



# CORPORATE TAX UAE

## Introduction

On Friday 9th December 2022, UAE announced the much-awaited Corporate Tax Law vide Federal Decree-Law No. 47 of 2022. The law provides a legislative basis for the implementation of Federal Corporate Tax at the rate of 9% effective for financial years commencing on or after 1st June 2023. Broadly in line with the public consultation document, one of the main changes is the conditions to be satisfied by UAE free zone entities to be eligible for a 0% corporate tax rate.

The tax levy will be on taxable profits exceeding AED 375,000 and any profits below this limit will be subject to 0% thus providing small businesses & startups relief.

**On 31  
January  
2022**

Ministry of Finance (MoF) announced UAE corporate tax and published Frequently asked questions (FAQ).

**On  
28 April  
2022**

MoF launched public consultation document and invited comments by 20 May 2022.

**On  
9 December  
2022**

the Federal Tax Authority issued the Corporate tax decree law.

| Taxable Income Slab   | Corporate Tax Rate  |
|---|---|
| Taxable income upto AED 375,000   | 0%  |
| Taxable income above AED 375,000  | 9%  |
| Large Multinationals (with consolidated global revenue > AED 3.15Bn(Euro 750mn) | Different tax rate (with reference to Pillar 2 of BEPS 2.0) |

### Taxable Persons:

- Natural persons carrying on business/commercial activities (includes sole establishments, individual partners in an unincorporated partnership).
- Legal Persons (LLC, PSC, PJSC, other entities legally incorporate in UAE as well as foreign entities having permanent establishment in UAE.

Note: Legal persons incorporated outside UAE that are effectively managed and controlled in UAE will be covered under the scope of UAE CT.

### Exempted Persons:

- Natural resource extraction & Persons involved in specified non-extractive activities in the country are exempt from Corporate Tax in UAE; however, they remain subject to existing local emirate-level taxation. Other exemptions are available to organisations such as government entities, government controlled entities, pension funds, investment funds and public benefit entities due to their vital importance and contribution to the economy of the UAE.



## Free Zone Persons

**A highly anticipated area of the corporate tax was the treatment of Free Zone Persons.**

**To satisfy the following Conditions to be eligible for 0% CT:**

- Maintains adequate substance in the State.
- Complying with transfer pricing provisions.
- Derives Qualifying Income.
- Has not elected to be subject to Corporate Tax.
- All Free Zone entities will be required to register and file a CT return, irrespective of whether they are a Qualifying Free Zone Person or not.

A number of points remain unanswered such as what constitutes qualifying income, the treatment of transactions between Free Zone entities and group entities located in mainland UAE, and whether the election to become subject to regular CT in the UAE is irrevocable.

## Basis of taxation

Residency is a key determinant in deciding the applicability of CT on business profits.

Resident person:

- A legal person incorporated in UAE.
- A natural person engaged in business/commercial activity in UAE.
- Foreign company treated as resident if it is effectively managed and controlled in the UAE.

**UAE resident companies will be subject to UAE CT on their worldwide income.**

**Foreign Persons:**

Non-residents will be subject to UAE CT on:

- Taxable income from their Permanent Establishment in the UAE and
- Income which is sourced in the UAE.

## Taxable Income

To reduce complexity in the computation of CT, it is proposed that the 'accounting net profit (loss)' as per the financial statements will be considered for the computation of taxable income. For this purpose, financial statements should be prepared as per accounting standards and principles acceptable in the UAE (IFRS). However, small businesses and startups are allowed to use alternative reporting standards and simplified mechanisms.

## Deductible expenditure

Expenditure incurred wholly and exclusively for the purposes of the Taxable Person's Business that is not capital in nature.



| Non-Deductible Expenses  | Limitation          |
|--|---------------------|
| Bribes, Fines & Penalties, Donations, Dividends & profits distribution, Corporate Tax & VAT, Exp. Not incurred for business purposes, Expenditure incurred for deriving exempt income, Amounts withdrawn from the Business by a natural person | No deduction at all |
| Entertainment expenditure (Meals, accommodation, transportation, admission fees, etc... for customers, Shareholders, suppliers, business partners, etc...)   | 50% allowable       |
| Net Interest expenditure   | 30% of EBITDA       |

## Exempt Income

To avoid double taxation and recognizing its position as a leading holding company location, the following forms of income is proposed to be exempt:

- Dividend and Capital gain tax earned by UAE company from its qualifying shareholding.
- Foreign branch profit exemption, provided foreign branch subject to sufficient level of tax.
- Income earned by a non-resident from operating or leasing aircrafts or ships used in international transport.
- Employment and personal income earned by UAE and foreign nationals in their personal capacity.
- Intra-group transactions and group reorganization profits subject to conditions.

## Tax Groups

- Two or more Taxable Persons treated as a single Taxable Person.
- All taxable persons in the group should be resident & juridical.
- Parent company holds at least 95% of shares or voting rights in the subsidiary directly or indirectly.
- Neither Parent nor Subsidiary is an exempt person or qualifying free zone person.

## Transactions with related parties & connected persons – Transfer Pricing

- To follow Arm's length principle.
- Arm's length price to be determined based on acceptable transfer pricing methods like the CUP method, Resale price method, cost plus method, transactional net margin / profit split method.
- Methods used should be in line with OECD TP guidelines.
- Definitions of Related Parties, Control & Connected Persons are covered.
- Taxpayers to prepare TP documentation. Conditions and format to be provided under separate ministerial



## Tax Period

Businesses will use their financial accounting period as their annual tax period. Where a business does not have a financial accounting period, their default tax period will be the Gregorian calendar year.

## Registration and Deregistration

Every business to which corporate tax is applicable should register with FTA and obtain a Tax Registration number within the prescribed period. Where a business ceases to operate or ceases to be subject to CT due to any reason, it should apply to the FTA to be deregistered within 3 months from the date of cessation.

## Filing, Payment and Refund

- One tax return for each tax period.
- Return filing and tax payment due date: Within 9 months from the end of the relevant tax period.

## Transitional Provisions

The CT Law states that the opening balance sheet for tax purposes will be the prior period closing accounting balance sheet.

## The impact of corporate tax on UAE business

Moving from a tax free economy to an economy with corporate tax compliance, the ministry has taken an important milestone in building an integrated tax regime that supports the strategic objectives of the UAE as well as providing the economy with sufficient flexibility to step up with international financial systems. The Ministry of Finance will remain the competent authority and Federal Tax Authority will be responsible for the administration, collection and enforcement of the corporate tax law.

With the assistance of Corporate Tax Consultants in Dubai having exceptional experience in local and international taxation, the transition to corporate tax compliance will be hassle free. Our expert tax consultants can help you maintain your accounting & financial records in a way that would optimize your liability of taxes on corporate income.

## How can we help you?

**Our team of experts can help you assess the challenges and opportunities UAE CT brings in.**

- Corporate Tax Consultancy Services.
- Corporate Tax Training and Awareness.
- Corporate Tax Registration Services
- Preparation and filing of Tax Returns.
- Representation Services before tax authorities.



## OUR REGISTERED ADDRESS

### Abu Dhabi – UAE

#### Elevate First Accounting & Auditing

- 📍 M4-9, Mubarak Al Qubaisi Building - 838  
Zayed The First St, Abu Dhabi-UAE

### Dubai – Business Bay

#### Elevate First Accounting & Auditing

- 📍 Office No: 807, The Exchange Tower,  
Business Bay, Dubai, UAE, Po Box No: 336293

- ☎ Tel No: +971 (0) 42427915  
📞 +971 561672533  
✉ Info@elevateauditing.com  
🌐 www.elevateauditing.com

### India – Bhubaneswar

#### Elevate Global Private Limited

- 📍 Plot no: GA-161, First Floor, Gayatri Vihar,  
Infocity Ave, Near Patia Chowk, Patia,  
Bhubaneswar, Odisha.

- ☎ Tel No: + 91 674 2950003  
📞 + 91 8984197663  
✉ Info@elevatedigitalservices.com  
🌐 www.elevatedigitalservices.com

### Dubai – JLT

#### Elevate Business Solutions, DMCC

- 📍 Office No: 1203 & 1207, HDS Business Center,  
Cluster M, Jumeirah Lakes Towers, Dubai, UAE

- ☎ Tel No : +971 (0) 44258131, +971(0) 42424336  
📞 +971-526296323  
✉ info@elevatebs.com  
🌐 www.elevatebs.com

### UK – London

#### Elevate International Business Solutions LTD

- 📍 Plot no: 128 City Road, London,  
EC1V 2NX, UK

- ☎ Tel No: +44 20 7193 6633

### USA – California

#### Elevate International Business Solutions LLC

- 📍 105 N 1st St., #429, San Jose, California  
95103, USA  
☎ Tel No: +1 408 786 5433

### Sharjah – UAE

- 📍 Saif Office, Q1-06-148/A, SAIF Zone,  
Sharjah-UAE