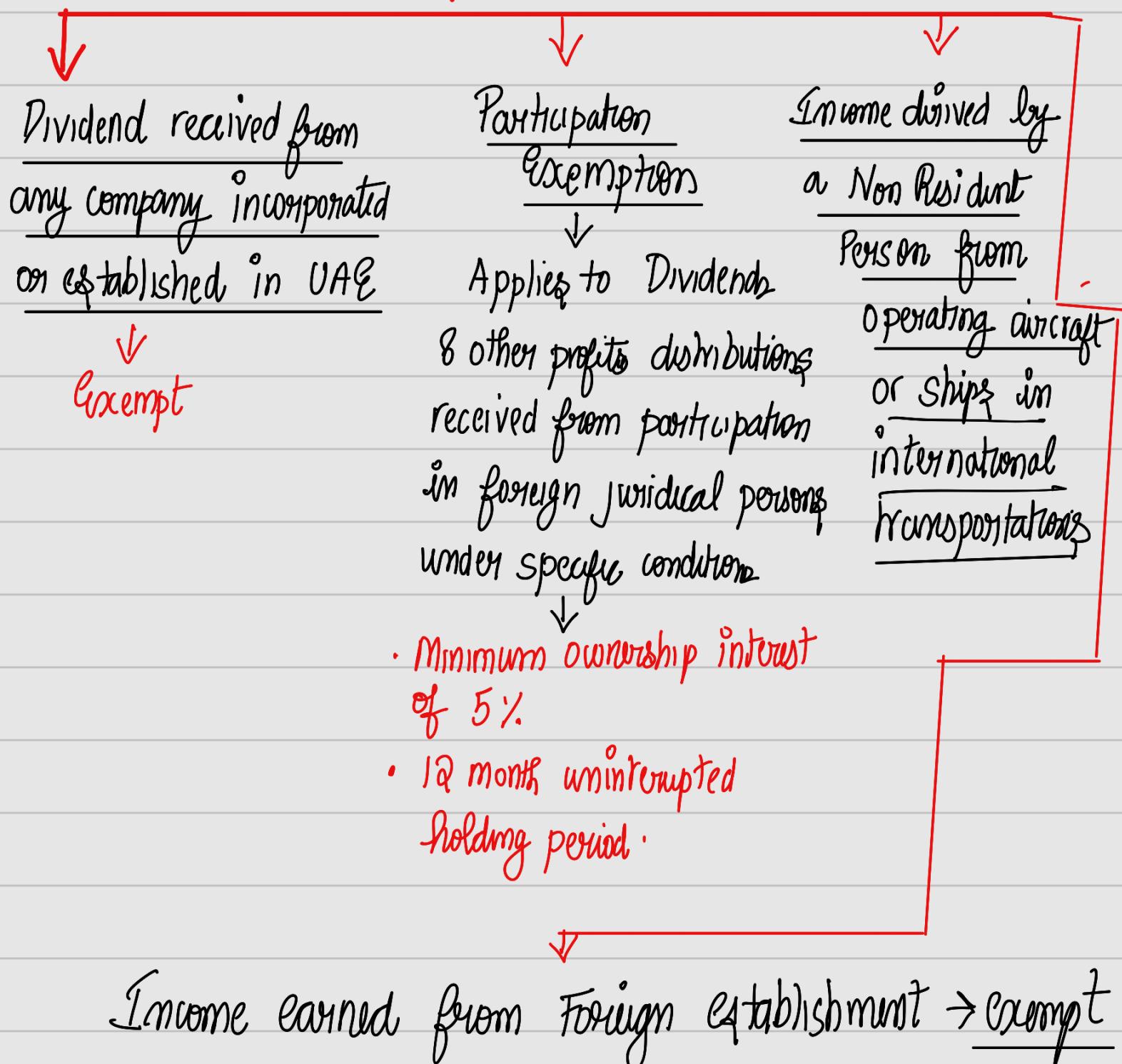


CORPORATE TAX APPLICABILITY FOR NATURAL PERSONS (UAE)

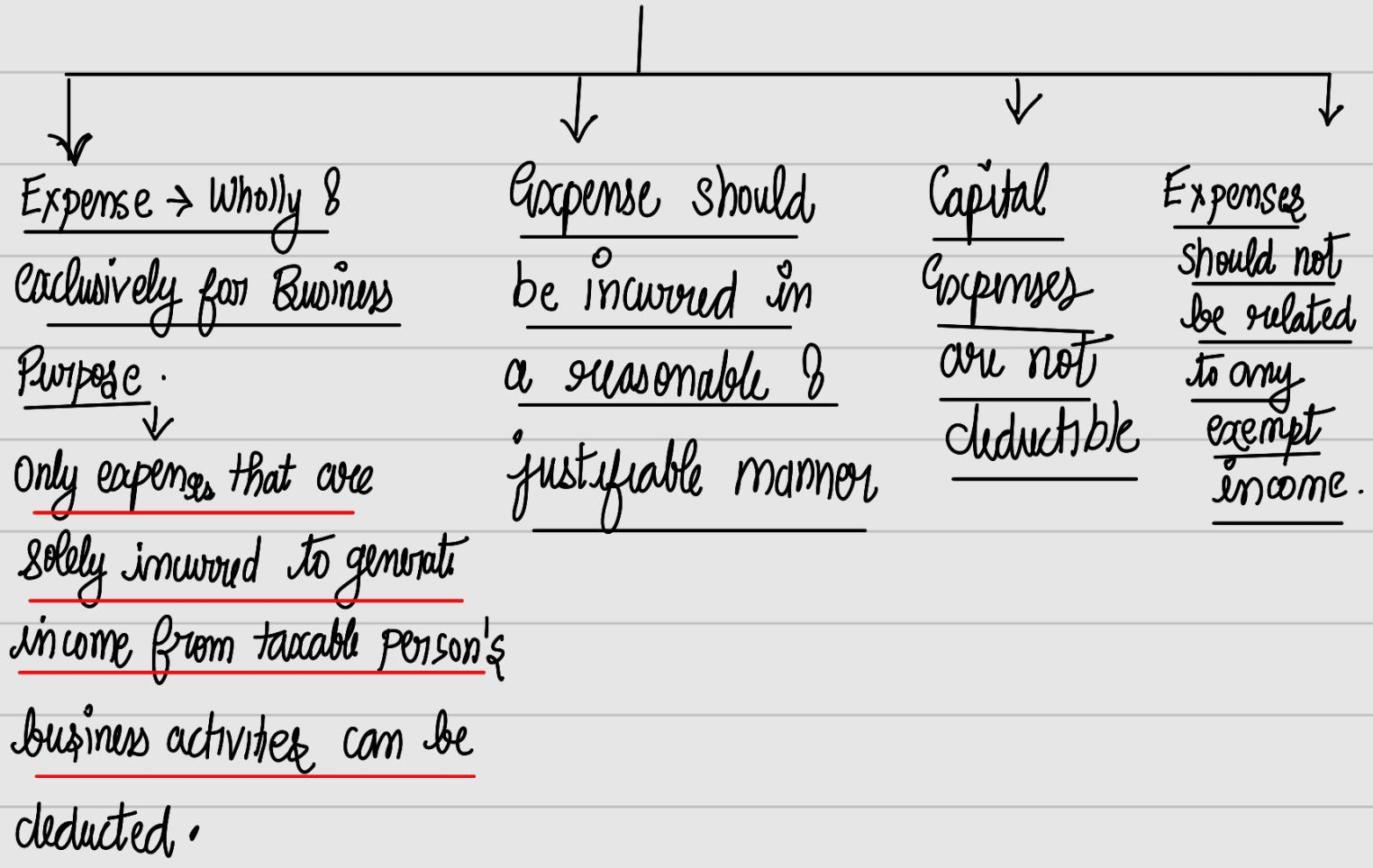


- No Tax on personal income →
Salary, investments and real
estate income remain untaxed,
even for business owners.
- Taxable Only on Business Income
 - Applies if annual turnover from
business activities within UAE
exceeds AED 1 million.
- Tax Rate is 9% on taxable
income exceeding AED 375000.

Exempt Income



DEDUCTIBLE EXPENDITURE UNDER CORPORATE TAX



NON DEDUCTIBLE EXPENSES

- Donation, grants or gifts (other than to a Qualifying Public Benefit entity).
- Recoverable Input VAT
- Besides on illegal payments

- 50% of Entertainment expenses,

- Net Interest beyond

Higher of

- 30% EBITDA

- 1QM AED

Reducible

- Dividends and profit distributions

- Penalty, fine, tax evasions

- Interest on Related Party loan

Deduction on Net Interest Expenditure

- AED 12 million annually
 - 30% of EBITDA
- } whichever HIGHER

Interest eligible for deduction

- Interest on borrowing used for business purposes.

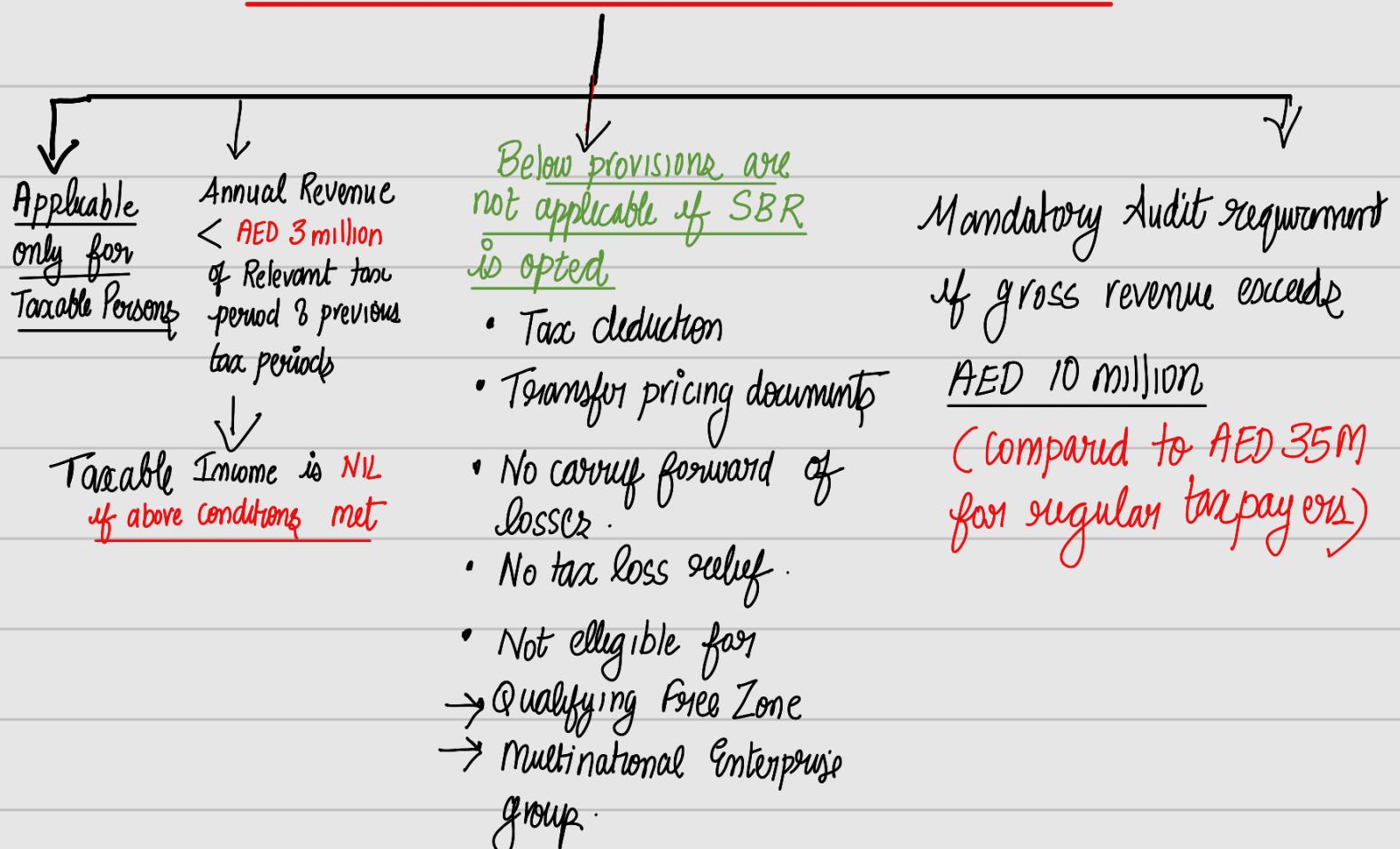
Includes loans, bonds and other debt instruments incurred to finance business activities.

- Finance element of Lease payments

For qualifying finance leases, a portion of lease payments representing finance element (interest cost) is deductible.

- Interest on derivatives used for hedging
- Foreign exchange gains and losses
accruing from interest.

SMALL BUSINESS RELIEF



	<u>SBR</u> <u>Elected</u>	<u>SBR</u> <u>Not elected</u>
• CT Registration required	✓	✓
• Requirement for Full Tax Return	✗	✓
• Taxable Income computation	✗	✓
• Corporate Tax liability	✗	✓
• Interest exp carry forward	✗	✓
• Transfer within qualifying group	✗	✓
• Transfer pricing document requirement	✗	✓
• Compliance with Arms Length priu	✗	✓
• Accounting basis - cash basis	✗	Optional
• Revenue reporting (IFRS) requirements	✗	optional

TAX LOSS RELIEF

↓ ↓ ↓ ↓
 Tax loss Tax loss offset Unlimited • Proper
 can be offset can't exceed carry forward Documentation
 against the 75% of taxable in the number • Changes in
 Taxable Income income. of years ownership or
 of subsequent legal structure
 tax periods. of business might
 effect the carry
 forward of
 incurred loss

Eg :

	2024	2025	2026	2027
Profit/Loss	(400,000)	500,000	600,000	-
(-) B/f loss(75)	-	(375000)	(25000)	
Loss c/f	(400,000)	125000	575000	-
Taxable Income	NIL	125000	575000	-

TAX GROUP

CONDITIONS REQUIRED

- Must be a UAE resident taxable person
- Parent company directly or indirectly holds atleast 95% of share capital, voting rights, profits and net assets of all subsidiary members of the group.
- Neither Parent / subsidiary are exempt or qualifying freezone person.
- All group members must use same accounting standards and have same financial year.

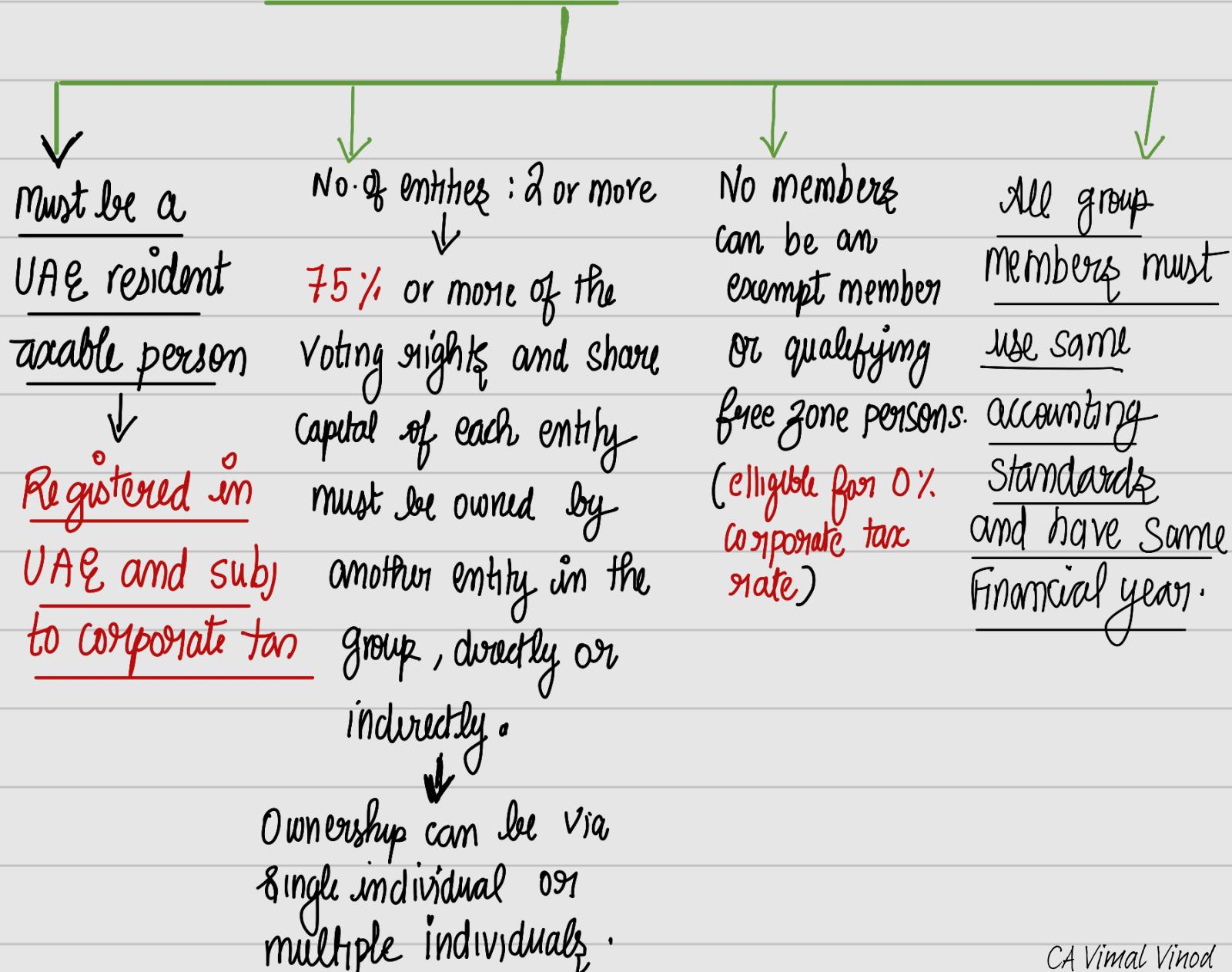
Treated as Single Taxable person

Qualifying Group



Group of 2 or more entities that can benefit from certain tax advantages based on the ownership structure and adherence to specific rules.

CONDITIONS



Additional points to note

- ① Allows offsetting loss within the group.
- ① Easier transfer pricing within the group. → Reduced Tax
- ① Simplified filing processes
- ① To form qualified Group → No formal notification or approval required.
- ① Tax benefits are limited compared to a tax group.
- ① Maximum loss reduction that can be achieved is 75% of the taxable income in a given tax period for any one member entity.
- ① Each companies can still have the benefit of 375000 deduction.

	<u>A</u>	<u>B</u>
Revenue	1500,000	40,00,000
(-) Deductible cap	<u>(25,00,000)</u>	<u>3200,000</u>
	(10,00,000)	800,000
(-) 75% of 800,000		<u>(600,000)</u>
Taxable Income		200,000

Tax payable(0%)

-

Carry forward {
of losses }

(400,000)

WITH HOLDING TAX

RATE : 0%

→ Any Income derived
By ; Non Resident Person

FROM : UAE

which is not attributable to a PE
shall be charged a withholding tax
at 0%.

FOREIGN TAX CREDIT

- Allows Tax payer
To : offset foreign tax paid
ON : Foreign sourced income
against corporate tax due in UAE.
- Unused credit cannot be carried forward to future tax years.
- Evidence of foreign income and taxes paid.

Juridical Person → Entities that are treated as separate legal entities distinct from individuals who own or manage them.

Eg :

- Resident Companies :- LLC, Public joint stock companies, Branches of foreign companies

Registered in UAE.

- Government Controlled Entities : State owned companies and entities directly / indirectly controlled by government.
 - Free zone companies .
-

RELATED PARTY

↓ ↓ ↓

2 or more entities or individuals are related if one has 50% or more ownership in the other, directly or indirectly .

Individuals related upto 4th degree by blood or marriage .

Entity or individual can be considered related if they have the power to influence or control the management or policies of another entity .



- * A person and its PE or foreign PE.
- * Partners in the same unincorporated PE.

CONNECTED PERSON



Individuals or entities with a close relationship with a taxable person, potentially influencing financial transactions and raising concerns about potential tax avoidance.

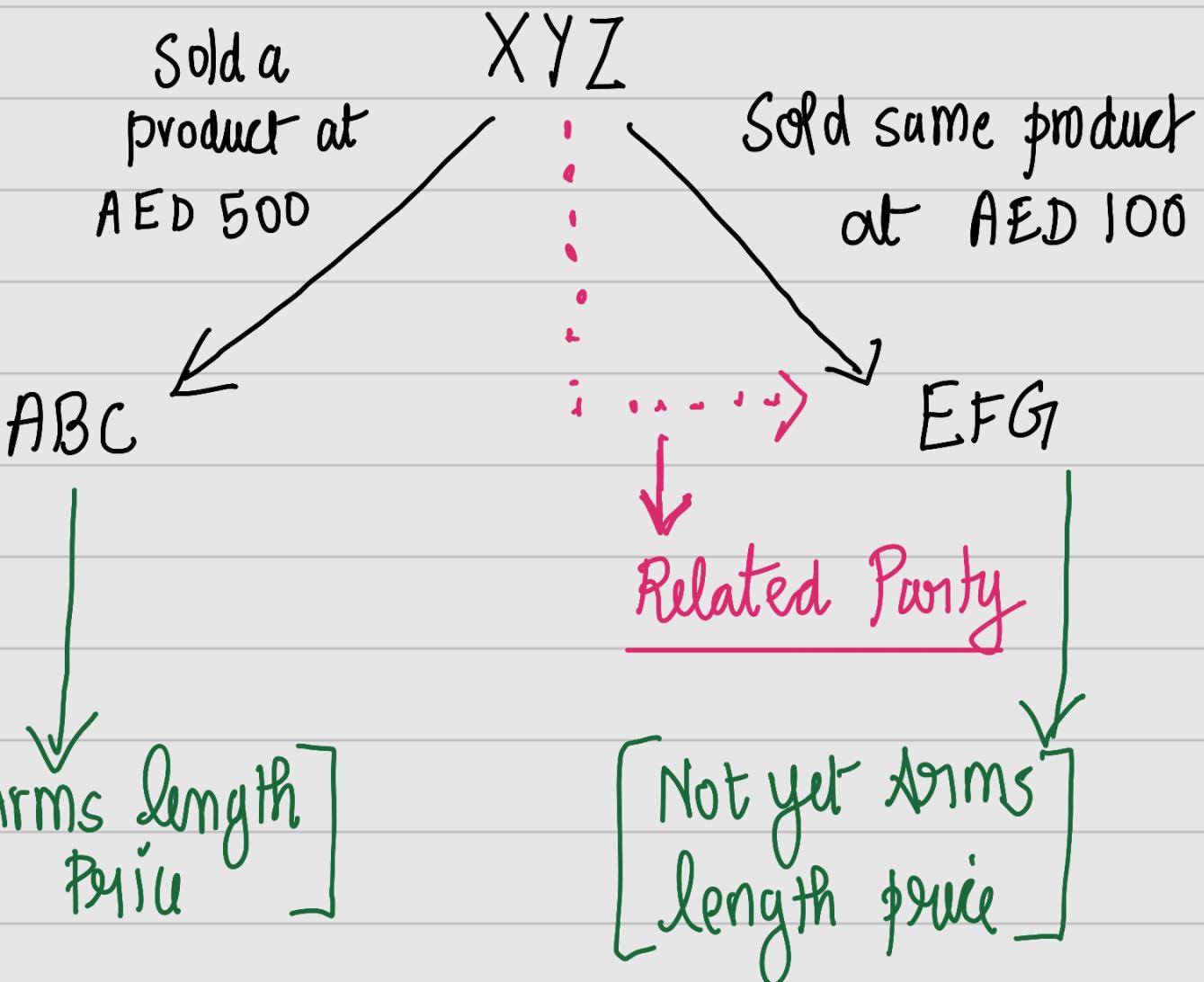
Any following relationships with taxable persons
(directly or indirectly)

↓
Ownership
Interests

↓
Management &
control

↓
Relationship
with connected
persons

- ① Owes 25% or more of the voting rights or share capital of the taxable person.
- ② is controlled by same individual / entity that controls the taxable person.
- ③ is a director, officer or employee with significant influence on the decision making of taxable person.
- ④ Has the power to appoint or remove directors, officers or employee of taxable person.
- ⑤ is a spouse, civil partner, child, parent, sibling or lineal descendant of a connected person.
- ⑥ is a partner in the same partnership as the taxable person.



ALP can be determined by using one / combination of these 6 methods :

- * Comparable Uncontrolled Price method.
- * Resale Price method
- * Cost Plus method
- * Transaction Net margin method .
- * Profit Split Method.

QUALIFYING FREE ZONE

PERSONS

(0% Tax Benefit)

Conditions

- * Demonstrating economic presence in UAE through physical offices, employees and activities directly contributing to income generation.
- * Qualifying Income: Earn income from activities specified by UAE cabinet. This likely excludes activities like passive income and those primarily benefitting the mainland economy.
- * No opt out for Corporate Tax
Not elect to be subject to 9% tax rate.

- * Comply with Arm's length principals and TP requirements.
- * Non qualifying income (from excluded activities or non QFZP transactions) must be less than whichever is lower:
 - 5% of total Revenue.
 - AED 5 million



- * Audited Financial statements
- * Foreign Permanent establishments within a Free Zone are taxed at full 9% rate, regardless of QFZP status.

QUALIFYING ACTIVITIES

GOODS

- ① Manufacturing of Goods or materials.
- ① Processing of Goods or materials.
- ① Trading of goods & services within the free zone. → Includes wholesale & retail trades, e-commerce

[SERVICES AND OTHERS]

- ① Holding of shares & other securities → Uninterrupted period at least 12 months.
- ① Ownership, management and operation of ships.
- ① Reinsurance services.
- ① Fund management services.
- ① Wealth & investment management services.
- ① Headquarter services to related parties.

① Financing & leasing of Aircraft, including engines and rotatable components.

NON-QUALIFYING ACTIVITIES
→ 9%.

② Revenue from immovable property in free zone



→ Commercial property transaction with non free zone person.

→ Transaction with any person for non commercial property.

③ Income generating from a QFZP's foreign or mainland permanent establishments remains subject to full 9% corporate tax rate.

① Transactions with Natural Persons

Any income earned from transactions with individuals outside the free zone except those related to specified qualifying activities like trading with other QFZPs.

① Certain Financial Services

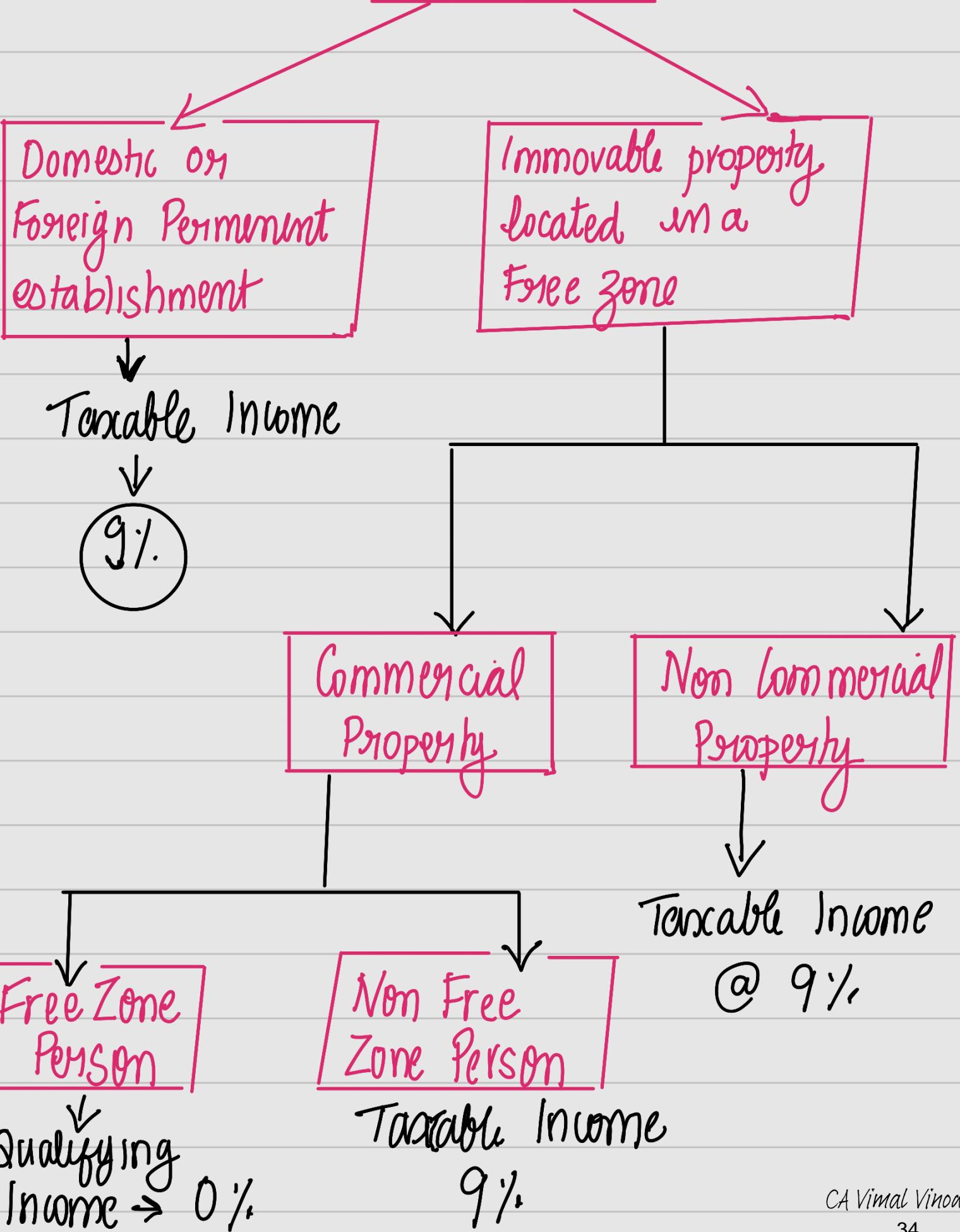
Activities typically requiring oversight in the mainland such as Banking, insurance and money service businesses are generally excluded.

① Income from Intangible Assets

Royalty, licensing fees and other income solely attributable to IP rights, trademarks & other intangible assets falls under this category.

Qualifying Free Zone

Income Source



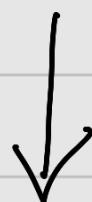
Under UAE Corporate Tax

Ability to use Cash basis Accounting method

↓
Businesses can
opt Cash Basis
Accounting method
if Revenue < AED 3 million

↓
Exception
[Application can
be submitted
with FTA to
use Cash Basis
accounting under
exceptional
circumstances.]

TIME PERIOD FOR KEEPING RECORDS



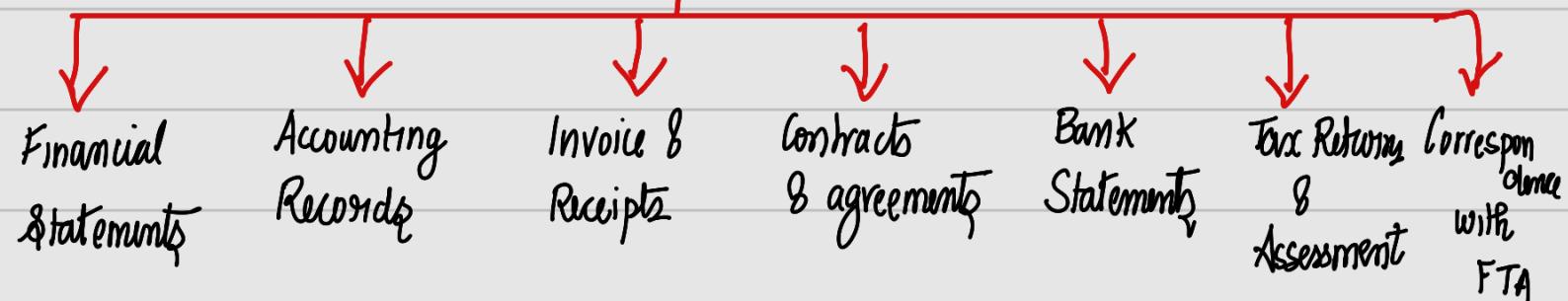
All taxable persons and exempt persons alike must keep all relevant records and documents for

7 Years

following the end of tax period to which they relate



Including But not limited To :



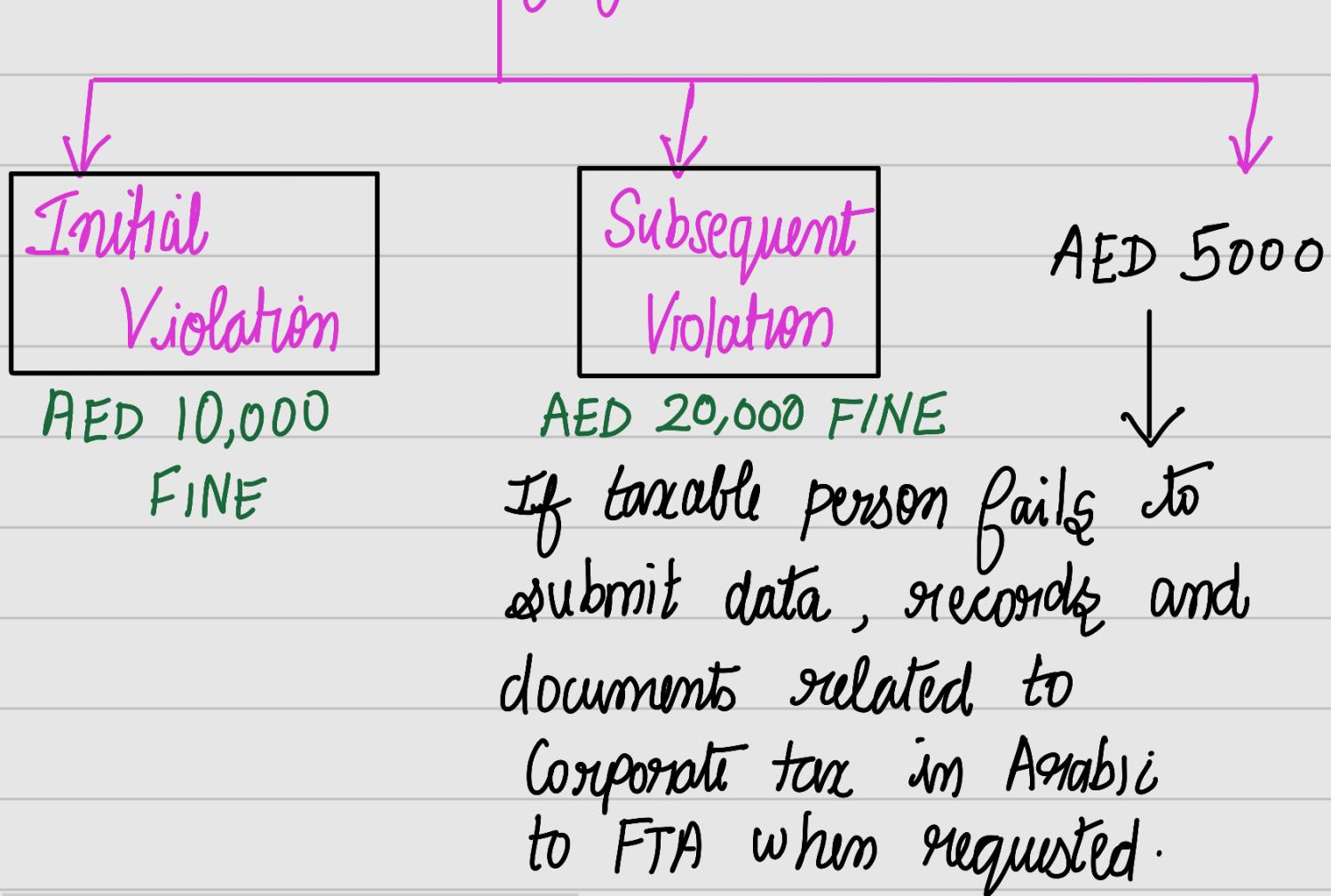
Real Estate Documents

- Sale agreement.
- Lease agreement
- Property Valuation Reports
- Construction Contracts.

Audit of Financial statements

- ① Taxable Person deriving Revenue exceeding AED 50 Million during the relevant tax period.
- ② A qualifying free zone person.

Penalty for Non Compliance



PENALTY

Chart of Accounts

CODE

1000

Current Assets

2000

Non Current Assets

3000

Current Liabilities

4000

Non Current Liabilities

5000

Equity .

6000

Revenue

7000

Cost of Sales

8000

Operating Expenses

Input VAT non deductible

Entertainment expenses - others

Entertainment exp - Employees

Fines / penalties → Non deductible

Foreign Tax credit



9000

<ul style="list-style-type: none"> - : - : - 	<p><u>Other Income & Expenses</u></p> <p>Dividend - Exempt</p> <p>Donation - Non Deductible</p> <p>Donations - QPE - Deductible</p> <p>Finance Cost - Interest</p>
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∴

[Expenses without supporting of invoices & personal expenses are not allowed to be deductible expenses.]

TRANSITION RULES

UAE introduced transitional rules to help smooth transition from pre corporate tax era to post implementation period.



[Includes]



* Taxable persons must use their closing balance sheet for financial reporting purposes under relevant accounting standards as opening balance sheet for corporate tax purposes.

This applies to financial year ending immediately before first tax period.

* Assets measured on historic cost basis can be adjusted, with an election, to exclude unrealised gains that existed on date of entry into corporate tax regime.

This means those gains won't be taxed when assets are ultimately sold.

Adjustment under Transition Rules

For Qualifying Immovable Property & intangible assets

CRITERIA

- It should be owned before the first tax period
- Measured on Historical cost basis in the Financial Statements
- Disposed off or deemed to be disposed of during or after first tax period
- Value of Asset > Net book Value

Eg: Immovable property / IA adjustment

Option 1

Market Value - AED 500,000

Higher of

- Original Cost → 200,000
- Net Book Value → 300,000
as on 1st day of Tax period

$$\begin{aligned}
 &= 500,000 - 300,000 \\
 &= \underline{\underline{200,000}}
 \end{aligned}$$

option 2

- * Asset sold on 1/4/24 @ 80,000
- * Asset bought on 1/1/2020
- * FY 1/1/23 - 31/12/24

Asset Sale Rate X Days before the first
Tax Period

Total number of
days its owned.

$$= 80,000 \times 1461 / 1552$$

$$= \underline{\underline{75309}}$$

Taxable Gain = AED 4691

Eg: [UAE Corporate Tax Computation]
Template

Profit / loss		X X
Less: Exempt Income		(XX)
		XX
Add: Expenses / Deduction not allowed		
• Donation, grants or gifts	X	
• Fines & penalties	X	
• Bribes or other illicit payments	X	
• Dividends , profit distribution of similar nature.	X	
• Corporate tax for tax period	X	
• Input VAT incurred by Taxable person that is recoverable	X	
• Tax on income imposed on Taxable person outside state	X	
• Other deductions	X	(XX)

Add / (less) : Adjustments	X / (X)
Intra group transfers	X / (X)
Unrealised gains/ losses	X / (X)
Other adjustments	X / (X) XX

TAXABLE INCOME

Tax Payable	XX
(-) Withholding Tax	(X)
(-) Foreign Tax Credit	(X)
(-) Relief	(X)

Business restructuring relief
Tax loss relief

Balance Tax Payable / Refund Receivable

XXX