

Accounting Standards and Methods under UAE Corporate Tax



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Background

The United Arab Emirates' ("UAE") Ministry of Finance ("MoF") issued the Federal Decree-Law No. 114 of 2022 ("CT Law") on 3 October 2022 (published in public domain in December 2022).

Article 20 of CT Law provides for the use of standalone financial statements to determine the tax payer's taxable income. The Article also mandates that the standalone financial statements shall be prepared in accordance with the accounting standards accepted in the UAE.

Recently, the MOF has issued Ministerial Decisions ("the Decision") No. 114 of 2023 relating to the method of accounting and the accounting standards to be followed for the purpose of preparing standalone financial statements.

Key highlights of the Decision are as under:

- Cash basis of accounting is permitted, in the case where revenues do not exceed AED 3 million **OR** in an exceptional circumstance and pursuant to an application submitted to the Federal Tax Authority ("FTA").
- International Financial Reporting Standard ("IFRS") shall be the accounting standard to be applied by the tax payers.

Further, in case the revenues do not exceed AED 50 million, the tax payer may apply IFRS for small and medium sized entities.

- Consolidated financial statements of the Tax Group shall be prepared basis the aggregation of the standalone financial statements of parent and each of the tax group member, eliminating the inter-company transactions within the Tax Group.

PB Comments

- Allowing 'cash basis' of accounting to the tax payers under exceptional circumstances (eg. liquidation) could be a welcome step as tax incidence would only be when actual cash is realized or paid.



- Entities following different accounting standards (eg. US GAAP) may need to adopt IFRS or prepare separate set of books (tax books) following IFRS principles.
- It appears that for the purposes of preparing consolidated accounts for the Tax Group, simple aggregation would be required to be followed viz-a-viz application of full-fledged consolidation principle as per applicable IFRS.

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