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UAE Corporate Tax (UAE CT) – A Curtain Raiser

- ✓ On 3rd October 2022, the Federal Tax Authority issued Federal Decree Law No. 47 of 2022 which shall be effective from 15 days from the issue of date of decree in continuation of UAE Ministry of Finance announcement of Federal Corporate Tax (CT) in UAE w.e.f. 1 June 2023. Such decree consists of Article 1 to Article 70 explaining the provisions of UAE CT.
- ✓ Federal Government under the aegis of Ministry of Finance through Minister of Finance has indicated that the purpose of introducing such landscape changes in UAE Tax Ecosystem is visioned with strategic planning, objectives, transparent taxation system, promoting and stimulating economic growth with expansion in green field and Brown field projects through Overseas Direct Investments (ODI) and/or Foreign Direct Investments (FDI), and to minimise revenue leakages by making disclosures and reporting applicable to Business Entities affected by such ecosystem, ushering in positive economically sustainable growth with minimum and reasonable corporate tax rate of 9% as compared to anywhere in the globe.
- ✓ Readers of the article should note that UAE CT is in the nebulous stage of implementation in an ecosystem which may witness sea changes in

the future. As I understand, UAE CT has been introduced by the Federal Government and if it was not introduced, UAE would have lost the benefits as envisaged in the light of recent developments under International Taxation getting implemented through DTAA (Double Taxation Avoidance Agreements), MLI (Multi-Lateral Instruments), BEPS (Base Erosion and Profit Shifting) Plan 1 & 2 initiatives in general.

- ✓ In this article, an attempt has been made to pen down some of the key provisions pursuant to applicability of Corporate Tax Law in UAE and drawing corresponding references from similar provisions prevalent in the Indian Taxation System under Direct Tax laws, under the Income Tax Act 1961 or any other ancillary laws applicable to business enterprises operating in India. Readers, please note that consciously a comparison of UAE VAT vis-à-vis Indian Goods Service Act, 2017 is not attempted in this article as one statute involves direct tax levies whereas the other involves indirect tax levies.
- ✓ Article 1 has articulated all the definitions in an elaborative manner, the constituent terms and contexts of which can be studied. (Article 1 is similar to Section 2 providing various definitions under the provisions of the Indian Income Tax Act 1961.)

Article Theme

The Author has conceived this article to broach the salient features of UAE CT and drawing analogies with the provisions of the Indian Income Tax Act, 1961 & Indian Companies Act, 2013. It is said that education is about learning the unfamiliar with the familiar. Our familiarity with the Indian tax and corporate laws will enable us to imbibe the UAE CT faster due to the striking commonalities and similarities between them. This article analyses the provisions of the UAE CT to offer a bird's eye view of provisions in the way it impacts the Citizens and Non-citizens of UAE viz. Corporate or Non-corporate citizens manifesting their businesses in Mainland Area and/or Free Zone having multifaceted business

conglomerates or a person deriving income only from employments and/or passive income from Banks, Properties, Stock Markets etc. The advent of UAE CT from June 1, 2023 will be an inflexion point in the UAE's tax jurisprudence, the road ahead is an interesting one which will see far-reaching modifications, amendments, repeals, clarifications etc. to align with the requirements of fiscal and corporate realities in a changing environment. This dawn of this new statute will trigger the germination of many professional opportunities which we professionals should be excited about, and be prepared to exploit. The key concepts covered in this article are:

- **Applicability of UAE Corporate Tax**
- **Basis of Taxation**
- **Threshold Limits**
- **Effective Date**
- **Free Zone/s**
- **Calculation of Taxable Income**
- **Unique Tax Group Idea**
- **Transfer Pricing**
- **Cross Border Global Tax Developments**
- **Administration**
- **Inferences**

Applicability of **UAE Corporate Tax (UAE CT)**

Taxable Persons – Article 11

(Similar to “person” definition under Income Tax

and companies under Companies Act, 2013)

- ✓ UAE CT will apply to UAE companies and other legal persons incorporated in the UAE as well as to a foreign legal entity having a Permanent Establishment (PE) in UAE.

- ✓ UAE CT will not apply to an individual unless he is engaged in business or commercial activity in the UAE, which requires him to obtain a commercial license or equivalent permit from the relevant competent Authority in the UAE.
- ✓ The following persons are exempted from UAE CT (Articles- 4-10):
 - Federal and Emirate Governments and their authorities and other public institutions;
 - Wholly-owned, Government-owned UAE companies that carry out the sovereign or mandated activity and that are listed in a cabinet decision;
 - Businesses engaged in the extraction and exploitation of UAE natural resources that are subject to Emirate level taxation;
 - Charities and other public benefit organizations that are listed in a Cabinet Decision;
 - Public and regulated private social security and retirement pension funds;
 - Investment funds, subject to meeting certain conditions.

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ UAE CT is applicable to all business entities incorporated in UAE unless exempted specifically.
- ✓ Concept is similar to definition of the person u/s 2(31) under Income Tax Act 1961 as well as companies defined u/s 2(20) of the Companies Act 2013.
- ✓ UAE CT shall not apply to Individuals unless they are carrying on business in UAE which requires commercial license or Equivalent permit.
- ✓ Individuals working in UAE as employees need not worry about complying with UAE CT compliances as their income from employment would be considered as Exempt Income as per decree.
- ✓ Certain exemptions are provided which are similar to section 10 provisions of the Indian Income Tax Act 1961 and beneficial provisions

applicable to small companies as defined u/s 2(85) of the Companies Act 2013.

- ✓ UAE CT would be applicable to all the persons satisfying the conditions of Permanent Establishment of any business entities carrying on the business in UAE through WOS, Holding Companies, Branch/Divisions etc.
- ✓ PE Concept is similar to definition of Article 5(1) as understood under Indian Income Tax Act 1961, but the scope is not as wide as understood under the Indian Income Tax Ecosystem, but in future we can envisage that UAE Federal Govt. through Ministry of Finance may expand and enlarge the scope of PE.

Basis of Taxation – Article 12 & 13

- UAE CT would be based on the residential status of the person in UAE.
- The following persons shall be considered as Residents of UAE for UAE CT:
 - A legal person that is incorporated in UAE;
 - Any natural person who is engaged in a business or commercial activity in the UAE, either in their own name or through an unincorporated partnership;
 - A foreign company, if it's effectively managed and controlled from the UAE.
- Tax residents would be liable for UAE CT on its worldwide income. Any income earned from a foreign jurisdiction on which tax is paid in such jurisdiction will be allowed as a credit against UAE CT.
- Non-residents will be subject to UAE CT on taxable income from their PE in UAE and income which is sourced in the UAE.

The PE concept under the UAE CT regime has been designed on the basis of the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention.

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ Residential Status is determined on the basis similar to determination of residential status as per section 6 of the Income Tax Act 1961 for the Individuals, considering the concepts of Country of Residence and dual citizenship etc.
- ✓ For Companies incorporated in UAE, Residential status would always be that of Resident of UAE, similar to concepts followed under Income Tax Act, 1961 as well as Companies Act 2013.
- ✓ Residents of UAE to whom UAE CT is applicable would be liable to pay tax on worldwide income, concept similar to world-wide income taxable in the case of a Resident person as per section 6 of the Income Tax Act, 1961.
- ✓ PE Concept is similar to definition of Article 5(1) as understood under Indian Income Tax Act 1961, but scope is not as wide as understood under the Indian Income Tax Ecosystem, but in future we can envisage that UAE Federal Govt. through Ministry of Finance may expand and enlarge the scope of PE.
- ✓ UAE CT has provided for credit for the Foreign Taxes, the concept is similar to Section 90/90A benefits available under the provisions of the Indian Income Tax Act, 1961.
- ✓ Non-Residents having PE in UAE, shall be subject to withholding taxes, concept similar to withholding taxes u/s 195 and TDS Returns filing provisions applicable while filing Form 27Q on quarterly basis, issue of TDS certificates, Tax Residency certificates etc. as per the provisions of the Indian Income Tax Act, 1961.
- ✓ In future, Exchange of Information (EOI) & Mutual Agreement Procedure (MAP) may be actively pursued by the Tax Authorities of the

respective countries to plug revenue leakages arising out of transactions in the course of international trade, commerce and business.

Threshold limits – Article 2 & 3

Taxable Income	Mainland Area Person Tax rate	Free Zone Person Tax rate
When it does not exceed AED 375000	0%	0% on qualifying income
When it exceeds AED 375000	9%	9% on non-Qualifying income

Effective date of UAE CT (Article 69 & 48)

Reporting Period	UAE CT effective date
July- Jun	July 1,2023
April – March	April 1,2024
January – December	January 1,2024

Free Zones – Article 18

- While companies and branches registered in Free Zones will be within the scope of UAE CT and subject to tax return filing requirements, they would be liable for a 0% CT rate if they demonstrate adequate substance and comply with relevant regulatory requirements.
- Free Zone person that has a branch in mainland UAE will be taxed at a regular CT rate on its mainland source income while continuing to benefit from the 0% CT rate on its other income earned as a Free Zone person.
- Where Free Zone Person does not have a Branch in mainland UAE and earns income from the mainland, then a 0% CT rate would apply only to 'passive' income (like interest, royalties, dividend, capital gains on shares of mainland UAE company, etc.).
- 0% CT will also apply to the transaction between Free Zone Person and their group company in mainland UAE. However, payments made to Free Zone Person by a mainland group company shall not be tax-deductible.

- A Free Zone Person earning any income other than the above-mentioned incomes from the mainland would lose the benefit and would be liable to be taxed at CT rates on the entire income.
- Free Zone person would have an irrevocable right to opt for a regular CT regime.

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ Concept of Free Zones as envisaged under UAE CT is similar to the concept of SEZ (Special Economic Zones) as understood under Indian Taxation System. Soon, we will see the advent of DESH which would replace SEZ Law in India, we may see such announcement in the coming Finance Budget, 2023 on 01.02.23.
- ✓ Units established in Free Zone would be required to adhere to regulatory framework involving filing of returns, documents and/or disclosure of affairs in a transparent manner which would be on the lines of compliance under the provisions of Indian Income Tax Act, 1961 as well as Indian Companies Act, 2013.
- ✓ Zero Rate of Tax is provided for the units established in Free Zones located and situated in UAE. Under Indian Income Tax Act, 1961, initially we had similar benefits by way of exemptions and deductions specified u/s 10 or under Chapter VI-A, which were gradually phased out. In future, we can expect a similar policy to be implemented by the Federal Govt. through Ministry of Finance considering the success of UAE CT.
- ✓ Business Entities registered in Free Zones would enjoy Zero Rate of Tax for income arising out of their business operations as well as in respect of passive income if such units don't have any presence in the mainland area or mainland group company (viz. Taxable area of business operations or HO and Branch or any other form etc.) In the Indian context, concept is similar to Designated SEZ territory and Other Territory viz. area other than designated SEZ area.

- ✓ If a Business Entity is having unit in Free Zone as well as Mainland Area, if Mainland Group Company is making payments to units located in Free Zone, then such payments are not considered as deductible business expenditure as per UAE CT provisions. Such concept of non-deductibility of expenditure is more or less aligned to the concept of branch transfers or executing business transactions with self, which requires to be nullified while drawing up Consolidated Financial Statements as required under the provisions of the Indian Companies Act, 2013 and preparing Indian GAAP Financial statements under the provisions of Indian Income Tax Act, 1961.
- ✓ Concept of irrevocable right to opt for CT regime is provided, the concept similar to exercising of option to be taxed under new regime under the Indian Income Tax Act 1961 u/s 115BAC for the Individuals & HUF and for Companies option exercised u/s Section 115BA/Section 115BAB/Section 115BAA subject to several stipulations and conditions prescribed.

Calculation of taxable income –

Articles- 20,21,28, 29,30,31,32,33,37,38, 39, 43, 44, 45,46, 53,54,56.

- Accounting net profit (or loss) as stated in financial statements would be considered as a starting point for determining taxable income.
- Taxpayer is required to maintain the books of account for 7 years. (Article 56)
- Commonly, the International Financial Reporting Standard (IFRS) is used in UAE for preparing financial statements. However, consideration is given to allowing alternate financial reporting standards for drawing the financial statements. (Article 20)
- Capital unrealized gains and losses will not be required to be included while computing taxable income, but Revenue items by way of unrealized gains and losses will have to be considered while computing taxable income.
- The following incomes shall be exempt from taxation:

- Capital gain and dividend income received by UAE company from a foreign company, subject to certain conditions like UAE shareholder company must own at least 5% of the shares, and the foreign company is subject to CT (or an equivalent tax) at a rate of at least 9% in home country – Participation Exemption; (Article 23)
- All domestic dividend income earned by UAE company (including dividend paid by Free Zone person); (Article 22)
- UAE Company will have two options for tax treatment of the income of foreign branches (i) claim a foreign tax credit for taxes paid in the foreign branch country, or (ii) elect to claim an exemption for their foreign branch profits. An exemption for foreign branch profits shall not be available where the foreign branch is not subject to a sufficient level of tax in the foreign jurisdiction in which it is located; (Article 45-46)
- Income earned by a Non-resident from operating or leasing aircrafts or ships (and associated equipment) used in international transportation, provided similar treatment is provided to a UAE business in the relevant foreign jurisdiction (Article 22)
- Normal business expenditure shall be allowed to be deductible with valid documentation unless specified. (Article 28)
- Interest capping rule – It is proposed to cap the amount of interest expense to group companies at 30% of earnings before interest, tax, depreciation and amortization (EBITDA). Irrespective of the 30% cap, some fixed amount would be allowed as a deduction. Specific exemptions from these provisions to banks, insurance, and certain regulated financial services entities and businesses carried out by natural persons. (Article 29 & 30)
- Different interest capping thresholds may be allowed for the consolidated groups. In addition to meeting arm's length test, interest payment between group companies would also be required to provide commercial justification for availing the loan. (Article 31)
- Only 50% of the expenditure incurred to entertain customers, shareholders, suppliers, and other business partners shall be tax-deductible, as such expenses often include non-business and personal elements. (Article 32)
- No deduction will be allowed for certain specific expenses such as corporate tax, dividends, taxes imposed outside state, administrative penalties, recoverable VAT, or donations paid to an organization that is not an approved

charity or public benefit organization or expenditure as specified by the Cabinet. (Article 33)

- Losses incurred would be allowed to be carried forward for an indefinite period and set off against future profits up to 75% of taxable income. If shareholding of 50% or more continues, then only tax losses are allowed to be carried forward indefinitely.

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ The UAE was considered as Tax Heaven while setting up a business entity there, because everything was considered as Tax free in general, particularly before the implementation of UAE VAT. But now, with planned implementation of UAE CT w.e.f from June 1,2023 or applicable date as provided based on option exercised as per decree, the scenario is poised for change.
- ✓ Each Business entity to whom UAE CT is applicable, is required to draw up Standalone or Consolidated Financial Statements for applicable reporting period under consideration. Presently, organisations are following International Financial Reporting Standards (IFRS) but with implementation of UAE CT, adopting new alternative Accounting Standards would be formulated and implemented. Such Accounting Standards would be formulated that would be aligned to prevailing international practices and it can open a vista of professional opportunities for the professionals, which could include designing, reporting and implementation aspects of accounting, auditing, tax compliance, revenue assessment, arbitration, software development and/or litigation management.
- ✓ Now every business enterprise to whom UAE CT is applicable would be required to draw up financial statements that disclose the affairs of enterprises according to business segment, geographical demographics, long term and short-term financing, working capital management, ownership and net worth, related party transactions, other disclosures

etc. In future, we may see changes introduced by expanding scope of disclosure and compliance monitoring which would benefit most of the professionals.

- ✓ Transfer Pricing Provisions are also introduced in UAE CT which are more or less similar to Transfer Pricing monitoring and compliances applicable in India as per Section 92E of the Indian Income Tax Act, 1961.
- ✓ Foreign Tax Credit provisions as provided under UAE CT are more or less similar to provisions applicable u/s 90 & 90A of the Indian Income Tax Act 1961 which most of us are familiar with.
- ✓ Concept of Thin Capitalisation Rules as per BEPS for allowing maximum deduction to the extent of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is less, introduced from AY 18/19 which could be correlated with transfer pricing reporting u/s 92E of the Indian Income Tax Act 1961 and related party transactions reporting as per AS 18 under Indian Companies Act, 2013. Exemptions are specified for certain class of notified persons like Banking, Insurance etc.
- ✓ Concept of differential interest capping limits for the Groups is provided under UAE CT which is not in vogue under Indian Income Tax Act, 1961 but provisions relating to differential capping can be an interesting study as it is altogether new concept for many of us.
- ✓ Only flat 50% deduction is provided for certain kinds of expenses like entertainment expenses for customers, shareholders and suppliers as such expenses tend to have inbuilt elements of personal benefits. Under Indian Income Tax Act, 1961 only expenditure for holding AGM is deductible, where shareholders attend such meeting and enjoy such

benefits in general but there is no concept of entertaining shareholders explicitly under Indian laws.

- ✓ Further, some expenses are not deductible such as certain administrative expenses, penalties, recoverable VAT, or donations paid to an organization that is not an approved charity or public benefit organization. We can compare such provisions similar to specific disallowances specified under Chapter IV & Chapter VIB of the Indian Income Tax Act 1961.
- ✓ Carry forward of losses allowed for an indefinite period under UAE CT whereas under Indian Income Tax Law, maximum time period of carry forward is 8 years as per section 72/73/73A of the Income Tax Act 1961 except that there is no time limit for carry forward of unabsorbed depreciation under section 32(3) of the Income Tax Act, 1961.
- ✓ One more additional stipulation provided for indefinite carry forward of losses in cases where ownership of the enterprise is continued for more than 50% where there is change in ownership of the business due to either merger, demerger, split or business reorganisation. The same concept can be compared with Section 79 provisions of the Indian Income Tax Act, 1961.
- ✓ Such carry forward provisions of losses can be claimed but can offset maximum to the extent of 75% of total income under UAE CT, which essentially means such an enterprise has to pay Corporation Tax @ 9% on at least 25% of taxable income. Such concept can't be equated with MAT Tax under u/s 115JB of the Income Tax Act 1961 but conceptually it can be analysed.

Tax Groups – Articles- 40-42

- A UAE resident group of companies can elect to form a tax group and to be treated as a single taxable person if the parents hold directly or indirectly at

least 95% of the share capital and voting rights of its subsidiary. To form a tax group, neither the parent company nor any of the subsidiaries can be an exempt person or a Free zone person that claims exemption. (Article 40)

- Tax group shall follow same reporting period and accounting standards (Article 40).
- Member of the tax group may join or leave the tax group from the tax period specified in the application or as determined and approved by the authority (Article 41).
- If member of the group leaves the tax group within 2 years of an asset/liability transfer, then such income should be taken in account on the date when the member leaves the tax group. (Article 26)
- Unutilised loss of the tax group can't be offset against the taxable income of new company or member. (Article 42)
- Further losses shall remain with parent company only (Article 42)
- Losses would be allowed to be transferred and set off from one group company to another group company if 75% of the shares of both companies are commonly owned. Furthermore, no losses can be transferred from a company exempt from UAE CT or that benefits from a 0% Free Zone CT regime. Also, the total tax offset will not be able to exceed 75% of the taxable income of the company receiving the transferred losses in the relevant period. (Article 37-39)
- The parent company would file returns on behalf of the Tax group and not the members (Article 53).
- Group re-organization shall not be taxable under the UAE CT regime, subject to certain conditions. (Article 27)

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ New concept of creating Tax group under UAE CT which does not exist in India, but there is concept of Large Taxpayer Unit (LTU) under Indian Income Tax Act, 1961.
- ✓ Member of Tax Group under UAE CT has to be tax resident of UAE who is liable to pay UAE CT.

- ✓ In Tax Group, neither Parent Company nor any subsidiary can be an exempt person or a Free Trade Zone person that claims exemption from UAE CT. Essentially, it means such Tax Group can be formed by the entities who are required to pay UAE CT directly or indirectly under the permutations and combinations of Business Reorganisation and if the stipulated conditions are violated in future, then such arrangement would be void as per my understanding.
- ✓ Existing business units in UAE may exercise the option of forming Tax Group by opting for merger, demerger, split or any other form of business reorganisation as per terms and stipulations specified of maintaining minimum 95% of share capital and voting rights for the parent company viz. Holding Company.
- ✓ Another significant change for set off and carry forward of losses in the Tax group from one company to another company in the same tax group provides that minimum shareholding to the extent of 75% is owned commonly by the same shareholders but off set is permitted maximum to the extent of 75% of total income under UAE CT, which essentially means such enterprise has to pay Corporation Tax @ 9% on at least 25% of taxable income. Such a concept can't be equated with MAT Tax under u/s 115JB of the Income Tax Act 1961 but conceptually it can be analysed.
- ✓ To encourage setting up a Tax group, it is provided under UAE CT that such Business organisation shall not be subject to UAE CT as long as all terms, conditions and/or stipulations prescribed are adhered to and complied with.
- ✓ Reporting of Financial Statements such Tax Group may be aligned to Consolidated Financial Reporting between Holding and Subsidiary Companies as envisaged under Indian Companies Act, 2013.

Transfer Pricing – Article 34 -36 & 55.

- Transfer Pricing regulations shall be in line with OECD Transfer Pricing Guidelines. (Article 34)
- Transfer Pricing Regulations shall be applicable for transactions between domestic as well as foreign-related parties and needs to be at arm's length price. (Article 35 & 36)
- Article 55 provides for Transfer Pricing Documentation; the requirements therein shall include:
- Disclosure containing information regarding transactions with related parties and connected persons;
- Need to maintain Master and Local Files (with format and content as prescribed under OECD Base Erosion and Profit Shifting (BEPS) Action Plan 13), where arm's length value of transactions with the related party would exceed a certain threshold.

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ Transfer Pricing Provisions are also introduced in UAE CT which is more or less similar to Transfer Pricing monitoring and compliances provisions applicable in India as per Section 92E of the Indian Income Tax Act, 1961.
- ✓ All such regulations are aligned to OECD Directives and guidelines.

Cross Border Global Tax Development –

UAE's approach for a response to Cross Border Global Tax Developments

- International Agreements would prevail if terms of decree are inconsistent. (Article 66)
- GAAR provisions to provide safeguard against a refund or increased refund of CT, avoidance or reduction of CT payable, deferral or advancement of refund of CT, avoidance of an obligation to deduct and so on (Article 50)
- The introduction of CT regime in UAE will provide a basis for the UAE to execute its support of Global minimum effective tax rate as proposed under

Pillar Two of BEPS 2.0. UAE is currently working with other members of the Inclusive Framework to implement the Pillar Two proposals.

- In line with the BEPS project, the UAE had introduced Country by Country Reporting (CbCR) requirements effective from the financial year starting on or after 1 January 2019. The introduction of the UAE CT regime will not impact the existing CbC reporting requirements and relevant regulations.

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ GAAR provisions are structured as per international prevailing practices and such provisions are similar to Section 95 to 102 of the Indian Income Tax Act, 1961.
- ✓ CbCR reporting as provided under UAE CT is more or less aligned to internationally prevailing practices and the same can be compared to provisions of Section 286 pursuant to BEPS Action Plan 13 & filing of Master File (MF) as mandated under Section 92D of the Indian Income Tax Act, 1961. The MF should provide an overview of the MNE business, and the nature of its global operations, overall TP policies, allocation of income and economic activity. MF is not intended to provide exhaustive details. It will basically contain the group structure, description of the business, intangibles, intercompany financial activity between members of the group, and MNE financial and tax positions.
- ✓ Such disclosure and filing may provide transparency and help EOI and MAP between the countries to plug leakages of revenues based on COR and COS of underlying business transactions.

Administration – Articles -48-56, 60,61, 62,65,66, & 69

- A business subject to CT will need to register with the FTA and obtain a tax registration Number within a prescribed period. FTA will have the power to automatically register a business for CT if the person does not voluntarily do so. (Article 51)
- Where business is ceased to be subject to the CT (due to cessation or liquidation), it will need to apply for deregistration for FTA for CT purposes within three months from the date of cessation. Again, The FTA will have the

power to deregister any person based on available information. De-registration shall be effective from the approval date only. (Article 52 & 61)

- Categories of Taxable persons would be specified to file audited financial statements or certified financial statements. (Article 54)
- All Taxable persons should be extra vigilant to file all the documents in time to avoid any kind of administrative penalties due to delay in filing of the documents. (Article 60)
- The businesses will be liable to file the annual tax return within nine months from the end of the relevant tax period. It would be important to note that each taxable person can choose their tax period based on their annual period of financial reporting. Minister may specify form and declarations to be filed for the purpose of reporting and disclosures. (Article 53)
- UAE CT regime will be based on self-assessment principles. However, the FTA may review a CT return and issue an assessment within the timeframe prescribed in tax procedural law. A taxpayer may challenge an amended assessment issued by FTA by processes and procedures prescribed in the law. Revenue sharing between Federal Govt and the Local Govt. (Articles -48,49, 60 to 65)
- Financial Statements for the first-time adoption to be prepared following arm's length principles by the taxable person. (Article 61)

Comments – Indian Taxation and/or Corporate Law Ecosystem:

- ✓ All entities who are required to comply with UAE CT are mandatorily required to obtain Tax Registration from FTA. The concept is similar to PAN Registration under Indian Income Tax Act 1961 & CIN Number under Indian Companies Act 2013.
- ✓ FTA may allot such tax registration to any business entity on its own if such businesses do not register under UAE CT. The concept is similar to allotment of PAN Number based on Aadhar Number of Taxpayer which is yet to be implemented under Indian Income Tax Act 1961.
- ✓ If business is discontinued due to demise of the person or liquidation of business, then there is a requirement to apply for deregistration of

Tax Registration Number within 3 months to FTA or alternatively FTA can do so Suo motto based on available information as per internal intelligence.

- ✓ Proposals of audited financial statements or certified financial statements are similar to statutory audit provisions under Indian Companies Act, 2013 and/or Tax Audits u/s 44AB of the Indian Income Tax Act 1961.
- ✓ Person registered under UAE CT is allowed to file annual tax return within 9 months from the end of the relevant period. As per schema of UAE CT, each person can opt for different annual periods for reporting of financial affairs but time limit of 9 months would apply to each person based on the person's different annual period/s. I recall the time prior to the laying down of the rule of uniform previous year and assessment year, when we followed different previous years which created many issues and led to the Govt adopting a uniform previous year and assessment year. I envisage a similar situation to arise before FTA whereby it may lead to adopting a uniform reporting period in future.
- ✓ UAE CT ecosystem is built on self-assessment principles and person is required to bear CT Tax @ 9% on its own determination in the ordinary course and to deposit such tax dues with FTA as per options provided. The concept is similar to payment provisions relating to TDS, advance tax payments or self-assessment tax based on earnings which all of us are familiar with under the provisions of the Indian Income Tax Act, 1961.
- ✓ FTA may process such returns filed as per the schema of UAE ST within reasonable time limits for completing the assessment. Such returns may be scrutinised based on random selection using modern

technology facilities using AI, Risk Parameters etc. A taxpayer if aggrieved can apply for amendments, rectifications, modifications and seek appeal to claim appropriate relief based on the grounds of appeals/objections etc. The concept appears to be extremely similar to Income Tax assessments prevalent under Indian Income Tax Act 1961.

Inferences

- ✓ With the introduction of UAE CT, on a cursory review of decree it appears that intention of UAE Tax authorities is to keep the UAE CT laws and regulations simple entailing minimum and easy procedures and a burdenless compliance mechanism in the overall interest of the taxpayers.
- ✓ Examining provisions of UAE ST with deep lenses, it appears to me that all business units registered in UAE or cross border entities carrying on business activities with UAE whereby PE provisions are triggered, are expected to re-look, re-examine, re-visit and re-evaluate business models to examine their tax exposure arising because of UAE CT implementations.
- ✓ All business units established in the designated Free Zones, need to carefully examine and analyse regulatory, licensing and compliance requirements and to groom their personnel to adapt to the consequent changes in business processes arising because of UAE CT provisions. There would also be a need to examine the viability of business operations in most effective and efficient manner for the optimal claim of benefits provided due to changes in Tax Ecosystem of the UAE. They may need to revisit their CANVAS of business operation to understand and justify the prudence and business sense of transacting within Free Zone, Free Zone and Mainland Area, Free Zone and Related Parties & Free Zone and external parties located outside UAE etc.
- ✓ All Business Units need to re-engineer their accounting processes to align themselves in line with the regulatory and compliance changes, its documentation, adoption of appropriate accounting policies and

accounting standards, cash flow and finance budgeting due to regulatory tax outgo, risk monitoring matrix, disclosure reporting etc. from several aspects so that all that is required is available in JIT (Just in Time) manner.

- ✓ With reporting of annual performances by way of annual returns, risk of garnering business intelligence by competitors and industry leaders can be envisaged. Each business unit needs to validate its financial statements to ensure reasonable and accurate assurance of financial reporting for the relevant period through statutory filings, corporate communications and Independent Auditor's report etc.
- ✓ Investment Industry or AMC Companies are not subject to UAE CT as per clarification provided but all such stakeholders need to keep a close watch on changes arising due to modifications and amendments provided from time to time by Federal Govt.
- ✓ In my personal considered view, UAE CT may offer good opportunities for the Indian professionals to leverage their connections and establish their foot prints to emerge as experts, as most of us are quite familiar with compliances arising due to similarity in regulatory framework of accounting, auditing (external, internal or Suo motto), system development and review, quality control, FEMA, Investigation & Due Diligence, Tech Driver solutions, Litigation management and so on. I see this as an additional vista of opportunity for all of us.
- ✓ To conclude, I feel that FTA may need to consistently keep amending, modifying the UAE CT provisions after its implementation due to grass root, practical issues arising in the real time business environment, which is expected in the nascent stage of any complex legislation. From time to time many aspects may require greater clarity to minimise the prospects of litigation arising due to interpretation challenges in a changing business environment and newer developments in OECD Guidelines, BEPS Plans, MLI & DTAA etc.

Source Credits: 1. Taxation of Corporations and Businesses – Federal Decree Law No 47 of 2022 dated 03.10.2022.

2. Research websites and Database.

3. You Tube
4. Indian Income Tax Website
5. India MCA Website
6. Others (not specified above)

(Note: Views expressed are my personal views and they may not be accepted by the Government. All readers are requested to take their considered views based on their own study to reach any suitable conclusions. There can be many other situations under the law but I have tried to establish the seed of thought by way of this article in the minds of readers. Suggestions to improve the article is always welcome with folded hands).