

Tax Alert

# Introduction of Corporate Tax in UAE

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# UAE Corporate Tax



The UAE Ministry of Finance (MoF) on 31 January 2022, announced the much awaited introduction of the Federal Corporate Tax (CT) on business profits that will be effective for financial years starting on or after 1 June 2023.

The UAE Corporate Tax regime has been designed to incorporate best practices globally and minimize the compliance burden on businesses. The Corporate Tax will be payable on the net profits of UAE businesses as reported in their financial statements prepared in accordance with international accounting standards and subject to adjustments in accordance with Corporate Tax Regulations

While the law has not yet been issued, the UAE Federal Tax Authority (FTA) has publicly communicated the key design principle and policy choices of the new regime, which we have summarized in the following alert.

# Effective date



The UAE CT regime will become effective for the financial years starting on or after 1<sup>st</sup> June 2023

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

# Scope of application



The UAE CT will be a Federal Tax. It will apply to all businesses and commercial activities (individuals and legal persons) carrying out business activities under a commercial (or freelancer) license in the UAE.

However, there is an exceptions for Entities engaged in the extraction of natural resources which will remain subject to the Emirate level corporate taxation.

# Tax base & Tax rate



The UAE CT will be levied on the taxable income i.e the accounting net profits of a business after making adjustments to be specified by the UAE CT law. The accounting net profit is the amount reported in the financial statements prepared as per the International accounting Standards.

There will be progressive tax rate as follows:

- 0% for taxable income upto AED 375,000:
- 9% for taxable income above AED 375,000 and
- a different tax rate for large multinationals that meet specific criteria set with reference to 'Pillar Two' of the OECD Base Erosion and Profit Shifting project.

Foreign CT paid on UAE taxable income will be allowed as a tax credit against UAE CT liability.

Entities subject to UAE CT will be able to carry forward excess losses incurred from the CT effective date and set-off against future income.

# Exemptions



There are certain exemptions suggested in the FAQs

- Dividends and capital gains earned by UAE business from its qualifying shareholding will be exempt from tax. A qualifying shareholding refers to an ownership interest in a UAE or foreign company that meets certain conditions.
- Qualifying intra-group transactions and reorganizations will not be subject to CT.

This will be subject to accurate applicability and fulfilment of all necessary conditions to claim the exemptions.

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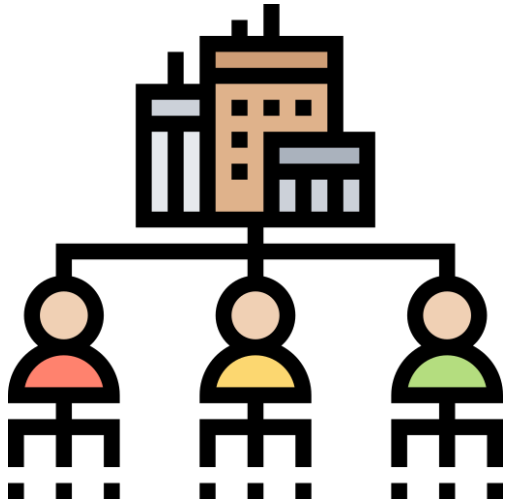
# Foreign Persons



Foreign entities and 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 dividend, capital gains, interest, royalties and other investment returns.

# UAE Free Zones



Free zones will be subject to UAE Corporate Tax Regulations.

However, the UAE CT regime will continue to honour the tax incentives currently being given to free zones businesses that comply with all regulatory requirements and that do not conduct business with UAE mainland.



# Introduction of Transfer Pricing



Under the UAE CT regime, UAE businesses will be required to comply with the Transfer pricing rules and documentation requirements as set out in the OECD Transfer Pricing Guidelines.

# Tax 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.

In this case, only one single tax return will need to be filed per group. Tax losses from one group company may be used to offset taxable income of another group companies, provided certain conditions are met

# Withholding Taxes



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

# Tax Compliance



- All Business will need to register and file a CT return including Free zones. Details for the registration process have not been released.
- The FTA has clarified that the CT return will need to be filed electronically per financial year
- No advanced or provisional CT filings or payments are required
- Non-compliance to CT regime will be subject to penalties

# Individual Taxation



Individuals will not be subject to Corporate or Personal Tax on salary income, real estate and other investment or on any other income.

Further, dividend, capital gains and other income earned from owning shares or other securities in their personal capacity will not be subject to tax.

Also, interest and other income earned from Bank deposits or saving schemes will not taxable for individuals.

# Key takeaways



With the blueprint of UAE CT released by the MOF, it is clear that broadly the Corporate tax system will be at a statutory rate of 9% and 0%. The key design features are confirmed but clarity is still awaited pending issuance of CT law and regulations. The aim is to keep it simple and straight forward law to ensure minimum compliance burden on UAE Businesses. A detailed law, regulations, guidelines and compliance mechanism would be announced by the MOF in due course.

With this background, the UAE businesses should now gear up and work on developing a road map to prepare for the implementation in 2023.

We at GBS and KAA can assist you in understanding the impact of the Corporate tax on your business. This may have implication on the current legal structure, model operandi, organisation structure, contractual arrangements, etc.

Get in touch with us and we will be happy to explain you in detail.

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