

# ICAI Direct Taxes GPT - UAE Corporate Tax Overview

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## Introduction to UAE Corporate Taxation



The introduction of corporate taxation in the UAE marks a significant shift in the region's tax framework, aimed at aligning with international standards and diversifying its revenue sources. Key aspects include:

1. **Federal Decree-Law No. 47 of 2022:** This law establishes the legislative framework for corporate tax on business profits in the UAE.

2. **Objectives:**

- To help the UAE achieve its strategic economic objectives.
- To enhance transparency and compliance in taxation.
- To bolster the UAE's reputation as a leading jurisdiction for global business and investment.

3. **Scope:**

- Applicable to businesses generating taxable income within the UAE.
- Includes specific rules for free zone persons, permanent establishments, and group taxation.

4. **Key Features:**

- Taxation of both resident and non-resident businesses on their UAE-sourced income.
- Exemptions for certain entities and income streams.
- Deduction rules for expenses related to taxable income computation.

5. **Compliance and Implementation:**

- The framework emphasizes ease of compliance with clearly defined rules and procedures.
- Encourages voluntary adherence through education and robust guidance materials.

This tax system is part of the UAE's broader strategy to ensure sustainable economic growth while maintaining its position as a global business hub.

## Comprehensive Overview of UAE Corporate Tax Law



The UAE Corporate Tax Law, established under **Federal Decree-Law No. 47 of 2022**, represents a transformative move in the region's taxation framework. Here's a comprehensive overview:

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## Key Features of the UAE Corporate Tax Law

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### 1. Introduction and Applicability:

- Effective from **June 1, 2023**, the law applies to **taxable income** earned by businesses in the UAE.
- Covers **resident** and **non-resident entities** earning UAE-sourced income.

### 2. Objectives:

- Align UAE with **international tax transparency standards**.
- Diversify government revenue sources to support long-term economic growth.
- Foster **compliance with OECD BEPS (Base Erosion and Profit Shifting) guidelines**.

### 3. Scope:

Applies to all corporate entities except:

- Natural persons (unless they engage in specific business activities).
- Extractive industries (which remain subject to Emirate-level taxation).
- Certain **non-commercial entities**, such as government bodies and charities.

### 4. Taxable Persons:

- **Resident Persons**: Taxed on worldwide income.
- **Non-Resident Persons**: Taxed on UAE-sourced income through a **permanent establishment** or nexus in the UAE.

### 5. Tax Rate:

- **0%**: Income up to AED 375,000 to support small businesses and startups.
- **9%**: For taxable income above AED 375,000.
- **Different rates** may apply to large multinational enterprises meeting the criteria of Pillar Two of the OECD BEPS Project (Minimum Effective Tax Rate).

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## Important Concepts

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## 1. Free Zone Entities:

Free Zone Persons can benefit from a **0% tax rate** if they meet conditions related to maintaining substance and conducting only permissible activities.

## 2. Exemptions:

- Dividends and capital gains from **qualifying shareholdings**.
- Qualifying intra-group transactions and restructurings.
- Income of non-residents derived from operating aircraft or ships.

## 3. Deductions:

- Business expenses incurred wholly and exclusively for taxable activities are deductible.
- Certain **entertainment and capital expenditures** have restrictions.

## 4. Permanent Establishment (PE):

A fixed place of business or dependent agent triggering tax obligations for non-residents.

## 5. Transfer Pricing:

Requires compliance with **arm's length principles**, with proper documentation as per OECD guidelines.

## 6. Administration:

- Filing of returns is **annual**, and businesses must retain documentation for at least **seven years**.
- Penalties apply for non-compliance or late submissions.

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## Compliance and Enforcement

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### 1. Filing Obligations:

Corporate tax returns must be filed electronically, disclosing taxable income and applicable deductions.

### 2. Group Taxation:

Groups can form a **tax group** for unified reporting if certain conditions are met, reducing compliance costs.

### 3. Audits and Penalties:

Strict penalties for misreporting or non-compliance encourage adherence to rules.

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## Strategic Implications

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- **Enhanced Competitiveness:**  
A low corporate tax rate ensures the UAE remains attractive to international investors.
  - **Alignment with Global Standards:**  
The tax law complies with OECD and G20 initiatives, reinforcing the UAE's global reputation.
  - **Economic Diversification:**  
Supports government initiatives to reduce reliance on oil revenues.
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## Conclusion

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The UAE Corporate Tax Law is designed to balance competitiveness with international obligations. It provides a clear, transparent framework for taxation, fostering a robust business environment while adhering to global tax practices.

### Imposition of Corporate Tax and Applicable Rates



The **UAE Corporate Tax Law** under **Federal Decree-Law No. 47 of 2022** outlines the imposition of corporate tax on business profits to align with global tax standards and promote economic growth. Below is an overview of the tax imposition and applicable rates:

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## Imposition of Corporate Tax

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### 1. Scope:

- Corporate tax is levied on **business profits** of entities operating in the UAE, except for exempt entities (e.g., government bodies, qualifying public benefit organizations).
- Applicable to **resident** and **non-resident taxable persons**.

### 2. Taxable Income:

Calculated based on the **net profit** (accounting income) derived from financial statements, adjusted for specific exclusions, exemptions, and disallowed expenses.

### 3. Geographical Application:

Includes income from both mainland UAE and Free Zone entities (subject to specific conditions for Free Zone Persons).

#### 4. Taxable Persons:

- **Resident Persons:**

Taxed on **worldwide income**, excluding income earned from foreign PEs or dividends from qualifying shareholdings.

- **Non-Resident Persons:**

Taxed on **UAE-sourced income** through a **permanent establishment** or nexus in the UAE.

#### 5. Exemptions:

- **Extractive industries** remain subject to Emirate-level taxation.
- Dividends, capital gains from qualifying shareholdings, and intra-group transactions meeting prescribed conditions may be exempt.

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### Applicable Corporate Tax Rates

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#### 1. 0% Tax Rate:

Applies to taxable income up to **AED 375,000** to support small businesses and startups.

#### 2. 9% Tax Rate:

Imposed on taxable income exceeding **AED 375,000**.

#### 3. Special Rates:

##### **Large Multinational Enterprises (MNEs):**

Subject to the **OECD's BEPS Pillar Two Global Minimum Tax Rate** (15%) if they meet the consolidated revenue threshold of **EUR 750 million** (or equivalent).

#### 4. Free Zone Persons:

Qualifying Free Zone entities can benefit from a **0% tax rate** if they:

- Maintain adequate substance in the UAE.
- Derive income from permissible activities (e.g., transactions outside the UAE).

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### Key Considerations

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#### 1. Progressivity:

The progressive structure (0% and 9%) ensures tax equity while encouraging small business growth.

#### 2. Global Standards Compliance:

The 9% rate positions the UAE as a competitive jurisdiction, meeting international transparency and tax fairness standards.

### 3. Focus on Competitiveness:

The low corporate tax rate keeps the UAE attractive to foreign investors and businesses.

### 4. Administrative Requirements:

Businesses must comply with **annual filing requirements**, maintain financial records, and submit tax returns as per the UAE tax law.

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## Strategic Implications

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The UAE's corporate tax regime reflects its commitment to fostering economic diversification and aligning with international tax practices while maintaining an attractive environment for global businesses and investments.

### Understanding Residential Status and its Relevance to Taxation



## Residential Status in UAE Corporate Taxation

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The concept of **residential status** plays a pivotal role in determining the **scope of tax liability** for entities and individuals under the UAE Corporate Tax Law. It establishes whether an entity or individual is taxed on worldwide income or only on income sourced within the UAE.

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## Criteria for Determining Residential Status

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### 1. Resident Persons:

- **Legal Entities:**

A company or other juridical person incorporated or established in the UAE is considered a resident for corporate tax purposes.

- **Natural Persons:**

A natural person engaged in a business or commercial activity in the UAE is treated as a resident.

### 2. Non-Resident Persons:

- A **non-resident person** is subject to corporate tax only on income sourced within the UAE.
- Income is taxable if it is attributable to:
  - A **permanent establishment (PE)** in the UAE.
  - UAE-sourced income, such as income derived from contracts performed in the UAE or goods sold in the UAE.

### 3. Permanent Establishment (PE):

A PE is defined as a fixed place of business or a dependent agent that creates a taxable presence for a non-resident entity in the UAE.

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## Relevance of Residential Status to Taxation

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### 1. Tax Base:

- **Residents** are taxed on their **worldwide income**, with exceptions for:
  - Foreign income from **permanent establishments abroad**.
  - Income from qualifying shareholdings (e.g., dividends).
- **Non-residents** are taxed only on **UAE-sourced income**.

### 2. Tax Rates:

Residents and non-residents are subject to the same corporate tax rates:

- **0%** for taxable income up to AED 375,000.
- **9%** for taxable income above AED 375,000.

### 3. Exemptions:

- Specific types of income, such as dividends from qualifying shareholdings or gains from asset disposals, may be exempt for residents.
- Non-residents may benefit from tax exemptions on certain categories of UAE-sourced income if covered by **double taxation treaties**.

### 4. Transfer Pricing Compliance:

Resident entities involved in transactions with related parties, whether within the UAE or internationally, must comply with **transfer pricing rules** based on the **arm's length principle**.

### 5. Double Tax Avoidance Treaties (DTAs):

The UAE's extensive network of DTAs provides relief from double taxation for resident and non-resident persons by:

- Clarifying the taxing rights of each jurisdiction.
  - Enabling tax credits for foreign taxes paid.
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## Strategic Implications of Residential Status

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### 1. For Businesses:

- Multinational companies operating in the UAE must evaluate their activities to determine if they create a **permanent establishment**, which triggers tax obligations.
- Resident companies with significant foreign operations may benefit from exemptions for foreign-source income.

## 2. For Investors and Individuals:

Individuals involved in business activities must ascertain their residential status to understand their tax obligations fully.

## 3. Compliance and Structuring:

Proper structuring of business operations is essential to optimize tax liability based on residential status and PE rules.

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## Conclusion

Understanding **residential status** is crucial for determining the tax liability under the UAE Corporate Tax Law. It directly impacts how income is taxed—whether globally or only on UAE-sourced earnings—and informs compliance requirements for entities and individuals operating within the UAE.

Classification and Significance of Exempt Persons



## Classification and Significance of Exempt Persons Under UAE Corporate Tax Law

The **UAE Corporate Tax Law** provides for exemptions to certain categories of persons and entities, recognizing their unique roles in the economy or non-commercial nature of operations. Exemptions ensure alignment with economic objectives and reduce the tax burden on non-business entities.

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## Classification of Exempt Persons

### 1. Government Entities:

- Government departments and authorities conducting **non-commercial activities**.
- Exempt from corporate tax due to their role in governance and public service.

### 2. Government-Controlled Entities:

- Entities wholly owned by the government that perform **mandated activities**.
- Exemptions are provided unless they engage in significant commercial activities outside their scope.

### 3. Extractive Businesses:

- Engaged in **upstream oil, gas, and other natural resource extraction activities**.
- Subject to Emirate-level taxation rather than UAE federal corporate tax.

### 4. Qualifying Public Benefit Entities:

- Non-profit organizations recognized for promoting **charitable, cultural, or social causes**.
- Must be listed in a **Cabinet Decision** to qualify for exemptions.

### 5. Investment Funds:

- Includes **real estate investment trusts (REITs)** and other qualifying funds.
- Exemption ensures the attractiveness of UAE as an investment hub, provided they meet specific regulatory and operational criteria.

### 6. Pension and Social Security Funds:

- Funds established to provide retirement or social security benefits.
- Exempt to protect and encourage the establishment of social safety nets.

### 7. International Organizations:

Exempt if agreements with the UAE explicitly grant tax exemptions.

### 8. Other Persons:

Exemptions may apply to specific persons or entities under **Cabinet Decisions** for strategic reasons.

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## Significance of Exempt Persons

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### 1. Support for Non-Commercial Activities:

Exemptions ensure that entities engaged in governance, public service, or charitable activities are not burdened with tax compliance or liabilities.

### 2. Encouragement of Investments:

Exemptions for investment funds, REITs, and pension funds enhance the UAE's attractiveness as an investment destination.

### 3. Alignment with Economic Policies:

Exemptions for government-controlled and extractive businesses align with Emirate-level tax practices, avoiding overlaps.

### 4. Social and Cultural Benefits:

Public benefit entities and pension funds receive exemptions to promote welfare, cultural growth, and community development.

## 5. Simplification of Compliance:

By excluding non-commercial and strategically significant activities, the exemptions streamline the tax system.

## 6. Flexibility in Strategic Decisions:

The inclusion of "other persons" under Cabinet Decisions allows the government to dynamically adjust exemptions to suit economic needs.

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## Conditions for Maintaining Exemption Status

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Exempt persons must comply with certain conditions to retain their exempt status:

### 1. Registration:

Entities must register for corporate tax purposes to be recognized as exempt.

### 2. Activity Restrictions:

Exempt persons must ensure that **commercial activities** do not exceed prescribed thresholds.

### 3. Regular Reporting:

Filing of **annual returns** or other documents to confirm compliance with exemption criteria.

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## Conclusion

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The classification of **exempt persons** under the UAE Corporate Tax Law reflects a strategic approach to taxation that supports key sectors, promotes investment, and encourages social welfare. These exemptions ensure a balanced tax regime that aligns with the UAE's economic development goals while reducing administrative burdens for qualifying entities.

## Q&A



Here's a Q&A to summarize key aspects of UAE Corporate Tax Law:

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### Q1: What is the UAE Corporate Tax Law?

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**A:** It is a federal law introduced under **Federal Decree-Law No. 47 of 2022**, effective from **June 1, 2023**, to impose corporate tax on business profits in the UAE.

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### Q2: Who is subject to UAE Corporate Tax?

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A:

- **Resident Persons:** Taxed on worldwide income, except exempt income.
  - **Non-Resident Persons:** Taxed on UAE-sourced income or income attributable to a **Permanent Establishment (PE)** in the UAE.
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### Q3: What are the applicable tax rates?

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A:

- **0%:** For taxable income up to AED 375,000.
  - **9%:** For taxable income exceeding AED 375,000.
  - **Special Rate:** For large multinationals under OECD BEPS Pillar Two (15%).
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### Q4: What types of income are exempt from tax?

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A: Common exemptions include:

- Dividends from **qualifying shareholdings**.
  - Capital gains on sales of **qualifying shares**.
  - Income from natural resource extraction (subject to Emirate-level taxes).
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### Q5: What is the significance of "residential status" in taxation?

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A: It determines the scope of tax liability:

- **Residents:** Taxed on worldwide income.
  - **Non-Residents:** Taxed only on UAE-sourced income or income attributable to a PE.
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### Q6: Who qualifies as exempt persons?

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A: Exempt persons include:

- Government entities and controlled organizations.
  - Public benefit entities.
  - Pension and social security funds.
  - Investment funds (e.g., REITs).
  - Extractive businesses (subject to Emirate-level taxation).
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### Q7: How are Free Zone Persons taxed?

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A:

Free Zone entities can enjoy a **0% tax rate** on qualifying income if they comply with substance requirements and engage in permissible activities.

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#### Q8: What is a Permanent Establishment (PE)?

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A: A PE is a fixed place of business or dependent agent in the UAE, triggering tax obligations for non-residents.

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#### Q9: Are there transfer pricing requirements?

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A: Yes, businesses must comply with **arm's length principles** for transactions between related parties and maintain transfer pricing documentation.

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#### Q10: What are the compliance obligations under the law?

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A:

- Annual filing of corporate tax returns.
  - Maintenance of financial records for **7 years**.
  - Registration with the Federal Tax Authority (FTA).
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#### Q11: Are there penalties for non-compliance?

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A: Yes, penalties apply for late registration, late filing, incorrect submissions, and non-payment of tax.

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#### Q12: How does the UAE ensure international tax compliance?

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A:

- Alignment with OECD BEPS standards.
  - Extensive network of **Double Taxation Avoidance Agreements (DTAAs)** to prevent double taxation.
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Feel free to ask additional questions if more clarity is needed!

Please provide the discussions in the form of a FAQ in a table



Here is a **FAQ Table** summarizing discussions on UAE Corporate Tax Law:

**Question**

**Answer**

| Question                                             | Answer                                                                                                                                                                                                                                  |
|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What is UAE Corporate Tax Law?                       | Introduced under <b>Federal Decree-Law No. 47 of 2022</b> , effective <b>June 1, 2023</b> , to impose corporate tax on business profits in the UAE.                                                                                     |
| Who is subject to UAE Corporate Tax?                 | <ul style="list-style-type: none"> <li>- <b>Residents</b>: Taxed on worldwide income (excluding exempt income).</li> <li>- <b>Non-Residents</b>: Taxed on UAE-sourced income or through a PE.</li> </ul>                                |
| What are the applicable tax rates?                   | <ul style="list-style-type: none"> <li>- <b>0%</b>: For taxable income up to AED 375,000.</li> <li>- <b>9%</b>: For taxable income above AED 375,000.</li> <li>- <b>15%</b>: For large multinationals (OECD BEPS).</li> </ul>           |
| What is the basic exemption limit?                   | AED 375,000 for all taxable persons.                                                                                                                                                                                                    |
| What types of income are exempt from tax?            | <ul style="list-style-type: none"> <li>- Dividends from qualifying shareholdings.</li> <li>- Capital gains from the sale of qualifying shares.</li> <li>- Income from natural resource extraction.</li> </ul>                           |
| What is residential status, and why is it important? | <p>Determines the scope of tax liability:</p> <ul style="list-style-type: none"> <li>- <b>Residents</b>: Taxed on worldwide income.</li> <li>- <b>Non-Residents</b>: Taxed only on UAE-sourced income.</li> </ul>                       |
| Who qualifies as exempt persons?                     | <ul style="list-style-type: none"> <li>- Government entities.</li> <li>- Government-controlled organizations.</li> <li>- Public benefit entities.</li> <li>- Pension and investment funds.</li> <li>- Extractive industries.</li> </ul> |
| How are Free Zone Persons taxed?                     | Qualify for a <b>0% tax rate</b> on certain incomes if they meet substance requirements and perform permissible activities.                                                                                                             |
| What is a Permanent Establishment (PE)?              | A fixed place of business or dependent agent in the UAE that creates a taxable presence for non-residents.                                                                                                                              |
| Are there transfer pricing requirements?             | Yes, businesses must comply with <b>arm's length principles</b> for related-party transactions and maintain transfer pricing documentation.                                                                                             |
| What are the compliance obligations?                 | <ul style="list-style-type: none"> <li>- Annual filing of corporate tax returns.</li> <li>- Maintain financial records for <b>7 years</b>.</li> <li>- Register with the Federal Tax Authority (FTA).</li> </ul>                         |
| Are there penalties for non-compliance?              | Yes, penalties apply for late registration, incorrect returns, late filing, and non-payment of tax.                                                                                                                                     |
| How does UAE ensure international tax compliance?    | Through alignment with <b>OECD BEPS standards</b> and a network of <b>Double Taxation Avoidance Agreements (DTAAs)</b> .                                                                                                                |

Let me know if you need further modifications or additions!



### Taxable Conditions and Scope of Taxability Under UAE Corporate Tax Law

The **UAE Corporate Tax Law** outlines specific conditions under which income becomes taxable and defines the scope of taxability for different categories of persons. Here's an overview:

| Aspect                       | Details                                                                                                                                                                                                                                                                       |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Who is Taxable?              | <ol style="list-style-type: none"><li>1. <b>Resident Persons</b>: Juridical persons incorporated or effectively managed in the UAE.</li><li>2. <b>Non-Resident Persons</b>: Income sourced in the UAE or attributable to a UAE <b>Permanent Establishment (PE)</b>.</li></ol> |
| Taxable Income               | Income derived from <b>business activities</b> , including: <ul style="list-style-type: none"><li>- Revenue from sales of goods and services.</li><li>- Investment returns not exempt under the law.</li><li>- Other business gains.</li></ul>                                |
| Non-Taxable Income           | Certain categories are excluded from tax, such as: <ul style="list-style-type: none"><li>- Dividends from <b>qualifying shareholdings</b>.</li><li>- Capital gains from disposal of shares.</li><li>- Income from <b>natural resource extraction</b>.</li></ul>               |
| Scope of Taxability          | <ol style="list-style-type: none"><li>1. <b>Residents</b>: Taxed on <b>worldwide income</b>, with exemptions for qualifying foreign-source income.</li><li>2. <b>Non-Residents</b>: Taxed on income sourced in the UAE, such as payments for services or goods.</li></ol>     |
| Permanent Establishment (PE) | Income of non-residents becomes taxable if derived through a <b>fixed place of business</b> or a <b>dependent agent</b> in the UAE.                                                                                                                                           |
| Threshold for Taxation       | Tax is levied on taxable income exceeding <b>AED 375,000</b> . Income below this threshold is subject to a <b>0% rate</b> .                                                                                                                                                   |
| Free Zone Taxation           | Free Zone Persons are taxed at <b>0%</b> on qualifying income, provided they meet <b>substance requirements</b> and adhere to the permitted activities listed under the law.                                                                                                  |
| Exempt Income                | Income exempt from corporate tax includes: <ul style="list-style-type: none"><li>- Government grants and subsidies.</li><li>- Dividends from qualifying entities.</li><li>- Certain intra-group transactions and reorganizations.</li></ul>                                   |

| Aspect            | Details                                                                                                                                                                                |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Special Tax Rates | <b>Large Multinational Enterprises (MNEs)</b> meeting the <b>OECD BEPS Pillar Two</b> criteria (global revenue ≥ EUR 750 million) may be subject to a <b>minimum tax rate of 15%</b> . |

## Conditions Triggering Taxability

### 1. Business Activity:

- Any individual or entity engaging in commercial, industrial, or professional activities is subject to corporate tax.
- Natural Persons** are taxable if their business activity meets licensing or regulatory thresholds.

### 2. UAE-Sourced Income:

Income earned from activities carried out within the UAE, such as sales or services performed in the UAE.

### 3. Foreign Income:

Residents are taxed on worldwide income, while non-residents are taxed only on UAE-sourced income.

### 4. Connected Persons Transactions:

Related-party transactions must comply with **transfer pricing rules**, ensuring they meet **arm's length principles**.

## Key Implications of Scope

- **Encouragement for SMEs:**

The **0% tax rate** for income below AED 375,000 reduces tax burdens on smaller businesses and startups.

- **Free Zone Competitiveness:**

The 0% rate for Free Zone Persons enhances the UAE's appeal as a business destination.

- **Compliance Focus:**

Businesses must carefully evaluate whether they meet taxable thresholds and understand implications under PE rules.

This comprehensive scope ensures that UAE corporate tax aligns with global standards while fostering economic growth.

## Concept and Implications of Permanent Establishment



## Concept and Implications of Permanent Establishment (PE) Under UAE Corporate Tax Law

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The concept of **Permanent Establishment (PE)** is central to determining when a **non-resident person** becomes subject to UAE Corporate Tax on UAE-sourced income. It aligns with international tax principles, particularly those under the OECD Model Tax Convention.

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### Definition of Permanent Establishment (PE)

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A **Permanent Establishment** refers to a fixed place of business or dependent agent through which a **non-resident person** conducts business activities in the UAE, creating a taxable presence.

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### Types of Permanent Establishments

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#### 1. Fixed Place PE:

A fixed location in the UAE used to conduct business, such as:

- Offices.
- Branches.
- Factories.
- Warehouses (for business operations, not storage alone).

#### 2. Dependent Agent PE:

- A dependent person or agent in the UAE authorized to:
    - Conclude contracts on behalf of the non-resident.
    - Regularly exercise authority to perform business activities.
  - Activities must be beyond preparatory or auxiliary in nature.
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### Conditions for Triggering a PE

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A PE is created when:

1. A **fixed place of business** exists in the UAE for conducting business operations.
  2. A **dependent agent** acts on behalf of a non-resident entity to:
    - Negotiate or conclude contracts.
    - Play a significant role in generating UAE-sourced income.
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### Exclusions from PE Status

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Certain activities are excluded if they are **preparatory or auxiliary**, such as:

- Storage or display of goods.
- Maintaining a fixed place for information collection.
- Back-office support activities.

Additionally:

Independent agents acting in the ordinary course of their business do not constitute a PE.

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## Implications of a PE

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### 1. Taxability:

Non-residents with a PE in the UAE are subject to corporate tax on income attributable to the PE.

### 2. Attribution of Profits:

Income directly or indirectly attributable to the PE is calculated and taxed in the UAE.

### 3. Compliance Obligations:

The PE must:

- Register with the **Federal Tax Authority (FTA)**.
- Maintain proper financial records.
- File annual tax returns.

### 4. Transfer Pricing Rules:

Transactions between the non-resident and its PE in the UAE must comply with **arm's length principles**.

### 5. Double Taxation Relief:

Non-residents may seek relief under **Double Taxation Avoidance Agreements (DTAAs)**, mitigating tax burdens.

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## Strategic Considerations

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### 1. Business Structuring:

Non-residents must carefully structure their UAE operations to avoid unintentionally creating a PE.

### 2. Monitoring Agent Activities:

Businesses should ensure agents in the UAE act independently or engage only in preparatory or auxiliary roles.

### 3. Tax Planning:

Evaluate the use of **DTAAs** to manage cross-border tax liabilities effectively.

### 4. Avoiding Misclassification:

Misclassifying activities can result in unexpected tax liabilities and penalties.

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## Conclusion

The concept of a **Permanent Establishment** is a key mechanism for taxing non-resident entities operating in the UAE. Proper understanding and management of PE rules ensure compliance, optimize tax liabilities, and minimize risks of unintentional tax exposure.

Determining the Place of Effective Management and Control



## Determining the Place of Effective Management and Control (PoEM)

The **Place of Effective Management and Control (PoEM)** is a key factor in determining the **residential status** of a business entity under the UAE Corporate Tax Law. It establishes whether an entity is classified as a **resident** and thus subject to taxation on worldwide income or as a **non-resident** taxed only on UAE-sourced income.

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### Definition of PoEM

The **Place of Effective Management and Control** is the location where key management and commercial decisions necessary for the conduct of the business as a whole are made.

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### Factors Influencing PoEM

#### 1. Location of Decision-Making:

The place where high-level strategic, financial, and operational decisions are made.

#### 2. Board of Directors Meetings:

The location where board meetings are held and where key management decisions are approved.

### 3. Day-to-Day Management:

The place where senior executives manage daily business operations.

### 4. Substance Over Form:

The actual activities and decision-making processes take precedence over the formalities, such as the registered office location.

### 5. Delegation of Authority:

Whether decision-making authority is centralized in a single location or spread across multiple jurisdictions.

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## Criteria for Determining PoEM

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The following steps are used to assess PoEM:

#### 1. Identification of Decision-Makers:

Determine who makes the key decisions for the business and where they are physically located.

#### 2. Location of Key Meetings:

Analyze where board meetings or other high-level management meetings are held.

#### 3. Operational Control:

Examine where day-to-day management and administrative functions are carried out.

#### 4. Residency of Decision-Makers:

Consider the residence of directors and senior executives involved in significant decisions.

#### 5. Supporting Evidence:

Review documentation such as board minutes, policy manuals, and business correspondence to confirm decision-making locations.

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## Implications of PoEM

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#### 1. Residential Status:

An entity with its PoEM in the UAE is classified as a **resident** for corporate tax purposes and taxed on worldwide income.

## 2. Tax Liability:

Entities with PoEM outside the UAE are considered **non-residents** and taxed only on UAE-sourced income or income attributable to a Permanent Establishment (PE).

## 3. Double Taxation Relief:

PoEM plays a critical role in applying **Double Taxation Avoidance Agreements (DTAAs)** to resolve potential tax disputes.

## 4. Compliance Requirements:

Resident entities must fulfill annual tax return filing and record-keeping obligations for their worldwide income.

## 5. Avoidance of Misclassification:

Misinterpreting PoEM could lead to unintended tax liabilities, penalties, or disputes with tax authorities.

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## Strategic Considerations

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### 1. Centralized Decision-Making:

Businesses should clearly establish and document the location of high-level decision-making to avoid ambiguity in determining PoEM.

### 2. Documentation and Evidence:

Maintain comprehensive records of board meetings, resolutions, and key operational decisions to support PoEM classification.

### 3. Alignment with Global Standards:

Ensure PoEM determination aligns with international tax principles and relevant DTAAs.

### 4. Risk Management:

Conduct regular reviews of governance and decision-making processes to ensure compliance with UAE Corporate Tax Law.

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## Conclusion

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The determination of **Place of Effective Management and Control (PoEM)** is critical in establishing the tax residency of an entity and its tax obligations under UAE Corporate Tax Law. Businesses must carefully assess and document their decision-making processes to ensure compliance and optimize tax outcomes.



## Taxation Framework for Partnerships under UAE Corporate Tax Law

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The UAE Corporate Tax Law provides specific rules for the taxation of **partnerships** based on their legal status, nature of activities, and structure. The framework is designed to align with international tax principles while addressing the unique characteristics of partnerships.

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### Key Features of the Taxation Framework

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| Aspect                       | Details                                                                                                                                                                                                          |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Definition of Partnership    | Partnerships include entities formed by two or more persons to carry out a business activity, including general and limited partnerships.                                                                        |
| Tax Residency                | <ul style="list-style-type: none"><li>- Partnerships can be treated as either <b>transparent</b> or <b>non-transparent</b> for tax purposes.</li><li>- The residency status affects the tax treatment.</li></ul> |
| Transparent Partnerships     | Partnerships where income is taxed at the level of the partners, not the entity itself (e.g., general partnerships).                                                                                             |
| Non-Transparent Partnerships | Partnerships taxed as separate legal entities, similar to corporations, on their taxable income (e.g., limited liability partnerships).                                                                          |
| Registration Requirement     | All partnerships conducting taxable activities in the UAE must register with the Federal Tax Authority (FTA).                                                                                                    |

---

### Tax Treatment Based on Partnership Type

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#### 1. Transparent Partnerships:

- **Tax Liability:** Income is allocated to partners and taxed at their respective levels.
- **Scope:**
  - Partners who are residents of the UAE are taxed on their share of worldwide income.
  - Non-resident partners are taxed only on their share of UAE-sourced income.
- **Compliance:**
  - The partnership itself files an information return detailing income distribution among partners.

## 2. Non-Transparent Partnerships:

- **Tax Liability:** The partnership itself is taxed on its taxable income.
- **Scope:**
  - Taxed on income derived from activities conducted within the UAE.
  - Subject to the standard corporate tax rates (0% for income up to AED 375,000 and 9% above that).
- **Compliance:**

Required to file annual corporate tax returns and maintain proper financial records.

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## Tax Exemptions for Certain Partnerships

- Partnerships engaged in activities such as natural resource extraction may be exempt if subject to Emirate-level taxation.
- Public-private partnerships (PPPs) may qualify for exemptions under specific government agreements or Cabinet Decisions.

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## Key Implications

### 1. Choice of Structure:

- The decision to operate as a transparent or non-transparent partnership significantly impacts tax liability and compliance obligations.
- General partnerships often offer tax transparency, while limited partnerships may face corporate tax.

### 2. Partner Obligations:

Transparent partnerships shift tax liability to partners, requiring individual compliance with tax filing and payment obligations.

### 3. Free Zone Partnerships:

Partnerships in Free Zones may benefit from a **0% tax rate** on qualifying income, provided they meet substance requirements.

### 4. Transfer Pricing:

Transactions between partners and the partnership must comply with **arm's length principles** if transfer pricing rules apply.

---

## Compliance Requirements

| Requirement             | Details                                                                           |
|-------------------------|-----------------------------------------------------------------------------------|
| <b>Tax Registration</b> | All partnerships must register with the FTA and obtain a tax registration number. |

| Requirement           | Details                                                                                                                            |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <b>Filing Returns</b> | Transparent partnerships file information returns; non-transparent partnerships file corporate tax returns.                        |
| <b>Record-Keeping</b> | Partnerships must maintain financial records for at least <b>7 years</b> .                                                         |
| <b>Documentation</b>  | Transparent partnerships must document income allocation; non-transparent partnerships must provide complete financial statements. |

## Strategic Considerations

### 1. Tax Planning:

Partnerships must evaluate the tax implications of transparency vs. non-transparency during formation or restructuring.

### 2. Alignment with Global Standards:

Ensure compliance with international tax norms, particularly if operating across multiple jurisdictions.

### 3. Risk Management:

Regularly review partnership agreements to avoid misclassification or disputes regarding tax obligations.

## Conclusion

The taxation framework for partnerships under UAE Corporate Tax Law is flexible, accommodating different partnership structures while ensuring compliance with international standards. Partnerships must carefully assess their legal and operational framework to optimize tax outcomes and adhere to regulatory requirements.

## Taxation Considerations for Family Foundations



## Taxation Considerations for Family Foundations Under UAE Corporate Tax Law

Family foundations, often established to manage wealth, provide asset protection, and ensure generational continuity, are subject to specific taxation rules under the UAE Corporate Tax Law. These rules are designed to account for the unique

structure and purpose of such entities while ensuring compliance with broader tax regulations.

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## Key Features of Taxation for Family Foundations

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| Aspect                   | Details                                                                                                                                        |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Definition</b>        | A family foundation is a legal entity established to hold, manage, and distribute family wealth and assets.                                    |
| <b>Tax Residency</b>     | Tax treatment depends on whether the family foundation qualifies as a <b>resident</b> or <b>non-resident</b> under UAE tax law.                |
| <b>Exempt Status</b>     | Certain family foundations may qualify for <b>exempt status</b> if they meet the criteria for a public benefit entity or other exempt persons. |
| <b>Non-Exempt Status</b> | Family foundations engaged in commercial activities are treated as taxable entities and subject to UAE Corporate Tax.                          |
| <b>Taxable Income</b>    | Tax is imposed on income derived from business or commercial activities, excluding income exempt under the law.                                |

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## Conditions for Tax Treatment

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### 1. Exempt Family Foundations:

A foundation may qualify for tax exemption if:

- It operates exclusively for charitable or public benefit purposes.
- It is recognized in a **Cabinet Decision** as exempt.
- It engages in non-commercial activities.

### 2. Non-Exempt Family Foundations:

- If engaged in commercial or income-generating activities, the foundation is subject to corporate tax.
  - Taxable income includes:
    - Income from investments, real estate, or other commercial ventures.
    - Business income derived from UAE-based or global activities.
- 

## Compliance Requirements

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| Requirement             | Details                                                                                                                      |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Registration</b> | Non-exempt family foundations must register with the Federal Tax Authority (FTA) and obtain a Tax Registration Number (TRN). |

---

| Requirement             | Details                                                                                                                           |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Filing Returns</b>   | Annual tax returns must be filed for non-exempt family foundations.                                                               |
| <b>Record-Keeping</b>   | Maintain financial records and supporting documentation for at least <b>7 years</b> .                                             |
| <b>Transfer Pricing</b> | Transactions between related parties or beneficiaries must comply with <b>arm's length principles</b> and transfer pricing rules. |

## Special Considerations

### 1. Wealth Management:

- Income derived solely from managing family assets without commercial exploitation may be exempt.
- Proper structuring ensures alignment with the foundation's objectives while minimizing tax exposure.

### 2. Beneficiary Taxation:

Distributions to beneficiaries may have tax implications depending on their residency status and the nature of the distribution (e.g., income vs. capital).

### 3. Free Zone Foundations:

Family foundations established in UAE Free Zones may benefit from the **0% tax rate** on qualifying income, provided substance requirements are met.

### 4. International Tax Treaties:

Foundations may utilize UAE's **Double Taxation Avoidance Agreements (DTAAs)** to mitigate cross-border tax liabilities.

## Strategic Implications

### 1. Tax Planning:

Engage in proactive tax planning to determine if the foundation qualifies for exempt status or needs restructuring to optimize tax benefits.

### 2. Documentation:

Maintain clear records of the foundation's purpose, income, and expenditures to substantiate its tax position.

### 3. Compliance with Global Standards:

Align the foundation's operations with international tax principles, including Base Erosion and Profit Shifting (BEPS) guidelines where applicable.

### 4. Risk Management:

Periodically review activities to ensure continued compliance with exemption criteria or taxable obligations.

---

## Conclusion

The taxation of family foundations under UAE Corporate Tax Law balances regulatory compliance with the entity's purpose. Proper classification, diligent compliance, and strategic planning are essential to optimize tax treatment while achieving the foundation's objectives.

Q&A on the above



## Q&A on Taxation Considerations for Family Foundations

| Question                                                            | Answer                                                                                                                                                                                       |
|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What is a family foundation?</b>                                 | A family foundation is a legal entity established to hold, manage, and distribute family wealth and assets, often for asset protection and succession planning.                              |
| <b>Are family foundations subject to UAE Corporate Tax?</b>         | Yes, family foundations are subject to tax if they engage in commercial activities, but certain foundations may qualify for exemptions.                                                      |
| <b>Can family foundations be exempt from tax?</b>                   | Yes, a foundation may qualify for <b>exempt status</b> if it operates for charitable or public benefit purposes and is recognized under a <b>Cabinet Decision</b> .                          |
| <b>What types of income are taxable for non-exempt foundations?</b> | Taxable income includes: <ul style="list-style-type: none"><li>- Business income.</li><li>- Income from investments and real estate.</li><li>- Other income-generating activities.</li></ul> |
| <b>Do exempt foundations need to register with the FTA?</b>         | Generally, exempt foundations may still need to register for tax purposes but are not liable to pay corporate tax.                                                                           |

| Question                                                                | Answer                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What are the compliance requirements for non-exempt foundations?</b> | <ul style="list-style-type: none"> <li>- Tax registration with the Federal Tax Authority (FTA).</li> <li>- Filing annual tax returns.</li> <li>- Maintaining financial records for at least <b>7 years</b>.</li> </ul> |
| <b>How is income from family asset management treated?</b>              | Income derived solely from managing family assets without commercial exploitation may be exempt from corporate tax.                                                                                                    |
| <b>Are beneficiary distributions taxable?</b>                           | Tax implications depend on the beneficiary's residency status and the nature of the distribution (e.g., income vs. capital).                                                                                           |
| <b>Do family foundations in Free Zones get tax benefits?</b>            | Yes, Free Zone foundations may qualify for a <b>0% tax rate</b> on qualifying income if they meet substance and activity requirements.                                                                                 |
| <b>How do international tax treaties apply to family foundations?</b>   | Family foundations can utilize UAE's <b>Double Taxation Avoidance Agreements (DTAAs)</b> to mitigate cross-border tax liabilities.                                                                                     |
| <b>What steps should foundations take for compliance?</b>               | <ul style="list-style-type: none"> <li>- Maintain detailed records of income, expenses, and distributions.</li> <li>- Ensure transactions with beneficiaries follow <b>arm's length principles</b>.</li> </ul>         |
| <b>How can a foundation ensure continued exemption?</b>                 | Periodically review activities to confirm compliance with exemption criteria, such as avoiding commercial income or ensuring alignment with public benefit purposes.                                                   |
| <b>What are the risks of non-compliance?</b>                            | Non-compliance can result in penalties, loss of exemption status, and reputational risks.                                                                                                                              |

This Q&A highlights the key aspects of family foundation taxation under UAE Corporate Tax Law and provides clarity on compliance and strategic considerations.

## Taxation of Free Zone Persons



## Taxation of Free Zone Persons Under UAE Corporate Tax Law

The UAE Corporate Tax Law includes specific provisions for **Free Zone Persons**, offering unique tax benefits to entities operating within Free Zones. These benefits aim to enhance the UAE's competitiveness as a global business hub.

## Key Features of Taxation for Free Zone Persons

| Aspect                                 | Details                                                                                                                                                                           |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Definition of Free Zone Persons</b> | Businesses registered in designated <b>Free Zones</b> in the UAE, including Free Zone Companies and Free Zone Establishments.                                                     |
| <b>Objective</b>                       | Encourage investment in Free Zones by providing preferential tax treatment to entities meeting specific criteria.                                                                 |
| <b>Tax Rates</b>                       | <ul style="list-style-type: none"> <li>- <b>0%</b>: On qualifying income.</li> <li>- <b>9%</b>: On non-qualifying income or if conditions for the 0% rate are not met.</li> </ul> |

## Criteria for Qualifying Income

To benefit from the **0% tax rate**, Free Zone Persons must:

### 1. Maintain Adequate Substance:

- Perform core income-generating activities within the Free Zone.
- Meet economic substance requirements as defined by the law.

### 2. Conduct Permissible Activities:

Generate income from activities allowed within the Free Zone framework, such as:

- International trade.
- Logistics and warehousing.
- Holding intellectual property.
- Financial services (in some Free Zones).

### 3. Transact with Non-UAE Residents or Free Zone Entities:

Income from transactions with entities outside the UAE or other Free Zone Persons may qualify for the 0% tax rate.

## Non-Qualifying Income

Free Zone Persons will be taxed at the **9% rate** on non-qualifying income, which includes:

- Income derived from transactions with UAE mainland entities (beyond limited permitted activities).
- Income from activities not aligned with Free Zone regulations.

## Exemptions for Free Zone Persons

Certain types of income may be **exempt** or taxed at 0%, including:

- Dividends and capital gains from **qualifying shareholdings**.
- Income derived from qualifying **intra-group transactions**.

## Compliance Requirements

---

| Requirement                 | Details                                                                                                              |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------|
| Registration                | All Free Zone Persons must register with the Federal Tax Authority (FTA) and obtain a Tax Registration Number (TRN). |
| Annual Filing               | File annual corporate tax returns disclosing both qualifying and non-qualifying income.                              |
| Record-Keeping              | Maintain proper financial records for at least <b>7 years</b> .                                                      |
| Transfer Pricing Compliance | Transactions with related parties must comply with <b>arm's length principles</b> and require proper documentation.  |

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## Special Provisions for Free Zones

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### 1. Economic Substance Requirements:

Free Zone Persons must demonstrate adequate physical presence, staff, and assets to support their activities.

### 2. Anti-Abuse Rules:

Tax benefits may be denied if the entity is found to engage in practices that abuse the Free Zone regime for tax avoidance.

### 3. Double Tax Treaties:

Free Zone entities can leverage UAE's **Double Taxation Avoidance Agreements (DTAAs)** for cross-border tax relief.

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## Implications

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### 1. Tax Efficiency:

The **0% tax rate** makes Free Zones highly attractive for global businesses.

### 2. Strategic Planning:

Businesses must carefully structure their operations to meet qualifying income conditions and maintain compliance.

### 3. Regulatory Alignment:

Failure to meet Free Zone regulations or conduct non-permissible activities may result in losing tax benefits.

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## Conclusion

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The taxation of Free Zone Persons under UAE Corporate Tax Law provides significant opportunities for businesses to benefit from preferential tax treatment. However, entities must comply with strict regulations, maintain adequate substance,

and ensure proper documentation to retain these benefits.

Defining Qualifying Free Zone Persons



Defining Qualifying Free Zone Persons (QFZPs) Under UAE Corporate Tax Law

**Qualifying Free Zone Persons (QFZPs)** are entities operating in UAE-designated Free Zones that meet specific criteria to avail preferential tax treatment, including a **0% corporate tax rate** on qualifying income. The framework ensures that these entities contribute to economic activity while benefiting from tax incentives.

Key Characteristics of Qualifying Free Zone Persons

| Aspect       | Details                                                                                                                          |
|--------------|----------------------------------------------------------------------------------------------------------------------------------|
| Legal Status | Entities registered and licensed within a <b>designated Free Zone</b> under applicable UAE regulations.                          |
| Tax Benefits | Eligible for a <b>0% tax rate</b> on qualifying income if conditions are satisfied; otherwise, subject to a <b>9% tax rate</b> . |
| Exclusions   | Activities that generate <b>non-qualifying income</b> or fail to meet Free Zone requirements may lead to disqualification.       |

Criteria for Qualifying as a QFZP

To be recognized as a QFZP, the following conditions must be met:

1. Registration and Licensing:

Must be registered and hold a valid license to operate in a designated Free Zone.

2. Substance Requirements:

- The entity must conduct **core income-generating activities** within the Free Zone.
- Adequate physical presence, staff, and assets must be maintained in the Free Zone to demonstrate economic substance.

### 3. Permissible Activities:

- Must engage in activities permitted within the Free Zone, such as:
  - Trading, logistics, and warehousing.
  - Holding intellectual property (IP).
  - Financial services (in specific Free Zones).
- Income from transactions with other Free Zone Persons or non-UAE residents generally qualifies.

### 4. Compliance with UAE Tax Law:

Must adhere to corporate tax regulations, including:

- Annual tax filings with the **Federal Tax Authority (FTA)**.
- Maintaining accurate financial records for at least **7 years**.

### 5. Transactions with Mainland UAE:

Limited transactions with UAE mainland entities may be allowed but must comply with **specific conditions**. Income from such transactions is usually considered **non-qualifying income**.

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## Qualifying Income vs. Non-Qualifying Income

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| Income Type           | Description                                                                                                                                                                                                 |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Qualifying Income     | Includes income from: <ul style="list-style-type: none"><li>- Transactions with non-UAE residents.</li><li>- Transactions with other Free Zone Persons.</li><li>- Permitted Free Zone activities.</li></ul> |
| Non-Qualifying Income | Includes income from: <ul style="list-style-type: none"><li>- Transactions with UAE mainland entities beyond permitted limits.</li><li>- Activities outside the scope of Free Zone regulations.</li></ul>   |

---

## Compliance Requirements for QFZPs

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| Requirement        | Details                                                                               |
|--------------------|---------------------------------------------------------------------------------------|
| Tax Registration   | QFZPs must register with the FTA and obtain a <b>Tax Registration Number (TRN)</b> .  |
| Filing Obligations | Submit annual corporate tax returns disclosing qualifying and non-qualifying income.  |
| Record-Keeping     | Maintain financial records and supporting documentation for at least <b>7 years</b> . |

---

| Requirement                        | Details                                                                                                             |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Transfer Pricing Compliance</b> | Transactions with related parties must comply with <b>arm's length principles</b> and require proper documentation. |

## Implications of Losing QFZP Status

### 1. Loss of Tax Benefits:

The entity will lose the **0% tax rate** and become subject to the **9% corporate tax rate** on its entire income.

### 2. Increased Compliance Burden:

Additional documentation and reporting requirements may apply.

### 3. Regulatory Penalties:

Failure to maintain QFZP status may attract penalties or fines from both the FTA and the Free Zone Authority.

## Conclusion

**Qualifying Free Zone Persons** are a cornerstone of the UAE's strategy to attract global businesses by offering tax incentives. However, maintaining QFZP status requires strict compliance with substance, regulatory, and tax requirements. Businesses must ensure adherence to Free Zone regulations and document all qualifying activities to retain the associated benefits.

Taxation Rules Applicable to Free Zone Persons



## Taxation Rules Applicable to Free Zone Persons (FZPs) Under UAE Corporate Tax Law

The taxation of **Free Zone Persons (FZPs)** under UAE Corporate Tax Law includes specific provisions to promote economic activity within designated Free Zones while ensuring compliance with international tax principles. These rules establish preferential tax rates, conditions for maintaining benefits, and compliance requirements.

## Key Taxation Rules for Free Zone Persons

| Aspect                                 | Details                                                                                                                                                                                                   |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Rates</b>                       | <ul style="list-style-type: none"> <li>- <b>0%</b>: On qualifying income, if conditions are met.</li> <li>- <b>9%</b>: On non-qualifying income or failure to meet criteria.</li> </ul>                   |
| <b>Qualifying Income</b>               | Income from: <ul style="list-style-type: none"> <li>- Transactions with other Free Zone entities.</li> <li>- Transactions with non-UAE residents.</li> <li>- Permissible Free Zone activities.</li> </ul> |
| <b>Non-Qualifying Income</b>           | Includes income from: <ul style="list-style-type: none"> <li>- Transactions with UAE mainland entities (beyond permitted limits).</li> <li>- Non-permissible activities.</li> </ul>                       |
| <b>Economic Substance Requirements</b> | FZPs must demonstrate <b>adequate substance</b> , including physical presence, employees, and assets in the Free Zone.                                                                                    |
| <b>Transactions with Mainland UAE</b>  | Permitted on a limited basis. Income from such transactions is taxed at <b>9%</b> unless explicitly exempt.                                                                                               |
| <b>Compliance with UAE Tax Law</b>     | FZPs must adhere to tax registration, annual filing, and record-keeping requirements.                                                                                                                     |

## Conditions for Retaining Tax Benefits

To retain the **0% tax rate**, Free Zone Persons must meet the following conditions:

### 1. Registration and Licensing:

FZPs must be registered and hold a valid license to operate in a designated Free Zone.

### 2. Permissible Activities:

Core income-generating activities must align with those permitted within the Free Zone, such as:

- Trading.
- Warehousing.
- Holding intellectual property (IP).
- Financial services (in applicable Free Zones).

### 3. Transaction Restrictions:

- Engage primarily in transactions with non-UAE residents or other Free Zone Persons.
- Limited transactions with mainland UAE entities must comply with specific regulations.

#### 4. Economic Substance:

Demonstrate substantial business activity within the Free Zone, including:

- Sufficient physical presence (office space).
- Employment of adequate personnel.
- Ownership or leasing of necessary assets.

---

### Tax Compliance Obligations

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| Requirement                  | Details                                                                                                      |
|------------------------------|--------------------------------------------------------------------------------------------------------------|
| <b>Tax Registration</b>      | Register with the Federal Tax Authority (FTA) and obtain a <b>Tax Registration Number (TRN)</b> .            |
| <b>Corporate Tax Returns</b> | File annual returns disclosing qualifying and non-qualifying income.                                         |
| <b>Record-Keeping</b>        | Maintain financial records and supporting documentation for at least <b>7 years</b> .                        |
| <b>Transfer Pricing</b>      | Related-party transactions must comply with <b>arm's length principles</b> and require proper documentation. |

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### Transactions with Mainland UAE

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Free Zone Persons may transact with mainland UAE entities under limited circumstances. However:

- Income from **passive sources** (e.g., dividends, royalties) may retain the **0% tax rate**.
  - Income from active business operations with mainland UAE is considered **non-qualifying** and taxed at **9%**.
- 

### Implications of Non-Compliance

---

#### 1. Loss of 0% Tax Rate:

Failure to meet conditions may result in the loss of the **0% tax benefit**, subjecting the FZP to the **9% tax rate** on all income.

#### 2. Penalties:

Non-compliance with registration, filing, or record-keeping requirements can attract penalties from the FTA.

#### 3. Reputational Risk:

Non-compliance may harm the entity's credibility and ability to operate effectively within the Free Zone.

---

## Strategic Considerations for FZPs

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### 1. Monitor Transactions:

Maintain clear records of all transactions to ensure income classification (qualifying vs. non-qualifying) is accurate.

### 2. Substance Compliance:

Regularly evaluate economic substance requirements to ensure compliance with Free Zone regulations.

### 3. Tax Planning:

Optimize business structures to maximize qualifying income and minimize tax liabilities.

### 4. Alignment with Regulations:

Adhere to both Free Zone authority rules and UAE Corporate Tax Law to retain preferential treatment.

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## Conclusion

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The taxation rules for Free Zone Persons under UAE Corporate Tax Law provide significant incentives to businesses operating within designated Free Zones. However, strict compliance with conditions, such as economic substance requirements and permissible activity restrictions, is critical to retaining tax benefits. Proper planning and adherence to these rules ensure the continued success of Free Zone entities.

Conditions to Qualify as Free Zone Persons



## Conditions to Qualify as Free Zone Persons (FZPs) Under UAE Corporate Tax Law

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To benefit from the preferential tax treatment offered under the **UAE Corporate Tax Law**, businesses operating in designated Free Zones must meet specific conditions. These conditions ensure that entities contribute meaningfully to the UAE economy while adhering to regulatory standards.

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## Key Conditions to Qualify as a Free Zone Person (FZP)

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| Condition | Details |
|-----------|---------|
|-----------|---------|

| Condition                              | Details                                                                                                                                                                                                                                                                                                             |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Registration and Licensing</b>      | <ul style="list-style-type: none"> <li>- Must be registered and hold a valid license to operate in a <b>designated Free Zone</b>.</li> <li>- Licensing should align with the permitted activities of the Free Zone authority.</li> </ul>                                                                            |
| <b>Economic Substance Requirements</b> | <ul style="list-style-type: none"> <li>- Maintain adequate physical presence, employees, and assets in the Free Zone.</li> <li>- Conduct <b>core income-generating activities</b> within the Free Zone.</li> </ul>                                                                                                  |
| <b>Permissible Activities</b>          | <ul style="list-style-type: none"> <li>- Engage in activities allowed within the Free Zone framework, such as: <ul style="list-style-type: none"> <li>- Trading.</li> <li>- Logistics and warehousing.</li> <li>- Holding intellectual property (IP).</li> </ul> </li> </ul>                                        |
| <b>Qualifying Income</b>               | <ul style="list-style-type: none"> <li>- Income derived from: <ul style="list-style-type: none"> <li>- Transactions with non-UAE residents.</li> <li>- Transactions with other Free Zone Persons.</li> <li>- Activities specified in Free Zone regulations.</li> </ul> </li> </ul>                                  |
| <b>Limited Mainland Transactions</b>   | <ul style="list-style-type: none"> <li>- Transactions with UAE mainland entities are permitted only in limited cases, such as: <ul style="list-style-type: none"> <li>- Passive income (e.g., dividends, royalties).</li> <li>- Certain other activities approved under specific conditions.</li> </ul> </li> </ul> |
| <b>Compliance with UAE Tax Law</b>     | <ul style="list-style-type: none"> <li>- Must adhere to corporate tax registration, filing, and record-keeping requirements as per the Federal Tax Authority (FTA).</li> </ul>                                                                                                                                      |

## Economic Substance Requirements

To demonstrate **substantial activity**, Free Zone Persons must:

### 1. Maintain Physical Presence:

Operate from office space or facilities within the Free Zone.

### 2. Employ Adequate Staff:

Ensure a sufficient number of employees to carry out the entity's core activities.

### 3. Own or Lease Assets:

Use assets or equipment necessary for operations in the Free Zone.

### 4. Perform Core Activities:

Conduct income-generating activities directly within the Free Zone.

## Permissible Activities for FZPs

Free Zone Persons must restrict their operations to activities allowed within the Free Zone, including:

1. International trade.
2. Manufacturing and assembly.
3. Warehousing and logistics.
4. Financial services (in applicable Free Zones).
5. Intellectual property (IP) management and licensing.

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## Qualifying Income for the 0% Tax Rate

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To benefit from the **0% tax rate**, income must:

- Be derived from activities conducted within the Free Zone or with other Free Zone Persons.
- Include transactions with non-UAE residents.
- Comply with Free Zone regulations.

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## Non-Qualifying Income

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Income derived from the following is subject to the **9% tax rate**:

1. Transactions with UAE mainland entities that exceed permissible thresholds.
2. Income from activities not aligned with Free Zone regulations.
3. Any income classified as non-qualifying by the FTA.

---

## Compliance Obligations

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| Obligation                | Details                                                                                                             |
|---------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Tax Registration</b>   | Register with the FTA and obtain a <b>Tax Registration Number (TRN)</b> .                                           |
| <b>Annual Tax Returns</b> | File returns disclosing qualifying and non-qualifying income.                                                       |
| <b>Record-Keeping</b>     | Maintain records for at least <b>7 years</b> , including evidence of transactions and substance compliance.         |
| <b>Transfer Pricing</b>   | Comply with <b>arm's length principles</b> for transactions with related parties and maintain proper documentation. |

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## Implications of Non-Compliance

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### 1. Loss of 0% Tax Rate:

Failing to meet the conditions may result in the loss of preferential tax treatment.

2. **Taxation on Entire Income:**

Non-compliant entities are subject to the **9% tax rate** on their total taxable income.

3. **Penalties and Fines:**

Non-compliance with FTA rules may attract administrative penalties.

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**Strategic Considerations**

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1. **Operational Planning:**

Ensure business activities align with Free Zone regulations to maximize tax benefits.

2. **Documentation:**

Maintain comprehensive records to substantiate compliance with substance and activity requirements.

3. **Regular Reviews:**

Periodically evaluate compliance with conditions to avoid disqualification.

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**Conclusion**

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Qualifying as a Free Zone Person under UAE Corporate Tax Law requires strict adherence to conditions related to registration, permissible activities, and economic substance. By meeting these requirements, businesses can enjoy the **0% tax rate** on qualifying income, reinforcing the UAE's position as an attractive destination for global businesses.

Overview of De-Minimis Requirements



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**Overview of De-Minimis Requirements Under UAE Corporate Tax Law**

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The **De-Minimis Requirements** are part of the framework for determining the tax treatment of **Free Zone Persons (FZPs)**. These rules allow Free Zone entities to retain their **Qualifying Free Zone Person (QFZP)** status even if they earn a small proportion of income that does not qualify for the **0% tax rate**. The aim is to provide flexibility while maintaining compliance with Free Zone tax regulations.

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**Key Features of De-Minimis Requirements**

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| Aspect     | Details                                                                                                                       |
|------------|-------------------------------------------------------------------------------------------------------------------------------|
| Definition | The De-Minimis rule permits a limited amount of <b>non-qualifying income</b> while allowing the entity to retain QFZP status. |

---

| Aspect           | Details                                                                                                                                                 |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Threshold</b> | Non-qualifying income must not exceed <b>5% of the total revenue</b> of the Free Zone Person or a specific monetary cap (as determined by regulations). |
| <b>Purpose</b>   | To ensure that minor deviations from qualifying income do not lead to disqualification from the 0% tax regime.                                          |

## Qualifying and Non-Qualifying Income

### 1. Qualifying Income:

- Income from transactions with:
  - Other Free Zone Persons.
  - Non-UAE residents.
- Income from permissible activities within the Free Zone, such as international trading or holding intellectual property.

### 2. Non-Qualifying Income:

- Income from transactions with UAE mainland entities (beyond allowed limits).
- Income from activities outside the Free Zone or not in line with permissible activities.

## Conditions for De-Minimis Application

### 1. Revenue Threshold:

Non-qualifying income must remain **below 5%** of the total annual revenue of the Free Zone Person.

### 2. Compliance with Other Requirements:

The entity must meet all other conditions for QFZP status, such as:

- Maintaining economic substance.
- Conducting core income-generating activities within the Free Zone.

### 3. Documentation:

Proper records must be maintained to substantiate the classification of income and compliance with the De-Minimis threshold.

## Implications of Breaching the De-Minimis Threshold

| Outcome | Details |
|---------|---------|
|---------|---------|

| Outcome                            | Details                                                                                                            |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>Loss of QFZP Status</b>         | If non-qualifying income exceeds the threshold, the entity loses QFZP status.                                      |
| <b>Tax Rate on Entire Income</b>   | The entity's entire income becomes subject to the standard <b>9% corporate tax rate</b> .                          |
| <b>Increased Compliance Burden</b> | The entity must adhere to full corporate tax compliance requirements for all income, qualifying or non-qualifying. |

## Compliance Requirements

| Requirement              | Details                                                                                                             |
|--------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Record-Keeping</b>    | Maintain accurate financial records and evidence of income classification.                                          |
| <b>Annual Tax Filing</b> | Disclose both qualifying and non-qualifying income in the corporate tax return.                                     |
| <b>Substantiation</b>    | Provide supporting documentation to demonstrate compliance with the De-Minimis threshold and other QFZP conditions. |

## Strategic Considerations for FZPs

### 1. Monitor Income Sources:

Regularly track and classify income to ensure non-qualifying income remains within the De-Minimis threshold.

### 2. Proactive Planning:

Structure transactions and operations to minimize non-qualifying income.

### 3. Audits and Reviews:

Conduct internal audits to confirm compliance with De-Minimis requirements and identify potential breaches early.

### 4. Engage Professional Advice:

Seek expert guidance to optimize compliance and maintain QFZP status.

## Conclusion

The **De-Minimis Requirements** under UAE Corporate Tax Law provide flexibility for Free Zone Persons by allowing a small proportion of non-qualifying income while retaining QFZP benefits. Adherence to these rules ensures continued access to the **0% tax rate**, preserving the advantages of operating in UAE Free Zones. Proper planning, monitoring, and compliance are essential to avoid breaching the threshold and incurring higher tax liabilities.



## Identification of Qualifying Income and Non-Qualifying Revenue Under UAE Corporate Tax Law

---

Under the UAE Corporate Tax Law, the classification of income into **Qualifying Income** and **Non-Qualifying Revenue** is critical for **Free Zone Persons (FZPs)** to determine their eligibility for the **0% corporate tax rate**. Correct identification ensures compliance with tax regulations and retention of tax benefits.

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### 1. Qualifying Income

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**Definition:** Income derived from activities aligned with the objectives of Free Zones and conducted within the framework of permissible operations.

#### Sources of Qualifying Income:

---

##### 1. Transactions with Other Free Zone Persons:

Revenue from trade, services, or transactions conducted exclusively with entities in designated Free Zones.

##### 2. Transactions with Non-UAE Residents:

Income derived from exporting goods or providing services to entities or individuals outside the UAE.

##### 3. Permissible Free Zone Activities:

Income generated from activities explicitly permitted within the Free Zone, such as:

- International trade.
- Warehousing and logistics.
- Holding and licensing intellectual property (IP).
- Financial services (in applicable Free Zones).

##### 4. Passive Income:

Dividends, royalties, and capital gains from **qualifying shareholdings** or Free Zone-related investments.

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### 2. Non-Qualifying Revenue

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**Definition:** Income that falls outside the scope of qualifying activities or does not meet the regulatory requirements for Free Zone operations.

#### Sources of Non-Qualifying Revenue:

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1. **Transactions with Mainland UAE Entities:**

Revenue generated from active business transactions with UAE mainland entities beyond permissible limits.

2. **Non-Permissible Activities:**

Income derived from activities not allowed under Free Zone regulations or conducted outside the scope of Free Zone objectives.

3. **Income Outside Free Zone Operations:**

Revenue from activities performed outside the Free Zone without proper authorization or alignment with Free Zone regulations.

4. **Breaches of Economic Substance:**

Revenue from activities failing to meet substance requirements, such as inadequate physical presence or staffing.

**Key Differences Between Qualifying and Non-Qualifying Revenue**

| Aspect               | Qualifying Income                                            | Non-Qualifying Revenue                                    |
|----------------------|--------------------------------------------------------------|-----------------------------------------------------------|
| Transaction Partners | Free Zone Persons or non-UAE residents.                      | UAE mainland entities (beyond permitted thresholds).      |
| Activity Location    | Conducted within Free Zones or aligned with Free Zone rules. | Activities outside Free Zone or non-compliant activities. |
| Tax Rate             | Subject to <b>0% tax</b> if other conditions are met.        | Subject to <b>9% tax</b> .                                |
| Regulatory Alignment | Fully compliant with Free Zone regulations.                  | Non-compliant with Free Zone requirements.                |

**3. Compliance and Reporting**

| Requirement          | Details                                                                                                                          |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Annual Tax Return    | FZPs must disclose both qualifying and non-qualifying income in their annual corporate tax return.                               |
| Record-Keeping       | Maintain detailed financial records to substantiate income classification for at least <b>7 years</b> .                          |
| De-Minimis Threshold | Non-qualifying revenue must not exceed <b>5% of total annual revenue</b> to retain the <b>0% tax rate</b> for qualifying income. |

**4. Strategic Implications**

### 1. Transaction Structuring:

Design operations and transactions to maximize qualifying income and minimize non-qualifying revenue.

### 2. Compliance Monitoring:

Regularly evaluate business activities to ensure alignment with Free Zone regulations and De-Minimis thresholds.

### 3. Transfer Pricing Rules:

Related-party transactions must comply with **arm's length principles** to avoid reclassification of income.

### 4. Professional Guidance:

Engage tax professionals to ensure accurate classification and reporting of income.

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## Conclusion

Proper identification of **Qualifying Income** and **Non-Qualifying Revenue** is essential for Free Zone Persons to maintain the **0% tax rate** and comply with UAE Corporate Tax Law. Regular monitoring, compliance with Free Zone regulations, and strategic tax planning are crucial to maximize benefits while mitigating risks.

Differentiating Qualifying and Excluded Activities



## Differentiating Qualifying Activities and Excluded Activities Under UAE Corporate Tax Law

Under the UAE Corporate Tax Law, the distinction between **Qualifying Activities** and **Excluded Activities** is essential for **Free Zone Persons (FZPs)** to determine their eligibility for the **0% corporate tax rate** on qualifying income. These classifications ensure compliance with Free Zone regulations and alignment with economic objectives.

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### 1. Qualifying Activities

**Definition:** Activities that align with the purpose and regulations of the designated Free Zone and contribute to its economic objectives.

#### Examples of Qualifying Activities:

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### 1. Trading:

Import/export of goods and services within Free Zones or to international markets.

### 2. Logistics and Warehousing:

Storing, managing, and distributing goods within the Free Zone framework.

### 3. Holding Intellectual Property (IP):

Licensing and managing IP rights, including trademarks, patents, and copyrights.

### 4. Financial Services:

Providing services such as banking, insurance, and investment management (subject to Free Zone approval).

### 5. Consulting and Professional Services:

Offering advisory, management, or technical services within the scope of Free Zone regulations.

### 6. Manufacturing and Assembly:

Producing and assembling goods for export or sale in permissible markets.

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## 2. Excluded Activities

**Definition:** Activities that are not permissible under Free Zone regulations or do not align with the core objectives of the Free Zone framework.

### Examples of Excluded Activities:

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#### 1. Transactions with Mainland UAE:

- Engaging in active business with mainland UAE entities unless specifically permitted.
- Revenue from mainland UAE transactions is considered **non-qualifying income**.

#### 2. Retail Operations:

Operating retail businesses that sell directly to consumers in the UAE mainland (outside Free Zones).

#### 3. Real Estate Transactions:

Developing or selling real estate for commercial or residential purposes outside the Free Zone.

4. **Non-Permissible Manufacturing:**

Producing goods that contravene Free Zone or national regulations (e.g., restricted or banned items).

5. **Activities Outside the Free Zone:**

Conducting business operations outside the Free Zone without proper authorization.

6. **Non-Compliant Economic Substance:**

Activities failing to meet substance requirements, such as lacking physical presence or inadequate staffing.

**Key Differences Between Qualifying and Excluded Activities**

| Aspect                | Qualifying Activities                                               | Excluded Activities                                               |
|-----------------------|---------------------------------------------------------------------|-------------------------------------------------------------------|
| Regulatory Alignment  | Fully compliant with Free Zone regulations.                         | Non-compliant with Free Zone or UAE regulations.                  |
| Transaction Scope     | Focused on Free Zones and international markets.                    | Involves direct engagement with UAE mainland or restricted areas. |
| Economic Contribution | Supports Free Zone economic objectives.                             | Activities that diverge from Free Zone purposes.                  |
| Tax Treatment         | Income from these activities qualifies for the <b>0% tax rate</b> . | Income is subject to the <b>9% corporate tax rate</b> .           |

3. **Compliance Requirements**

| Requirement          | Details                                                                                                                     |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Tax Filing           | FZPs must report income from qualifying and excluded activities separately in their corporate tax returns.                  |
| Record-Keeping       | Maintain detailed records of all business activities to substantiate income classification and compliance with regulations. |
| De-Minimis Threshold | Excluded activities should not generate non-qualifying income exceeding <b>5% of total revenue</b> , to retain QFZP status. |

4. **Implications of Engaging in Excluded Activities**

1. **Loss of QFZP Status:**

Engaging in excluded activities beyond allowable limits may result in losing the **0% tax rate** on all income.

## 2. Tax Penalties:

Income from excluded activities is taxed at the standard **9% corporate tax rate**.

## 3. Regulatory Actions:

Breaches of Free Zone regulations could attract fines or penalties from the Free Zone Authority.

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## 5. Strategic Considerations

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### 1. Activity Planning:

Design operations to focus on qualifying activities and minimize engagement in excluded activities.

### 2. Compliance Monitoring:

Regularly review business operations to ensure alignment with Free Zone and tax regulations.

### 3. Documentation:

Maintain robust documentation to classify activities accurately and justify tax treatment.

### 4. Engage Professional Advice:

Seek expert guidance to navigate the complexities of activity classification and compliance.

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## Conclusion

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Differentiating between **Qualifying Activities** and **Excluded Activities** is critical for Free Zone Persons to retain tax benefits and comply with UAE Corporate Tax Law. Proper structuring, monitoring, and documentation of activities ensure alignment with Free Zone regulations and optimal tax outcomes.

Impact of Losing the Qualifying Free Zone Person Status



## Impact of Losing Qualifying Free Zone Person (QFZP) Status

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Losing the **Qualifying Free Zone Person (QFZP)** status under the UAE Corporate Tax Law has significant implications for Free Zone entities. This status is crucial for enjoying the preferential **0% corporate tax rate** on qualifying income. When an

entity no longer meets the conditions for QFZP, its tax treatment changes, leading to increased tax liabilities and compliance obligations.

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## Key Impacts of Losing QFZP Status

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| Aspect                        | Details                                                                                                                                                   |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Rate</b>               | The entity's entire income becomes subject to the standard <b>9% corporate tax rate</b> , including previously qualifying income.                         |
| <b>Scope of Taxation</b>      | The entity is taxed on <b>all taxable income</b> , including income from qualifying activities, non-qualifying activities, and global income if resident. |
| <b>Loss of Tax Exemptions</b> | Exemptions applicable to QFZPs, such as on dividends, royalties, and capital gains from qualifying shareholdings, may no longer apply.                    |
| <b>Mainland Transactions</b>  | Income from transactions with UAE mainland entities, which was previously taxed at 9%, continues to remain taxable at the standard rate.                  |
| <b>Increased Compliance</b>   | The entity must adhere to full corporate tax compliance obligations, including filing additional disclosures and managing a broader tax base.             |

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## Reasons for Losing QFZP Status

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### 1. Exceeding De-Minimis Threshold:

If **non-qualifying income** exceeds **5% of total revenue** or the monetary cap defined under the law, QFZP status is revoked.

### 2. Engagement in Excluded Activities:

Participating in activities not permissible under Free Zone regulations (e.g., retail sales in mainland UAE).

### 3. Failure to Meet Economic Substance Requirements:

Inadequate physical presence, staffing, or resources to substantiate core income-generating activities.

### 4. Non-Compliance with UAE Corporate Tax Law:

Failure to register, file tax returns, or comply with transfer pricing and record-keeping requirements.

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## Consequences of Losing QFZP Status

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### 1. Higher Tax Burden:

The entire income of the entity, including previously qualifying income, becomes taxable at the **9% rate**, increasing the overall tax liability.

### 2. Administrative Penalties:

Non-compliance with the law or reporting obligations may result in penalties and interest charges.

### 3. Reputational Risks:

Losing QFZP status may affect the entity's credibility and attractiveness to investors or partners.

### 4. Regulatory Actions:

Free Zone authorities may impose fines or additional restrictions for non-compliance with Free Zone regulations.

### 5. Complex Compliance:

Additional obligations, such as reporting on a broader scope of income and meeting standard corporate tax requirements, can increase administrative burdens.

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## Steps to Mitigate Risks of Losing QFZP Status

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### 1. Monitor Revenue Composition:

Regularly review income sources to ensure non-qualifying revenue remains within the **De-Minimis threshold**.

### 2. Comply with Economic Substance Requirements:

Maintain adequate physical presence, staff, and resources in the Free Zone.

### 3. Limit Mainland Transactions:

Avoid or minimize transactions with UAE mainland entities unless explicitly allowed.

### 4. Ensure Regulatory Compliance:

Adhere to Free Zone regulations and corporate tax filing, registration, and record-keeping requirements.

### 5. Engage Professional Advisors:

Seek expert advice to evaluate risks, optimize tax structures, and ensure compliance with tax and Free Zone regulations.

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## Strategic Considerations

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### 1. Restructuring Operations:

Realign activities to focus on qualifying income and permissible operations within the Free Zone.

### 2. Utilizing Double Taxation Avoidance Agreements (DTAAs):

Leverage UAE's DTAAs to minimize the impact of losing tax benefits by claiming relief on cross-border income.

### 3. Reinstating QFZP Status:

Address non-compliance issues promptly to restore QFZP status, if possible.

---

## Conclusion

Losing QFZP status significantly impacts the tax treatment of Free Zone Persons, leading to higher tax liabilities, increased compliance burdens, and potential reputational damage. To avoid these consequences, entities must ensure strict compliance with Free Zone regulations, monitor revenue sources, and proactively address risks. Proper planning and expert guidance are essential to maintain QFZP status and maximize tax benefits.

Q&A on the above



## Q&A on Impact of Losing Qualifying Free Zone Person (QFZP) Status

| Question                                                 | Answer                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What is QFZP status?</b>                              | QFZP status allows Free Zone Persons to benefit from a <b>0% corporate tax rate</b> on qualifying income, provided specific conditions are met.                                                                                                                                                                 |
| <b>What happens if QFZP status is lost?</b>              | The entity loses access to the <b>0% tax rate</b> , and its entire taxable income, including previously qualifying income, is taxed at the <b>9% rate</b> .                                                                                                                                                     |
| <b>What are the main reasons for losing QFZP status?</b> | <ol style="list-style-type: none"><li>1. Exceeding the <b>De-Minimis threshold</b> (non-qualifying income exceeds 5% of total revenue).</li><li>2. Engaging in excluded activities.</li><li>3. Failing to meet economic substance requirements.</li><li>4. Non-compliance with UAE Corporate Tax Law.</li></ol> |
| <b>What is the De-Minimis threshold?</b>                 | The De-Minimis rule allows non-qualifying income to account for up to <b>5% of total revenue</b> . Exceeding this limit leads to loss of QFZP status.                                                                                                                                                           |

| Question                                                                   | Answer                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What types of income are taxed at 9% after losing QFZP status?</b>      | All income, including previously qualifying income and non-qualifying income, is subject to the <b>9% corporate tax rate</b> .                                                                                                                                                                                       |
| <b>What are excluded activities that lead to disqualification?</b>         | Examples include: <ul style="list-style-type: none"> <li>- Retail activities in the mainland.</li> <li>- Transactions with UAE mainland entities beyond allowed limits.</li> <li>- Non-permissible manufacturing or real estate activities.</li> </ul>                                                               |
| <b>How does non-compliance with economic substance impact QFZP status?</b> | Inadequate physical presence, staff, or resources to support core income-generating activities may result in disqualification.                                                                                                                                                                                       |
| <b>What compliance obligations arise after losing QFZP status?</b>         | The entity must adhere to full corporate tax compliance requirements, including filing returns for all income and maintaining detailed records.                                                                                                                                                                      |
| <b>Are there penalties for losing QFZP status?</b>                         | Yes, penalties may include administrative fines, interest charges for tax liabilities, and reputational risks with regulatory authorities.                                                                                                                                                                           |
| <b>How can businesses avoid losing QFZP status?</b>                        | <ol style="list-style-type: none"> <li>1. Monitor non-qualifying income to stay within the De-Minimis threshold.</li> <li>2. Comply with economic substance requirements.</li> <li>3. Limit transactions with UAE mainland entities.</li> <li>4. Adhere to all regulatory and tax compliance obligations.</li> </ol> |
| <b>Can QFZP status be reinstated?</b>                                      | Yes, businesses may address non-compliance issues, align with conditions, and apply to reinstate their QFZP status.                                                                                                                                                                                                  |
| <b>What are the strategic options if QFZP status is lost?</b>              | Options include restructuring operations to meet compliance requirements, leveraging <b>Double Taxation Avoidance Agreements (DTAAs)</b> for relief, and minimizing tax exposure through effective tax planning.                                                                                                     |
| <b>What is the impact on transactions with UAE mainland entities?</b>      | Income from such transactions is considered <b>non-qualifying</b> and taxed at <b>9%</b> , contributing to the overall tax liability after losing QFZP status.                                                                                                                                                       |

This Q&A highlights the implications of losing QFZP status, providing clear insights into the causes, consequences, and strategies to mitigate risks.



## Exempt Income and Available Reliefs Under UAE Corporate Tax Law

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The UAE Corporate Tax Law provides exemptions and reliefs for specific types of income to encourage investment and align with international tax standards. These provisions help reduce tax burdens and promote economic activities aligned with the UAE's strategic goals.

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### Exempt Income

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Income classified as **exempt** under the UAE Corporate Tax Law is not subject to corporate tax. Key categories include:

| Category                                            | Details                                                                                                                                                                       |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Dividends from Qualifying Shareholdings</b>      | Dividends received from <b>qualifying shareholdings</b> are exempt from tax. Qualifying shareholdings must meet conditions related to ownership and participation thresholds. |
| <b>Capital Gains from Qualifying Shares</b>         | Gains from the sale of shares in a <b>qualifying subsidiary</b> are exempt if specific conditions, such as ownership duration and thresholds, are met.                        |
| <b>Foreign Permanent Establishments (PEs)</b>       | Profits earned through a <b>foreign PE</b> may be exempt if the income is taxed in the foreign jurisdiction and meets the criteria for exemption.                             |
| <b>Income from Natural Resources</b>                | Income from <b>upstream oil, gas, and other natural resource activities</b> remains exempt, as these are subject to Emirate-level taxation.                                   |
| <b>Intra-Group Transactions and Reorganizations</b> | Certain transactions between group entities, such as asset transfers and corporate restructuring, are exempt if specific conditions are satisfied.                            |
| <b>Government and Public Benefit Entities</b>       | Income earned by government bodies, charities, and public benefit entities recognized under a <b>Cabinet Decision</b> is exempt.                                              |
| <b>Qualifying Investment Funds</b>                  | Income earned by <b>real estate investment trusts (REITs)</b> and other qualifying funds may be exempt to promote investment activity.                                        |
| <b>Pension and Social Security Funds</b>            | Income derived by <b>qualifying pension or social security funds</b> is exempt, provided the fund operates exclusively for retirement or social security purposes.            |

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### Available Reliefs

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The law provides **reliefs** to reduce tax burdens on specific transactions or situations, ensuring economic efficiency and preventing double taxation.

## 1. Relief for Intra-Group Transactions and Reorganizations

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- **Scope:**  
Applies to asset transfers, share transactions, and corporate restructuring within a group.
- **Conditions:**
  - Entities involved must be **part of the same group** for a specified period before and after the transaction.
  - Transactions must not have a **tax avoidance motive**.
- **Benefit:**  
Gains arising from such transactions are deferred or exempt from tax.

## 2. Foreign Tax Credits

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- **Scope:**  
Relief is provided for taxes paid in foreign jurisdictions on income also taxable in the UAE.
- **Conditions:**  
Credit is limited to the amount of UAE corporate tax payable on the same income.
- **Benefit:**  
Prevents double taxation of the same income.

## 3. Small Business Relief

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- **Scope:**  
Available to small businesses with taxable income below a specific threshold (e.g., AED 375,000).
- **Benefit:**  
Such entities may be exempt from certain compliance obligations and enjoy the **0% tax rate**.

## 4. Relief for Qualifying Free Zone Persons (QFZPs)

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- **Scope:**  
Income derived from **qualifying activities** within Free Zones may qualify for the **0% tax rate**.
- **Conditions:**  
The entity must comply with Free Zone regulations, substance requirements, and transaction thresholds.

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## Compliance Requirements for Exempt Income and Reliefs

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| Requirement                        | Details                                                                                                                                            |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b>               | Maintain records to substantiate claims for exempt income or reliefs, including contracts, transaction details, and proof of foreign tax payments. |
| <b>Tax Return Filing</b>           | Disclose exempt income and relief claims in the annual corporate tax return.                                                                       |
| <b>Regulatory Approvals</b>        | Certain exemptions (e.g., public benefit entities) require recognition through a <b>Cabinet Decision</b> or similar approval.                      |
| <b>Transfer Pricing Compliance</b> | Ensure related-party transactions comply with <b>arm's length principles</b> , even if the income is exempt.                                       |

## Strategic Considerations

### 1. Planning for Exempt Income:

Structure operations to maximize qualifying exempt income, such as investing in qualifying shareholdings or using Free Zones for permissible activities.

### 2. Leveraging Reliefs:

Utilize intra-group reliefs and foreign tax credits to optimize tax outcomes while maintaining compliance.

### 3. Compliance Focus:

Maintain robust documentation to support exemption and relief claims during audits or reviews by the Federal Tax Authority (FTA).

### 4. Expert Guidance:

Engage tax professionals to navigate complex exemption rules, especially for cross-border operations or group transactions.

## Conclusion

The exemptions and reliefs under UAE Corporate Tax Law provide significant opportunities for businesses to reduce tax burdens and enhance operational efficiency. Proper planning, compliance, and documentation are essential to fully leverage these benefits while adhering to regulatory requirements.

Exemptions



## Exemptions Under UAE Corporate Tax Law

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The UAE Corporate Tax Law outlines specific **exemptions** to provide tax relief to entities that contribute to public benefit, national development, or specific economic sectors. These exemptions ensure alignment with the UAE's strategic goals and minimize the tax burden on certain types of income.

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### Categories of Exemptions

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| Exempt Category                                    | Details                                                                                                                                                                              |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Government Entities</b>                         | Income earned by government departments and authorities conducting <b>non-commercial activities</b> is exempt from tax.                                                              |
| <b>Government-Controlled Entities</b>              | Entities wholly owned by the government and performing specified activities may qualify for exemptions if their operations are non-commercial in nature.                             |
| <b>Natural Resource Businesses</b>                 | Income derived from <b>upstream oil, gas, and other natural resource extraction</b> is exempt, as these are subject to Emirate-level taxation.                                       |
| <b>Public Benefit Entities</b>                     | Charities and organizations operating for <b>public benefit purposes</b> (e.g., educational, religious, cultural) are exempt, subject to recognition via a <b>Cabinet Decision</b> . |
| <b>Qualifying Investment Funds</b>                 | Real Estate Investment Trusts (REITs) and other <b>regulated investment funds</b> that meet specific conditions are exempt to promote investment.                                    |
| <b>Pension and Social Security Funds</b>           | Income earned by qualifying pension and social security funds is exempt if used exclusively for retirement or social security purposes.                                              |
| <b>Income from Qualifying Shareholdings</b>        | Dividends and capital gains earned from <b>qualifying shareholdings</b> (ownership stakes meeting certain thresholds) are exempt.                                                    |
| <b>Foreign Permanent Establishments (PEs)</b>      | Income from foreign PEs may be exempt if taxed in the foreign jurisdiction and meets specific criteria under UAE tax law.                                                            |
| <b>Intra-Group Transactions and Restructurings</b> | Gains from certain <b>intra-group transactions</b> (e.g., asset transfers) or <b>corporate reorganizations</b> are exempt, provided specific conditions are met.                     |

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### Key Exemption Examples

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## 1. Dividends and Capital Gains:

Exempt if derived from **qualifying shareholdings**, typically meeting participation thresholds (e.g., a significant ownership percentage and holding period).

## 2. Government-Owned Entities:

Entities conducting public or non-commercial activities for the government are exempt.

## 3. Income from Natural Resource Extraction:

Exempt due to Emirate-level taxation.

## 4. Foreign PE Income:

Profits earned through a **foreign permanent establishment** can be exempt, provided they are taxed in the foreign jurisdiction and meet UAE law conditions.

## 5. Qualifying Investment Funds:

Income of REITs and similar funds is exempt to encourage foreign and local investment.

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## Conditions for Exemptions

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To qualify for exemptions, entities must meet specific conditions, including:

### 1. Regulatory Recognition:

Some exemptions, such as those for public benefit entities, require a **Cabinet Decision** or similar approval.

### 2. Purpose and Activity Compliance:

Entities must restrict their activities to permissible areas, such as public benefit or government operations, to retain exemptions.

### 3. Documentation:

Maintain clear and accurate records of income and activities to substantiate exemption claims.

### 4. Cross-Border Compliance:

For foreign income exemptions, demonstrate that the income was taxed abroad and aligns with UAE regulations.

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## Exemption-Related Compliance Obligations

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| Requirement | Details |
|-------------|---------|
|-------------|---------|

| Requirement                   | Details                                                                                                                                    |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Return Filing</b>      | Exempt income must be disclosed in the annual corporate tax return, even if not subject to tax.                                            |
| <b>Record-Keeping</b>         | Entities must maintain supporting documents, including financial statements, agreements, and evidence of regulatory approvals.             |
| <b>Substance Requirements</b> | Entities claiming exemptions must demonstrate adequate <b>economic substance</b> , especially for foreign income or investment activities. |

## Strategic Considerations for Exemptions

### 1. Maximizing Exempt Income:

Plan operations to align with exemption categories, such as investing in qualifying shareholdings or establishing regulated funds.

### 2. Compliance Monitoring:

Regularly review activities to ensure continued eligibility for exemptions.

### 3. Leverage Double Taxation Agreements (DTAAs):

Use UAE's network of DTAAs to enhance the benefit of exemptions, especially for foreign income.

### 4. Professional Guidance:

Seek expert advice to navigate complex exemption criteria and maintain compliance with UAE and international tax regulations.

## Conclusion

Exemptions under UAE Corporate Tax Law provide significant relief for qualifying entities and income streams, supporting economic growth and public welfare initiatives. However, proper planning, compliance, and documentation are essential to fully leverage these exemptions and avoid penalties or disqualification.

### Types of Exempt Income



## Types of Exempt Income Under UAE Corporate Tax Law

The UAE Corporate Tax Law provides exemptions for certain types of income to encourage investment, support public welfare, and align with strategic economic goals. These exemptions ensure that specific entities and income streams are not

subject to corporate tax.

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## Categories and Types of Exempt Income

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| Category                                               | Details                                                                                                                                                                                                                                                                |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Dividends from Qualifying Shareholdings</b>      | <ul style="list-style-type: none"><li>- Dividends received from <b>qualifying shareholdings</b> are exempt.</li><li>- Conditions include meeting minimum ownership thresholds and holding periods.</li></ul>                                                           |
| <b>2. Capital Gains on Qualifying Shares</b>           | <ul style="list-style-type: none"><li>- Gains from the sale of shares in a <b>qualifying subsidiary</b> are exempt.</li><li>- Applies if the subsidiary meets ownership and business activity criteria.</li></ul>                                                      |
| <b>3. Foreign Permanent Establishments (PEs)</b>       | <ul style="list-style-type: none"><li>- Profits earned by a UAE entity through a <b>foreign PE</b> may be exempt if:</li><li>- The foreign PE is taxed in the jurisdiction where it operates.</li><li>- The income qualifies under UAE regulations.</li></ul>          |
| <b>4. Income from Natural Resource Extraction</b>      | <ul style="list-style-type: none"><li>- Income from <b>upstream oil, gas, and other natural resource activities</b> is exempt.</li><li>- These activities remain subject to Emirate-level taxation.</li></ul>                                                          |
| <b>5. Intra-Group Transactions and Reorganizations</b> | <ul style="list-style-type: none"><li>- Income from transactions between group entities or during corporate restructuring is exempt if:</li><li>- The entities are part of the same group.</li><li>- The transactions meet prescribed conditions.</li></ul>            |
| <b>6. Government and Public Benefit Entities</b>       | <ul style="list-style-type: none"><li>- Income of government entities and <b>public benefit organizations</b> is exempt if recognized under a <b>Cabinet Decision</b>.</li><li>- Includes charities and entities supporting education, culture, or religion.</li></ul> |
| <b>7. Qualifying Investment Funds</b>                  | <ul style="list-style-type: none"><li>- Income earned by <b>regulated funds</b>, such as Real Estate Investment Trusts (REITs), is exempt.</li><li>- Conditions include regulatory compliance and fund activity alignment.</li></ul>                                   |
| <b>8. Pension and Social Security Funds</b>            | <ul style="list-style-type: none"><li>- Income derived by qualifying <b>pension or social security funds</b> is exempt.</li><li>- Must operate exclusively for retirement or social welfare purposes.</li></ul>                                                        |
| <b>9. Dividends and Royalties from Foreign Sources</b> | <ul style="list-style-type: none"><li>- Dividends and royalties received from <b>foreign entities</b> may qualify for exemption if they meet certain conditions.</li></ul>                                                                                             |

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## Conditions for Exempt Income

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To qualify for exemptions, specific conditions must be met:

**1. Regulatory Recognition:**

Entities such as public benefit organizations must be recognized by a **Cabinet Decision**.

**2. Ownership Thresholds:**

For qualifying shareholdings, entities must meet minimum ownership percentages and holding periods.

**3. Purpose and Activity Compliance:**

Income must align with the entity's purpose, such as charitable activities or regulated fund operations.

**4. Economic Substance:**

Entities must demonstrate adequate **economic substance**, including physical presence and staff.

---

## Compliance Obligations for Exempt Income

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| Requirement                     | Details                                                                                                     |
|---------------------------------|-------------------------------------------------------------------------------------------------------------|
| <b>Annual Tax Return Filing</b> | - Exempt income must be disclosed in corporate tax returns, even if not taxable.                            |
| <b>Record-Keeping</b>           | - Maintain supporting documents, including contracts, financial records, and proof of regulatory approvals. |
| <b>Foreign Tax Credits</b>      | - For foreign income exemptions, ensure foreign taxes paid are documented and meet UAE tax law conditions.  |

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## Strategic Considerations

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**1. Maximizing Exempt Income:**

Structure investments to benefit from exemptions, such as holding qualifying shareholdings or operating regulated funds.

**2. Cross-Border Planning:**

Leverage UAE's **Double Taxation Avoidance Agreements (DTAAs)** to enhance exemption benefits for foreign-source income.

**3. Documentation and Compliance:**

Maintain thorough records to substantiate exemption claims and avoid disputes with tax authorities.

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## Conclusion

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The **types of exempt income** under UAE Corporate Tax Law provide significant opportunities for businesses to reduce tax liabilities and promote economic efficiency. Adhering to regulatory conditions and maintaining proper documentation are crucial to leveraging these benefits.

Participation Exemption and its Applicability



Participation Exemption and Its Applicability Under UAE Corporate Tax Law

The **Participation Exemption** is a provision under UAE Corporate Tax Law that allows businesses to exclude certain types of income, such as dividends and capital gains, from their taxable income. This exemption promotes investments by mitigating double taxation on income earned through **qualifying shareholdings**.

Key Features of Participation Exemption

| Aspect          | Details                                                                                                                                  |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Eligible Income | - <b>Dividends</b> received from qualifying shareholdings.<br>- <b>Capital gains</b> from the sale of shares in a qualifying subsidiary. |
| Objective       | To avoid double taxation on the income distributed by subsidiaries to their parent entities.                                             |
| Scope           | Applies to <b>resident persons</b> holding shares in qualifying entities, both within the UAE and abroad.                                |

Conditions for Participation Exemption

For dividends or capital gains to qualify for the exemption, the following conditions must be satisfied:

1. **Ownership Threshold:**  
  
The UAE entity must hold at least **5% ownership interest** in the subsidiary.
2. **Holding Period:**  
  
The shares must be held for at least **12 months** prior to receiving the dividend or capital gain.

### 3. Qualifying Subsidiary:

The subsidiary must meet certain criteria, such as:

- Being subject to **corporate income tax** or an equivalent tax in its jurisdiction.
- Not engaging in **excluded activities** or earning predominantly passive income from non-qualifying sources.

### 4. Economic Substance:

The parent entity and subsidiary must demonstrate sufficient **economic substance** to support the income derived.

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## Types of Income Covered

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| Type of Income        | Details                                                                                                                           |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Dividends</b>      | Income distributions from a qualifying subsidiary to the UAE parent entity.                                                       |
| <b>Capital Gains</b>  | Gains from the sale of shares in a qualifying subsidiary, provided ownership and holding period conditions are met.               |
| <b>Passive Income</b> | Certain passive incomes, such as royalties or interest, may qualify if the subsidiary meets the participation exemption criteria. |

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## Non-Qualifying Scenarios

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Participation exemption does **not** apply to:

### 1. Excluded Subsidiaries:

Subsidiaries that primarily earn income from **non-qualifying activities**, such as passive income not subject to tax in their jurisdiction.

### 2. Insufficient Ownership:

Shareholdings below the 5% ownership threshold.

### 3. Short Holding Period:

Shares held for less than 12 months.

---

## Applicability of the Exemption

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### 1. Domestic and Foreign Subsidiaries:

The exemption applies to dividends and capital gains from both UAE-based and foreign subsidiaries, subject to compliance with conditions.

2. **Alignment with Double Taxation Treaties (DTAAs):**

Businesses can utilize UAE’s DTAAs to ensure the participation exemption aligns with treaty benefits for foreign income.

3. **Group Structures:**

Encourages corporate structuring where parent entities hold qualifying shares in subsidiaries to benefit from tax-free dividends and capital gains.

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**Compliance Requirements**

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| Requirement             | Details                                                                                                                                                         |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tax Filing              | Participation-exempt income must be disclosed in the annual corporate tax return, even if it is not subject to tax.                                             |
| Record-Keeping          | Maintain documentation, including ownership records, financial statements of the subsidiary, and evidence of compliance with holding period and tax conditions. |
| Substance Documentation | Demonstrate adequate economic substance in the UAE entity and its qualifying subsidiary.                                                                        |

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**Strategic Considerations**

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1. **Investment Planning:**

Structure investments to meet participation exemption criteria, ensuring ownership thresholds and holding periods are satisfied.

2. **Cross-Border Benefits:**

Leverage UAE’s DTAAs for foreign subsidiaries to maximize tax benefits while ensuring compliance with participation exemption conditions.

3. **Risk Management:**

Regularly assess subsidiary activities to ensure continued qualification under the exemption rules.

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**Conclusion**

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The **Participation Exemption** under UAE Corporate Tax Law provides a significant opportunity for businesses to reduce tax burdens on income from qualifying shareholdings. By meeting ownership, holding period, and economic substance requirements, companies can optimize their tax structures, encourage investments, and enhance operational efficiency. Proper compliance and strategic planning are essential to fully leverage this exemption.



### Exemption for Foreign Permanent Establishments (PEs) Under UAE Corporate Tax Law

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The **UAE Corporate Tax Law** provides an exemption for income derived from **Foreign Permanent Establishments (PEs)**. This exemption is designed to prevent double taxation on income earned by UAE entities through PEs in foreign jurisdictions.

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#### Key Features of the Foreign PE Exemption

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| Aspect                            | Details                                                                                                                           |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Definition of a Foreign PE</b> | A fixed place of business outside the UAE where a UAE entity conducts its operations, such as a branch, office, or factory.       |
| <b>Scope of Exemption</b>         | Profits earned by the UAE entity through its Foreign PE may be exempt from UAE Corporate Tax if the exemption conditions are met. |

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#### Conditions for Claiming the Exemption

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To qualify for the exemption, the following conditions must be satisfied:

**1. Taxation in the Foreign Jurisdiction:**

The income of the Foreign PE must be subject to corporate income tax or an equivalent tax in the foreign jurisdiction.

**2. Tax Rate Threshold:**

The foreign jurisdiction's tax rate must be at least a **minimum threshold** specified by UAE Corporate Tax regulations (typically aligned with international standards).

**3. Economic Substance:**

The Foreign PE must demonstrate sufficient economic substance in the foreign jurisdiction, such as:

- Physical presence (office or facilities).
- Employees performing core income-generating activities.

#### 4. Election for Exemption:

The UAE entity must make an **irrevocable election** to apply the exemption for the income of the Foreign PE.

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### Types of Income Eligible for Exemption

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| Income Type                      | Details                                                                                                               |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Operating Profits</b>         | Revenue generated from regular business activities conducted by the Foreign PE.                                       |
| <b>Dividends from Foreign PE</b> | Dividends distributed by the Foreign PE to its UAE parent entity may also qualify, provided other conditions are met. |

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### Scenarios Where Exemption May Not Apply

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#### 1. Passive Income:

Income such as interest, royalties, or dividends earned by the Foreign PE may not qualify for the exemption unless actively earned through the PE's business operations.

#### 2. Low-Tax Jurisdictions:

Foreign PEs in jurisdictions with a **low or no corporate tax rate** may not qualify for the exemption.

#### 3. Excluded Activities:

Income derived from activities not aligned with the Foreign PE's business purpose or core operations may be excluded.

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### Compliance Requirements for the Exemption

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| Requirement                 | Details                                                                                                                                                                                                        |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Filing</b>           | Income from Foreign PEs must be disclosed in the UAE corporate tax return, even if exempt.                                                                                                                     |
| <b>Documentation</b>        | Maintain detailed records, such as: <ul style="list-style-type: none"><li>- Tax filings in the foreign jurisdiction.</li><li>- Evidence of taxes paid abroad.</li><li>- Proof of economic substance.</li></ul> |
| <b>Irrevocable Election</b> | Submit an irrevocable election to claim the exemption for the Foreign PE, ensuring consistency in tax treatment across periods.                                                                                |

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## Available Reliefs in Case Exemption Is Not Claimed

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If the Foreign PE exemption is not claimed or does not apply:

### 1. Foreign Tax Credit:

UAE entities can claim a tax credit for taxes paid in the foreign jurisdiction against UAE Corporate Tax on the same income.

### 2. Tax Treaties:

Utilize UAE's extensive network of **Double Taxation Avoidance Agreements (DTAAs)** to mitigate tax burdens on foreign-sourced income.

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## Strategic Considerations

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### 1. Evaluate Tax Jurisdictions:

Assess the tax regime of the foreign jurisdiction to determine eligibility for the exemption or the need for tax credits.

### 2. Monitor Substance Compliance:

Ensure the Foreign PE meets economic substance requirements to qualify for the exemption.

### 3. Elect for Exemption Strategically:

The irrevocable nature of the election requires careful planning to ensure it aligns with the business's long-term goals.

### 4. Engage in Cross-Border Tax Planning:

Use professional advice to optimize tax structures and comply with foreign and UAE tax regulations.

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## Conclusion

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The exemption for **Foreign Permanent Establishments** under UAE Corporate Tax Law offers significant relief to UAE entities with operations abroad. By meeting conditions such as taxation in the foreign jurisdiction, economic substance, and making an irrevocable election, businesses can avoid double taxation and enhance operational efficiency. Strategic planning and diligent compliance are essential to fully leverage this exemption.



## Tax Relief for Non-Residents Operating Aircraft or Ships in International Transportation Under UAE Corporate Tax Law

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The UAE Corporate Tax Law provides specific tax relief for **non-residents** engaged in the operation of **aircraft** or **ships** in international transportation. This relief aligns with global tax practices, recognizing the unique nature of international shipping and aviation businesses.

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### Key Features of the Tax Relief

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| Aspect              | Details                                                                                                                                                                                                               |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scope of Relief     | Exempts income earned by non-residents from operating <b>aircraft or ships</b> in international transportation from UAE corporate tax.                                                                                |
| Objective           | Encourages international trade and transportation through the UAE while aligning with international tax norms.                                                                                                        |
| Eligible Activities | <ul style="list-style-type: none"><li>- Operation of aircraft or ships in <b>international waters or airspace</b>.</li><li>- Includes income from transportation of goods, passengers, or related services.</li></ul> |

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### Conditions for Relief

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Non-residents must meet specific conditions to qualify for the tax relief:

#### 1. International Operations:

The aircraft or ship must be engaged in international transportation, meaning travel between the UAE and foreign destinations or between foreign destinations.

#### 2. Tax Reciprocity:

Relief is typically granted if the country of residence of the non-resident operator provides **similar tax exemptions** to UAE operators in its jurisdiction (reciprocity principle).

#### 3. Non-Resident Status:

The operator must not have a **permanent establishment (PE)** in the UAE related to the aircraft or shipping operations.

#### 4. Ownership or Leasing:

The non-resident entity must own or lease the aircraft or ship and operate it directly or through a contractual arrangement.

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## Types of Income Covered by the Relief

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| Income Type                          | Details                                                                                                                        |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| <b>Freight and Passenger Revenue</b> | Income from transporting goods or passengers in international transportation.                                                  |
| <b>Incidental Services</b>           | Revenue from ancillary services directly related to the transportation activity, such as cargo handling or in-flight services. |
| <b>Charter Income</b>                | Earnings from chartering aircraft or ships for international transportation purposes.                                          |

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## Compliance Requirements

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| Requirement                       | Details                                                                                                                                                                                                   |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b>              | Non-residents must provide documentation demonstrating: <ul style="list-style-type: none"><li>- International transportation operations.</li><li>- Residence in a country offering reciprocity.</li></ul> |
| <b>Tax Return Filing</b>          | Income qualifying for relief must be disclosed in UAE corporate tax returns, even if exempt.                                                                                                              |
| <b>No Permanent Establishment</b> | Ensure that no PE is created in the UAE through operational or managerial activities related to the aircraft or ship.                                                                                     |

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## Relief for Reciprocity

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The principle of **reciprocity** plays a key role in granting this relief. Non-residents from countries offering equivalent tax exemptions to UAE operators receive the same benefit in the UAE. This encourages mutual tax cooperation between jurisdictions and prevents double taxation.

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## Strategic Considerations

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### 1. Residency and Tax Treaties:

Non-residents should verify their home country's tax treaty with the UAE to confirm reciprocity and eligibility for the exemption.

### 2. Avoiding a PE in the UAE:

Care must be taken to avoid creating a PE in the UAE, which could disqualify the operator from claiming the relief.

3. **Operational Structure:**

Structuring operations to meet the conditions for relief ensures tax efficiency and compliance with UAE Corporate Tax Law.

4. **Documentation Maintenance:**

Keep detailed records of transportation activities, reciprocal exemptions in the home country, and contractual arrangements for operating aircraft or ships.

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**Conclusion**

The tax relief for non-residents operating **aircraft or ships** in international transportation under UAE Corporate Tax Law provides significant benefits by exempting qualifying income from corporate tax. By meeting conditions such as reciprocity and avoiding a PE, non-resident operators can ensure compliance while optimizing their tax obligations. Proper planning, adherence to documentation requirements, and understanding of international tax treaties are essential to fully leverage this relief.

Reliefs



**Reliefs Under UAE Corporate Tax Law**

The UAE Corporate Tax Law provides various **reliefs** to ensure tax efficiency, reduce double taxation, and encourage economic growth. These provisions benefit businesses by lowering their tax burden and streamlining compliance.

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**Types of Reliefs**

| Relief Type                        | Details                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Intra-Group Transactions Relief | <ul style="list-style-type: none"><li>- Exempts gains or losses arising from transactions between members of the same group.</li><li>- Includes asset transfers, mergers, and restructuring.</li><li>- Conditions include:<ul style="list-style-type: none"><li>- Both entities must be UAE residents.</li><li>- They must remain part of the same group for a minimum holding period.</li></ul></li></ul> |

| Relief Type                                      | Details                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2. Small Business Relief</b>                  | <ul style="list-style-type: none"> <li>- Allows small businesses with taxable income below AED 375,000 to benefit from simplified compliance and a <b>0% tax rate</b>.</li> <li>- Conditions include meeting revenue thresholds and regulatory requirements.</li> </ul>                                          |
| <b>3. Foreign Tax Credit</b>                     | <ul style="list-style-type: none"> <li>- Relief for taxes paid in foreign jurisdictions on income taxable in the UAE.</li> <li>- Limited to the UAE corporate tax payable on the same income.</li> </ul>                                                                                                         |
| <b>4. Loss Carry-Forward Relief</b>              | <ul style="list-style-type: none"> <li>- Allows businesses to carry forward tax losses to offset future taxable income.</li> <li>- Conditions: <ul style="list-style-type: none"> <li>- Losses must be from UAE-sourced income.</li> <li>- Specific thresholds and time limits may apply.</li> </ul> </li> </ul> |
| <b>5. Business Restructuring Relief</b>          | <ul style="list-style-type: none"> <li>- Gains or losses from qualifying <b>corporate restructuring</b> are deferred if conditions are met.</li> <li>- Ensures no immediate tax liability during reorganizations.</li> </ul>                                                                                     |
| <b>6. Qualifying Free Zone Relief</b>            | <ul style="list-style-type: none"> <li>- Free Zone Persons can benefit from a <b>0% tax rate</b> on qualifying income.</li> <li>- Conditions include meeting substance and activity requirements within the Free Zone.</li> </ul>                                                                                |
| <b>7. Foreign Permanent Establishment Relief</b> | <ul style="list-style-type: none"> <li>- Income earned through <b>Foreign Permanent Establishments (PEs)</b> may be exempt if taxed in the foreign jurisdiction and specific conditions are met.</li> </ul>                                                                                                      |
| <b>8. Tax Relief for Non-Residents</b>           | <ul style="list-style-type: none"> <li>- Income earned by <b>non-residents operating aircraft or ships</b> in international transportation is exempt, provided reciprocity and other conditions are satisfied.</li> </ul>                                                                                        |

## Key Conditions for Reliefs

| Relief                          | Conditions                                                                                                                                                                                       |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Intra-Group Transactions</b> | <ul style="list-style-type: none"> <li>- Both parties must be UAE residents.</li> <li>- No tax avoidance motive.</li> <li>- Compliance with documentation and reporting requirements.</li> </ul> |
| <b>Small Business Relief</b>    | <ul style="list-style-type: none"> <li>- Revenue and taxable income must be below defined thresholds (AED 375,000).</li> </ul>                                                                   |
| <b>Foreign Tax Credit</b>       | <ul style="list-style-type: none"> <li>- Taxes must be paid in a foreign jurisdiction.</li> <li>- Relief limited to the UAE tax payable on the same income.</li> </ul>                           |

| Relief                        | Conditions                                                                                                                                                                        |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Loss Carry-Forward</b>     | <ul style="list-style-type: none"> <li>- Losses must arise from UAE-sourced income.</li> <li>- Specific caps or limits may apply to the amount carried forward.</li> </ul>        |
| <b>Business Restructuring</b> | <ul style="list-style-type: none"> <li>- Entities involved must remain part of the same group after the restructuring.</li> <li>- No tax avoidance motive.</li> </ul>             |
| <b>Free Zone Relief</b>       | <ul style="list-style-type: none"> <li>- Only income from <b>qualifying activities</b> is eligible.</li> <li>- Non-qualifying income is taxed at <b>9%</b>.</li> </ul>            |
| <b>Foreign PE Relief</b>      | <ul style="list-style-type: none"> <li>- The PE must be subject to taxation in the foreign jurisdiction.</li> <li>- The foreign tax rate must meet minimum thresholds.</li> </ul> |

## Compliance Requirements for Reliefs

| Requirement                 | Details                                                                                                                      |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b>        | - Maintain detailed records to substantiate claims, including contracts, financial statements, and evidence of tax payments. |
| <b>Tax Return Filing</b>    | - Disclose claims for reliefs in annual corporate tax returns.                                                               |
| <b>Regulatory Approvals</b> | - Certain reliefs, such as restructuring relief, may require pre-approval from tax authorities.                              |
| <b>Consistency</b>          | - Reliefs such as intra-group exemptions require consistent treatment across entities and reporting periods.                 |

## Strategic Considerations

### 1. Optimize Tax Planning:

Use reliefs like **foreign tax credits** and **intra-group exemptions** to reduce effective tax rates and improve cash flow.

### 2. Align Business Structures:

Structure operations to qualify for reliefs, such as **Free Zone relief** or **business restructuring exemptions**.

### 3. Monitor Compliance:

Ensure strict adherence to conditions and maintain documentation to avoid penalties or loss of relief benefits.

4. Engage Professional Advice:

Seek expert guidance to navigate complex rules and maximize tax relief opportunities.

Conclusion

Reliefs under UAE Corporate Tax Law are designed to support businesses, promote investment, and align with global tax practices. Proper planning, compliance, and documentation are essential to leveraging these reliefs effectively and reducing tax burdens.

Small Business Relief – Overview and Eligibility



Small Business Relief Under UAE Corporate Tax Law

The **Small Business Relief** provision under the UAE Corporate Tax Law is designed to support startups and small businesses by easing their compliance obligations and reducing tax burdens. Eligible businesses can benefit from a **0% corporate tax rate** if their revenue and taxable income remain below specified thresholds.

Overview of Small Business Relief

| Aspect    | Details                                                                                                           |
|-----------|-------------------------------------------------------------------------------------------------------------------|
| Objective | To support small businesses, startups, and entrepreneurs in reducing tax burdens and promoting economic growth.   |
| Tax Rate  | Eligible businesses are taxed at a <b>0% corporate tax rate</b> .                                                 |
| Scope     | Applies to <b>resident persons</b> and certain Free Zone Persons engaged in qualifying activities within the UAE. |

Eligibility Criteria

To qualify for **Small Business Relief**, businesses must meet the following conditions:

| Criteria          | Details                                                                                        |
|-------------------|------------------------------------------------------------------------------------------------|
| Revenue Threshold | The business’s total revenue must not exceed <b>AED 3 million</b> for the relevant tax period. |

| Criteria                       | Details                                                                                                                                                                                            |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Taxable Income</b>          | Taxable income must fall below the threshold of <b>AED 375,000</b> .                                                                                                                               |
| <b>Resident Status</b>         | The business must be a <b>resident person</b> in the UAE, including sole proprietorships, partnerships, and corporations.                                                                          |
| <b>Excluded Persons</b>        | Relief is <b>not available</b> for certain categories, such as: <ul style="list-style-type: none"> <li>- Multinational enterprises.</li> <li>- Entities that are part of a large group.</li> </ul> |
| <b>Compliance with Tax Law</b> | Businesses must be registered with the Federal Tax Authority (FTA), file tax returns, and meet other compliance requirements.                                                                      |

## Ineligible Entities

Small Business Relief is not available for:

### 1. Large Groups or Multinationals:

Businesses part of multinational groups with **consolidated global revenue exceeding AED 3.15 billion**.

### 2. Non-Resident Persons:

Entities that are not classified as resident persons for tax purposes.

### 3. Excluded Free Zone Persons:

Free Zone entities engaged in activities not qualifying for the 0% tax rate.

## Benefits of Small Business Relief

| Benefit                      | Details                                                                                |
|------------------------------|----------------------------------------------------------------------------------------|
| <b>Tax Savings</b>           | Eligible businesses enjoy a <b>0% corporate tax rate</b> , reducing operational costs. |
| <b>Simplified Compliance</b> | Reduced administrative and compliance obligations for small businesses.                |
| <b>Support for Startups</b>  | Encourages entrepreneurship and business growth by minimizing tax-related challenges.  |

## Compliance Requirements

| Requirement             | Details                                                                                   |
|-------------------------|-------------------------------------------------------------------------------------------|
| <b>Tax Registration</b> | Businesses must register with the FTA and obtain a <b>Tax Registration Number (TRN)</b> . |

| Requirement           | Details                                                                                                       |
|-----------------------|---------------------------------------------------------------------------------------------------------------|
| <b>Annual Filing</b>  | Tax returns must be filed even if the business qualifies for Small Business Relief.                           |
| <b>Record-Keeping</b> | Maintain accurate financial records to demonstrate compliance with the revenue and taxable income thresholds. |

## Strategic Considerations

### 1. Monitor Revenue Levels:

Regularly track revenue and taxable income to ensure continued eligibility for Small Business Relief.

### 2. Leverage the 0% Rate:

Use the relief to reinvest in the business, supporting growth and expansion without immediate tax burdens.

### 3. Prepare for Growth:

Plan for transitioning out of Small Business Relief eligibility as the business expands and exceeds thresholds.

### 4. Ensure Compliance:

Adhere to FTA requirements for registration, filing, and record-keeping to retain eligibility and avoid penalties.

## Conclusion

The **Small Business Relief** under UAE Corporate Tax Law is a valuable provision for small businesses and startups, offering a 0% tax rate and simplified compliance. By meeting eligibility criteria and adhering to compliance requirements, businesses can focus on growth while benefiting from reduced tax burdens. Strategic planning ensures a smooth transition as the business scales beyond the relief thresholds.

## Handling Tax Losses



## Handling Tax Losses Under UAE Corporate Tax Law

The UAE Corporate Tax Law allows businesses to carry forward **tax losses** to offset future taxable income, reducing their tax liability in subsequent years. This provision supports businesses during challenging periods and promotes long-term growth and stability.

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## Key Features of Tax Loss Relief

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| Aspect                 | Details                                                                                                              |
|------------------------|----------------------------------------------------------------------------------------------------------------------|
| Definition of Tax Loss | A tax loss occurs when a business's allowable deductions exceed its taxable income for a financial period.           |
| Purpose                | Enables businesses to <b>offset future taxable income</b> , minimizing tax burdens during recovery or growth phases. |
| Tax Loss Offset        | Businesses can use tax losses to reduce taxable income in future tax periods, subject to limits and conditions.      |
| Carry-Forward Period   | Tax losses can be carried forward <b>indefinitely</b> but must comply with regulatory conditions to remain eligible. |

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## Eligibility for Carrying Forward Tax Losses

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To carry forward tax losses, businesses must meet the following conditions:

### 1. Source of Loss:

- Losses must arise from activities that generate **taxable income** under UAE Corporate Tax Law.
- Losses from **exempt income** or **non-taxable activities** cannot be carried forward.

### 2. Ownership Continuity:

- The business must maintain at least **50% ownership continuity** to carry forward losses.
- If ownership changes by more than 50%, losses may still be carried forward if the same or similar business activities continue.

### 3. Tax Compliance:

Businesses must be registered with the Federal Tax Authority (FTA) and comply with all tax filing and record-keeping requirements.

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## Limits on Tax Loss Utilization

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| Aspect                | Details                                                                                                |
|-----------------------|--------------------------------------------------------------------------------------------------------|
| Offset Cap            | Tax losses can offset up to <b>75% of taxable income</b> in a given tax period.                        |
| Balance Carry-Forward | Unused tax losses can be carried forward to future tax periods, subject to eligibility and compliance. |

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## Scenarios for Tax Loss Relief

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| Scenario                  | Treatment                                                                                               |
|---------------------------|---------------------------------------------------------------------------------------------------------|
| <b>Startup Losses</b>     | Early-stage businesses with initial losses can carry them forward to offset profits in later years.     |
| <b>Business Expansion</b> | Losses incurred during expansion can reduce taxable income as the business grows and generates profits. |
| <b>Economic Downturns</b> | Losses from challenging economic conditions can minimize tax liabilities during recovery periods.       |

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## Non-Eligible Losses

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The following losses cannot be carried forward or offset:

**1. Losses from Exempt Income:**

Losses associated with income that is tax-exempt under UAE Corporate Tax Law.

**2. Capital Losses:**

Losses from the sale of assets unless they are part of taxable business activities.

**3. Non-Taxable Activities:**

Losses from activities not generating taxable income.

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## Compliance Requirements for Tax Loss Relief

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| Requirement                       | Details                                                                                                         |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>Record-Keeping</b>             | Maintain detailed records of losses, including financial statements, tax filings, and supporting documentation. |
| <b>Tax Return Filing</b>          | Disclose tax losses in the corporate tax return and claim them as offsets in subsequent years.                  |
| <b>Ownership Continuity Proof</b> | Provide evidence of ownership structure to validate eligibility for loss carry-forward.                         |

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## Strategic Considerations

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**1. Effective Planning:**

Use tax loss relief as part of long-term tax planning to reduce taxable income in profitable years.

2. **Monitor Ownership Changes:**

Ensure compliance with ownership continuity rules to retain the ability to carry forward losses.

3. **Leverage Partial Offsets:**

Utilize the 75% offset cap effectively while planning for any unused losses to be carried forward.

4. **Seek Professional Advice:**

Engage tax professionals to optimize tax loss utilization and ensure compliance with UAE Corporate Tax Law.

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**Conclusion**

Tax loss relief under UAE Corporate Tax Law provides a valuable mechanism for businesses to manage their tax obligations during periods of financial difficulty or growth. By adhering to regulatory conditions, maintaining proper documentation, and strategically offsetting taxable income, businesses can achieve greater financial stability and reduce their tax liabilities in the long term.

Limitations on Net Interest Deductions



**Limitations on Net Interest Deductions Under UAE Corporate Tax Law**

The UAE Corporate Tax Law imposes specific **limitations on net interest deductions** to prevent profit shifting and excessive debt financing. These limitations align with global tax practices, such as the **OECD’s Base Erosion and Profit Shifting (BEPS) Action Plan**.

---

**Key Features of the Limitations**

| Aspect       | Details                                                                                                                                         |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Net Interest | Refers to the interest expense incurred by a business, net of any interest income earned during the same period.                                |
| Objective    | To restrict excessive interest deductions that reduce taxable income and discourage thin capitalization (excessive debt over equity financing). |

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**General Limitation Rule**

| Limitation             | Details                                                                                                                                                                                                                                                                                              |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>30% EBITDA Rule</b> | <ul style="list-style-type: none"> <li>- Net interest deductions are capped at <b>30% of the business's earnings before interest, tax, depreciation, and amortization (EBITDA)</b>.</li> <li>- This ensures that only a proportion of interest expenses can be deducted for tax purposes.</li> </ul> |

## Specific Exceptions and Exemptions

### 1. Small Businesses:

Businesses with annual revenue below a specified threshold (e.g., AED 3 million) may be exempt from the 30% EBITDA rule.

### 2. Standalone Entities:

Entities not part of a multinational group or not engaged in related-party transactions may be exempt from net interest deduction limitations.

### 3. Banks and Financial Institutions:

Interest limitations typically do not apply to regulated banks, insurance companies, and other financial institutions.

### 4. Qualifying Intra-Group Transactions:

Interest on loans between UAE group entities may qualify for relief if no tax avoidance motives exist and other conditions are met.

## Disallowed Interest Carry-Forward

| Aspect               | Details                                                                                                                           |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Carry-Forward</b> | - Disallowed interest deductions exceeding the 30% EBITDA limit can be <b>carried forward</b> to future tax periods.              |
| <b>Time Limit</b>    | - The carry-forward period is typically indefinite, but the deduction in subsequent years remains subject to the 30% EBITDA rule. |

## Compliance Requirements

| Requirement          | Details                                                                                                                                                                                                                 |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b> | <ul style="list-style-type: none"> <li>- Maintain records of interest income, expenses, and related-party transactions.</li> <li>- Provide calculations to demonstrate compliance with the 30% EBITDA limit.</li> </ul> |

| Requirement              | Details                                                                                          |
|--------------------------|--------------------------------------------------------------------------------------------------|
| <b>Tax Return Filing</b> | - Disclose net interest deductions and carry-forward amounts in the annual corporate tax return. |

## Strategic Implications of the Limitation

### 1. Impact on Financing Decisions:

Businesses may need to balance debt and equity financing to minimize the impact of interest deduction limitations.

### 2. Intra-Group Loans:

Ensure related-party loans comply with **arm's length principles** and are supported by proper documentation.

### 3. Leverage Planning:

Plan borrowing structures to ensure interest expenses remain within the 30% EBITDA threshold.

### 4. Monitor Disallowed Interest:

Track disallowed interest deductions and plan for their utilization in future periods.

## Exceptions for Multinational Groups

Multinational groups may face stricter limitations under **BEPS Pillar Two rules** if operating in low-tax jurisdictions. Businesses should evaluate the interaction between UAE rules and global anti-abuse measures.

## Conclusion

The limitations on **net interest deductions** under UAE Corporate Tax Law ensure that businesses do not erode the tax base through excessive debt financing. By adhering to the 30% EBITDA rule, maintaining proper documentation, and planning financing structures strategically, businesses can remain compliant while optimizing their tax outcomes.

Reliefs for Transfers within a Qualifying Group



## Reliefs for Transfers Within a Qualifying Group Under UAE Corporate Tax Law

The UAE Corporate Tax Law provides specific **reliefs for intra-group transfers** to encourage efficient corporate structuring and prevent immediate tax liabilities on certain transactions. These reliefs apply to qualifying groups and ensure tax neutrality for transactions such as asset transfers, reorganizations, or share acquisitions.

## Key Features of Intra-Group Reliefs

| Aspect           | Details                                                                                                                                                   |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objective        | To facilitate tax-neutral transactions within a group, enabling businesses to restructure or transfer assets without incurring immediate tax liabilities. |
| Scope of Reliefs | Applies to transfers of <b>assets</b> , <b>liabilities</b> , or <b>shares</b> between group entities that meet the qualifying conditions.                 |

## Eligibility Conditions

To qualify for intra-group reliefs, the following conditions must be met:

1. **Ownership Threshold:**

The transferring and receiving entities must be part of the same group, with **at least 75% common ownership**.

2. **Residency:**

Both entities must be **resident persons** in the UAE.

3. **Qualifying Transactions:**

- Transactions must involve transfers of:
- Assets or liabilities between group entities.
  - Shares within the group.

4. **No Immediate Tax Motive:**

The transaction must not have a **tax avoidance purpose**.

5. **Minimum Holding Period:**

Both entities must remain part of the qualifying group for at least **two years** after the transaction.

## Types of Intra-Group Reliefs

| Type of Relief | Details |
|----------------|---------|
|----------------|---------|

| Type of Relief                          | Details                                                                                                                                                       |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Asset and Liability Transfers</b> | Gains or losses from the transfer of assets or liabilities within a qualifying group are deferred until the assets or liabilities are sold outside the group. |
| <b>2. Share Transfers</b>               | Share transfers within the group are exempt from corporate tax, provided conditions such as ownership thresholds and holding periods are met.                 |
| <b>3. Group Reorganizations</b>         | Corporate restructuring transactions, such as mergers or demergers within the group, are tax-neutral if qualifying conditions are satisfied.                  |

## Non-Qualifying Scenarios

Reliefs do not apply if:

**1. Ownership Threshold Falls Below 75%:**

If common ownership drops below 75% within two years of the transaction.

**2. Entities Leave the Group:**

If either entity exits the qualifying group within two years of the transaction.

**3. Tax Avoidance:**

If the transaction is deemed to have a primary purpose of avoiding corporate tax.

## Compliance Requirements

| Requirement                  | Details                                                                                                                              |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b>         | Maintain agreements, financial records, and ownership evidence to substantiate claims for intra-group reliefs.                       |
| <b>Tax Return Disclosure</b> | Disclose the transaction and the deferred gain or loss in the corporate tax returns of both entities.                                |
| <b>Subsequent Monitoring</b> | Monitor ownership and group status for at least two years after the transaction to ensure compliance with holding period conditions. |

## Benefits of Intra-Group Reliefs

| Benefit | Details |
|---------|---------|
|---------|---------|

| Benefit                          | Details                                                                                                     |
|----------------------------------|-------------------------------------------------------------------------------------------------------------|
| <b>Tax Neutrality</b>            | Prevents immediate tax liabilities on group restructuring, allowing for efficient corporate management.     |
| <b>Cash Flow Optimization</b>    | Reduces the immediate tax burden, freeing resources for reinvestment or business operations.                |
| <b>Encourages Reorganization</b> | Facilitates mergers, acquisitions, and internal restructuring without triggering corporate tax liabilities. |

## Strategic Considerations

### 1. Plan for Ownership Continuity:

Ensure that group entities remain under at least 75% common ownership for the required holding period.

### 2. Monitor Compliance:

Regularly review group transactions to confirm alignment with intra-group relief conditions.

### 3. Engage Tax Professionals:

Seek expert advice to structure transactions effectively and avoid potential disqualification from reliefs.

### 4. Documentation and Transparency:

Maintain detailed records of transactions, including valuations and justifications, to support claims during audits.

## Conclusion

Intra-group reliefs under UAE Corporate Tax Law provide significant benefits for qualifying groups, enabling tax-efficient transfers of assets, liabilities, and shares. By adhering to ownership, residency, and holding period conditions, businesses can optimize their tax outcomes while facilitating corporate restructuring and growth. Proper planning, compliance, and documentation are essential to fully leverage these reliefs.

Reliefs for Transfers within a Qualifying Group



## Reliefs for Transfers Within a Qualifying Group Under UAE Corporate Tax Law

The UAE Corporate Tax Law offers **reliefs for transfers within a qualifying group** to promote corporate restructuring and enhance tax efficiency. These provisions allow businesses to defer tax liabilities arising from intra-group transfers of assets, liabilities, or shares, provided specific conditions are met.

### Key Features of Intra-Group Reliefs

| Aspect    | Details                                                                                                                                                     |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objective | Facilitate <b>tax-neutral transactions</b> within a group, such as transfers of assets, liabilities, or shares, to enable efficient business restructuring. |
| Scope     | Applies to <b>resident entities</b> within the UAE that meet the criteria for a <b>qualifying group</b> .                                                   |

### Eligibility Criteria

To qualify for relief, the following conditions must be met:

| Condition              | Details                                                                                                     |
|------------------------|-------------------------------------------------------------------------------------------------------------|
| Ownership Threshold    | The entities involved must be part of a <b>qualifying group</b> with at least <b>75% common ownership</b> . |
| Residency Requirement  | Both transferring and receiving entities must be <b>resident persons</b> in the UAE.                        |
| Transaction Purpose    | The transaction must be part of routine group operations and <b>not primarily for tax avoidance</b> .       |
| Minimum Holding Period | Entities must remain part of the qualifying group for at least <b>two years</b> after the transfer.         |

### Types of Transactions Covered

| Transaction Type    | Details                                                                                                                  |
|---------------------|--------------------------------------------------------------------------------------------------------------------------|
| Asset Transfers     | Includes transfers of tangible and intangible assets (e.g., equipment, IP) between group entities.                       |
| Liability Transfers | Involves shifting liabilities, such as loans or obligations, within the group.                                           |
| Share Transfers     | Covers the transfer of shares in one group entity to another, enabling restructuring without immediate tax implications. |

## Benefits of Intra-Group Reliefs

---

| Benefit                            | Details                                                                                                                     |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Deferral</b>                | Gains or losses on intra-group transfers are deferred until the assets, liabilities, or shares are sold outside the group.  |
| <b>Efficiency in Restructuring</b> | Enables seamless corporate reorganizations, such as mergers, acquisitions, or spin-offs, without immediate tax liabilities. |
| <b>Improved Cash Flow</b>          | Avoids upfront tax payments, allowing businesses to reinvest or optimize financial resources.                               |

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## Limitations and Exclusions

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### 1. Loss of Eligibility:

Reliefs are revoked if the entities involved leave the qualifying group within **two years** of the transaction.

### 2. Tax Avoidance Motive:

Transactions designed to exploit tax benefits without valid commercial reasons are disqualified.

### 3. Non-Resident Entities:

Reliefs are generally not available for transactions involving **non-resident entities**.

---

## Compliance and Reporting Requirements

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| Requirement                        | Details                                                                                           |
|------------------------------------|---------------------------------------------------------------------------------------------------|
| <b>Documentation</b>               | Maintain agreements, valuations, and supporting documents to substantiate claims for relief.      |
| <b>Tax Return Filing</b>           | Disclose intra-group transactions in corporate tax returns, even if tax relief is claimed.        |
| <b>Post-Transaction Monitoring</b> | Ensure entities maintain qualifying group status and ownership thresholds for at least two years. |

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## Strategic Considerations

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### 1. Ownership Stability:

Plan transactions to maintain **75% common ownership** for the required holding period, avoiding potential disqualification.

2. **Evaluate Tax Implications:**

Analyze whether deferred tax liabilities may arise if assets or shares are later sold outside the group.

3. **Leverage Relief for Growth:**

Use intra-group reliefs to streamline mergers, acquisitions, or business realignments while preserving cash flow.

4. **Engage Professional Guidance:**

Work with tax advisors to ensure compliance and optimize the use of intra-group reliefs.

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**Conclusion**

Reliefs for transfers within a qualifying group under UAE Corporate Tax Law provide businesses with a valuable tool to restructure operations efficiently and defer tax liabilities. By meeting eligibility conditions and maintaining compliance, businesses can leverage these reliefs to achieve tax neutrality, enhance cash flow, and support long-term growth. Proper planning, documentation, and adherence to post-transaction requirements are essential to fully realize these benefits.

Business Restructuring Relief Provisions



**Business Restructuring Relief Provisions Under UAE Corporate Tax Law**

The **Business Restructuring Relief** provisions in the UAE Corporate Tax Law allow for tax-neutral treatment of gains or losses arising from qualifying corporate restructuring activities. These reliefs facilitate mergers, acquisitions, and reorganizations without triggering immediate corporate tax liabilities, encouraging businesses to optimize their structures efficiently.

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**Key Features of Business Restructuring Relief**

| Aspect    | Details                                                                                                                                                     |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objective | To enable tax-neutral transfers and reorganization activities, ensuring businesses can restructure efficiently without incurring immediate tax liabilities. |
| Scope     | Applies to <b>qualifying transfers</b> of assets, liabilities, or shares during mergers, acquisitions, or spin-offs.                                        |

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## Eligibility Criteria for Restructuring Relief

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To qualify for relief, the following conditions must be satisfied:

| Condition                      | Details                                                                                                                        |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| <b>Qualifying Transactions</b> | Covers transfers of assets, liabilities, or shares during mergers, demergers, acquisitions, or other restructuring activities. |
| <b>Residency Requirement</b>   | The entities involved must be <b>resident persons</b> under UAE Corporate Tax Law.                                             |
| <b>No Tax Avoidance Motive</b> | The restructuring must have a <b>valid commercial purpose</b> and not primarily aim to avoid corporate tax.                    |
| <b>Minimum Holding Period</b>  | Assets, liabilities, or shares transferred must remain within the group for at least <b>two years</b> after the transaction.   |

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## Types of Restructuring Activities Covered

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| Activity                                  | Details                                                                                                                  |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>Mergers and Acquisitions</b>           | Combines two or more entities into a single entity or involves the purchase of one entity by another.                    |
| <b>Demerger or Spin-Off</b>               | Involves splitting a single entity into multiple entities or creating new independent entities from existing operations. |
| <b>Transfer of Assets and Liabilities</b> | Allows assets and liabilities to be moved between entities within a group as part of a restructuring.                    |

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## Tax Treatment of Restructuring Activities

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### 1. Deferral of Gains or Losses:

Any gains or losses arising from qualifying restructuring activities are **deferred** until the assets, liabilities, or shares are sold outside the group.

### 2. Tax Neutrality:

The transfer of assets or shares within the group is treated as tax-neutral, provided the conditions are met.

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## Conditions Leading to Disqualification

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Restructuring relief may be disqualified if:

1. **Change in Ownership:**

The entities involved leave the group or ownership falls below **75% common ownership** within two years after the restructuring.
2. **Non-Commercial Purpose:**

The restructuring is primarily intended to secure tax benefits without legitimate business objectives.
3. **Violation of Holding Period:**

Transferred assets, liabilities, or shares are sold outside the group before the end of the required two-year period.

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## Compliance and Reporting Requirements

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| Requirement                 | Details                                                                                                             |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------|
| Documentation               | Maintain agreements, financial statements, and transaction details to substantiate claims for restructuring relief. |
| Tax Return Filing           | Disclose restructuring transactions and claims for relief in the corporate tax returns of all entities involved.    |
| Post-Transaction Monitoring | Ensure compliance with ownership thresholds and holding periods to retain eligibility for restructuring relief.     |

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## Benefits of Restructuring Relief

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| Benefit                     | Details                                                                                                    |
|-----------------------------|------------------------------------------------------------------------------------------------------------|
| Tax Efficiency              | Prevents immediate tax liabilities on gains or losses from restructuring, ensuring cash flow is preserved. |
| Flexibility in Operations   | Encourages businesses to reorganize or optimize structures without tax-related barriers.                   |
| Enhanced Group Coordination | Facilitates smoother transitions during mergers, demergers, or acquisitions.                               |

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## Strategic Considerations

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1. **Plan for Ownership Stability:**

Ensure **75% common ownership** is maintained for the required two-year holding period after restructuring.
2. **Align with Business Goals:**

Ensure the restructuring serves a valid commercial purpose to avoid disqualification for tax avoidance motives.

### 3. Document Transactions Thoroughly:

Maintain detailed records to support claims for restructuring relief during audits or reviews.

### 4. Consult Tax Professionals:

Engage experts to navigate the complexities of restructuring relief provisions and ensure compliance with UAE Corporate Tax Law.

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## Conclusion

The **Business Restructuring Relief** provisions under UAE Corporate Tax Law offer significant opportunities for tax-efficient reorganizations. By meeting the eligibility conditions and adhering to compliance requirements, businesses can optimize their structures, improve operations, and achieve long-term growth without incurring immediate tax liabilities. Strategic planning and meticulous documentation are essential to fully leverage these benefits.

Q&A on the above



## Q&A on Business Restructuring Relief Provisions

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| Question                                              | Answer                                                                                                                                                                                                                                 |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What is Business Restructuring Relief?</b>         | It is a provision under UAE Corporate Tax Law that allows businesses to defer tax liabilities arising from gains or losses during qualifying restructuring activities.                                                                 |
| <b>What types of transactions qualify for relief?</b> | Qualifying transactions include: <ul style="list-style-type: none"><li>- Mergers and acquisitions.</li><li>- Demergers or spin-offs.</li><li>- Transfers of assets or liabilities within a group.</li><li>- Share transfers.</li></ul> |
| <b>What is the purpose of this relief?</b>            | To enable tax-neutral restructuring, allowing businesses to reorganize or optimize their structures without triggering immediate tax liabilities.                                                                                      |
| <b>Who can claim restructuring relief?</b>            | Resident entities in the UAE that are part of a qualifying group meeting the <b>75% common ownership</b> threshold and other conditions.                                                                                               |
| <b>What is the holding period requirement?</b>        | Assets, liabilities, or shares transferred must remain within the group for at least <b>two years</b> after the restructuring transaction.                                                                                             |

| Question                                                            | Answer                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What are the conditions for eligibility?</b>                     | <ul style="list-style-type: none"> <li>- Entities must be <b>resident persons</b>.</li> <li>- Transactions must have a <b>valid commercial purpose</b>.</li> <li>- Ownership threshold must meet <b>75% common ownership</b>.</li> </ul> |
| <b>What happens if the conditions are not met?</b>                  | The relief is revoked, and the deferred gains or losses become taxable. This may occur if ownership falls below 75% or the holding period is violated.                                                                                   |
| <b>Are there any disqualifying scenarios?</b>                       | Yes, relief is disqualified if: <ul style="list-style-type: none"> <li>- The transaction is primarily for tax avoidance.</li> <li>- Entities leave the group within two years.</li> <li>- Ownership falls below 75%.</li> </ul>          |
| <b>What are the compliance requirements?</b>                        | <ul style="list-style-type: none"> <li>- Maintain documentation of the transaction.</li> <li>- Disclose restructuring activities in corporate tax returns.</li> <li>- Monitor compliance with holding period conditions.</li> </ul>      |
| <b>What is the tax treatment of gains or losses?</b>                | Gains or losses from qualifying restructuring activities are deferred until the transferred assets, liabilities, or shares are sold outside the group.                                                                                   |
| <b>How does restructuring relief benefit businesses?</b>            | <ul style="list-style-type: none"> <li>- Provides tax neutrality for group reorganizations.</li> <li>- Preserves cash flow by deferring tax liabilities.</li> <li>- Facilitates efficient mergers and acquisitions.</li> </ul>           |
| <b>Can non-resident entities claim this relief?</b>                 | No, only UAE <b>resident entities</b> are eligible for restructuring relief under UAE Corporate Tax Law.                                                                                                                                 |
| <b>What should businesses consider when planning restructuring?</b> | <ul style="list-style-type: none"> <li>- Ensure ownership continuity for two years.</li> <li>- Align transactions with valid commercial purposes.</li> <li>- Maintain detailed records to support tax relief claims.</li> </ul>          |
| <b>Is professional guidance recommended?</b>                        | Yes, consulting tax advisors is crucial to ensure compliance, optimize restructuring benefits, and address potential complexities.                                                                                                       |

This Q&A provides a concise overview of **Business Restructuring Relief** provisions, highlighting key aspects, eligibility, and strategic considerations for businesses.

## Deductions and Related Party Transactions



## Deductions and Related Party Transactions Under UAE Corporate Tax Law

The UAE Corporate Tax Law allows businesses to claim **deductions** for certain expenses incurred during their taxable period, provided these expenses are wholly and exclusively related to generating taxable income. However, transactions with **related parties** are subject to specific rules to prevent tax base erosion and ensure compliance with **arm's length principles**.

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## 1. Deductions

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**Definition:** Deductions are amounts that can be subtracted from a business's gross income to determine its taxable income.

### Allowable Deductions

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| Category                       | Examples                                                                                                                                    |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Operating Expenses             | <ul style="list-style-type: none"><li>- Salaries and wages.</li><li>- Rent and utilities.</li><li>- Depreciation on fixed assets.</li></ul> |
| Cost of Goods Sold (COGS)      | <ul style="list-style-type: none"><li>- Direct costs related to the production or sale of goods.</li></ul>                                  |
| Interest Expenses              | <ul style="list-style-type: none"><li>- Interest incurred on business loans, subject to the <b>30% EBITDA limitation</b>.</li></ul>         |
| Research and Development (R&D) | <ul style="list-style-type: none"><li>- Expenses for R&amp;D directly related to the business.</li></ul>                                    |
| Marketing and Advertising      | <ul style="list-style-type: none"><li>- Costs of advertising and promotion that generate taxable income.</li></ul>                          |

### Non-Allowable Deductions

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| Category                       | Examples                                                                                                                                         |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Personal Expenses              | <ul style="list-style-type: none"><li>- Expenses unrelated to business activities, such as personal travel or entertainment.</li></ul>           |
| Fines and Penalties            | <ul style="list-style-type: none"><li>- Fines for violations of laws, such as traffic or administrative penalties.</li></ul>                     |
| Capital Expenditures           | <ul style="list-style-type: none"><li>- Costs of acquiring fixed assets (deductible over time through depreciation).</li></ul>                   |
| Exempt Income-Related Expenses | <ul style="list-style-type: none"><li>- Expenses related to generating exempt income, such as dividends from qualifying shareholdings.</li></ul> |

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## 2. Related Party Transactions

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**Definition:** A related party transaction occurs between entities or individuals with close connections, such as family members, group companies, or key stakeholders. These transactions must comply with **arm's length principles** to ensure they reflect fair market value.

### Examples of Related Parties

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| Category         | Details                                                           |
|------------------|-------------------------------------------------------------------|
| Family Members   | Relatives of the business owner or key management personnel.      |
| Group Companies  | Entities within the same corporate group or under common control. |
| Key Stakeholders | Major shareholders, directors, or officers of the entity.         |

### Arm's Length Principle

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Transactions with related parties must be priced as if conducted between **independent, unrelated entities** in the open market.

### Documentation Requirements

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| Document                       | Details                                                                                                                |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------|
| Transfer Pricing Policy        | A written policy describing how prices for related-party transactions are determined.                                  |
| Transfer Pricing Documentation | Detailed reports demonstrating compliance with the arm's length principle, including functional and economic analyses. |

### Compliance Requirements for Related Party Transactions

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| Requirement               | Details                                                                                                                                                                              |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Disclosure in Tax Returns | Related-party transactions must be disclosed in the corporate tax return.                                                                                                            |
| Transfer Pricing Methods  | Acceptable methods include: <ul style="list-style-type: none"><li>- Comparable Uncontrolled Price (CUP) Method.</li><li>- Resale Price Method.</li><li>- Cost Plus Method.</li></ul> |
| Contemporaneous Records   | Maintain records of all related-party transactions, including contracts and justifications for pricing.                                                                              |

### Limitations and Special Rules

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| Aspect                            | Details                                                                                                 |
|-----------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>Interest Deductions</b>        | Subject to the <b>30% EBITDA limitation</b> to prevent base erosion through excessive debt financing.   |
| <b>Expenses for Exempt Income</b> | Not deductible if related to generating exempt income, such as dividends from qualifying shareholdings. |

## Penalties for Non-Compliance

### 1. Disallowance of Deductions:

Expenses may be disallowed if they fail to meet the deductibility criteria or are improperly documented.

### 2. Transfer Pricing Adjustments:

Tax authorities may adjust taxable income if related-party transactions are not compliant with the arm's length principle.

### 3. Fines and Penalties:

Non-compliance with disclosure and documentation requirements may attract penalties.

## Strategic Considerations

### 1. Monitor Related Party Transactions:

Ensure all transactions with related parties are at arm's length and properly documented.

### 2. Align Expenses with Business Income:

Only claim deductions for expenses that are directly related to taxable income generation.

### 3. Seek Expert Advice:

Engage tax professionals to navigate complex deduction rules and ensure compliance with transfer pricing requirements.

### 4. Audit Readiness:

Maintain robust documentation to substantiate deductions and related-party transactions during tax audits.

## Conclusion

The UAE Corporate Tax Law provides clear guidelines on **deductions** and **related party transactions** to ensure businesses fairly report taxable income. Proper planning, documentation, and adherence to arm's length principles are essential for

maximizing allowable deductions while remaining compliant with tax regulations.

Deductions



Deductions Under UAE Corporate Tax Law

Deductions play a crucial role in calculating taxable income under the **UAE Corporate Tax Law**. Businesses can claim deductions for expenses incurred during the taxable period, provided these expenses are **wholly and exclusively** related to generating taxable income. Proper understanding and compliance with deduction rules can significantly reduce tax liabilities.

Key Features of Deductions

| Aspect     | Details                                                                                                    |
|------------|------------------------------------------------------------------------------------------------------------|
| Definition | Amounts subtracted from gross income to calculate taxable income, reflecting the costs of earning revenue. |
| Objective  | To ensure only the net income is taxed by allowing the deduction of legitimate business expenses.          |

Allowable Deductions

**Allowable deductions** are expenses incurred exclusively for business purposes, directly linked to generating taxable income. These include:

1. **Operating Expenses:**
  - Salaries and wages.
  - Rent and utilities.
  - Repairs and maintenance of business assets.
2. **Cost of Goods Sold (COGS):**

Costs directly associated with the production or sale of goods, such as raw materials and direct labor.
3. **Interest Expenses:**

Interest on loans for business purposes, subject to the **30% EBITDA limitation**.

#### 4. Marketing and Advertising:

Expenses for promotional activities, advertising campaigns, and branding efforts.

#### 5. Professional and Legal Fees:

Costs for accounting, legal, and consulting services directly related to business operations.

#### 6. Depreciation and Amortization:

Deduction for the wear and tear of fixed assets and amortization of intangible assets over their useful lives.

#### 7. Research and Development (R&D):

Expenses for R&D activities directly linked to the business.

#### 8. Bad Debts:

Irrecoverable debts, provided they are written off in the accounts and efforts were made for recovery.

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### Non-Allowable Deductions

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Certain expenses are **not deductible**, including:

##### 1. Personal Expenses:

Costs unrelated to business activities, such as personal travel or non-business-related entertainment.

##### 2. Fines and Penalties:

Payments for violations of laws (e.g., traffic fines or administrative penalties).

##### 3. Capital Expenditures:

Expenses for acquiring fixed assets (deductible over time through depreciation).

##### 4. Expenses for Exempt Income:

Costs incurred to generate **exempt income**, such as dividends from qualifying shareholdings.

##### 5. Unreasonable or Excessive Expenses:

Expenditures not aligned with market value or not justified as necessary for the business.

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### Special Limitations on Deductions

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1. **Net Interest Deduction Limit:**

Interest expenses are deductible up to **30% of EBITDA**, ensuring compliance with anti-base erosion rules.

2. **Related Party Transactions:**

Expenses for transactions with related parties must adhere to the **arm’s length principle** and be documented appropriately.

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**Compliance Requirements**

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| Requirement                | Details                                                                                                        |
|----------------------------|----------------------------------------------------------------------------------------------------------------|
| Documentation              | Maintain invoices, receipts, contracts, and records for all claimed expenses.                                  |
| Tax Return Disclosure      | Report all deductions in the corporate tax return and ensure they align with the requirements of UAE tax law.  |
| Substantiation of Expenses | Provide evidence that expenses are directly related to taxable income generation and are reasonable in nature. |

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**Strategic Considerations**

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1. **Expense Categorization:**

Clearly distinguish between deductible and non-deductible expenses to avoid disallowances during audits.

2. **Utilize Depreciation:**

Maximize deductions through proper depreciation schedules for fixed assets.

3. **Monitor Related Party Expenses:**

Ensure transactions with related parties comply with transfer pricing rules to avoid adjustments or penalties.

4. **Seek Expert Guidance:**

Engage tax professionals to identify all allowable deductions and optimize tax outcomes.

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**Conclusion**

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Understanding and effectively utilizing **deductions** under UAE Corporate Tax Law can significantly reduce a business’s taxable income. Proper planning, documentation, and compliance with the law’s requirements are essential to ensure all eligible expenses are claimed while avoiding disallowances or penalties.

## Identifying Deductible Expenditures



### Identifying Deductible Expenditures Under UAE Corporate Tax Law

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The UAE Corporate Tax Law allows businesses to deduct expenditures that are **wholly and exclusively** incurred for generating taxable income. Identifying deductible expenses accurately is crucial for minimizing tax liabilities and ensuring compliance.

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### Key Characteristics of Deductible Expenditures

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| Aspect             | Details                                                                                        |
|--------------------|------------------------------------------------------------------------------------------------|
| Purpose of Expense | The expenditure must be directly related to earning taxable income.                            |
| Reasonableness     | The amount of the expense should be reasonable and customary for the nature of the business.   |
| Documentation      | Expenses must be supported by proper documentation, such as invoices, contracts, and receipts. |

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### Categories of Deductible Expenditures

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| Category                          | Examples                                                                                                                                                                                   |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Operating Expenses             | <ul style="list-style-type: none"><li>- Salaries and wages of employees.</li><li>- Rent and utilities for business premises.</li><li>- Office supplies and administrative costs.</li></ul> |
| 2. Cost of Goods Sold (COGS)      | <ul style="list-style-type: none"><li>- Costs directly linked to the production or sale of goods, including raw materials, direct labor, and manufacturing overheads.</li></ul>            |
| 3. Depreciation and Amortization  | <ul style="list-style-type: none"><li>- Depreciation of fixed assets, such as machinery and equipment.</li><li>- Amortization of intangible assets like patents and trademarks.</li></ul>  |
| 4. Marketing and Advertising      | <ul style="list-style-type: none"><li>- Advertising campaigns.</li><li>- Branding activities.</li><li>- Sponsorships and promotional events.</li></ul>                                     |
| 5. Research and Development (R&D) | <ul style="list-style-type: none"><li>- R&amp;D costs that contribute to the development of products, services, or processes directly related to the business.</li></ul>                   |

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| Category                          | Examples                                                                                  |
|-----------------------------------|-------------------------------------------------------------------------------------------|
| <b>6. Professional Services</b>   | - Fees for legal, accounting, and consulting services incurred for business purposes.     |
| <b>7. Interest Expenses</b>       | - Interest paid on business loans, subject to the <b>30% EBITDA limitation</b> .          |
| <b>8. Bad Debts</b>               | - Debts written off as irrecoverable, provided reasonable efforts were made for recovery. |
| <b>9. Repairs and Maintenance</b> | - Costs of maintaining or repairing business assets to ensure operational efficiency.     |

## Expenses That Are Not Deductible

| Category                                  | Examples                                                                                     |
|-------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>1. Personal Expenses</b>               | - Non-business-related travel or entertainment costs.                                        |
| <b>2. Fines and Penalties</b>             | - Payments for violating laws, such as traffic or administrative fines.                      |
| <b>3. Capital Expenditures</b>            | - Costs of acquiring or upgrading fixed assets (deductible over time through depreciation).  |
| <b>4. Expenses for Exempt Income</b>      | - Costs incurred to generate exempt income, such as dividends from qualifying shareholdings. |
| <b>5. Unreasonable or Excessive Costs</b> | - Expenditures not aligned with market value or not customary for the industry.              |

## Key Limitations on Deductible Expenditures

| Limitation                        | Details                                                                                                             |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>30% EBITDA Rule</b>            | Interest deductions are capped at <b>30% of EBITDA</b> , preventing excessive debt-related deductions.              |
| <b>Related Party Transactions</b> | Expenses involving related parties must comply with the <b>arm's length principle</b> and be adequately documented. |

## Compliance Requirements

| Requirement | Details |
|-------------|---------|
|-------------|---------|

| Requirement                  | Details                                                                                            |
|------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Documentation</b>         | Maintain detailed records of all expenditures, including invoices, contracts, and bank statements. |
| <b>Tax Return Disclosure</b> | Report all deductible expenditures in the annual corporate tax return.                             |
| <b>Reasonableness Test</b>   | Ensure that claimed expenses are reasonable and directly related to business activities.           |

## Examples of Deductible vs. Non-Deductible Expenditures

| Expense Type                 | Deductible?   | Reason                                                                            |
|------------------------------|---------------|-----------------------------------------------------------------------------------|
| Rent for Office Premises     | Yes           | Directly related to business operations.                                          |
| Personal Travel              | No            | Not related to earning taxable income.                                            |
| Interest on Business Loan    | Yes (Limited) | Deductible up to 30% of EBITDA, provided it supports taxable business activities. |
| Fines for Traffic Violations | No            | Fines and penalties are non-deductible.                                           |
| Advertising Campaign         | Yes           | Directly promotes the business and generates taxable income.                      |

## Strategic Considerations

### 1. Segregate Business and Personal Expenses:

Maintain separate records for business and personal expenditures to avoid disallowances.

### 2. Leverage Depreciation:

Optimize deductions by accurately calculating and applying depreciation for fixed assets.

### 3. Monitor Related Party Transactions:

Ensure compliance with transfer pricing rules to claim deductions for related party expenses.

### 4. Seek Expert Advice:

Engage tax professionals to identify all eligible deductions and ensure compliance with UAE Corporate Tax Law.

## Conclusion

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Identifying **deductible expenditures** under UAE Corporate Tax Law is essential for businesses to reduce their taxable income effectively. By ensuring expenses are wholly and exclusively related to taxable income, maintaining proper documentation, and adhering to compliance requirements, businesses can maximize allowable deductions while avoiding penalties or disallowances.

### Rules for Interest Expenditures



## Rules for Interest Expenditures Under UAE Corporate Tax Law

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The UAE Corporate Tax Law provides guidelines for deducting **interest expenditures**, balancing the need to support genuine business financing with measures to prevent tax base erosion through excessive debt financing. Interest deductions are subject to limitations, ensuring compliance with global best practices, such as the **OECD’s Base Erosion and Profit Shifting (BEPS) Action Plan**.

## Key Features of Interest Deduction Rules

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| Aspect                 | Details                                                                                                                      |
|------------------------|------------------------------------------------------------------------------------------------------------------------------|
| Definition of Interest | Interest includes payments for the use of borrowed funds, such as loans, credit facilities, or other financing arrangements. |
| Purpose of Deduction   | Allows businesses to deduct interest expenses incurred for generating taxable income, subject to specific conditions.        |

## Eligibility Criteria for Interest Deduction

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- To qualify for deduction, interest expenditures must meet the following conditions:
- 1. **Business Purpose:**

The interest expense must be incurred wholly and exclusively for the purpose of generating taxable income.
  - 2. **Reasonableness:**

The interest amount must be reasonable and customary in the context of the business and industry.

### 3. Documentation:

Proper records must be maintained, including loan agreements, repayment schedules, and proof of payment.

### 4. Compliance with Arm's Length Principle (for related parties):

Interest paid to related parties must adhere to transfer pricing rules and reflect fair market rates.

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## 30% EBITDA Limitation on Net Interest Deduction

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To prevent base erosion, the deduction for **net interest expenses** (interest expenses minus interest income) is capped at **30% of EBITDA**.

| Aspect                                      | Details                                                                                                                                |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <b>EBITDA Definition</b>                    | Earnings Before Interest, Tax, Depreciation, and Amortization.                                                                         |
| <b>Deduction Cap</b>                        | Net interest expenses exceeding <b>30% of EBITDA</b> in a taxable period cannot be deducted but may be carried forward.                |
| <b>Carry-Forward of Disallowed Interest</b> | Unused interest deductions can be carried forward indefinitely and applied in subsequent tax periods, subject to the 30% EBITDA limit. |

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## Exemptions from the 30% EBITDA Rule

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The following entities or circumstances may be exempt from the EBITDA limitation:

### 1. Standalone Entities:

Entities not part of a multinational group or not engaged in related-party transactions.

### 2. Banks and Financial Institutions:

Regulated financial institutions, such as banks and insurance companies, are generally excluded from this rule due to the nature of their business.

### 3. Small Businesses:

Entities qualifying for **Small Business Relief** (revenue below AED 3 million) may be exempt from the 30% EBITDA limitation.

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## Disallowed Interest Expenditures

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Interest expenses are **not deductible** if they:

### 1. Relate to **non-business purposes**.

2. Are incurred on loans used to generate **exempt income** (e.g., dividends from qualifying shareholdings).
3. Violate the **arm's length principle** in related-party transactions.
4. Exceed the allowable limit under the **30% EBITDA rule**, unless carried forward.

---

## Compliance Requirements

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| Requirement                        | Details                                                                                                                                                                                                                  |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b>               | Maintain detailed records of: <ul style="list-style-type: none"><li>- Loan agreements.</li><li>- Interest calculations.</li><li>- Proof of payment.</li><li>- Justifications for related-party interest rates.</li></ul> |
| <b>Tax Return Disclosure</b>       | Report all interest expenditures, deductions claimed, and any carry-forward amounts in the corporate tax return.                                                                                                         |
| <b>Transfer Pricing Compliance</b> | For related-party loans, prepare transfer pricing documentation to demonstrate compliance with the arm's length principle.                                                                                               |

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## Strategic Considerations

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### 1. Monitor Interest Expenses:

Regularly calculate net interest expenses relative to EBITDA to ensure compliance with the 30% limitation.

### 2. Optimize Debt Financing:

Balance debt and equity financing to minimize disallowed interest deductions.

### 3. Utilize Carry-Forward Provisions:

Plan to apply disallowed interest expenditures in future periods when EBITDA allows.

### 4. Engage Professional Advice:

Seek guidance to structure financing arrangements, especially for cross-border or related-party loans, ensuring compliance with UAE tax rules.

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## Example of 30% EBITDA Limitation

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| Details       | Amount (AED) |
|---------------|--------------|
| <b>EBITDA</b> | 1,000,000    |

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| Details              | Amount (AED)                               |
|----------------------|--------------------------------------------|
| Interest Expense     | 400,000                                    |
| Interest Income      | 50,000                                     |
| Net Interest Expense | 350,000 (400,000 - 50,000)                 |
| 30% of EBITDA        | 300,000                                    |
| Deductible Interest  | 300,000                                    |
| Disallowed Interest  | 50,000 (carried forward to future periods) |

## Conclusion

The rules for interest expenditures under UAE Corporate Tax Law strike a balance between allowing genuine business expenses and preventing excessive interest deductions that erode the tax base. By adhering to the **30% EBITDA limitation**, maintaining proper documentation, and ensuring compliance with transfer pricing rules, businesses can optimize their interest deductions while avoiding penalties or disallowances.

### General and Specific Interest Deduction Limitation Rules



## General and Specific Interest Deduction Limitation Rules Under UAE Corporate Tax Law

The UAE Corporate Tax Law sets forth **general** and **specific limitation rules** to govern the deduction of interest expenses. These rules are designed to allow legitimate business financing costs while preventing tax base erosion through excessive interest deductions.

### 1. General Interest Deduction Limitation Rule

The general limitation rule applies to all businesses and caps the deduction of **net interest expenses** (interest expenses minus interest income) based on a fixed proportion of **EBITDA**.

| Aspect                 | Details                                                                                                                          |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <b>30% EBITDA Rule</b> | Net interest expenses are deductible up to <b>30% of EBITDA</b> (Earnings Before Interest, Tax, Depreciation, and Amortization). |

| Aspect                                      | Details                                                                                                                                |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose</b>                              | Prevents excessive debt financing and ensures that businesses retain an adequate equity base.                                          |
| <b>Scope</b>                                | Applies to most businesses operating in the UAE, except those specifically exempted.                                                   |
| <b>Carry-Forward of Disallowed Interest</b> | Net interest expenses exceeding the 30% EBITDA cap can be <b>carried forward indefinitely</b> for deduction in subsequent tax periods. |

### Exemptions from the 30% EBITDA Rule

#### 1. Banks and Financial Institutions:

Regulated entities like banks, insurance companies, and other financial institutions are generally excluded from this rule due to the nature of their operations.

#### 2. Small Businesses:

Entities qualifying for **Small Business Relief** (annual revenue below AED 3 million) are exempt from the general interest limitation rule.

#### 3. Standalone Entities:

Entities not part of a multinational group or not engaged in related-party transactions may also be exempt.

## 2. Specific Interest Deduction Limitation Rule

The specific rule applies to transactions involving **related parties** and enforces stricter compliance with **arm's length principles** to prevent tax avoidance.

| Aspect                           | Details                                                                                                                         |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Arm's Length Principle</b>    | Interest paid to related parties must reflect market rates that independent parties would agree to under similar conditions.    |
| <b>Interest on Exempt Income</b> | Interest expenses incurred to generate <b>exempt income</b> (e.g., dividends from qualifying shareholdings) are not deductible. |
| <b>Thin Capitalization Rules</b> | Excessive debt funding by related parties may lead to disallowance of interest deductions if not commercially justified.        |

### Documentation Requirements for Related-Party Transactions

#### 1. Loan Agreements:

Maintain agreements detailing loan terms, interest rates, and repayment schedules.

**2. Transfer Pricing Documentation:**

Prepare documentation demonstrating compliance with the arm’s length principle.

**3. Purpose of Loan:**

Prove that the borrowed funds were used for taxable business purposes.

**Comparison of General and Specific Rules**

| Aspect                               | General Rule                                                  | Specific Rule                                                     |
|--------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------|
| Scope                                | Applies to all businesses (except exempted entities).         | Applies specifically to related-party transactions.               |
| Limitation                           | Net interest capped at <b>30% of EBITDA</b> .                 | Disallows interest not at arm’s length or used for exempt income. |
| Carry-Forward of Disallowed Interest | Yes, disallowed interest can be carried forward indefinitely. | Not applicable; disallowed interest cannot be carried forward.    |
| Purpose                              | Prevents excessive debt financing.                            | Ensures related-party transactions reflect market conditions.     |

**Compliance Requirements**

| Requirement                 | Details                                                                                            |
|-----------------------------|----------------------------------------------------------------------------------------------------|
| Documentation               | Maintain records of all interest expenses, including invoices, bank statements, and contracts.     |
| Disclosure                  | Report interest expenses and any disallowed amounts in the corporate tax return.                   |
| Transfer Pricing Compliance | Related-party transactions must comply with transfer pricing rules and the arm’s length principle. |

**Strategic Considerations**

**1. Monitor EBITDA:**

Regularly calculate EBITDA to manage interest expenses within the 30% limit.

**2. Balance Debt and Equity:**

Optimize the mix of debt and equity financing to minimize disallowed interest.

### 3. Focus on Documentation:

Maintain robust records to support compliance with both general and specific rules.

### 4. Plan for Carry-Forward:

Strategically use the carry-forward provision for disallowed interest in future profitable periods.

### 5. Engage Professionals:

Seek expert advice to structure financing arrangements and ensure compliance with interest deduction rules.

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## Conclusion

The **general and specific interest deduction limitation rules** under UAE Corporate Tax Law ensure that interest expenses are reasonable, necessary, and aligned with market conditions. Businesses must carefully manage their financing strategies, adhere to arm's length principles, and maintain comprehensive documentation to optimize allowable deductions while complying with the law.

### Guidelines for Entertainment Expenditure



## Guidelines for Entertainment Expenditure Under UAE Corporate Tax Law

Under the UAE Corporate Tax Law, **entertainment expenditures** are subject to specific rules that determine whether they are deductible for tax purposes. These guidelines aim to distinguish legitimate business-related expenses from personal or excessive expenditures.

### Definition of Entertainment Expenditure

Entertainment expenditures refer to costs incurred for activities aimed at hosting, entertaining, or engaging with clients, suppliers, or employees. Common examples include:

| Type of Expenditure  | Examples                                                                                |
|----------------------|-----------------------------------------------------------------------------------------|
| Client Entertainment | Business meals, hospitality, tickets to events, or recreational activities for clients. |

| Type of Expenditure              | Examples                                                                                                      |
|----------------------------------|---------------------------------------------------------------------------------------------------------------|
| <b>Staff Entertainment</b>       | Costs for employee events such as annual parties, team-building activities, or celebratory meals.             |
| <b>Promotional Entertainment</b> | Costs associated with hosting public events or promotional activities to market the business or its products. |

## General Rules for Deductibility

To qualify as a deductible expense, entertainment expenditures must satisfy the following criteria:

### 1. Wholly and Exclusively for Business Purposes:

The expense must directly relate to generating taxable income or advancing the business's objectives.

### 2. Reasonableness:

The expenditure must be reasonable and customary for the industry and business size.

### 3. Documentation:

Adequate records, including invoices, receipts, and descriptions of the purpose of the expense, must be maintained.

## Limitations on Deductibility

| Category                            | Deductibility                                                                                                           |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>Business Entertainment</b>       | Only <b>50% of business entertainment expenses</b> incurred for clients or customers may be deductible.                 |
| <b>Staff Welfare and Events</b>     | Fully deductible if they are reasonable, relate directly to the business, and benefit employees (e.g., annual parties). |
| <b>Excessive or Lavish Expenses</b> | Non-deductible if the expense is deemed extravagant or unrelated to business purposes.                                  |
| <b>Personal Entertainment</b>       | Fully non-deductible (e.g., personal celebrations or vacations).                                                        |

## Examples of Deductible vs. Non-Deductible Entertainment Expenses

| Expense Type | Deductible? | Reason |
|--------------|-------------|--------|
|--------------|-------------|--------|

| Expense Type                  | Deductible?          | Reason                                                                                    |
|-------------------------------|----------------------|-------------------------------------------------------------------------------------------|
| Client Dinner                 | Partially deductible | Only 50% of the expense is deductible as it involves entertaining external parties.       |
| Employee Team-Building Event  | Fully deductible     | Directly benefits employees and enhances workplace morale, a legitimate business expense. |
| Sponsorship of Industry Event | Fully deductible     | Promotes the business and aligns with taxable income generation.                          |
| Luxury Retreat for Owner      | Non-deductible       | Classified as a personal expense unrelated to business operations.                        |

## Compliance Requirements

| Requirement                  | Details                                                                                                                                                                                 |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Record-Keeping</b>        | Maintain detailed records, including: <ul style="list-style-type: none"> <li>- Invoices and receipts.</li> <li>- Attendee lists.</li> <li>- Purpose of the event or expense.</li> </ul> |
| <b>Tax Return Disclosure</b> | Clearly report deductible and non-deductible portions of entertainment expenses in the corporate tax return.                                                                            |
| <b>Reasonableness Test</b>   | Justify that the expense is reasonable and customary for the industry and contributes to taxable income generation.                                                                     |

## Penalties for Non-Compliance

Failure to comply with entertainment expenditure guidelines may result in:

### 1. Disallowance of Deductions:

Non-compliant expenses may be fully disallowed, increasing taxable income.

### 2. Fines and Penalties:

Incorrect disclosures may attract penalties under UAE Corporate Tax Law.

## Strategic Considerations

### 1. Expense Categorization:

Clearly distinguish between personal, staff-related, and client-related entertainment expenses to maximize allowable deductions.

2. **Expense Limits:**

Monitor entertainment expenditures to ensure they remain within reasonable limits.

3. **Documentation Focus:**

Maintain comprehensive records to substantiate entertainment expenses during tax audits.

4. **Policy Development:**

Implement internal guidelines to manage and monitor entertainment expenses in compliance with tax regulations.

---

**Conclusion**

Entertainment expenditures under UAE Corporate Tax Law require careful management to ensure compliance and maximize allowable deductions. By adhering to the **50% deduction rule** for client-related expenses, maintaining proper documentation, and categorizing expenses accurately, businesses can effectively manage their tax liabilities while fostering positive relationships with clients and employees.

Overview of Non-Deductible Expenditures



**Overview of Non-Deductible Expenditures Under UAE Corporate Tax Law**

The UAE Corporate Tax Law specifies certain expenditures that are **non-deductible**, meaning they cannot be subtracted from gross income when calculating taxable income. These rules ensure that only expenses genuinely incurred for generating taxable income are deducted, while disallowing costs unrelated to business operations or those incurred for non-business purposes.

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**Key Categories of Non-Deductible Expenditures**

| Category          | Examples                                                                                                                                                      | Reason for Non-Deductibility                                     |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Personal Expenses | <ul style="list-style-type: none"><li>- Personal travel.</li><li>- Non-business-related entertainment.</li><li>- Personal use of company resources.</li></ul> | Not incurred for business purposes or taxable income generation. |

| Category                                                     | Examples                                                                                                                                                 | Reason for Non-Deductibility                                                                        |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| <b>Fines and Penalties</b>                                   | <ul style="list-style-type: none"> <li>- Traffic fines.</li> <li>- Administrative penalties.</li> <li>- Regulatory violations.</li> </ul>                | Does not serve a business purpose and is punitive in nature.                                        |
| <b>Capital Expenditures</b>                                  | <ul style="list-style-type: none"> <li>- Purchase of fixed assets (e.g., buildings, equipment).</li> <li>- Major upgrades or improvements.</li> </ul>    | Treated as capital costs and deductible over time through depreciation or amortization.             |
| <b>Expenses Related to Exempt Income</b>                     | <ul style="list-style-type: none"> <li>- Costs associated with generating exempt income, such as dividends from qualifying shareholdings.</li> </ul>     | Exempt income is not taxable, so related expenses are non-deductible to prevent double tax relief.  |
| <b>Unreasonable or Excessive Costs</b>                       | <ul style="list-style-type: none"> <li>- Overly extravagant client entertainment.</li> <li>- Expenditures exceeding customary business needs.</li> </ul> | Costs that are deemed excessive, unrelated, or unreasonable for the size or nature of the business. |
| <b>Dividends Paid</b>                                        | <ul style="list-style-type: none"> <li>- Dividends paid to shareholders.</li> </ul>                                                                      | Dividends are distributions of profits and not business expenses.                                   |
| <b>Income Tax Paid</b>                                       | <ul style="list-style-type: none"> <li>- UAE corporate tax paid or recoverable in any jurisdiction.</li> </ul>                                           | Taxes paid are not considered business expenses for deduction purposes.                             |
| <b>Provisions for General Reserves</b>                       | <ul style="list-style-type: none"> <li>- Provisions for contingencies or future liabilities not directly linked to specific expenses.</li> </ul>         | Reserves are not actual expenditures and do not represent incurred costs.                           |
| <b>Related Party Expenses Failing Arm's Length Principle</b> | <ul style="list-style-type: none"> <li>- Interest or payments to related parties that do not comply with the <b>arm's length principle</b>.</li> </ul>   | Prevents profit shifting or tax base erosion through non-market-based related-party transactions.   |

## Detailed Explanations of Key Non-Deductible Items

### 1. Fines and Penalties:

Fines imposed for violations of laws or regulations, such as late filing penalties or regulatory non-compliance, are not deductible as they are punitive in nature.

### 2. Capital Expenditures:

While capital costs are non-deductible, businesses can claim **depreciation** or **amortization** over the useful life of the asset.

3. **Expenses for Exempt Income:**

For example, expenses incurred in managing investments generating dividends from qualifying shareholdings are non-deductible since the related income is tax-exempt.

4. **Extravagant or Unreasonable Expenses:**

Expenses that exceed industry norms or are deemed overly lavish, such as luxury entertainment, may be disallowed.

5. **Non-Business Expenses:**

Expenses unrelated to the business’s core activities, such as personal use of vehicles or properties, are excluded from deductions.

**Examples of Non-Deductible vs. Deductible Expenditures**

| Expense                      | Deductible?      | Reason                                                                          |
|------------------------------|------------------|---------------------------------------------------------------------------------|
| Salaries of Employees        | Yes              | Directly related to business operations and income generation.                  |
| Traffic Fines                | No               | Classified as a penalty, not a business expense.                                |
| Office Rent                  | Yes              | Necessary for business operations.                                              |
| Dividends to Shareholders    | No               | Dividends are distributions of profit, not an incurred business expense.        |
| Marketing Expenses           | Yes              | Helps generate taxable income.                                                  |
| Purchase of Office Furniture | No (Capitalized) | Treated as a capital expenditure and deductible over time through depreciation. |

**Compliance Requirements**

| Requirement    | Details                                                                                                             |
|----------------|---------------------------------------------------------------------------------------------------------------------|
| Categorization | Clearly distinguish between deductible and non-deductible expenses in financial records and tax filings.            |
| Documentation  | Maintain supporting documents, such as receipts, invoices, and contracts, to justify business-related expenditures. |
| Disclosure     | Non-deductible expenditures must still be disclosed in the corporate tax return for transparency.                   |

## Penalties for Non-Compliance

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### 1. Adjustment of Taxable Income:

Non-deductible expenses incorrectly claimed may result in adjustments to taxable income.

### 2. Fines and Penalties:

Misreporting non-deductible expenses may attract penalties from the tax authority.

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## Strategic Considerations

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### 1. Expense Tracking:

Implement robust accounting systems to segregate deductible and non-deductible expenditures.

### 2. Leverage Depreciation:

For capital expenditures, ensure appropriate depreciation schedules are applied to claim deductions over time.

### 3. Avoid Extravagance:

Monitor entertainment and related expenditures to ensure they are reasonable and within allowable limits.

### 4. Seek Professional Guidance:

Engage tax professionals to accurately identify and report deductible and non-deductible expenses.

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## Conclusion

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Non-deductible expenditures under UAE Corporate Tax Law are clearly defined to ensure fairness and compliance in calculating taxable income. Businesses must carefully track and categorize expenses, maintain proper documentation, and adhere to the rules to avoid penalties and optimize their tax positions.

Transactions with Related Parties and Connected Persons



## Transactions with Related Parties and Connected Persons Under UAE Corporate Tax Law

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Under the UAE Corporate Tax Law, transactions with **related parties** and **connected persons** are subject to specific rules to ensure fairness, prevent tax base erosion, and align with international transfer pricing standards, including the **arm's length principle**.

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## 1. Definitions

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| Term                     | Definition                                                                                                                                                                                                                                                                                       |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Related Parties</b>   | Entities or individuals connected to a business through ownership, control, or significant influence. Includes: <ul style="list-style-type: none"><li>- Parent companies.</li><li>- Subsidiaries.</li><li>- Group companies.</li><li>- Individuals owning or controlling the business.</li></ul> |
| <b>Connected Persons</b> | Persons related to the owners or management of a business, such as: <ul style="list-style-type: none"><li>- Family members (e.g., spouses, children, siblings).</li><li>- Directors or officers of the business.</li></ul>                                                                       |

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## Examples of Related Parties and Connected Persons

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| Category                        | Examples                                                                                           |
|---------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Family Relationships</b>     | Spouse, children, siblings, parents, or other close relatives of the business owner or management. |
| <b>Business Relationships</b>   | Parent companies, subsidiaries, affiliates, or entities under common control.                      |
| <b>Management Relationships</b> | Directors, partners, or officers of the business.                                                  |

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## Key Rules for Related Party and Connected Person Transactions

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### 1. Arm's Length Principle:

Transactions must be conducted as if they were between unrelated parties, reflecting fair market value and independent commercial terms.

### 2. Documentation Requirements:

Maintain transfer pricing documentation to substantiate the arm's length nature of transactions.

### 3. Disclosure Obligations:

Related party and connected person transactions must be disclosed in the corporate tax return.

### 4. Economic Substance Requirements:

Demonstrate that transactions have valid commercial purposes beyond mere tax benefits.

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## Transactions Covered

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| Transaction Type                 | Examples                                                                          |
|----------------------------------|-----------------------------------------------------------------------------------|
| <b>Sale or Purchase of Goods</b> | Transfer of inventory, raw materials, or finished goods between related entities. |
| <b>Provision of Services</b>     | Management fees, consultancy services, or technical support.                      |
| <b>Financing Arrangements</b>    | Loans, advances, or guarantees provided by or to related parties.                 |
| <b>Use of Intangibles</b>        | Licensing or royalty payments for intellectual property between related entities. |
| <b>Lease Agreements</b>          | Leasing of assets, such as office spaces, equipment, or vehicles.                 |

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## Transfer Pricing Rules

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The UAE Corporate Tax Law requires compliance with **transfer pricing** regulations for transactions with related parties and connected persons.

| Aspect                                | Details                                                                                                                                                                                                                                                    |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Arm's Length Principle</b>         | Ensure pricing matches what would be agreed between independent parties in comparable transactions.                                                                                                                                                        |
| <b>Acceptable Methods</b>             | Methods include: <ul style="list-style-type: none"><li>- Comparable Uncontrolled Price (CUP) Method.</li><li>- Resale Price Method.</li><li>- Cost Plus Method.</li><li>- Profit Split Method.</li><li>- Transactional Net Margin Method (TNMM).</li></ul> |
| <b>Transfer Pricing Documentation</b> | Prepare detailed records, including: <ul style="list-style-type: none"><li>- Functional analysis.</li><li>- Economic analysis.</li><li>- Benchmarking studies to support pricing.</li></ul>                                                                |

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## Tax Implications

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### 1. Adjustments:

Tax authorities can adjust taxable income if transactions are not at arm's length.

### 2. Disallowance of Deductions:

Deductions may be denied if payments to related parties or connected persons are excessive or lack commercial justification.

### 3. Penalties:

Non-disclosure or non-compliance with transfer pricing rules can attract penalties.

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## Compliance Requirements

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| Requirement                        | Details                                                                                                                  |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>Transfer Pricing Disclosure</b> | Submit a declaration of related-party transactions with the corporate tax return.                                        |
| <b>Documentation Maintenance</b>   | Maintain transfer pricing reports, contracts, invoices, and other supporting documents for at least <b>seven years</b> . |
| <b>Economic Substance Test</b>     | Ensure that transactions have commercial substance and are not solely tax-driven.                                        |

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## Strategic Considerations

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### 1. Conduct Regular Benchmarking:

Periodically review and benchmark related-party transactions to ensure compliance with arm's length standards.

### 2. Segregate Personal and Business Transactions:

Clearly separate transactions with connected persons to avoid misclassification or tax implications.

### 3. Leverage Professional Guidance:

Engage tax advisors to prepare robust transfer pricing documentation and ensure compliance with UAE Corporate Tax Law.

### 4. Monitor Cross-Border Transactions:

Pay special attention to international related-party transactions, which may also be subject to UAE's double taxation agreements (DTAs).

## Conclusion

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Transactions with **related parties** and **connected persons** under UAE Corporate Tax Law require strict adherence to **arm's length principles** and thorough documentation to avoid penalties and tax adjustments. By maintaining compliance with transfer pricing rules, disclosing transactions accurately, and ensuring commercial substance, businesses can manage these transactions effectively while minimizing tax risks.

### Understanding the Arm's Length Principle



## Understanding the Arm's Length Principle Under UAE Corporate Tax Law

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The **Arm's Length Principle (ALP)** is a cornerstone of transfer pricing regulations under the UAE Corporate Tax Law. It ensures that transactions between related parties are conducted as if they were between independent, unrelated entities, reflecting fair market value. This principle prevents profit shifting and tax base erosion through artificial pricing in related-party transactions.

### Definition of the Arm's Length Principle

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The **Arm's Length Principle** requires that the terms and conditions of transactions between related parties must mirror those that would apply in transactions between unrelated parties in comparable circumstances.

### Application of the Arm's Length Principle

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The principle applies to transactions involving **related parties** or **connected persons**, including:

| Transaction Type                 | Examples                                                                                  |
|----------------------------------|-------------------------------------------------------------------------------------------|
| <b>Sale or Purchase of Goods</b> | Transfer of raw materials, inventory, or finished goods between group companies.          |
| <b>Provision of Services</b>     | Management fees, consultancy services, technical support, or shared service arrangements. |
| <b>Financial Transactions</b>    | Loans, advances, guarantees, or interest payments.                                        |
| <b>Use of Intangible Assets</b>  | Licensing or royalty payments for intellectual property, such as patents or trademarks.   |

| Transaction Type        | Examples                                                               |
|-------------------------|------------------------------------------------------------------------|
| <b>Lease Agreements</b> | Renting office spaces, equipment, or vehicles between related parties. |

## Key Elements of the Arm's Length Principle

### 1. Comparable Uncontrolled Transactions:

Transactions between related parties must be benchmarked against comparable transactions between unrelated parties (uncontrolled transactions).

### 2. Commercial and Economic Substance:

Transactions must have valid commercial purposes and reflect economic realities, not solely tax-saving motives.

### 3. Fair Market Value:

Prices, terms, and conditions must align with those that would apply in the open market between independent entities.

## Transfer Pricing Methods

The UAE Corporate Tax Law allows the use of internationally recognized methods to determine whether related-party transactions meet the Arm's Length Principle.

| Method                                           | Description                                                                                                              |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>1. Comparable Uncontrolled Price (CUP)</b>    | Compares the price charged in a related-party transaction to the price charged in a comparable uncontrolled transaction. |
| <b>2. Resale Price Method</b>                    | Starts with the resale price of a product and subtracts an appropriate gross margin to determine the transfer price.     |
| <b>3. Cost Plus Method</b>                       | Adds an appropriate markup to the cost incurred by the supplier in a related-party transaction.                          |
| <b>4. Transactional Net Margin Method (TNMM)</b> | Examines the net profit relative to an appropriate base (e.g., costs, sales) in a related-party transaction.             |
| <b>5. Profit Split Method</b>                    | Allocates combined profits from a related-party transaction between entities based on their contributions.               |

## Documentation Requirements

To demonstrate compliance with the Arm's Length Principle, businesses must maintain comprehensive transfer pricing documentation, including:

| Document                        | Details                                                                                                                      |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Master File</b>              | Provides an overview of the global operations, transfer pricing policies, and financial results of the group.                |
| <b>Local File</b>               | Contains detailed information about the UAE entity's related-party transactions, transfer pricing methods, and benchmarking. |
| <b>Benchmarking Study</b>       | Compares related-party transactions to similar uncontrolled transactions to justify pricing.                                 |
| <b>Contracts and Agreements</b> | Evidence of the terms and conditions of related-party transactions.                                                          |

## Compliance Obligations

| Requirement                     | Details                                                                                                           |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <b>Disclosure in Tax Return</b> | Related-party transactions must be disclosed in the annual corporate tax return.                                  |
| <b>Transfer Pricing Report</b>  | Submit detailed reports upon request by the tax authority to validate compliance with the Arm's Length Principle. |
| <b>Retention of Records</b>     | Maintain transfer pricing documentation for at least <b>7 years</b> to support audits.                            |

## Tax Implications of Non-Compliance

| Issue                               | Consequence                                                                                                               |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <b>Non-Arm's Length Pricing</b>     | Tax authorities may adjust taxable income by substituting the arm's length price for the related-party transaction price. |
| <b>Penalties for Non-Disclosure</b> | Failure to disclose related-party transactions may attract fines and penalties.                                           |
| <b>Disallowance of Deductions</b>   | Expenses exceeding the arm's length value may be disallowed for tax purposes.                                             |

## Strategic Considerations

## 1. Periodic Benchmarking:

Regularly compare related-party transactions with market data to ensure compliance with the Arm's Length Principle.

## 2. Policy Development:

Establish internal transfer pricing policies to govern related-party transactions and ensure consistent compliance.

## 3. Engage Experts:

Leverage tax professionals to prepare robust transfer pricing documentation and navigate complex regulations.

## 4. Audit Readiness:

Maintain organized records and justification for pricing decisions to support audits or inquiries by tax authorities.

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## Conclusion

The **Arm's Length Principle** is fundamental to ensuring fairness and compliance in related-party transactions under UAE Corporate Tax Law. By adhering to recognized transfer pricing methods, maintaining comprehensive documentation, and regularly benchmarking transactions, businesses can minimize tax risks, avoid penalties, and demonstrate compliance with the law.

## Defining Related Parties and Control



## Defining Related Parties and Control Under UAE Corporate Tax Law

The UAE Corporate Tax Law establishes clear definitions for **related parties** and **control** to identify transactions that require special scrutiny under **transfer pricing** and other tax regulations. These definitions are critical for ensuring compliance, preventing tax base erosion, and aligning with international standards like the OECD's guidelines.

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## 1. Related Parties

**Definition: Related parties** include entities or individuals connected through ownership, control, or significant influence. These connections can exist directly or indirectly.

## Categories of Related Parties

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| Category               | Description                                                                             | Examples                                                                                                                           |
|------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <b>Family Members</b>  | Close relatives of an individual with ownership or control over a business.             | <ul style="list-style-type: none"> <li>- Spouse, children, parents, siblings.</li> <li>- Grandparents or grandchildren.</li> </ul> |
| <b>Ownership-Based</b> | Entities where a person or another entity holds significant ownership or voting rights. | <ul style="list-style-type: none"> <li>- Parent companies, subsidiaries, affiliates.</li> </ul>                                    |
| <b>Common Control</b>  | Entities under common ownership or control, either directly or indirectly.              | <ul style="list-style-type: none"> <li>- Two entities owned by the same individual or group.</li> </ul>                            |
| <b>Key Personnel</b>   | Individuals in decision-making roles within the business.                               | <ul style="list-style-type: none"> <li>- Directors, officers, or key executives.</li> </ul>                                        |

## 2. Control

**Definition: Control** refers to the ability to influence or direct the decisions and activities of an entity. It is typically assessed based on ownership, voting rights, or other mechanisms.

### Types of Control

| Type                         | Description                                                                                                                      | Examples                                                                                                                     |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Direct Control</b>        | When an individual or entity owns or controls <b>50% or more</b> of the voting rights or share capital of another entity.        | <ul style="list-style-type: none"> <li>- A company owning 60% of its subsidiary's shares.</li> </ul>                         |
| <b>Indirect Control</b>      | When control is exerted through layers of ownership or intermediate entities.                                                    | <ul style="list-style-type: none"> <li>- A parent company controlling a subsidiary via another holding company.</li> </ul>   |
| <b>Significant Influence</b> | When an entity has the ability to participate in the financial or operating decisions of another, even without majority control. | <ul style="list-style-type: none"> <li>- Holding 25-50% of voting rights or having a key contractual arrangement.</li> </ul> |
| <b>De Facto Control</b>      | Control established through means other than ownership, such as contractual agreements or dominant influence.                    | <ul style="list-style-type: none"> <li>- A major supplier influencing the decisions of a dependent business.</li> </ul>      |

## 3. Identification of Related Parties and Control

| Criteria for Related Parties     | Details                                                                      |
|----------------------------------|------------------------------------------------------------------------------|
| <b>Ownership Threshold</b>       | Entities with common ownership of <b>50% or more</b> are considered related. |
| <b>Voting Rights</b>             | Control established through voting power, either directly or indirectly.     |
| <b>Family Relationships</b>      | Relatives of business owners or key personnel are related parties.           |
| <b>Common Economic Interests</b> | Entities that share economic dependencies or alignments.                     |

## Examples of Related Parties and Control

| Scenario                                             | Description                                                                               |
|------------------------------------------------------|-------------------------------------------------------------------------------------------|
| A company owns 55% of another company.               | The two companies are related due to direct control.                                      |
| Two companies are owned by the same family.          | Both companies are related due to common ownership and family connections.                |
| A director's spouse owns shares in a vendor company. | The vendor company is a related party due to the spouse's relationship with the director. |

## Tax Implications for Related Parties and Controlled Entities

| Aspect                         | Details                                                                                                               |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Transfer Pricing Rules</b>  | Transactions between related parties must comply with the <b>arm's length principle</b> to reflect fair market value. |
| <b>Disclosure Requirements</b> | Related-party transactions must be disclosed in the corporate tax return.                                             |
| <b>Economic Substance</b>      | Entities must demonstrate commercial substance for transactions involving related parties.                            |

## Compliance Requirements

| Requirement          | Details                                                                                                                  |
|----------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b> | Maintain detailed records of related-party transactions, including agreements, invoices, and justifications for pricing. |

| Requirement                     | Details                                                                                         |
|---------------------------------|-------------------------------------------------------------------------------------------------|
| <b>Transfer Pricing Reports</b> | Prepare and maintain reports to demonstrate compliance with the arm's length principle.         |
| <b>Regular Monitoring</b>       | Continuously assess ownership structures and control relationships to identify related parties. |

## Strategic Considerations

### 1. Periodic Review:

Regularly assess relationships and ownership structures to identify related parties and controlled entities.

### 2. Robust Record-Keeping:

Maintain comprehensive documentation to support the classification of parties and transactions.

### 3. Seek Expert Guidance:

Engage tax professionals to ensure compliance with related-party rules and optimize transfer pricing strategies.

## Conclusion

Understanding the definitions of **related parties** and **control** under UAE Corporate Tax Law is crucial for compliance and accurate reporting. By adhering to disclosure requirements, complying with transfer pricing rules, and maintaining thorough documentation, businesses can effectively manage tax risks associated with related-party transactions.

### Payments to Connected Persons and Associated Rules



## Payments to Connected Persons and Associated Rules Under UAE Corporate Tax Law

Under the UAE Corporate Tax Law, payments to **connected persons** are subject to specific rules and limitations to ensure fairness, prevent tax base erosion, and align with international transfer pricing standards. These payments, which can include salaries, fees, or other forms of compensation, must comply with the **arm's length principle** and demonstrate a legitimate business purpose.

## Definition of Connected Persons

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**Connected persons** include individuals or entities related to the business owner or key personnel. Examples include:

| Category               | Examples                                                                                                                                                                                              |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Family Members         | <ul style="list-style-type: none"><li>- Spouses.</li><li>- Children.</li><li>- Siblings.</li><li>- Parents.</li><li>- Other close relatives of business owners or key management personnel.</li></ul> |
| Business Relationships | <ul style="list-style-type: none"><li>- Directors or officers of the business.</li><li>- Partners or stakeholders with significant influence over the company.</li></ul>                              |

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## Payments to Connected Persons

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Payments to connected persons typically fall into the following categories:

| Payment Type               | Examples                                                                                                                                                   |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Salaries and Compensation  | <ul style="list-style-type: none"><li>- Wages paid to family members employed by the business.</li><li>- Remuneration for directors or officers.</li></ul> |
| Service Fees               | <ul style="list-style-type: none"><li>- Consultancy or advisory fees paid to connected persons.</li></ul>                                                  |
| Rentals and Lease Payments | <ul style="list-style-type: none"><li>- Payments for using properties or assets owned by connected persons.</li></ul>                                      |
| Interest Payments          | <ul style="list-style-type: none"><li>- Interest on loans provided by connected persons to the business.</li></ul>                                         |

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## Rules and Limitations

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### 1. Arm's Length Principle

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Payments to connected persons must be **reasonable** and align with the **arm's length principle**, ensuring they reflect fair market value for similar transactions between unrelated parties.

### 2. Economic Substance

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The payments must serve a valid **commercial purpose** and not exist solely to reduce taxable income.

### 3. Documentation

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Businesses must maintain comprehensive records to justify payments to connected persons, including contracts, invoices, and proof of services rendered.

### 4. Reasonableness Test

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Payments must be reasonable relative to the nature of the services or assets provided and the qualifications of the connected person.

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## Disallowance of Excessive Payments

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Payments that exceed the fair market value or lack proper justification may be **disallowed** as a deductible expense. Examples include:

| Non-Compliant Payment                | Reason for Disallowance                                                                                      |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------|
| Excessive salaries to family members | Salaries significantly higher than industry norms for the role and responsibilities.                         |
| Interest rates above market value    | Loans from connected persons with interest rates exceeding those offered by banks or financial institutions. |
| Unjustified service fees             | Payments for consultancy or services where no clear deliverables or business necessity is demonstrated.      |

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## Compliance Requirements

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| Requirement                 | Details                                                                                                                                                                                        |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transfer Pricing Compliance | Payments to connected persons must adhere to transfer pricing rules and be supported by benchmarking studies if applicable.                                                                    |
| Tax Return Disclosure       | Payments must be disclosed in the corporate tax return, including details of the connected persons and the nature of payments.                                                                 |
| Documentation               | Maintain records such as: <ul style="list-style-type: none"><li>- Employment contracts.</li><li>- Service agreements.</li><li>- Proof of work completed.</li><li>- Payment receipts.</li></ul> |

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## Tax Implications of Non-Compliance

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### 1. Disallowance of Deductions:

Payments exceeding arm's length terms may be disallowed as deductions, increasing taxable income.

### 2. Transfer Pricing Adjustments:

Tax authorities may adjust the taxable income to reflect the fair market value of payments.

### 3. Penalties:

Misreporting or failing to disclose payments to connected persons may attract penalties under UAE Corporate Tax Law.

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## Strategic Considerations

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### 1. Benchmarking:

Regularly compare payments to connected persons with industry standards to ensure compliance with the arm's length principle.

### 2. Audit Readiness:

Maintain detailed documentation to justify payments during audits or inquiries by the Federal Tax Authority (FTA).

### 3. Policy Development:

Implement internal policies for approving payments to connected persons, ensuring alignment with business needs and tax regulations.

### 4. Engage Professional Advisors:

Seek expert guidance to prepare transfer pricing documentation and ensure compliance with UAE Corporate Tax Law.

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## Conclusion

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Payments to **connected persons** under UAE Corporate Tax Law require careful compliance with the **arm's length principle**, economic substance requirements, and proper documentation. By adhering to these rules, businesses can ensure legitimate deductions, avoid disallowances or penalties, and demonstrate compliance during tax audits or reviews. Strategic planning and professional advice are essential to navigate these regulations effectively.

Q&A on the above



## Q&A on Payments to Connected Persons and Associated Rules

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| Question                                                             | Answer                                                                                                                                                                                                                                        |
|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Who are connected persons under UAE Corporate Tax Law?               | Connected persons include close <b>family members</b> (e.g., spouses, children, siblings, parents) and key business personnel, such as <b>directors</b> and <b>officers</b> of the business.                                                  |
| What types of payments are made to connected persons?                | Payments include <b>salaries</b> , <b>consultancy fees</b> , <b>interest on loans</b> , <b>rentals</b> , and other forms of compensation for services or assets provided.                                                                     |
| Are payments to connected persons deductible?                        | Yes, but only if they comply with the <b>arm's length principle</b> , serve a legitimate <b>business purpose</b> , and are reasonable and justified.                                                                                          |
| What is the arm's length principle?                                  | The arm's length principle requires that payments to connected persons reflect fair market value and align with terms that unrelated parties would agree upon in similar circumstances.                                                       |
| What is the economic substance requirement?                          | Payments to connected persons must demonstrate a <b>valid commercial purpose</b> , contributing directly to the business's taxable income generation.                                                                                         |
| What happens if payments exceed market value?                        | Excessive payments may be <b>disallowed</b> as deductions, increasing the business's taxable income and potentially leading to penalties.                                                                                                     |
| What are common examples of disallowed payments?                     | Examples include: <ul style="list-style-type: none"><li>- <b>Excessive salaries</b> to family members.</li><li>- <b>Above-market interest rates</b> on loans.</li><li>- <b>Unjustified service fees</b> without clear deliverables.</li></ul> |
| What documentation is required for compliance?                       | Businesses must maintain: <ul style="list-style-type: none"><li>- Contracts or agreements.</li><li>- Invoices and proof of services rendered.</li><li>- Payment records.</li><li>- Benchmarking studies if applicable.</li></ul>              |
| Are payments to connected persons subject to transfer pricing rules? | Yes, all payments must comply with <b>transfer pricing regulations</b> , including documentation demonstrating compliance with the arm's length principle.                                                                                    |
| How should businesses disclose payments to connected persons?        | Payments must be disclosed in the <b>corporate tax return</b> , detailing the nature of the payment and the relationship with the connected person.                                                                                           |

| Question                                          | Answer                                                                                                                                                                                                    |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What are the penalties for non-compliance?</b> | Penalties include:<br>- <b>Disallowance of deductions</b> for non-arm's length payments.<br>- <b>Transfer pricing adjustments</b> by tax authorities.<br>- Fines for failure to disclose or misreporting. |
| <b>How can businesses ensure compliance?</b>      | Steps include:<br>- Regularly benchmarking payments against market standards.<br>- Documenting all payments thoroughly.<br>- Seeking professional advice for compliance with transfer pricing rules.      |
| <b>Are there any exceptions to these rules?</b>   | No specific exceptions exist, but legitimate and reasonable payments that align with business needs and comply with the arm's length principle are allowable.                                             |

This Q&A provides clarity on the rules for **payments to connected persons**, offering actionable insights for compliance and minimizing tax risks.

## Income and Loss Computation



## Income and Loss Computation Under UAE Corporate Tax Law

The computation of income and loss under the UAE Corporate Tax Law involves determining the **taxable income** of a business by adjusting its accounting income with **allowable deductions**, **non-deductible expenditures**, **exempt income**, and applicable tax reliefs. This ensures accurate and fair tax liability computation.

### 1. Computation of Taxable Income

#### Formula for Taxable Income:

Taxable Income = Accounting Income – Allowable Deductions + Non-Deductible Expenditures – Exempt Income

#### Key Components

| Component                | Details                                                                                                                                                      |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Accounting Income</b> | The net profit or loss as per the financial statements prepared under <b>International Financial Reporting Standards (IFRS)</b> or other accepted standards. |

| Component                          | Details                                                                                                                                              |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Allowable Deductions</b>        | Expenses incurred wholly and exclusively for the purpose of generating taxable income, such as operating costs and interest within allowable limits. |
| <b>Non-Deductible Expenditures</b> | Expenses disallowed under tax law, including personal expenses, fines, and costs related to exempt income.                                           |
| <b>Exempt Income</b>               | Income specifically excluded from taxable income, such as qualifying dividends and capital gains.                                                    |

## 2. Adjustments to Accounting Income

### Additions to Accounting Income

#### 1. Non-Deductible Expenses:

- Fines and penalties.
- Excessive interest exceeding the 30% EBITDA limitation.
- Expenses related to exempt income.

#### 2. Disallowed Provisions:

General reserves or provisions not directly related to specific liabilities.

### Subtractions from Accounting Income

#### 1. Allowable Deductions:

Salaries, rent, and operating expenses incurred for generating taxable income.

#### 2. Exempt Income:

Dividends and capital gains from qualifying shareholdings.

## 3. Computation of Losses

A **tax loss** occurs when **allowable deductions** exceed **taxable income** during a tax period.

### Key Features of Tax Loss Relief

| Aspect                         | Details                                                                         |
|--------------------------------|---------------------------------------------------------------------------------|
| <b>Carry-Forward of Losses</b> | Tax losses can be carried forward indefinitely to offset future taxable income. |
| <b>Offset Limitation</b>       | Losses can offset up to <b>75% of taxable income</b> in a given tax period.     |

| Aspect                      | Details                                                                               |
|-----------------------------|---------------------------------------------------------------------------------------|
| <b>Ownership Continuity</b> | To carry forward losses, at least <b>50% ownership continuity</b> must be maintained. |

## 4. Steps for Income and Loss Computation

| Step                                              | Details                                                                                                                |
|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Determine Accounting Income</b>        | Start with net profit or loss from financial statements.                                                               |
| <b>Step 2: Adjust for Non-Deductible Expenses</b> | Add back expenses disallowed under tax law, such as fines, personal expenses, and excessive interest.                  |
| <b>Step 3: Deduct Exempt Income</b>               | Subtract qualifying exempt income, such as dividends and gains from qualifying shareholdings.                          |
| <b>Step 4: Apply Allowable Deductions</b>         | Deduct expenses incurred wholly and exclusively for taxable income generation, such as salaries and operational costs. |
| <b>Step 5: Account for Tax Losses</b>             | If applicable, carry forward losses from prior periods to offset taxable income, subject to the 75% limitation.        |

## 5. Example of Income Computation

| Details                             | Amount (AED)                                            |
|-------------------------------------|---------------------------------------------------------|
| <b>Net Accounting Income</b>        | 1,000,000                                               |
| <b>Add: Non-Deductible Expenses</b> | 100,000 (e.g., fines, excessive interest)               |
| <b>Less: Exempt Income</b>          | 200,000 (e.g., dividends from qualifying shareholdings) |
| <b>Less: Allowable Deductions</b>   | 500,000 (e.g., salaries, rent, and operational costs)   |
| <b>Taxable Income</b>               | 400,000                                                 |

## 6. Compliance Requirements

### | Requirement

### Requirement    Details

| Requirement                    | Details                                                                                                                                 |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| <b>Accurate Record-Keeping</b> | Maintain proper records of income, expenses, exemptions, and adjustments to support tax computations and filings.                       |
| <b>Tax Return Filing</b>       | File annual corporate tax returns disclosing taxable income, tax losses, and exemptions as required by UAE Corporate Tax Law.           |
| <b>Retention of Records</b>    | Keep documentation, including financial statements and supporting evidence, for at least <b>7 years</b> from the end of the tax period. |
| <b>Audit Readiness</b>         | Ensure that all calculations are backed by sufficient documentation to demonstrate compliance during audits or inquiries.               |

## 7. Strategic Considerations

### 1. Plan for Tax Losses:

Use tax loss carry-forward strategically to minimize taxable income in profitable years.

### 2. Maximize Allowable Deductions:

Ensure all eligible expenses are claimed, keeping thorough documentation for validation.

### 3. Monitor Ownership Continuity:

Maintain the required **50% ownership continuity** to retain eligibility for carrying forward tax losses.

### 4. Engage Tax Professionals:

Seek expert advice to ensure compliance with UAE Corporate Tax Law and optimize tax planning strategies.

## 8. Conclusion

The computation of **income and loss** under UAE Corporate Tax Law requires a clear understanding of allowable deductions, non-deductible expenditures, and exempt income. By maintaining accurate records, adhering to compliance requirements, and strategically planning for tax losses, businesses can optimize their taxable income calculations and minimize tax liabilities effectively.

Taxable Income Computation



## Taxable Income Computation Under UAE Corporate Tax Law

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The computation of **taxable income** under UAE Corporate Tax Law involves determining the net income of a business after making adjustments to the accounting income for **deductions**, **non-deductible expenses**, and **exempt income**. This process ensures the fair calculation of corporate tax liability while adhering to the law.

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### Formula for Taxable Income

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Taxable Income=Accounting Income (Net Profit/Loss)+Non-Deductible Expenses–Exempt Income–Allowable Deductions

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### Steps to Compute Taxable Income

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#### 1. Start with Accounting Income:

Obtain the net profit or loss as per the financial statements prepared in compliance with **International Financial Reporting Standards (IFRS)** or other accepted standards.

#### 2. Add Non-Deductible Expenses:

Include expenses that are disallowed under tax law, such as fines, personal expenses, and costs related to exempt income.

#### 3. Subtract Exempt Income:

Deduct income that is specifically exempt from tax, such as qualifying dividends or capital gains.

#### 4. Deduct Allowable Deductions:

Subtract expenses incurred wholly and exclusively for the purpose of generating taxable income, such as salaries, rent, and business-related costs.

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### Components of Taxable Income Computation

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| Component                      | Details                                                                                                                                                                                         |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Accounting Income</b>       | The net profit or loss as per financial statements, before adjustments for tax purposes.                                                                                                        |
| <b>Non-Deductible Expenses</b> | Expenses disallowed for tax purposes, including: <ul style="list-style-type: none"><li>- Fines and penalties.</li><li>- Personal or unrelated expenses.</li><li>- Excessive interest.</li></ul> |

---

| Component                   | Details                                                                                                                                                                                                           |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Exempt Income</b>        | Income not subject to corporate tax, such as: <ul style="list-style-type: none"> <li>- Dividends from qualifying shareholdings.</li> <li>- Profits from foreign permanent establishments (if elected).</li> </ul> |
| <b>Allowable Deductions</b> | Business expenses that are tax-deductible, including: <ul style="list-style-type: none"> <li>- Salaries and wages.</li> <li>- Operational costs.</li> <li>- Interest (subject to the 30% EBITDA cap).</li> </ul>  |

## Example of Taxable Income Computation

| Details                             | Amount (AED)                                            |
|-------------------------------------|---------------------------------------------------------|
| <b>Accounting Income</b>            | 1,200,000                                               |
| <b>Add: Non-Deductible Expenses</b> | 100,000 (e.g., fines and excessive interest)            |
| <b>Less: Exempt Income</b>          | 200,000 (e.g., dividends from qualifying shareholdings) |
| <b>Less: Allowable Deductions</b>   | 500,000 (e.g., salaries, rent, and operational costs)   |
| <b>Taxable Income</b>               | 600,000                                                 |

## Considerations for Taxable Income Computation

### 1. Exempt Income:

Identify income streams that qualify for exemptions under UAE Corporate Tax Law, such as qualifying dividends and capital gains.

### 2. Interest Deduction Limitations:

Apply the **30% EBITDA rule** to interest expenses to determine the deductible portion, and carry forward disallowed interest if applicable.

### 3. Tax Loss Carry-Forward:

Offset taxable income with carried-forward tax losses, subject to the **75% limitation** on annual taxable income.

## Compliance Requirements

### Requirement Details

| Requirement                    | Details                                                                                                                       |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>Accurate Record-Keeping</b> | Maintain detailed records of income, expenses, and adjustments to support the taxable income computation.                     |
| <b>Tax Return Filing</b>       | Disclose taxable income, exemptions, and deductions in the corporate tax return as required by the UAE Federal Tax Authority. |
| <b>Retention of Records</b>    | Keep records for at least <b>7 years</b> from the end of the relevant tax period.                                             |

## Common Adjustments to Accounting Income

| Adjustment Type     | Examples                                                                                                                                                                |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Additions</b>    | <ul style="list-style-type: none"> <li>- Non-deductible fines and penalties.</li> <li>- Costs associated with generating exempt income.</li> </ul>                      |
| <b>Subtractions</b> | <ul style="list-style-type: none"> <li>- Exempt income, such as dividends.</li> <li>- Allowable deductions, including operational expenses and depreciation.</li> </ul> |

## Strategic Considerations

### 1. Maximize Allowable Deductions:

Ensure all business-related expenses are claimed, and proper documentation is maintained for validation.

### 2. Utilize Exemptions and Reliefs:

Identify and apply all exemptions (e.g., qualifying dividends, capital gains) and tax reliefs (e.g., tax loss carry-forwards, foreign tax credits).

### 3. Monitor Non-Deductible Expenses:

Regularly review expenses to ensure proper classification and minimize adjustments that increase taxable income.

### 4. \*\*Plan for Tax

### Efficiencies:

Strategically use the **75% tax loss offset limitation** and **carry-forward provisions** to manage future taxable income effectively.

5. **Seek Professional Guidance:**

Engage tax advisors to ensure compliance with UAE Corporate Tax Law and optimize tax positions.

**Conclusion**

The computation of **taxable income** under UAE Corporate Tax Law requires a systematic approach to adjust accounting income for non-deductible expenses, allowable deductions, and exempt income. By maintaining accurate records, adhering to compliance requirements, and leveraging tax reliefs, businesses can effectively compute taxable income and minimize their tax liabilities.

General Rules for Determining Taxable Income



**General Rules for Determining Taxable Income Under UAE Corporate Tax Law**

The UAE Corporate Tax Law outlines a structured framework for determining **taxable income**, ensuring that businesses compute their tax liabilities accurately and consistently. Taxable income is derived by adjusting **accounting income** with allowable deductions, non-deductible expenditures, and exemptions.

**Key Principles for Determining Taxable Income**

| Principle                          | Details                                                                                                                                                                              |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Accounting Basis</b>            | Taxable income is based on net profit or loss as per financial statements prepared under <b>International Financial Reporting Standards (IFRS)</b> or accepted accounting standards. |
| <b>Business Connection</b>         | Only income and expenses connected with the business or taxable activity are considered for tax purposes.                                                                            |
| <b>Wholly and Exclusively Test</b> | Allowable deductions must be incurred wholly and exclusively for the purpose of generating taxable income.                                                                           |
| <b>Exemptions</b>                  | Certain income streams, such as qualifying dividends and capital gains, are excluded from taxable income.                                                                            |

**Steps for Determining Taxable Income**

## 1. Determine Accounting Income:

Start with the net profit or loss as per the financial statements.

## 2. Adjust for Non-Deductible Expenses:

Add back expenses disallowed under UAE Corporate Tax Law, such as fines, personal expenses, and costs related to exempt income.

## 3. Exclude Exempt Income:

Subtract income streams specifically exempt under the law, such as dividends from qualifying shareholdings.

## 4. Deduct Allowable Expenses:

Subtract expenses that are directly related to generating taxable income, such as salaries, rent, and depreciation.

## 5. Account for Tax Losses:

Offset taxable income with tax losses carried forward from prior periods, subject to the **75% limitation**.

---

## Adjustments to Accounting Income

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| Adjustment Type         | Examples                                                                                                                                                                                                               |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Non-Deductible Expenses | <ul style="list-style-type: none"><li>- Fines and penalties.</li><li>- Personal expenses.</li><li>- Costs related to exempt income.</li><li>- Excessive interest beyond the 30% EBITDA cap.</li></ul>                  |
| Exempt Income           | <ul style="list-style-type: none"><li>- Dividends from qualifying shareholdings.</li><li>- Gains from qualifying capital transactions.</li><li>- Profits from foreign permanent establishments (if elected).</li></ul> |
| Allowable Deductions    | <ul style="list-style-type: none"><li>- Operating expenses.</li><li>- Salaries and wages.</li><li>- Depreciation and amortization.</li><li>- Interest within allowable limits.</li></ul>                               |

---

## Specific Rules and Limitations

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| Aspect                     | Details                                                                                       |
|----------------------------|-----------------------------------------------------------------------------------------------|
| Interest Expense Deduction | Deductible up to <b>30% of EBITDA</b> , with disallowed amounts carried forward indefinitely. |

---

| Aspect                         | Details                                                                                                                  |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>Exempt Income Treatment</b> | Income streams such as qualifying dividends or capital gains must be excluded from taxable income.                       |
| <b>Tax Loss Utilization</b>    | Losses can offset up to <b>75% of taxable income</b> in a given period, with unused losses carried forward indefinitely. |

## Example of Taxable Income Computation

| Details                             | Amount (AED)                                          |
|-------------------------------------|-------------------------------------------------------|
| <b>Net Accounting Income</b>        | 1,200,000                                             |
| <b>Add: Non-Deductible Expenses</b> | 150,000 (e.g., fines, costs related to exempt income) |
| <b>Less: Exempt Income</b>          | 300,000 (e.g., dividends and capital gains)           |
| <b>Less: Allowable Deductions</b>   | 500,000 (e.g., salaries, rent, and operational costs) |
| <b>Taxable Income</b>               | 550,000                                               |

## Compliance Requirements

| Requirement              | Details                                                                                                                          |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Return Filing</b> | Businesses must file annual corporate tax returns disclosing taxable income, deductions, and exemptions.                         |
| <b>Documentation</b>     | Maintain supporting records, including financial statements, invoices, contracts, and calculations for at least <b>7 years</b> . |
| <b>Audit Readiness</b>   | Ensure accurate documentation and proper adjustments for compliance with UAE Corporate Tax Law during tax audits.                |

## Strategic Considerations

### 1. Monitor Non-Deductible Expenses:

Regularly review and adjust expenses to avoid disallowances.

### 2. Leverage Tax Loss Relief:

Strategically plan for the **75% tax loss offset limitation** to reduce taxable income.

3. **Maximize Allowable Deductions:**

Ensure all business-related expenses are claimed, supported by proper documentation.

4. **Seek Professional Advice:**

Engage tax experts to optimize taxable income computation and ensure compliance with the law.

---

**Conclusion**

The computation of **taxable income** under UAE Corporate Tax Law is guided by clear principles and specific rules to ensure consistency and fairness. By adhering to the outlined steps, leveraging exemptions and deductions, and maintaining accurate records, businesses can efficiently compute their taxable income while minimizing compliance risks.

Methods of Accounting



**Methods of Accounting Under UAE Corporate Tax Law**

The UAE Corporate Tax Law outlines the principles and methods of accounting that businesses must follow to ensure accurate computation of **taxable income**. These methods are designed to align with international standards while accommodating the specific requirements of the UAE tax regime.

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**1. Acceptable Methods of Accounting**

Businesses can adopt one of the following methods of accounting, depending on their nature and operations:

| Method                          | Description                                                                                                                         |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| <b>Accrual Basis Accounting</b> | Recognizes income and expenses when they are <b>earned or incurred</b> , regardless of when cash is received or paid.               |
| <b>Cash Basis Accounting</b>    | Recognizes income and expenses when cash is <b>actually received or paid</b> , typically used by smaller businesses or individuals. |

---

**2. Default Method: Accrual Basis**

**Accrual basis accounting** is the default method under UAE Corporate Tax Law, as it provides a more accurate picture of a business's financial performance and position.

### Key Features of Accrual Basis Accounting

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- **Income Recognition:** Income is recorded when earned, not when cash is received.
  - **Expense Recognition:** Expenses are recorded when incurred, not when cash is paid.
  - **Applicability:** Suitable for larger businesses and those required to prepare financial statements under **IFRS**.
- 

## 3. Cash Basis Accounting

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Cash basis accounting may be allowed for **small businesses** or entities meeting certain criteria. Businesses opting for this method must meet regulatory requirements and demonstrate that it aligns with their nature of operations.

### Key Features of Cash Basis Accounting

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- **Income Recognition:** Income is recorded when cash is received.
  - **Expense Recognition:** Expenses are recorded when cash is paid.
  - **Applicability:** Commonly used by small businesses, freelancers, or sole proprietors.
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## 4. Change in Accounting Method

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A business wishing to change its accounting method must:

1. Obtain **approval** from the Federal Tax Authority (FTA).
  2. Justify the change, ensuring it aligns with business operations and provides a true and fair view of financial performance.
  3. Reconcile any differences arising from the change to ensure consistent reporting.
- 

## 5. Alignment with Financial Reporting Standards

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- Businesses are required to prepare financial statements in compliance with **International Financial Reporting Standards (IFRS)** or other accepted accounting standards.
  - The chosen method of accounting must be consistent with the financial reporting framework used by the business.
- 

## 6. Tax Adjustments to Accounting Income

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Regardless of the accounting method used, businesses must adjust accounting income to compute **taxable income** under UAE Corporate Tax Law. Adjustments include:

- Adding back **non-deductible expenses**.
- Subtracting **exempt income**.
- Applying allowable **deductions and reliefs**.

---

### Example: Accrual vs. Cash Basis Accounting

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| Aspect                     | Accrual Basis                                                                                                   | Cash Basis                                               |
|----------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| <b>Income Recognition</b>  | Invoice for AED 50,000 issued in December but payment received in January: income recorded in <b>December</b> . | Income recorded in <b>January</b> when cash is received. |
| <b>Expense Recognition</b> | Invoice for rent issued in December but paid in January: expense recorded in <b>December</b> .                  | Expense recorded in <b>January</b> when cash is paid.    |

---

## 7. Compliance Requirements

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| Requirement           | Details                                                                                               |
|-----------------------|-------------------------------------------------------------------------------------------------------|
| <b>Consistency</b>    | The chosen accounting method must be applied consistently across tax periods to ensure comparability. |
| <b>Documentation</b>  | Maintain proper records of income, expenses, and adjustments to support the accounting method used.   |
| <b>Reconciliation</b> | Ensure that accounting records reconcile with financial statements and taxable income computations.   |

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## 8. Strategic Considerations

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### 1. Choose the Appropriate Method:

- Larger businesses should adopt **accrual basis accounting** for accuracy and compliance with IFRS.
- Smaller businesses may benefit from the simplicity of **cash basis accounting** if permitted.

### 2. Monitor Regulatory Changes:

Stay updated on FTA guidelines regarding acceptable accounting methods.

### 3. Engage Professional Advisors:

Consult accounting and tax professionals to ensure compliance and optimize tax reporting.

## Conclusion

The **method of accounting** under UAE Corporate Tax Law plays a pivotal role in determining taxable income and ensuring accurate tax reporting. Businesses must choose the method that aligns with their size, operations, and regulatory requirements, while adhering to the principles of consistency and compliance.

### Options for Taxing Gains or Losses on a Realisation Basis



## Options for Taxing Gains or Losses on a Realisation Basis Under UAE Corporate Tax Law

Under the UAE Corporate Tax Law, businesses have the option to tax **gains or losses** on a **realisation basis**, ensuring that taxable income reflects actual financial outcomes from the disposal of assets. This approach aligns with the principle of taxing income when it is effectively earned or realised.

## Key Features of Taxing Gains or Losses on a Realisation Basis

| Aspect        | Details                                                                                                                                              |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Definition    | The <b>realisation basis</b> taxes gains or allows deductions for losses only when the underlying asset is sold, disposed of, or otherwise realised. |
| Purpose       | Ensures tax is applied to actual economic gains or losses rather than unrealised or paper-based valuations.                                          |
| Applicability | Primarily applies to <b>capital assets</b> , such as property, shares, or other investments, where value fluctuates over time.                       |

## Taxing Gains on a Realisation Basis

| Scenario         | Details                                                                                                                                      |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Gain Recognition | A gain is recognised when the asset's <b>selling price exceeds its cost base</b> (adjusted for depreciation or amortisation, if applicable). |

| Scenario                  | Details                                                                                         |
|---------------------------|-------------------------------------------------------------------------------------------------|
| <b>Timing of Taxation</b> | The gain is taxed in the tax period when the realisation event (e.g., sale or disposal) occurs. |

#### Example:

| Details               | Amount (AED) |
|-----------------------|--------------|
| <b>Purchase Price</b> | 500,000      |
| <b>Selling Price</b>  | 700,000      |
| <b>Taxable Gain</b>   | 200,000      |

### Deducting Losses on a Realisation Basis

| Scenario                | Details                                                                                                         |
|-------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>Loss Recognition</b> | A loss is recognised when the asset's <b>selling price is less than its cost base</b> .                         |
| <b>Tax Relief</b>       | The loss can be deducted from taxable income in the period when the realisation occurs, subject to limitations. |

#### Example:

| Details                | Amount (AED) |
|------------------------|--------------|
| <b>Purchase Price</b>  | 500,000      |
| <b>Selling Price</b>   | 400,000      |
| <b>Deductible Loss</b> | 100,000      |

### Options for Tax Treatment

| Option                               | Description                                                                                                                    |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Tax on Full Realised Gains</b> | The entire gain is taxed in the year of realisation.                                                                           |
| <b>2. Deferred Tax Treatment</b>     | Tax on the gain may be deferred if certain conditions, such as reinvestment within a specified period, are met.                |
| <b>3. Relief for Realised Losses</b> | Losses may offset taxable income or carried forward to future periods, subject to limitations (e.g., <b>75% offset rule</b> ). |

## Reinvestment Relief

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If proceeds from the sale of an asset are reinvested in qualifying assets or activities, the gain may qualify for **deferral** or **exemption** under certain conditions. Key features include:

- **Eligibility:** Applicable to specific asset classes or business activities defined under UAE Corporate Tax Law.
  - **Reinvestment Window:** Gains must be reinvested within a prescribed period to qualify for relief.
- 

## Compliance Requirements

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| Requirement           | Details                                                                                                            |
|-----------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>Documentation</b>  | Maintain records of purchase price, selling price, and costs associated with the acquisition or sale of the asset. |
| <b>Reconciliation</b> | Ensure gains and losses reported in the tax return align with financial statements and supporting documents.       |
| <b>Disclosure</b>     | Report all realisation events and associated gains or losses in the corporate tax return.                          |

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## Strategic Considerations

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### 1. Timing of Realisation:

Plan asset disposals strategically to align with periods of lower taxable income to optimize tax liability.

### 2. Use of Tax Losses:

Leverage realised losses to offset taxable gains or carry them forward to reduce future tax liabilities.

### 3. Consider Reinvestment Options:

Explore opportunities to reinvest proceeds in qualifying assets to benefit from deferrals or exemptions.

### 4. Seek Expert Advice:

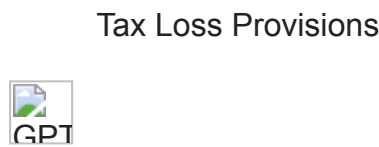
Engage tax professionals to ensure compliance and optimize the tax treatment of gains and losses.

---

## Conclusion

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Taxing **gains or losses on a realisation basis** under UAE Corporate Tax Law offers businesses flexibility and fairness in aligning taxable income with actual financial outcomes. By maintaining proper documentation, leveraging tax reliefs, and strategically managing asset disposals, businesses can optimize their tax positions while complying with regulatory requirements.



## Tax Loss Provisions Under UAE Corporate Tax Law

The UAE Corporate Tax Law allows businesses to carry forward **tax losses** to offset taxable income in future periods, providing relief and reducing tax liabilities. These provisions ensure that businesses can recover from financial setbacks and align with global tax practices.

### Definition of Tax Loss

A **tax loss** occurs when a business’s **allowable deductions** exceed its **taxable income** during a tax period. These losses can be carried forward to offset taxable income in subsequent periods.

### Key Features of Tax Loss Provisions

| Aspect                    | Details                                                                                                               |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Tax Loss Carry-Forward    | Businesses can carry forward unused tax losses indefinitely to offset future taxable income.                          |
| Offset Limitation         | Tax losses can offset up to <b>75% of taxable income</b> in a given tax period.                                       |
| Ownership Continuity Rule | At least <b>50% ownership continuity</b> must be maintained for the business to carry forward and utilize tax losses. |
| Applicability             | Tax losses can only offset taxable income from <b>taxable activities</b> under UAE Corporate Tax Law.                 |

### Conditions for Utilizing Tax Losses

1. **Source of Loss:**

- Tax losses must arise from **taxable activities** under the UAE Corporate Tax Law.
- Losses from **exempt income** (e.g., dividends from qualifying shareholdings) are not eligible for carry-forward.

2. **Ownership Continuity:**

- The entity claiming tax losses must retain at least **50% of the ownership** structure as it had during the period the losses were incurred.
- If ownership changes by more than 50%, tax losses can still be carried forward if the entity continues the **same or similar business** activities.

3. **Documentation:**

Maintain detailed records of the losses, including supporting documents for deductions and adjustments.

**Limitations on Tax Losses**

| Limitation                   | Details                                                                                                             |
|------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>75% Offset Cap</b>        | In any tax period, tax losses carried forward can offset up to <b>75% of taxable income</b> .                       |
| <b>Exempt Income</b>         | Losses related to the generation of exempt income (e.g., qualifying dividends) cannot be carried forward or offset. |
| <b>Non-Deductible Losses</b> | Losses incurred due to fines, penalties, or other non-deductible expenses are not eligible for carry-forward.       |

**Example of Tax Loss Utilization**

| Details                                | Amount (AED)                                      |
|----------------------------------------|---------------------------------------------------|
| <b>Taxable Income (Current Period)</b> | 1,000,000                                         |
| <b>Carried-Forward Tax Losses</b>      | 600,000                                           |
| <b>75% Offset Cap</b>                  | 750,000 (75% of current taxable income)           |
| <b>Losses Utilized</b>                 | 600,000                                           |
| <b>Remaining Taxable Income</b>        | 400,000 (after offsetting 600,000 in losses)      |
| <b>Unused Tax Losses</b>               | 0 (all carried-forward losses have been utilized) |

## Special Considerations

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### 1. Mergers and Acquisitions:

Tax losses may be carried forward in the case of mergers, subject to compliance with ownership continuity and business continuity rules.

### 2. Group Taxation:

In a tax group, tax losses of one member can offset taxable income of another group member, provided certain conditions are met.

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## Compliance Requirements

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| Requirement                      | Details                                                                                                                       |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>Accurate Record-Keeping</b>   | Maintain records of tax losses, including calculations, supporting documentation, and adjustments made in subsequent periods. |
| <b>Disclosure in Tax Returns</b> | Declare carried-forward losses and the amount utilized in each tax period in the corporate tax return.                        |
| <b>Reconciliation</b>            | Ensure that carried-forward losses reconcile with prior-period tax filings.                                                   |

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## Penalties for Non-Compliance

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### 1. Disallowance of Losses:

Failure to meet the ownership or business continuity requirements may result in the disallowance of carried-forward losses.

### 2. Fines:

Incorrect reporting or lack of documentation for tax losses may attract penalties under UAE Corporate Tax Law.

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## Strategic Considerations

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### 1. Plan for Tax Loss Utilization:

Monitor taxable income in future periods to maximize the benefit of the **75% offset limitation**.

### 2. Maintain Ownership Continuity:

Structure transactions and ownership changes carefully to preserve eligibility for carrying forward losses.

3. **Leverage Group Taxation:**

In tax groups, strategically allocate tax losses to reduce the overall tax liability of the group.

4. **Engage Professional Advisors:**

Seek expert advice to navigate complex rules around tax loss utilization and compliance.

**Conclusion**

The **tax loss provisions** under UAE Corporate Tax Law provide businesses with a valuable mechanism to offset future taxable income, reducing tax liabilities and enhancing financial stability. By understanding the rules, adhering to compliance requirements, and strategically utilizing tax losses, businesses can optimize their tax positions effectively.

Mechanisms for Tax Loss Relief



**Mechanisms for Tax Loss Relief Under UAE Corporate Tax Law**

The UAE Corporate Tax Law provides mechanisms for **tax loss relief** to support businesses in offsetting taxable income and reducing tax liabilities. These mechanisms allow businesses to recover from financial setbacks while maintaining compliance with tax regulations.

**1. Key Mechanisms for Tax Loss Relief**

| Mechanism                          | Description                                                                                                                      |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <b>Carry-Forward of Tax Losses</b> | Unused tax losses can be carried forward indefinitely to offset taxable income in future tax periods.                            |
| <b>Group Taxation Relief</b>       | Tax losses incurred by one member of a tax group can offset taxable income of another group member, subject to conditions.       |
| <b>Ownership Continuity Relief</b> | Losses can be utilized even after a change in ownership, provided the business continues the <b>same or similar activities</b> . |

**2. Conditions for Tax Loss Relief**

| Condition                      | Details                                                                                                              |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------|
| <b>Taxable Activities</b>      | Losses must arise from <b>taxable activities</b> and not from exempt or non-taxable sources.                         |
| <b>Offset Limitation</b>       | Tax losses can offset up to <b>75% of taxable income</b> in a given tax period.                                      |
| <b>Ownership Continuity</b>    | At least <b>50% ownership continuity</b> must be maintained to carry forward and utilize tax losses.                 |
| <b>Exempt Income Exclusion</b> | Losses related to generating <b>exempt income</b> (e.g., qualifying dividends) are not eligible for tax loss relief. |

### 3. Tax Loss Carry-Forward

#### Features of Tax Loss Carry-Forward

- **Indefinite Period:** Tax losses can be carried forward without any time limitation.
- **Utilization in Future Periods:** Losses can be used to offset taxable income in subsequent periods.
- **Compliance Requirements:** Maintain proper documentation to substantiate losses and their utilization.

#### Example:

| Details                                  | Amount (AED) |
|------------------------------------------|--------------|
| <b>Tax Loss Incurred (Year 1)</b>        | 500,000      |
| <b>Taxable Income (Year 2)</b>           | 800,000      |
| <b>Offset Limitation (75%)</b>           | 600,000      |
| <b>Loss Utilized in Year 2</b>           | 500,000      |
| <b>Remaining Taxable Income (Year 2)</b> | 300,000      |
| <b>Unused Tax Loss</b>                   | 0            |

### 4. Group Taxation and Loss Relief

Under **group taxation**, businesses can form a **tax group**, enabling the pooling of profits and losses among group members.

| Aspect | Details |
|--------|---------|
|--------|---------|

| Aspect                      | Details                                                                                                                                                                                            |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Loss Sharing                | Losses incurred by one group member can offset the taxable income of another group member.                                                                                                         |
| Conditions for Group Relief | <ul style="list-style-type: none"> <li>- Common ownership of <b>at least 95%</b>.</li> <li>- All members must be UAE resident entities.</li> <li>- Tax group must file a single return.</li> </ul> |

## 5. Ownership Continuity and Business Continuity

### Ownership Continuity

- At least **50% of ownership** must remain unchanged to carry forward tax losses.
- If ownership changes by more than 50%, losses may still be used if the business continues the **same or similar activities**.

### Business Continuity

The core business activities must remain consistent for tax losses to remain eligible for offset.

## 6. Loss Utilization Limitations

| Limitation            | Details                                                                                                                       |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------|
| 75% Offset Rule       | Tax losses can only offset up to <b>75% of taxable income</b> in any tax period, ensuring a minimum tax base for each period. |
| Non-Deductible Losses | Losses incurred due to fines, penalties, or other non-deductible expenses are excluded from tax loss relief.                  |

## 7. Compliance and Documentation Requirements

| Requirement           | Details                                                                                                 |
|-----------------------|---------------------------------------------------------------------------------------------------------|
| Tax Return Disclosure | Declare tax losses carried forward and utilized in the corporate tax return.                            |
| Record-Keeping        | Maintain detailed records of tax losses, including supporting documents for deductions and adjustments. |
| Audit Readiness       | Ensure records are reconciled and ready for review by the Federal Tax Authority (FTA).                  |

## 8. Strategic Considerations

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### 1. Plan for Loss Utilization:

Strategically offset taxable income in profitable periods to maximize the benefit of tax loss relief.

### 2. Leverage Group Taxation:

Form a tax group to optimize loss sharing and reduce the overall tax liability of the group.

### 3. Monitor Ownership Changes:

Maintain at least **50% ownership continuity** to preserve eligibility for carried-forward losses.

### 4. Engage Professional Advisors:

Seek expert advice to ensure compliance and optimize the use of tax loss relief mechanisms.

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## Conclusion

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The **tax loss relief mechanisms** under UAE Corporate Tax Law provide businesses with valuable tools to manage financial setbacks and reduce future tax liabilities. By adhering to the rules for **carry-forward**, **group taxation**, and **ownership continuity**, businesses can strategically utilize tax losses while maintaining compliance with the law.

### Rules for Transfer of Tax Losses



## Rules for Transfer of Tax Losses Under UAE Corporate Tax Law

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The UAE Corporate Tax Law allows businesses to **transfer tax losses** under specific conditions, providing flexibility for tax planning and group taxation. These provisions enable the offsetting of losses against the taxable income of another entity within a group, subject to compliance with the law.

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## Key Provisions for Transfer of Tax Losses

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| Aspect                               | Details                                                                                                                         |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Eligibility for Loss Transfer</b> | Tax losses can be transferred between entities that meet certain conditions, such as ownership thresholds and group membership. |

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| Aspect         | Details                                                                                                                      |
|----------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose</b> | Enables tax-efficient management within groups by offsetting the taxable income of one entity against the losses of another. |

## Conditions for Tax Loss Transfer

### 1. Ownership Threshold:

The transferring and receiving entities must be part of the same group, with at least **75% common ownership** directly or indirectly.

### 2. UAE Residency:

Both entities must be **resident persons** under the UAE Corporate Tax Law.

### 3. Taxable Activities:

The tax losses must arise from **taxable activities** and not from exempt or non-taxable income sources.

### 4. Offset Limitation:

Tax losses transferred can offset up to **75% of the taxable income** of the receiving entity in a tax period.

### 5. Commercial Purpose:

The transfer must have a valid **commercial rationale** and not be primarily intended to evade taxes.

## Exclusions from Tax Loss Transfer

Tax losses cannot be transferred in the following scenarios:

### 1. Exempt Entities:

Entities generating exempt income or not engaged in taxable activities.

### 2. Non-Resident Entities:

Tax losses from non-resident entities are not eligible for transfer.

### 3. Non-Deductible Losses:

Losses arising from disallowed expenses, such as fines or penalties, cannot be transferred.

## Procedure for Tax Loss Transfer

| Step | Details |
|------|---------|
|------|---------|

| Step                                  | Details                                                                                                      |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Ownership Verification</b> | Confirm the 75% common ownership threshold between the transferring and receiving entities.                  |
| <b>Step 2: Loss Calculation</b>       | Determine the eligible tax losses to be transferred, ensuring they arise from taxable activities.            |
| <b>Step 3: Disclosure</b>             | Both entities must disclose the loss transfer in their respective corporate tax returns.                     |
| <b>Step 4: Documentation</b>          | Maintain detailed records of the loss transfer, including ownership proof, tax computations, and agreements. |

## Example of Tax Loss Transfer

| Details                                    | Amount (AED) |
|--------------------------------------------|--------------|
| <b>Entity A: Tax Loss</b>                  | 500,000      |
| <b>Entity B: Taxable Income</b>            | 1,000,000    |
| <b>75% Offset Limitation</b>               | 750,000      |
| <b>Loss Transferred</b>                    | 500,000      |
| <b>Remaining Taxable Income (Entity B)</b> | 500,000      |

## Compliance Requirements

| Requirement              | Details                                                                                                      |
|--------------------------|--------------------------------------------------------------------------------------------------------------|
| <b>Tax Return Filing</b> | Both the transferring and receiving entities must report the loss transfer in their tax returns.             |
| <b>Record-Keeping</b>    | Maintain documentation, including ownership proof, loss computation, and agreements related to the transfer. |
| <b>Audit Readiness</b>   | Ensure all records are available for review by the Federal Tax Authority (FTA) to validate the transfer.     |

## Penalties for Non-Compliance

### 1. Disallowance of Loss Transfer:

Tax authorities may reject the loss transfer if conditions are not met.

## 2. Fines and Penalties:

Failure to disclose the transfer or improper documentation may attract penalties under UAE Corporate Tax Law.

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## Strategic Considerations

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### 1. Plan for Ownership Continuity:

Maintain at least **75% common ownership** to preserve eligibility for loss transfers.

### 2. Utilize Group Taxation:

Consider forming a **tax group** to simplify and optimize the sharing of tax losses.

### 3. Monitor Loss Sources:

Ensure losses are from taxable activities and comply with transfer rules.

### 4. Engage Professional Advisors:

Seek expert guidance to structure loss transfers effectively and ensure compliance.

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## Conclusion

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The rules for **transfer of tax losses** under UAE Corporate Tax Law provide businesses with opportunities for tax optimization and efficient management within groups. By adhering to ownership, residency, and activity requirements, and maintaining proper documentation, businesses can benefit from tax loss transfers while ensuring compliance with regulatory requirements.

### Limitation on the Carry Forward of Tax Losses



## Limitation on the Carry Forward of Tax Losses Under UAE Corporate Tax Law

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The UAE Corporate Tax Law permits businesses to **carry forward tax losses** to offset taxable income in future periods. However, this provision is subject to specific **limitations and conditions** to ensure compliance and prevent misuse.

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## Key Limitations on Carry Forward of Tax Losses

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| Aspect                                  | Details                                                                                                                                            |
|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>75% Offset Rule</b>                  | Tax losses carried forward can offset up to <b>75% of taxable income</b> in a given tax period, ensuring a minimum taxable base.                   |
| <b>Ownership Continuity Requirement</b> | At least <b>50% ownership continuity</b> must be maintained from the period the losses were incurred to the period they are utilized.              |
| <b>Business Continuity Requirement</b>  | If ownership continuity is not met, the business must continue <b>same or similar activities</b> to retain eligibility for carried-forward losses. |
| <b>Exempt Income Exclusion</b>          | Losses related to <b>exempt income</b> (e.g., qualifying dividends or capital gains) cannot be carried forward or utilized.                        |
| <b>Non-Deductible Losses</b>            | Losses resulting from non-deductible expenses, such as fines or penalties, cannot be carried forward.                                              |

## Conditions for Utilizing Carried-Forward Losses

### 1. Taxable Activity:

Tax losses must originate from taxable activities under UAE Corporate Tax Law.

### 2. Compliance with Filing Requirements:

Tax losses must be properly declared in the corporate tax return for the period in which they were incurred.

### 3. Documentation:

Maintain accurate records of tax losses and their origins, ensuring proper substantiation for utilization in future periods.

## Ownership Continuity Requirement

| Aspect            | Details                                                                                                                               |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <b>Threshold</b>  | At least <b>50% ownership</b> of the entity must remain unchanged between the period the losses were incurred and when they are used. |
| <b>Exceptions</b> | If ownership changes by more than 50%, losses may still be utilized if the business continues the <b>same or similar activities</b> . |

## Business Continuity Requirement

If ownership continuity is not met, the business must demonstrate that:

- Its primary activities remain consistent with those conducted during the period when the losses were incurred.
- The change in ownership does not significantly alter the nature of its operations.

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## Example of Carry Forward Limitation

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| Details                           | Amount (AED)                    |
|-----------------------------------|---------------------------------|
| Taxable Income (Year 2)           | 1,000,000                       |
| Carried-Forward Tax Losses        | 600,000                         |
| 75% Offset Cap                    | 750,000 (75% of taxable income) |
| Loss Utilized                     | 600,000                         |
| Remaining Taxable Income (Year 2) | 400,000                         |
| Unused Tax Loss                   | 0                               |

---

## Exclusions from Carry Forward

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### 1. Losses From Exempt Activities:

Losses tied to generating exempt income (e.g., dividends from qualifying shareholdings) cannot be carried forward.

### 2. Losses Due to Non-Deductible Expenditures:

Losses resulting from fines, penalties, or personal expenses are excluded from carry-forward provisions.

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## Compliance Requirements

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| Requirement       | Details                                                                                                          |
|-------------------|------------------------------------------------------------------------------------------------------------------|
| Tax Return Filing | Declare tax losses carried forward in the corporate tax return for each relevant period.                         |
| Record-Keeping    | Maintain detailed records of tax losses, including their origin, computation, and application in future periods. |
| Audit Readiness   | Ensure documentation is available for review by the Federal Tax Authority (FTA) to validate compliance.          |

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## Strategic Considerations

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## 1. Monitor Ownership and Business Changes:

Plan transactions and ownership changes carefully to maintain eligibility for carrying forward losses.

## 2. Maximize Loss Utilization:

Strategically offset taxable income with carried-forward losses, ensuring compliance with the **75% limitation**.

## 3. Leverage Group Taxation:

Consider forming a tax group to pool and utilize tax losses efficiently within related entities.

## 4. Seek Professional Guidance:

Engage tax advisors to navigate complex loss carry-forward rules and optimize tax planning.

---

## Conclusion

The **carry-forward of tax losses** under UAE Corporate Tax Law provides businesses with valuable tax relief, but it is subject to conditions like the **75% offset rule**, **ownership continuity**, and **business continuity**. By understanding these limitations, maintaining compliance, and strategically planning for loss utilization, businesses can effectively manage their taxable income and reduce their tax liabilities.

Q&A on the above



## Q&A on Limitation on the Carry Forward of Tax Losses

| Question                                    | Answer                                                                                                                                |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| What is the carry forward of tax losses?    | It allows businesses to carry forward unused tax losses from one tax period to offset taxable income in future periods.               |
| How long can tax losses be carried forward? | Tax losses can be carried forward <b>indefinitely</b> , subject to compliance with ownership and business continuity rules.           |
| What is the 75% offset limitation?          | In any tax period, carried-forward losses can offset up to <b>75% of the taxable income</b> , leaving at least 25% of income taxable. |

| Question                                                | Answer                                                                                                                                                                                                                                 |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Can all losses be carried forward?                      | No, losses arising from <b>exempt income</b> (e.g., dividends or capital gains from qualifying shareholdings) and non-deductible expenses (e.g., fines) cannot be carried forward.                                                     |
| What is the ownership continuity rule?                  | At least <b>50% ownership continuity</b> must be maintained between the period when the losses were incurred and when they are utilized.                                                                                               |
| What happens if ownership continuity is not maintained? | Losses may still be used if the business continues its <b>same or similar activities</b> , demonstrating business continuity.                                                                                                          |
| What is the business continuity rule?                   | If ownership changes by more than 50%, the business must continue operating with <b>similar activities</b> to retain eligibility for tax losses.                                                                                       |
| Are there exclusions from carry-forward provisions?     | Yes, losses tied to <b>exempt income</b> or resulting from <b>non-deductible expenses</b> (e.g., fines) are excluded from carry-forward eligibility.                                                                                   |
| How are carried-forward losses applied?                 | Losses are deducted from taxable income in future periods, subject to the <b>75% offset limitation</b> in each tax period.                                                                                                             |
| What records must be maintained for tax losses?         | Businesses must keep detailed records of: <ul style="list-style-type: none"> <li>- Loss computations.</li> <li>- Origins of losses.</li> <li>- Application in future periods.</li> <li>- Ownership and business changes.</li> </ul>    |
| Can tax losses be shared between group companies?       | Yes, tax losses can be transferred within a <b>tax group</b> , provided the group meets ownership and residency conditions.                                                                                                            |
| What happens if losses are not properly documented?     | If records are incomplete or inaccurate, the tax authority may disallow the utilization of carried-forward losses.                                                                                                                     |
| What are the penalties for non-compliance?              | Non-compliance with reporting or documentation requirements can result in the disallowance of losses and potential penalties under UAE Corporate Tax Law.                                                                              |
| How can businesses maximize the use of tax losses?      | Businesses should: <ul style="list-style-type: none"> <li>- Monitor ownership and business continuity.</li> <li>- Plan taxable income offsets strategically within the 75% limit.</li> <li>- Leverage group taxation rules.</li> </ul> |

This Q&A addresses the critical aspects of **limitation on the carry forward of tax losses**, providing clear guidance on compliance and strategic utilization of tax relief provisions.

Tax Groups and Corporate Tax Liability



Tax Groups and Corporate Tax Liability Under UAE Corporate Tax Law

The UAE Corporate Tax Law allows certain entities to form **tax groups**, enabling them to consolidate their taxable income and liabilities. This provision simplifies tax compliance and provides opportunities for efficient tax management.

1. What is a Tax Group?

A **tax group** is a consolidation of two or more entities treated as a single taxable unit for corporate tax purposes. The group files a **single tax return**, and the parent company assumes responsibility for the group’s corporate tax compliance.

2. Conditions for Forming a Tax Group

To form a tax group, the following conditions must be met:

| Condition           | Details                                                                                                                                   |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Ownership Threshold | The parent company must hold at least <b>95% direct or indirect ownership</b> of the share capital and voting rights of the subsidiaries. |
| Residency           | All members of the group must be <b>resident persons</b> in the UAE.                                                                      |
| Taxable Entities    | All members must be <b>taxable persons</b> under UAE Corporate Tax Law, and none should be an <b>exempt person</b> .                      |
| Accounting Year     | All members must have the <b>same financial year</b> and prepare financial statements using the same accounting standards.                |
| Unanimous Agreement | All entities must agree to form the tax group and obtain approval from the Federal Tax Authority (FTA).                                   |

3. Benefits of Forming a Tax Group

| Benefit           | Details                                                                          |
|-------------------|----------------------------------------------------------------------------------|
| Single Tax Filing | The tax group files a <b>single tax return</b> , reducing administrative burden. |

| Benefit                      | Details                                                                                            |
|------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Offsetting of Losses</b>  | Losses from one group member can offset the taxable income of another, optimizing tax liabilities. |
| <b>Simplified Compliance</b> | Centralized compliance and reporting reduce the risk of errors and penalties.                      |
| <b>Cash Flow Efficiency</b>  | Consolidating liabilities improves cash flow management across the group.                          |

## 4. Corporate Tax Liability for Tax Groups

### 1. Consolidated Taxable Income:

The taxable income of the tax group is calculated by consolidating the income and expenses of all group members, excluding intercompany transactions.

### 2. Parent Company Responsibility:

The parent company is responsible for filing the tax return and paying the group's corporate tax liability.

### 3. Group Member Accountability:

While the parent company assumes primary responsibility, all group members remain jointly and severally liable for the group's tax obligations.

### 4. Loss Utilization:

Losses from one group member can offset taxable income from other group members, subject to the **75% offset limitation**.

## 5. Exclusions from Group Membership

Entities that cannot join a tax group include:

### 1. Exempt Persons:

Entities generating exempt income (e.g., qualifying public benefit entities).

### 2. Free Zone Persons:

Entities operating in a **free zone** and benefiting from the **0% tax rate**.

### 3. Non-Resident Persons:

Non-resident entities are not eligible for group membership.

## 6. Termination of a Tax Group

A tax group may be dissolved if:

### 1. Ownership thresholds fall below **95%**.

- 2. One or more members leave the group.
- 3. The group no longer meets the conditions for group formation.

Upon termination, each entity resumes individual tax filing and compliance responsibilities.

## 7. Compliance Requirements for Tax Groups

| Requirement       | Details                                                                                                           |
|-------------------|-------------------------------------------------------------------------------------------------------------------|
| Tax Return Filing | The parent company files a single consolidated tax return on behalf of the group.                                 |
| Record-Keeping    | Maintain detailed records of intercompany transactions, consolidated income, and individual member contributions. |
| Approval from FTA | Obtain and retain approval from the Federal Tax Authority for forming and maintaining the tax group.              |

## 8. Strategic Considerations

### 1. Evaluate Eligibility:

Assess the group structure to ensure compliance with ownership, residency, and taxable entity requirements.

### 2. Optimize Loss Utilization:

Strategically allocate losses within the group to minimize overall tax liability.

### 3. Centralized Compliance:

Establish robust systems for centralized tax compliance and reporting to avoid penalties.

### 4. Monitor Group Changes:

Regularly review ownership and business activities to ensure continued eligibility for group status.

### 5. Seek Professional Guidance:

Engage tax advisors to navigate complexities of group formation and optimize tax benefits.

## 9. Example of Tax Group Liability

| Entity | Taxable Income (AED) | Losses (AED) | Net Contribution (AED) |
|--------|----------------------|--------------|------------------------|
|--------|----------------------|--------------|------------------------|

| Entity                         | Taxable Income (AED) | Losses (AED)     | Net Contribution (AED) |
|--------------------------------|----------------------|------------------|------------------------|
| Parent Company                 | 2,000,000            | 0                | 2,000,000              |
| Subsidiary A                   | 1,000,000            | 0                | 1,000,000              |
| Subsidiary B                   | 500,000              | (700,000)        | (200,000)              |
| <b>Tax Group Consolidation</b> | <b>3,500,000</b>     | <b>(700,000)</b> | <b>2,800,000</b>       |

**Tax Liability** = 9% of AED 2,800,000 = AED 252,000.

## Conclusion

Tax groups under UAE Corporate Tax Law enable businesses to consolidate taxable income and liabilities, offering significant tax and administrative efficiencies. By meeting eligibility criteria, maintaining compliance, and leveraging benefits like loss offsetting, businesses can optimize their corporate tax obligations effectively.

### Tax Group Provisions



## Tax Group Provisions Under UAE Corporate Tax Law

The UAE Corporate Tax Law provides detailed provisions for the formation and management of **tax groups**, enabling businesses with common ownership to file a consolidated tax return. These provisions simplify compliance and allow for effective tax planning, such as loss sharing and centralized tax management.

### 1. Key Provisions for Tax Groups

| Aspect                           | Details                                                                                                                                                           |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Definition of a Tax Group</b> | A tax group consists of a <b>parent company</b> and one or more <b>subsidiaries</b> that are treated as a single taxable entity.                                  |
| <b>Consolidated Tax Return</b>   | The parent company files a <b>single tax return</b> for the entire group, representing the collective income and liabilities.                                     |
| <b>Group Responsibility</b>      | The parent company is responsible for compliance and payment of the group's corporate tax liability, but all members remain <b>jointly and severally liable</b> . |

## 2. Conditions for Forming a Tax Group

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To form a tax group, the following conditions must be satisfied:

| Condition                         | Requirement                                                                                                                        |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <b>Ownership Threshold</b>        | The parent company must directly or indirectly hold at least <b>95% of the share capital and voting rights</b> in each subsidiary. |
| <b>Residency</b>                  | All members must be <b>resident persons</b> under UAE Corporate Tax Law.                                                           |
| <b>Exempt Persons Exclusion</b>   | Entities classified as <b>exempt persons</b> or <b>free zone persons benefiting from a 0% tax rate</b> cannot join a tax group.    |
| <b>Financial Year Consistency</b> | All members must follow the <b>same financial year</b> and prepare financial statements using consistent accounting standards.     |
| <b>Approval from FTA</b>          | The tax group must be approved by the <b>Federal Tax Authority (FTA)</b> .                                                         |

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## 3. Benefits of Forming a Tax Group

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| Benefit                       | Details                                                                                                              |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------|
| <b>Loss Sharing</b>           | Losses from one group member can offset the taxable income of another, subject to the <b>75% offset limitation</b> . |
| <b>Centralized Compliance</b> | Filing a single tax return reduces administrative burden and simplifies tax compliance.                              |
| <b>Efficient Tax Planning</b> | Consolidating taxable income allows for optimized tax management and enhanced cash flow.                             |

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## 4. Tax Group Formation Process

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| Step                                  | Details                                                                                                              |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Ownership Verification</b> | Confirm that the parent company holds at least <b>95% of the share capital and voting rights</b> in each subsidiary. |
| <b>Step 2: Application Submission</b> | Submit a request to the FTA for tax group registration, including supporting documentation.                          |
| <b>Step 3: Approval by FTA</b>        | Obtain approval from the FTA to officially form the tax group.                                                       |

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| Step                            | Details                                                                |
|---------------------------------|------------------------------------------------------------------------|
| <b>Step 4: Compliance Setup</b> | Establish centralized tax compliance processes for filing and payment. |

## 5. Tax Group Computation Rules

### 1. Consolidated Taxable Income:

The taxable income of the tax group is the sum of the income of all members, excluding **intra-group transactions**.

### 2. Offsetting Losses:

Losses incurred by one member can offset the taxable income of another, subject to the **75% limitation**.

### 3. Excluded Income:

Income or expenses related to exempt activities or free zone entities benefiting from a **0% tax rate** are excluded.

## 6. Tax Liability Allocation

| Aspect                             | Details                                                                                         |
|------------------------------------|-------------------------------------------------------------------------------------------------|
| <b>Primary Responsibility</b>      | The parent company is primarily responsible for the tax group's corporate tax payment.          |
| <b>Joint and Several Liability</b> | All group members are jointly and severally liable for the tax group's corporate tax liability. |

## 7. Termination of a Tax Group

| Reason for Termination             | Details                                                                                                             |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Ownership Threshold Not Met</b> | If the parent company's ownership in any subsidiary falls below <b>95%</b> , the tax group is dissolved.            |
| <b>Member Exit</b>                 | If a member leaves the group, it resumes filing individual tax returns.                                             |
| <b>Failure to Meet Conditions</b>  | Non-compliance with residency, financial year alignment, or FTA approval requirements results in group termination. |

## 8. Compliance Requirements

| Requirement                    | Details                                                                                                                  |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>Consolidated Tax Return</b> | The parent company must file a single tax return on behalf of the group within the prescribed deadlines.                 |
| <b>Record-Keeping</b>          | Maintain detailed records of group members' income, expenses, and intra-group transactions for at least <b>7 years</b> . |
| <b>Annual Reassessment</b>     | Confirm annually that the group continues to meet eligibility conditions.                                                |

## 9. Exclusions from Tax Groups

Entities that cannot form or join a tax group include:

**1. Exempt Persons:**

Entities such as public benefit organizations and government-owned entities with exempt income.

**2. Free Zone Persons:**

Free zone entities benefiting from the **0% tax rate**.

**3. Non-Resident Persons:**

Entities classified as non-residents under UAE Corporate Tax Law.

## 10. Example of Tax Group Calculation

| Entity                 | Taxable Income (AED) | Tax Losses (AED) | Net Contribution to Group (AED) |
|------------------------|----------------------|------------------|---------------------------------|
| Parent Company         | 3,000,000            | 0                | 3,000,000                       |
| Subsidiary A           | 1,500,000            | 0                | 1,500,000                       |
| Subsidiary B           | 500,000              | (700,000)        | (200,000)                       |
| <b>Tax Group Total</b> | <b>5,000,000</b>     | <b>(700,000)</b> | <b>4,300,000</b>                |

**Tax Liability** = 9% of AED 4,300,000 = **AED 387,000**.

## Strategic Considerations

**1. Assess Eligibility:**

Regularly review group structure and compliance to ensure continued eligibility.

## 2. Maximize Loss Sharing:

Optimize the allocation of losses within the group to minimize overall tax liabilities.

## 3. Monitor Ownership:

Maintain the **95% ownership threshold** to avoid group termination.

## 4. Engage Experts:

Work with tax professionals to navigate group tax rules and optimize compliance.

---

## Conclusion

The **tax group provisions** under UAE Corporate Tax Law provide businesses with opportunities for streamlined compliance and tax optimization. By forming a tax group, companies can consolidate taxable income, share losses, and reduce administrative burdens, ensuring efficient and effective tax management while adhering to regulatory requirements.

Defining a Tax Group and its Formation or Cessation



## Defining a Tax Group and Its Formation or Cessation Under UAE Corporate Tax Law

A **tax group** under UAE Corporate Tax Law allows a parent company and its qualifying subsidiaries to be treated as a **single taxable entity** for corporate tax purposes. This enables the group to file a consolidated tax return and optimize tax management across its entities.

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### 1. Definition of a Tax Group

A **tax group** is a consolidation of a **parent company** and one or more **subsidiaries** that meet specific eligibility criteria. For tax purposes:

- The tax group is treated as a single taxable unit.
- The parent company assumes responsibility for tax compliance, including filing a consolidated tax return.

---

### 2. Key Features of a Tax Group

| Aspect                 | Details                                                                                                |
|------------------------|--------------------------------------------------------------------------------------------------------|
| Single Tax Return      | The parent company files a single tax return for the entire group, reducing administrative complexity. |
| Centralized Compliance | Tax liability and compliance are managed centrally by the parent company.                              |
| Loss Sharing           | Tax losses of one group member can offset taxable income of another, subject to limitations.           |

### 3. Formation of a Tax Group

To form a tax group, the following **conditions and procedures** must be met:

#### Eligibility Conditions

| Condition            | Requirement                                                                                                                    |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Ownership Threshold  | The parent company must directly or indirectly hold at least <b>95% of share capital and voting rights</b> in each subsidiary. |
| Residency            | All members must be <b>resident persons</b> under UAE Corporate Tax Law.                                                       |
| Taxable Entities     | All members must be taxable persons; exempt persons and free zone persons benefiting from a <b>0% tax rate</b> cannot join.    |
| Accounting Alignment | All members must use the <b>same financial year</b> and accounting standards.                                                  |
| Approval from FTA    | Obtain formal approval from the <b>Federal Tax Authority (FTA)</b> to establish the tax group.                                 |

#### Formation Procedure

| Step                      | Details                                                                                                                 |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Step 1: Eligibility Check | Verify that all group members meet the conditions for forming a tax group.                                              |
| Step 2: Application       | Submit an application to the FTA, including ownership details, financial information, and agreements from all entities. |
| Step 3: Approval          | Await FTA's decision and approval to formally establish the tax group.                                                  |
| Step 4: Registration      | Register the tax group with the FTA and begin filing consolidated tax returns.                                          |

## 4. Cessation of a Tax Group

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A tax group may cease to exist for the following reasons:

### Reasons for Cessation

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| Reason                            | Details                                                                                                                     |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>Ownership Threshold Breach</b> | If the parent company's ownership in any subsidiary falls below the <b>95% threshold</b> , the group is dissolved.          |
| <b>Exclusion of Members</b>       | If one or more members no longer meet eligibility conditions (e.g., free zone persons or exempt persons joining the group). |
| <b>Voluntary Termination</b>      | If the parent company decides to dissolve the group and returns to individual tax filing for its members.                   |
| <b>FTA Decision</b>               | If the FTA identifies non-compliance with tax group conditions or procedural errors.                                        |

### Cessation Procedure

---

| Step                                           | Details                                                                                                |
|------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Step 1: Notify the FTA</b>                  | Submit a cessation request or notify the FTA of conditions that lead to termination.                   |
| <b>Step 2: Final Tax Filing</b>                | File a final consolidated tax return for the tax group and ensure compliance up to the cessation date. |
| <b>Step 3: Transition to Individual Filing</b> | Each former member resumes individual tax filing and compliance responsibilities.                      |

## 5. Tax Implications of Formation or Cessation

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| Aspect                           | Implication                                                                                                                               |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Loss Utilization</b>          | Losses within the group can be shared only during the tax group's existence; unused losses revert to individual entities after cessation. |
| <b>Intra-Group Transactions</b>  | Transactions between group members are excluded from tax calculations while the group exists but become taxable upon cessation.           |
| <b>Compliance Responsibility</b> | The parent company is responsible for compliance while the group exists, but this reverts to individual entities after cessation.         |

## 6. Example of Tax Group Formation

---

| Entity         | Criteria                                          | Eligible?                              |
|----------------|---------------------------------------------------|----------------------------------------|
| Parent Company | Owns 100% of Subsidiary A and 95% of Subsidiary B | <b>Yes</b> (Ownership ≥ 95%)           |
| Subsidiary A   | Resident taxable person                           | <b>Yes</b>                             |
| Subsidiary B   | Resident taxable person                           | <b>Yes</b>                             |
| Subsidiary C   | Free zone person benefiting from 0% tax rate      | <b>No</b> (Free zone persons excluded) |

**Result:** Parent Company, Subsidiary A, and Subsidiary B can form a tax group.

## 7. Strategic Considerations

### 1. Assess Eligibility:

Regularly monitor ownership thresholds and residency to ensure compliance with tax group conditions.

### 2. Leverage Tax Group Benefits:

Optimize the use of loss sharing and centralized compliance to reduce tax liabilities.

### 3. Plan for Potential Cessation:

Develop contingency plans for compliance and tax management if the tax group ceases to exist.

### 4. Engage Professional Advisors:

Seek expert guidance for formation, management, and termination of tax groups to avoid compliance issues.

## Conclusion

A **tax group** under UAE Corporate Tax Law offers businesses a valuable opportunity to simplify compliance and optimize tax liabilities. By adhering to eligibility requirements, maintaining proper documentation, and strategically managing group dynamics, businesses can maximize the benefits of tax group provisions while ensuring compliance with the law.

Calculating Taxable Income for a Tax Group



# Calculating Taxable Income for a Tax Group Under UAE Corporate Tax Law

The taxable income for a **tax group** under UAE Corporate Tax Law is calculated by consolidating the income and expenses of all group members while eliminating intercompany transactions. This ensures that the tax group is treated as a single taxable entity.

## Steps for Calculating Taxable Income for a Tax Group

**1. Determine Individual Taxable Income:**

Calculate the taxable income for each group member, considering allowable deductions, non-deductible expenses, and exempt income.

**2. Exclude Intra-Group Transactions:**

Eliminate income and expenses arising from transactions between members of the tax group to avoid double counting.

**3. Consolidate Taxable Income:**

Sum up the taxable income of all group members after adjustments for intra-group transactions.

**4. Apply Tax Losses:**

Offset taxable income with current-period losses and carried-forward losses within the tax group, subject to the **75% limitation**.

**5. Determine the Tax Liability:**

Calculate the group’s corporate tax liability by applying the **9% tax rate** to the taxable income above the **exemption threshold** (if applicable).

## Formula for Taxable Income for a Tax Group

$$\text{Taxable Income (Group)} = \sum(\text{Taxable Income of Members}) - \text{Intra-Group Adjustments} - \text{Applicable Losses}$$

## Example of Taxable Income Calculation for a Tax Group

| Entity         | Taxable Income (AED) | Tax Loss (AED) | Net Contribution to Group (AED) |
|----------------|----------------------|----------------|---------------------------------|
| Parent Company | 2,000,000            | 0              | 2,000,000                       |
| Subsidiary A   | 1,500,000            | 0              | 1,500,000                       |
| Subsidiary B   | 500,000              | (700,000)      | (200,000)                       |

| Entity          | Taxable Income (AED) | Tax Loss (AED) | Net Contribution to Group (AED) |
|-----------------|----------------------|----------------|---------------------------------|
| Tax Group Total | 4,000,000            | (700,000)      | 3,300,000                       |

**Taxable Income for the Group:** AED 3,300,000

**Tax Rate:** 9%

**Corporate Tax Liability:**

$3,300,000 \times 0.09 = 297,000 \text{ AED}$

## Key Adjustments

| Adjustment Type          | Details                                                                                                                         |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Intra-Group Transactions | Eliminate income and expenses arising from transactions between group members, such as intercompany sales or interest payments. |
| Exempt Income            | Exclude income from exempt activities (e.g., qualifying dividends or capital gains).                                            |
| Non-Deductible Expenses  | Add back expenses disallowed under UAE Corporate Tax Law, such as fines or penalties.                                           |
| Tax Losses               | Deduct current or carried-forward losses, subject to the <b>75% taxable income limitation</b> .                                 |

## Compliance Requirements

| Requirement              | Details                                                                                                           |
|--------------------------|-------------------------------------------------------------------------------------------------------------------|
| Consolidated Tax Return  | The parent company must file a single consolidated tax return for the tax group.                                  |
| Record-Keeping           | Maintain detailed records of each member's income, expenses, and adjustments.                                     |
| Intra-Group Transactions | Document and reconcile all intra-group transactions to ensure proper elimination.                                 |
| Loss Tracking            | Maintain records of loss utilization within the group, including carried-forward amounts and limitations applied. |

## Strategic Considerations

### 1. Optimize Loss Utilization:

Plan the allocation of tax losses within the group to minimize taxable income efficiently.

### 2. Monitor Intra-Group Transactions:

Ensure accurate identification and elimination of intra-group transactions to avoid tax overstatements.

### 3. Centralize Compliance:

Use centralized systems for tracking financial data, losses, and adjustments across group members.

### 4. Engage Tax Professionals:

Seek expert advice to navigate complex rules for group taxation and maximize tax benefits.

---

## Conclusion

The calculation of **taxable income for a tax group** involves consolidating the income of group members while eliminating intra-group transactions and applying tax losses. By following the outlined steps and maintaining accurate records, tax groups can optimize their tax liabilities and ensure compliance with UAE Corporate Tax Law.

Corporate Tax Liability



## Corporate Tax Liability Under UAE Corporate Tax Law

The **corporate tax liability** represents the amount of tax a business owes to the Federal Tax Authority (FTA) after computing taxable income in accordance with UAE Corporate Tax Law. It is calculated by applying the applicable corporate tax rate to the taxable income.

---

### 1. Corporate Tax Rates

| Taxable Income (AED) | Tax Rate                                                              |
|----------------------|-----------------------------------------------------------------------|
| Up to AED 375,000    | 0% – Small businesses and startups benefit from a tax-free threshold. |
| Above AED 375,000    | 9% – Applicable on taxable income exceeding the threshold.            |

---

## 2. Formula for Corporate Tax Liability

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Corporate Tax Liability=(Taxable Income Above AED 375,000)×9%

---

## 3. Steps to Compute Corporate Tax Liability

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### 1. Determine Taxable Income:

Calculate the business's taxable income by adjusting accounting income for non-deductible expenses, exempt income, and allowable deductions.

### 2. Apply Tax-Free Threshold:

Exclude the first **AED 375,000** of taxable income from taxation.

### 3. Apply the Corporate Tax Rate:

Apply the **9% tax rate** to the taxable income exceeding AED 375,000.

### 4. Consider Tax Reliefs:

Deduct any applicable tax reliefs, such as foreign tax credits or Small Business Relief, to determine the final tax liability.

---

## 4. Example of Corporate Tax Liability Calculation

---

| Details                      | Amount (AED)           |
|------------------------------|------------------------|
| Accounting Income            | 1,000,000              |
| Add: Non-Deductible Expenses | 100,000                |
| Less: Exempt Income          | 200,000                |
| Less: Allowable Deductions   | 300,000                |
| Taxable Income               | 600,000                |
| Tax-Free Threshold           | 375,000                |
| Taxable Amount               | 225,000                |
| Corporate Tax Liability (9%) | 225,000×0.09=20,250AED |

---

## 5. Adjustments to Corporate Tax Liability

---

| Adjustment<br>Type | Details |
|--------------------|---------|
|--------------------|---------|

| Adjustment Type            | Details                                                                                                          |
|----------------------------|------------------------------------------------------------------------------------------------------------------|
| <b>Foreign Tax Credits</b> | Businesses can claim a credit for taxes paid in foreign jurisdictions, reducing UAE corporate tax liability.     |
| <b>Group Taxation</b>      | Losses from other group members (within a tax group) can offset taxable income, reducing liability.              |
| <b>Tax Reliefs</b>         | Eligible tax reliefs, such as Small Business Relief or restructuring relief, may reduce corporate tax liability. |

## 6. Compliance Requirements

| Requirement                     | Details                                                                                                                      |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Return Filing</b>        | Businesses must file their corporate tax return within the prescribed deadlines, reporting taxable income and tax liability. |
| <b>Payment of Tax Liability</b> | The computed tax liability must be paid to the FTA on time to avoid penalties.                                               |
| <b>Record-Keeping</b>           | Maintain accurate records of income, expenses, and adjustments for a minimum of <b>7 years</b> for audit purposes.           |

## 7. Penalties for Non-Compliance

| Type of Non-Compliance           | Potential Penalty                                                                              |
|----------------------------------|------------------------------------------------------------------------------------------------|
| <b>Late Filing of Tax Return</b> | Fines for delays in submitting the tax return.                                                 |
| <b>Non-Payment of Tax</b>        | Penalties for late payment or underpayment of corporate tax liability.                         |
| <b>Inaccurate Reporting</b>      | Additional taxes and penalties for incorrect or incomplete reporting of income and deductions. |

## Strategic Considerations

### 1. Utilize Tax-Free Threshold:

Optimize business activities to benefit from the AED 375,000 tax-free threshold.

## 2. Leverage Tax Reliefs:

Explore relief options, such as foreign tax credits and group taxation, to minimize tax liabilities.

## 3. Accurate Record-Keeping:

Maintain proper documentation of income, expenses, and adjustments to support tax computations during audits.

## 4. Engage Professional Advisors:

Seek expert guidance to ensure compliance, optimize tax outcomes, and avoid penalties.

---

## Conclusion

The **corporate tax liability** under UAE Corporate Tax Law is calculated based on taxable income after adjustments for deductions, exemptions, and reliefs. By adhering to compliance requirements, leveraging available tax reliefs, and maintaining accurate records, businesses can effectively manage their tax liabilities while ensuring compliance with the law.

Calculating Corporate Tax Payable



## Calculating Corporate Tax Payable Under UAE Corporate Tax Law

The **corporate tax payable** represents the amount a business owes to the Federal Tax Authority (FTA) after considering taxable income, applicable tax rates, and any eligible tax credits or reliefs. This calculation ensures compliance and proper discharge of tax obligations.

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### 1. Formula for Corporate Tax Payable

Corporate Tax Payable = (Taxable Income Above AED 375,000) × 9%  
– Tax Reliefs and Credits

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### 2. Steps for Calculating Corporate Tax Payable

#### 1. Calculate Taxable Income:

Start with accounting income and adjust for allowable deductions, exempt income, and non-deductible expenses.

## 2. Apply the Tax-Free Threshold:

Exclude the first **AED 375,000** of taxable income from taxation.

## 3. Apply the Corporate Tax Rate:

Apply the **9% corporate tax rate** to the taxable income exceeding AED 375,000.

## 4. Deduct Tax Reliefs or Credits:

Subtract eligible tax reliefs, such as **foreign tax credits**, **Small Business Relief**, or other allowable deductions, from the computed tax liability.

## 3. Example of Corporate Tax Payable Calculation

| Details                      | Amount (AED)                               |
|------------------------------|--------------------------------------------|
| Accounting Income            | 1,200,000                                  |
| Add: Non-Deductible Expenses | 100,000                                    |
| Less: Exempt Income          | 200,000                                    |
| Less: Allowable Deductions   | 300,000                                    |
| Taxable Income               | 800,000                                    |
| Tax-Free Threshold           | 375,000                                    |
| Taxable Amount               | 425,000                                    |
| Corporate Tax Liability (9%) | $425,000 \times 0.09 = 38,250 \text{ AED}$ |
| Less: Foreign Tax Credit     | 10,000                                     |
| Corporate Tax Payable        | $38,250 - 10,000 = 28,250 \text{ AED}$     |

## 4. Adjustments to Corporate Tax Payable

| Adjustment Type       | Details                                                                                                           |
|-----------------------|-------------------------------------------------------------------------------------------------------------------|
| Foreign Tax Credit    | A credit for taxes paid in foreign jurisdictions, capped at the UAE tax liability on the same income.             |
| Group Loss Sharing    | Losses from other tax group members can reduce taxable income before calculating corporate tax payable.           |
| Small Business Relief | Eligible small businesses may qualify for exemptions or reductions under <b>Small Business Relief</b> provisions. |

| Adjustment Type   | Details                                                                                             |
|-------------------|-----------------------------------------------------------------------------------------------------|
| Double Tax Relief | Relief provided under UAE's Double Taxation Avoidance Agreements (DTAs) for foreign-sourced income. |

## 5. Compliance Requirements

| Requirement       | Details                                                                                                |
|-------------------|--------------------------------------------------------------------------------------------------------|
| Tax Return Filing | File the corporate tax return with the FTA within the prescribed deadline.                             |
| Payment Deadline  | Pay the calculated corporate tax payable within the timeframe specified by the FTA to avoid penalties. |
| Record-Keeping    | Maintain records of income, expenses, deductions, and tax credits for at least <b>7 years</b> .        |
| Audit Readiness   | Ensure accurate and complete documentation is available for review during an audit.                    |

## 6. Strategic Considerations

### 1. Optimize Tax-Free Threshold:

Structure operations to maximize the benefit of the AED 375,000 tax-free threshold.

### 2. Leverage Tax Credits:

Claim foreign tax credits and other reliefs to reduce the corporate tax payable.

### 3. Accurate Record Management:

Maintain proper documentation to support adjustments, deductions, and tax credits.

### 4. Seek Professional Assistance:

Engage tax advisors to ensure accurate calculations, optimize relief claims, and comply with UAE Corporate Tax Law.

## 7. Penalties for Non-Compliance

| Type of Non-Compliance | Potential Penalty |
|------------------------|-------------------|
|------------------------|-------------------|

| Type of Non-Compliance            | Potential Penalty                                                                                  |
|-----------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Late Filing of Tax Return</b>  | Fines for delayed submission of tax returns.                                                       |
| <b>Non-Payment of Tax Payable</b> | Penalties for late payment or underpayment of corporate tax liability.                             |
| <b>Inaccurate Reporting</b>       | Additional taxes and penalties for errors or omissions in reporting taxable income or tax credits. |

## Conclusion

Calculating **corporate tax payable** under UAE Corporate Tax Law involves determining taxable income, applying the relevant tax rate, and deducting eligible tax reliefs. By maintaining compliance, leveraging available reliefs, and keeping accurate records, businesses can effectively manage their tax liabilities and avoid penalties.

### Use of Currency for Tax Computations



## Use of Currency for Tax Computations Under UAE Corporate Tax Law

Under the UAE Corporate Tax Law, tax computations must be carried out in a **specified currency**, ensuring consistency and compliance with the regulatory framework. The default currency for corporate tax purposes is the **UAE Dirham (AED)**; however, businesses may apply to use a different currency under certain conditions.

### 1. Default Currency: UAE Dirham (AED)

- The UAE Dirham (AED) is the **default currency** for tax computations, tax return filings, and payments under UAE Corporate Tax Law.
- All amounts, including income, expenses, and taxable income, must be reported in AED unless prior approval to use a foreign currency is granted by the **Federal Tax Authority (FTA)**.

### 2. Conditions for Using a Foreign Currency

A business may apply to the FTA to use a foreign currency for tax computations if the following conditions are met:

| Condition                           | Details                                                                                                                              |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| <b>Functional Currency</b>          | The business's functional currency (used for financial reporting) is not AED, and it aligns with international accounting standards. |
| <b>Approval from FTA</b>            | The business must obtain prior approval from the FTA to use a foreign currency.                                                      |
| <b>Consistency</b>                  | The chosen currency must be used consistently across tax periods once approved.                                                      |
| <b>Exchange Rate for Conversion</b> | Transactions in other currencies must be converted to the chosen currency using <b>official exchange rates</b> .                     |

### 3. Applying for Approval to Use a Foreign Currency

| Step                                        | Details                                                                                                        |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Functional Currency Analysis</b> | Determine the functional currency as per financial statements and international accounting standards.          |
| <b>Step 2: Submit Application</b>           | Apply to the FTA for approval to use a foreign currency, providing justification and supporting documentation. |
| <b>Step 3: Await Approval</b>               | Await the FTA's decision, which may include specific conditions for currency usage.                            |
| <b>Step 4: Implement Changes</b>            | If approved, adjust tax computations and reporting to reflect the foreign currency.                            |

### 4. Conversion of Non-AED Transactions

When using AED or an approved foreign currency, transactions conducted in other currencies must be converted using:

| Aspect               | Details                                                                                                          |
|----------------------|------------------------------------------------------------------------------------------------------------------|
| <b>Exchange Rate</b> | Use the <b>official exchange rate</b> on the date of the transaction or an average rate if permitted by the FTA. |
| <b>Consistency</b>   | The same exchange rate methodology must be used consistently across tax periods.                                 |
| <b>Documentation</b> | Maintain records of exchange rates applied and the source of the rates for audit purposes.                       |

### 5. Example of Currency Conversion

| Scenario                 | Details                                                                                 |
|--------------------------|-----------------------------------------------------------------------------------------|
| Transaction              | A company earns USD 100,000 from foreign operations.                                    |
| Exchange Rate            | Official exchange rate on the transaction date: 1 USD = 3.67 AED.                       |
| Converted Amount         | $100,000\text{USD} \times 3.67\text{AED/USD} = 367,000\text{AED}$ .                     |
| Tax Computation Currency | The AED amount is used for tax calculations unless the FTA has approved the use of USD. |

## 6. Reporting Requirements

| Requirement              | Details                                                                                                        |
|--------------------------|----------------------------------------------------------------------------------------------------------------|
| Currency Consistency     | Use the same currency across all tax filings and payments in a tax period.                                     |
| Disclosure               | Disclose the functional currency in the corporate tax return if using a foreign currency.                      |
| Supporting Documentation | Retain records of exchange rates, conversion calculations, and FTA approval for the use of a foreign currency. |

## 7. Penalties for Non-Compliance

| Type of Non-Compliance        | Potential Penalty                                                                                                  |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Using an Unapproved Currency  | Fines for reporting tax computations in a currency other than AED or an FTA-approved foreign currency.             |
| Inconsistent Conversion Rates | Penalties for using inconsistent or unofficial exchange rates for currency conversion.                             |
| Incomplete Documentation      | Additional scrutiny or penalties for failing to maintain records of currency conversions and related calculations. |

## 8. Strategic Considerations

### 1. Functional Currency Analysis:

Determine if using a foreign currency aligns better with the company's financial reporting and operations.

2. **Monitor Exchange Rate Impacts:**

Evaluate the impact of currency fluctuations on taxable income and consider hedging strategies if significant.

3. **Engage Professional Advisors:**

Seek advice to navigate approval processes and ensure compliance with currency-related provisions.

---

**Conclusion**

The **use of currency for tax computations** under UAE Corporate Tax Law emphasizes compliance with default AED usage unless an approved foreign currency is adopted. By adhering to currency rules, maintaining consistency, and obtaining FTA approval where necessary, businesses can ensure accurate tax reporting while avoiding penalties.

Settlement of Corporate Tax Payments



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**Settlement of Corporate Tax Payments Under UAE Corporate Tax Law**

Corporate tax payments in the UAE must be settled promptly to comply with the **Federal Tax Authority (FTA)** regulations. Proper settlement involves determining the tax liability, adhering to payment deadlines, and utilizing available reliefs to optimize payments while avoiding penalties.

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**1. Process for Settlement of Corporate Tax Payments**

| Step                                 | Details                                                                                                             |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Calculate Tax Payable</b> | Determine the corporate tax liability based on taxable income, applying the tax-free threshold and the 9% tax rate. |
| <b>Step 2: Apply Reliefs</b>         | Deduct eligible reliefs, such as foreign tax credits or Small Business Relief, to arrive at the final tax payable.  |
| <b>Step 3: File Tax Return</b>       | File the corporate tax return with the FTA, disclosing taxable income, tax payable, and any reliefs applied.        |
| <b>Step 4: Make Payment</b>          | Pay the computed corporate tax liability within the specified deadline using the approved FTA payment methods.      |

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## 2. Payment Deadlines

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| Aspect         | Details                                                                                                            |
|----------------|--------------------------------------------------------------------------------------------------------------------|
| Annual Payment | Corporate tax payments are typically due <b>within 9 months</b> following the end of the relevant financial year.  |
| Extension      | No extensions are generally granted for payment deadlines unless approved by the FTA in exceptional circumstances. |

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## 3. Methods of Payment

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| Payment Method        | Details                                                                                  |
|-----------------------|------------------------------------------------------------------------------------------|
| Bank Transfer         | Payments can be made via electronic bank transfer to the designated FTA account.         |
| Online Payment Portal | The FTA's e-services platform allows businesses to pay corporate tax liabilities online. |
| Direct Debit          | Businesses may set up direct debit arrangements for timely payment of tax liabilities.   |

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## 4. Penalties for Non-Compliance

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| Type of Non-Compliance | Description                                   | Penalty                                                       |
|------------------------|-----------------------------------------------|---------------------------------------------------------------|
| Late Payment           | Failing to pay corporate tax by the deadline. | Monetary fines based on the amount and duration of the delay. |
| Underpayment           | Paying less than the actual tax liability.    | Additional tax and penalties for the unpaid amount.           |
| Non-Payment            | Failure to pay the tax liability altogether.  | Severe fines and possible legal action.                       |

---

## 5. Applying Reliefs to Reduce Tax Payable

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| Relief Type           | Details                                                                                             |
|-----------------------|-----------------------------------------------------------------------------------------------------|
| Foreign Tax Credits   | Credit for taxes paid in foreign jurisdictions, capped at the UAE tax liability on the same income. |
| Small Business Relief | Eligible small businesses may qualify for reduced tax liability under specific conditions.          |

---

| Relief Type               | Details                                                                                                |
|---------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Loss Carry-Forward</b> | Utilize tax losses from previous periods to offset taxable income, reducing the current tax liability. |

## 6. Example of Settlement

| Details                   | Amount (AED)                               |
|---------------------------|--------------------------------------------|
| <b>Taxable Income</b>     | 1,200,000                                  |
| <b>Tax-Free Threshold</b> | 375,000                                    |
| <b>Taxable Amount</b>     | 825,000                                    |
| <b>Corporate Tax (9%)</b> | $825,000 \times 0.09 = 74,250 \text{ AED}$ |
| <b>Foreign Tax Credit</b> | 10,000                                     |
| <b>Net Tax Payable</b>    | $74,250 - 10,000 = 64,250 \text{ AED}$     |

**Payment:** The business must pay **AED 64,250** by the deadline to settle its corporate tax liability.

## 7. Compliance Requirements

| Requirement            | Details                                                                                       |
|------------------------|-----------------------------------------------------------------------------------------------|
| <b>Accurate Filing</b> | File a corporate tax return disclosing the correct tax liability and payment details.         |
| <b>Timely Payment</b>  | Ensure full payment is made by the deadline to avoid penalties.                               |
| <b>Record-Keeping</b>  | Maintain payment records, including receipts and confirmations, for at least <b>7 years</b> . |

## 8. Strategic Considerations

### 1. Plan for Cash Flow:

Ensure sufficient liquidity to meet tax payment obligations on time.

### 2. Utilize Reliefs Effectively:

Claim eligible reliefs, such as foreign tax credits or loss carry-forwards, to reduce the tax payable.

### 3. Set Up Direct Debit:

Automate tax payments through direct debit to avoid late payments.

### 4. Engage Tax Professionals:

Work with advisors to accurately compute liabilities and ensure compliance with FTA requirements.

---

## Conclusion

The settlement of **corporate tax payments** under UAE Corporate Tax Law is a critical compliance requirement. By calculating the liability accurately, leveraging tax reliefs, and making timely payments using approved methods, businesses can avoid penalties and ensure smooth compliance with their tax obligations.

Rules for Withholding Tax and Associated credits



## Withholding Tax and Associated Credits Under UAE Corporate Tax Law

The UAE Corporate Tax Law incorporates **withholding tax** rules to ensure that taxes are collected at the source on certain types of payments made to non-residents. While withholding tax is not levied on domestic transactions or residents, specific rules apply to **cross-border payments** to non-residents.

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### 1. Withholding Tax: Key Provisions

| Aspect  | Details                                                                                                                |
|---------|------------------------------------------------------------------------------------------------------------------------|
| Scope   | Withholding tax applies to payments made to <b>non-residents</b> for income sourced in the UAE.                        |
| Rate    | A <b>0% withholding tax rate</b> applies to all eligible payments under the UAE Corporate Tax Law.                     |
| Purpose | Designed to fulfill the UAE's commitments under international tax treaties while maintaining a competitive tax regime. |

---

### 2. Payments Subject to Withholding Tax

While the withholding tax rate is set at **0%**, it applies to specific types of cross-border payments, including:

| Payment Type | Description                                                                                  |
|--------------|----------------------------------------------------------------------------------------------|
| Interest     | Payments made to non-residents for loans or other financial arrangements sourced in the UAE. |
| Royalties    | Payments for the use of intellectual property or technology owned by non-residents.          |
| Dividends    | Dividends paid to non-residents from UAE-based entities.                                     |
| Service Fees | Payments for services provided by non-residents if sourced in the UAE.                       |

### 3. Withholding Tax Credits

When withholding taxes are applied in a foreign jurisdiction to UAE-based businesses, they may claim a **foreign tax credit** to avoid double taxation.

| Aspect             | Details                                                                                                         |
|--------------------|-----------------------------------------------------------------------------------------------------------------|
| Foreign Tax Credit | Taxes withheld in foreign jurisdictions can be claimed as a credit against UAE corporate tax liability.         |
| Limit              | The credit is limited to the <b>UAE tax liability</b> on the same income.                                       |
| Documentation      | Businesses must provide proof of withholding, such as tax deduction certificates from the foreign jurisdiction. |

### 4. Double Taxation Avoidance Agreements (DTAs)

The UAE has an extensive network of **Double Taxation Avoidance Agreements (DTAs)** that impact withholding tax obligations.

| Impact of DTAs                  | Details                                                                                                   |
|---------------------------------|-----------------------------------------------------------------------------------------------------------|
| Reduced or Zero Withholding Tax | Many UAE DTAs provide for <b>reduced withholding tax rates</b> or exemptions for certain types of income. |
| Relief Mechanisms               | DTAs ensure that income taxed in the foreign jurisdiction is not taxed again in the UAE.                  |

### 5. Compliance Requirements for Withholding Tax

| Requirement | Details |
|-------------|---------|
|-------------|---------|

| Requirement                    | Details                                                                                                                            |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <b>0% Withholding Tax Rate</b> | For payments to non-residents sourced in the UAE, the default withholding tax rate is <b>0%</b> , and no tax needs to be deducted. |
| <b>Record-Keeping</b>          | Maintain records of all cross-border payments and the basis for applying the <b>0% rate</b> under UAE law.                         |
| <b>Tax Certificates</b>        | If claiming a foreign tax credit, ensure supporting documents, such as withholding certificates, are available.                    |

## 6. Example of Withholding Tax and Credits

### Scenario 1: Payment to a Non-Resident (UAE Source)

| Details                     | Amount (AED)              |
|-----------------------------|---------------------------|
| <b>Payment Type</b>         | Royalty to a non-resident |
| <b>Withholding Tax Rate</b> | 0%                        |
| <b>Tax Deducted</b>         | 0                         |

Result: The UAE withholding tax rate is 0%, so no tax is deducted from the payment.

### Scenario 2: Foreign Withholding Tax Credit

| Details                                     | Amount (AED)                                              |
|---------------------------------------------|-----------------------------------------------------------|
| <b>Income in Foreign Jurisdiction</b>       | 500,000                                                   |
| <b>Foreign Withholding Tax Rate</b>         | 10%                                                       |
| <b>Tax Deducted in Foreign Jurisdiction</b> | 50,000                                                    |
| <b>UAE Tax Liability on Income (9%)</b>     | 45,000                                                    |
| <b>Allowable Tax Credit</b>                 | 45,000 (Limited to UAE tax liability on the same income). |

Result: The UAE business can claim a foreign tax credit of **AED 45,000**, reducing UAE corporate tax payable.

## 7. Strategic Considerations

1. **Leverage DTAs:**

Verify if a **Double Taxation Avoidance Agreement (DTA)** reduces or eliminates withholding tax obligations on cross-border payments.

2. **Monitor Foreign Withholding:**

Claim foreign tax credits for withholding taxes paid in other jurisdictions to minimize double taxation.

3. **Maintain Proper Documentation:**

Keep detailed records of all cross-border payments, tax certificates, and DTA provisions applied.

4. **Seek Professional Guidance:**

Consult tax advisors to navigate withholding tax rules and optimize tax positions under UAE Corporate Tax Law.

---

8. **Conclusion**

While the UAE Corporate Tax Law applies a **0% withholding tax rate** on payments to non-residents, businesses must comply with the law and maintain proper records. When foreign withholding taxes are applied, UAE businesses can utilize **foreign tax credits** to avoid double taxation, provided they meet documentation and credit limits. Leveraging **DTAs** and understanding cross-border tax implications are crucial for effective tax planning and compliance.

Foreign Tax Credit Provisions



**Foreign Tax Credit Provisions Under UAE Corporate Tax Law**

The **Foreign Tax Credit (FTC)** provisions under the UAE Corporate Tax Law allow businesses to claim a credit for taxes paid in foreign jurisdictions on income that is also taxable in the UAE. These provisions aim to prevent **double taxation** while maintaining compliance with the law and leveraging the UAE’s **Double Taxation Avoidance Agreements (DTAs)**.

---

1. **Key Features of Foreign Tax Credit Provisions**

| Aspect  | Details                                                                                                             |
|---------|---------------------------------------------------------------------------------------------------------------------|
| Purpose | To eliminate or reduce double taxation on income that is subject to tax in both the UAE and a foreign jurisdiction. |

---

| Aspect                | Details                                                                                     |
|-----------------------|---------------------------------------------------------------------------------------------|
| <b>Eligible Taxes</b> | Taxes paid to a foreign government on income earned abroad that is also taxable in the UAE. |
| <b>Credit Limit</b>   | The FTC is limited to the <b>UAE corporate tax liability</b> on the same income.            |
| <b>Application</b>    | Available only for foreign-sourced income that is taxable under UAE Corporate Tax Law.      |

## 2. Calculation of Foreign Tax Credit

Foreign Tax Credit=min(Foreign Taxes Paid,UAE Tax Liability on Same Income)

### Example of FTC Calculation

| Details                                 | Amount (AED)               |
|-----------------------------------------|----------------------------|
| <b>Income Earned Abroad</b>             | 1,000,000                  |
| <b>Foreign Tax Paid (15%)</b>           | 150,000                    |
| <b>UAE Tax Liability on Income (9%)</b> | 90,000                     |
| <b>Foreign Tax Credit</b>               | min(150,000,90,000)=90,000 |

**Result:** The business can claim a foreign tax credit of **AED 90,000**, and the remaining AED 60,000 paid as foreign tax cannot be carried forward or refunded.

## 3. Eligibility for Foreign Tax Credit

| Condition                                        | Requirement                                                                                                 |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| <b>Foreign-Sourced Income</b>                    | Income must be earned from a foreign jurisdiction and subject to UAE corporate tax.                         |
| <b>Taxable in the UAE</b>                        | The income must be taxable under UAE Corporate Tax Law.                                                     |
| <b>Proof of Payment</b>                          | The business must provide documentation, such as a foreign tax certificate, to prove that the tax was paid. |
| <b>Double Taxation Avoidance Agreement (DTA)</b> | If a DTA exists, it must be adhered to for determining the eligibility and amount of the FTC.               |

## 4. Documentation Requirements

| Document                       | Details                                                                                         |
|--------------------------------|-------------------------------------------------------------------------------------------------|
| <b>Tax Payment Certificate</b> | Issued by the foreign tax authority, confirming the amount of tax paid.                         |
| <b>Income Records</b>          | Evidence of the foreign-sourced income, such as contracts, invoices, and financial statements.  |
| <b>DTA Reference</b>           | If applicable, reference to the specific DTA provisions that govern the taxation of the income. |

## 5. Impact of Double Taxation Avoidance Agreements (DTAs)

| Aspect                            | Details                                                                                                 |
|-----------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>Reduction of Taxes</b>         | DTAs may reduce or exempt certain types of income from taxation in the foreign jurisdiction or the UAE. |
| <b>Relief Mechanisms</b>          | DTAs determine whether an FTC or an exemption is available to eliminate double taxation.                |
| <b>Priority Over Domestic Law</b> | Where a DTA exists, its provisions override the UAE domestic tax rules to the extent of any conflict.   |

## 6. Limitations of Foreign Tax Credit

| Limitation              | Details                                                                                                                 |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>Credit Limit</b>     | The FTC cannot exceed the UAE tax liability on the same foreign-sourced income.                                         |
| <b>No Carry-Forward</b> | Unused foreign tax credits cannot be carried forward or refunded; they are lost if not utilized in the same tax period. |
| <b>Proof of Payment</b> | Without sufficient documentation of foreign taxes paid, the FTC claim may be disallowed.                                |

## 7. Strategic Considerations

### 1. Leverage DTAs:

Utilize provisions of the UAE's DTAs to minimize withholding taxes and enhance FTC eligibility.

### 2. Accurate Record-Keeping:

Maintain detailed documentation of foreign income, tax payments, and DTA provisions applied.

3. **Plan for FTC Utilization:**

Structure foreign operations to optimize FTC utilization within the UAE corporate tax framework.

4. **Engage Professional Advisors:**

Seek expert advice to navigate complex FTC rules and ensure compliance.

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8. **Compliance Requirements**

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| Requirement           | Details                                                                                          |
|-----------------------|--------------------------------------------------------------------------------------------------|
| Tax Return Disclosure | Disclose foreign income, taxes paid, and FTC claims in the UAE corporate tax return.             |
| Record Maintenance    | Retain documentation of foreign taxes paid and supporting evidence for at least <b>7 years</b> . |
| Audit Readiness       | Ensure records are readily available for review by the UAE Federal Tax Authority (FTA).          |

---

**Conclusion**

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The **Foreign Tax Credit provisions** under UAE Corporate Tax Law provide businesses with a mechanism to mitigate double taxation on foreign-sourced income. By adhering to eligibility criteria, leveraging DTAs, and maintaining accurate documentation, businesses can optimize their tax position while ensuring compliance with UAE tax regulations.

Q&A on the above



**Q&A on Foreign Tax Credit Provisions Under UAE Corporate Tax Law**

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| Question                            | Answer                                                                                                                        |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| What is a Foreign Tax Credit (FTC)? | An FTC allows businesses to claim a credit for taxes paid in foreign jurisdictions on income that is also taxable in the UAE. |
| Why are FTC provisions important?   | They prevent <b>double taxation</b> on the same income, ensuring businesses do not pay tax twice on foreign-sourced income.   |

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| Question                                                              | Answer                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What is the maximum FTC that can be claimed?                          | The FTC is capped at the <b>UAE corporate tax liability</b> on the same income. Excess foreign tax paid cannot be refunded or carried forward.                                                                                    |
| Which types of income are eligible for FTC?                           | Only <b>foreign-sourced income</b> that is taxable under UAE Corporate Tax Law qualifies for FTC.                                                                                                                                 |
| What documentation is required to claim FTC?                          | Businesses must provide: <ul style="list-style-type: none"> <li>- <b>Tax payment certificate</b> from the foreign tax authority.</li> <li>- Evidence of income earned abroad.</li> <li>- DTA provisions if applicable.</li> </ul> |
| What happens if I cannot provide proof of foreign taxes paid?         | The FTC claim may be <b>disallowed</b> , and the UAE tax liability will be computed without considering the foreign taxes.                                                                                                        |
| Can FTC be carried forward or refunded?                               | No, unused FTC cannot be carried forward or refunded; it is lost if not utilized in the same tax period.                                                                                                                          |
| How do DTAs affect FTC?                                               | <b>Double Taxation Avoidance Agreements (DTAs)</b> may reduce or exempt foreign taxes on certain income types, impacting the FTC calculation.                                                                                     |
| What is the role of DTAs in foreign tax credits?                      | DTAs determine whether foreign-sourced income qualifies for FTC or if other relief mechanisms, such as exemptions, apply.                                                                                                         |
| Is FTC applicable for all foreign taxes?                              | No, FTC applies only to taxes paid to foreign governments on income that is also taxable in the UAE.                                                                                                                              |
| What is the UAE corporate tax rate applicable to foreign income?      | The UAE corporate tax rate is <b>0% on income up to AED 375,000</b> and <b>9% on income exceeding AED 375,000</b> .                                                                                                               |
| What is an example of FTC calculation?                                | If a business earns <b>AED 1,000,000</b> in a foreign jurisdiction and pays <b>AED 150,000 (15%)</b> in taxes abroad, but the UAE tax on this income is <b>AED 90,000 (9%)</b> , the FTC claimable is <b>AED 90,000</b> .         |
| What if a foreign jurisdiction's tax rate is lower than the UAE rate? | The UAE tax liability will reflect the <b>higher effective tax rate</b> , with no excess credit required for foreign taxes below the UAE rate.                                                                                    |
| How does the UAE Corporate Tax Law ensure FTC compliance?             | By requiring <b>accurate documentation</b> , <b>tax return disclosure</b> , and adherence to <b>DTA provisions</b> where applicable.                                                                                              |

This Q&A provides clarity on **foreign tax credit provisions**, enabling businesses to effectively utilize credits and avoid double taxation while ensuring compliance.

Anti-Abuse Rules and Administrative Requirements



**Anti-Abuse Rules and Administrative Requirements Under UAE Corporate Tax Law**

The UAE Corporate Tax Law incorporates **anti-abuse rules** and outlines **administrative requirements** to prevent tax avoidance, ensure compliance, and maintain the integrity of the tax system. These provisions aim to deter aggressive tax planning strategies and uphold fair tax practices.

**1. Anti-Abuse Rules**

Anti-abuse rules are designed to prevent businesses from engaging in transactions or arrangements that lack a genuine commercial purpose and are primarily intended to obtain a tax advantage.

**Key Features of Anti-Abuse Rules**

| Aspect                    | Details                                                                                                                              |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Purpose                   | To prevent tax avoidance and artificial arrangements aimed at reducing corporate tax liabilities.                                    |
| Scope                     | Applies to any transaction, arrangement, or series of arrangements where the primary objective is to secure a <b>tax advantage</b> . |
| Commercial Substance Test | Transactions must have a genuine <b>commercial purpose</b> and not exist solely for tax benefits.                                    |

**Indicators of Abuse**

| Indicator               | Example                                                                                                                        |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Artificial Transactions | Transactions lacking economic substance, such as transferring profits to a low-tax jurisdiction without any business activity. |
| Circular Arrangements   | Agreements that result in no change in the taxpayer’s economic or legal position other than tax savings.                       |

| Indicator                      | Example                                                                                  |
|--------------------------------|------------------------------------------------------------------------------------------|
| <b>Mismatched Transactions</b> | Exploiting mismatches in tax treatment between jurisdictions to achieve a tax advantage. |

## Consequences of Non-Compliance

| Violation             | Consequence                                                                                                          |
|-----------------------|----------------------------------------------------------------------------------------------------------------------|
| <b>Tax Adjustment</b> | The Federal Tax Authority (FTA) may disregard abusive arrangements and recompute the taxable income.                 |
| <b>Penalties</b>      | Fines and penalties may be imposed for engaging in abusive practices or failing to disclose artificial arrangements. |

## 2. Administrative Requirements

Administrative requirements under the UAE Corporate Tax Law ensure proper compliance and enforcement of tax rules.

### Key Administrative Obligations

| Requirement                     | Details                                                                                                                        |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| <b>Tax Registration</b>         | Businesses must register for corporate tax with the FTA and obtain a <b>Tax Registration Number (TRN)</b> .                    |
| <b>Tax Return Filing</b>        | File annual corporate tax returns within the specified deadline, disclosing taxable income, tax payable, and relevant details. |
| <b>Payment of Tax Liability</b> | Settle corporate tax liabilities by the due date to avoid penalties.                                                           |
| <b>Record-Keeping</b>           | Maintain accurate records of income, expenses, and transactions for at least <b>7 years</b> .                                  |

### Filing Deadlines

| Requirement                 | Deadline                                                        |
|-----------------------------|-----------------------------------------------------------------|
| <b>Corporate Tax Return</b> | Within <b>9 months</b> following the end of the financial year. |
| <b>Payment of Tax</b>       | By the same deadline as the tax return filing.                  |

### Penalties for Non-Compliance

| Type of Non-Compliance          | Potential Penalty                                                                             |
|---------------------------------|-----------------------------------------------------------------------------------------------|
| Failure to Register for Tax     | Fines for not registering with the FTA within the prescribed timeline.                        |
| Late Filing of Tax Return       | Monetary penalties for delayed submission of corporate tax returns.                           |
| Non-Payment of Tax Liability    | Additional fines and interest on overdue tax payments.                                        |
| Incomplete or Inaccurate Filing | Penalties for errors or omissions in tax returns or failure to disclose relevant information. |

### 3. Safeguards and Compliance Measures

#### 1. Economic Substance Requirements:

Businesses must demonstrate that they meet **economic substance** requirements to avoid anti-abuse scrutiny.

#### 2. Transfer Pricing Compliance:

Ensure compliance with transfer pricing rules, adhering to the **arm's length principle** for related-party transactions.

#### 3. Documentation and Reporting:

Maintain comprehensive records and reports, including:

- Financial statements.
- Tax return calculations.
- Transfer pricing documentation.

#### 4. Transparency and Disclosure:

Disclose all arrangements and transactions accurately to avoid penalties under anti-abuse provisions.

### 4. Strategic Considerations

#### 1. Avoid Artificial Arrangements:

Ensure all transactions have a genuine commercial purpose and economic substance beyond tax advantages.

#### 2. Proactive Tax Planning:

Structure transactions and business operations to comply with UAE tax laws and avoid potential abuse allegations.

3. Engage Professionals:

Consult tax advisors to navigate complex anti-abuse provisions and administrative requirements effectively.

4. Regular Internal Audits:

Conduct periodic reviews of transactions and compliance practices to ensure adherence to the law.

5. Conclusion

The **anti-abuse rules** and **administrative requirements** under UAE Corporate Tax Law safeguard the integrity of the tax system and ensure compliance. By maintaining commercial substance, adhering to reporting obligations, and avoiding artificial arrangements, businesses can optimize their tax positions while mitigating the risk of penalties and enforcement actions.

Administrative Aspects



Administrative Aspects of UAE Corporate Tax Law

The UAE Corporate Tax Law establishes specific administrative requirements to ensure businesses comply with tax obligations. These aspects include tax registration, filing, payment, record-keeping, and penalties for non-compliance. Adhering to these provisions is essential for smooth tax administration and avoiding penalties.

1. Tax Registration

| Aspect         | Details                                                                                                                                               |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Requirement    | All businesses subject to corporate tax must register with the <b>Federal Tax Authority (FTA)</b> and obtain a <b>Tax Registration Number (TRN)</b> . |
| Timeline       | Registration must be completed within the timeframe specified by the FTA.                                                                             |
| Exempt Persons | Even exempt persons may need to register if required by the FTA.                                                                                      |

2. Filing Corporate Tax Returns

| Aspect               | Details                                                                                  |
|----------------------|------------------------------------------------------------------------------------------|
| Frequency            | Businesses must file a <b>corporate tax return annually</b> .                            |
| Deadline             | The return must be filed <b>within 9 months</b> following the end of the financial year. |
| Consolidated Returns | Tax groups file a single consolidated return through the parent company.                 |
| Method of Filing     | Returns must be submitted electronically via the FTA's <b>e-services portal</b> .        |

### 3. Payment of Corporate Tax

| Aspect                     | Details                                                                                                              |
|----------------------------|----------------------------------------------------------------------------------------------------------------------|
| Tax Payment Deadline       | Corporate tax must be paid by the same deadline as the return filing (within 9 months after the financial year-end). |
| Methods of Payment         | Payments can be made via bank transfers, direct debit, or through the FTA's payment platform.                        |
| Penalties for Late Payment | Delayed payments attract fines and interest on the outstanding tax amount.                                           |

### 4. Record-Keeping

| Aspect             | Details                                                                                             |
|--------------------|-----------------------------------------------------------------------------------------------------|
| Retention Period   | Businesses must retain records for at least <b>7 years</b> from the end of the relevant tax period. |
| Required Documents | Include financial statements, invoices, contracts, transfer pricing documentation, and tax returns. |
| Audit Readiness    | Records must be readily available for inspection by the FTA during audits.                          |

### 5. Administrative Penalties

The FTA imposes penalties for non-compliance with administrative requirements.

| Violation           | Description                                                    | Penalty                               |
|---------------------|----------------------------------------------------------------|---------------------------------------|
| Failure to Register | Not registering for corporate tax within the specified period. | Monetary fines determined by the FTA. |

| Violation                     | Description                                                                | Penalty                                                      |
|-------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------|
| <b>Late Filing of Returns</b> | Submitting the corporate tax return after the deadline.                    | Fines for each day of delay.                                 |
| <b>Failure to Pay Tax</b>     | Non-payment or partial payment of corporate tax liability by the deadline. | Penalties based on the overdue amount and duration of delay. |
| <b>Inaccurate Information</b> | Providing incorrect or incomplete information in tax returns.              | Additional tax assessments and penalties for underpayment.   |

## 6. Key Administrative Processes

| Process                      | Details                                                                                                 |
|------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>Amendments to Returns</b> | Businesses can revise previously filed tax returns if errors are identified, subject to FTA guidelines. |
| <b>Appeals Process</b>       | Disputes or objections against FTA assessments can be filed through the administrative appeals process. |
| <b>Tax Refunds</b>           | Eligible businesses may apply for refunds of overpaid taxes, subject to FTA verification.               |

## 7. Compliance Requirements

| Requirement                     | Details                                                                                                |
|---------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Accurate Reporting</b>       | Ensure all information submitted in tax returns is complete, accurate, and supported by documentation. |
| <b>Electronic Communication</b> | Use the FTA's online platform for all tax-related communications, filings, and payments.               |
| <b>Audit Cooperation</b>        | Fully cooperate with FTA audits by providing requested records and clarifications.                     |

## 8. Strategic Considerations

### 1. Early Registration:

Complete tax registration promptly to avoid delays and penalties.

### 2. Timely Filing and Payment:

Ensure tax returns are filed and liabilities are paid within the prescribed deadlines.

### 3. Robust Record-Keeping:

Implement efficient systems for maintaining and organizing tax records for audit readiness.

### 4. Engage Tax Professionals:

Seek expert advice to ensure compliance with administrative aspects and optimize tax processes.

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## 9. Conclusion

The **administrative aspects** of UAE Corporate Tax Law are critical to maintaining compliance and avoiding penalties. By registering for tax, filing accurate returns, paying liabilities on time, and maintaining proper records, businesses can meet their obligations efficiently. Leveraging professional expertise and adhering to best practices will further enhance compliance and minimize risks.

### Tax Registration and De-registration Processes



## Tax Registration and De-Registration Processes Under UAE Corporate Tax Law

The UAE Corporate Tax Law mandates businesses to **register for corporate tax** and obtain a **Tax Registration Number (TRN)** to comply with tax obligations. Similarly, certain entities may need to **de-register** under specific circumstances. Both processes are regulated by the **Federal Tax Authority (FTA)** to ensure streamlined administration and compliance.

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### 1. Tax Registration Process

#### Who Needs to Register?

- **Taxable Persons:** All businesses subject to corporate tax in the UAE.
- **Exempt Persons:** Certain exempt entities may also be required to register as specified by the FTA.

#### Exclusions from Registration

- **Non-Residents:** Non-residents are exempt unless they have a permanent establishment in the UAE or derive income subject to withholding tax.
- **Natural Persons:** Individuals not conducting business activities that fall under corporate tax obligations.

## Steps for Tax Registration

| Step                                        | Details                                                                                                                                                                                    |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Access FTA Portal</b>            | Visit the FTA's <b>e-Services portal</b> and create an account.                                                                                                                            |
| <b>Step 2: Provide Business Information</b> | Submit details, including: <ul style="list-style-type: none"><li>- Business name and trade license.</li><li>- Legal structure.</li><li>- Taxable status (resident/non-resident).</li></ul> |
| <b>Step 3: Submit Supporting Documents</b>  | Upload required documents, such as trade licenses, financial statements, and ownership details.                                                                                            |
| <b>Step 4: Receive TRN</b>                  | Upon approval, the FTA issues a <b>Tax Registration Number (TRN)</b> confirming successful registration.                                                                                   |

## Documentation Required for Registration

| Document                     | Details                                                   |
|------------------------------|-----------------------------------------------------------|
| <b>Trade License</b>         | Copy of the business's trade license.                     |
| <b>Legal Documents</b>       | Proof of business ownership and organizational structure. |
| <b>Financial Information</b> | Financial statements or evidence of taxable activities.   |

## 2. Tax De-Registration Process

### When to De-Register?

| Scenario                       | Details                                                                                             |
|--------------------------------|-----------------------------------------------------------------------------------------------------|
| <b>Cessation of Business</b>   | If a business ceases to exist or stops conducting taxable activities.                               |
| <b>Exemption Status Change</b> | If an entity becomes fully exempt from corporate tax and no longer meets the registration criteria. |

## Steps for Tax De-Registration

| Step                             | Details                                                                 |
|----------------------------------|-------------------------------------------------------------------------|
| <b>Step 1: Access FTA Portal</b> | Log into the FTA's <b>e-Services portal</b> using your TRN credentials. |

| Step                                              | Details                                                                                            |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Step 2: Submit De-Registration Application</b> | Provide details on why the business is ceasing operations or no longer qualifies for registration. |
| <b>Step 3: Clear Outstanding Liabilities</b>      | Ensure all tax returns are filed, and any outstanding tax liabilities or penalties are paid.       |
| <b>Step 4: Receive Confirmation</b>               | Upon FTA's approval, receive confirmation of de-registration.                                      |

### Documentation Required for De-Registration

| Document                           | Details                                                                     |
|------------------------------------|-----------------------------------------------------------------------------|
| <b>Proof of Cessation</b>          | Evidence of business closure or cessation of taxable activities.            |
| <b>Final Tax Returns</b>           | Filed and paid tax returns up to the cessation date.                        |
| <b>Financial Closure Documents</b> | Statements showing the winding up of accounts or dissolution of the entity. |

## 3. Compliance Requirements for Registration and De-Registration

| Requirement                     | Details                                                                                          |
|---------------------------------|--------------------------------------------------------------------------------------------------|
| <b>Timely Registration</b>      | Businesses must register within the timeline prescribed by the FTA to avoid penalties.           |
| <b>Accurate Information</b>     | Provide accurate details during registration or de-registration to ensure compliance.            |
| <b>Clearance of Liabilities</b> | All tax liabilities, penalties, and filing obligations must be fulfilled before de-registration. |

## 4. Penalties for Non-Compliance

| Violation                   | Description                                                                     | Penalty                                  |
|-----------------------------|---------------------------------------------------------------------------------|------------------------------------------|
| <b>Failure to Register</b>  | Not registering within the prescribed timeframe.                                | Monetary fines as determined by the FTA. |
| <b>Late De-Registration</b> | Delayed application for de-registration after cessation of business activities. | Fines for non-compliance.                |

| Violation                 | Description                                                  | Penalty                                                 |
|---------------------------|--------------------------------------------------------------|---------------------------------------------------------|
| <b>Incomplete Returns</b> | Failure to file all required returns before de-registration. | Additional penalties for unfiled or inaccurate returns. |

## 5. Strategic Considerations

### 1. Early Registration:

Complete registration as soon as taxable activities commence to avoid penalties.

### 2. Monitor Exempt Status:

Regularly review exemption eligibility and update registration details if the business status changes.

### 3. Plan for De-Registration:

Ensure all outstanding tax liabilities are cleared before initiating the de-registration process.

### 4. Seek Professional Guidance:

Consult tax advisors to ensure accurate and timely compliance with registration and de-registration requirements.

## 6. Conclusion

The processes of **tax registration** and **de-registration** under UAE Corporate Tax Law are critical compliance obligations for businesses. By adhering to the specified timelines, maintaining accurate records, and fulfilling tax liabilities, businesses can streamline their tax obligations and avoid penalties. Proper planning and professional guidance can further simplify these processes and ensure compliance with the law.

### Filing Tax Returns



## Filing Tax Returns Under UAE Corporate Tax Law

Filing corporate tax returns is a mandatory requirement under the UAE Corporate Tax Law. Businesses must report their taxable income, deductions, tax reliefs, and tax liability to the **Federal Tax Authority (FTA)** within the specified deadlines. Adhering to the filing requirements ensures compliance and avoids penalties.

## 1. Who Must File a Tax Return?

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| Entity                 | Requirement                                                                                          |
|------------------------|------------------------------------------------------------------------------------------------------|
| <b>Taxable Persons</b> | All businesses subject to corporate tax in the UAE must file a corporate tax return.                 |
| <b>Exempt Persons</b>  | Exempt entities may need to file a return if required by the FTA, such as to maintain exempt status. |
| <b>Tax Groups</b>      | A single consolidated tax return must be filed by the parent company on behalf of the group.         |

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## 2. Filing Deadlines

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| Aspect               | Details                                                                                  |
|----------------------|------------------------------------------------------------------------------------------|
| <b>Annual Filing</b> | Businesses must file their corporate tax returns <b>once per financial year</b> .        |
| <b>Deadline</b>      | The return must be filed <b>within 9 months</b> following the end of the financial year. |

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## 3. Steps to File a Tax Return

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| Step                                    | Details                                                                                                                       |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Calculate Taxable Income</b> | Determine taxable income by adjusting accounting income for allowable deductions, exempt income, and non-deductible expenses. |
| <b>Step 2: Prepare Documentation</b>    | Gather required documents, including financial statements, supporting evidence for deductions, and tax relief claims.         |
| <b>Step 3: Access the FTA Portal</b>    | Log in to the <b>FTA e-Services portal</b> using the business's Tax Registration Number (TRN).                                |
| <b>Step 4: Complete the Tax Return</b>  | Fill out the corporate tax return form with details of income, expenses, deductions, and tax liability.                       |
| <b>Step 5: Submit the Return</b>        | Review the form for accuracy and submit it electronically through the portal.                                                 |

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## 4. Information to Include in a Tax Return

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| Section                           | Details                                                                              |
|-----------------------------------|--------------------------------------------------------------------------------------|
| <b>Business Information</b>       | Entity name, TRN, and financial year details.                                        |
| <b>Income Details</b>             | Total income, exempt income, and taxable income.                                     |
| <b>Deductions and Adjustments</b> | Allowable deductions, non-deductible expenses, and tax reliefs claimed.              |
| <b>Tax Liability</b>              | Calculated corporate tax liability based on taxable income and applicable tax rates. |
| <b>Tax Credits</b>                | Foreign tax credits or other reliefs applied to reduce the tax payable.              |

## 5. Common Adjustments in Tax Returns

| Adjustment                     | Details                                                                          |
|--------------------------------|----------------------------------------------------------------------------------|
| <b>Exempt Income</b>           | Deduct income not subject to corporate tax, such as qualifying dividends.        |
| <b>Non-Deductible Expenses</b> | Add back expenses disallowed under tax law, such as fines or excessive interest. |
| <b>Allowable Deductions</b>    | Deduct expenses incurred wholly and exclusively for generating taxable income.   |

## 6. Penalties for Non-Compliance

| Violation                      | Description                                                      | Penalty                                          |
|--------------------------------|------------------------------------------------------------------|--------------------------------------------------|
| <b>Late Filing of Returns</b>  | Submitting the corporate tax return after the deadline.          | Monetary fines for each day of delay.            |
| <b>Failure to File Returns</b> | Not submitting a tax return altogether.                          | Severe fines and possible legal action.          |
| <b>Inaccurate Reporting</b>    | Providing incorrect or incomplete information in the tax return. | Additional taxes and penalties for underpayment. |

## 7. Record-Keeping Requirements

| Requirement             | Details                                                                                                        |
|-------------------------|----------------------------------------------------------------------------------------------------------------|
| <b>Retention Period</b> | Maintain tax records, including financial statements and tax return submissions, for at least <b>7 years</b> . |

| Requirement            | Details                                                                       |
|------------------------|-------------------------------------------------------------------------------|
| <b>Audit Readiness</b> | Ensure records are readily available for inspection by the FTA during audits. |

## 8. Filing Tax Returns for Tax Groups

| Aspect                          | Details                                                                                         |
|---------------------------------|-------------------------------------------------------------------------------------------------|
| <b>Single Return</b>            | The parent company files one consolidated tax return for the entire group.                      |
| <b>Income and Adjustments</b>   | Consolidate the income and expenses of all group members, eliminating intra-group transactions. |
| <b>Tax Liability Allocation</b> | Compute the total tax liability for the group and allocate responsibilities accordingly.        |

## 9. Strategic Considerations

### 1. Early Preparation:

Start compiling required documentation and calculating taxable income well before the deadline.

### 2. Leverage Reliefs and Credits:

Maximize deductions, foreign tax credits, and other available reliefs to minimize tax liabilities.

### 3. Engage Tax Professionals:

Seek expert assistance to ensure accurate reporting and compliance with UAE Corporate Tax Law.

### 4. Monitor Changes in Tax Law:

Stay updated on amendments to tax rules or filing requirements to maintain compliance.

## 10. Conclusion

Filing corporate tax returns under UAE Corporate Tax Law is a critical compliance obligation. By adhering to deadlines, ensuring accurate reporting, and maintaining proper records, businesses can fulfill their tax responsibilities effectively. Leveraging professional advice and utilizing available reliefs further enhances compliance and minimizes tax liabilities.



# Payment and Refund Procedures for Corporate Tax Under UAE Corporate Tax Law

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The UAE Corporate Tax Law outlines specific procedures for **paying corporate tax liabilities** and **claiming tax refunds**. These processes ensure businesses meet their obligations efficiently while providing mechanisms to recover overpaid taxes where applicable.

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## 1. Payment of Corporate Tax

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### When to Pay Corporate Tax

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- Corporate tax payments must be made **once per financial year**, coinciding with the filing of the corporate tax return.
  - The payment deadline is **within 9 months** after the end of the financial year.
- 

### Payment Methods

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| Method                | Details                                                                                                                         |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Bank Transfer         | Direct payments can be made via electronic bank transfers to the designated account of the <b>Federal Tax Authority (FTA)</b> . |
| Online Payment Portal | Use the FTA's <b>e-Services platform</b> to pay liabilities online through secure payment options.                              |
| Direct Debit          | Set up a direct debit with the FTA to ensure timely payments without manual intervention.                                       |

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### Steps for Payment

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1. **Calculate the Tax Payable:**  
Compute taxable income, apply applicable deductions, and determine the final tax liability.
2. **Access FTA Portal:**  
Log in to the FTA's e-Services portal using the Tax Registration Number (TRN).
3. **Generate a Payment Voucher:**  
Create a payment voucher for the computed tax liability.

#### 4. Make the Payment:

Complete the payment using one of the approved methods and obtain a confirmation receipt.

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### Penalties for Late Payment

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| Violation           | Description                                                                    | Penalty                                            |
|---------------------|--------------------------------------------------------------------------------|----------------------------------------------------|
| Late Payment        | Failure to settle corporate tax by the due date.                               | Monetary fines and interest on the overdue amount. |
| Underpayment of Tax | Paying less than the actual liability due to miscalculation or non-disclosure. | Additional assessments and penalties.              |

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## 2. Refund of Corporate Tax

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### Eligibility for Refund

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Businesses may claim refunds for the following reasons:

#### 1. Overpaid Tax:

Tax paid in excess of the actual liability.

#### 2. Foreign Tax Credits:

If eligible, unused foreign tax credits may result in a refundable balance.

#### 3. Errors in Filing:

Mistakenly paid amounts due to reporting errors can be refunded upon correction.

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### Steps to Claim a Refund

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| Step                                | Details                                                                                  |
|-------------------------------------|------------------------------------------------------------------------------------------|
| Step 1: Verify Eligibility          | Ensure the overpayment is legitimate and supported by accurate documentation.            |
| Step 2: Access FTA Portal           | Log in to the FTA e-Services portal and navigate to the refund request section.          |
| Step 3: Submit Refund Request       | Complete the refund application, providing details of the overpayment or eligible claim. |
| Step 4: Upload Supporting Documents | Attach evidence, such as payment receipts, tax returns, and error explanations.          |
| Step 5: Await FTA Approval          | The FTA reviews the application and processes the refund if approved.                    |

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## Documentation Required for Refund

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| Document                    | Details                                                                                          |
|-----------------------------|--------------------------------------------------------------------------------------------------|
| <b>Proof of Overpayment</b> | Payment receipts or confirmation vouchers from the FTA portal.                                   |
| <b>Amended Tax Return</b>   | If applicable, submit the corrected return showing the adjusted liability.                       |
| <b>Supporting Evidence</b>  | Additional documentation substantiating the claim, such as foreign tax certificates or invoices. |

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## Refund Timeline

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The FTA processes refund applications within a **reasonable period**, subject to the completeness of the application and supporting documents. Businesses are notified of approval or rejection through the FTA portal.

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## 3. Strategic Considerations

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### 1. Ensure Timely Payments:

Set reminders to avoid late payments and associated penalties.

### 2. Maintain Accurate Records:

Keep detailed payment receipts and tax return confirmations to support refund claims.

### 3. Monitor Tax Credits:

Leverage foreign tax credits effectively to minimize liabilities and maximize potential refunds.

### 4. Engage Tax Professionals:

Seek expert advice to navigate complex refund scenarios and ensure compliance with FTA procedures.

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## 4. Conclusion

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The **payment and refund procedures** under UAE Corporate Tax Law provide a clear framework for settling tax liabilities and recovering overpaid taxes. By adhering to payment deadlines, maintaining accurate records, and following the refund process diligently, businesses can efficiently manage their tax obligations and optimize cash flow.



## Transfer Pricing Documentation Requirements Under UAE Corporate Tax Law

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The UAE Corporate Tax Law incorporates **transfer pricing (TP) regulations** aligned with the **OECD Guidelines** to ensure that transactions between related parties are conducted at arm's length. Businesses engaging in such transactions must maintain detailed documentation to demonstrate compliance and avoid disputes.

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### 1. Key Documentation Requirements

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The UAE Corporate Tax Law mandates the following documentation for transfer pricing compliance:

| Documentation                              | Details                                                                                                                                   |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Master File</b>                         | Provides an overview of the multinational enterprise (MNE) group's global business operations, structure, and transfer pricing policies.  |
| <b>Local File</b>                          | Contains detailed information on the UAE entity's related-party transactions and their alignment with the <b>arm's length principle</b> . |
| <b>Country-by-Country Reporting (CbCR)</b> | Required for MNE groups meeting specified consolidated revenue thresholds, providing financial and tax data for each jurisdiction.        |

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### 2. Master File Requirements

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| Aspect                           | Details                                                                                                         |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>Global Operations</b>         | Description of the MNE's business activities, organizational structure, and global value chain.                 |
| <b>Intangible Assets</b>         | Details of intangible assets, ownership structure, and how they contribute to value creation.                   |
| <b>Intercompany Financing</b>    | Overview of the group's financing arrangements and funding strategies.                                          |
| <b>Transfer Pricing Policies</b> | Explanation of the group's global transfer pricing practices and methods used to determine arm's length prices. |

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### 3. Local File Requirements

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| Aspect                              | Details                                                                                                                  |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>Entity Information</b>           | Description of the UAE entity, its business activities, and management structure.                                        |
| <b>Related-Party Transactions</b>   | Detailed breakdown of transactions with related parties, including goods, services, financing, and intangible transfers. |
| <b>Transfer Pricing Methodology</b> | Documentation of methods used to establish arm's length pricing for each transaction type.                               |
| <b>Financial Information</b>        | Supporting financial statements and schedules relevant to related-party transactions.                                    |

#### 4. Country-by-Country Reporting (CbCR)

| Requirement             | Details                                                                                                                                                                                                           |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Threshold</b>        | Applies to MNE groups with consolidated revenue exceeding <b>AED 3.15 billion</b> (or equivalent in foreign currency).                                                                                            |
| <b>Content</b>          | Financial and tax data for each jurisdiction, including: <ul style="list-style-type: none"> <li>- Revenue.</li> <li>- Profit before tax.</li> <li>- Taxes paid and accrued.</li> <li>- Employee count.</li> </ul> |
| <b>Reporting Entity</b> | The ultimate parent entity (UPE) or a designated reporting entity within the group is responsible for filing CbCR.                                                                                                |

#### 5. Documentation Deadlines

| Document                          | Deadline                                                                                                              |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Master File and Local File</b> | Must be maintained and submitted upon request by the <b>Federal Tax Authority (FTA)</b> within a specified timeframe. |
| <b>CbCR</b>                       | Must be submitted annually, within <b>12 months</b> after the end of the financial year of the MNE group.             |

#### 6. Penalties for Non-Compliance

| Violation                                | Penalty                                                                  |
|------------------------------------------|--------------------------------------------------------------------------|
| <b>Failure to Maintain Documentation</b> | Monetary fines for not maintaining or submitting required documentation. |

| Violation                   | Penalty                                                                               |
|-----------------------------|---------------------------------------------------------------------------------------|
| <b>Inaccurate Reporting</b> | Additional penalties for providing incomplete, inaccurate, or misleading information. |
| <b>Late Submission</b>      | Fines for delayed submission of Master File, Local File, or CbCR.                     |

## 7. Supporting Records for TP Documentation

| Record Type                     | Details                                                                            |
|---------------------------------|------------------------------------------------------------------------------------|
| <b>Contracts and Agreements</b> | Documentation of related-party agreements, including terms and conditions.         |
| <b>Benchmarking Studies</b>     | Analysis of comparable uncontrolled transactions to validate arm's length pricing. |
| <b>Invoices and Statements</b>  | Proof of related-party transactions, including amounts and services rendered.      |
| <b>Economic Analyses</b>        | Evidence supporting the transfer pricing methodology and its application.          |

## 8. Strategic Considerations

### 1. Early Preparation:

Begin preparing Master File, Local File, and CbCR well in advance to ensure timely compliance.

### 2. Adopt Robust Systems:

Implement systems to track and record related-party transactions accurately.

### 3. Engage TP Experts:

Consult transfer pricing professionals for benchmarking studies and compliance with the **arm's length principle**.

### 4. Monitor Changes in Regulations:

Stay updated on any amendments to UAE transfer pricing rules or global TP guidelines.

## 9. Conclusion

Transfer pricing documentation is critical for demonstrating compliance with UAE Corporate Tax Law and mitigating disputes with tax authorities. By maintaining a comprehensive **Master File**, **Local File**, and **CbCR** where required, businesses can substantiate their related-party transactions and ensure compliance with the **arm’s length principle**. Proper preparation and professional guidance will further enhance compliance and reduce regulatory risks.

Record-keeping Obligations



Record-Keeping Obligations Under UAE Corporate Tax Law

Under UAE Corporate Tax Law, businesses are required to maintain accurate and comprehensive records to substantiate their tax filings and demonstrate compliance. Proper record-keeping ensures transparency, facilitates audits, and minimizes the risk of penalties for non-compliance.

1. Key Record-Keeping Requirements

| Aspect                     | Details                                                                                                                 |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Who Must Maintain Records? | All businesses subject to UAE Corporate Tax, including exempt entities, if required by the Federal Tax Authority (FTA). |
| Retention Period           | Records must be kept for at least <b>7 years</b> from the end of the relevant tax period.                               |
| Format of Records          | Records can be maintained in <b>physical or electronic format</b> , provided they are accessible for review by the FTA. |

2. Types of Records to Be Maintained

General Business Records

| Type                 | Examples                                                                        |
|----------------------|---------------------------------------------------------------------------------|
| Income Records       | Invoices, contracts, sales records, and other documents showing revenue earned. |
| Expense Records      | Bills, receipts, and supporting documents for expenses incurred.                |
| Financial Statements | Profit and loss statements, balance sheets, and other financial reports.        |

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## Specific Tax-Related Records

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| Category                              | Details                                                                          |
|---------------------------------------|----------------------------------------------------------------------------------|
| <b>Tax Returns</b>                    | Copies of filed corporate tax returns and associated schedules.                  |
| <b>Supporting Calculations</b>        | Workings for taxable income, deductions, and tax liability computations.         |
| <b>Transfer Pricing Documentation</b> | Master File, Local File, and benchmarking studies (if applicable).               |
| <b>Reliefs and Exemptions</b>         | Documentation to substantiate claims for tax reliefs, exemptions, or deductions. |

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## Related-Party Transactions

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| Type                            | Details                                                                                  |
|---------------------------------|------------------------------------------------------------------------------------------|
| <b>Contracts and Agreements</b> | Copies of agreements with related parties.                                               |
| <b>Invoices</b>                 | Proof of payments made and received in related-party transactions.                       |
| <b>Economic Analyses</b>        | Evidence supporting transfer pricing compliance with the <b>arm's length principle</b> . |

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## 3. Retention Period for Records

---

| Type of Entity                       | Retention Period                                                                                            |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------|
| <b>General Businesses</b>            | At least <b>7 years</b> from the end of the relevant tax period.                                            |
| <b>Entities Involved in Disputes</b> | Until the dispute is resolved or any appeals process has concluded, even if this exceeds the 7-year period. |

---

## 4. Access and Submission Requirements

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| Aspect               | Details                                                                      |
|----------------------|------------------------------------------------------------------------------|
| <b>Accessibility</b> | Records must be accessible and available for review upon request by the FTA. |

---

| Aspect                   | Details                                                                                                          |
|--------------------------|------------------------------------------------------------------------------------------------------------------|
| <b>Submission to FTA</b> | During audits or inquiries, businesses must provide requested records within the timeframe specified by the FTA. |

## 5. Penalties for Non-Compliance

| Violation                          | Description                                                | Penalty                                                       |
|------------------------------------|------------------------------------------------------------|---------------------------------------------------------------|
| <b>Failure to Maintain Records</b> | Not maintaining required records for the specified period. | Monetary fines as determined by the FTA.                      |
| <b>Inaccurate Records</b>          | Maintaining incomplete, inaccurate, or misleading records. | Additional fines and potential reassessment of tax liability. |
| <b>Failure to Provide Records</b>  | Not providing records upon request by the FTA.             | Penalties for non-cooperation or non-compliance.              |

## 6. Best Practices for Record-Keeping

### 1. Implement a Record-Keeping System:

Use robust accounting and document management software to organize and store records systematically.

### 2. Ensure Accuracy:

Regularly reconcile financial records with filed tax returns to avoid discrepancies.

### 3. Conduct Internal Audits:

Periodically review records to ensure compliance with retention and accessibility requirements.

### 4. Secure Backup Copies:

Maintain digital backups of important documents to prevent data loss.

### 5. Engage Professional Assistance:

Consult tax advisors or accountants to ensure proper maintenance of records and compliance with UAE tax laws.

## 7. Strategic Considerations

- **Compliance Readiness:**  
Ensure records are readily available to facilitate audits and reviews by the FTA.
- **Tailored Documentation:**  
Align record-keeping practices with specific business operations and industry requirements.
- **Monitor Regulatory Changes:**  
Stay updated on amendments to record-keeping obligations or FTA guidelines.

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## 8. Conclusion

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Maintaining proper records is a cornerstone of compliance under UAE Corporate Tax Law. By keeping accurate and accessible documentation for at least 7 years, businesses can substantiate their tax filings, streamline audits, and avoid penalties. Adopting systematic record-keeping practices and leveraging professional expertise will further enhance compliance and operational efficiency.

### Tax Period and Handling Changes in the Tax Period



## Tax Period and Handling Changes in the Tax Period Under UAE Corporate Tax Law

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The **tax period** refers to the specific time frame for which businesses calculate and report their corporate tax obligations under UAE Corporate Tax Law. It typically aligns with the financial year of the business, but certain rules apply for establishing, modifying, or handling changes in the tax period.

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### 1. Definition of Tax Period

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| Aspect              | Details                                                                                                                                 |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Standard Tax Period | The default tax period is <b>12 months</b> , typically aligning with the business’s financial year.                                     |
| First Tax Period    | For newly established businesses, the first tax period may be shorter or longer than 12 months, but it cannot exceed <b>18 months</b> . |

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### 2. Establishing a Tax Period

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| Step                             | Details                                                                                                       |
|----------------------------------|---------------------------------------------------------------------------------------------------------------|
| <b>Align with Financial Year</b> | Businesses typically select a tax period that corresponds to their existing financial year.                   |
| <b>Notify the FTA</b>            | The chosen tax period must be registered with the <b>Federal Tax Authority (FTA)</b> during tax registration. |

### 3. Handling Changes in the Tax Period

#### Reasons for Changing the Tax Period

| Scenario                        | Details                                                                                                                        |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| <b>Change in Financial Year</b> | If a business alters its financial year, the tax period must also be adjusted to align with the new financial reporting cycle. |
| <b>Merger or Acquisition</b>    | The tax period may need adjustment if a business undergoes restructuring, such as mergers or acquisitions.                     |
| <b>FTA Approval</b>             | Any change to the tax period requires prior approval from the FTA.                                                             |

#### Steps to Handle Changes in the Tax Period

| Step                                        | Details                                                                                                |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Step 1: Notify the FTA</b>               | Submit an application to the FTA detailing the reason for the change and proposed new tax period.      |
| <b>Step 2: Provide Supporting Documents</b> | Include evidence, such as financial statements or board resolutions, supporting the request.           |
| <b>Step 3: Await Approval</b>               | Changes to the tax period are subject to FTA approval; businesses must comply with the FTA's decision. |
| <b>Step 4: Adjust Reporting</b>             | Amend tax reporting schedules and systems to reflect the new tax period.                               |

### 4. Impact of Changes in the Tax Period

| Aspect                                  | Details                                                                                                           |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <b>Extended or Shortened Tax Period</b> | Changes may result in a shorter or longer tax period, requiring adjustments to income calculations and reporting. |

| Aspect                             | Details                                                                                              |
|------------------------------------|------------------------------------------------------------------------------------------------------|
| <b>Tax Return Filing</b>           | Affected tax periods may require additional or adjusted tax return submissions to ensure compliance. |
| <b>Record-Keeping Requirements</b> | Businesses must maintain records for all tax periods, including transitional periods.                |

## 5. Penalties for Non-Compliance

| Violation                    | Description                                                                        | Penalty                                                                           |
|------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <b>Failure to Notify FTA</b> | Not informing the FTA of changes to the tax period within the prescribed timeline. | Monetary fines as determined by the FTA.                                          |
| <b>Incorrect Reporting</b>   | Filing returns based on an unapproved or incorrect tax period.                     | Penalties for inaccurate filings or failure to comply with reporting obligations. |

## 6. Compliance Considerations

### 1. Timely Notification:

Inform the FTA as soon as possible of any proposed changes to the tax period to avoid penalties.

### 2. Accurate Adjustments:

Ensure financial systems and tax calculations are updated to reflect the new tax period.

### 3. Professional Assistance:

Engage tax advisors to navigate complex situations, such as mergers or financial year changes.

### 4. Monitor Deadlines:

Adjust filing and payment schedules to align with the modified tax period.

## 7. Example of Tax Period Change

| Scenario                   | Details                  |
|----------------------------|--------------------------|
| <b>Original Tax Period</b> | January 1 to December 31 |
| <b>New Tax Period</b>      | April 1 to March 31      |

| Scenario | Details                                                                                                                                                                                                 |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Impact   | <ul style="list-style-type: none"> <li>- The first revised tax period will be January 1 to March 31 (3 months).</li> <li>- Subsequent tax periods will follow the April 1 to March 31 cycle.</li> </ul> |

## 8. Strategic Considerations

- **Business Restructuring:**

Align changes in the tax period with significant events such as mergers, acquisitions, or business expansions.

- **Regulatory Compliance:**

Regularly review compliance requirements to ensure alignment with FTA rules and avoid disruptions.

- **Efficient Record-Keeping:**

Maintain comprehensive records for all tax periods, including transitional and modified periods, to facilitate audits and reviews.

## 9. Conclusion

The **tax period** under UAE Corporate Tax Law provides a structured timeframe for businesses to calculate and report their tax liabilities. Any changes to the tax period must be handled carefully, with prior approval from the FTA and proper adjustments to reporting and compliance processes. By adhering to regulatory requirements and seeking professional guidance, businesses can manage tax period changes efficiently and avoid penalties.

Process for Seeking Clarifications



## Process for Seeking Clarifications Under UAE Corporate Tax Law

Businesses and taxpayers subject to UAE Corporate Tax can seek **clarifications** from the **Federal Tax Authority (FTA)** to address uncertainties about tax laws, compliance requirements, or specific situations. This process ensures that businesses have a clear understanding of their obligations and minimizes the risk of non-compliance.

## 1. When to Seek Clarifications

You may seek clarifications from the FTA in the following scenarios:

| Scenario                         | Examples                                                                                                        |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>Interpretation of Tax Law</b> | Understanding how specific provisions of UAE Corporate Tax Law apply to your business activities.               |
| <b>Unique Transactions</b>       | Clarifications on tax treatment for complex or unique transactions, such as mergers or cross-border activities. |
| <b>Exemptions and Reliefs</b>    | Determining eligibility for tax exemptions, reliefs, or deductions.                                             |
| <b>Compliance Requirements</b>   | Guidance on tax return filing, payment deadlines, or documentation obligations.                                 |

## 2. Steps to Seek Clarifications

| Step                                 | Details                                                                                                                   |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Prepare Your Query</b>    | Clearly define the issue or question for which clarification is needed, providing relevant facts and context.             |
| <b>Step 2: Access the FTA Portal</b> | Log in to the <b>FTA e-Services portal</b> using your Tax Registration Number (TRN) or other credentials.                 |
| <b>Step 3: Submit a Request</b>      | Navigate to the "Request Clarification" section and complete the online form, attaching supporting documents if required. |
| <b>Step 4: Pay Applicable Fees</b>   | If required, pay the administrative fees for processing the clarification request.                                        |
| <b>Step 5: Await FTA Response</b>    | The FTA will review your query and provide a response or ruling, typically within a specified timeframe.                  |

## 3. Information to Include in a Clarification Request

To ensure a timely and accurate response, include the following details in your request:

| Information                 | Details                                                                                                       |
|-----------------------------|---------------------------------------------------------------------------------------------------------------|
| <b>Taxpayer Information</b> | Business name, Tax Registration Number (TRN), and contact details.                                            |
| <b>Nature of the Query</b>  | A clear description of the issue or question, including specific tax provisions or compliance areas involved. |

| Information                     | Details                                                                                          |
|---------------------------------|--------------------------------------------------------------------------------------------------|
| <b>Supporting Documentation</b> | Attach contracts, financial statements, or other relevant documents that support the query.      |
| <b>Desired Outcome</b>          | Specify the type of clarification or ruling sought (e.g., tax treatment, exemption eligibility). |

#### 4. Timelines for Responses

| Aspect                   | Details                                                                                                     |
|--------------------------|-------------------------------------------------------------------------------------------------------------|
| <b>FTA Review Period</b> | The FTA typically responds within a <b>reasonable timeframe</b> , depending on the complexity of the query. |
| <b>Follow-Up</b>         | Businesses may contact the FTA for status updates if a response is delayed beyond the expected period.      |

#### 5. Binding Nature of Clarifications

| Aspect                         | Details                                                                                                                                     |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Binding on the Taxpayer</b> | Clarifications issued by the FTA are binding on the taxpayer who sought the clarification, provided they comply with the stated conditions. |
| <b>FTA Revisions</b>           | The FTA may revise its position if new information or legislation arises that impacts the clarification provided.                           |

#### 6. Cost of Seeking Clarifications

| Fee Type                   | Details                                                                                                        |
|----------------------------|----------------------------------------------------------------------------------------------------------------|
| <b>Administrative Fees</b> | The FTA may charge a nominal fee for processing clarification requests, depending on the nature of the query.  |
| <b>Additional Costs</b>    | Businesses may incur costs for preparing supporting documentation or engaging tax advisors to draft the query. |

#### 7. Best Practices for Seeking Clarifications

##### 1. Be Specific:

Clearly outline the facts and the specific issue to avoid ambiguity and expedite the response.

## 2. Provide Complete Documentation:

Attach all necessary documents to substantiate your query, such as contracts, financial data, or prior correspondence with the FTA.

## 3. Engage Professionals:

Consider consulting tax advisors to draft queries accurately and address complex tax issues effectively.

## 4. Monitor Updates:

Stay informed about amendments to UAE Corporate Tax Law that may impact previously sought clarifications.

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## 8. Strategic Considerations

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- **Preemptive Queries:**

Seek clarifications before engaging in transactions or filing returns to avoid errors or penalties.

- **Document the Process:**

Keep copies of the submitted query and the FTA's response for future reference and compliance audits.

- **Regular Follow-Up:**

Ensure timely follow-up with the FTA if a response is delayed or further information is requested.

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## 9. Conclusion

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The process for seeking clarifications from the **Federal Tax Authority** provides businesses with a formal mechanism to address uncertainties under UAE Corporate Tax Law. By submitting detailed and well-documented queries, businesses can ensure compliance, minimize risks, and make informed decisions on tax matters. Proper preparation, professional assistance, and adherence to FTA procedures further enhance the effectiveness of this process.

Transitional Rules and Anti-Abuse Measures



## Transitional Rules and Anti-Abuse Measures Under UAE Corporate Tax Law

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To ensure a smooth transition to the new corporate tax regime, the UAE Corporate Tax Law incorporates **transitional rules** and robust **anti-abuse measures**. These provisions help businesses align with the tax framework while preventing practices aimed at evading tax obligations.

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## 1. Transitional Rules

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The transitional rules address tax implications for transactions and activities that span the periods before and after the implementation of corporate tax.

### Key Provisions

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| Aspect                             | Details                                                                                                                           |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Pre-Tax Transactions</b>        | Income earned and expenses incurred before the corporate tax law's effective date are generally not subject to tax.               |
| <b>Opening Balance Adjustments</b> | Businesses must ensure that opening balances, such as retained earnings or carried-forward losses, comply with the new tax rules. |
| <b>Unrealized Gains or Losses</b>  | Transitional rules may apply to unrealized gains or losses on assets held before the effective date.                              |

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### Impact on Financial Reporting

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| Area                          | Details                                                                                                                         |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Accounting Standards</b>   | Financial statements prepared under internationally accepted standards (e.g., IFRS) must align with tax reporting requirements. |
| <b>Transition Adjustments</b> | Adjustments may be needed to reconcile pre-tax financial records with taxable income under the new framework.                   |

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### Steps for Compliance with Transitional Rules

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| Step                              | Details                                                                                                    |
|-----------------------------------|------------------------------------------------------------------------------------------------------------|
| <b>Review Pre-Tax Activities</b>  | Identify transactions, income, or losses that span the transition period.                                  |
| <b>Reconcile Opening Balances</b> | Adjust opening balances of financial accounts, such as retained earnings and losses, to ensure compliance. |
| <b>Maintain Documentation</b>     | Retain detailed records to substantiate pre-tax and transitional period activities.                        |

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## 2. Anti-Abuse Measures

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Anti-abuse measures are designed to prevent businesses from structuring transactions solely to reduce tax liabilities. These measures apply to arrangements lacking commercial substance and created primarily for tax avoidance.

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### Key Features of Anti-Abuse Rules

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| Aspect                    | Details                                                                                                                        |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Purpose                   | To deter tax avoidance schemes and ensure that businesses pay taxes based on genuine economic activities.                      |
| Scope                     | Applies to artificial arrangements or transactions that lack commercial substance and primarily aim to secure a tax advantage. |
| Commercial Substance Test | Businesses must demonstrate that transactions have a valid commercial rationale beyond tax benefits.                           |

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### Examples of Abusive Practices

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| Abusive Practice        | Description                                                                                                            |
|-------------------------|------------------------------------------------------------------------------------------------------------------------|
| Artificial Transactions | Arrangements designed solely to exploit tax loopholes or reduce taxable income without any real economic purpose.      |
| Profit Shifting         | Shifting profits to low-tax jurisdictions without genuine operational reasons.                                         |
| Circular Transactions   | Transactions that result in no real change to the taxpayer’s financial or operational position except for tax savings. |

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### Consequences of Non-Compliance

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| Violation        | Penalty or Measure                                                                                     |
|------------------|--------------------------------------------------------------------------------------------------------|
| Tax Reassessment | The Federal Tax Authority (FTA) may disregard artificial arrangements and recompute the tax liability. |
| Penalties        | Monetary fines or additional tax assessments for engaging in abusive practices.                        |

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## 3. Interaction Between Transitional Rules and Anti-Abuse Measures

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- **Avoid Exploitation of Transitional Rules:**

Businesses must not exploit transitional rules to artificially reduce taxable income, such as manipulating opening balances or reclassifying pre-tax income.

- **Substantiation of Pre-Tax Activities:**

All pre-tax transactions and transitional adjustments must be backed by documentation and demonstrate commercial substance.

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## 4. Best Practices for Compliance

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### 1. Evaluate Historical Transactions:

Review pre-tax activities and identify any transactions that may be subject to transitional adjustments or anti-abuse scrutiny.

### 2. Ensure Commercial Substance:

Conduct all transactions with a clear economic purpose and maintain documentation to substantiate business decisions.

### 3. Engage Professionals:

Seek advice from tax and legal experts to navigate transitional rules and avoid anti-abuse violations.

### 4. Document Adjustments:

Keep detailed records of adjustments made to comply with transitional rules, such as reconciliations of financial and tax accounts.

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## 5. Strategic Considerations

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- **Plan for Transition Period:**

Businesses should assess the impact of transitional rules on their financial and tax reporting early to avoid last-minute adjustments.

- **Conduct Internal Audits:**

Regular audits can identify potential anti-abuse risks and ensure compliance with the UAE tax framework.

- **Monitor Regulatory Updates:**

Stay informed about any amendments to transitional or anti-abuse provisions to ensure ongoing compliance.

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## 6. Conclusion

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The **transitional rules** under UAE Corporate Tax Law provide a framework for handling pre-tax and transition period activities, while **anti-abuse measures** ensure that businesses conduct transactions with genuine commercial purposes. By adhering to these provisions, maintaining robust documentation, and seeking professional guidance, businesses can achieve compliance and minimize the risk of penalties.

Overview of Anti-Abuse Rules



Overview of Anti-Abuse Rules Under UAE Corporate Tax Law

The **Anti-Abuse Rules** under UAE Corporate Tax Law are designed to prevent businesses from engaging in tax avoidance schemes that lack commercial substance and are primarily intended to reduce tax liabilities. These rules align with international best practices, such as the **OECD’s Base Erosion and Profit Shifting (BEPS) framework**, to ensure fairness and integrity in the tax system.

1. Objectives of Anti-Abuse Rules

| Objective                   | Details                                                                                           |
|-----------------------------|---------------------------------------------------------------------------------------------------|
| Prevent Tax Avoidance       | Discourage businesses from using artificial arrangements to evade taxes.                          |
| Promote Fairness            | Ensure that businesses contribute their fair share of taxes based on genuine economic activities. |
| Align with Global Standards | Support UAE’s commitments to international tax transparency and anti-abuse measures under BEPS.   |

2. Scope of Anti-Abuse Rules

| Aspect                | Details                                                                                                             |
|-----------------------|---------------------------------------------------------------------------------------------------------------------|
| Applicable Entities   | Applies to all taxable persons under UAE Corporate Tax Law, including residents, non-residents, and tax groups.     |
| Targeted Arrangements | Focuses on transactions or arrangements that lack commercial substance and primarily aim to secure a tax advantage. |
| Taxable Activities    | Covers income, deductions, and tax credits that are artificially manipulated to reduce taxable income or liability. |

### 3. Key Features of Anti-Abuse Rules

---

| Feature                          | Details                                                                                                            |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>Commercial Substance Test</b> | Transactions must have a valid economic purpose beyond tax benefits to be considered genuine.                      |
| <b>Artificial Arrangements</b>   | Arrangements without genuine commercial or economic effects can be disregarded by the Federal Tax Authority (FTA). |
| <b>Recharacterization</b>        | The FTA can recharacterize or ignore artificial transactions for tax computation purposes.                         |

---

### 4. Indicators of Abusive Practices

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| Practice                       | Description                                                                                             |
|--------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>Artificial Transactions</b> | Conducting transactions solely to create a tax advantage without economic purpose or substance.         |
| <b>Profit Shifting</b>         | Transferring profits to low-tax jurisdictions without genuine operational reasons.                      |
| <b>Circular Arrangements</b>   | Designing transactions that result in no real economic change except for tax savings.                   |
| <b>Mismatch Exploitation</b>   | Taking advantage of differences in tax treatment between jurisdictions to reduce overall tax liability. |

---

### 5. Consequences of Violating Anti-Abuse Rules

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| Violation                       | Consequence                                                                           |
|---------------------------------|---------------------------------------------------------------------------------------|
| <b>Disregarded Transactions</b> | The FTA may disregard or recharacterize the arrangement and recompute taxable income. |
| <b>Tax Reassessments</b>        | Businesses may face reassessments of tax liabilities, resulting in higher taxes.      |
| <b>Penalties</b>                | Monetary fines and penalties may be imposed for engaging in abusive practices.        |

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### 6. Anti-Abuse Measures in Practice

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#### Example 1: Artificial Profit Shifting

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- **Scenario:** A UAE company shifts profits to a related entity in a jurisdiction with no corporate tax through inflated intercompany charges.
- **FTA Action:** The FTA may disregard the inflated charges and recompute the taxable income of the UAE company.

### Example 2: Circular Financing Arrangements

- **Scenario:** A company engages in back-to-back loans that create interest deductions without any genuine need for the funds.
- **FTA Action:** The FTA may ignore the interest deductions as lacking commercial substance.

## 7. Compliance with Anti-Abuse Rules

| Requirement                           | Details                                                                                                           |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <b>Demonstrate Commercial Purpose</b> | Maintain evidence that all transactions have genuine economic purposes beyond tax benefits.                       |
| <b>Accurate Documentation</b>         | Keep detailed records of transactions, including contracts, invoices, and supporting analyses.                    |
| <b>Follow Transfer Pricing Rules</b>  | Ensure related-party transactions comply with the <b>arm's length principle</b> and are appropriately documented. |

## 8. Interaction with International Standards

| Framework                                | Details                                                                                                                                                     |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>OECD BEPS Guidelines</b>              | UAE's Anti-Abuse Rules align with OECD BEPS Actions, particularly Action 6 (Preventing Treaty Abuse) and Action 12 (Disclosure of Aggressive Tax Planning). |
| <b>Double Taxation Agreements (DTAs)</b> | DTAs contain anti-abuse provisions that override treaty benefits if arrangements are deemed abusive.                                                        |

## 9. Best Practices to Avoid Violating Anti-Abuse Rules

### 1. Ensure Economic Substance:

Design transactions with clear commercial and operational purposes.

2. **Comply with Transfer Pricing Rules:**

Apply appropriate transfer pricing methods and maintain documentation for related-party transactions.

3. **Consult Tax Advisors:**

Seek professional guidance to structure transactions in compliance with anti-abuse regulations.

4. **Regular Audits:**

Conduct periodic reviews of business arrangements to identify and rectify potential violations.

---

10. **Conclusion**

The **Anti-Abuse Rules** under UAE Corporate Tax Law are a critical safeguard against tax avoidance. Businesses must ensure that all transactions have genuine economic purposes and comply with regulatory requirements. Adhering to these rules not only reduces the risk of penalties but also aligns businesses with UAE’s commitment to global tax transparency and fairness.

Violations and Penalties



**Violations and Penalties Under UAE Corporate Tax Law**

The UAE Corporate Tax Law establishes strict penalties for violations to ensure compliance with tax obligations. These penalties are imposed for failure to meet tax registration, filing, payment, or reporting requirements, as well as for engaging in abusive practices.

---

1. **Common Violations**

**Tax Registration and De-registration Violations**

| Violation            | Description                                                                                          |
|----------------------|------------------------------------------------------------------------------------------------------|
| Failure to Register  | Not registering for corporate tax within the timeframe specified by the Federal Tax Authority (FTA). |
| Late De-registration | Delayed application for de-registration after ceasing taxable activities.                            |

## Tax Filing and Payment Violations

---

| Violation                 | Description                                                                       |
|---------------------------|-----------------------------------------------------------------------------------|
| Late Filing of Tax Return | Submitting the corporate tax return after the deadline.                           |
| Failure to File           | Not filing a tax return altogether.                                               |
| Non-Payment of Tax        | Failure to pay the full tax liability by the due date.                            |
| Underpayment of Tax       | Paying less than the actual liability due to errors or omissions in calculations. |

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## Reporting and Record-Keeping Violations

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| Violation                        | Description                                                                                     |
|----------------------------------|-------------------------------------------------------------------------------------------------|
| Failure to Maintain Records      | Not maintaining required records or retaining them for the prescribed period (7 years or more). |
| Providing Inaccurate Information | Submitting incomplete, inaccurate, or misleading information in tax returns or documentation.   |
| Failure to Provide Records       | Not providing requested records during an FTA audit or inquiry.                                 |

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## Anti-Abuse Violations

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| Violation                           | Description                                                                                           |
|-------------------------------------|-------------------------------------------------------------------------------------------------------|
| Engaging in Artificial Arrangements | Conducting transactions lacking commercial substance and aimed solely at securing a tax advantage.    |
| Violation of Transfer Pricing Rules | Non-compliance with the arm's length principle or failure to maintain transfer pricing documentation. |

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## 2. Penalties for Violations

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### Administrative Penalties

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| Violation | Penalty |
|-----------|---------|
|-----------|---------|

| <b>Violation</b>                   | <b>Penalty</b>                                                                                  |
|------------------------------------|-------------------------------------------------------------------------------------------------|
| <b>Failure to Register</b>         | Monetary fines for non-registration within the prescribed timeframe.                            |
| <b>Failure to File Tax Return</b>  | Daily penalties for late submission, with additional fines for prolonged delays.                |
| <b>Failure to Maintain Records</b> | Monetary penalties for inadequate record-keeping or non-compliance with retention requirements. |

### **Financial Penalties**

| <b>Violation</b>                          | <b>Penalty</b>                                                                       |
|-------------------------------------------|--------------------------------------------------------------------------------------|
| <b>Late Payment of Tax</b>                | Interest on overdue tax amounts and additional monetary fines.                       |
| <b>Underpayment or Non-Payment of Tax</b> | Penalties based on the unpaid tax amount, increasing with the duration of the delay. |

### **Anti-Abuse Penalties**

| <b>Violation</b>                            | <b>Penalty</b>                                                                                     |
|---------------------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Artificial Arrangements</b>              | Additional taxes and fines based on the recomputed liability after disregarding abusive practices. |
| <b>Non-Compliance with Transfer Pricing</b> | Monetary fines for failure to maintain or provide required transfer pricing documentation.         |

## **3. Determination of Penalty Amounts**

The amount of penalties is determined based on:

### **1. Nature of the Violation:**

Severity and type of non-compliance.

### **2. Duration of Non-Compliance:**

The length of time the violation persisted.

### **3. Intent:**

Whether the violation was intentional or due to negligence.

### **4. Cooperation:**

The taxpayer's level of cooperation during audits or inquiries.

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## 4. Appeals Process for Penalties

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| Step                                              | Details                                                                                                |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Step 1: Submit Objection</b>                   | File an objection with the FTA within the prescribed timeframe after receiving a penalty notice.       |
| <b>Step 2: Provide Evidence</b>                   | Submit supporting documents or explanations justifying the appeal.                                     |
| <b>Step 3: FTA Review</b>                         | The FTA reviews the objection and makes a decision, which may involve reducing or waiving the penalty. |
| <b>Step 4: Escalate to Tax Dispute Resolution</b> | If unsatisfied with the FTA decision, escalate the matter to the Tax Dispute Resolution Committee.     |

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## 5. Best Practices to Avoid Penalties

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### 1. Timely Registration and Filing:

Register for corporate tax and file returns before deadlines.

### 2. Accurate Reporting:

Ensure all information in tax returns is accurate and supported by documentation.

### 3. Maintain Proper Records:

Retain financial records, contracts, and other required documents for at least 7 years.

### 4. Engage Professionals:

Consult tax advisors for compliance with filing, payment, and transfer pricing requirements.

### 5. Monitor Tax Law Changes:

Stay updated on amendments to the UAE Corporate Tax Law and related regulations.

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## 6. Conclusion

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The UAE Corporate Tax Law imposes significant penalties for non-compliance to encourage adherence to tax obligations. Businesses must maintain accurate records, meet deadlines, and avoid abusive practices to mitigate risks. Leveraging professional advice and establishing robust compliance systems can further ensure alignment with the law and minimize the likelihood of penalties.



## Penalties for Non-Compliance Under UAE Corporate Tax Law

Non-compliance with the UAE Corporate Tax Law can result in penalties, which serve as a deterrent and encourage adherence to tax obligations. Penalties are categorized based on the nature of the violation, such as registration failures, late filings, inaccurate reporting, or tax evasion. The **Federal Tax Authority (FTA)** administers these penalties.

### 1. Categories of Non-Compliance and Corresponding Penalties

#### A. Registration and De-Registration Violations

| Violation                   | Description                                                                  | Penalty                                                |
|-----------------------------|------------------------------------------------------------------------------|--------------------------------------------------------|
| <b>Failure to Register</b>  | Not registering for corporate tax within the timeframe specified by the FTA. | Monetary fines as determined by the FTA.               |
| <b>Late De-Registration</b> | Delayed application for de-registration after ceasing taxable activities.    | Monetary fines and potential administrative penalties. |

#### B. Filing and Payment Violations

| Violation                          | Description                                                                     | Penalty                                                          |
|------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------|
| <b>Failure to File Tax Returns</b> | Not submitting the corporate tax return by the prescribed deadline.             | Fixed penalties for late filing, escalating with delay duration. |
| <b>Late Payment of Tax</b>         | Delaying the payment of tax liability beyond the due date.                      | Interest on overdue amounts and additional fines.                |
| <b>Underpayment of Tax</b>         | Declaring and paying less than the actual liability due to errors or omissions. | Percentage-based penalties on the unpaid tax amount.             |

#### C. Reporting and Record-Keeping Violations

| Violation | Description | Penalty |
|-----------|-------------|---------|
|-----------|-------------|---------|

| Violation                                 | Description                                                                                     | Penalty                                                               |
|-------------------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| <b>Failure to Maintain Records</b>        | Not maintaining required records or retaining them for the prescribed period (minimum 7 years). | Fixed monetary fines and potential reassessment of tax liability.     |
| <b>Inaccurate or Incomplete Reporting</b> | Providing incorrect or misleading information in tax returns or supporting documents.           | Fines proportional to the underreported or misstated tax liability.   |
| <b>Failure to Provide Records</b>         | Not furnishing requested records during an audit or investigation.                              | Fixed fines for non-cooperation, escalating with repeated violations. |

#### D. Anti-Abuse and Fraudulent Practices

| Violation                                  | Description                                                                                              | Penalty                                                                  |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| <b>Engaging in Artificial Arrangements</b> | Structuring transactions solely to evade tax liability without commercial substance.                     | Reassessment of taxable income and significant fines.                    |
| <b>Tax Evasion</b>                         | Deliberately concealing income, falsifying documents, or engaging in fraudulent activities to avoid tax. | Severe penalties, including fines, interest, and potential legal action. |

## 2. Key Penalty Scenarios

| Scenario                             | Penalty Description                                                                                                         |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>Late Filing of Returns</b>        | A business that files its tax return 30 days late may face escalating daily penalties and additional fixed fines.           |
| <b>Underreporting Taxable Income</b> | A business underreports income by AED 1,000,000. The penalty could include a percentage of the underreported tax liability. |
| <b>Failure to Provide Records</b>    | A company fails to furnish requested records during an audit, resulting in fines and potential reassessments of liability.  |

## 3. Penalty Calculation Mechanism

| Type of Penalty | Basis |
|-----------------|-------|
|-----------------|-------|

| Type of Penalty               | Basis                                                                                        |
|-------------------------------|----------------------------------------------------------------------------------------------|
| <b>Fixed Penalties</b>        | Pre-determined amounts for specific violations, such as late registration or filing.         |
| <b>Proportional Penalties</b> | Calculated as a percentage of the unpaid or underreported tax amount.                        |
| <b>Cumulative Penalties</b>   | May combine fixed and proportional penalties, especially for repeated or serious violations. |

## 4. Appeals Process for Penalties

Taxpayers have the right to challenge penalties imposed by the FTA through a formal appeals process:

| Step                            | Details                                                                                                               |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Step 1: Objection to FTA</b> | File an objection with the FTA, providing evidence and justifications for the appeal.                                 |
| <b>Step 2: Review by FTA</b>    | The FTA reviews the objection and issues a decision.                                                                  |
| <b>Step 3: Escalation</b>       | If unsatisfied, escalate the matter to the <b>Tax Dispute Resolution Committee</b> or competent judicial authorities. |

## 5. Best Practices to Avoid Penalties

### 1. Timely Compliance:

Register, file, and pay taxes within prescribed deadlines to avoid late penalties.

### 2. Accurate Reporting:

Ensure tax returns and supporting documents are accurate and complete.

### 3. Maintain Records:

Keep all financial and tax-related records for the required retention period.

### 4. Engage Experts:

Seek professional tax advice to navigate compliance requirements effectively.

## 5. Monitor Updates:

Stay informed about changes in tax laws and regulations to ensure ongoing compliance.

## 6. Conclusion

Penalties for non-compliance under UAE Corporate Tax Law are designed to promote adherence to tax obligations and deter misconduct. Businesses must adopt proactive compliance measures, maintain accurate records, and ensure timely filings to minimize exposure to penalties. Leveraging professional guidance and robust internal controls can further enhance compliance and mitigate risks.

Q&A on the above



## Q&A on Violations and Penalties Under UAE Corporate Tax Law

| Question                                                                       | Answer                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What are the main categories of violations under UAE Corporate Tax Law?</b> | Violations are categorized into: <ul style="list-style-type: none"><li>- <b>Registration and de-registration violations</b></li><li>- <b>Filing and payment violations</b></li><li>- <b>Reporting and record-keeping violations</b></li><li>- <b>Anti-abuse and fraudulent practices.</b></li></ul> |
| <b>What is the penalty for failing to register for corporate tax?</b>          | Monetary fines are imposed by the FTA for non-registration within the specified timeframe.                                                                                                                                                                                                          |
| <b>What happens if a business files its tax return late?</b>                   | Penalties include fixed fines and daily escalating penalties based on the duration of the delay.                                                                                                                                                                                                    |
| <b>What are the consequences of underreporting taxable income?</b>             | Businesses face reassessments of taxable income and proportional fines calculated as a percentage of the underreported tax.                                                                                                                                                                         |
| <b>What is considered a record-keeping violation?</b>                          | Not maintaining required records, failing to retain them for the mandated period (7 years), or not providing records during audits.                                                                                                                                                                 |
| <b>What is an example of an anti-abuse violation?</b>                          | Structuring transactions to shift profits to a low-tax jurisdiction without genuine economic substance is an anti-abuse violation.                                                                                                                                                                  |

| Question                                                                | Answer                                                                                                                                                                                                                |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Are penalties for tax evasion more severe than other violations?</b> | Yes, tax evasion penalties include substantial fines, reassessments, interest on unpaid tax, and potential legal action.                                                                                              |
| <b>Can penalties be appealed?</b>                                       | Yes, businesses can appeal penalties by filing an objection with the FTA and, if necessary, escalating to the Tax Dispute Resolution Committee.                                                                       |
| <b>What happens if records are not provided during an audit?</b>        | The FTA may impose fines and reassess tax liabilities based on incomplete information.                                                                                                                                |
| <b>How are penalties calculated?</b>                                    | Penalties can be fixed (pre-determined amounts) or proportional (a percentage of unpaid/underreported tax).                                                                                                           |
| <b>What are the best practices to avoid penalties?</b>                  | <ul style="list-style-type: none"> <li>- Register, file, and pay taxes on time.</li> <li>- Maintain accurate records.</li> <li>- Seek professional tax advice.</li> <li>- Stay updated on tax law changes.</li> </ul> |
| <b>Can businesses amend incorrect tax returns to avoid penalties?</b>   | Yes, businesses can file amended returns to correct errors, potentially avoiding penalties for inaccuracies.                                                                                                          |
| <b>How does the FTA ensure compliance with penalties?</b>               | The FTA conducts audits, reviews filings, and imposes fines for violations, ensuring adherence to tax obligations.                                                                                                    |

This Q&A format addresses common concerns about violations and penalties under the UAE Corporate Tax Law and provides practical guidance for compliance.

Please provide detailed Questions & Answers on the entire discussions from the start



## Comprehensive Q&A on UAE Corporate Tax Law

Below is a detailed **Questions & Answers (Q&A)** summary covering key topics discussed so far, providing clarity on various aspects of the UAE Corporate Tax Law.

## Introduction to UAE Corporate Taxation

| Question | Answer |
|----------|--------|
|----------|--------|

| Question                                                     | Answer                                                                                                        |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| What is UAE Corporate Tax?                                   | UAE Corporate Tax is a direct tax levied on the net profits of businesses operating in the UAE.               |
| When did the UAE Corporate Tax Law come into effect?         | The law applies to financial years beginning on or after <b>June 1, 2023</b> .                                |
| What is the purpose of introducing corporate tax in the UAE? | To diversify the UAE's economy, align with international standards, and establish a sustainable revenue base. |
| Who administers corporate tax in the UAE?                    | The <b>Federal Tax Authority (FTA)</b> oversees the implementation and administration of corporate tax.       |

## Corporate Tax Rates and Scope

| Question                                           | Answer                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What are the corporate tax rates in the UAE?       | <ul style="list-style-type: none"> <li>- <b>0%</b> on taxable income up to AED 375,000.</li> <li>- <b>9%</b> on taxable income exceeding AED 375,000.</li> <li>- Different rates may apply to large multinational enterprises under Pillar Two of the OECD BEPS initiative.</li> </ul> |
| Who is subject to UAE Corporate Tax?               | <ul style="list-style-type: none"> <li>- UAE-resident businesses.</li> <li>- Non-resident businesses with a <b>permanent establishment</b> or UAE-sourced income.</li> <li>- Free zone persons meeting specific conditions.</li> </ul>                                                 |
| Are individuals subject to corporate tax?          | Only if they engage in business activities falling under UAE Corporate Tax Law; personal income is exempt.                                                                                                                                                                             |
| Are free zone businesses subject to corporate tax? | Free zone businesses can benefit from a <b>0% tax rate</b> if they meet qualifying conditions; otherwise, the standard rates apply.                                                                                                                                                    |

## Residential Status and Exemptions

| Question                                                 | Answer                                                                                                                                                                                                                         |
|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What determines a business's residency for tax purposes? | <p>A business is a UAE resident if:</p> <ul style="list-style-type: none"> <li>- It is incorporated in the UAE.</li> <li>- Its management and control are in the UAE.</li> <li>- It meets other specified criteria.</li> </ul> |

| Question                                     | Answer                                                                                                                                                                                                                 |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Who is exempt from UAE Corporate Tax?</b> | <ul style="list-style-type: none"> <li>- Government entities.</li> <li>- Public benefit organizations.</li> <li>- Qualifying investment funds.</li> <li>- Wholly UAE-owned subsidiaries of exempt entities.</li> </ul> |

## Taxable Income and Deductions

| Question                                              | Answer                                                                                                                                               |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>How is taxable income calculated?</b>              | Taxable income is determined by adjusting accounting income for non-deductible expenses, exempt income, and allowable deductions.                    |
| <b>What expenses are deductible for tax purposes?</b> | Expenses must be wholly and exclusively incurred for business purposes and not be capital in nature. Examples include salaries, rent, and utilities. |
| <b>What expenses are non-deductible?</b>              | <ul style="list-style-type: none"> <li>- Fines and penalties.</li> <li>- Dividends paid.</li> <li>- Personal or non-business expenses.</li> </ul>    |

## Reliefs and Incentives

| Question                                | Answer                                                                                                                                                                |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What is Small Business Relief?</b>   | Small Business Relief allows small businesses with revenue below a specified threshold to benefit from simplified compliance and potentially reduced tax obligations. |
| <b>Can losses be carried forward?</b>   | Yes, tax losses can be carried forward to offset future taxable income, subject to a <b>75% limit</b> on offset per period.                                           |
| <b>What is participation exemption?</b> | Dividends and capital gains from qualifying shareholdings are exempt from corporate tax under the participation exemption.                                            |

## Transfer Pricing Rules

| Question                                   | Answer                                                                                                                    |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <b>What is the arm's length principle?</b> | Related-party transactions must be conducted at prices and terms that would apply between independent, unrelated parties. |

| Question                                                        | Answer                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What documentation is required for transfer pricing compliance? | <ul style="list-style-type: none"> <li>- <b>Master File:</b> Overview of the MNE group.</li> <li>- <b>Local File:</b> Details of the UAE entity's related-party transactions.</li> <li>- <b>Country-by-Country Reporting (CbCR)</b> for qualifying groups.</li> </ul> |

## Tax Groups and Consolidated Filing

| Question                                         | Answer                                                                                                                                                                                                                                 |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What is a tax group?                             | A tax group is a consolidation of a parent company and its subsidiaries, treated as a single taxable entity for corporate tax purposes.                                                                                                |
| What are the conditions for forming a tax group? | <ul style="list-style-type: none"> <li>- The parent must own at least <b>95%</b> of the share capital and voting rights.</li> <li>- All members must be UAE residents.</li> <li>- Exempt or free zone persons are excluded.</li> </ul> |

## Withholding Tax and Foreign Tax Credit

| Question                                     | Answer                                                                                                           |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| What is the withholding tax rate in the UAE? | The withholding tax rate on UAE-sourced income paid to non-residents is <b>0%</b> .                              |
| What is a foreign tax credit?                | A credit for taxes paid in foreign jurisdictions, limited to the UAE corporate tax liability on the same income. |

## Compliance and Penalties

| Question                                   | Answer                                                                                                                                                                                                                                    |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What are the key compliance requirements?  | <ul style="list-style-type: none"> <li>- Register for corporate tax.</li> <li>- File tax returns annually within <b>9 months</b> of the financial year-end.</li> <li>- Maintain accurate records for <b>7 years</b>.</li> </ul>           |
| What are the penalties for non-compliance? | Penalties vary depending on the violation, including: <ul style="list-style-type: none"> <li>- Fixed fines for late registration.</li> <li>- Daily fines for late filings.</li> <li>- Proportional penalties for underpayment.</li> </ul> |

## Anti-Abuse Rules

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| Question                                       | Answer                                                                                                                                                                             |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What are anti-abuse rules?</b>              | Rules designed to prevent businesses from engaging in transactions or arrangements lacking commercial substance and primarily intended for tax avoidance.                          |
| <b>What are examples of abusive practices?</b> | <ul style="list-style-type: none"><li>- Artificial profit shifting to low-tax jurisdictions.</li><li>- Circular financing arrangements with no genuine economic purpose.</li></ul> |

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## Record-Keeping and Reporting

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| Question                                      | Answer                                                                                                                                                                                                                                         |
|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What records must businesses maintain?</b> | <ul style="list-style-type: none"><li>- Financial statements.</li><li>- Contracts.</li><li>- Supporting evidence for deductions, exemptions, and transfer pricing compliance.</li><li>- Records must be retained for <b>7 years</b>.</li></ul> |
| <b>How are tax returns filed?</b>             | Returns are filed electronically through the <b>FTA e-Services portal</b> .                                                                                                                                                                    |

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## Transitional Rules

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| Question                                                             | Answer                                                                                                                                  |
|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| <b>What are transitional rules?</b>                                  | Rules addressing income, expenses, and adjustments for transactions spanning the periods before and after corporate tax implementation. |
| <b>How are unrealized gains or losses treated during transition?</b> | Specific transitional rules apply to ensure fair tax treatment of unrealized gains or losses on assets held before the tax regime.      |

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This Q&A format provides a comprehensive overview of the UAE Corporate Tax Law, addressing critical aspects of compliance, tax calculations, reliefs, and administrative processes.

Please provide a detailed checklist of activities to be followed or to claim exemption from compliance requirements under UAE Corporate Tax



## Detailed Checklist for Compliance and Claiming Exemptions Under UAE Corporate Tax Law

To ensure compliance with UAE Corporate Tax Law or to claim exemptions, businesses must follow specific steps and fulfill required conditions. Below is a detailed checklist for both compliance activities and exemption claims.

### 1. General Compliance Checklist

| Activity                                     | Details                                                                                                                                | Status |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>1. Register for Corporate Tax</b>         | - Register with the Federal Tax Authority (FTA) and obtain a <b>Tax Registration Number (TRN)</b> .                                    | [ ]    |
| <b>2. Determine Tax Residency</b>            | - Assess whether the business qualifies as a <b>UAE resident</b> or <b>non-resident</b> for tax purposes.                              | [ ]    |
| <b>3. Maintain Records</b>                   | - Keep financial and tax-related records for at least <b>7 years</b> .<br>- Include contracts, invoices, and financial statements.     | [ ]    |
| <b>4. File Tax Returns</b>                   | - File annual corporate tax returns within <b>9 months</b> after the financial year-end.                                               | [ ]    |
| <b>5. Pay Tax Liabilities</b>                | - Settle tax liabilities by the filing deadline to avoid penalties.                                                                    | [ ]    |
| <b>6. Review Transfer Pricing Compliance</b> | - Prepare required <b>Master File</b> and <b>Local File</b> .<br>- Conduct <b>arm's length pricing</b> for related-party transactions. | [ ]    |
| <b>7. Monitor Deadlines</b>                  | - Set reminders for filing, payment, and reporting deadlines to avoid penalties.                                                       | [ ]    |
| <b>8. Appoint Tax Advisors</b>               | - Engage tax professionals to ensure compliance and address complex scenarios.                                                         | [ ]    |

### 2. Checklist for Claiming Exemptions

#### A. General Exemption Criteria

| Activity | Details | Status |
|----------|---------|--------|
|----------|---------|--------|

| Activity                                | Details                                                                                                                                                                                                                                                                                                             | Status |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>1. Confirm Exempt Status</b>         | <ul style="list-style-type: none"> <li>- Verify if the entity qualifies as an exempt person, such as:</li> <li>- <b>Government entity</b></li> <li>- <b>Public benefit organization</b></li> <li>- <b>Qualifying investment fund</b></li> <li>- <b>Wholly UAE-owned subsidiaries of exempt entities.</b></li> </ul> | [ ]    |
| <b>2. Submit Exemption Application</b>  | - Apply to the FTA for exemption recognition (if required). Include supporting documents such as incorporation certificates or governing laws.                                                                                                                                                                      | [ ]    |
| <b>3. Maintain Supporting Documents</b> | - Retain evidence proving the exempt status, such as board resolutions, MOA/AOA, and operational details.                                                                                                                                                                                                           | [ ]    |

## B. Specific Exemption Scenarios

| Scenario                              | Activity                                                                                                 | Status |
|---------------------------------------|----------------------------------------------------------------------------------------------------------|--------|
| <b>Government Entities</b>            | - Ensure all activities are related to sovereign or public sector operations.                            | [ ]    |
| <b>Public Benefit Organizations</b>   | - Verify compliance with the qualifying criteria (e.g., charitable purposes, non-commercial operations). | [ ]    |
| <b>Qualifying Investment Funds</b>    | - Confirm that the fund is regulated and operates in accordance with applicable UAE laws.                | [ ]    |
| <b>Subsidiaries of Exempt Persons</b> | - Demonstrate that the subsidiary exclusively conducts activities supporting the exempt parent entity.   | [ ]    |

## 3. Checklist for Free Zone Persons

| Activity                             | Details                                                                                                                                                                                                                                                                         | Status |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>1. Determine Free Zone Status</b> | <ul style="list-style-type: none"> <li>- Confirm eligibility as a <b>Qualifying Free Zone Person</b> by meeting conditions such as:</li> <li>- Maintaining adequate substance.</li> <li>- Earning qualifying income.</li> <li>- Not opting out of the 0% tax regime.</li> </ul> | [ ]    |
| <b>2. Maintain Records of Income</b> | - Classify income as <b>qualifying income</b> or <b>non-qualifying income</b> and ensure compliance with the de-minimis threshold.                                                                                                                                              | [ ]    |
| <b>3. Notify the FTA</b>             | - Declare the free zone status and submit relevant documentation annually.                                                                                                                                                                                                      | [ ]    |

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#### 4. Checklist for Claiming Reliefs

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| Relief Type                    | Activity                                                                                                                                                                              | Status |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>Small Business Relief</b>   | <ul style="list-style-type: none"><li>- Confirm revenue below the prescribed threshold.</li><li>- Submit necessary declarations to claim relief.</li></ul>                            | [ ]    |
| <b>Participation Exemption</b> | <ul style="list-style-type: none"><li>- Ensure shareholding meets criteria for dividends or capital gains exemptions.</li><li>- Retain ownership-related documents.</li></ul>         | [ ]    |
| <b>Foreign Tax Credit</b>      | <ul style="list-style-type: none"><li>- Document foreign tax payments with certificates from foreign tax authorities.</li><li>- Claim the credit within the UAE tax return.</li></ul> | [ ]    |
| <b>Loss Carry-Forward</b>      | <ul style="list-style-type: none"><li>- Record and track tax losses accurately to claim offsets in future periods (subject to the 75% limit).</li></ul>                               | [ ]    |

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#### 5. Transitional Rules Checklist

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| Activity                                | Details                                                                                                                                          | Status |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>1. Review Pre-Tax Activities</b>     | <ul style="list-style-type: none"><li>- Identify income, expenses, and transactions spanning the transition period to corporate tax.</li></ul>   | [ ]    |
| <b>2. Adjust Opening Balances</b>       | <ul style="list-style-type: none"><li>- Reconcile retained earnings, unrealized gains/losses, and other balances to ensure compliance.</li></ul> | [ ]    |
| <b>3. Maintain Transitional Records</b> | <ul style="list-style-type: none"><li>- Keep detailed records of adjustments and pre-tax activities for audit purposes.</li></ul>                | [ ]    |

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#### 6. Anti-Abuse Rules Compliance

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| Activity                                          | Details                                                                                                                                                         | Status |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>1. Conduct Commercial Substance Test</b>       | <ul style="list-style-type: none"><li>- Ensure all transactions have genuine economic purposes beyond tax benefits.</li></ul>                                   | [ ]    |
| <b>2. Avoid Artificial Arrangements</b>           | <ul style="list-style-type: none"><li>- Review transactions for artificial profit shifting, circular arrangements, or mismatches in tax treatment.</li></ul>    | [ ]    |
| <b>3. Maintain Transfer Pricing Documentation</b> | <ul style="list-style-type: none"><li>- Provide evidence supporting compliance with the <b>arm's length principle</b> for related-party transactions.</li></ul> | [ ]    |

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## 7. Record-Keeping Obligations Checklist

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| Activity                              | Details                                                                                                   | Status |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------|--------|
| <b>1. Retain Financial Records</b>    | - Maintain profit and loss statements, balance sheets, and other financial documents.                     | [ ]    |
| <b>2. Keep Contracts and Invoices</b> | - Store all relevant agreements and invoices related to income, expenses, and related-party transactions. | [ ]    |
| <b>3. Prepare for FTA Audits</b>      | - Ensure records are readily accessible and complete for potential FTA reviews or audits.                 | [ ]    |

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## 8. Filing and Payment Checklist

---

| Activity                           | Details                                                                                                  | Status |
|------------------------------------|----------------------------------------------------------------------------------------------------------|--------|
| <b>1. Calculate Taxable Income</b> | - Adjust accounting income for exemptions, deductions, and non-deductible expenses.                      | [ ]    |
| <b>2. File Tax Returns</b>         | - Submit annual tax returns electronically via the FTA portal within 9 months of the financial year-end. | [ ]    |
| <b>3. Pay Tax Liabilities</b>      | - Settle all tax liabilities by the due date to avoid penalties.                                         | [ ]    |

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## Conclusion

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This comprehensive checklist ensures compliance with UAE Corporate Tax Law while helping businesses claim exemptions and reliefs effectively. By systematically addressing each item, businesses can reduce the risk of penalties and maintain alignment with legal requirements. Engaging professional advisors and implementing robust tax compliance systems further enhances adherence to these obligations.

Do's & Don'ts on the UAE Corporate Tax



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## Do's and Don'ts on UAE Corporate Tax

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To ensure compliance with UAE Corporate Tax Law and optimize tax obligations, businesses must follow best practices and avoid common pitfalls. Below is a comprehensive list of **Do's** and **Don'ts**.

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## Do's

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| Do                                     | Details                                                                                                                                                         |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Register for Corporate Tax          | Ensure timely registration with the Federal Tax Authority (FTA) and obtain a <b>Tax Registration Number (TRN)</b> .                                             |
| 2. Understand Residency Rules          | Determine whether your business is a UAE resident or non-resident to correctly assess tax obligations.                                                          |
| 3. File Tax Returns on Time            | Submit annual corporate tax returns within <b>9 months</b> after the financial year-end to avoid penalties.                                                     |
| 4. Maintain Accurate Records           | Retain financial statements, contracts, invoices, and other supporting documents for at least <b>7 years</b> .                                                  |
| 5. Calculate Taxable Income Accurately | Adjust accounting profits for non-deductible expenses, exempt income, and allowable deductions.                                                                 |
| 6. Leverage Reliefs and Exemptions     | Claim available benefits, such as <b>Small Business Relief</b> , <b>Participation Exemption</b> , or <b>Foreign Tax Credit</b> , if eligible.                   |
| 7. Comply with Transfer Pricing Rules  | Prepare <b>Master File</b> , <b>Local File</b> , and benchmarking documentation for related-party transactions in line with the <b>arm's length principle</b> . |
| 8. Conduct Regular Compliance Reviews  | Periodically audit your business processes and tax filings to ensure adherence to UAE Corporate Tax regulations.                                                |
| 9. Monitor FTA Updates                 | Stay informed about amendments to tax laws, deadlines, and compliance requirements.                                                                             |
| 10. Seek Professional Advice           | Engage qualified tax advisors or consultants to address complex scenarios and ensure compliance.                                                                |

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## Don'ts

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| Don't                 | Details                                                                                |
|-----------------------|----------------------------------------------------------------------------------------|
| 1. Delay Registration | Avoid late registration for corporate tax, as it may result in penalties from the FTA. |

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| Don't                                         | Details                                                                                                                                       |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2. Miss Filing Deadlines</b>               | Do not miss tax return filing or payment deadlines to prevent fines and interest on unpaid tax liabilities.                                   |
| <b>3. Provide Inaccurate Information</b>      | Avoid submitting incorrect or incomplete details in tax returns or supporting documents, which can lead to penalties.                         |
| <b>4. Ignore Record-Keeping Obligations</b>   | Do not neglect to maintain and organize records, as the FTA may audit your business at any time.                                              |
| <b>5. Engage in Artificial Arrangements</b>   | Avoid transactions that lack commercial substance and are solely designed to reduce tax liability, as these violate <b>anti-abuse rules</b> . |
| <b>6. Overlook Related-Party Transactions</b> | Do not disregard transfer pricing requirements; ensure all related-party dealings comply with the <b>arm's length principle</b> .             |
| <b>7. Ignore Tax Residency Status</b>         | Failing to understand and establish your residency status can result in incorrect tax filings or non-compliance.                              |
| <b>8. Underreport Income</b>                  | Do not conceal or underreport taxable income, as this can lead to significant fines, reassessments, and potential legal action.               |
| <b>9. Delay Payment of Tax Liability</b>      | Avoid delaying tax payments, as this accrues interest and late payment penalties.                                                             |
| <b>10. Assume Exemption Without Proof</b>     | Do not assume exemption from corporate tax without valid documentation or FTA approval, if required.                                          |

## Best Practices for Compliance

- **Plan Ahead:**

Prepare early for registration, filing, and payment deadlines to avoid last-minute errors.

- **Leverage Technology:**

Use accounting and tax software to automate calculations, record-keeping, and reporting.

- **Educate Your Team:**

Train employees on tax compliance requirements to ensure internal processes align with legal obligations.

- **Communicate with FTA:**

Proactively address uncertainties by seeking clarifications or submitting formal requests to the FTA.

- **Adapt to Changes:**

Regularly update your tax strategy to reflect regulatory updates, business growth, or structural changes.

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## Conclusion

By adhering to these **Do's and Don'ts**, businesses can ensure compliance with UAE Corporate Tax Law, optimize tax efficiency, and minimize the risk of penalties. Proactive planning, accurate reporting, and professional advice are key to navigating the complexities of the tax system effectively.

Summarize all our discussions from the start



## Comprehensive Summary of UAE Corporate Tax Discussions

This summary consolidates key points discussed about UAE Corporate Tax Law, including its framework, compliance requirements, and strategic considerations for businesses.

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### 1. Introduction to UAE Corporate Taxation

- **Purpose:** To diversify the economy, align with global standards, and establish a sustainable revenue base.
- **Effective Date:** Applicable to financial years starting on or after **June 1, 2023**.
- **Administering Authority:** The **Federal Tax Authority (FTA)** oversees implementation.

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### 2. Scope of Corporate Tax

- **Subject to Tax:**
  - UAE-resident businesses.
  - Non-resident businesses with **permanent establishments** or UAE-sourced income.
  - Qualifying Free Zone Persons meeting specific conditions.
- **Exempt Persons:**

Government entities, public benefit organizations, qualifying investment funds, and wholly UAE-owned subsidiaries of exempt entities.

- **Tax Rates:**
    - **0%** on taxable income up to AED 375,000.
    - **9%** on taxable income above AED 375,000.
    - Special rules apply to multinational enterprises under OECD's Pillar Two framework.
- 

### 3. Taxable Income and Deductions

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- **Calculation:**

Taxable income is determined by adjusting accounting profits for exempt income, non-deductible expenses, and allowable deductions.
  - **Allowable Deductions:**

Business-related expenses such as salaries, rent, and utilities.
  - **Non-Deductible Expenses:**

Fines, dividends paid, and personal or non-business expenses.
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### 4. Compliance Requirements

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- **Registration:**

All taxable businesses must register with the FTA and obtain a **Tax Registration Number (TRN)**.
  - **Filing:**

Tax returns must be submitted annually within **9 months** of the financial year-end.
  - **Payment:**

Tax liabilities must be paid by the filing deadline.
  - **Record-Keeping:**

Businesses must retain records for at least **7 years**.
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### 5. Reliefs and Exemptions

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- **Small Business Relief:**

Available to businesses with revenue below a specified threshold, providing reduced compliance requirements.
  - **Participation Exemption:**

Dividends and capital gains from qualifying shareholdings are exempt from corporate tax.
  - **Foreign Tax Credit:**

A credit for taxes paid in foreign jurisdictions, limited to UAE tax liability on the same income.
  - **Loss Carry-Forward:**

Tax losses can be carried forward to offset future taxable income (up to 75% per period).
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## 6. Free Zone Taxation

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- **Qualifying Free Zone Persons:**  
Eligible for a **0% tax rate** if meeting substance requirements and earning qualifying income.
  - **De-Minimis Requirements:**  
Non-qualifying revenue must not exceed a specified threshold to retain benefits.
  - **Losing Free Zone Status:**  
Non-compliance with conditions can result in the standard tax rate being applied.
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## 7. Transfer Pricing

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- **Arm's Length Principle:**  
Related-party transactions must reflect market conditions as if between independent parties.
  - **Documentation:**  
Maintain a **Master File**, **Local File**, and, where applicable, **Country-by-Country Reporting (CbCR)** for compliance.
  - **Penalties:**  
Fines for failing to provide or maintain transfer pricing documentation.
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## 8. Anti-Abuse Rules

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- **Purpose:**  
Prevent tax avoidance through artificial arrangements lacking commercial substance.
  - **Examples:**  
Profit shifting to low-tax jurisdictions or circular transactions with no genuine business purpose.
  - **Consequences:**  
The FTA may disregard abusive transactions and impose fines.
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## 9. Violations and Penalties

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- **Common Violations:**  
Late registration, filing delays, underreporting taxable income, and failure to maintain records.
  - **Penalties:**
    - Fixed fines for administrative errors.
    - Proportional penalties for underreporting or non-payment.
    - Severe consequences for tax evasion or fraudulent activities.
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## 10. Transitional Rules

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- **Scope:**  
Address income, expenses, and balances spanning the pre-tax and post-tax implementation periods.
  - **Key Actions:**
    - Reconcile opening balances, such as retained earnings or tax losses.
    - Maintain records of transitional adjustments.
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## 11. Record-Keeping Obligations

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- **Retention:**  
Maintain financial statements, contracts, and tax-related documentation for 7 years.
  - **Purpose:**  
Support tax filings, facilitate audits, and comply with transfer pricing rules.
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## 12. Clarifications and Appeals

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- **Clarifications:**  
Businesses can seek guidance from the FTA on specific tax issues through formal requests.
  - **Appeals:**  
Objections to penalties or assessments can be filed with the FTA and escalated to the Tax Dispute Resolution Committee if necessary.
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## 13. Do's and Don'ts

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### Do's:

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- Register, file, and pay taxes on time.
- Maintain accurate records.
- Leverage tax reliefs and exemptions.
- Seek professional advice for complex issues.

### Don'ts:

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- Delay registration or filing.
  - Provide inaccurate or incomplete information.
  - Engage in artificial arrangements for tax benefits.
  - Ignore transfer pricing or anti-abuse rules.
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## 14. Strategic Considerations

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- **Plan Ahead:**  
Prepare for compliance deadlines and requirements in advance.
  - **Leverage Technology:**  
Use accounting systems for accurate calculations and record-keeping.
  - **Engage Advisors:**  
Consult tax professionals for compliance and optimization.
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## Conclusion

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The UAE Corporate Tax Law establishes a robust framework to ensure fair taxation, compliance with international standards, and economic growth. By adhering to regulations, leveraging available reliefs, and maintaining accurate records, businesses can fulfill their tax obligations efficiently while minimizing risks and penalties.

Concluding remarks



## Concluding Remarks on UAE Corporate Tax Law

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The introduction of the **UAE Corporate Tax Law** marks a pivotal step in aligning the nation with global tax standards while fostering economic diversification and sustainability. This legal framework balances competitive tax rates with rigorous compliance requirements, creating a fair and transparent environment for businesses.

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## Key Takeaways

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### 1. Framework with Flexibility:

The law provides clear guidelines on taxable entities, rates, and exemptions, ensuring predictability while allowing incentives for small businesses, free zones, and strategic sectors.

### 2. Alignment with Global Standards:

Incorporating international best practices, such as **transfer pricing rules** and **anti-abuse measures**, enhances the UAE's reputation as a compliant and competitive jurisdiction.

### 3. Compliance Focus:

Registration, timely filing, accurate reporting, and record-keeping are essential for smooth tax administration and avoiding penalties.

#### 4. Reliefs and Incentives:

Provisions like **participation exemption**, **foreign tax credits**, and **loss carry-forward** support business growth while preventing double taxation.

#### 5. Strategic Adaptation:

Businesses must adapt to the law through robust systems, professional guidance, and proactive planning to optimize compliance and tax efficiency.

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### Opportunities for Businesses

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The tax law supports businesses by:

- Offering **0% tax rates** for eligible small businesses and free zones.
- Encouraging transparency and accountability through structured compliance.
- Creating an environment conducive to foreign investment and international trade.

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### Challenges and Solutions

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- **Challenge:** Navigating new compliance requirements.  
**Solution:** Leverage technology, seek professional advice, and conduct regular audits.
- **Challenge:** Understanding exemptions and reliefs.  
**Solution:** Stay informed through FTA updates and consultations with tax advisors.

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### Closing Message

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The UAE Corporate Tax Law reflects the country's commitment to fostering a modern, equitable, and globally integrated economy. By embracing compliance, businesses can contribute to national growth while benefiting from a predictable and supportive tax regime. With careful planning and adherence to the law, the journey toward sustainable economic success becomes a shared endeavor between businesses and the government.

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