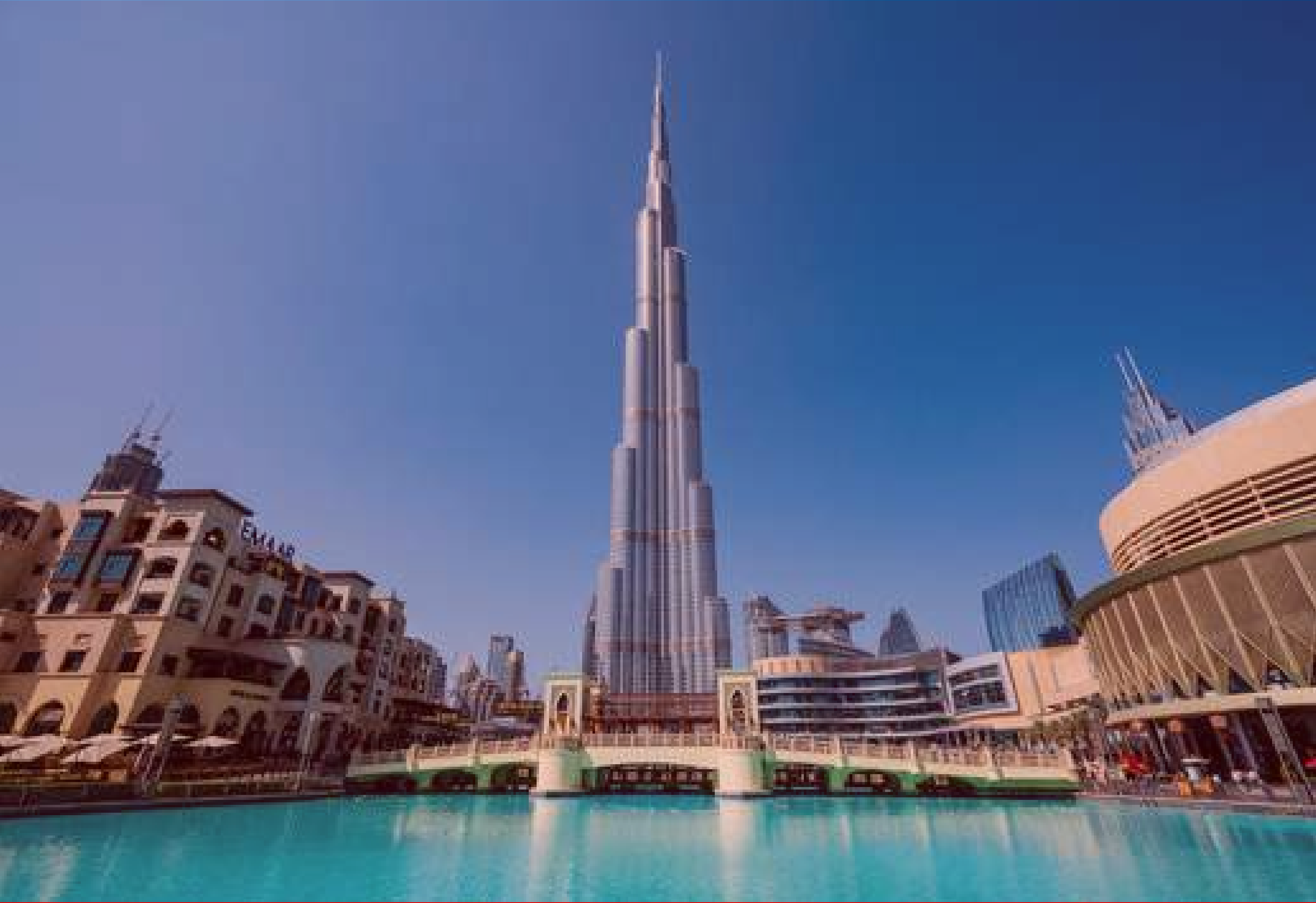

ACQUISORY

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UAE R&D TAX CREDIT REGIME

Regulatory & Tax Advisory Alert

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INTRODUCTION

The UAE has introduced a landmark Research & Development (R&D) Tax Credit regime as part of its evolving Corporate Tax framework, marking a strategic shift towards incentivizing innovation-driven investment, through Cabinet Decision No. 215 of 2025 and Ministerial Decision No. 24 of 2026.

Ministerial Decision No. 24 of 2026 represents the final step in operationalizing the regime, providing detailed rules on credit rates, eligibility, and compliance requirements.

The regime applies to Tax Periods commencing on or after 1 January 2026 and provides a non-refundable tax credit of up to 50% on qualifying R&D expenditure.

This represents a significant development in the UAE's tax landscape, aligning with international practices and supporting the UAE's transition towards a knowledge-based and innovation-driven economy.

Key features of the regime include:

- Tiered credit rates of 15%, 35%, and 50%, linked to both expenditure and R&D staff thresholds
- A cap of AED 5 million on qualifying R&D expenditure per Tax Period (maximum credit of AED 2 million)
- Mandatory pre-approval from the Emirates R&D Council (condition precedent to claiming the credit)
- A 30% uplift on qualifying staff costs
- Utilization of the credit against Corporate Tax and Top-up Tax, subject to ordering rules.

The regime introduces a highly structured and compliance-driven framework, requiring careful alignment of R&D activities, staffing models, and documentation to access and sustain the benefit.

LEGISLATIVE FRAMEWORK

The R&D Tax Credit is embedded within a layered legislative structure:

- Federal Decree-Law No. 47 of 2022 – UAE Corporate Tax Law
- Federal Decree-Law No. 28 of 2025 – Introduction of tax credit provisions
- Cabinet Decision No. 215 of 2025 – Establishes the R&D Tax Credit framework
- Ministerial Decision No. 24 of 2026 – Provides detailed implementation rules
- Cabinet Decision No. 215 establishes the principle and scope of the regime, while Ministerial Decision No. 24 provides the detailed mechanics and operational rules for its application.

QUALIFYING ENTITIES

The R&D Tax Credit is available to:

- UAE juridical persons (including Free Zone entities)
- Foreign juridical persons with a UAE Permanent Establishment

To qualify, the entity must:

- Undertake Qualifying R&D Activities
- Be subject to Corporate Tax and/or Top-up Tax

Free Zone Persons will only benefit where the relevant income is subject to the standard 9% Corporate Tax or Top-up Tax, effectively excluding income benefiting from the 0% Free Zone regime.

Certain entities are excluded, including:

- Entities not subject to Corporate Tax
- Entities electing Small Business Relief
- Any entities specified by the Minister

R&D TAX CREDIT RATE STRUCTURE

Expenditure Band	Minimum R&D Staff	Credit Rate
First AED 1 million	≥ 2 staff	15%
AED 1M – AED 2M	≥ 6 staff	35%
AED 2M – AED 5M	≥ 14 staff	50%

Key Technical Points

- Maximum qualifying expenditure: AED 5 million per Tax Period
- Maximum credit: AED 2 million
- Credit is non-refundable
- Credit applies progressively across tiers

Dual Threshold Rule

To access a given tier:

- Both the expenditure threshold AND staff threshold must be met

If either condition is not met, the credit rate is reduced to the highest tier for which both conditions are satisfied.

This creates a direct link between operational substance and tax benefit, as both expenditure and staffing levels must be aligned to access higher credit tiers. For example, an entity incurring qualifying expenditure above AED 2 million but failing to meet the required R&D staffing threshold will not qualify for the higher credit rate.

QUALIFYING R&D ACTIVITIES

Qualifying activities must meet all five OECD Frascati criteria:

- Novel – aims to produce new knowledge
- Creative – based on original concepts
- Uncertain – outcome not known in advance
- Systematic – follows a structured plan
- Transferable / reproducible – results can be applied elsewhere

Qualifying R&D must:

- Be conducted within the UAE
- Form part of a defined R&D project

Exclusions-

The following do not qualify:

- Social sciences, humanities, and arts
- Routine testing or quality control
- Market research
- Incremental or non-innovative improvements
- Activities conducted outside the UAE

Where activities are partially conducted outside the UAE, only the UAE-based portion qualifies.

The application of these criteria introduces a technical evidential threshold, requiring businesses to demonstrate that activities go beyond routine or commercial functions and meet recognized R&D standards.

QUALIFYING R&D EXPENDITURE

The regime recognizes four categories of qualifying expenditure:

1. Staff Costs

Includes:
- Salaries, wages, bonuses
- Benefits in kind, pensions, gratuity
- Training costs

Key rules:
- Staff must be located in the UAE
- Must be under the control of the entity
- 30% uplift applied to account for overheads

3. Subcontracting Costs
- Must relate to UAE-based R&D activities
- No sub-subcontracting permitted
- Related parties must maintain audited financial statements

2. Consumables

Includes:
- Materials, fuel, power
- Laboratory inputs
- Clinical trial costs

Must be:
- Directly used in R&D
- Not reusable in original form

4. Cost Contribution Arrangements (CCAs)

Qualifies where:
- Contribution is arm's length
- Corresponds to expected economic benefit
- Activities are conducted within the UAE

General Conditions
- Minimum AED 500,000 expenditure per project
- Must be wholly and exclusively for R&D
- Must be deductible under Corporate Tax Law
- Grant-funded or incentivized expenditure is not eligible

Key Considerations
- No double benefit on the same expenditure
- Evaluate combination of incentives carefully
- Ensure clear linkage to R&D activities
- Maintain proper documentation and cost allocation

PRE-APPROVAL REQUIREMENT

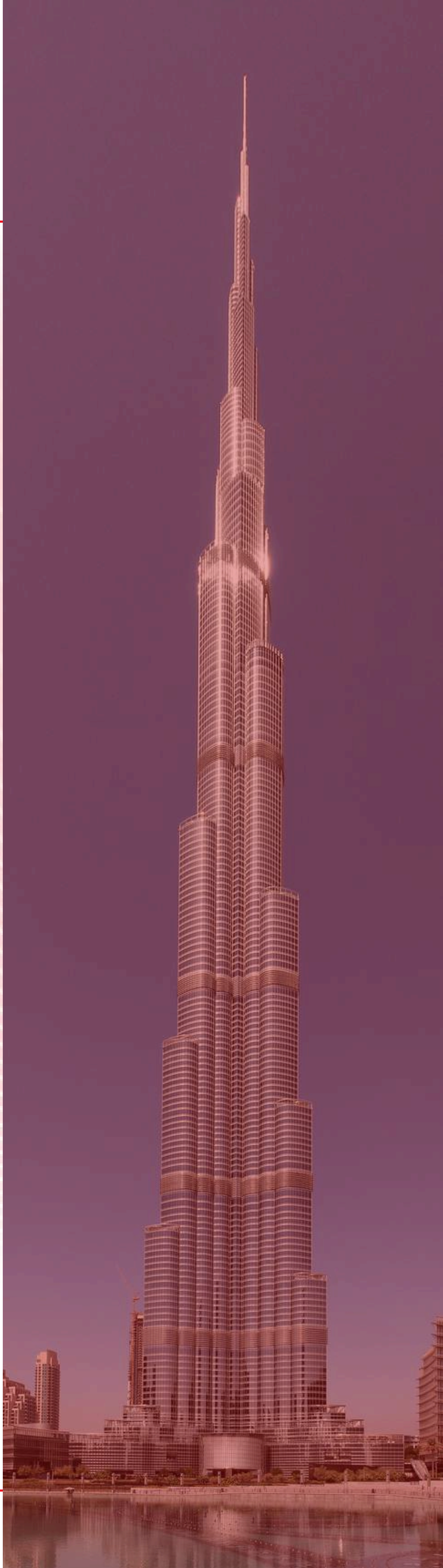
A key feature of the regime is mandatory pre-approval.

- Approval must be obtained from the Emirates R&D Council
- Applies to each R&D project
- No self-assessment mechanism is available (This represents a fundamental departure from typical self-assessed tax incentives and introduces a regulatory approval layer that may impact project timelines and planning.)

Failure to obtain pre-approval will result in no entitlement to the R&D Tax Credit, as the regime does not operate on a self-assessment basis.

Pre-approval therefore operates as a condition precedent, making early project identification and planning critical.

Entities may also be required to provide:
- Technical documentation
- Project plans and budgets
- Ongoing progress reports



UTILIZATION, TRANSFER & CARRY-FORWARD

Utilization

- Credit must first be applied against Corporate Tax
- Excess may be applied against Top-up Tax

This ordering is particularly relevant for groups within the scope of Pillar Two, as it may directly influence the calculation of the Effective Tax Rate (ETR) under Pillar Two and the availability of Top-up Tax relief.

Carry Forward

- Permitted with no time limit
- Subject to ownership continuity rules
- Applied on a FIRST IN, FIRST OUT basis

Transfer of Credits

Permitted where:

- ≥ 75% ownership relationship exists
- Transfer limited to available tax liability of transferee

Transferred credits:

- Cannot be further transferred
- Cannot be carried forward by transferee

This provides flexibility for group structures, while ensuring that credits are utilized within the same economic group.

GROUPS, RESTRUCTURING & PILLAR TWO

Tax Groups

- Credit calculated at group level
- Parent entity responsible for compliance

Pillar Two Interaction

The interaction with Pillar Two is a key consideration:

- Credit must first be applied against Corporate Tax.
- Any excess may be applied against Top-up Tax.
- This may directly impact Effective Tax Rate (ETR) calculations for in-scope groups

Business Restructuring

Credits may transfer where:

- Business continues for minimum 2 years
- R&D activities are maintained

Failure to meet these conditions may result in a full clawback of previously claimed credits.

ANTI-ABUSE AND CLAWBACK PROVISIONS

The regime includes robust anti-abuse rules:
- Artificial separation of activities to access higher credit tiers
- Arrangements lacking economic substance
- Failure to maintain qualifying conditions

Consequences:
- Clawback of utilized credits
- Forfeiture of unutilized credits

A 5-year clawback window applies in certain cases.

This reinforces the importance of ongoing compliance, as the benefit is contingent not only on initial qualification but also on continued adherence to the regime's conditions.

WHY THIS MATTERS – NOW

Pre-approval is mandatory — no approval, no credit
- Non-refundable credit requires forward tax planning
- Benefit depends on both spend and substance (staffing)
- Clawback risk extends up to 5 years
- Pillar Two interaction introduces additional complexity
- Robust documentation and governance are critical
- Interaction with other incentives must be considered. Double benefits on the same expenditure are not permitted

KEY TECHNICAL CONSIDERATIONS

The regime operates on a dual threshold basis, linking financial investment with operational substance.
- Pre-approval is a condition precedent, requiring upfront project planning
- Credit utilization mechanics may impact effective tax outcomes, particularly for multinational groups
- The regime introduces enhanced documentation and governance requirements, consistent with international standards

ACQUISORY VIEW

The introduction of the R&D Tax Credit reinforces the UAE's strategic focus on innovation and aligns the tax framework with leading global regimes.

However, unlike many jurisdictions, the UAE has adopted a highly controlled, pre-approved model, making early planning, technical alignment, and governance critical.

Businesses should act now to assess eligibility, structure R&D activities, and align documentation processes to secure and sustain the benefit.

WWW.ACQUISORY.COM

Our Offices

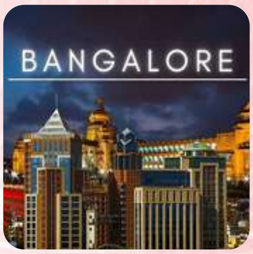
UAE

Dubai Office 604, Bay Square 11,
Business Bay,
P.O. Box: 118767, Dubai, UAE
+971 4576 5098
GCC@acquisory.com

INDIA

Delhi-NCR 1116, 11th Floor, WTT, C-1, Sector 16,
DND Flyway, Noida – 201301
T: +91 120 614 300
Fax: +91 120 6143033

Mumbai 102, 1st Floor, Naman Centre, BKC, Near MMRDA Parking,
Bandra East, Mumbai City, Maharashtra, 400051
T: +91 22 68648100
Fax: +91 22 68648132



Bengaluru Unit 1003-1004, 10th Floor, Prestige Meridian - II,
Mahatma Gandhi Rd, Ashok Nagar, Bengaluru,
Karnataka, 560025

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