THE UAE RESEARCH & DEVELOPMENT TAX CREDIT

A Practical Guide for Business: Background, Regulations, Risk Management and Cross-Industry Examples

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EXECUTIVE SUMMARY

The UAE Research & Development (R&D) Tax Credit is the first dedicated innovation incentive under the UAE Corporate Tax regime, allowing eligible businesses to convert genuine R&D spend into a direct, tiered reduction of Corporate Tax (and, in some cases, Top-up Tax) liability of up to 50% of qualifying expenditure, capped at AED 2,000,000 per entity or Tax Group per Tax Period.

The regime rewards real, UAE-based innovation — not paperwork. Businesses that plan ahead, secure pre-approval before starting a project, and keep contemporaneous technical and financial records stand to gain a material, defensible reduction in the effective cost of innovation. Businesses that treat it as a year-end tax adjustment risk claw-back, penalties, and reputational exposure with the Federal Tax Authority (FTA).

This paper sets out, in turn: the background and legislative framework; the end-to-end claim process; the relevant IFRS (IAS 38) accounting considerations; the principal risks and how to mitigate each of them; and detailed, figures-based examples of how the credit applies across manufacturing, technology, pharmaceuticals, energy, construction and financial services. It closes with practical next steps for businesses evaluating a claim.

1. BACKGROUND

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses did not, at introduction, include a dedicated R&D incentive. Following a public consultation launched in late 2024, the Ministry of Finance signalled its intent to introduce substance-based tax incentives — designed to reward activity with genuine economic substance in the UAE, consistent with the OECD's Pillar Two framework and the UAE's ambition to become a knowledge-based, innovation-driven economy.

The result is the R&D Tax Credit regime, introduced through two instruments:

- **Cabinet Decision No. 215 of 2025** (issued 31 December 2025) — establishes the legislative framework: eligibility, qualifying activities, and the creation of a tax credit balance.
- **Ministerial Decision No. 24 of 2026** (issued 18 March 2026) — sets out the operational mechanics: credit rates, qualifying expenditure definitions, documentation obligations, and anti-abuse provisions.

Both instruments apply to Tax Periods or Fiscal Years commencing on or after 1 January 2026. The Ministry has described this as “Phase 1” of a broader R&D Tax Incentives Programme, so businesses should expect the regime to evolve — but the credit is available now, for qualifying activity already underway or being planned. Insights from Phase 1 will guide the design of Phase 2 of the R&D Tax Incentives Programme. During the next phase, the Ministry of Finance will evaluate potential enhancements, including consideration of a refundable credit and/or expanding the level of qualifying expenditure eligible for relief, either across the economy or within priority sectors.

For a manufacturer developing a new material, a fintech building a genuinely novel model, or a pharmaceutical company running formulation trials in the UAE, this is the first time that spend translates directly into a reduction of Corporate Tax payable. The remainder of this paper explains exactly how.

2. LEGISLATIVE FRAMEWORK AT A GLANCE

2.1 Qualifying Entities

The credit is available to:

- UAE juridical persons (including Free Zone Persons) that are subject to Corporate Tax and/or Top-up Tax and carry on Qualifying R&D Activities; and
- Foreign juridical persons carrying on Qualifying R&D Activities in the UAE through a Permanent Establishment, subject to Corporate Tax and/or Top-up Tax on PE-attributable income.

Entities not subject to Corporate Tax or Top-up Tax, or that have elected Small Business Relief, are excluded. A Qualifying Free Zone Person must be subject to the 9% Corporate Tax rate (or Top-up Tax) on the relevant income stream to access the credit — Qualifying Free Zone income taxed at 0% does not qualify.

2.2 Qualifying R&D Activity — The Five-Part Test

An activity must satisfy all five of the following criteria, assessed against the OECD Frascati Manual framework for measuring R&D:

- Novel — aims to produce new findings, not a repeat of existing knowledge.
- Creative — based on original concepts or hypotheses.
- Uncertain — the outcome, or the means of achieving it, is genuinely not known in advance.
- Systematic — pursued under a defined plan and budget, not ad hoc experimentation.

- Transferable or reproducible — the results can be applied, or replicated, in other contexts.

Two further conditions apply regardless of the five-part test: the activity must be physically performed in the UAE (offshore work does not qualify, even if funded or directed from the UAE), and activity in the social sciences, humanities, or arts is explicitly excluded.

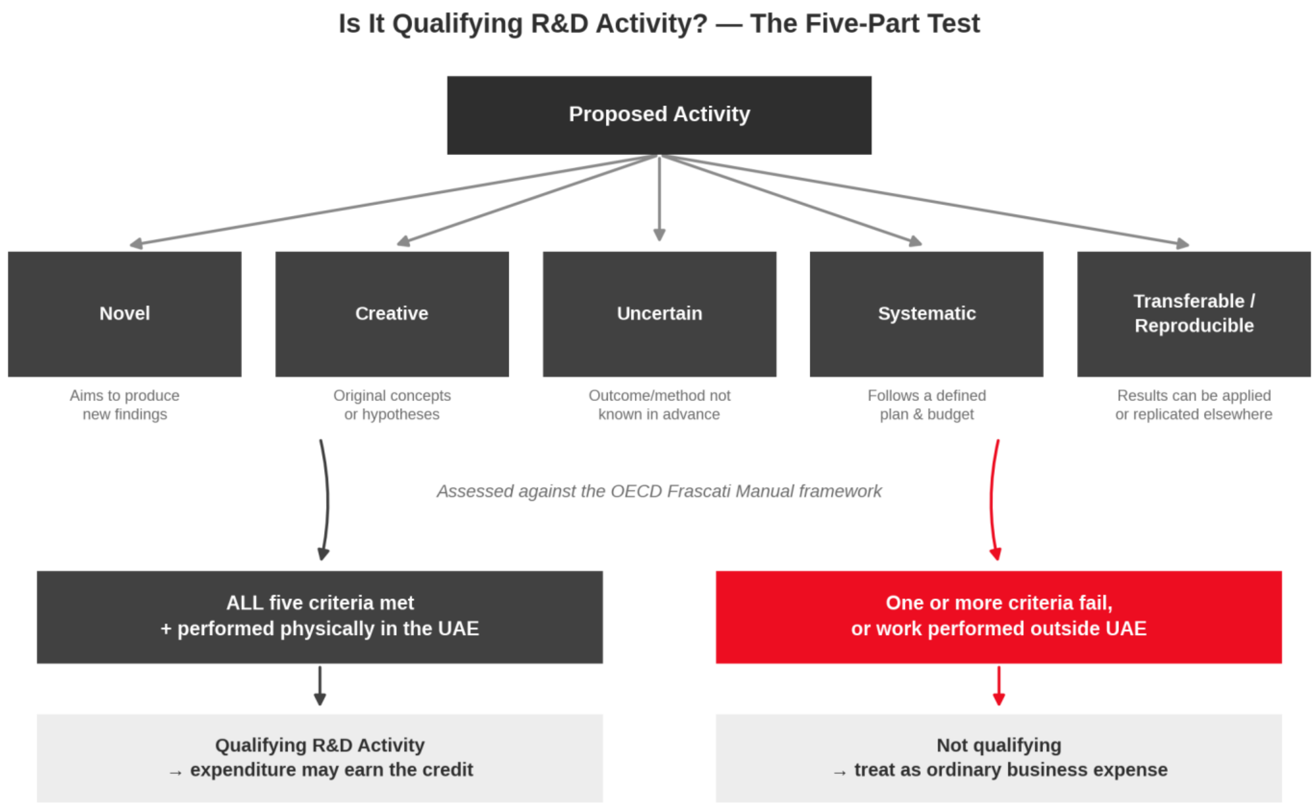

Figure 1 — The five-part test used to determine Qualifying R&D Activity, and its two absolute conditions (UAE performance; excluded fields).

2.3 Qualifying R&D Expenditure

Qualifying expenditure includes:

- R&D staff costs, with a 30% uplift applied for overheads;
- Consumables used directly in the R&D activity;
- Subcontracting fees — but only where the subcontractor performs the work in the UAE;

- Arm's-length contributions under cost-contribution arrangements; and
- Costs capitalised as internally generated intangible assets arising from the R&D, to the extent they would otherwise qualify.

Excluded from qualifying expenditure: costs funded by government grants, costs already benefiting from another UAE tax incentive, and intra-group recharges of staff, consumable or subcontracting costs within a Tax Group. A minimum expenditure threshold of AED 500,000 per R&D Project applies, and each project requires mandatory pre-approval from the Emirates Research and Development Council before it can generate a credit.

2.4 The Tiered Credit Rate

The rate that applies is tiered by both qualifying expenditure and the average number of dedicated R&D staff employed in the period — an entity must clear both thresholds together to access a given tier:

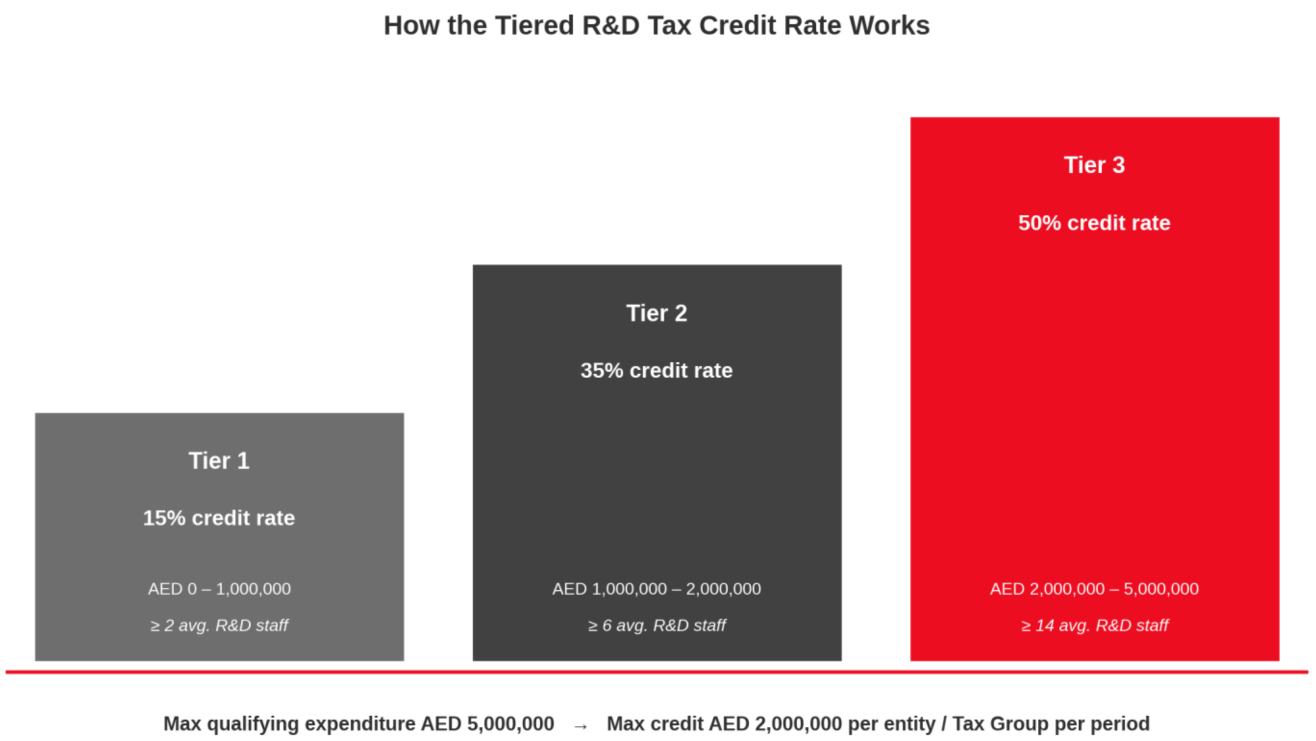

Figure 2 — The three-tier rate structure. On the maximum AED 5,000,000 of qualifying expenditure, the maximum available credit is AED 2,000,000 per entity (or Tax Group) per Tax Period.

Expenditure band	Rate	Minimum average R&D staff	Credit on full band
AED 0 – 1,000,000	15%	≥ 2	AED 150,000
AED 1,000,000 – 2,000,000	35%	≥ 6	AED 350,000
AED 2,000,000 – 5,000,000	50%	≥ 14	AED 1,500,000

A practical reading of the mechanics: if an entity's R&D staffing does not reach the threshold required for a higher tier, published guidance indicates that expenditure in that band should be treated at the rate applicable to the tier the entity actually qualifies for. This is illustrated in Section 6 below — entities should confirm the precise mechanics with their tax advisor before relying on a specific figure, as further FTA guidance may clarify edge cases.

2.5 Utilisation, Carry-Forward and Transfer

The credit is non-refundable and must first be applied against Corporate Tax liability; only residual credit may then offset Top-up Tax, subject to Pillar Two ordering rules. Unused credit carries forward indefinitely, subject to continuity-of-ownership or business-activity conditions (and provided the entity is not listed). Credits may also be transferred to another taxable person within a qualifying group, subject to common-ownership conditions — though the transferee cannot re-transfer the credit or carry forward any unused portion further. Tax Groups may claim at group level, with aggregation rules applying where more than one Qualifying Entity within the group carries on R&D.

3. THE CLAIM PROCESS, END TO END

Because pre-approval is mandatory and must be obtained before the credit can be claimed, the process needs to begin at project design — not at year-end tax preparation. The diagram below sets out the full lifecycle, including the claw-back path where conditions are not maintained.

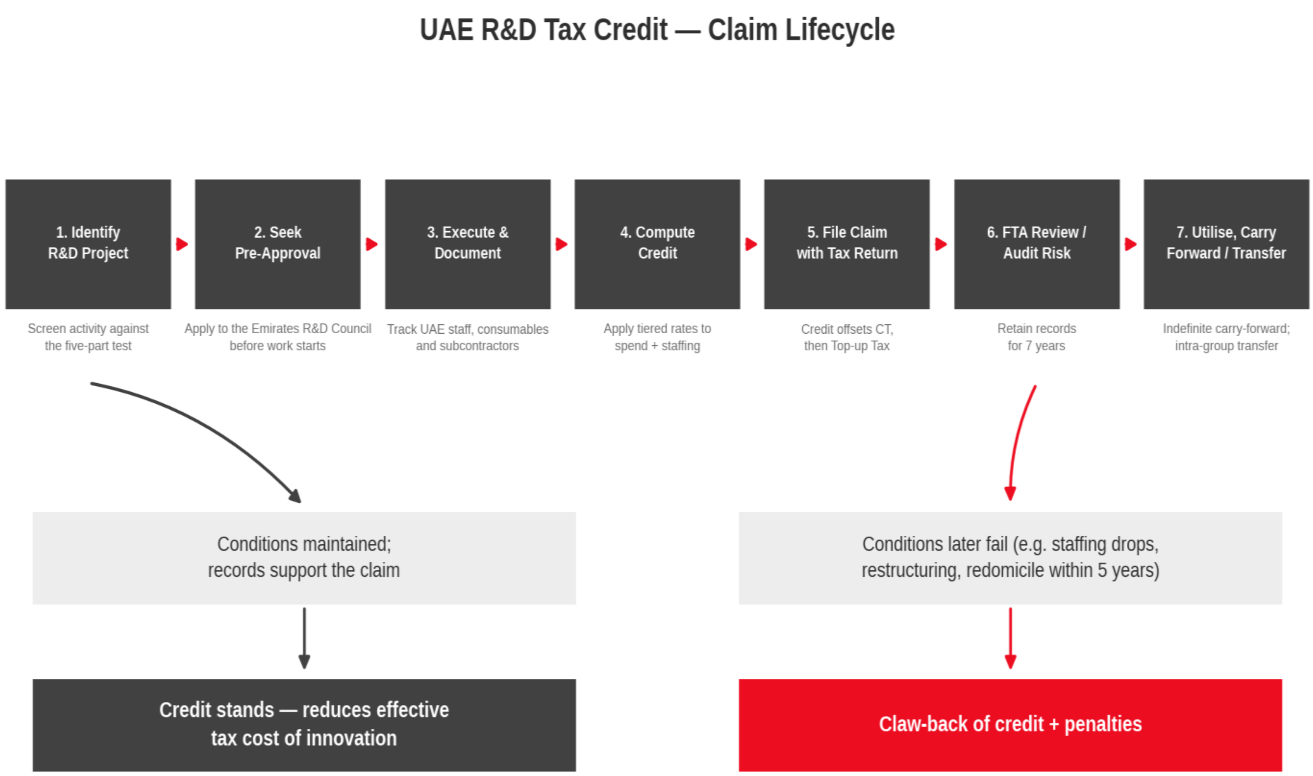

Figure 3 — End-to-end R&D Tax Credit claim lifecycle, from project identification through to utilisation, carry-forward, transfer, or claw-back.

Three points are worth emphasising. First, pre-approval from the Emirates Research and Development Council is a gating condition — a claim cannot be built retroactively onto R&D that has already been completed without it. Second, documentation must be contemporaneous: technical records created after the fact, to justify a claim already filed, carry far less weight in an FTA review. Third, the seven-year record-retention requirement means a project's file needs to survive changes in staff, systems, and even ownership.

4. IFRS ACCOUNTING CONSIDERATIONS

The R&D Tax Credit is a tax-law concept; it does not change how R&D expenditure is accounted for under IFRS. However, the two frameworks interact in several places that finance teams should map out before the first claim is filed.

4.1 IAS 38 — Research vs. Development

IAS 38 Intangible Assets requires R&D spend to be classified into a research phase and a development phase:

- **Research phase (IAS 38.54)** — costs are expensed to profit or loss as incurred, because no intangible asset can yet be recognised; technical feasibility has not been established.
- **Development phase (IAS 38.57)** — costs are capitalised as an intangible asset only once the entity can demonstrate technical feasibility, intention and ability to complete and use or sell the asset, availability of resources, and the ability to reliably measure the attributable expenditure.

IAS 38 Treatment of R&D Spend vs. the UAE R&D Tax Credit

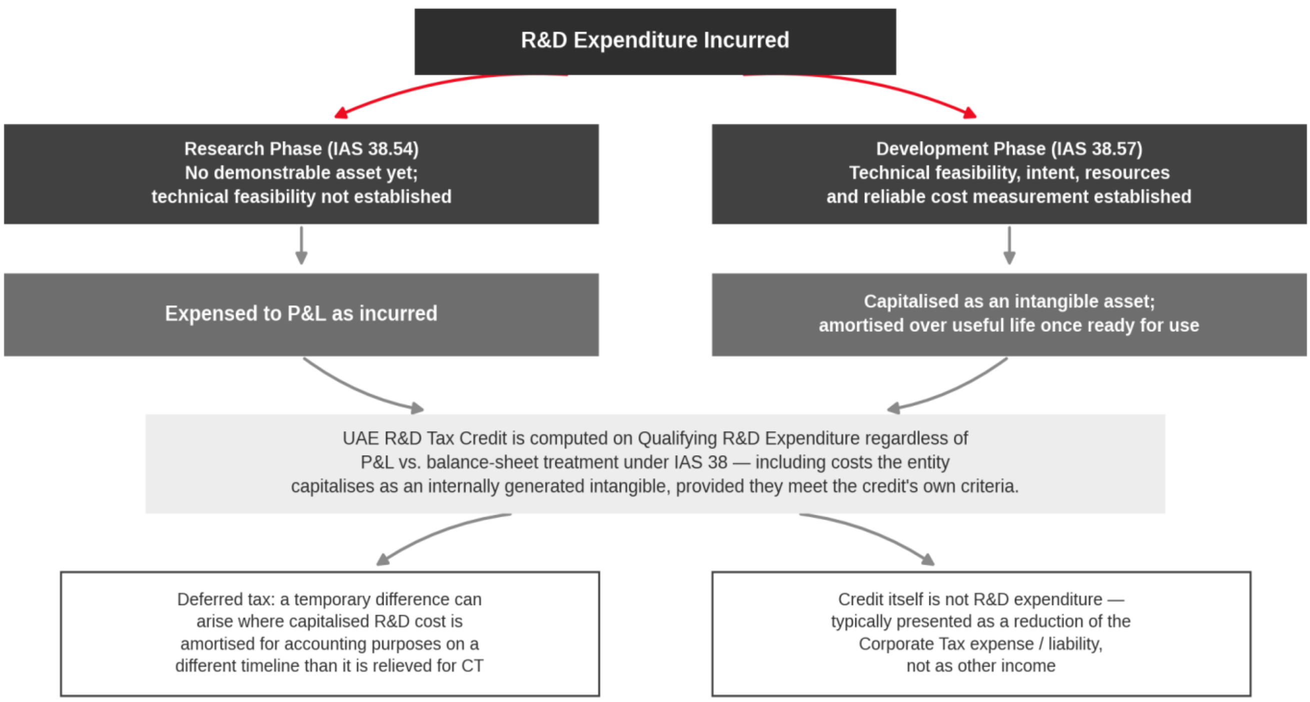

Figure 4 — How IAS 38's research/development classification interacts with the UAE R&D Tax Credit and the resulting deferred tax and presentation questions.

4.2 Why the IFRS Classification Doesn't Change the Credit

The R&D Tax Credit is computed on Qualifying R&D Expenditure as defined in the Ministerial Decision — a tax-law test based on the nature of the activity and the type of cost, not on where the cost sits in the income statement or balance sheet. Expenditure that is capitalised as an internally generated intangible under IAS 38 can still be Qualifying R&D Expenditure for credit purposes, provided it independently meets the tax definition. Finance teams should not assume that only P&L-expensed research costs are eligible — capitalised development costs need to be reviewed on their own merits.

4.3 Deferred Tax

Where development costs are capitalised for accounting purposes and amortised over the asset's useful life, but the related Qualifying R&D Expenditure is relieved for Corporate Tax purposes (via the credit) on a different timeline, a temporary difference can arise between the carrying amount of the intangible and its tax base. This needs to be tracked under IAS 12 alongside the credit's own carry-forward position, particularly for groups already carrying deferred tax balances on capitalised R&D.

4.4 Presentation

The credit itself is not R&D expenditure and is not income from a customer or grantor in the ordinary sense. Because it reduces a Corporate Tax liability the entity would otherwise owe, it is generally presented as a reduction of the Corporate Tax expense / current tax liability, rather than as other income or a government grant under IAS 20 — though the appropriate presentation should be confirmed against the entity's accounting policy and, where relevant, its auditor's view, since the regime is new and diverse presentation practice may emerge in its first reporting cycles.

4.5 Group Reporting and Pillar Two Disclosures

For groups in scope of Pillar Two, the interaction between the R&D credit and the UAE Domestic Minimum Top-up Tax needs to be reflected in the group's effective tax rate (ETR) computation and related disclosures, given the ordering rule that residual credit (after Corporate Tax) may offset Top-up Tax. This should be modelled alongside — not separately from — the group's broader Pillar Two compliance workstream.

5. RISKS AND HOW TO MITIGATE THEM

Risk	Why it matters	Mitigation
Missing pre-approval	A claim cannot be retrofitted onto R&D completed without prior Council approval.	Flag new R&D initiatives to tax/finance at project kick-off, not at filing.
Activity fails the five-part test	Incremental tweaks or routine testing can lack genuine novelty or uncertainty.	Assess each project against the Frascati criteria with technical (not only financial) input.
Offshore work wrongly included	Only UAE-performed activity qualifies, even within a regional group structure.	Track location of work at task level, especially for distributed or outsourced teams.
Under-documentation	Records must be retained 7 years and can be reviewed well after filing.	Maintain contemporaneous technical files — objectives, methodology, findings — as work happens.
Claw-back triggers	Credit can be clawed back with penalties on restructuring, redomicile, liquidation, or Free Zone election within 5 years.	Run an R&D-credit impact check before any restructuring, relocation or Free Zone election.
Artificial separation	The FTA can counteract structures seen as designed mainly to inflate the credit.	Ensure group structuring and cost allocation reflect genuine commercial logic.
Pillar Two interaction	Credit utilisation against Top-up Tax follows specific ordering rules affecting ETR.	Model Corporate Tax and Pillar Two impact of the credit together, not in isolation.

6. PRACTICAL EXAMPLES ACROSS INDUSTRIES

The worked figures below are illustrative, using the published tier mechanics, to show how the credit behaves at different spend and staffing profiles. Actual claims depend on Council pre-approval and FTA confirmation of eligibility.

6.1 Manufacturing

A UAE industrial manufacturer runs an 18-month project to develop a new heat-resistant alloy composition for extreme-temperature equipment, with in-house metallurgists, a defined testing protocol, and a genuinely uncertain outcome.

Input	Value
Qualifying R&D expenditure	AED 3,200,000
Average dedicated R&D staff	16
Tier 1 credit (first AED 1,000,000 @ 15%)	AED 150,000
Tier 2 credit (next AED 1,000,000 @ 35%)	AED 350,000
Tier 3 credit (remaining AED 1,200,000 @ 50%)	AED 600,000
Total credit	**AED 1,100,000**

Staff costs, lab consumables and UAE-based testing subcontracts would typically qualify; any testing sent to an overseas group laboratory would not. Given the scale of spend, much of the later-stage cost here would likely sit in the IAS 38 development phase and be capitalised, while early feasibility work is expensed.

6.2 Technology / Fintech

A Dubai fintech develops a fraud-detection model using a modelling approach not previously validated for its transaction environment — genuine technical uncertainty, not simply configuring off-the-shelf software.

Input	Value
Qualifying R&D expenditure	AED 900,000
Average dedicated R&D staff	4
Applicable tier	Tier 1 only (spend below AED 1,000,000; staffing ≥ 2)
Credit (AED 900,000 @ 15%)	**AED 135,000**

Cloud compute and data-science staff time are typical qualifying costs; routine software maintenance, bug fixes, or configuration of existing platforms would not qualify. Under IAS 38, this kind of model-development cost often straddles both phases — exploratory model testing expensed, and the validated model's build-out capitalised once feasibility is demonstrated.

6.3 Pharmaceuticals & Life Sciences

A life-sciences company runs formulation development and stability testing for a new product at its UAE facility — inherently novel and uncertain work, and the sector most likely to reach the top tier given typical capital and headcount intensity.

Input	Value
Qualifying R&D expenditure	AED 5,000,000 (tier ceiling)
Average dedicated R&D staff	20
Tier 1 credit	AED 150,000
Tier 2 credit	AED 350,000
Tier 3 credit	AED 1,500,000
Total credit (maximum available)	**AED 2,000,000**

This is the maximum credit obtainable per entity per Tax Period. Given the scale, robust project-level documentation and early Council pre-approval are essential — this is also the profile most likely to attract FTA review given the size of the claim.

6.4 Energy & Renewables

An energy company pilots a new desalination process at a UAE facility, with defined technical objectives and measurable uncertainty in outcome.

Input	Value
Qualifying R&D expenditure	AED 1,600,000
Average dedicated R&D staff	7
Tier 1 credit (first AED 1,000,000 @ 15%)	AED 150,000
Tier 2 credit (remaining AED 600,000 @ 35%)	AED 210,000
Total credit	**AED 360,000**

Pilot-plant staff and consumables need to be clearly separated from ordinary plant-operating costs in the entity's cost accounting — a common weak point when R&D is run alongside live operations rather than in a dedicated facility.

6.5 Construction & Real Estate

A contractor develops a new modular construction technique involving unresolved structural questions — narrower ground for a genuine claim in this sector than commonly assumed, since adapting a known system to a new site would not qualify.

Input	Value
Qualifying R&D expenditure	AED 650,000
Average dedicated R&D staff	3
Applicable tier	Tier 1 only
Credit (AED 650,000 @ 15%)	**AED 97,500**

Most construction R&D claims will sit well below the AED 1,000,000 threshold; the value here is proportionally smaller, but still meaningful against project-level margins, and the documentation bar (proving genuine structural uncertainty, not routine engineering) is the main risk to manage.

6.6 Professional & Financial Services

A bank or insurer develops a genuinely novel actuarial or risk model with real technical uncertainty — a narrower category in this sector, where much of the work is process refinement rather than R&D in the OECD sense.

Input	Value
Qualifying R&D expenditure	AED 1,300,000
Average dedicated R&D staff	5
Staffing threshold for Tier 2 (≥ 6)	Not met
Result	Full AED 1,300,000 treated at the Tier 1 rate (15%), on published mechanics
Total credit	**AED 195,000**

This example illustrates why the staffing threshold matters as much as the spend threshold: two businesses with the same qualifying expenditure can receive materially different credits purely because of R&D headcount — a factor businesses can plan for ahead of the Tax Period, not after it.

7. GOVERNANCE & AGENCY INTERACTION: THE "TWO-AGENCY" REALITY

Emirates R&D Council — Technical Gatekeeper

Responsible strictly for evaluating the technical criteria (the five-part Frascati test) and issuing project pre-approvals.

Federal Tax Authority — Financial Gatekeeper

Responsible for validating the financial quantum, verifying line-item spend against audited financial statements, and enforcing Corporate Tax and Top-up Tax rules.

8. WHY GET THIS RIGHT NOW

The R&D Tax Credit is a genuine reduction in the cost of innovation for UAE businesses, but it rewards process as much as spend. The pre-approval requirement, the five-part activity test, the tiered staffing thresholds, and the seven-year documentation obligation mean that businesses building the right governance before they file will capture more value — and face far less risk — than those treating it as a year-end adjustment.

Practical first steps for any business evaluating its position:

- **Map** current and planned projects against the five-part qualifying test and the UAE-performance condition.
- **Separate** UAE-performed work from offshore work at task level, particularly across regional group structures.
- **Plan staffing** against the tier thresholds before the Tax Period begins, since headcount — not just spend — determines the applicable rate.
- **Put a pre-approval and documentation process in place** ahead of the next qualifying project, and align it with the entity's IFRS R&D accounting policy and Pillar Two position.

Acquisory supports businesses across the UAE and wider GCC in assessing R&D Tax Credit eligibility, structuring pre-approval submissions, building the technical and financial documentation trail, and modelling the credit's interaction with Corporate Tax, IFRS reporting and Pillar Two — turning a compliance obligation into a clear, defensible reduction in the cost of innovation.

This paper is intended as general guidance on the UAE R&D Tax Credit regime and does not constitute tax advice. Businesses should seek specific advice before making or relying on an R&D Tax Credit claim

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