

Corporate Tax

Handbook Version 1.0



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Corporate Tax in the UAE Overview Handbook

As per information available as
on 08 February 2022

Forward To the Handbook

Income tax has a long history in the world, though it played a relatively minor role in the Gulf Region until 2015.

In 2015, OECD and G20 published final reports outlining recommendations for Action Plan on Base Erosion and Profit Shifting ('BEPS'). The changes proposed by BEPS initiative has amended the agendas of taxpayer as well as tax authorities around the world.

Being the signatory to Inclusive Framework members and Multilateral Convention, the UAE introduced various Regulations requiring disclosures of the organisational structures and nature of activities. Introduction of CbCR (Country by Country Reporting) and Economic Substance Regulation (ESR) in the year 2019, procedure to furnish details of the Beneficial Owner in the year 2020 etc. are part of the UAE's effort to comply with its commitment to BEPS.

Then was the Introduction of BEPS 2.0 - Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. The Second Pillar - The Pillar Two, introduces a global minimum corporate tax rate (set at 15%) to reduce tax competition amongst different jurisdictions.

Corporate Tax introduced in the UAE is the outcome of its commitment and alignment to Global Minimum Taxation Regime.



Why Corporate Tax in the UAE?

Introduction of a Corporate Tax ('CT') regime reaffirms the UAE's commitment to meeting international standards for tax transparency and preventing harmful tax practices.

It will cement the UAE's position as a leading global hub for business and investment and accelerate the UAE's development and transformation to achieve its strategic objectives.



What is Corporate Tax?

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

Corporate Tax is sometimes also referred by other jurisdictions as "Corporate Income Tax" or "Business Profits Tax".



Scope

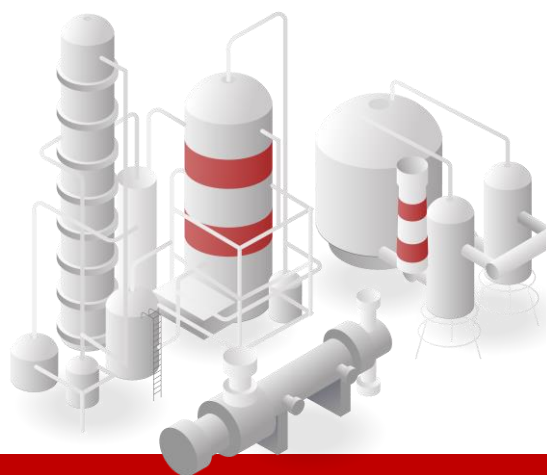
- CT shall apply to all UAE business and commercial activities across the Emirates
- Specific exclusion for Businesses engaged in the extraction of natural resources (already subject to Emirate level corporate taxation).
- All activities undertaken by a legal entity will be deemed "business activities" and hence be within the scope of UAE CT.
- Even individual having (or being required to obtain) a business license or permit to carry out the relevant commercial, industrial and/or professional activity in the UAE shall come under the purview of CT.

Effective Date

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

Examples:

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



Rate

Sector specific - Inclusion / Exclusion

- Banking operations - **subject to UAE CT**
- Businesses engaged in real estate management, construction, development, agency and brokerage activities - **subject to UAE CT**
- Businesses engaged in the extraction of natural resources (subject to Emirate level corporate taxation) - **outside the scope of the UAE CT.**

Taxable Income	Rate of Tax
Taxable income up to AED 375,000	0%
Taxable income above AED 375,000	9% (on portion of taxable income exceeding AED 375,000)
For large Multinationals (having consolidated business revenues in excess of EUR 750 Million/ AED 3.15 Billion)	A different Tax Rate. (As per the Guideline from OECD-Pillar 2 minimum 15% Effective Tax Rate is suggested)

Corporate Tax - Individuals

- Salary and other employment income (whether received from the public or private sector) – CT Not Applicable
- Individual's Business income earned under a commercial license – CT Applicable
- The investment in real estate by individuals in their personal capacity – CT Not Applicable provided the individual is not required to obtain a commercial license or permit to do the activity
- Dividends, capital gains and other income earned from owning shares or other securities in their personal capacity – CT Not Applicable
- Interest and other income earned by an individual from bank deposits or saving schemes – CT Not Applicable
- Income earned by Individual from activities carried out under a freelance license / permit – CT Applicable

Corporate Tax on Foreign Person

Foreign entities or non-resident individuals will be subject to UAE CT **only if** they conduct a trade or business in the UAE in an ongoing or regular manner.

UAE CT will generally not be levied on a foreign investor's income from:-

- dividends,
- capital gains,
- interest,
- royalties and
- other investment returns

Corporate Tax in Free Zone

- Free zone businesses will be subject to UAE CT
- CT incentives/tax holiday currently offered shall continue if the free zone businesses:
 - comply with all regulatory requirements
 - AND
 - do not conduct business with mainland UAE
- Free zone business is required to Register and file CT Return
- Financial Free Zone business also treated on similar lines as other free zones

Carry Forward and setoff of losses

- **Business can carry forward losses** incurred in a financial year to offset against taxable income in subsequent financial periods, subject to fulfilling certain conditions
- **Only losses incurred from effective date of UAE CT** can be used to offset against future taxable income.
- **Tax losses of a group company can be used to setoff taxable** income of another group company – subject to conditions



Tax Group

- UAE group companies can form Corporate Tax Group – ‘Fiscal Unity’
- All entities forming part of the group shall be treated as single taxable person, subject to fulfillment of certain conditions
- Single CT return to be filed for the entire group



Withholding Tax

Withholding Tax (WHT) is tax collected at source by payer on behalf of the recipient of income

UAE withholding tax will not be applicable on domestic and cross-border payments of any nature.

Tax Credit

Corporate Tax paid outside the UAE on the UAE taxable income will be allowed as a tax credit against the UAE CT liability.

Transfer Pricing

Transfer Pricing ensures that the transactions between related parties are carried out at arm's length terms (follow separate entity concept).

UAE businesses need to adhere to transfer pricing rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines.

Exempt Income

Following income of the businesses shall be exempt:

- Dividends and capital gains earned from qualifying shareholdings (ownership interest that meets certain criteria)
- Qualifying intra-group transactions and reorganizations provided the necessary conditions are met

Administrator

- Authority for administration, collection and enforcement shall be Federal Tax Authority('FTA').
- "Competent Authority" for bilateral/multilateral Agreements and International exchange of information for tax purposes is Ministry of Finance
- **Registration:** Businesses will be required to register for the purpose of CT
- **Return Filing**
 - CT return to be filed one time in every financial period (year)
 - No advance or provisional CT filing required
 - CT return to be filed electronically
- **Advance Tax**
 - Advance tax payment not applicable
- **Penal Consequences**
 - Non-Compliance would be subject to penalties as is the case with other taxes



FAQs



Corporate Tax - General

1) Why is Corporate Tax introduced in the UAE?

The UAE is a member of OECD Inclusive Framework on Base Erosion and Profit Shifting (“BEPS”), and hence committed for meeting the International Standards for tax transparency and preventing harmful tax practices.

To honour the commitment made, the Finance Ministry in the UAE announced introduction of **Corporate Income Tax on 31 January 2022**.

2) Whether all kinds of business be subject to Corporate Tax in the UAE?

The UAE Corporate Tax will apply to all the UAE businesses and commercial activities, except for the activities of extraction of natural resources, which is subject to Emirate level corporate taxation.

3) How does Corporate Tax affect a business?

Businesses in the UAE will be required to pay Corporate Tax (taxes on its income) at 9% on its taxable income above AED 375,000.

4) Is it viable to operate the business in the UAE after Corporate Tax?

As a leading jurisdiction for innovation and investment, the UAE plays a pivotal role in helping businesses grow, locally and globally.

The certainty of competitive tax rate and best in class Corporate Tax regime, together with the UAE’s extensive double tax treaty network, is a driving force to conduct business in the UAE.

5) What will be the implication of Corporate Tax for the end users, whether any price hike can be expected?

Corporate Tax is tax on income of the business, which is the liability of the business.

Therefore, unlike VAT, the end users do not have to bear any burden of taxes. Tax would be paid directly by the business on the profits made by them.

6) We are a branch of a foreign company established in a freezone in Dubai having head office in Europe. Whether we will be subject to Corporate Tax or taxes will be paid by our head office?

As per the details available in public domain, all foreign entities will be subject to UAE Corporate Tax when they conduct a trade or business in the UAE in an ongoing or regular manner. Accordingly, even the branch of a foreign company established in freezone would be subject to Corporate Tax.

The MNC may avail credit for taxes paid in the UAE, if any, subject to the local laws of that jurisdiction where it is headquartered.

However, it has been indicated that tax holiday commitment of freezones will be honoured if certain conditions are met.

7) Whether local FZE that earns income ONLY from 'export' of services to Intra company, be liable to Corporate tax?

All business in UAE, having license/permit to carry out the relevant commercial, industrial and/or professional activity, including the ones set up in free zone are subject to Corporate Tax in the UAE.

It is indicated that freezones that have committed to tax holidays shall honour their commitment, subject to fulfilment of certain conditions. We await the details on freezone taxability.

8) Whether Corporate Tax shall be applicable to non-resident entities as well

The UAE will not impose Corporate Tax or withholding tax on foreign companies or individuals that invest in or make loans to the UAE businesses. However, if such foreign companies or individuals earn income from business conducted in the UAE in a regular manner, they shall be subject to Corporate Tax in the UAE.



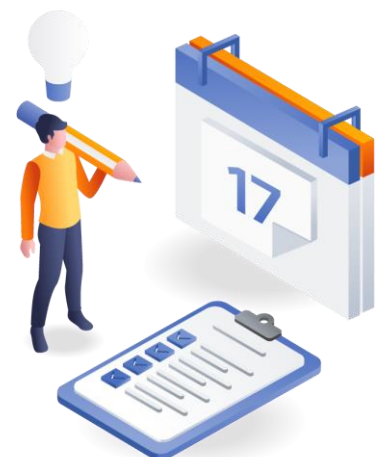
Corporate Tax – Timeline and Rate

9) Is Corporate Tax applicable to profit for respective financial year or for previous year's profit also?

Only one Corporate Tax return will need to be filed per financial period. No provisional or advance Corporate Tax filings will be required. A financial period is generally one year.

10) Do we need to change the financial year as per the Corporate Tax Law?

Businesses are not mandated to change their financial year to suit the Corporate Tax start date. Their date starts from their first financial year that begins on or after 1 June 2023.



11) Which is the first tax year of an existing company: -

- (a) whose financial year ends in December.
- (b) whose financial year starts in October.

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

A business that has financial year starting October will become subject to UAE CT from 1 October 2023 (which is the beginning of the first financial year that starts on or after 1 June 2023)

12) Whether financial year of a company is to be considered as per the MOA or it can be chosen as per the convenience of the management?

Though the details available at present do not mandate on what basis financial year should be chosen, it is recommended to follow the MOA.

13) Do we have to register for Corporate Tax in advance?

Registration for Corporate Tax would be required to be done by **all businesses** whether in Freezone or in mainland. We await more information on the registration process and ongoing compliance obligations for businesses.

14) If the company has different branches with different financial years, then how will be the Corporate Tax be computed?

In general, the branches are not considered as a separate legal person and hence we expect the company together with branches will be considered as a single taxable person.

Accordingly, the branch would generally adopt same financial year as the head office.

15) Are there any slab rates for taxes based on earnings?

UAE has announced a flat rate of 9% on taxable income above AED 375,000 in a financial year. It is only for large multinational companies that the rate of tax would differ.



Accounts and Audit

16) Whether it would be mandatory to get the financials audited before reporting Corporate Tax?

Though the details available at present do not mandate audit of financials before filing the Corporate Tax Return, it would be recommended that the books are audited to ensure reliable, accurate and correct disclosure of taxable income. Some of the licensing authorities or Banks or other institutions also ask for audited accounts. Hence it is recommended to audit the Financial Statements of every entity.

17) How will taxable income be calculated? Is there a particular format to be followed for preparation of the financial reports to disclose profits for Corporate Tax?

The taxable income will be the accounting net profit / income of a business, after making adjustments for certain items to be specified under the Corporate Tax Regulation.

The accounting net profit / income of a business is the amount reported in the financial statements **prepared in accordance with internationally acceptable accounting standards.**



18) Should separate accounts be maintained for free zone entity and mainland entity?

Freezone Entity can avail the benefits of Tax holidays committed by the Free Zone Authorities if the specified conditions are fulfilled. Therefore, it would be advisable to maintain separate accounts, which will help to substantiate taxable income of free zone entity and claim tax holiday.



Taxability

19) Whether business income earned by a Corporate in the UAE from outside the UAE taxable?

Considering the method followed in international tax practice, it is expected that the income would be taxable based on the residential status of the business.

Accordingly, if the business is considered to have a 'permanent residence' in the UAE, all income (irrespective of where it is earned) attributable to that permanent establishment in the UAE shall be taxable in the UAE. It is understood that the credit for taxes paid in other jurisdiction shall be available.

We would expect the same in the UAE tax law as well.

20) Are capital gains taxable in UAE?

Capital gains, dividend and other income earned from owning shares or other securities by **Individuals** in their personal capacity would not be subject to the UAE Corporate Tax. It means Capital gains other than that earning from owning shares or other securities will be taxable, subject to any exception that would come in regulation. However, it is indicated that any gains out of personal investments would not be subject to Corporate Tax.

Further, dividends and capital gains earned by a **UAE business** from its qualifying shareholdings will be exempt from the UAE Corporate Tax.

21) Is interest on investments by a commercial business unit taxable under CT?

From the details available at present, it is understood that only dividend and capital gains earned from qualifying investment would be exempt from tax. All other income of businesses in UAE would be taxable.



Applicability on Individual



22) What will be the taxability in the case of an individual?

The UAE do not intend to introduce a personal income tax. We understand that Corporate Tax will not apply to individuals and their personal income (e.g., salary, dividends, capital gains from securities, income from real estate holdings etc.), with the **exception** of business income earned by individuals who hold (or are required to have) a commercial license or permit.

Interest and other income earned by an individual from bank deposits or saving schemes will also not be subject to Corporate Tax. It would therefore be essential for all individuals who undertake commercial/business activity, to have clear demarcation between personal and business assets.

23) Will an artist have to pay Corporate Tax on the annual income earned?

Inferring from the FAQs posted in the official website, an artist would be required to pay Corporate Tax only if he undertakes commercial activity and is required to obtain a commercial license or permit to carry out such activity in the UAE.

24) Whether foreign individuals having Dubai Freelance sole professional license, will be required to register for Corporate Tax and file returns irrespective of their income or only if their income exceeds AED 375,000?

Corporate Tax will generally apply to income earned from activities carried out under a freelance license / permit. Therefore, it would be essential for him to register under Corporate Tax.

However, no tax will be payable unless the annual net income of the freelance professional exceeds AED 375,000.

25) Whether the Corporate Tax in the UAE apply to Individual doing business as a sole proprietor, or it applies to Companies only?

Any Individual will be subject to UAE CT, if they conduct a trade or business in the UAE in an ongoing or regular manner.

Therefore, though the salary or other employment benefit received by an Individual does not come under the ambit of Corporate Tax, income earned by an Individual who has a commercial license to carryout business in UAE shall be subject to UAE Corporate Tax.

26) I (individual) have invested in some listed and unlisted securities in UAE and receive income therefrom. The plan is to sell them after two years. Will I be liable to Tax in UAE?

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

Thus, if entire investment is done in personal capacity, an individual will not be liable to tax on gains from transfer and periodical income from such securities as well.



Free Zone Entities

27) Is Corporate Tax applicable when I have my company set up in free zone?

Free zone businesses will be subject to UAE Corporate Tax, and therefore all the compliance under the Regulations will have to adhered to. However, it is indicated that new Regulations will continue to honour the tax incentives currently being offered to free zone businesses that comply with all regulatory requirements and do not conduct business with mainland UAE. We await detailed provisions on taxability of the free zone businesses.

28) What is the impact of Corporate Tax on the entities established in free zones? Will the tax implications change in case free zone entity conducts business with mainland as well?

As informed through the FAQs, Free Zone businesses will be able to continue to benefit from existing Free Zone Corporate Tax holidays / 0% taxation regimes, provided they comply with all regulatory requirements and do not conduct business with UAE mainland.

29) Whether a company in freezone and company in mainland can be under the same 'Group'?

A UAE group of companies can elect to form a tax group and be treated as a single taxable person, provided **certain conditions are met**. They will only be required to file a single tax return for the entire group.

However, the criteria for forming a 'Group' is still awaited.



Tax Base and Allowable Expenses

31) Will all expenses debited to the books of accounts be allowed as deduction?

It is expected that UAE would follow the international criteria of "business use" while allowing the expenses incurred by a business.

Therefore, only those expenses which are incurred for the purpose of business would be allowed as deductible expense.

Further, most of the jurisdictions also disallow expenses incurred to earn exempt income. We await UAE's stand on expenses incurred to earn exempt income like qualifying interest, dividends etc.

30) How to compute taxable income? Is business income and taxable income the same?

The taxable profit/income will be the accounting net profit/income of a business computed as per the internationally accepted accounting standards after making adjustments for certain items to be later specified under the Corporate Tax Law.

It is likely that certain expense like depreciation, amortisation, allowances, etc. would have a defined threshold.

32) What would be tax treatment of managerial remuneration, salary, other expenses incurred on behalf of or paid to the shareholders / partners?

Tax laws usually specify limits for all such expenses that are under the control of the shareholders / partners.

It is expected that certain limits would be set for managerial remuneration / salary paid to shareholder/partners. We still await details on such payments.



33) Will I be required to change my depreciation policies / depreciation rates?

Generally, tax laws specify the depreciation method and rates on all types of assets. It is expected that in the coming days, detailed guidelines on depreciation / Amortisation would be issued by the UAE Ministry.

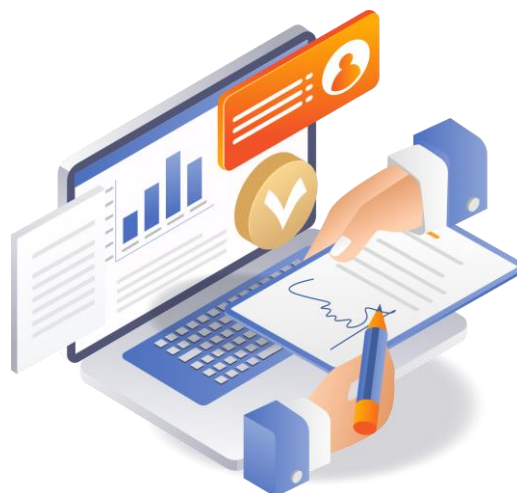


Exemptions

34) Are there any exemptions given to specific income of Corporates?

Dividends and capital gains earned by a UAE business from its 'qualifying' shareholdings (ownership interest that meets certain conditions) will be exempt from Corporate Tax.

Further, certain intra-group transactions and reorganizations will not be subject to tax provided the necessary conditions are met.





Transfer Pricing and Tax Group / Intra Group

- 35) In cases of having multiple companies under common ownership, can we set off one company's profit with the net loss of the other one?**

Tax losses from one group company may be used to offset taxable income of another group company, provided certain conditions are met

Further information on the group loss utilisation rules is expected.



- 36) Do Transfer Pricing rules apply to the UAE companies?**

The UAE Corporate Tax regime will have transfer pricing (TP) rules and documentation requirements in line with the OECD TP Guidelines.

- 37) Like in VAT can companies have an option to form a Tax Group?**

A UAE group of companies can elect to form a tax group ('Fiscal Unity') and be treated as a single taxable person, provided certain conditions are met.

Once tax group is formed, the tax group will only be required to file a single tax return for all the entities of the group.

- 38) Whether any precaution should be taken by companies while doing any group transactions?**

Qualifying transactions between the entities within the group shall be exempt provided they meet the prescribed criteria. One of the criteria we understand would be to set consideration at arm's length price.

If such entities are treated as a single taxable person (registered as Tax Group), then the applicability of establishing arm's length price may not arise, however the criteria to form a Tax Group is not yet declared. Hence it is recommended to follow the arm's length price now itself to the extent possible.

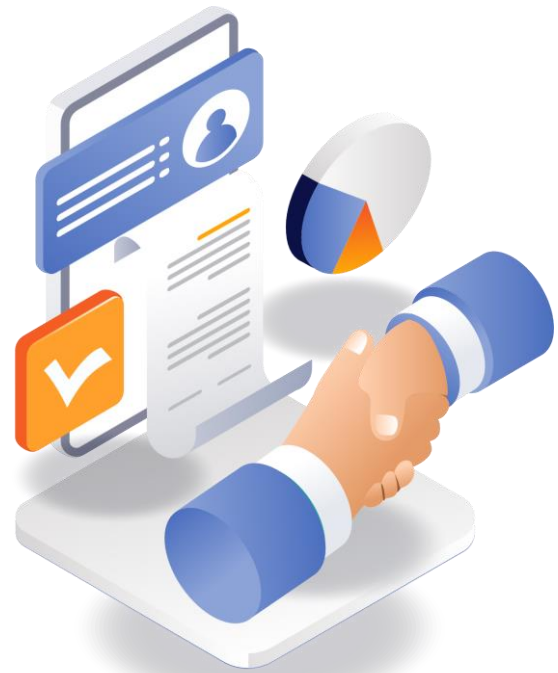
39) Is it mandatory to consolidate books of account once the entity is included in the Group?

As per the details available at present all business are required to calculate taxable income based on the financials made as per internationally accepted accounting standards.

However, direction of consolidation has not been mandated.

40) Will intra group transactions be exempted under UAE Corporate Tax if it involves with a margin?

Qualifying intra-group transactions and reorganizations will not be subject to Corporate Tax provided the necessary conditions are met. The detailed conditions are still awaited.



Carry Forward and set off of losses

41) Will the Corporate Tax be allowed to carry forward losses? If yes, for how many years?

A loss for Corporate Tax purposes (tax loss) would arise when the total deductions the businesses can claim are greater than the total taxable income for the relevant financial period.

Excess tax losses may be carried forward and used against taxable income in future years, provided certain conditions are met. We await details as to the number of years up to which it can be carried forward.

42) Can we show losses in the current years to set off once Corporate Tax comes into effect?

Loss of a particular period can be carried forward and set off against profits in the subsequent period. However, the **losses incurred prior to the effective date of applicability** of Corporate Tax law shall **not** be allowed to be setoff.



Compliance and Return Filing

43) What is the deadline for the corporate entity to file the returns & pay taxes?

The Corporate Tax return is required to be filed annually. However, we still await the details on deadlines to file return and payment of taxes.

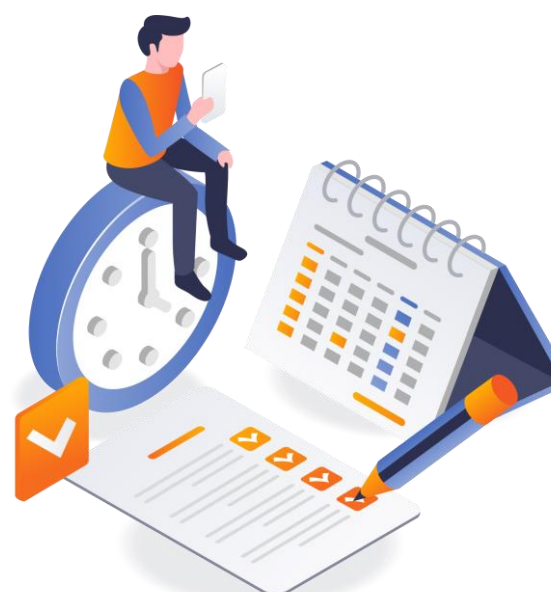
It is clarified that there would not be any requirement for payment of advance tax.

44) Whether tax return has to be filed by business whose income does not exceed AED 375,000?

Businesses whose taxable income does not exceed AED 375,000 would not be required to pay tax.

However, as regards filing of Corporate Tax Return, the FAQ in the official website prescribes that every business in the Free Zone would be required to file CT Return even if the taxable income is less than AED 375,000.

As regards the business located other than in freezone, we still await clarification on whether entity having income less than AED 375,000 is required to file return.





Penal Provisions

45) What are the penalties for non-compliance of Corporate Tax laws?

Similar to other taxes in the UAE (e.g. VAT), businesses will be subject to penalties for non-compliance with the Corporate Tax regime. Further information on the UAE Corporate Tax compliance obligations and applicable penalties is expected to be released in due course.



Withholding Tax / Tax Credit

46) Currently my company in the UAE is taxed outside the UAE, being a subsidiary of a foreign company. Once the Corporate Tax is implemented in the UAE, I will be forced to pay tax in both the countries. What is the solution?

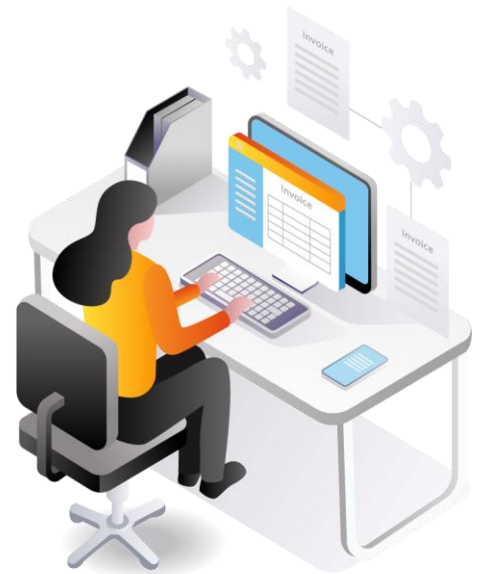
UAE Corporate Tax regime shall allow credit for foreign corporate tax paid on the **UAE taxable income**. Thus, double taxation would be avoided when company possesses adequate documentation.

47) Will there be any Withholding tax while making payments to any parties?

As per the initial information available, there will be no withholding tax on either domestic or cross border payments.

48) Whether credit for taxes withheld in foreign country on dividends & capital gains can be claimed against Corporate Tax payable in the UAE?

It is an international rule that credit for taxes would be given only when the income is taxed in two jurisdictions. Accordingly, business would be able to claim credit for taxes withheld in foreign country only if such income is taxed in UAE.



The information here is meant to provide an initial introduction to the proposed UAE Corporate Tax (CT) regime in advance of relevant legislation being made available.

It is not intended to comprehensively address all possible aspects of the UAE CT regime or to provide definitive answers, and should not be used for individual or business decisions as it does not represent the final legislation. This document is subject to change without notice.

Further information on the technical details and other specifics of the UAE CT regime will be made available once obtained.

Corporate Tax Handbook V1.0



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