

CORPORATE TAX IN UAE

In a landmark announcement, the Ministry of Finance (“MOF”) has announced that the UAE will introduce a federal corporate tax (“CT”) on business profits that will be effective for financial years starting on or after 1st June 2023.

Examples:

**Financial year 1st July 2023 -
30th June 2024**

**UAE CT effective from 1
July 2023**

**Financial year 1 Jan 2023 - 31st
Dec 2023**

**UAE CT effective from 1
Jan 2024**

Though the law has not been issued yet, MOF has updated FAQs on its website to provide some initial information on the UAE CT regime.



Key highlights:

Scope and exceptions

The corporate tax will apply to all persons (individuals and legal persons) carrying out commercial activities, except for the extraction of natural resources, which will remain subject to Emirate level corporate taxation.

Freezone entities complying with all regulatory requirements and if they do not conduct business within UAE mainland can continue to benefit from corporate tax incentives being offered to the freezone businesses. However, they will still be required to register and file CT return. The tax authority will release more information on compliance obligations of freezone entities.

Tax rates

- 0% CT rate for taxable income up to AED 375,000 and 9% CT rate for taxable income above AED 375,000;
- Different tax rate for large multinationals (consolidated global revenues in excess of EUR 750m (c. AED 3.15 bn)) that meet specific criteria set with reference to ‘Pillar two’ of the OECD Base Erosion and Profit Shifting project;

Exemptions

- Dividends and capital gains earned by a UAE business from its qualifying shareholdings will be exempt from corporate tax;
- Qualifying intra-group transactions and reorganizations will not be subject to corporate tax provided the necessary conditions are met;

Foreign persons

- UAE Corporate tax will generally not be levied on a foreign investor's income from dividends, capital gains, interest, royalties and other investment returns;
- Foreign entities and individuals will be subject to corporate tax only if they conduct a trade or business in the UAE in an ongoing or regular manner

Other aspects

- Loss utilization rules will allow businesses to offset tax loss incurred as from the corporate tax effective date against taxable income in subsequent periods;
- Tax losses from one group company may be used to offset taxable income of another group company, provided certain conditions are met
- Companies can form a tax group and be treated as single taxable person. A single tax return is required to be filed for the entire group;
- Foreign Corporate tax paid on UAE taxable income will be allowed as a tax credit against the UAE Corporate tax liability;
- UAE businesses will need to comply with transfer pricing rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines;
- UAE Corporate tax will not apply to individual's employment income, investment Income, interest and other income from bank deposits and saving schemes.
- UAE has proposed not to levy withholding tax on domestic and cross border payments in its CT regime
- Businesses will be required to register for CT purposes. Only one CT return to be filed electronically per financial period. No advance or provisional filings will be required

Further information on the UAE CT legislation, technical details and other specifics of the UAE Corporate tax regime will be made available in due course by Ministry of Finance.

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