

A photograph of a city skyline, likely Dubai, featuring several tall skyscrapers. The buildings are primarily blue and white, with some having balconies. A construction crane is visible on the right side of the skyline. The sky is a clear, light blue. The image is used as a background for the top half of the page.

UAE Introduces Corporate Taxes on Corporate Income

———— *Frequently Asked Questions*

SUMMARY

- **What is Corporate Tax?**



Corporate Tax, also referred to as Corporate Income Tax is a form of direct tax imposed on the profit or net income of corporations and other businesses involved in commercial activities. It is also called Business Profits Tax in some jurisdictions.

- **Why does the UAE introduce CT?**



The introduction of the CT regime will enable UAE to adopt and implement the OECD BEPS Pillar Two measures based on international best practices and will strengthen the country's position as a leading global hub for business and investment.

By introducing a competitive CT regime, UAE also reaffirms its commitment to fulfilling international standards for tax transparency and prevention of harmful tax practices.

Most of the GCC member nations have a comprehensive CT regime.

- **When will the UAE CT regime become effective?**



The UAE CT regime will be effective from the financial year beginning 1 June 2023. For a fiscal year starting from 1 July and ending on 30 June, businesses will become subject to UAE CT from 1 July 2023. However, a business with a financial year starting on 1 January and ending on 31 December, UAE CT will be effective from 1 January 2024.



- Will businesses across all emirates come under the UAE CT regime?



Yes, being a Federal tax UAE CT will apply across all Emirates.

- What will be the responsibility of the Federal Tax Authority (FTA)?



The FTA will be responsible for the administration and enforcement of the UAE CT regime.

- What role will the Ministry of Finance (MOF) play?



The Ministry of Finance will play the role of 'competent authority' for all purposes of bilateral/multilateral agreements including international exchange of information for tax purposes.

APPLICABILITY & TAXRATE

- Which businesses will be subject to UAE CT?



UAE CT will apply to all UAE businesses and commercial activities except for the extraction of natural resources, which will remain subject to Emirate-level corporate taxation.

- How is it determined if a legal entity has a “business” that will be within the scope of UAE CT?

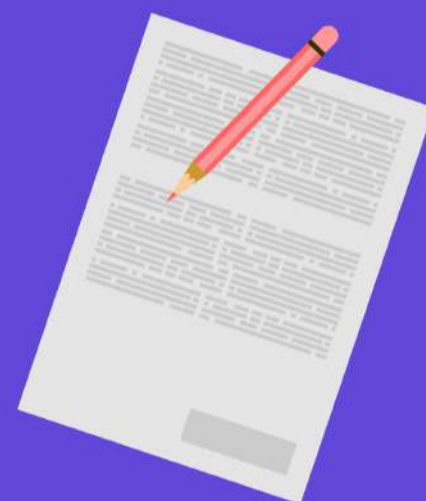


All activities carried out by a legal entity will be considered “business activities” and will come under the scope of UAE CT.

- How is it determined if an individual has a “business” that will be within the scope of UAE CT?



This can usually be done by drawing reference to the individual being in possession or needing to own a business license or permit to undertake the relevant commercial, industrial and/or professional activity in the UAE.



- **How do you determine the business profit or net income that will be subject to UAE CT?**



After adjustments of some deductible items per UAE CT law, the accounting net profit of a business is arrived at and reported in the financial statements prepared based on internationally accepted accounting standards.

- **What are the tax rates decided under the new UAE CT regime?**



The tax rates decided are :

Zero% for taxable income up to AED 375,000;

9% for taxable income above AED 375,000; and,

a different and possibly much higher percentage of tax rate for large multinationals meeting specific criteria set per 'Pillar Two' of the OECD Base Erosion and Profit Shifting project.



- **How do you define “large” multinationals?**



Besides having business operations in its own country, a multinational corporation usually has operations in other countries through a foreign subsidiary, branch or another form of legal business structure. Just earning income from outside its home country without a legal presence or registration overseas would not provide a business with a multinational corporation status.

Relating to the global minimum effective tax rate as proposed under ‘Pillar Two’ of the OECD Base Erosion and Profit Shifting project, “large” refers to a multinational corporation that has consolidated global revenues exceeding ARD 3.15 billion (EUR 750 million).

- **Will an individual’s salary income be subject to UAE CT?**



Individual salaries and other employment income, whether earned from the private or public sector will not attract UAE CT.



- Will an individual having a commercial license for undertaking



Yes, business income received under a commercial license will be within the scope of UAE CT.

- Will real estate investment made by an individual in a personal capacity attract UAE CT?



No, the investment in real estate by individuals in their capacity a will not be subject to UAE CT unless the individual is required to obtain a commercial license or permit to do so.

- Will investment returns of an individual be subject to UAE CT?



No, investment returns e.g. dividends, capital gains and other income earned from owning shares or other assets/securities in an individual's capacity will not be subject to UAE CT.

- Will the income earned by a freelance professional be subject to UAE CT?



UAE CT will apply to income earned from business activities carried out under a freelance permit, however, no CT will be payable unless the net income of the freelance professional is more than AED 375,000 annually.

- Will individual income received from bank deposits be subject to UAE CT?



No, interest and other income earned by an individual from bank deposits or saving schemes don't come under the UAE CT law.

- **Will any business sector be exempt from UAE CT?**



Yes, businesses engaged in the extraction of natural resources will remain subject to Emirate-level corporate taxation only and no UAE CT will apply to such businesses.

Income from the banking and real estate businesses will, however, attract UAE CT.

- **Will UAE CT apply to Government-owned entities?**



The MoF website has remained silent regarding the applicability of CT to UAE government-owned entities. Further details on exemptions and exclusions from CT are awaited and would be provided in due course.

In general, the principal purpose of government-owned entities is to undertake governance functions and not to conduct business. Hence these entities are generally exempt from the Pillar Two rules. It is believed that the UAE CT regime may also take a similar stance and grant exemptions. 15% CT doesn't apply to qualified government entities.

EXEMPTIONS

- What incomes are exempt from UAE CT?



Dividends and capital gains earned by UAE businesses from their qualifying shareholdings will be exempt from UAE CT.

- What is a 'qualifying' shareholding?



A qualifying shareholding refers to an ownership interest in a UAE or foreign company that fulfils certain criteria to be outlined in the UAE CT law in due course.

- Will intra-group transactions enjoy exemption from UAE CT?



Intra-group transactions subject to fulfilling certain criteria will not come within the scope of UAE CT.

FOREIGN COMPANIES AND INDIVIDUALS



- **Will UAE CT be levied on a foreign company or individual?**



Foreign companies and individuals undertaking businesses in the UAE in a regular and ongoing manner will be subject to UAE CT.

- **Will income received by a foreign investor be subject to UAE CT?**



No, generally UAE CT will not be applicable on income received by a foreign investor from dividends, capital gains, interest, royalties and other investment returns.

FREEZONES

- **Will free zone entities continue to enjoy tax benefits?**



Besides offering several other incentives, many UAE free zones also offer tax-free periods of up to 50 years. As per guidelines issued by the UAE MoF, the free zone entities will continue to enjoy the tax benefits if they don't carry out business with mainland UAE and fulfil relevant regulatory requirements.

Carrying out businesses with mainland UAE may require further clarity in terms of free-zone entities entering into any type of contract with onshore customers for business profit purposes from mainland UAE.

As UAE free zones are Designated Zones receiving differential treatment on VAT-related matters, the MOF website on UAE CT FAQs outlines a consistent treatment across all free zones for UAE CT purposes.

Whether free zone incentives remain to be the same upon expiry would need to be watched as MOF is expected to come with additional details on the treatment of free zone entities.

- **Will business income of free zone entities doing businesses both in the free zone and the UAE mainland be subject to CT?**



It is still not clear if business income earned by conducting businesses with mainland UAE will only be subject to CT or if their entire business income including the income received from the free zone operations will come within the scope of UAE CT laws.

It is however expected that free zone entities would only be taxed on income earned from business conducted with mainland

UAE as the government continues to maintain tax incentives for the free zone businesses.

It is thus likely that the UAE CT regime will only allow CT deductions for expenses made for income from the mainland UAE and businesses need to allocate expenses accordingly.

- **Will free zone large multinational business entities be subject to UAE CT?**



Free zone entities of large multinationals are likely to be subject to the 15% Global Minimum Tax (GMT) as proposed under Pillar Two projects. Large multinationals whose Effective Tax Rate (ETR) in the UAE is less than 15% might have to pay the top-up tax outside of the UAE jurisdiction.

It is not yet clear if UAE would put in place measures for payment of top-up tax in the UAE only rather than in other jurisdictions considering the huge outflow of tax revenue from the country.

It is expected that free zone entities of large multinational groups enjoying UAE CT incentives would ultimately be brought under CT regime either in the UAE or in another jurisdiction. Pillar Two projects would thus soften the tax incentives under the free zone tax incentive scheme.

- **Will a free zone company need to register and file a CT return?**



Yes, companies incorporated in the UAE free zones will be required to register and file CT returns. Other requirements on compliance with the UAE CT regime for free zone establishments would be issued in due course.

OFFSHORE COMPANIES

- Will UAE Offshore companies come within the scope of UAE CT?



Ras Al Khaimah Economic Zone (RAKEZ) and Jebel Ali Free Zone Authority (JAFZA) are the two main offshore jurisdictions where foreign investors can set up their limited liability offshore companies.

MoF UAE CT FAQs do not make any mention if the offshore companies will be subject to UAE CT. However, in all likelihood, these offshore entities would be treated in the same way as other free zone entities.

Preparation of audited financial statement is mandatory for Offshore companies and such audit requirements would vary considering the applicability of the UAE CT regime to these companies.

HOLDING COMPANIES

- Will UAE CT apply to Holding Companies?



UAE CT will apply to the corporate income of holding companies except for certain incomes including dividends and capital gains received from qualifying shareholdings that would need a minimum level (may be 10% as specified in pillar two) of shareholding and a minimum shareholding time. At present, however, it remains unclear what constitutes qualifying shareholding.

UAE CT may adopt Pillar Two rules and exclude dividends except those relating to shareholdings of less than 10%, and capital gains except those accrued from the sale of shareholdings of less than 10%, from 15% GMT. Holding companies may also enjoy free zone tax incentives provided these companies only conduct business with foreign businesses.

BRANCHES

- Will UAE CT apply to the branches of foreign companies that are taxed in the jurisdiction of their head offices?



Branches of foreign entities pay corporate taxes and will thus be subject to UAE CT.

The tax treatment of all UAE branches of foreign entities must be determined following tax laws applicable in the foreign head office jurisdiction.

- Will there be a credit for taxes paid in the UAE?



Foreign branch profits are either exempt or foreign taxes paid on branch profits are credited against the head office tax liability to avoid double taxation.

- **Will Mainland and Free Zone branches of UAE entities be required to file CT returns separately from their parent entities?**



As branches are not separate legal persons, it may be expected that branches will not need to file separate UAE CT returns from their respective parent entities. UAE entities may thus file one UAE CT return that includes their UAE branches.

Being a federal tax, UAE CT return filing may not need to be done at an Emirate level.

As with the case of UAE VAT, branches do not need to be registered separately and are considered as an extension of their parent entity as VAT return also includes details of its branches.

TAX GROUPING

- Will a group of UAE companies be able to form a tax grouping for UAE CT purposes?



Yes, it is allowed that a UAE group of companies can form a tax group for being treated as a single taxable person subject to fulfilment of certain conditions.

A UAE tax group will need to file a single tax return for the entire group.

However, MOF CT FAQs remain silent if linking CT grouping to the VAT grouping essential.



LOSSES

- Can losses incurred during periods before the implementation of CT be used to offset taxable income?



It looks like this will not be allowed as tax losses cannot be incurred prior to the start of the UAE CT regime. Tax losses generated during the first UAE CT period can only be carried forward and be used to offset against future taxable income.

ECONOMIC SUBSTANCE REGULATIONS

- Will the UAE CT regime have an impact on Economic Substance Regulations (ESR)?



It is not yet clear if the introduction of the UAE CT regime will bring any changes to the UAE ESR.

The ESR was originally introduced to prevent multinationals from artificially shifting profits to a low tax/no tax jurisdiction without having substantial business activities in that jurisdiction.

ESR may thus continue to apply to UAE entities and branches that benefit from free zone incentives. The ESR will likely phase out gradually and for entities that are subject to a 9% CT rate.

With the recent developments in the ESR monitoring system including the formation of an ESR Permanent Committee, it is expected that UAE continues with this program. There may, however, be some modifications in its scope. More clarity on this matter will come by in due course.



WITHHOLDING TAX

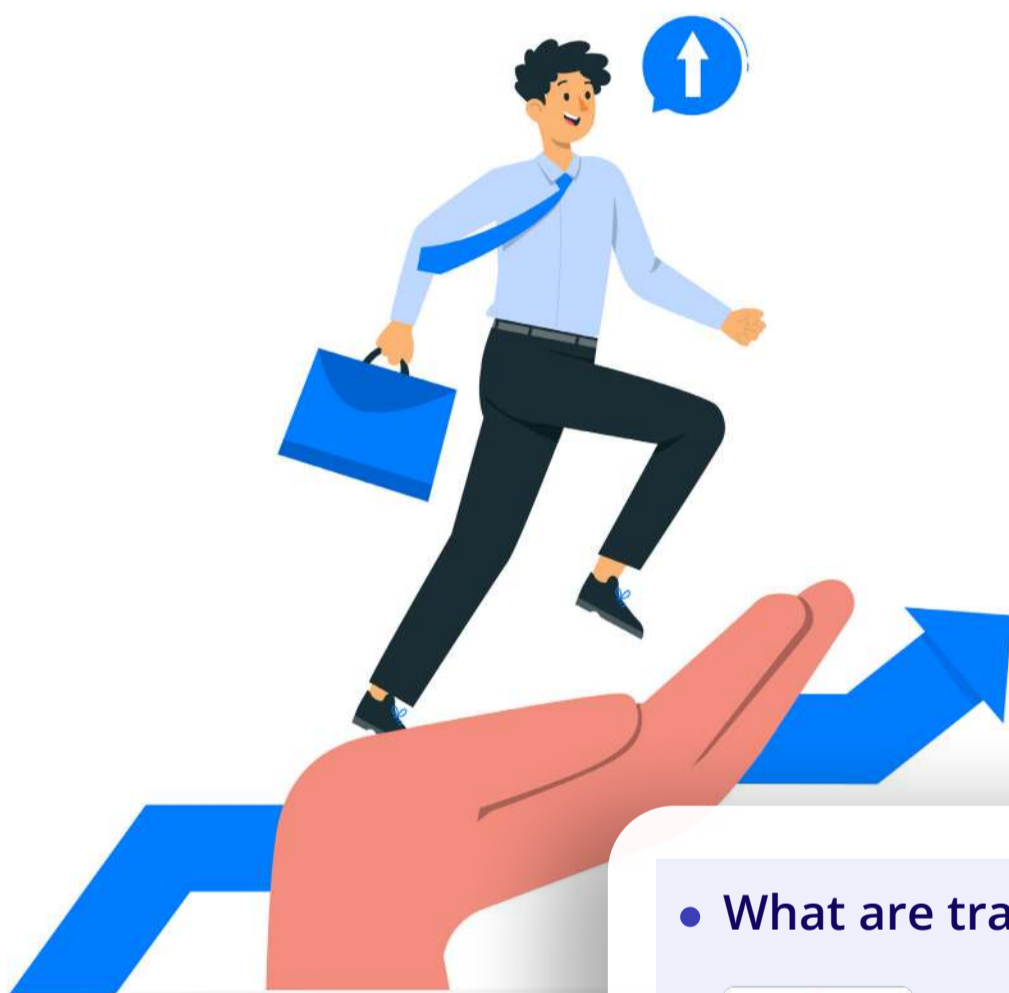
- **Will Withholding Tax (WHT) paid outside of the UAE be permitted as a CT credit by the UAE Federal Tax Authority?**



In accordance with the Ministry of Finance (MoF) CT, foreign corporate income tax paid on income that is subject to tax in the UAE will be permitted as a CT credit in the UAE.

It is likely that WHT paid outside of the UAE should be permitted as a CT credit for UAE CT purposes if the WHT relates to taxable income in the UAE. Business entities located in the Free zone that fully benefit from tax incentives should not be able to claim a UAE CT credit. It is expected that WHT to be allowed as a CT credit, however the amount may be capped to the lesser of the actual WHT paid or the UAE CT applicable to the foreign-sourced income. Besides, there is a possibility that the CT credit can only be used if the UAE entity is in a tax-paying position and CT credits will be withdrawn if the UAE entity has a tax loss. Additional details on foreign tax credits are expected to be announced in due course.

TRANSFER PRICING



- What are transfer pricing (TP) rules?



Transfer pricing rules ensure that transactions between related parties are carried out as independent parties.

- Will transfer pricing (TP) rules apply to UAE businesses?



Based on the MOF CT FAQs, the UAE CT regime is expected to introduce TP rules and TP documentation requirements in line with the OECD TP Guidelines.

DEDUCTIONS

- What are the expenses generally allowed for deduction for UAE CT purposes?



Expenses eligible for deduction for UAE CT purposes would include Interest expenses, payments to foreign related parties following the transfer pricing rules, depreciation applicable as per CT rules, overheads, salaries and wages.

- What are the expenses not eligible for deduction under the UAE CT?



Expenses not eligible for deduction for UAE CT purposes are depreciation when excessive, expenses incurred to derive exempt income, fines, penalties and personal expenses.

ADMINISTRATION

- Will businesses be needed to register for UAE CT purposes?



Yes, additional information on the registration process and ongoing compliance requirements for businesses will be issued in due course.

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



Every financial period of one year will need filing of only one CT return with no requirements for provisional or advance CT filings.

- Will the CT return needs to be filed electronically?



Yes, electronic filing is mandatory and further guidance will be provided in this regard in due course.



- **Will advance UAE CT payment businesses be required for businesses?**



No UAE businesses will not be required to make advance UAE CT payments

- **Are there any penalties for non-compliance with the UAE CT laws?**



Penalties will be levied if businesses fail to comply with the CT regime as with other taxes like Value Added Tax (VAT). Details on the UAE CT compliance obligations and applicable penalties will be published in due course.

What we do?



IMC Group provides corporate tax advisory in UAE. We help businesses in UAE meet their corporate tax compliance. We are committed to assisting you in determining your corporation tax liability and guiding you in implementing the corporate tax system that is specifically tailored to your entity's needs.

As one of the top firms offering corporate tax advisory in Dubai, we guarantee utmost accuracy and timely compliance with corporate taxation requirements. Our designated corporate tax team is always there to provide the required assistance and solve all your queries regarding corporate tax matters.

Our Phase-wise Approach to Planning for Corporate Tax



Phase 1 – Impact assessment (pre issuance of the CT legislation)

At this stage, we evaluate your business and help you prepare for and get familiar with the corporate tax regime.

Action Plans :

- ▶ Undertake preliminary impact assessment
- ▶ Review the nature of expenses for accessing corporate tax relevance
- ▶ Understand the business and organisation structure
- ▶ Review specific transactions like related party / intra-group transactions, deductibles, transfer pricing, etc.
- ▶ Understand existing information technology systems
- ▶ Understand the potential impact on the cash flow
- ▶ Develop a project plan

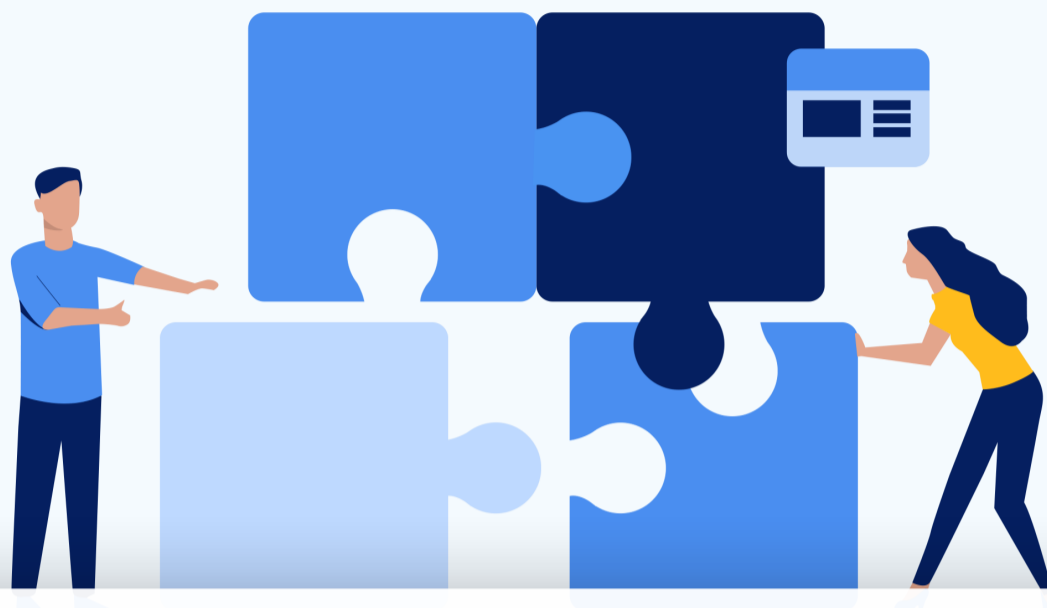
Phase 2 – Detailed Assessment and Planning (Post issuance of CT legislation)

At this stage, we perform a quantitative and detailed impact assessment and help build a preliminary roadmap for change.

Action Plans :

- ▶ Conduct a detailed assessment of your business activities based on corporate tax and transfer pricing regulations
- ▶ Help you understand the corporate tax law in relation to your specific industry and prepare the financials as necessary
- ▶ Identify potential risks and exposures
- ▶ Review the impact on profitability with respect to related party transactions (as per transfer pricing guidelines).
- ▶ Advise on the ideal and cost-effective reporting strategy i.e. whether to opt for a separate entity or group tax filing
- ▶ Advise on the most beneficial structure from the corporate tax perspective
- ▶ Carry out need based modification to the impact assessment





Phase 3 – Implementation support

At this stage, we help you to implement corporate tax regime and best practices in day-to-day operations in your organisation.

Action Plans :

Assist in implementing corporate tax and transfer pricing policies

- ▶ Advise on structural changes to incorporate tax function
- ▶ Evaluate and advise on readiness covering systems, governance and technical aspects
- ▶ Identify gaps in your system and address them
- ▶ Offer knowledge sharing and conduct training for your in-house tax and finance teams
- ▶ Modification to chart of accounts.
- ▶ Assist with corporate tax registration with the FTA for both individual and group

Implement tax reduction measures i.e. depreciation, director's compensation, interest, etc.

- ▶ Conduct periodic monitoring and reporting of the restructuring progress

Phase 4 – Post-implementation support

At this stage, we extend our ongoing support in corporate tax matters. Ensure that your tax affairs are up-to-date and dealt with efficiently.

Action Plans :

- ▶ Provide post-implementation support
- ▶ Provide ongoing tax advisory
- ▶ Prepare adjusted financial statements for corporate tax purposes
- ▶ Review audited / unaudited financial statements as per GAAP
- ▶ Advise on taxable adjustments to be carried out in regard to the corporate tax legislation.
- ▶ Offer tax planning advice
- ▶ Guide you on important tax matters such as tax calculations and preparing and submitting accurate information in compliance with the law.
- ▶ Assist in preparing and filing corporate tax returns with necessary supporting documents
- ▶ Support in communicating and dealing with the tax office
- ▶ Support in preparing appeals
- ▶



Explore Our Corporate Tax Services in UAE

As a part of our corporate tax services, we can assist you with the following:



Corporate Tax Impact Assessment



Transfer Pricing



Corporate Tax Compliance



Corporate Tax Advisory



Corporate Tax Returns Filing

Helping You Navigate the Corporate Tax Regime in UAE

Make a smooth and seamless transition to the new tax regime with IMC Group's corporate tax advisory in UAE.

Andersen Global Member and Collaborating Firms

Andersen Global has a presence in 316 locations through its member firms and collaborating firms. To view all the locations, visit global.andersen.com.



Andersen Global is an international association of member firms comprised of tax and legal professionals worldwide. Member firms and collaborating firms are not liable for the services provided by any other member firms or collaborating firms.



ABOUT IMC

IMC is a professional company offering an extensive range of Accounting, Bookkeeping, Mergers and Acquisitions, Taxation and Financial Outsourcing Services. We help you take care of your accounting woes and day-to-day bookkeeping chores by providing streamlined and accurate Finance and Accounting Service by expert professionals at aordable costs. We help you stay updated with all the changes in the accounting policies, rules and regulations and ensure compliance with regulatory requirements. Our highly qualied team of professionals can improve the eciency and eectiveness of your business processes thereby letting you focus on maximizing your core business operations.



YOUR RELIABLE PARTNER IN GROWTH

www.intuitconsultancy.com

A Member Firm of **Andersen Global**