

1.Introduction

The Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (hereinafter referred to as the “Corporate Tax Law”) was issued by His Highness Sheikh Mohamed bin Zayed Al Nahyan, President of the United Arab Emirates (“UAE President”), on 3 October 2022.

The Corporate Tax Law provides the legislative basis for the introduction and implementation of a Federal Corporate Tax (“Corporate Tax”) in the UAE and is effective for financial years starting on or after 1 June 2023.

The introduction of Corporate Tax is intended to help the UAE achieve its strategic objectives and accelerate its development and transformation. The certainty of a competitive Corporate Tax regime that adheres to international standards, together with the UAE’s extensive network of double tax treaties, will cement the UAE’s position as a leading jurisdiction for business and investment.

Given the position of the UAE as an international business hub and global financial centre, the UAE Corporate Tax regime builds from best practices globally and incorporates principles that are internationally known and accepted. This ensures that the UAE Corporate Tax regime will be readily understood and is clear in its implications

2.What is Corporate Tax?

Corporate Tax is a form of direct tax levied on the net income of corporations and other businesses.

Corporate Tax is sometimes also referred to as “Corporate Income Tax” or “Business Profits Tax” in other jurisdictions.

3. Who is subject to Corporate Tax?

Broadly, Corporate Tax applies to the following “Taxable Persons”:

- UAE companies and other juridical persons that are incorporated or effectively managed and controlled in the UAE;
- Natural persons (individuals) who conduct a Business or Business Activity in the UAE as specified in a Cabinet Decision to be issued in due course; and
- Non-resident juridical persons (foreign legal entities) that have a Permanent Establishment in the UAE (which is explained under Section 8).

Juridical persons established in a UAE Free Zone are also within the scope of Corporate Tax as “Taxable Persons” and will need to comply with the requirements set out in the Corporate Tax Law. However, a Free Zone Person that meets the conditions to be considered a Qualifying Free Zone Person can benefit from a Corporate Tax rate of 0% on their Qualifying Income (the conditions are included in Section 14).

Non-resident persons that do not have a Permanent Establishment in the UAE or that earn UAE sourced income that is not related to their Permanent Establishment may be subject to Withholding Tax (at the rate of 0%). Withholding tax is a form of Corporate Tax collected at source by the payer on behalf of the recipient of the income. Withholding taxes exist in many tax systems and typically apply to the cross-border payment of dividends, interest, royalties and other types of income.

4. Who is exempt from Corporate Tax?

Certain types of businesses or organizations are exempt from Corporate Tax given their importance and contribution to the social fabric and economy of the UAE. These are known as Exempt Persons and include:

Automatically exempt	<ul style="list-style-type: none">• Government Entities• Government Controlled Entities that are specified in a Cabinet Decision
Exempt if notified to the Ministry of Finance (and subject to meeting certain conditions)	<ul style="list-style-type: none">• Extractive Businesses• Non-Extractive Natural Resource Businesses
Exempt if listed in a Cabinet Decision	<ul style="list-style-type: none">• Qualifying Public Benefit Entities
Exempt if applied to and approved by the Federal Tax Authority (<i>and subject to meeting certain conditions</i>)	<ul style="list-style-type: none">• Public or private pension and social security funds• Qualifying Investment Funds• Wholly-owned and controlled UAE subsidiaries of a Government Entity, a Government Controlled Entity, a Qualifying Investment Fund, or a public or private pension or social security fund.

In addition to not being subject to Corporate Tax, Government Entities, Government Controlled Entities that are specified in a Cabinet Decision, Extractive Businesses and Non-Extractive Natural Resource Businesses may also be exempted from any registration, filing and other compliance obligations imposed by the Corporate Tax Law, unless they engage in an activity which is within the charge of Corporate Tax.

5.How is a Taxable Person subject to Corporate Tax?

In line with the tax regimes of most countries, the Corporate Tax Law taxes income on both a residence and source basis. The applicable basis of taxation depends on the classification of the Taxable Person.

- A “Resident Person” is taxed on income derived from both domestic and foreign sources (i.e. a residence basis).

- A “Non-Resident Person” will be taxed only on income derived from sources within the UAE (i.e. a source basis).

Residence for Corporate Tax purposes is not determined by where a person resides or is domiciled but instead by specific factors that are set out in the Corporate Tax Law. If a Person does not satisfy the conditions for being either a Resident or a Non-Resident person then they will not be a Taxable Person and will not therefore be subject to Corporate Tax.

6.Who is a Resident Person?

Companies and other juridical persons that are incorporated or otherwise formed or recognised under the laws of the UAE will automatically be considered a Resident Person for Corporate Tax purposes. This covers juridical persons incorporated in the UAE under either mainland legislation or applicable Free Zone regulations, and would also include juridical persons created by a specific statute (e.g. by a special decree).

Foreign companies and other juridical persons may also be treated as Resident Persons for Corporate Tax purposes where they are effectively managed and controlled in the UAE. This shall be determined with regard to the specific circumstances of the entity and its activities, with a determining factor being where key management and commercial decisions are in substance made.

Natural persons will be subject to Corporate Tax as a “Resident Person” on income from both domestic and foreign sources, but only insofar as such income is derived from a Business or Business Activity conducted by the natural person in the UAE. Any other income earned by a natural person would not be within the scope of Corporate Tax.

7. Who is a Non-Resident Person?

Non-Resident Persons are juridical persons who are not Resident Persons and:

- have a Permanent Establishment in the UAE; or
- derive State Sourced Income.

Non-Resident Persons will be subject to Corporate Tax on Taxable Income that is attributable to their Permanent Establishment (which is explained under Section 8).

Certain UAE sourced income of a Non-Resident Person that is not attributable to a Permanent Establishment in the UAE will be subject to Withholding Tax at the rate of 0%.

8. What is a Permanent Establishment?

The concept of Permanent Establishment is an important principle of international tax law used in corporate tax regimes across the world. The main purpose of the Permanent Establishment concept in the UAE Corporate Tax Law is to determine if and when a foreign person has established sufficient presence in the UAE to warrant the business profits of that foreign person to be subject to Corporate Tax.

The definition of Permanent Establishment in the Corporate Tax Law has been designed on the basis of the definition provided in Article 5 of the OECD Model Tax Convention on Income and Capital and the position adopted by the UAE under the Multilateral Instrument to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. This allows foreign persons to use the relevant Commentary of Article 5 of the OECD Model Tax Convention when assessing whether they have a Permanent Establishment or not in the UAE. This assessment should consider the provisions of any bilateral tax agreement between the country of residence of the Non-Resident Person and the UAE.

What is Corporate Tax imposed on?

Corporate Tax is imposed on Taxable Income earned by a Taxable Person in a Tax Period. Corporate Tax would generally be imposed annually, with the Corporate Tax liability calculated by the Taxable Person on a self-assessment basis. This means that the calculation and payment of Corporate Tax is done through the filing of a Corporate Tax Return with the Federal Tax Authority by the Taxable Person.

The starting point for calculating Taxable Income is the Taxable Person's accounting income (i.e. net profit or loss before tax) as per their financial statements. The Taxable Person will then need to make certain adjustments to determine their Taxable Income for the relevant Tax Period. For example, adjustments to accounting income may need to be made for income that is exempt from Corporate Tax and for expenditure that is wholly or partially non-deductible for Corporate Tax purposes.

10.What income is exempt?

The Corporate Tax Law also exempts certain types of income from Corporate Tax. This means that a Taxable Persons will not be subject to Corporate Tax on such income and cannot claim a deduction for any related expenditure. Taxable Persons who earn exempt income will remain subject to Corporate Tax on their Taxable Income.

The main purpose of certain income being exempt from Corporate Tax is to prevent double taxation on certain types of income. Specifically, dividends and capital gains earned from domestic and foreign shareholdings will generally be exempt from Corporate Tax.

Furthermore, a Resident Person can elect, subject to certain conditions, to not take into account income from a foreign Permanent Establishment for UAE Corporate Tax purposes.

11.What expenses are deductible?

In principle, all legitimate business expenses incurred wholly and exclusively for the purposes of deriving Taxable Income will be deductible, although the timing of the deduction may vary for different types of expenses and the accounting method applied. For capital assets, expenditure would generally be recognized by way of depreciation or amortization deductions over the economic life of the asset or benefit.

Expenditure that has a dual purpose, such as expenses incurred for both personal and business purposes, will need to be apportioned with the relevant portion of the expenditure treated as deductible if incurred wholly and exclusively for the purpose of the taxable person's business.

Certain expenses which are deductible under general accounting rules may not be fully deductible for Corporate Tax purposes. These will need to be added back to the Accounting Income for the purposes of determining the Taxable Income. Examples of expenditure that is or may not be deductible (partially or in full) include:

Types Of Expenditures	Limitation to deductibility
<ul style="list-style-type: none"> • Bribes • Fines and penalties (other than amounts awarded as compensation for damages or breach of contract). • Donations, grants, or gifts made to an entity that is not a Qualifying Public Benefit Entity. • Dividends and other profits distributions. • Corporate Tax imposed under the Corporate Tax Law • Expenditure not incurred wholly and exclusively for the purposes of the Taxable person's Business. • Expenditure incurred in deriving income that is exempt from Corporate Tax. 	No deduction
1. Client entertainment expenditure	Partial deduction of 50% of the amount of the expenditure
2. Interest expenditure	Deduction of net interest expenditure exceeding a certain de minimis threshold upto 30% of the amount of earnings before the deduction of interest, tax, depreciation and amortization (except for certain activities)

12.What is the Corporate Tax rate?

Corporate Tax will be levied at a headline rate of 9% on Taxable Income exceeding AED 375,000. Taxable Income below this threshold will be subject to a 0% rate of Corporate Tax.

Corporate Tax will be charged on Taxable Income as follows:

Resident Taxable Persons	
Taxable Income not exceeding AED 375,000 (this amount is to be confirmed in a Cabinet Decision)	0%
Taxable income exceeding AED 375,000	9%
Qualifying Free Zone Persons	
Qualifying Income	0%
Taxable Income that does not meet the Qualifying Income Definition	9%

13.What is the Withholding Tax rate?

A 0% withholding tax may apply to certain types of UAE sourced income paid to non-residents. Because of the 0% rate, in practice, no withholding tax would be due and there will be no withholding tax related registration and filing obligations for UAE businesses or foreign recipients of UAE sourced income.

Withholding tax does not apply to transactions between UAE resident persons

14. When can a Free Zone Person be a Qualifying Free Zone Person?

A Free Zone Person that is a Qualifying Free Zone Person can benefit from a preferential Corporate Tax rate of 0% on their “Qualifying Income” only.

In order to be considered a Qualifying Free Zone Person, the Free Zone Person must:

- maintain adequate substance in the UAE;
 - derive ‘Qualifying Income’;
 - not have made an election to be subject to Corporate Tax at the standard rates;
- and
- comply with the transfer pricing requirements under the Corporate Tax Law.

The Minister may prescribe additional conditions that a Qualifying Free Zone Person must meet.

If a Qualifying Free Zone Person fails to meet any of the conditions, or makes an election to be subject to the regular Corporate Tax regime, they will be subject to the standard rates of Corporate Tax from the beginning of the Tax Period where they failed to meet the conditions.

15. What are Tax Groups, and when can they be formed?

Two or more Taxable Persons who meet certain conditions (see below) can apply to form a “Tax Group” and be treated as a single Taxable Person for Corporate Tax purposes.

To form a Tax Group, both the parent company and its subsidiaries must be resident juridical persons, have the same Financial Year and prepare their financial statements using the same accounting standards.

Additionally, to form a Tax Group, the parent company must:

- own at least 95% of the share capital of the subsidiary;
- hold at least 95% of the voting rights in the subsidiary; and
- is entitled to at least 95% of the subsidiary’s profits and net assets.

The ownership, rights and entitlement can be held either directly or indirectly through subsidiaries, but a Tax Group cannot include an Exempt Person or Qualifying Free Zone Person.

16. How to calculate the Taxable Income of a Tax Group?

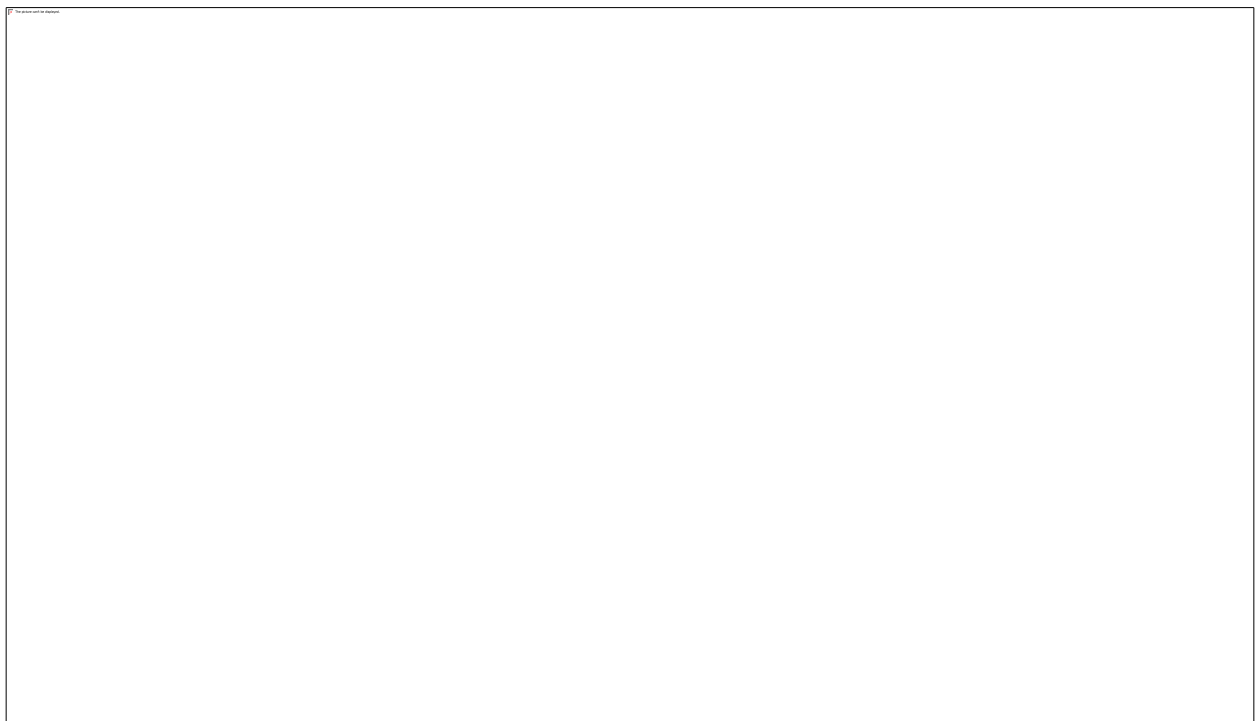
To determine the Taxable Income of a Tax Group, the parent company must prepare consolidated financial accounts covering each subsidiary that is a member of the Tax Group for the relevant Tax Period. Transactions between the parent company and each group member and transactions between the group members would be eliminated for the purposes of calculating the Taxable Income of the Tax Group.

17. Registering, filing and paying Corporate Tax

All Taxable Persons (including Free Zone Persons) will be required to register for Corporate Tax and obtain a Corporate Tax Registration Number. The Federal Tax Authority may also request certain Exempt Persons to register for Corporate Tax.

Taxable Persons are required to file a Corporate Tax return for each Tax Period within 9 months from the end of the relevant period. The same deadline would generally apply for the payment of any Corporate Tax due in respect of the Tax Period for which a return is filed.

Illustrated below are examples of the registration, filing and payment deadlines associated for Taxable Persons with a Tax Period (Financial Year) ending on 31 May or 31 December (respectively).



18. How to prepare for Corporate Tax?

1. Read the Corporate Tax Law and the supporting information available on the websites of the Ministry of Finance and the Federal Tax Authority.
2. Use the available information to determine whether your business will be subject to Corporate Tax and if so, from what date.
3. Understand the requirements for your business under the Corporate Tax Law, including, for example:
 - a. Whether and by when your business needs to register for Corporate Tax;
 - b. What is the accounting / Tax Period for your business;
 - c. By when your business would need to file a Corporate Tax return;
 - d. What elections or applications your business may or should make for Corporate Tax purposes;
 - e. What financial information and records your business will need to keep for Corporate Tax purposes;
4. Regularly check the websites of the Ministry of Finance and the Federal Tax Authority for further information and guidance on the Corporate Tax regime.

1. What is CT?

CT is a form of direct tax levied on the net income or profit of corporations and other businesses. CT is sometimes also referred to as “Corporate Income Tax” or “Business Profits Tax” in other jurisdictions.

2. Why is the UAE introducing CT?

A competitive CT regime based on international best practices is expected to cement the UAE’s position as a leading global hub for business and investment and accelerate the UAE’s development and transformation to achieve its strategic objectives.

Introducing a CT regime also reaffirms the UAE’s commitment to meeting international standards for tax transparency and preventing harmful tax practices.

3. Is the UAE the first country to introduce CT?

Most countries in the world have a comprehensive CT regime, including most of the countries in the Middle East.

4. When will the UAE CT regime become effective?

The UAE CT regime will become effective for financial years starting on or after 1 June 2023.

Examples:

- A business that has a financial year starting on 1 July 2023 and ending on 30 June 2024 will become subject to UAE CT from 1 July 2023 (which is the beginning of the first financial year that starts on or after 1 June 2023)
- A business that has a financial year starting on 1 January 2023 and ending on 31 December 2023 will become subject to UAE CT from 1 January 2024 (which is the beginning of the first financial year that starts on or after 1 June 2023)

5. Who will be subject to UAE CT?

UAE CT applies to juridical persons incorporated in the UAE and juridical persons effectively managed and controlled in the UAE, as well as to foreign juridical persons that have a permanent establishment (see section Foreign persons) in the UAE (see question 'Who is considered resident for UAE CT purposes?' under section Scope and rate). Individuals will be subject to CT only if they are engaged in a business or business activity in the UAE, either directly or through an unincorporated partnership or sole proprietorship. A Cabinet Decision will be issued in due course specifying further information on what would bring a natural person within the scope of UAE CT.

6. Will UAE entities owned by UAE or GCC nationals be subject to UAE CT?

Yes – the UAE CT does not differentiate between nationality or residence. Juridical persons that are incorporated or resident in the UAE, or that have a permanent establishment in the UAE, will be subject to UAE CT. This applies irrespective of the residence and nationality of the individual founders or (ultimate) owners of the entity.

7. Will UAE CT be applicable to businesses in each Emirate?

Yes. The UAE CT is a Federal tax and will therefore apply across all the Emirates.

8. Will I have to pay UAE CT alongside Emirate level taxes?

Businesses engaged in the extraction of the UAE's natural resources and in certain non-extractive activities that are subject to Emirate level taxation will be outside the scope of UAE CT, subject to meeting certain conditions. Other businesses may be subject to both Federal CT and Emirate level taxation. Emirate level taxes paid will not be able to be credited against or otherwise reduce the amount of Federal CT payable.

9. Will UAE CT replace VAT in the UAE?

No, CT and VAT are two different types of taxes. Both will continue to apply in the UAE.

10. Will I have to pay UAE CT alongside VAT in the UAE?

If you are a registered business for VAT, you will have to pay VAT and CT separately. If your business is not VAT registered you may still have to pay CT.

11. Will I continue to pay service fees to local and Federal Governments now that the UAE has introduced CT?

Yes. Applicable service fees will continue to be payable to the relevant Emirate and Federal Governments. Business set up, licence renewal and other Government fees and charges incurred wholly and exclusively in the ordinary course of business are deductible expenses for UAE CT purposes.

12. Will UAE CT replace Excise Tax in the UAE?

No, CT and Excise Tax are two different types of taxes. Both will continue to apply in the UAE.

13. Will I need to consider the UAE's international agreements for UAE CT purposes?

In-force International agreements (including international agreements for the avoidance of double taxation) to which the UAE is a party should be considered under the UAE CT regime. In case of a conflict between the Corporate Tax Law and an international agreement with respect to the right to tax a certain item of income, the relevant international agreement may limit the application of UAE CT.

14. What will be the role of the Federal Tax Authority?

The Federal Tax Authority will be responsible for the administration, collection and enforcement of UAE CT and other federal taxes. For the purpose of the administration, collection and enforcement of CT, the Federal Tax Authority will issue guides, respond to clarifications and provide awareness as required.

15. What will be the role of the Ministry of Finance?

The Ministry of Finance will remain the 'competent authority' for purposes of bilateral/multilateral tax agreements and the international exchange of information for tax purposes. The Ministry of Finance also has the authority to issue further guidance and implementing regulations for UAE CT and other federal taxes.

16. What should I be doing to prepare for UAE CT?

To assess what the UAE CT regime means for your business, as a starting point, you should:

1. Read the Corporate Tax Law and the supporting information available on the websites of the Ministry of Finance and the Federal Tax Authority.
2. Use the available information to determine whether your business will be subject to UAE CT and if so, from what date.
3. Understand the requirements for your business under the Corporate Tax Law, including, for example:
 - a. Whether your business needs to register for UAE CT.
 - b. What is the accounting / Tax Period for your business.
 - c. By when your business would need to file a UAE CT return.
 - d. What elections or applications can or should your business make for UAE CT purposes.
 - e. How UAE CT may impact your business' obligations and liabilities under contracts with customers and suppliers.
 - f. What financial information and records your business will need to keep for UAE CT purposes.
4. Regularly check the websites of the Ministry of Finance and the Federal Tax Authority for further information and guidance on the UAE CT regime.

1. I am already registered for VAT purposes. Do I have to register for UAE CT?

Yes. Taxpayers will be required to register for UAE CT (and update their details, if required), even if they are already registered for VAT.

2. What is a self-assessment regime?

A self-assessment regime is one where taxpayers are responsible for calculating, reporting and paying their taxes.

3. Who will be required to register for UAE CT purposes?

All taxpayers, as prescribed by the Minister, will be required to register for UAE CT and obtain a Corporate Tax Registration Number. The Federal Tax Authority may also request certain Exempt Persons to register for UAE CT.

4. When do I register for UAE CT?

Taxpayers are required to register before they file their first CT return.

5. Is there a registration threshold for UAE CT?

There is no registration threshold for UAE CT.

6. How do I register for UAE CT?

Taxpayers will be able to electronically register for UAE CT through the website of the Federal Tax Authority. Further guidance on this will be provided in due course.

7. How often will UAE businesses need to file a UAE CT return?

Only one UAE CT return will need to be filed per Tax Period. The CT return will generally be due within 9 months following the end of the Tax Period. No provisional or advance UAE CT filings will be required.

8. I do not have any income / or my company is dormant, do I have to complete a UAE CT return?

Taxpayers are required to file a CT return, irrespective of the level of income or the status of the company.

9. I did not make a profit for the Tax Period, do I have to complete a UAE CT return?

Taxpayers are required to file a CT return, irrespective of whether they have made a profit or not. Taxpayers with tax losses should ensure they file a CT return in order to ensure that these losses can be used to reduce taxable income of future years.

10. Can I file one UAE CT return for all the companies I own?

If the companies meet the requirements to form a Tax Group (see section 'Tax Groups') and their application to form a Tax Group is approved, they can file a single UAE CT return covering all the members of the Tax Group.

Where companies cannot form a Tax Group, they will each be required to file a UAE CT return on a standalone basis.

11. Will the CT return need to be filed electronically?

UAE CT returns will need to be filed electronically. Further guidance on this will be provided in due course.

12. When do I need to pay my UAE CT liability?

UAE CT will generally need to be paid before the end of the 9 months following the end of the relevant Tax Period.

13. How do I pay my UAE CT liability?

Further guidance on the approved payment methods will be provided in due course.

14. Will there be a requirement to pay UAE CT in advance?

No. UAE businesses will not be required to make advance UAE CT payments. The CT liability for a Tax Period will generally be due for payment by the end of the 9th month following the end of the relevant Tax Period.

15. Are there any consequences for non-compliance under the UAE CT regime?

Similar to other taxes in the UAE (e.g. VAT), businesses will be subject to penalties for non-compliance with the UAE CT regime.

Further information on the UAE CT compliance obligations and applicable penalties will be released in due course.

1. Will the UAE CT regime tax large multinationals at the global minimum tax rate?

The UAE is a member of the OECD BEPS Inclusive Framework and is committed to addressing the challenges faced by tax jurisdictions internationally. As such, the introduction of a CT regime helps to provide the UAE with a framework to adopt the Pillar Two rules.

Until such time as the Pillar Two rules are adopted by the UAE, multinationals will be subject to CT under the regular UAE CT regime.

Further information will be released in due course on the implementation of the Pillar Two rules in the UAE.

2. What is meant by “large” multinationals?

A multinational corporation is a corporation that operates in its home country, as well as in other countries through a foreign subsidiaries, branches or other entity forms of presence / registration. Merely earning foreign sourced income from outside its home country without a foreign presence or registration in a foreign country would not make a business a multinational corporation.

In the context of the global minimum effective tax rate as proposed under ‘Pillar Two’ of the OECD Base Erosion and Profit Shifting project, “large” refers to a multinational corporation that has consolidated global revenues in excess of the UAE Dirham equivalent of EUR 750 million.

1. Will the income of UAE branches of a UAE business be subject to UAE CT?

Yes. The income of UAE branches will be included in the taxable income and UAE CT return of their UAE “parent” or “head office”.

2. Will UAE branches of foreign businesses be subject to UAE CT?

Where no election is made or the income of the foreign branch or permanent establishment is not eligible for an exemption from CT, the UAE CT payable on the income of the foreign branch or permanent establishment can be reduced by the corporate tax (or similar) paid on the relevant income in the foreign jurisdiction.

3. Are UAE branches separate juridical persons?

No. UAE branches of a domestic or a foreign juridical person are an extension of their “parent” or “head office” and, therefore, are not considered separate juridical persons.

4. Are UAE branches of a UAE juridical person required to separately register or file for UAE CT?

UAE branches of a UAE juridical person are not required to separately register or file for UAE CT.

5. Will the income of foreign branches of a UAE business be subject to UAE CT?

The income of foreign branches or foreign permanent establishments of a UAE business will be included in the taxable income and UAE CT return of their UAE “head office”, unless the UAE business elects to claim an exemption for its foreign branch profits. This exemption is available for foreign branch profits that have already been subject to tax in the foreign jurisdiction.

6. Will a UAE branch constitute a taxable Permanent Establishment for the foreign business?

A UAE branch of a foreign business would generally be subject to UAE CT, unless the activities of the branch do not give rise to a permanent establishment in the UAE for CT purposes (see section ‘Foreign persons’).

7. What are preparatory or auxiliary activities?

Preparatory or auxiliary activities are those performed in preparation or in support of more substantive business activities of the foreign entity. Examples of preparatory and auxiliary activities include storage, display or delivery of goods or merchandise belonging to the foreign entity, limited marketing and promotional activities, performing market research and attending seminars or conventions.

Where relevant, the application of an international agreement for the avoidance of double taxation should be taken into consideration when determining whether a permanent establishment exists or whether the activities performed are preparatory or auxiliary in nature.

1. What expenditure will be deductible for the purposes of calculating taxable income?

In principle, all legitimate business expenses incurred to derive taxable income will be deductible, although the timing of the deduction may vary for different types of expenses and the accounting method applied. For capital assets, expenditure would generally be recognised by way of depreciation or amortisation deductions over the economic life of the asset or benefit.

Expenditure that has a dual purpose, such as expenses incurred for both personal and business purposes, will need to be apportioned with the relevant portion of the expenditure treated as incurred wholly and exclusively for the purpose of the taxable person's business.

2. What expenditure will be non-deductible for the purposes of calculating taxable income?

Article 33 of the UAE Corporate Tax Law lists certain specific expenses for which no deduction will be allowed, such as bribes, fines and penalties, and no deduction is available for expenditure incurred in deriving income that is exempt from CT or losses that are not connected with or arising out of a taxpayer's business. Additionally, certain restrictions may apply to the deduction of interest expenditure (see question 'Will my interest expenditure be fully deductible?' under section Deductions).

3. Will my interest expenditure be fully deductible?

The Corporate Tax Law provides for certain restrictions on the deductibility of interest expenditure to discourage excessive debt financing, and to ensure that debt financing used or arising as a result of certain specific intra-group transactions will only be deductible if there is a valid commercial reason for obtaining the loan.

General interest deduction limitation rule:

Businesses with net interest expenditure above a threshold to be set by the Minister will be allowed to deduct net interest expenditure up to 30% of their earnings before interest, tax, depreciation and amortisation (EBITDA), excluding any exempt income. Any net interest expenditure which exceeds this limit may be carried forward and utilised in the subsequent 10 tax periods.

Businesses with net interest expenditure below the threshold to be set by the Minister will not be subject to the general interest deduction limitation rule.

The general interest deduction limitation rule will not apply to banks and other finance institutions, insurance providers or individuals.

Specific interest deduction limitation rule:

Where a loan is obtained from a Related Party and is used to finance income that is exempt from CT, the interest on the Related Party loan will not be deductible unless the taxpayer can demonstrate that the main purpose of obtaining the loan and carrying out the transaction is not to gain a CT advantage.

4. Will dividends paid by UAE companies be deductible for CT purposes?

Dividends paid by UAE companies will not be deductible for CT purposes.

5. Will service fees paid to local and Federal Governments be deductible for UAE CT?

Business set up, licence renewal and other Government fees and charges incurred wholly and exclusively in the ordinary course of business are deductible for CT purposes.

6. Will Value Added Tax paid be deductible for UAE CT?

Only irrecoverable input Value Added Tax may be deductible for CT purposes. Otherwise, Value Added Tax charged and Value Added Tax incurred would not impact the calculation of taxable income.

1. What records should I keep for UAE CT purposes?

Taxpayers are expected to prepare and maintain financial statements for the purposes of calculating their taxable income, and should maintain all documents and records that support the information in the CT return or in any other filing made with the Authority.

Exempt persons are required to maintain all records to support their exempt status.

2. How long must I keep my records for UAE CT purposes?

Records and documents should be kept for at least seven years following the end of the relevant Tax Period.

3. Can I use the consolidated financial statements of the group to prepare the UAE CT return for my UAE business?

No, unless the group only comprises UAE resident entities that have applied to form a Tax Group. Otherwise, each UAE entity that is subject to CT will need to prepare and maintain stand-alone financial statements for UAE CT purposes.

4. Will all entities that are subject to UAE CT be required to have audited financial statements?

No. Only the categories of taxable persons that are listed in a decision issued by the Minister will be required to prepare and maintain audited or certified financial statements.

5. Will the consolidated financial statements of a Tax Group need to be audited for CT purposes?

No. Only the categories of taxable persons that are listed in a decision issued by the Minister will be required to prepare and maintain audited or certified financial statements.

6. Will I need to submit my financial statements to the Federal Tax Authority?

The Federal Tax Authority may request for the financial statements to be submitted alongside the CT tax return, or for the financial statements to be provided upon request.

7. What currency do I use for UAE CT purposes?

A taxpayer's income, deductions and credits must be measured in the national currency of the UAE (AED), and income derived and expenses incurred in a foreign currency need to be translated into AED.

In principle, taxpayers are expected to translate amounts denominated in a foreign currency on a transaction-by-transaction basis. This means that the receipt of income denominated in foreign currency should be translated into AED at the time the income is derived. Similarly, each deductible expenditure denominated in a foreign currency should be translated into AED at the time the expenditure is incurred.

8. What exchange rate do I use for UAE CT purposes?

For UAE CT purposes, all amounts must be converted to AED based on the applicable exchange rate set by the Central Bank of the UAE at the time the foreign currency transaction is to be translated into the national currency, unless the Federal Tax Authority allows the taxpayer to use an exchange rate that more accurately reflects the taxpayer's income.

1. Will foreign companies and other juridical persons be subject to UAE CT?

Foreign entities that operate in the UAE through a permanent establishment or that are considered resident in the UAE for CT purposes will be subject to UAE CT. Merely earning UAE sourced income would not trigger CT payable or require the foreign entity to register and file for UAE CT.

2. When will a non-resident person be subject to CT?

A non-resident person will be subject to UAE CT if the non-resident person has a permanent establishment in the UAE or earns income sourced from the UAE (subject to 0% taxation). Income will generally be considered to be sourced from the UAE where it is derived from a UAE resident, a UAE Permanent Establishment, or the income is derived from activities performed or from assets located, capital invested and rights used in the UAE.

3. When will a foreign company be considered a resident person?

A foreign juridical person may be treated as a UAE resident for CT purposes and subject to UAE CT on its income sourced from both the UAE and abroad if it is effectively managed and controlled in the UAE (see above).

4. Can a foreign individual be subject to UAE CT as a resident person?

A foreign individual will be subject to UAE CT as a “Resident Person” insofar as he or she is engaged in a business or business activity in the UAE. Being treated as a Resident Person for UAE CT purposes does not automatically mean the foreign individual will be considered resident in the UAE for all other taxes or for the application of a double tax agreement. For individuals, a decision by the Cabinet of Ministers will be issued in due course specifying further information on what would bring a natural person within the charge to Corporate Tax.

5. When will a foreign individual be subject to UAE CT as a non-resident person?

A foreign individual that does not conduct a taxable business or business activity in the UAE (see question ‘Can a foreign individual be subject to UAE CT as a resident person?’ under section Foreign Persons) would generally not be subject to UAE CT. Merely earning UAE sourced income would not trigger CT payable or require the foreign individual to register and file for UAE CT.

6. How do I know if I have a Permanent Establishment in the UAE?

Generally, a foreign person will have a Permanent Establishment in the UAE if:

- It has a fixed or permanent place in the UAE through which the business of the foreign person is carried on; or
- There is a person who has and habitually exercises an authority to conduct business in the UAE on behalf of the foreign person.

A fixed place of business would not be considered a Permanent Establishment if it is used solely to store, display or deliver goods or merchandise belonging to the foreign person or to conduct any activities that are of a preparatory or auxiliary nature.

A Permanent Establishment would not arise if the person who has and habitually exercises an authority to conduct business in the UAE on behalf of the foreign person acts as an independent agent.

Where relevant, the application of an international agreement should be taken into consideration when determining whether a permanent establishment exists.

7. Will the investment in UAE real estate constitute a taxable permanent establishment in the UAE?

A foreign individual that owns property in the UAE in his or her personal capacity would generally not be subject to UAE CT and related compliance obligations.

The investment in UAE real estate by a foreign juridical person may give rise to a taxable permanent establishment where the real estate represents a fixed place of business in the UAE through which the business of the foreign person is wholly or partially carried out.

8. What determines whether income is sourced from the UAE?

Income will be considered to be sourced from the UAE, if:

- the income is derived from a UAE resident;
- the income derived is attributed to a Permanent Establishment in the UAE of a non-UAE resident; or
- the income is derived from activities performed, assets located, capital invested, rights used or services performed or benefited from in the UAE.

The Corporate Tax Law includes a non-exhaustive list of income that is considered as being sourced in the UAE.

A Cabinet Decision may be issued in due course specifying the types of UAE sourced income subject to withholding tax. The UAE withholding tax rate is set at 0%.

9. Will UAE investment income earned by a foreign investor be subject to UAE CT?

Income from dividends, capital gains, interest, royalties and other investment returns earned by foreign juridical persons or individuals will not be subject to UAE CT, unless such income can be attributed to a permanent establishment in the UAE of the foreign person.

1. What UAE CT rates will apply to entities established in a Free Zone?

Entities established in a Free Zone that meet the conditions to benefit from the Free Zone CT regime ("Qualifying Free Zone Persons") will be subject to UAE CT at the following rates:

- 0% on Qualifying Income.
- 9% on Taxable Income that does not meet the Qualifying Income definition.

2. Is the 0% Free Zone CT regime applicable automatically?

A Qualifying Free Zone Person that meets the relevant conditions will be able to benefit from the 0% Free Zone CT regime automatically. However, a Qualifying Free Zone Person can elect not to apply the Free Zone CT regime, but instead be subject to the regular CT regime and rates.

3. What is a Qualifying Free Zone Person?

To be treated as a "Qualifying Free Zone Person", the Free Zone entity must:

1. Maintain adequate substance in the UAE;
2. Derive "Qualifying Income" as specified in a Cabinet Decision;
3. Comply with transfer pricing rules and maintain the relevant transfer pricing documentation; and
4. Not have made an election to be subject to CT in full.

4. Will a Free Zone entity be required to register and file a UAE CT return?

Yes. All Free Zone entities will be required to register and file a CT return, irrespective of whether they are a Qualifying Free Zone Person or not.

5. Will a different UAE CT treatment apply to entities established in a financial Free Zone?

No. The UAE CT treatment will be the same for all Free Zone entities.

6. Will Free Zone entities be subject to the global minimum tax (OECD, BEPS Pillar 2) rules?

Qualifying Free Zone entities that are part of a large multinational group are anticipated to be subject to a different CT rate once the Pillar Two rules are embedded into the UAE CT regime.

1. Will there be any relief available for transfers between group companies?

Yes. Companies that are part of a 'Qualifying Group' can transfer assets and liabilities between themselves at their net book value. This means that the transfer can be carried out tax neutrally (i.e. not give rise to a gain or loss for CT purposes).

2. What is a Qualifying Group?

A Qualifying Group exists where all of the following conditions are met:

- The members are juridical persons which are UAE residents or non-resident persons that have a permanent establishment in the UAE;
- Either owns 75% or more of the other, or a third party owns 75% or more of both entities;
- Neither member is an Exempt Person;
- Neither member is a Qualifying Free Zone Person; and
- Members prepare their financial statements using the same accounting standards, and have the same financial year.

3. Will there be any relief to facilitate mergers, spin-offs and other restructuring transactions?

Yes. The UAE CT regime allows for legal mergers, business mergers, spin-offs and other transfers and restructuring transactions that meet the conditions specified to be carried out without triggering a gain or loss for CT purposes.

1. What income is exempt from UAE CT?

The following income is exempt from UAE CT:

1. Dividends and other profit distributions received from UAE incorporated or resident legal persons;
2. Dividends and other profit distributions received from a Participating Interest in a foreign juridical person (see further information below);
3. Certain other income (e.g., capital gains, foreign exchange gains / losses and impairment gains or losses) from a Participating Interest (see further information below);
4. Income from a foreign branch or permanent establishment where an election is made to claim the “Foreign Permanent Establishment” exemption; and
5. Income earned by non-residents from the operation or leasing of aircrafts or ships in international transportation where certain conditions are met (see further information below).

2. Are all dividends and other profit distributions earned from UAE juridical persons exempt from UAE CT?

Domestic dividends and other profit distributions earned from UAE juridical persons are exempt from UAE CT, irrespective of the level of ownership in the UAE juridical person paying the dividend or profit share. This exemption also applies to dividends received from a UAE juridical person that benefits from a CT exemption or whose profits are subject to the 0% Free Zone CT rate.

3. Are all dividends and other profit distributions from foreign juridical persons exempt from UAE CT?

Subject to the participation exemption requirements, dividends and other profit distributions earned from a Participating Interest in a foreign juridical person are exempt from UAE CT. A Participating Interest is a 5% or greater ownership interest in the capital or equity of the foreign juridical person that meets the conditions of the participation exemption regime.

4. Are capital gains exempt from UAE CT?

Under the participation exemption regime, capital gains earned from a Participating Interest are exempt from UAE CT. Also, there is relief from CT for capital gains that may arise on intra-group transfers and reorganisation and restructuring transactions.

Other capital gains would be treated as ordinary income and subject to CT.

5. What is the participation exemption regime?

The background to the participation exemption regime is to prevent double taxation within a group where an underlying group company (that pays the dividend or whose shares are being sold) has already been taxed on its profits.

The Corporate Tax Law fully exempts dividends derived from UAE entities, as well as dividends from foreign subsidiaries that qualify as a “Participation”. A Participation is a juridical person in which the UAE shareholder company owns a 5% or greater ownership interest (a “Participating Interest”) for at least 12 months, and that meets the conditions of the participation exemption regime.

Similarly, capital gains on the sale of shares in domestic and foreign entities would also be exempt from CT. This exemption is subject to the same minimum ownership threshold, duration and other conditions mentioned above.

6. Can I benefit from a UAE CT exemption if I own less than a 5% shareholding in a company?

There can be instances where a UAE business makes a strategic investment in another company that does not result in a 5% or greater ownership interest, or where the percentage ownership in the Participation falls below the 5% ownership threshold because of events outside of the control of the UAE shareholder company. To address such instances and reduce the administrative burden associated with monitoring the continued compliance with the minimum ownership requirement under the participation exemption regime, the Minister may prescribe a certain minimum acquisition cost / value above which the ownership interest in another juridical person is deemed to be a qualifying “Participation”, and the income from this investment can benefit from the participation exemption.

1. What is an investment fund?

An investment fund is an entity whose principal activity is the issuing of investment interests to raise funds or pool investor funds or establish a joint investor 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.

2. Will investment funds be subject to UAE CT?

Investment funds are commonly organised as limited partnerships (as opposed to corporate entities) to ensure tax neutrality for their investors. This tax neutrality follows from the fact that most countries treat limited partnerships as transparent ('flow through') for domestic and international tax purposes, which puts investors in the fund in a similar tax position as if they had invested directly in the underlying assets of the fund. Investment funds that are structured as partnerships, unit trusts and other unincorporated vehicles would generally be treated as fiscally transparent "Unincorporated Partnerships" for the purposes of UAE CT.

Investment funds that are structured as corporate entities, including Real Estate Investment Trusts, or partnership funds that apply to be treated as a "Taxable Person" for UAE CT purposes in their own right, can apply to the Federal Tax Authority to be exempt from UAE CT subject to meeting certain requirements.

3. What is a recognised stock exchange?

A recognised stock exchange includes:

- UAE: Any stock exchange established in the UAE that is licensed and regulated by the relevant competent authority (e.g. Nasdaq Dubai, Abu Dhabi Securities Exchange, or Dubai Financial Market);
- Foreign: Any stock exchange established outside the UAE of equal standing to the stock exchange in the UAE

4. Will a UAE based investment fund manager be subject to UAE CT?

Yes. If the investment fund manager is a UAE resident, or if it operates in the UAE through a permanent establishment, the investment fund manager will be subject to UAE CT on the income it earns.

5. For the purpose of benefiting from the CT exemption, are both the investment fund and the fund manager required to be subject to regulatory oversight?

For the investment fund exemption, either the investment fund or the manager of the fund is required to be subject to regulatory oversight, not both.

6. Could a UAE-based investment manager create a UAE taxable presence for its foreign customers?

Under the so-called “Investment Manager Exemption”, regulated UAE investment managers can provide discretionary investment / asset management services to foreign funds and customers without creating a permanent establishment for the foreign investors or the foreign investment fund in the UAE, where certain conditions are met.

7. Could the activities of a UAE-based investment manager result in a foreign investment fund / vehicle to be considered resident in the UAE for UAE CT purposes?

Where the conditions of the Investment Manager Exemption are met, a UAE-based investment manager should not create possible UAE residency for CT purposes for the foreign investment fund / investment vehicle it manages.

8. Can investment holding companies and Special Purpose Vehicles used by an investment fund benefit from an exemption from UAE CT?

Wholly-owned UAE investment holding companies and other Special Purposes Vehicles used by an investment fund to deploy capital and hold investments can apply to the Federal Tax Authority to benefit from the UAE CT exemption granted to the investment fund.

1. What is a juridical person?

A “juridical person” is an entity established or otherwise 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. Examples of UAE domestic juridical persons include a limited liability company, a foundation, an ‘onshore’ trust, a public or private joint stock company, and other entities that have separate legal personality under the applicable UAE ‘mainland’ legislation or Free Zone regulations.

UAE branches of a domestic or a foreign juridical person are regarded as an extension of their “parent” or “head office” and, therefore, are not considered separate juridical persons.

2. What does it mean to have a ‘separate legal personality’?

Separate legal personality means that the entity has its own rights, obligations and liabilities. As a consequence, the owners of the juridical person would typically have limited liability when it comes to the debts and obligations of the entity.

3. How do you determine whether a juridical person has a “Business” that is within the scope of UAE CT?

All activities undertaken by a juridical person will be deemed “business activities” and are within the scope of UAE CT, unless specifically exempted.

4. Are foreign juridical persons subject to UAE CT in the same way as a UAE resident person?

No (see question ‘Will foreign companies and other juridical persons be subject to UAE CT?’ under section Foreign Persons), unless the foreign juridical person is “effectively managed and controlled” in the UAE and treated as a resident entity for UAE CT purposes.

5. When is a foreign juridical person considered “effectively managed and controlled” in the UAE?

This will need to be assessed on a case by case basis, and may look at the location where the key decision makers, such as the directors, make the strategic decisions affecting the juridical person.

6. Will UAE holding companies be subject to UAE CT?

UAE holding companies would be subject to UAE CT (at a 9% CT rate or the 0% Free Zone CT rate), depending on whether the holding company is established in a Free Zone or in the mainland UAE, but dividends and capital gains earned from domestic and foreign shareholdings would generally be exempt from CT, subject to certain conditions.

7. Will a sole proprietorship or civil company be treated as a juridical person for CT purposes?

No, but individuals who conduct business in the UAE through a sole proprietorship or civil company may be subject to CT where a relevant business or business activity is undertaken.

1. What are “Tax Losses”?

A loss for CT purposes (“Tax Loss”) would arise when the total deductions a business can claim are greater than the total income that is subject to tax for the relevant Tax Period, resulting in negative taxable income.

2. Will the UAE CT regime allow prior year tax losses to reduce taxable income?

Tax losses can, subject to certain conditions, be offset against the taxable income of future periods, up to a maximum of 75% of the taxable income in each of those future periods. Any excess (unused) tax losses can be carried forward and used against taxable income of future Tax Periods indefinitely.

Example

A taxpayer has taxable income of AED 100,000 and carried forward losses of AED 125,000. It can offset $(75\% \times \text{AED } 100,000) = \text{AED } 75,000$ of its losses carried forward in the relevant Tax Period, reducing its taxable income to AED 25,000.

The amount of tax losses available for carry forward to subsequent Tax periods would reduce to AED 50,000 (AED 125,000 - AED 75,000).

3. Will a change in ownership of the taxable person restrict the ability to use its tax losses?

Tax losses can be carried forward without limitation provided the same person or persons continue to own at least 50% of the entity with the losses. Where there is a greater than 50% change in ownership, tax losses may still be carried forward provided there is no major change in the nature or conduct of the entity's business.

4. Will a group be able to utilise the tax losses of one group company against the taxable income of another group company?

Tax losses from one UAE group company may be used to offset taxable income of another UAE group company where there is 75% or more common ownership and certain other conditions are met.

No tax loss transfers will be allowed from companies that are exempt or that benefit from the 0% Free Zone CT regime.

5. What are the conditions for the transfer of tax losses within a group?

The UAE companies must meet the following conditions to transfer an amount of tax losses from one company to another in the same Tax Period:

1. Both companies are UAE resident juridical persons;
2. Either owns 75% or more of the other, or a third party owns 75% or more of both entities and this ownership existed at the start and end of the Tax Period in which the loss was incurred;
3. Neither company is an Exempt Person;
4. Neither company is a Qualifying Free Zone business; and
5. The financial statements must be prepared using the same accounting standards, and using the same financial year.

1. Who is a Natural Person?

The term “Natural Person” in the Corporate Tax Law means an individual.

2. Will individuals be subject to UAE CT?

Only individuals who engage in a business or business activity as per a Cabinet Decision that will be issued in due course will be subject to UAE CT. Individuals engaged in other activities will generally be outside the scope of the CT regime.

3. What is the UAE CT treatment of a sole proprietorship or civil company?

For certain types of business activities, natural persons can form a sole proprietorship or civil company. For CT purposes, these entities will be treated as the natural person or persons owning them.

4. Will an individual be subject to UAE CT on business income earned outside the UAE?

The taxable income of a natural person that is engaged in a business in the UAE is all the income that is derived from that business. This would include income earned from outside the UAE insofar as it relates to the business activity conducted in the UAE.

5. What if an individual has multiple business activities that are in the scope of UAE CT?

The individual will file one CT return covering all their business activities that are within the scope of UAE CT.

6. Will an individual's employment income be subject to UAE CT?

UAE CT will not apply to an individual's salary and other employment income (whether received from the public or private sector). Employment may include a continuing service relationship where all or most of the income of the individual is derived from one customer, and the service income is essentially remuneration for the natural person's labour.

7. Will self-employed persons (e.g. freelancers) be subject to UAE CT?

Self-employed persons would only be subject to UAE CT if their activity is a taxable business or business activity as per the Cabinet Decision that will be issued in due course. Even if the self-employed person is considered to be undertaking a taxable business or business activity, no CT would be payable on the first AED 375,000 of net income / profit earned from the activity, and further relief (small business relief) may be available to the self-employed person and other individual entrepreneurs.

8. Will income earned by an individual from bank deposits be subject to UAE CT?

Interest and other personal investment and savings income earned by an individual in their personal capacity should not be subject to UAE CT.

9. Will an individual be subject to UAE CT on investment returns?

UAE and foreign individuals will not be subject to UAE CT on dividends, capital gains and other income earned from owning shares or other securities in their personal capacity.

10. Will an individual be subject to UAE CT on income from real estate?

Income earned by an individual from the investment in UAE property in their personal capacity will generally not be subject to UAE CT.

1. How will the UAE CT regime apply to partnerships?

The Corporate Tax Law makes a distinction between unincorporated and incorporated partnerships.

“Unincorporated Partnerships” (as defined in the Corporate Tax Law) are essentially a contractual relationship or arrangement between two or more persons, as opposed to being a distinct juridical person separate from their partners / members. Unincorporated partnerships are treated as ‘transparent’ for UAE CT purposes. This means that an unincorporated partnership is not subject to UAE CT in its own right. Instead, each partner is subject to UAE CT on their share of the income from the business conducted through the partnership.

Incorporated partnerships include limited liability partnerships, partnerships limited by shares and other types of partnerships where none of the partners have unlimited liability for the partnership’s obligations or other partners’ actions. Such partnerships are subject to CT in the same manner as a corporate entity (see section ‘Juridical persons’).

2. Will each partner in an “unincorporated” partnership be required to register and file a UAE CT return?

Natural persons that are engaged in a business or business activity through an unincorporated partnership are individually subject to UAE CT on their share of the income from the unincorporated partnership. Each partner would be required to register for UAE CT purposes, and comply with the requirements of the Corporate Tax Law.

The partners in an unincorporated partnership can make an application to the Federal Tax Authority for the unincorporated partnership to be treated as a separate and standalone taxable person for the purposes of UAE CT. If the application is approved, the unincorporated partnership will file a CT return on behalf of the partners in the partnership.

3. How will foreign partnerships be treated under the Corporate Tax Law?

For UAE CT purposes, a foreign partnership will generally be considered as an Unincorporated Partnership subject to meeting certain conditions, including that the partnership is not subject to tax in the relevant foreign jurisdiction (see question ‘How will the UAE CT regime apply to partnerships?’ under section Partnerships).

1. What is a “Business” or “Business Activity”?

The terms “Business” and “Business Activity” as defined in the Corporate Tax Law identify when the activities of certain persons give rise to a UAE CT liability by considering the person to be a taxable person.

“Business” means any economic activity, whether continuous or short term, conducted by any person. It is implied that a business is conducted with a profit motive, and that there is the existence of some system and organisation to the activity conducted. However, a business or business activity for UAE CT purposes does not lose its identity simply because it does not make a profit.

For the application of the Corporate Tax Law to companies and other juridical persons, all activities conducted and assets used or held will generally be considered activities conducted, and assets used or held, for the purposes of a “Business”.

Individuals can earn income from wages and salaries, investments or from practising a commercial, industrial or professional activity, either directly or as sole proprietor of a business. For natural persons, a Cabinet Decision will be issued in due course specifying further information on what would bring a natural person within the scope of UAE CT.

2. Who is exempt from UAE CT?

The following persons are exempt from UAE CT, either automatically or by way of application:

1. The UAE Federal and Emirate Governments and their departments, authorities and other public institutions;
2. Wholly Government-owned companies that carry out a mandated activity, and that are listed in a Cabinet Decision;
3. Businesses engaged in the extraction of UAE natural resources and related non-extractive activities that are subject to Emirate-level taxation after meeting certain conditions;
4. Public Benefit Entities that are listed in a Cabinet Decision;
5. Investment Funds that meet the prescribed conditions;
6. Public or private pension or social security funds that meet certain conditions; and
7. UAE juridical persons that are wholly-owned and controlled by certain exempted entities after meeting certain conditions.

3. Who is considered resident for UAE CT purposes?

UAE incorporated companies such as LLCs, PSCs, PJSCs, and other UAE juridical persons will be subject to CT as resident persons.

An entity that is incorporated in the UAE will automatically be considered a 'resident' person for UAE CT purposes. Equally, an individual who is engaged in a business or business activity in the UAE will also be considered a resident person for UAE CT purposes.

A foreign company may be treated as a resident person for UAE CT purposes if it is effectively "managed and controlled" in the UAE. All facts and circumstances must be considered in determining where a company is effectively managed and controlled, but a relevant indicator may include the place where the strategic decisions affecting the business are made.

4. Who is considered non-resident for UAE CT purposes?

Under the Corporate Tax Law, a juridical person is considered a non-resident if it is incorporated in a foreign country and is effectively managed and controlled outside the UAE. A natural person is considered a non-resident for UAE CT purposes if he or she is not engaged in a taxable business or business activity in the UAE.

5. How are non-residents subject to UAE CT?

Non-resident persons will only be subject to UAE CT on:

- income from their Permanent Establishment in the UAE; or
- income sourced in the UAE (subject to a 0% withholding tax).

6. How are UAE tax residents subject to UAE CT?

UAE resident juridical persons will be subject to UAE CT on their income source from both the UAE and from abroad, although certain income earned through foreign subsidiaries and income of foreign branches that is subject to tax in another jurisdiction will generally be exempt from UAE CT. Further details of these exemptions are set out under question 'Will the income of foreign branches of a UAE business be subject to UAE CT?' under section Branches and question 'What is the participation exemption regime?' under section Income exempt from CT.

Where income earned from abroad is not exempt, relief for income taxes paid in the foreign jurisdiction can be taken as a credit against the CT payable in the UAE on the relevant income to prevent double taxation.

7. How do you determine taxable income for UAE CT?

The taxable income for a Tax Period will be the accounting net profit (or loss) of the business, after making adjustments for certain items specified in the Corporate Tax Law.

The accounting net profit (or loss) of a business is the amount reported in its financial statements prepared in accordance with internationally acceptable accounting standards. Adjustments to the accounting net profit (or loss) will need to be made for the following items:

1. Unrealised gains and losses (subject to the election made regarding the application of the realisation principle);
2. Exempt income such as qualifying dividends and capital gains;
3. Income arising on intra-group transfers;
4. Deductions which are not allowable for tax purposes;
5. Transactions with Related Parties and Connected Persons;
6. Transfers of tax losses within the group where relevant;
7. Incentives or tax reliefs; and
8. Any other adjustments as specified by the Minister.

8. What is a Tax Period?

Given CT is imposed on an annual basis, it is necessary to specify the “Tax Period”. The Tax Period will normally be the Gregorian calendar year (i.e. from 1 January to 31 December), unless the business applies a different 12-month period for preparing its financial statements.

9. What are the UAE CT rates?

Taxpayer

Applicable CT rate

Individuals and juridical persons

0% for taxable income up to and including AED 375,000 (this amount is to be confirmed in a Cabinet Decision)

9% for taxable income exceeding AED 375,000

Qualifying Free Zone Persons (see further information below)

0% on qualifying income

9% on taxable income that does not meet the qualifying income definition

10. If a business has earned taxable income of AED 1 million, what will be the UAE CT amount payable?

The CT liability will be calculated as follows:

- Taxable income of AED 375,000 (amount to be confirmed in a Cabinet Decision) subject to CT at 0%: $\text{AED } 375,000 \times 0\% = \text{AED } 0$
- Taxable income exceeding AED 375,000 (amount to be confirmed in a Cabinet Decision) subject to CT at 9%: $(\text{AED } 1,000,000 - \text{AED } 375,000) = \text{AED } 625,000 \times 9\% = \text{AED } 56,250$

The UAE CT liability for the Tax Period will be $\text{AED } 0 + \text{AED } 56,250 = \text{AED } 56,250$

The final amount of UAE CT payable can be reduced by available tax credits (see section 'Tax Credits' section).

11. Will small businesses be given any UAE CT relief?

In addition to a 0% CT rate for taxable income up to and including AED 375,000, small businesses with revenue below a certain threshold can claim 'small business relief' and be treated as having no taxable income during the relevant Tax Period and may be subject to simplified compliance obligations. To claim small business relief, an election must be made to the FTA.

12. Who can claim small business relief for UAE CT purposes?

Any UAE resident juridical person or individual with revenues below the threshold defined by the Minister and that meets any other conditions that may be set, can claim small business relief.

13. What is revenue?

Revenue is the gross amount of income derived in a tax period from sales of inventory and properties, services, royalties, interest, premiums, dividends and any other amounts, before deducting any type of costs or expenditure. In the context of income from sales or services, gross income means gross revenues from sales or services without deducting the cost of goods sold or the cost of services.

1. Will the oil and gas sector and other extractive industries be subject to UAE CT?

Businesses engaged in the extraction of the UAE's natural resources and in the non-extractive aspects of the natural resources value chain that are subject to Emirate-level taxation will be outside the scope of the UAE CT regime, subject to certain conditions and safeguards as specified in Article 7 and Article 8 of the Corporate Tax Law, respectively.

2. Will the banking sector be subject to UAE CT?

Yes. UAE headquartered banks and UAE branches of foreign banks will be subject to UAE CT.

3. Will the real estate sector be subject to UAE CT?

Yes. Businesses engaged in real estate management, construction, development, agency and brokerage activities will be subject to UAE CT.

4. Will the asset management sector be subject to UAE CT?

The asset management and broader financial services sectors will be subject to UAE CT, although investment funds that meet certain conditions can apply to be exempt from UAE CT. Further, under the so-called Investment Manager Exemption, UAE based and regulated fund managers and other investment managers can perform discretionary asset / investment management services without creating a taxable presence in the UAE for their foreign clients.

5. Will charities and other public benefit organisations be subject to UAE CT?

Charities and other public benefit organisations will be exempt from UAE CT, subject to meeting certain conditions and being listed in a Cabinet Decision.

6. How will international airlines and shipping companies be taxed?

Income earned by foreign operators of aircrafts and ships will be exempt from UAE CT in respect of:

1. providing international transportation of passengers, livestock, mail, parcels, merchandise or goods by air or by sea;
2. leasing or chartering aircrafts or ships used in international transportation; or
3. leasing or chartering equipment which are integral to the seaworthiness of ships or the airworthiness of aircrafts used in international transportation.

This exemption would only apply where the country of the foreign airline or shipping company would grant a similar exemption to UAE operators of aircrafts and ships.

1. What is withholding tax?

Withholding tax is a form of Corporate Tax collected at source by the payer on behalf of the recipient of the income. Withholding taxes exist in many tax systems and typically apply to the cross-border payment of dividends, interest, royalties and other types of income.

2. Does the UAE CT regime have withholding tax?

A 0% withholding tax may apply to certain types of UAE sourced income paid to non-residents. Because of the 0% rate, in practice, no withholding tax would be due and there will be no withholding tax related registration and filing obligations for UAE businesses or foreign recipients of UAE sourced income.

Withholding tax does not apply to transactions between UAE resident persons.

3. Is a credit available for foreign tax paid on income that is also subject to UAE CT?

Yes. Foreign tax paid on income that is also subject to UAE CT can be deducted as a foreign tax credit from the UAE CT payable. The maximum foreign tax credit is the lower of the foreign tax paid and the UAE CT payable on the relevant income. Any excess foreign tax credit cannot be carried forward or back to a different Tax Period.

4. What foreign taxes can be credited against UAE CT?

Withholding tax and other forms of foreign taxes on income or profits can be offset against the UAE CT liability, subject to any conditions as may be set out in an applicable agreement or treaty made between the UAE and the foreign country or territory.

1. Will a group of UAE companies be able to form a Tax Group for UAE CT purposes?

UAE companies can apply to form a Tax Group and be treated as a single taxable person if the UAE parent company (directly or indirectly) holds at least 95% of the share capital and voting rights of each of the companies.

Example: Company A owns, 20% of company B, and 100% of Company C. Company C owns 80% of the shares of Company B. Because Company A indirectly owns 100% of the shares of Company B (80% via Company C), it can form a Tax Group with both Company B and Company C.

To form a Tax Group, neither the parent company nor any of the subsidiaries can be an exempt person or a Free Zone entity benefitting from the 0% CT rate, and all companies must use the same financial year and prepare their financial statements using the same accounting standards.

2. Can UAE subsidiaries of a foreign parent company form a Tax Group for UAE CT purposes?

Being (ultimately) owned by a foreign parent company does not preclude UAE subsidiaries from forming a Tax Group, but the UAE subsidiaries must be held by an intermediary UAE parent company that will be the “parent” of the Tax Group for UAE CT purposes.

3. Can foreign entities be included in a Tax Group?

No, unless the foreign entity is managed and controlled in the UAE and considered a UAE resident entity for UAE CT purposes. This is because only UAE resident juridical persons can form or be part of a Tax Group.

4. Will the 0% CT rate threshold apply to the Tax Group as a whole?

Yes. The 0% threshold of AED 375,000 (amount to be confirmed in a Cabinet Decision) will apply to the Tax Group as a single taxpayer, irrespective of the number of entities that form part of the Tax Group.

5. Who will be responsible for the filing of the UAE CT and for payment of the UAE CT due once a Tax Group is formed?

Once formed, the Tax Group is treated as a single taxable person, with the parent company responsible for the administration and payment of CT on behalf of the group.

For the period they are group members, the parent company and each subsidiary will be jointly and severally liable for the UAE CT obligations of the Tax Group. This joint and several liability can be limited to one or more named members of the Tax Group, with approval from the Federal Tax Authority.

6. Will the Tax Group need to prepare consolidated financial statements?

Yes. To determine the taxable income of the Tax Group, the parent company will have to consolidate the financial accounts of each subsidiary for the relevant Tax Period, and eliminate transactions between the parent company and each subsidiary group member.

1. What is taxable income?

The taxable income for a Tax Period is the accounting net profit (or loss) of the business, after making adjustments for certain items as defined in the Corporate Tax Law.

2. What standards must be used to prepare financial statements?

For UAE CT purposes, the financial statements of UAE entities and other businesses should be prepared in accordance with accounting standards accepted in the UAE. International Financial Reporting Standards (IFRS) is the most frequently used accounting standard in the UAE.

3. Will financial statements need to be prepared on an accruals basis?

Taxpayers should prepare their financial statements, and determine their taxable income on an accruals basis, unless they are permitted to use the cash basis of accounting instead. The Minister may prescribe the instances where a taxpayer can prepare financial statements using the cash basis, which is expected to be available for certain categories of individual entrepreneurs and small businesses.

4. What UAE CT adjustments to the financial statements will be required to calculate taxable income?

The accounting net profit (or loss) would need to be adjusted for the items prescribed in the UAE Corporate Tax Law, including:

1. Unrealised gains/losses (subject to the election made regarding the application of the realisation principle);
2. Exempt income such as dividends;
3. Intra-group transfers;
4. Deductions which are not allowable for tax purposes;
5. Adjustments for transactions with Related Parties and Connected Persons;
6. Any incentives or tax reliefs; and
7. Any other adjustment specified by the Minister.

5. What is the UAE CT treatment for any unrealised gains and losses arising from accounting fair value or impairment adjustments?

Where a business prepares their financial statements on an accruals basis, it has the following options in respect of the UAE CT treatment of unrealised accounting gains and losses:

●Option 1: The taxpayer can elect to recognise gains and losses on a 'realisation basis' for UAE CT purposes for all assets and liabilities - that is, any and all unrealised gains would not be taxable (and conversely, any and all unrealised losses would not be deductible) until they are realised;

●Option 2: The taxpayer can elect to recognise gains and losses on a 'realisation basis' for UAE CT purposes for assets and liabilities held on capital account only - that is, only unrealised gains and losses in respect of assets and liabilities held on capital account would not be taxable or deductible, respectively, until they are realised. Unrealised gains and losses arising from assets and liabilities held on revenue account, on the other hand, would continue to be included in taxable income on a current basis.

Generally, assets and liabilities are considered to be held on capital account when they are not expected to be sold or traded with during the regular course of the business operation.

6. What is the realisation principle, and when is income realised for UAE CT purposes?

As under many other Corporate Tax systems, the UAE CT regime allows taxpayers to apply the realisation principle for determining their taxable income. This means that income will only be taxable, and a deduction would only be able to be taken, if and when a gain or loss is realised. Realisation would happen, for example, when the relevant asset is sold or terminated.

Under the realisation principle, the taxable income for each Tax Period would exclude gains and losses in respect of assets or liabilities that are subject to fair value or impairment accounting.

7. How are capital gains taxed?

No distinction is made between gains arising from the sale of capital assets and those arising from the sale of non-capital (revenue) assets. Capital gains derived from the disposal of assets are included in annual taxable income in the same manner as other income from the business. Capital gains on the sale of shares may be exempt from corporate income tax, subject to meeting certain conditions (see question 'Are capital gains exempt from UAE CT?' under section Income exempt from CT).

1. Will transfer pricing rules apply to both domestic and cross border transactions?

Yes. Transfer pricing rules apply to UAE businesses that have transactions with Related Parties and Connected Persons, irrespective of whether the Related Parties or Connected Persons are located in the UAE mainland, a Free Zone or in a foreign jurisdiction.

2. What are transfer pricing rules?

Transfer pricing rules seek to ensure that transactions between Related Parties are carried out on arm's length terms, as if the transaction was carried out between independent parties. To prevent the manipulation of taxable income, various articles in the Corporate Tax Law require that the consideration of transactions with Related Parties and Connected Persons needs to be determined by reference to their "Market Value".

3. Who are Related Parties?

Generally, Related Parties of an individual refer to the individual's relatives as well as companies in which the individual, alone or together with their Related Parties, has a controlling ownership interest (typically 50% or more of shares of the company).

Similarly, Related Parties of a company refers to any other companies in which the company, alone or together with their Related Parties, has a controlling ownership interest (typically 50% or more of shares of the company), or that are under greater than 50% common ownership.

Further detail on the definition of Related Parties can be found in Article 35 of the Corporate Tax Law.

4. Who are Connected Persons?

Connected Persons are different from Related Parties.

A person will be considered “connected” to a business that is within the scope of UAE CT if they are:

1. The owner of the business;
2. A director or officer of the business; or
3. A Related Party of either of the above.

5. What transfer pricing methodologies can be used to determine the arm's length value?

Generally, taxpayers are required to apply one or more of the following methodologies to determine the arm's length values for transfer pricing purposes:

1. The comparable uncontrolled price method.
2. The resale price method.
3. The cost-plus method.
4. The transactional net margin method.
5. The transactional profit split method.

6. What documentation should be maintained in respect of transfer pricing?

Businesses will be required to maintain information regarding their transactions with Related Parties and Connected Persons, and certain businesses will be required to submit this information along with their tax return. Businesses that claim small business relief will not have to comply with the transfer pricing documentation rules.

Certain businesses may be requested to maintain a master file and a local file.

7. Do taxpayers need to consider whether intra-group loan arrangements are at arm's length?

Yes. Transfer pricing rules will apply to all transactions with Related Parties and Connected Persons. Therefore, any loan obtained from (or granted to) a Related Party or Connected Person needs to be at arm's length (e.g. interest rate, duration, etc.).

8. Would transactions in a Tax Group need to comply with transfer pricing rules?

Transactions between members of a Tax Group are eliminated in the consolidation of the Group's financial results statements and hence do not need to comply with the transfer pricing rules, unless a member of the Tax Group needs to compute its stand-alone Taxable Income for the purposes of utilising Tax Losses incurred before joining the Tax Group or when leaving a Tax Group.

1. What is a "Family Foundation"?

A Family Foundation (as defined in the UAE Corporate Tax Law) is a foundation, trust or similar entity used to protect and manage the assets and wealth of an individual or family.

The principal activity of a Family Foundation would generally be to receive, hold, invest, disburse, or otherwise manage funds and assets associated with savings or investment for the interest of individual beneficiaries or to achieve a charitable purpose. Such activities would typically not constitute a "business" or "business activity" for UAE CT purposes if they were undertaken directly by the founder, beneficiary or any other individual.

2. Are Family Foundations subject to UAE CT?

Foundations and certain types of trusts are independent juridical persons with separate legal personality, and would therefore prima facie be subject to UAE CT in their own right. However, these types of Family Foundations can apply to be treated as transparent "Unincorporated Partnerships" for UAE CT purposes, resulting in the founder/settlor and the beneficiaries of the trust to remain to be seen as owners of the assets held by the trust. This would generally prevent the income of the foundation or trust from attracting UAE CT.

Other types of trusts (for example, trusts established in the DIFC or ADGM) are a contractual relationship between two or more persons (e.g., the beneficiary, settlor, and trustee) and do not have separate legal personality. These types of trusts will by default be treated as transparent vehicles for UAE CT purposes.