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UAE Tax Handbook

A Practical Guide to the UAE Tax System
covering **Corporate Tax**, **Transfer Pricing** and
comments from **VAT**

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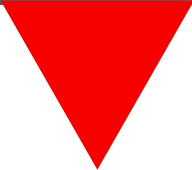
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Purpose of This Handbook

This handbook is intended to provide businesses operating in the United Arab Emirates with a structured and practical understanding of the UAE tax framework, including Corporate Tax (“CT”), Transfer Pricing (“TP”) requirements and comments on Value Added Tax (“VAT”),

While the relevant tax laws, executive regulations, and administrative guidance contain detailed legislative provisions, the application of those provisions in real business environments often requires interpretation, judgment, and careful consideration of commercial realities. The objective of this handbook is therefore not merely to summarize the applicable tax legislation, but to assist readers in understanding how UAE tax rules operate in practice, how they interact with one another, and how they may impact business operations, transactions, and strategic decision-making.

This handbook focuses on:

- The practical application of the UAE Corporate Tax, Transfer Pricing regimes and comments on VAT.
- The interpretation of key legislative provisions, executive regulations, and guidance issued by the relevant authorities.
- Tax compliance obligations imposed on businesses, including registration, record-keeping, reporting, and filing requirements.
- The VAT framework, including registration thresholds, tax invoicing requirements, input tax recovery, VAT return preparation and filing, and the application of the standard, zero-rated, exempt, and out-of-scope VAT treatments.
- Transfer Pricing requirements, including the arm’s length principle, related party and connected person transactions, transfer pricing documentation, disclosure obligations, and benchmarking.
- Areas where tax risks commonly arise and practical approaches to mitigating those risks.
- Recent developments, administrative practices, and emerging compliance trends relevant to businesses operating in the UAE.

This guide is intended for general informational purposes only and does not constitute professional tax advice. Readers are advised to consult their local tax advisors before making decisions based on its contents.

Introduction

Acquisory, incorporated in 2010, is a boutique advisory firm founded by highly experienced professionals specializing in **M&A Advisory, Due Diligence, Operations & Risk Consulting, Asset Management, Financial Reporting & Compliance, Audit, and Process Re-engineering.**

Acquisory Advisors LLC provides end to end tax advisory and compliance services across the **Middle East and GCC**, covering **Corporate Tax, Zakat, VAT, Transfer Pricing, tax structuring, regulatory compliance, audits, litigation support, cross-border transactions, and e-invoicing implementation support.**

With a leadership team comprising 11+ Partners and Directors from BIG 4 and other leading firms, Acquisory combines practical business insights with strong regulatory expertise to deliver customized and effective solutions across industries including Infrastructure, Telecom, Real Estate, Manufacturing, IT & ITeS, Logistics, and Education.

The firm operates from offices in Dubai, Delhi, Mumbai, and Bengaluru with a team of 200+ professionals, including CAs, CPAs, MBAs, CIAs, CISAs, Engineers, and IT specialists.

Acquisory has established strong relationships with over 500 listed and private companies, as well as leading global Private Equity institutions.

Acquisory is also a pioneer in asset management services for Private Equity investors in India and currently manages approximately USD 400 million in real estate assets across various asset classes.



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CHAPTER 1

Introduction to UAE Corporate Tax Framework



Overview

The United Arab Emirates introduced a federal Corporate Tax regime through **Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses** (the “Corporate Tax Law”).

The Corporate Tax regime applies to tax periods commencing on or after 1 June 2023 and represents a significant development in the UAE’s fiscal framework.

Historically, the UAE maintained a largely indirect tax system, with limited direct taxation applying primarily to specific industries such as oil and gas extraction and foreign banking operations. The introduction of Corporate Tax reflects the UAE’s continued alignment with international tax standards and global economic practices.

Corporate Tax applies across all seven Emirates and generally applies to businesses operating in:

- Mainland jurisdictions
- Free Zones
- International business structures with UAE presence

However, the Corporate Tax regime incorporates various exemptions, reliefs, and preferential regimes, particularly for Free Zone entities that meet the conditions of a Qualifying Free Zone Person (QFZP).

From an operational perspective, Corporate Tax represents a shift toward a more structured tax compliance environment in which businesses must maintain:

- Robust financial reporting systems
- Clear documentation of tax positions
- Strong internal governance and compliance frameworks

The regime places significant reliance on financial accounting information, meaning that Corporate Tax considerations are closely linked to the integrity and accuracy of financial statements.

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (hereinafter referred to as the “UAE CT Law”)

This law establishes the fundamental framework of Corporate Tax in the UAE, including:

- The scope of the tax
- The definition of taxable persons
- The determination of taxable income
- Applicable tax rates
- Compliance and reporting obligations

In addition to the primary legislation, the Corporate Tax framework is supplemented by a number of Cabinet Decisions and Ministerial Decisions, which provide further clarification on specific technical areas.

Examples include:

- Cabinet Decisions relating to Free Zone taxation
- Ministerial Decisions concerning transfer pricing documentation
- Decisions governing Small Business Relief and interest limitation rules

The Federal Tax Authority (FTA) is responsible for the administration and enforcement of Corporate Tax and may issue guidance in the form of:

- Public Clarifications
- Corporate Tax Guides
- Administrative guidance

Businesses must therefore interpret the Corporate Tax framework by considering both the legislation itself and the interpretative guidance issued by the FTA.

Scope of Corporate Tax

Corporate Tax applies to the taxable income of persons conducting business activities in the UAE. In practice, determining whether Corporate Tax applies requires consideration of two key questions:

Is the person a taxable person under the Corporate Tax Law?

- Does the person derive income that falls within the scope of Corporate Tax? The concept of taxable income represents the central pillar of the Corporate Tax regime.
- Importantly, Corporate Tax obligations may arise regardless of whether a business ultimately pays tax. For example, businesses generating losses or benefiting from a 0% tax rate are still generally required to comply with registration and filing requirements.

Who Is Typically Within Scope?

In practice, the Corporate Tax regime captures a broad range of business activities conducted in the UAE. The following categories typically fall within the scope of Corporate Tax:

Category	Practical Position
UAE-Incorporated companies	Generally treated as UAE-resident taxable persons
Free Zone entities	Within scope, but may qualify for preferential regimes
Foreign companies with UAE presence	May fall within scope through a Permanent Establishment
Natural persons conducting business	Taxable where business activities are carried out in the UAE

Certain categories of persons may qualify for specific exemptions under the Corporate Tax Law, including government entities, qualifying public benefit entities, and qualifying investment funds. These exemptions are discussed in detail in later chapters.

Taxable Persons – Practical Classification

The Corporate Tax regime adopts a broad definition of taxable persons, reflecting the UAE's objective of ensuring that most business activities conducted in the country fall within the scope of the tax system. In practice, taxable persons can generally be grouped into several categories.

Corporate Entities

Companies incorporated or registered in the UAE are typically treated as UAE-resident juridical persons for Corporate Tax purposes. This includes both mainland companies and entities established within Free Zones.

These entities are generally subject to Corporate Tax on their worldwide income, subject to the availability of exemptions and reliefs under the Corporate Tax Law.

Natural Persons

Natural persons are subject to Corporate Tax only where they conduct a business or business activity in the UAE.

Income earned by individuals in a purely personal capacity, such as employment income or personal investment income, generally falls outside the scope of Corporate Tax.

A natural person (resident or non-resident) only enters the Corporate Tax net once their total turnover from Business or Business Activities exceeds AED 1,000,000 within a Gregorian calendar year — this is set out in Cabinet Decision No. 49 of 2023

Partnerships and Unincorporated Arrangements

Partnerships may be treated as either:

- Tax transparent arrangements, where income is taxed at the partner level; or
- Taxable persons, depending on their legal structure and elections made under the Corporate Tax Law.

The classification of partnerships has important implications for tax reporting and compliance obligations.

Taxable Persons – Practical Classification

The UAE Corporate Tax regime applies a tiered tax rate structure, designed to support small and medium-sized enterprises while maintaining a competitive corporate tax environment. This is set out in Article 3 of the UAE CT Law.

Taxable Income	Applicable Rate
Up to AED 375,000	0%
Above AED 375,000	9%

The 0% band effectively acts as a threshold intended to support smaller businesses and start-ups.

However, it is important to note that the applicable statutory rate does not necessarily reflect the final tax liability. The actual tax payable may be affected by several factors, including:

- Exempt income
- Non-deductible expenses
- Tax loss utilization
- Transfer pricing adjustments
- Relief provisions

As a result, determining Corporate Tax liability requires careful consideration of the full tax computation process.

Determining Taxable Income

The starting point for determining taxable income under the Corporate Tax regime is the accounting profit reported in a business's financial statements.

Under the UAE CT Law, Article 20, taxable income is generally derived from accounting profit prepared in accordance with internationally recognized accounting standards, typically International Financial Reporting Standards (IFRS).

This approach reflects the UAE's policy of aligning tax reporting with financial reporting wherever possible.

Once the accounting profit has been determined, it must be adjusted to reflect the specific provisions of the Corporate Tax Law.

Common adjustments may include:

Adjustment Type	Practical Impact
Non-deductible expenses	Increase taxable income
Exempt income	Reduce taxable income
Timing differences	Affect the period in which income is taxed
Elections and reliefs	May alter the tax base

These adjustments ensure that the taxable income reported for Corporate Tax purposes accurately reflects the tax rules established by the legislation.

Later chapters explore these adjustments in greater technical detail.

Corporate Tax and Financial Governance

One of the defining characteristics of the UAE Corporate Tax regime is its reliance on financial reporting systems.

Because Corporate Tax calculations begin with accounting profit, the quality and integrity of financial records play a critical role in ensuring accurate tax reporting.

Businesses operating in the UAE should therefore ensure that they maintain:

- Reliable accounting systems
- Clear documentation of tax positions
- Appropriate internal controls
- Adequate record-keeping procedures

In practice, Corporate Tax should be viewed not simply as a compliance obligation but as a component of broader corporate governance and risk management.

Value Added (VAT) in the UAE

The UAE VAT system aligns with the GCC rules and establishes a transparent, consumption-based tax, UAE VAT introduced under Federal Decree-Law No. 8 of 2017, applies a standard rate of 5% on most goods and services, with certain supplies zero-rated or exempt.

VAT generally applies to:

- Mainland businesses
- Free Zone entities (subject to rules for designated zones)

- Supplies of goods and services within the UAE
- In addition, certain supplies are zero-rated, including healthcare, education, and the first supply of residential buildings within three years of completion. Other certain supplies are exempted, including financial services and life insurance.

From an operational perspective, VAT requires businesses to maintain:

- Accurate accounting and financial records
- Proper VAT documentation for supplies and input VAT

Effective VAT compliance depends on the integrity of financial records and accurate documentation, making it essential for businesses to integrate VAT considerations into their accounting and operational systems.

Supply Type	VAT Rate
Standard-rated goods and services	5%
Zero-rated supplies (e.g., exports, international transportation of goods and passengers, healthcare, education)	0%
Exempt supplies (e.g., Life insurance, local transportation, sale of bare land)	(Exempted)

- ❖ Standard rate applies to most commercial transactions in the UAE.
- ❖ Zero-rated supplies are taxable but at 0%, allowing input VAT recovery.
- ❖ Exempt supplies do not attract VAT and input VAT cannot be recovered.

UAE Tax Rates at a Glance

Corporate Tax (income ≤ AED 375,000)

0%

Corporate Tax (standard rate)

9%

VAT (standard rate)

5%

DMTT / Pillar Two

15%

Illustrative summary of headline UAE tax rates referenced in this handbook.

Overview of the UAE Corporate Tax System



CHAPTER 2

Taxable Persons and Scope of Application



Overview

Under the CT Law, Article 11 sets out that the UAE Corporate Tax regime applies to taxable persons carrying on a business or business activity within the UAE.

The Corporate Tax Law adopts a broad definition of taxable persons in order to ensure that business profits generated in or through the UAE fall within the scope of the tax system.

Broadly, persons subject to Corporate Tax fall into the following categories:

- UAE resident juridical persons
- Non-resident juridical persons with UAE nexus
- Natural persons conducting business activities in the UAE

In addition, the Corporate Tax Law provides for a number of specific exemptions, meaning certain entities may fall outside the scope of Corporate Tax despite conducting business activities.

Understanding the classification of a taxpayer is therefore the first step in determining Corporate Tax liability.

Categories of Taxable Persons Under UAE Corporate Tax

Taxable Persons

Resident Juridical Person
Incorporated / effectively managed
in the UAE

Resident Natural Person
Conducting Business or Business
Activity in the UAE

Non-Resident Person
UAE PE / UAE-sourced income /
nexus

All three categories may be subject to Corporate Tax registration and filing obligations, subject to conditions.

Resident Juridical Persons

A juridical person refers to a legal entity separate from its owners.

Under the Corporate Tax Law, a juridical person is considered a UAE resident taxable person where it is:

- ✓ incorporated or otherwise established in the UAE; or
- ✓ incorporated outside the UAE but effectively managed and controlled within the UAE.

In practice, the majority of UAE companies fall within this category, including:

- ✓ mainland companies established under the UAE Commercial Companies Law
- ✓ entities incorporated in UAE Free Zones
- ✓ government-owned companies that do not qualify for exemption

Resident juridical persons are generally subject to Corporate Tax on their worldwide income, subject to the availability of exemptions and relief provisions under the Corporate Tax Law.

Non-Resident Juridical Persons

A juridical person that is not considered a UAE resident may still fall within the scope of Corporate Tax where it has sufficient nexus with the UAE.

Non-resident persons may become subject to Corporate Tax where they:

- ✓ operate through a Permanent Establishment (PE) in the UAE;
- ✓ derive UAE-sourced income; or
- ✓ maintain a nexus in the UAE in relation to certain activities.

In such cases, Corporate Tax generally applies only to income that is attributable to the UAE nexus.

For multinational businesses operating across jurisdictions, determining whether a UAE Permanent Establishment exists can be a critical factor in assessing Corporate Tax exposure.

Permanent Establishments (PE)

As per the CT Law, Article 14 states a Permanent Establishment (PE) broadly refers to a fixed place of business through which the business of a foreign entity is wholly or partly carried on.

Typical examples of a PE may include:

- a branch
- an office
- a place of management
- a construction or installation project exceeding the prescribed duration

A PE may also arise where a person in the UAE habitually concludes contracts on behalf of a foreign enterprise.

Where a Permanent Establishment exists, the non-resident enterprise becomes subject to Corporate Tax on profits attributable to that establishment.

The determination of PE status is closely aligned with international tax principles and is broadly consistent with concepts contained in the OECD Model Tax Convention.

Place of Effective Management (POEM)

In addition to incorporation, a juridical person may be treated as a UAE resident where it is effectively managed and controlled in the UAE.

This is commonly referred to as the Place of Effective Management (POEM) as set out in Article 11 of the CT Law.

In practice, POEM is the place where key management and commercial decisions necessary for the conduct of the business as a whole are made.

Relevant factors may include:

- location of board meetings
- location of senior management
- place where strategic decisions are taken

Where a foreign-incorporated entity is considered to have its POEM in the UAE, it may be treated as a UAE resident taxable person and subject to Corporate Tax on its worldwide income.

Natural Persons Conducting Business

Natural persons are generally outside the scope of Corporate Tax when acting in a personal capacity.

Individuals become subject to Corporate Tax only where their turnover from Business or Business Activities conducted in the UAE exceeds AED 1,000,000 within a Gregorian calendar year, as specified under Cabinet Decision No. 49 of 2023. Employment income and personal investment income generally fall outside the scope of Corporate Tax, regardless of the amount of turnover derived. Where an individual conducts a business activity that falls within scope and exceeds the AED 1 million threshold, Corporate Tax applies to the income derived from that activity.

Examples may include:

- ❖ sole proprietorship businesses
- ❖ individuals operating commercial activities
- ❖ professional service providers operating as individuals

Income Excluded from "Business Activity" Regardless of Amount

Three categories of income are excluded from the definition of Business or Business Activity entirely under Cabinet Decision No. 49 of 2023, meaning they never count toward the AED 1,000,000 threshold and are never subject to Corporate Tax, however large the amount:

- Wage: salary, allowances and bonuses received under an employment contract, whether with a private or public sector employer.
- Personal Investment Income: dividends, interest, capital gains and similar returns earned by an individual in a personal capacity, provided the activity does not require a commercial licence.
- Real Estate Investment Income: rental or sale proceeds from real estate held personally in the UAE, provided the activity does not require a commercial licence.

Is a Natural Person Subject to UAE Corporate Tax?



Excluded income is disregarded entirely when calculating turnover, regardless of amount; registration is required by 31 March of the following calendar year once the threshold is exceeded.

Example

An individual earns an annual salary of AED 400,000, receives AED 150,000 in dividends from a personal share portfolio, and separately runs a freelance design practice generating AED 1,200,000 in turnover during the calendar year. The salary and dividend income are excluded from Business Activity turnover regardless of amount. The freelance practice, however, exceeds the AED 1,000,000 threshold on its own, so the individual must register for Corporate Tax and account for tax on the freelance income under the standard 0%/9% bands — the salary and dividends remain entirely outside the Corporate Tax calculation.

Free Zone Individuals

Natural persons cannot obtain Qualifying Free Zone Person status — the 0% Free Zone regime discussed in Chapter 5 is only available to juridical persons. An individual operating a freelance or consulting practice from a UAE Free Zone is therefore taxed under the standard 0%/9% bands once turnover exceeds AED 1,000,000, regardless of the Free Zone location.

Partnerships and Unincorporated Arrangements

Partnerships may be treated differently for Corporate Tax purposes depending on their legal form and elections made under the Corporate Tax Law.

Under Ministerial Decision 261 of 2024, certain partnerships i.e. Unincorporated Partnerships may be treated as tax transparent, meaning the income is taxed at the partner level rather than at the partnership level.

In other cases, the partnership itself may be treated as a taxable person, requiring the partnership to comply with Corporate Tax registration and filing obligations.

The classification of partnerships therefore has important implications for how profits are reported and taxed.

Exempt Persons

Article 4 of the CT Law provides that certain entities may qualify as exempt persons, meaning they are not subject to Corporate Tax.

Examples of exempt persons may include:

- government entities (Cabinet Decision No.37 of 2023)
- government controlled entities (Cabinet Decision No.37 of 2023)
- qualifying public benefit entities (Cabinet Decision No.37 of 2023)
- qualifying investment funds (Cabinet Decision No.81 of 2023)
- public pension or social security funds (Cabinet Decision No.100 of 2023)

These exemptions reflect policy decisions intended to ensure that entities performing public or governmental functions are not subject to Corporate Tax.

Where an entity qualifies as an exempt person, it will generally not be required to pay Corporate Tax, although certain administrative obligations may still apply.

Practical Classification of Taxable Persons

For practical purposes, taxable persons can generally be classified as follows:

Category	Typical Corporate Tax Position
UAE companies	Subject to Corporate Tax as resident persons
Free Zone entities	Within scope, may qualify for preferential treatment
Foreign entities with PE	Taxed on UAE attributable income
Natural persons conducting business	Subject to Corporate Tax on business income
Exempt persons	Outside scope where exemption conditions are met

Practical Considerations

From a compliance perspective, businesses should ensure that they clearly determine their Corporate Tax status before the start of a tax period.

Key considerations include:

- Determining whether an entity is treated as a UAE resident or non-resident

Practical Example

- A company incorporated overseas but with its board and key decision-makers based in the UAE may be treated as UAE resident under POEM rules

- Assessing whether a Permanent Establishment exists in the UAE

Practical Example

- A foreign company executing a long-term construction project in the UAE may create a Permanent Establishment and become subject to UAE Corporate Tax on attributable profits

- Identifying whether any exemptions may apply

Practical Example

- A qualifying investment fund or government-related entity may fall outside the scope of Corporate Tax where exemption conditions are met

- Confirming whether Corporate Tax registration is required

Practical Example

- A Free Zone entity generating income, even if expecting to benefit from the 0% regime, must still register and file a Corporate Tax return

Misclassification of taxable status may result in incorrect tax filings or unexpected Corporate Tax exposure.

Practical Examples

Example 1 – UAE Resident Person

- A company incorporated outside the UAE holds its board meetings in Dubai and its key strategic decisions are made by directors based in the UAE. Subject to the detailed facts and circumstances, the company may be treated as a UAE Resident Person and therefore be subject to UAE Corporate Tax on its worldwide income.

Example 2 – Foreign Entity with a UAE Permanent Establishment

- A foreign construction company undertakes a long-term project in the UAE through a fixed site office. Depending on the duration and nature of the activities performed, the project may constitute a Permanent Establishment, resulting in UAE Corporate Tax applying to profits attributable to the UAE activities.

Example 3 – Exempt Person

- A qualifying public benefit entity that satisfies the conditions prescribed under the UAE Corporate Tax regime may be treated as an Exempt Person and therefore not be subject to UAE Corporate Tax, provided the exemption requirements continue to be met.

Taxable Persons from the VAT Perspective

VAT applies to taxable persons carrying out a business or commercial activity in the UAE. A taxable person is any entity or individual supplying goods or providing services for consideration and meeting the VAT registration threshold. (mandatory: AED 375,000; voluntary: AED 187,500).

VAT also applies to imports of goods and services into the UAE, with the reverse charge mechanism.

Businesses must register for VAT, charge VAT on taxable supplies, maintain accurate records, and file VAT returns in accordance with the law. Correct classification and compliance are critical, as missteps can lead to penalties or additional VAT liabilities.

CHAPTER 3

Determination of Taxable Income



Overview

The determination of taxable income represents the central mechanism through which Corporate Tax liability is calculated under the UAE Corporate Tax regime.

Under Article 20, of the UAE CT Law, the Taxation of Corporations and Businesses, taxable income is generally derived from the accounting profit reported in financial statements, subject to adjustments required under the Corporate Tax Law.

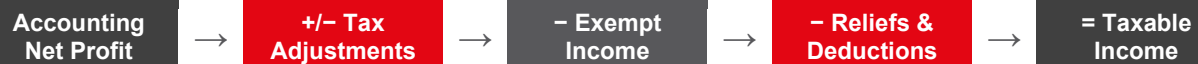
This approach reflects the UAE's policy of aligning tax reporting with internationally recognized financial reporting standards while introducing targeted adjustments to ensure that the resulting tax base reflects the policy objectives of the Corporate Tax regime.

In practice, determining taxable income involves three key stages:

- Determining accounting profit in accordance with recognized accounting standards
- Applying specific adjustments required under the Corporate Tax Law
- Considering applicable exemptions, reliefs, and elections

The resulting amount represents the taxable income for the relevant tax period, which forms the basis for calculating Corporate Tax payable.

From Accounting Profit to Taxable Income



Adjustments include non-deductible expenses, unrealised gains/losses, transfer pricing adjustments, and interest deduction limitations.

Reliance on Financial Statements

The starting point for determining taxable income is the accounting profit or loss reported in the financial statements of the business as per Article 20 of the CT Law and the Ministerial Decision No.114 of 2023. The Corporate Tax Law generally requires taxable income to be determined based on financial statements prepared in accordance with internationally recognized accounting standards, most commonly International Financial Reporting Standards (IFRS).

This reliance on accounting standards provides a consistent and transparent basis for determining taxable income while reducing the need for extensive tax-specific calculations.

Where financial statements are prepared under IFRS, the accounting profit reported in those statements serves as the initial reference point for the Corporate Tax computation.

However, accounting profit does not necessarily represent the final taxable income, as certain adjustments are required under the Corporate Tax Law.

Applicable Accounting Framework and Financial Statement Requirements

Under Article 20 of the UAE CT Law and Ministerial Decision No. 114 of 2023, taxable income is determined based on accounting income prepared in accordance with the applicable accounting standards and accounting method.

As a general rule, financial statements should be prepared using International Financial Reporting Standards (IFRS). However, where a Taxable Person's revenue does not exceed AED 50 million, IFRS for SMEs may be applied.

Where a Taxable Person's revenue does not exceed AED 3 million, the cash basis of accounting may be used, subject to meeting the prescribed conditions. In exceptional circumstances, a Taxable Person may also apply to the FTA to use the cash basis of accounting where permitted.

For audit purposes, audited financial statements are generally required where revenue exceeds AED 50 million. Audited financial statements are also required for a Qualifying Free Zone Person, regardless of revenue.

In the case of a Tax Group, audited special-purpose financial statements must be prepared and maintained in accordance with the applicable Corporate Tax requirements.

These rules ensure that taxable income is calculated using a consistent financial reporting framework while allowing simplified approaches for smaller businesses.

Practical Examples

In practice, the accounting treatment under financial statements directly impacts the starting point for Corporate Tax. Typical examples include:

- Revenue recognition (IFRS 15): timing of income recognition may affect the period in which income is taxed
- Lease accounting (IFRS 16): recognition of right-of-use assets and interest expenses impacts deductible expenses
- Provisions and accruals: certain provisions recognized in financial statements may not be immediately deductible for tax purposes
- Fair value gains and losses: unrealized gains recognized in financial statements may require adjustment depending on tax treatment
- Depreciation vs capital allowances: accounting depreciation is the starting point but may be adjusted under tax rules

Accordingly, while financial statements form the foundation of the Corporate Tax computation, businesses must assess whether the accounting treatment aligns with the requirements of the Corporate Tax Law.

Accrual Basis of Taxation

The Corporate Tax regime generally follows the accrual basis of accounting as set out in Article 20 of the CT Law and further governed under Ministerial Decision No.114 of 2023, meaning income and expenses are recognized in the period in which they are earned or incurred, rather than when cash is received or paid.

Under the accrual principle:

- income is recognized when the right to receive the income arises
- expenses are recognized when the obligation to incur the expense arises

This approach ensures that taxable income reflects the economic activities undertaken by the business during the tax period.

In certain limited circumstances, small businesses having revenue not exceeding AED 3 million may be permitted to use cash basis of accounting or under specific exceptional approval by FTA

Adjustments to Accounting Profit

Although accounting profit forms the starting point for determining taxable income, the Corporate Tax Law requires a number of adjustments to ensure that the resulting tax base reflects the specific policy objectives of the tax system.

Common adjustments may include:

Adjustment Type	Impact on Taxable Income
Non-deductible expenses	Increase taxable income
Exempt income	Reduce taxable income
Transfer pricing adjustments	May increase or decrease taxable income
Tax relief provisions	May reduce taxable income

Practical Examples

In practice, the following adjustments commonly arise:

- **Non-deductible expenses:**

Entertainment expenses (e.g. client hospitality) may only be partially deductible (typically 50%), with the disallowed portion added back to taxable income

- **Exempt income:**

Dividends received from qualifying shareholdings are excluded from taxable income under the participation exemption

- **Transfer pricing adjustments:**

Where a related party service fee is not at arm's length, an upward or downward adjustment may be required to reflect market pricing

- **Tax relief provisions:**

Intra-group transfers or qualifying restructurings may defer recognition of gains, reducing taxable income in the relevant period

These adjustments are applied in order to ensure that the Corporate Tax system appropriately reflects the intended tax treatment of specific categories of income and expenditure.

Exempt Income

Certain categories of income may be treated as exempt income under the Corporate Tax Law.

Where income qualifies for exemption, it is generally excluded from the calculation of taxable income. Examples of exempt income may include:

- dividends received from qualifying shareholdings
- capital gains derived from qualifying participations
- income attributable to qualifying foreign permanent establishments
- income derived by certain exempt persons (e.g. qualifying investment funds or public benefit entities, where applicable)

Practical Examples

In practice, common scenarios include:

- Dividend income:

A UAE holding company receives dividends from a foreign subsidiary — where participation conditions are met, the income is fully exempt

- Capital gains:

Disposal of shares in a qualifying subsidiary may result in gains that are not subject to Corporate Tax

- Foreign PE income:

A UAE entity operating through a foreign branch may elect to exempt foreign branch profits from UAE taxation

- Investment structures:

Income earned through qualifying investment funds may be exempt where the relevant conditions are satisfied

The conditions under which income qualifies as exempt must be carefully assessed, as failure to meet the requirements may result in the income being subject to Corporate Tax.

Non-Deductible Expenses

Not all expenses recognized in financial statements are deductible for Corporate Tax purposes which has been set out under Article 33 of the CT Law.

The Corporate Tax Law provides that certain categories of expenditure must be disallowed when calculating taxable income.

Examples may include:

- expenses not incurred wholly and exclusively for the purposes of the business
- certain entertainment expenses
- fines and penalties imposed by governmental authorities
- certain related party payments that do not satisfy arm's length requirements

Practical Examples

In practice, common non-deductible adjustments include:

- Business vs personal expenses:

Personal expenses charged through the business (e.g. private travel or accommodation) must be disallowed

- Entertainment expenses:

Client entertainment (e.g. meals, events, hospitality) is typically only partially deductible, with the disallowed portion added back

- Fines and penalties:

Regulatory fines or penalties (e.g. traffic fines, late filing penalties) are fully non-deductible

- Related party payments:

Management fees or service charges paid to group entities that are not at arm's length may be disallowed or adjusted

Where an expense is treated as non-deductible, it must be added back to accounting profit in the Corporate Tax computation.

Timing Differences

In certain cases, differences may arise between the timing of income or expense recognition for accounting purposes and their treatment under the Corporate Tax Law.

These timing differences may arise due to:

- differences between accounting and tax treatment of provisions
- differing treatment of unrealized gains or losses
- the application of specific tax elections

Where timing differences arise, adjustments may be required in order to determine the appropriate amount of taxable income for the relevant tax period.

Realization Principles

The Corporate Tax regime generally follows the principle that income should be taxed when it is realized, rather than when unrealized gains arise as set out under Article 21 of the CT Law and Ministerial Decision No.134 of 2023.

However, accounting standards may recognize certain gains or losses before they are realized for tax purposes.

In such cases, the Corporate Tax Law may require adjustments to ensure that taxable income appropriately reflects realized economic gains.

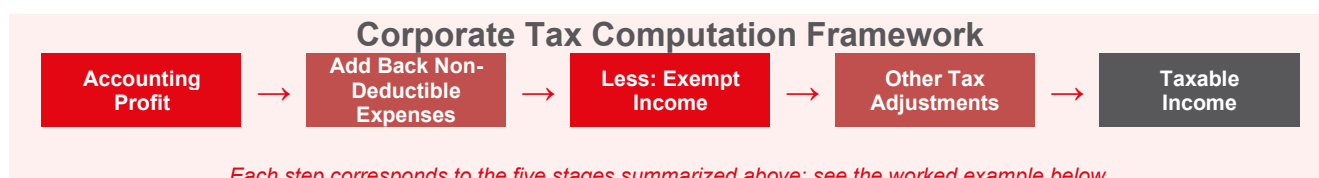
Taxpayers may also have the option to make certain elections under the Corporate Tax Law regarding the treatment of unrealized gains and losses.

Practical Computation of Taxable Income

In practice, the determination of taxable income typically follows the framework illustrated below."

The computation process can generally be summarized as follows:

- Determine accounting profit based on financial statements
- Adjust for non-deductible expenses
- Exclude exempt income
- Apply additional adjustments required under the Corporate Tax Law
- Determine taxable income for the tax period



Example — Corporate Tax Computation

A UAE company reports an accounting profit of AED 2,000,000 per its audited financial statements for the Tax Period. The following adjustments apply:

Step	Item	Amount (AED)
Accounting Profit	Per audited financial statements	2,000,000
Add: Non-deductible expenses	Disallowed portion of entertainment expenses	25,000
	Fines and penalties	20,000
	Interest disallowed under the interest capping rule	30,000
Less: Exempt income	Dividends from a UAE-resident subsidiary (participation exemption)	(100,000)
Less: Other adjustments	Tax losses brought forward utilized (capped at 75% of taxable income before loss relief)	(150,000)
Taxable Income		1,825,000

Corporate Tax is then computed by applying the standard rates to the resulting Taxable Income:

Band	Rate	Tax
First AED 375,000	0%	AED 0
Remaining AED 1,450,000 (AED 1,825,000 – AED 375,000)	9%	AED 130,500
Total Corporate Tax Payable	—	AED 130,500

This framework ensures that Corporate Tax calculations remain closely aligned with financial reporting while incorporating targeted tax adjustments required under the law.

Why each adjustment happens:

- **Entertainment (AED 25,000)** — client entertainment is only partly deductible; the disallowed portion is added back.

- **Fines and penalties (AED 20,000)** — always fully non-deductible, regardless of business purpose.
- **Interest capping (AED 30,000)** — excess net interest expense above the deductible threshold is added back.
- **Dividend exemption (AED 100,000)** — dividends from a qualifying UAE-resident subsidiary are exempt income, so they're removed from the tax base even though they sit inside accounting profit.
- **Tax losses (AED 150,000)** — brought-forward losses can only offset up to 75% of taxable income before the loss relief is applied, not the full amount.

Governance Considerations

Because taxable income is derived directly from accounting profit, the integrity of financial reporting systems plays a critical role in Corporate Tax compliance.

Businesses should therefore ensure that:

- accounting systems accurately capture relevant financial data
- adjustments required under the Corporate Tax Law are appropriately documented
- tax positions are supported by adequate documentation
- appropriate internal controls are implemented for tax reporting processes

Establishing robust governance processes helps reduce the risk of errors in the Corporate Tax computation and supports effective tax compliance.

Taxable Supplies from the VAT Perspective

The Taxable Supplies

Taxable supplies include the sale of goods or the provision of services in exchange for consideration. The value of supply is determined in accordance with the VAT Decree-Law and Executive Regulations, and may include adjustments for discounts, rebates, or benefits provided to customers.

Exempt supplies

Certain supplies are exempted (e.g., supply of bare land, financial services, subsequent supply of residential buildings, and life insurance). Input VAT on costs related to exempt supplies can be non-recoverable, impacting the net VAT liability, which will be considered as a cost.

Zero-Rated Supplies

Certain supplies are zero-rated (e.g., export goods and services, first supply of residential buildings within three years of completion, healthcare, education, international transportation of goods and passengers). Input VAT on costs related to zero-rated supplies is generally recoverable.

Input VAT Recovery (Claimable Expenses)

Businesses may recover VAT incurred on expenses directly related to making taxable supplies. Where expenses relate to both taxable and exempt supplies, input VAT must be apportioned using an appropriate apportionment calculation method (e.g., the standard method or another special method, such as the floorspace method), subject to conditions and FTA guidance.

Governance and Compliance

Accurate VAT reporting depends on:

- ❖ Reliable accounting records.
- ❖ Proper documentation of VAT on supplies and expenses.
- ❖ Application of apportionment rules where needed.
- ❖ Implementation of internal controls for VAT reporting.
- ❖ Correct determination of VAT ensures compliance with the UAE VAT framework and minimizes the risk of penalties or errors.

CHAPTER 4

Corporate Tax Rates and Reliefs



Overview

The UAE Corporate Tax regime applies a tiered tax rate structure designed to maintain the UAE's competitiveness as a business jurisdiction while ensuring that larger businesses contribute to the fiscal framework.

Under Federal Decree-Law No. 47 of 2022, Corporate Tax is generally applied at two rates:

Taxable Income	Applicable Rate
Up to AED 375,000	0%
Above AED 375,000	9%

In addition to the standard rate structure, the Corporate Tax framework provides a number of relief provisions and exemptions intended to facilitate business restructuring, support small businesses, and prevent economic double taxation.

These reliefs play an important role in determining the effective tax liability of businesses operating in the UAE.

Two-Tier CT Rate Structure

Taxable income up to AED 375,000

0%

Taxable income above AED 375,000

9%

Corporate Tax Rate Structure

The UAE Corporate Tax system applies a two-tier rate structure based on the level of taxable income generated during the tax period.

The 0% threshold is designed to support smaller businesses and early-stage companies by ensuring that modest levels of taxable income are not subject to Corporate Tax.

Once taxable income exceeds AED 375,000, the 9% rate applies only to the portion exceeding the threshold, rather than the entire taxable income.

This progressive structure ensures that Corporate Tax liability increases proportionally with business profitability.

Small Business Relief

The Corporate Tax regime includes a specific relief mechanism known as Small Business Relief.

This relief allows qualifying taxpayers with relatively low revenue levels to elect to be treated as having no taxable income for the relevant tax period, effectively eliminating Corporate Tax liability.

To qualify for Small Business Relief, the taxpayer's revenue must not exceed AED 3 million for the relevant tax period and certain preceding tax periods, subject to conditions established by the Ministry of Finance.

Where the relief is elected:

- ✓ the taxpayer is treated as having no taxable income
- ✓ certain Corporate Tax compliance obligations may still apply
- ✓ the relief is available only until the end of the applicable transitional period specified by regulation

Small Business Relief is intended to reduce compliance burdens for smaller enterprises during the initial years of the Corporate Tax regime.

Small Business Relief

**Revenue ≤ AED 3,000,000
may elect to be treated as having no taxable income**

Subject to conditions and the applicable transitional period.

Participation Exemption

The Corporate Tax framework includes a participation exemption regime as per Article 23 of the CT Law and further discussed under Ministerial Decision No.100 of 2023, designed to prevent economic double taxation on income derived from corporate shareholdings.

Under this regime, dividends and capital gains derived from qualifying shareholdings may be exempt from Corporate Tax, provided certain conditions are satisfied.

Typical conditions may include:

- ✓ a minimum ownership interest in the subsidiary
- ✓ a specified holding period
- ✓ the subsidiary being subject to an appropriate level of taxation

Practical Examples

In practice, common applications include:

- Dividend income from subsidiaries:

A UAE holding company receives dividends from a foreign subsidiary — where the participation conditions are met, the income is exempt from Corporate Tax

- Disposal of shares:

A UAE entity disposes of shares in a qualifying subsidiary — any capital gain arising may be exempt, provided ownership and holding period conditions are satisfied

- Group holding structures:

UAE holding companies used within international group structures can receive and distribute profits without additional Corporate Tax leakage

The participation exemption is particularly relevant for holding companies and corporate groups operating across multiple jurisdictions.

Foreign Permanent Establishment Exemption

The UAE Corporate Tax regime provides a Foreign Permanent Establishment Exemption under Article 24 of the UAE CT Law, allowing a Resident Person to elect not to include the income and associated expenditure of its qualifying Foreign Permanent Establishments in its UAE Corporate Tax computation.

The purpose of the exemption is to reduce the risk of double taxation where profits of a foreign branch or permanent establishment are already subject to tax in another jurisdiction.

Where the election is made:

- income attributable to the qualifying Foreign Permanent Establishment is excluded from UAE taxable income;
- expenditure attributable to that Foreign Permanent Establishment is also excluded;
- losses of the Foreign Permanent Establishment are generally not available to offset UAE taxable income; and
- any Foreign Tax Credit relating to the exempt Foreign Permanent Establishment income is not available.

The election generally applies to all qualifying Foreign Permanent Establishments of the Resident Person and should be considered carefully, particularly where some foreign branches are profitable and others are loss-making.

Practical Example - Foreign PE Exemption Election

A UAE company operates a branch in Saudi Arabia and a branch in Oman. During the tax period:

- UAE operations generate AED 4 million profit
- Saudi branch generates AED 2 million profit
- Oman branch generates AED 1 million profit

If the UAE company elects to apply the Foreign Permanent Establishment Exemption and both branches satisfy the qualifying conditions, only the AED 4 million UAE profit would generally be included in the UAE Corporate Tax computation. The AED 3 million foreign branch profits would be excluded.

Intra-Group Transfers

The UAE Corporate Tax regime provides relief for qualifying transfers of assets and liabilities between members of the same qualifying group under Article 26 of Federal Decree-Law No. 47 of 2022 (the "UAE CT Law").

The relief allows qualifying transfers to take place on a tax-neutral basis, meaning that taxable gains or losses that would otherwise arise on the transfer are generally deferred.

Key Conditions

To qualify for the relief:

- Both entities must be UAE Resident juridical persons
- One entity must have a direct or indirect ownership interest of at least 75% in the other entity, or a third person must have a direct or indirect ownership interest of at least 75% in both entities.
- Neither entity may be an Exempt Person or a Qualifying Free Zone Person
- Both entities must apply the same accounting standards and have the same financial year
- The transfer must relate to assets or liabilities held on capital account
- The relevant election must be made where required

Clawback Provisions

The relief may be reversed where:

- The entities cease to satisfy the qualifying group conditions; or
- The transferred asset or liability leaves the qualifying group within two years of the transfer.

Accordingly, groups should carefully monitor ownership structures and subsequent transfers following the transaction.

Practical Example

- Company A owns 100% of Company B.
- Company A transfers machinery with a carrying value of AED 2 million and a market value of AED 3 million to Company B as part of an internal group reorganization.
- Provided all Article 26 conditions are satisfied, the transfer may occur without immediate recognition of the AED 1 million gain for UAE Corporate Tax purposes.
- However, if Company B subsequently disposes of the machinery outside the Qualifying Group within two years of the transfer, the relief may be clawed back and the deferred gain may become taxable.

Practical Example - Transfer of Shares Within a Group

- Company A owns 100% of Company B and Company C. As part of a group restructuring, Company A transfers shares held in Company B to Company C.

At the date of transfer:

- carrying value of the shares is AED 5 million; and market value of the shares is AED 8 million.
- Provided that the requirements under Article 26 of the UAE CT Law are satisfied, the transfer may take place on a tax-neutral basis, and the AED 3 million unrealised gain would not be immediately recognised for Corporate Tax purposes.
- Company C would generally inherit the existing tax value of the shares.
- However, if the qualifying group conditions cease to be met, or the shares are transferred outside the Qualifying Group within two years, the relief may be clawed back and the deferred gain may become taxable.

Business Restructuring Relief

The UAE Corporate Tax regime provides Business Restructuring Relief under Article 27 of Federal Decree-Law No. 47 of 2022 (the "UAE CT Law"), allowing certain qualifying business transfers, mergers and restructuring transactions to take place on a tax-neutral basis.

The relief is intended to facilitate genuine commercial reorganisations without creating an immediate Corporate Tax liability where ownership and economic interests continue within the restructuring arrangement.

Business Restructuring Relief may apply to transactions such as:

- ✓ Mergers of companies
- ✓ Demergers or business separations
- ✓ Transfers of an entire business or an independent part of a business
- ✓ Transfers of assets and liabilities as part of a qualifying restructuring

Where all conditions are satisfied, assets and liabilities may generally be transferred at their existing net book value without the immediate recognition of taxable gains or losses.

Key Conditions

To qualify for the relief:

- The transaction must fall within one of the restructuring arrangements contemplated by Article 27
- The transfer must be undertaken for valid commercial or other non-fiscal reasons
- The relevant election must be made
- The business or part of the business being transferred must constitute an independent business activity
- The prescribed conditions must continue to be satisfied following the restructuring

Additional Technical Considerations

- Relief applies only where transactions are undertaken for valid commercial reasons and not primarily to obtain a tax advantage
- Assets and liabilities are generally transferred at net book value for Corporate Tax purposes
- Clawback provisions may apply if the prescribed conditions cease to be satisfied within the relevant monitoring period
- The interaction with transfer pricing rules should also be considered where related parties are involved

Practical Example

- Company A transfers a manufacturing division, including its related assets and liabilities, to Company B as part of an internal group restructuring.
- The transferred division constitutes an independent business activity, and the transaction is undertaken to centralise manufacturing operations within the group.
- Provided the Article 27 conditions are satisfied, and the relevant election is made, the transfer may take place without immediate recognition of taxable gains or losses for UAE Corporate Tax purposes.
- However, if the restructuring conditions subsequently cease to be satisfied during the applicable monitoring period, the relief may be withdrawn, and the deferred gains may become taxable.
- When applying Corporate Tax rates and relief provisions, businesses should carefully evaluate whether the conditions for relief have been satisfied.

Key considerations include:

- maintaining documentation supporting the application of relief provisions
- ensuring ownership thresholds are satisfied where required
- monitoring holding periods associated with exemptions or transfers
- considering the long-term implications of tax elections

Failure to meet the required conditions may result in previously deferred gains becoming taxable.

CHAPTER 5

Free Zone Taxation



Overview

The UAE Corporate Tax regime provides a preferential tax framework for certain Free Zone entities that meet the conditions of a Qualifying Free Zone Person (QFZP) which has been set out under Article 18 of the CT Law.

This regime allows qualifying entities to benefit from a 0% Corporate Tax rate on qualifying income, while income that does not meet the qualifying criteria may be subject to the standard 9% Corporate Tax rate.

The Free Zone regime was designed to maintain the UAE's attractiveness as an international business hub while ensuring that activities conducted within the domestic economy remain appropriately taxed.

The detailed rules governing the Free Zone Corporate Tax regime are primarily set out in:

- Federal Decree-Law No. 47 of 2022
- Cabinet Decision No. 100 of 2023 on Qualifying Income
- relevant Ministerial Decisions and FTA guidance

Qualifying Free Zone Person (QFZP) Income Split

Qualifying Income
0% Corporate Tax

Non-Qualifying / Excluded Income
9% Corporate Tax

Applies only where the entity meets the Qualifying Free Zone Person conditions under Article 18 of the CT Law.

Free Zone Entities and Corporate Tax

Entities established within UAE Free Zones are not automatically exempt from Corporate Tax. Instead, Free Zone entities are treated as taxable persons under the Corporate Tax Law, but may benefit from the preferential regime where the relevant conditions are satisfied.

This means that Free Zone entities must generally:

- register for Corporate Tax
- maintain financial statements
- file Corporate Tax returns

The preferential tax treatment applies only where the entity qualifies as a Qualifying Free Zone Person.

Qualifying Free Zone Person (QFZP)

A Free Zone entity may benefit from the 0% Corporate Tax rate where it satisfies the conditions required to be treated as a Qualifying Free Zone Person.

Key conditions include:

- ✓ the entity must be incorporated or registered in a Free Zone
- ✓ the entity must maintain adequate economic substance in the UAE
- ✓ the entity must derive qualifying income
- ✓ the entity must comply with transfer pricing requirements
- ✓ the entity must prepare audited financial statements

Where these conditions are satisfied, the entity may benefit from the preferential tax regime. Failure to meet any of these conditions may result in the entity losing its QFZP status.

Qualifying Income

The preferential 0% Corporate Tax rate applies only to qualifying income earned by a QFZP as set out in Ministerial Decision 55 of 2023.

Qualifying income generally includes income derived from Qualifying Activities as enlisted below:

The classification of income as qualifying or non-qualifying is therefore a critical element of the Free Zone tax regime.

Qualifying Activities

Under Ministerial Decision No. 229 of 2025, the following activities are treated as Qualifying Activities, subject to the detailed conditions applicable to each activity:

- manufacturing of goods or materials;
- processing of goods or materials;
- trading of Qualifying Commodities;
- holding shares and other securities for investment purposes;
- ownership, management and operation of ships;
- reinsurance services;
- fund management services;

- wealth and investment management services;
- headquarters services provided to Related Parties;
- treasury and financing services provided to Related Parties or undertaken for the QFZP's own account;
- financing and leasing of aircraft;
- distribution of goods or materials in or from a Designated Zone;
- logistics services; and
- activities that are ancillary to any of the above Qualifying Activities.

An activity is considered ancillary where it is necessary for performing the main Qualifying Activity or makes only a minor contribution and is so closely related to the main activity that it should not be regarded as a separate activity.

The nature of the activity must be assessed based on the actual functions performed rather than solely by reference to the activities stated on the entity's commercial licence. The specific statutory conditions must also be satisfied. For example, distribution must be conducted in or from a Designated Zone and the relevant goods must be supplied to an eligible customer.

Excluded Activities

Certain activities are specifically excluded from the qualifying income framework as set out in Ministerial Decision No. 229 of 2025 (which repealed and replaced the earlier Ministerial Decision No. 265 of 2023, itself an amendment to Ministerial Decision No. 139 of 2023).

Where a Free Zone entity derives income from excluded activities, that income will generally be subject to the standard Corporate Tax rate.

Examples of excluded activities may include:

- transactions involving natural persons in certain cases
- regulated financial activities
- certain ownership or exploitation of immovable property located in the UAE mainland

The treatment of excluded activities depends on the detailed provisions contained in the relevant Cabinet Decisions.

Mainland Transactions

The interaction between Free Zone entities and mainland UAE businesses is a key element of the Corporate Tax framework.

Where a QFZP derives income from transactions with mainland UAE persons, that income will generally be treated as non-qualifying income, unless it falls within specific categories permitted under the legislation.

In such cases, the relevant portion of income may be subject to the 9% Corporate Tax rate.

This rule ensures that businesses operating within the domestic UAE market are subject to the standard Corporate Tax regime

De Minimis Rule

The Free Zone regime includes a de minimis rule, which allows a QFZP to earn a limited amount of non-qualifying income without losing its preferential tax status.

Under this rule, the entity may continue to qualify for the 0% Corporate Tax rate where non-qualifying income does not exceed the prescribed threshold.

The threshold is generally determined by reference to a percentage of total revenue or a specified monetary amount.

Where the de minimis threshold is exceeded, the entity may lose its QFZP status for the relevant period.

Consequences of Losing QFZP Status

Where a Free Zone entity fails to satisfy the conditions required to be treated as a Qualifying Free Zone Person, it will generally become subject to the standard Corporate Tax regime.

This means the entity will be taxed at the 9% Corporate Tax rate on its taxable income, similar to mainland businesses.

Loss of QFZP status may also apply for a specified period of time, meaning the entity cannot immediately requalify for the preferential regime.

As a result, maintaining compliance with the QFZP conditions is an important governance consideration for Free Zone entities.

Audit Requirement

Free Zone entities seeking to benefit from the preferential Corporate Tax regime must generally prepare audited financial statements.

The audit requirement supports the integrity of the Free Zone tax framework by ensuring that financial reporting used for Corporate Tax purposes is reliable and subject to independent verification.

Failure to maintain audited financial statements may result in the entity being unable to benefit from the QFZP regime.

As per the recently issued FTA Decision No. 6 of 2026 (effective for tax periods starting on or after 1 January 2026), free zone entities engaged in Qualifying Activity of distribution of goods or materials in or from a Designated Zone must submit an 'Agreed upon procedures report' prepared by a licensed auditor which would certify that the Free Zone entity is meeting the specified conditions to claim Free Zone relief by performing distribution activities.

Ongoing Monitoring Requirements

Maintaining QFZP status requires ongoing monitoring of business activities and income sources. Businesses operating in Free Zones should regularly assess:

- whether their income continues to qualify under the relevant rules
- whether transactions with mainland entities may affect qualifying income status
- whether economic substance requirements continue to be satisfied

Regular review of these factors is necessary to ensure continued eligibility for the preferential Corporate Tax regime.

Free Zone and Designated Free Zone from the VAT Perspective

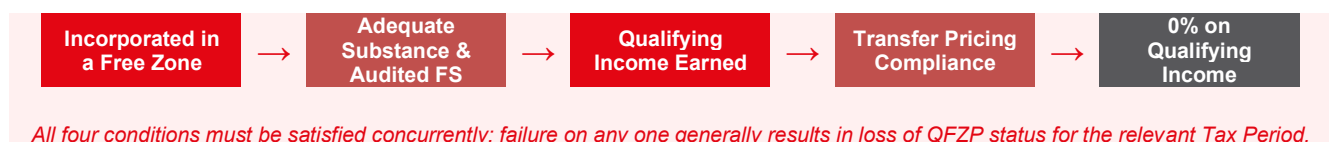
Free Zone: Areas established under UAE law that offer specific business incentives, such as customs exemptions and foreign ownership.

Designated Zone: Any area specified by a Cabinet Decision issued at the suggestion of the Minister, as a Designated Zone for tax purposes.

Practical Example - Designated Zone

- Dubai Airport Free Zone (DAFZA)
- Khalifa Industrial Zone (KIZAD)

QFZP Status — Decision Flow



VAT Treatment for Designated Zone Consumption of Goods in a Designated Zone:

- Where goods are supplied within a Designated Zone to a person for consumption by that person or another party, the place of supply is considered to be within the State.
- Accordingly, the supply is treated as taking place in the UAE and VAT applies under the normal rules.

Supply of Services in Designated Zones:

- For VAT purposes, according to VATGDZ1, the place of supply of services is treated as being in the UAE mainland, even if, under the normal place of supply rules, it would fall within a Designated Zone. In other words, services supplied in Designated Zones are always considered to be supplied within the UAE.
- Accordingly, such services are subject to VAT in line with the general VAT rules applicable to those services. There are no special concessions for services provided in Designated Zones.
- As a result, most services will be subject to VAT at the standard rate, just as if they were performed in the mainland. However, where services qualify as exports, they may be zero-rated, subject to meeting the relevant conditions.

Transfer of Goods into a Designated Zone:

The following general rules apply to the movement of goods into a Designated Zone:

From outside the UAE to a Designated Zone: This is outside the scope of UAE VAT, as the movement is considered to be from outside the UAE to outside the UAE.

- **From the UAE mainland to a Designated Zone:** This is treated as a local supply and subject to VAT accordingly. It is not regarded as an export from the UAE.
- **Between Designated Zones:** The transfer is considered outside the scope of UAE VAT, provided that both of the following conditions are met:
 - The goods, in whole or in part, are not released for circulation, used, or altered in any way during the transfer; and
 - The transfer is carried out in accordance with the Customs suspension procedures under the GCC Common Customs Law.

Import of Goods from a Designated Zone:

- The movement of goods from a Designated Zone to the UAE mainland is treated as an import into the UAE. Accordingly, import VAT is payable by the importer.

Summary:

Transaction Type	VAT Treatment	Notes / Conditions
Consumption of Goods within a Designated Zone	Treated as supplied within the UAE (State) – VAT applies under normal rules	
Supply of Services in a Designated Zone	Always treated as supplied in the UAE mainland – subject to normal VAT rules	No special VAT concessions. Most services are subject to 5% VAT. Exported services may be zero-rated if conditions are met.
Transfer of Goods: Outside UAE → Designated Zone	Outside the scope of UAE VAT	Treated as movement from outside UAE to outside UAE.
Transfer of Goods: Mainland UAE → Designated Zone	Treated as local supply – VAT applies	Not considered an export.
Transfer of Goods Between Designated Zones	Outside the scope of UAE VAT	Conditions: (1) Goods not released, used, or altered during transfer; (2) Transfer complies with GCC Customs suspension rules.
Movement of Goods: Designated Zone → Mainland UAE	Treated as import into the UAE – Import VAT payable	Import VAT is payable by the importer.

Practical Examples

Where a manufacturer in a Designated Zone purchases raw materials, such as steel, to produce machinery, the supply of the raw materials is treated as outside the scope of UAE VAT. Although the materials are physically used, they are incorporated into another product that will be sold. Since the materials form part of another good and are not consumed independently, the exception applies.

Where a manufacturer purchases tools, molds, or equipment that are directly used in the production process, the supply may also be treated as outside the scope of VAT. Even though the tools are used, they are applied directly in manufacturing goods that are not consumed within the Designated Zone, and therefore fall within the production exception.

However, goods purchased for general business operations—such as office furniture, office computers, stationery, fuel for company vehicles, or food for employees—are treated differently. These goods are consumed by the business and are not incorporated into another product. Accordingly, such supplies fall within the scope of UAE VAT and are subject to VAT at the standard rate.

If goods are moved from a Designated Zone to the UAE mainland, the movement is treated as an import into the UAE. As a result, import VAT becomes payable by the importer of the goods.

CHAPTER 6

Tax Groups



TAX GROUP QUALIFYING GROUP

Overview

The UAE Corporate Tax regime allows certain related companies to form a tax group, enabling the group to be treated as a single taxable person for Corporate Tax purposes as set out under Article 40 of the CT Law.

The tax grouping provisions are intended to simplify tax administration for corporate groups by allowing the consolidation of taxable income and losses across group members.

Where a tax group is formed:

- the parent company becomes responsible for Corporate Tax compliance for the entire group
- the group files a single Corporate Tax return
- taxable income is calculated on a consolidated basis

Tax grouping can provide administrative efficiencies and may allow losses of one group member to offset profits of another.

Tax Group Structure (Illustrative)

Parent Company

Subsidiary A
(100% owned)

Subsidiary B
(96% owned)

Once approved, the Tax Group is treated as a single taxable person filing one consolidated Corporate Tax return.

Formation of a Tax Group

The UAE Corporate Tax regime allows qualifying UAE entities to elect to form a Tax Group under Articles 40 to 42 of Federal Decree-Law No. 47 of 2022 (the "UAE CT Law"). Once approved by the Federal Tax Authority ("FTA"), the Tax Group is treated as a single taxable person for UAE Corporate Tax purposes.

A Tax Group may provide administrative simplification and allow current period profits and losses of group members to be consolidated within a single Corporate Tax return.

Tax Group Formation Process

To form a Tax Group:

- Confirm that the Parent Company and all proposed subsidiaries satisfy the eligibility conditions under Article 40 of the UAE CT Law
- Confirm that the required ownership thresholds are met
- Ensure all entities use the same financial year and accounting standards
- Submit the relevant Tax Group application to the FTA
- Obtain approval from the FTA
- Prepare and file a single Corporate Tax return for the Tax Group

Once approved, the Parent Company becomes responsible for the administration and compliance obligations of the Tax Group.

Practical Example

- Parent Co owns 100% of Subsidiary A and 96% of Subsidiary B.
- All entities are UAE Resident juridical persons, apply the same accounting standards and have a 31 December year-end.
- As the ownership and eligibility conditions are satisfied, the entities may apply to form a Tax Group. Following FTA approval, a single Corporate Tax return may be filed for the Tax Group.

If Parent Co owned only 94% of Subsidiary B, Subsidiary B would not satisfy the 95% ownership requirement and could not join the Tax Group.

Practical Example - Consolidation of Taxable Income

- Parent Company owns 100% of Subsidiary A and Subsidiary B, and all entities have elected to form a Tax Group.

During the Tax Period:

- Parent Company generates taxable income of AED 5 million
- Subsidiary A generates taxable income of AED 2 million
- Subsidiary B incurs a tax loss of AED 1 million

As the entities form a Tax Group, the results of all members are consolidated and a single taxable income calculation is prepared.

The AED 1 million loss of Subsidiary B may reduce the profits of the Tax Group, resulting in consolidated taxable income of AED 6 million.

The Parent Company files one Corporate Tax return on behalf of the Tax Group.

Eligibility Criteria

In order to form a tax group, several conditions must be satisfied. Key requirements include:

- ✓ the parent company must directly or indirectly hold at least 95% of the share capital, voting rights, and entitlement to profits and net assets of the subsidiary.
- ✓ the entities must be UAE resident juridical persons
- ✓ the entities must have the same financial year
- ✓ the entities must prepare financial statements using the same accounting standards

In addition, certain entities may not be eligible to join a tax group, including:

- entities that qualify as exempt persons
- Qualifying Free Zone Persons benefiting from the 0% regime
- entities subject to a different Corporate Tax rate

These conditions ensure that only entities operating under the same tax framework may form part of a tax group.

Responsibilities of the Parent Company

Where a tax group is formed, the parent company assumes responsibility for Corporate Tax compliance on behalf of the group.

The parent company must:

- submit the Corporate Tax return for the tax group
- calculate the consolidated taxable income
- pay the Corporate Tax liability for the group

Although the parent company manages compliance obligations, each group member remains jointly and severally liable for the tax liabilities of the group.

This means that the Federal Tax Authority may seek recovery of tax from any member of the group if necessary.

Consolidation of Taxable Income

When a tax group is formed, the taxable income of all members of the group is consolidated into a single taxable income calculation as set out under Article 42 of the CT Law.

This involves:

- aggregating income and expenses of all group members
- eliminating transactions between group members where appropriate
- determining the consolidated taxable income of the group

The consolidated taxable income is then subject to the applicable Corporate Tax rate.

This consolidation mechanism allows losses incurred by one group member to offset profits of another member, which can reduce the overall tax liability of the group.

Entry and Exit of Group Members

Entities may join or leave a tax group during its existence, provided the eligibility conditions continue to be satisfied as set out under Article 41 of the CT Law.

Where a new subsidiary becomes eligible, the parent company may apply for that entity to join the tax group. Similarly, where an entity ceases to meet the eligibility criteria, it may be required to exit the tax group.

Changes in group composition may require adjustments to the consolidated taxable income calculations.

Businesses should therefore monitor ownership structures and eligibility conditions to ensure continued compliance with tax group requirements.

Financial Statement Considerations

Members of a tax group must prepare financial statements in a manner that allows the consolidated taxable income of the group to be determined as set out under Article 42 of the CT Law and further mentioned under Ministerial Decision of 84 of 2025.

Where group members maintain separate accounting records, the parent company must ensure that these records are appropriately consolidated for Corporate Tax purposes.

Consistency in accounting standards and financial reporting periods is therefore essential for effective tax group administration.

Practical Considerations

Businesses considering the formation of a tax group should evaluate both the administrative and tax implications.

Key considerations include:

- whether group losses can be effectively utilized through consolidation
- the administrative benefits of filing a single Corporate Tax return
- the implications of joint liability for Corporate Tax obligations

Tax grouping may be beneficial for groups with multiple operating entities, particularly where profitability varies across different companies within the group.

Tax Group Formation — Key Conditions

Tax Group eligibility conditions at a glance

Condition	Requirement
Ownership	Parent holds $\geq 95\%$ of share capital and voting rights of each subsidiary
Residency	All members are UAE Resident Persons (or UAE PEs, subject to conditions)
Accounting period	All members share the same Financial Year
Accounting standard	All members apply the same accounting standards
Exclusions	Exempt Persons and Qualifying Free Zone Persons generally cannot join a Tax Group

The Tax Group from the VAT Perspective:

VAT grouping is allowed, provided certain conditions are met. Note that VAT grouping rules are different from UAE CT grouping rules, and such groups may not always align.

The UAE VAT regime allows related entities to form a VAT group, enabling them to be treated as a single taxable person for VAT purposes under Federal Decree-Law No. 8 of 2017.

VAT grouping is intended to simplify compliance and reduce administrative burdens for corporate groups by allowing consolidated reporting.

Where a VAT group is formed:

- A single VAT registration is issued,
- One VAT return is filed for the entire group,
- Transactions between group members are disregarded for VAT purposes (Out of scope).

Formation of a VAT Group:

A VAT group may be formed where two or more persons meet the eligibility criteria. To form a VAT group:

- an application must be submitted to the Federal Tax Authority (FTA)
- a parent or representative member is nominated.
- approval must be obtained from the FTA.

Conditions for Formation of a VAT Group:

Two or more Persons conducting Business may apply for Tax Registration as a Tax Group if all of the following conditions are met:

- Each Person shall have a Place of Establishment or Fixed Establishment in the State.
- The relevant Persons shall be Related Parties.
- One or more Persons conducting Business in a partnership shall control the others.

Responsibilities of the Representative Member:

The representative member is responsible for VAT compliance on behalf of the group, including:

- Filing VAT returns on behalf of the entire group.
- Paying VAT liabilities.
- Maintaining records.
- All members of the VAT group are jointly and severally liable for the VAT obligations of the group.

Treatment of Transactions:

- **Intra-group transactions:** Disregarded for VAT purposes (no VAT charged).
- **Transactions with third parties:** Subject to normal VAT rules.

Amendments to a Tax Group:

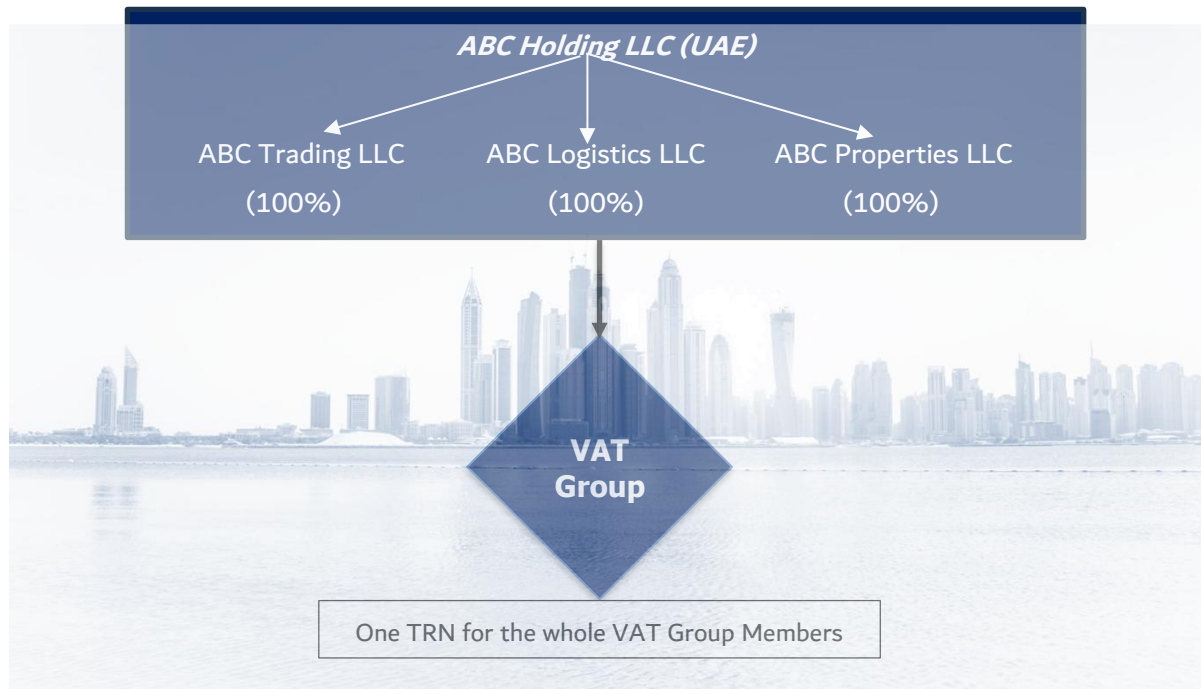
The representative member appointed may apply to the Authority to do any of the following:

- Add another Person to become a member of the Tax Group.
- Remove one of the members of that Tax Group.
- Nominate another member of the Tax Group to be the representative member with the consent of the other member.
- Deregister that Tax Group.

Where a person leaves a VAT Group but remains VAT registered, it is responsible for accounting for any VAT adjustments relating to taxable supplies made or taxable expenses incurred while it was a member of the VAT Group, even if those transactions were originally reported in the VAT returns of the VAT Group. Such adjustments may include reductions to previously declared taxable supplies or input VAT previously recovered on taxable expenses. The registrant must retain sufficient supporting documentation to demonstrate that the adjustments relate to transactions previously reported by the VAT Group, in accordance with the UAE VAT legislation.

Practical Examples - VAT Group

1. Parent Company & Wholly-Owned Subsidiaries



VAT Treatment

- ❖ All companies are UAE residents.
- ❖ Same ultimate owner.
- ❖ Financial, economic and organizational control exists.
- ❖ One VAT registration.
- ❖ Supplies between members are disregarded for VAT purposes (Out of Scope).

Practical Example

ABC Trading sells goods to ABC Logistics. Normally:

- AED 1,000,000 + 5% VAT

Inside VAT Group:

- No VAT charged.

2. UAE Company & Foreign Company:***VAT Position***

Only UAE Manufacturing LLC is established in the UAE. UK company doesn't have a UAE establishment.

Result:

Cannot form one UAE VAT Group.

Key Point:

All VAT Group members must be established in the UAE.

CHAPTER 7

Losses and Utilization



Overview

The UAE Corporate Tax regime allows businesses to carry forward tax losses arising from prior tax periods in order to offset future taxable income as set out under Article 37 of the CT Law.

The tax loss rules are intended to ensure that Corporate Tax is applied on a net economic profit basis, recognizing that businesses may incur losses in certain periods before generating taxable profits in later periods.

The Corporate Tax Law establishes specific rules governing:

- the carry forward of tax losses
- the utilization of tax losses against future taxable income
- the transfer of tax losses within corporate groups
- restrictions related to changes in ownership

These rules ensure that tax losses are used appropriately while preventing misuse of loss-making entities.

Loss Utilisation — Worked Example

Taxable income before losses	AED 1,000,000
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Maximum loss utilisation (75%)	AED 750,000
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Taxable income after losses	AED 250,000
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Illustrative example: tax losses may generally offset up to 75% of taxable income in a tax period (Article 37, CT Law).

Carry Forward of Tax Losses

Where a business incurs a tax loss in a tax period, that loss may generally be carried forward to future tax periods.

A tax loss arises where the deductible expenses and allowable adjustments exceed taxable income during a particular tax period.

The amount of tax loss available for carry forward is determined after applying the adjustments required under the Corporate Tax Law.

Unlike some tax systems, the UAE Corporate Tax regime does not impose a time limit on the carry forward of tax losses, provided the relevant conditions continue to be satisfied.

This allows businesses to utilize losses against taxable profits in future periods as they arise.

Practical Example

A Taxable Person has taxable income of AED 1,000,000 before applying brought-forward Tax Losses. The Taxable Person has AED 800,000 of available carried-forward Tax Losses.

Under Article 37 of the UAE CT Law, the Taxable Person may generally offset up to 75% of its taxable income using carried-forward Tax Losses.

Accordingly:

- Taxable income before losses: AED 1,000,000
- Maximum loss utilisation (75%): AED 750,000
- Taxable income after losses: AED 250,000
- Remaining Tax Loss carried forward: AED 50,000

Limitation on Loss Utilization

The Corporate Tax Law imposes a limitation on the extent to which tax losses carried forward may be utilized in a given tax period.

Tax losses may generally be used to offset up to 75% of the taxable income of the relevant tax period.

This means that at least 25% of taxable income remains subject to Corporate Tax, even where sufficient losses are available to fully offset profits.

Taxable Income	Available Tax Loss	Maximum Offset (75%)
AED 1,000,000	AED 800,000	AED 750,000

In this scenario, AED 750,000 of tax losses may be utilized, leaving AED 250,000 subject to Corporate Tax.

Practical Example - Limitation on Loss Utilization

A Taxable Person has taxable income of AED 1,000,000 before applying brought-forward Tax Losses. The Taxable Person has AED 800,000 of available carried-forward Tax Losses.

Under Article 37 of the UAE CT Law, the Taxable Person may generally offset up to 75% of its taxable income using carried-forward Tax Losses.

Accordingly:

- Taxable income before losses: AED 1,000,000
- Maximum loss utilization: AED 750,000
- Taxable income after losses: AED 250,000
- Remaining Tax Loss carried forward: AED 50,000

Transfer of Losses Within Groups

The Corporate Tax regime allows the transfer of tax losses between certain related entities, provided specific conditions are satisfied as set out under Article 38 of the CT Law.

Loss transfers may occur where:

- both entities are UAE resident juridical persons
- the entities maintain sufficient ownership linkage
- both entities are subject to Corporate Tax in the UAE

This mechanism allows losses incurred by one group entity to be utilized by another entity within the same corporate group, even where a formal tax group has not been established.

The ability to transfer losses can be particularly beneficial for groups with multiple operating entities experiencing different levels of profitability.

Practical Example

Company A and Company B are UAE Resident juridical persons and are both 80% owned by the same Parent Company.

During the Tax Period:

- Company A incurs a Tax Loss of AED 500,000
- Company B generates taxable income of AED 1,000,000

Subject to satisfying the conditions under Article 38 of the UAE CT Law, Company A may transfer its Tax Loss to Company B.

Company B may then utilise the transferred Tax Loss, subject to the applicable utilization limitations under the UAE Corporate Tax regime.

Ownership Change Restrictions

Under Article 39 of the UAE CT Law, restrictions may apply to the utilization of Tax Losses where there has been a significant change in the ownership of a Taxable Person.

These rules are intended to prevent the acquisition of entities primarily for the purpose of accessing and utilising historic Tax Losses.

Generally, Tax Losses may continue to be carried forward where:

- the same person or persons continue to hold at least 50% ownership of the Taxable Person; or
- where ownership changes by more than 50%, the Taxable Person continues to carry on the same or a similar business that generated the Tax Losses.

The ownership continuity provisions require businesses to consider both changes in ownership and the nature of the activities being conducted following the acquisition.

Accordingly, businesses undertaking acquisitions, reorganizations or ownership changes should assess the potential impact on the availability of carried-forward Tax Losses as part of the transaction planning process.

The ownership change restrictions are designed to ensure that Tax Losses remain connected to the economic activity that originally generated them. Where a substantial ownership change occurs, businesses should assess whether the activities, assets, operations, employees and overall commercial profile of the business remain consistent after the ownership change.

The assessment of whether the same or similar business continues is based on the specific facts and circumstances. Changes in ownership alone do not automatically prevent the utilization of Tax Losses, provided the conditions under Article 39 of the UAE CT Law continue to be satisfied.

Practical Example

- Company X generated Tax Losses of AED 2 million.
- Subsequently, a new investor acquired 100% of the shares in Company X and completely changed the business activity from manufacturing to real estate development.
- As the company no longer carries on the same or a similar business, the Tax Losses may no longer be available for utilization, subject to the detailed conditions of Article 39 of the UAE CT Law.

Practical Example - Ownership Change Where Tax Losses Remain Available

- Company A generated Tax Losses of AED 1 million from its trading activities.
- A new investor subsequently acquired 70% of the shares in Company A. Following the acquisition, Company A continued operating the same trading business and there were no significant changes to its core activities.
- Although there was a change in ownership exceeding 50%, the Tax Losses may continue to be available for utilisation provided the same or similar business requirement under Article 39 of the UAE CT Law is satisfied.

Interaction with Tax Groups

Where companies form a tax group, tax losses may be utilized at the group level through the consolidated taxable income calculation.

In such cases:

- profits and losses of group members are consolidated
- losses incurred by one member may offset profits of another member within the same tax group

This consolidation mechanism can reduce the need for separate loss transfer arrangements between entities.

However, the tax group rules must be carefully considered when determining the optimal structure for loss utilization.

Same-or-Similar Business Test (Following a ≥50% Ownership Change)

Same Assets
Uses some or all of the same assets as before the ownership change

No Core Change
No significant changes to the core identity or operations of the business

Organic Development Only
Any changes result only from developing/exploiting pre-existing assets or processes

All conditions are generally relevant in determining whether losses incurred before a major ownership change remain usable (Article 39, CT Law).

Tax Losses incurred in a Tax Period may generally be carried forward and offset against Taxable Income in subsequent Tax Periods, subject to a maximum utilization of 75% of the Taxable Income of the Tax Period in which the loss is offset, as set out under Article 37 of the CT Law.

Continuity of Ownership and Business Activity Requirement

Where there is a change of 50% or more in the ownership of a Taxable Person, Tax Losses incurred prior to the change may only continue to be utilized if the Taxable Person continues to conduct the same or a similar business following the change in ownership.

Same or similar business following a change of ownership is determined by:

- the Taxable Person uses some or all of the same assets as before the ownership change;
- the Taxable Person has not made significant changes to the core identity or operations of its Business since the ownership change; and
- where there have been any changes, these result from the development or exploitation of assets, services, processes, products or methods that existed before the ownership change.

Restrictions on Loss Transfer

- Losses may not be transferred between a Tax Group member and another entity where the 75% common ownership threshold for Tax Group relief is not met
- Losses incurred prior to the Corporate Tax regime taking effect (pre-1 June 2023) generally cannot be carried forward and utilized against post-regime income
- Losses attributable to a Qualifying Free Zone Person's Exempt Income cannot be used to offset Taxable Income subject to the standard Corporate Tax rate

CHAPTER 8

Transfer Pricing



Overview

Transfer Pricing refers to the pricing of transactions between Related Parties and Connected Persons. The objective is to ensure that the pricing of these transactions is not influenced by the relationship between the parties but is instead based on the Arm's Length Principle (ALP) as set out under Article 34 to Article 36 of the CT Law.

Arm's Length Principle

In accordance with Article 34 of the CT Law, a transaction between Related Parties or Connected Persons must be consistent with the ALP. The objective is to ensure that related party transactions are conducted as if the parties were independent. The arm's length result of a transaction or arrangement between Related Parties must be determined by applying one or a combination of the following transfer pricing methods:

Method	Best suited for	How it works
Comparable uncontrolled price (CUP) method	Transactions with close, high-quality comparables	Compares the price charged in the controlled transaction to the price in a comparable uncontrolled transaction. The most direct method where reliable comparable data exists.
Resale Price Method (RPM)	Distribution / marketing activities with limited value-add	Evaluates the gross margin earned by a distributor reselling to independent customers. Most effective where the reseller does not significantly transform the product.
Cost Plus Method (CPM)	Routine manufacturing, assembly, or service	Adds an appropriate gross profit mark-up to the direct and indirect costs incurred by a related-party supplier.

	activities	
Profit Split Method (PSM)	Highly integrated operations involving unique, valuable intangibles on both sides	Allocates the combined operating profit/loss between related parties based on the relative value of each party's contribution.
Transactional net margin method (TNMM)	Most controlled transactions globally	Examines net profit margin relative to an appropriate base (costs, sales, or assets). Most frequently used method as it is less sensitive to functional or product differences.
Other Method	Cases where no standard method can be reliably applied	Any alternative technique (e.g., discounted cash flow, quotation-based pricing), provided the result is demonstrably consistent with the ALP.

The choice of a transfer pricing method must be based on the most reliable method for the specific transaction taking into account factors such as the contractual terms of the transaction, economic circumstances, the functions performed, assets employed, and risks assumed by the Related Parties, the business strategies employed by the Related Parties.

As per Article 34 of the UAE CT Law, the application of the TP Method may result in a range of comparables and all of them could be considered as relatively equally reliable. In this case the FTA has clarified in the Guide that in these situations the Interquartile Range (25th to 75th percentile) should be used to enhance the reliability of the analysis.

Transfer Pricing Methods

CUP
Comparable
Uncontrolled Price
Compares price to a
comparable
uncontrolled transaction

RPM
Resale Price Method
Evaluates gross margin
earned by a distributor
on resale

CPM
Cost Plus Method
Adds an arm's-length
mark-up to costs
incurred

PSM
Profit Split Method
Allocates combined
profit based on relative
contribution

The most appropriate method depends on the transaction's nature, comparable data availability, and functional profile of the parties.

Downward Transfer Pricing Adjustments

The FTA has released Public Clarification CTP011 on 15 July 2026, providing guidance on downward transfer pricing adjustments made by a Taxable Person in the Corporate Tax Return under Article 34(1) of the Corporate Tax Law. The FTA has clarified that where transactions or arrangements with Related Parties are not recorded at arm's length in the Financial Statements, a Taxable Person must make an appropriate transfer pricing adjustment either upward or downward in the Tax Return.

Self-assessment basis: No prior FTA approval is required to make a downward adjustment. The adjustment is self-assessed by the Taxable Person, though it remains subject to review as part of a Tax Audit.

	Upward Adjustment	Downward Adjustment
Meaning	Transaction priced above arm's length; Taxable Income is	Transaction priced below arm's length; Taxable Income is

	increased to align with the arm's length result	decreased to align with the arm's length result
Disclosure	Required only where RPTs exceed the AED 40 million aggregate / AED 4 million per-category thresholds	Required irrespective of the value or nature of the transaction
Corresponding adjustment	Not Applicable	The Related Party must make a symmetrical (upward) adjustment

Documentation required to support a downward adjustment:

- Rationale demonstrating how the revised figure satisfies the arm's length standard
- Benchmarking study supporting the adjustment
- Reconciliation of Financial Statement values against arm's length values

Practical Example

- Company A (UAE) sells goods to related Company B under an intercompany agreement recorded at AED 12 million in its Financial Statements.
- A benchmarking study shows the arm's length range is AED 9 million–AED 10 million, with a midpoint of AED 9.5 million.
- As AED 12 million exceeds the arm's length range, Company A is required to make a downward adjustment of AED 2.5 million (AED 12 million – AED 9.5 million) to its Taxable Income.
- Company A discloses the AED 2.5 million adjustment in its Tax Return with supporting rationale and confirms that Company B makes a corresponding symmetrical upward adjustment of AED 2.5 million in its own return.

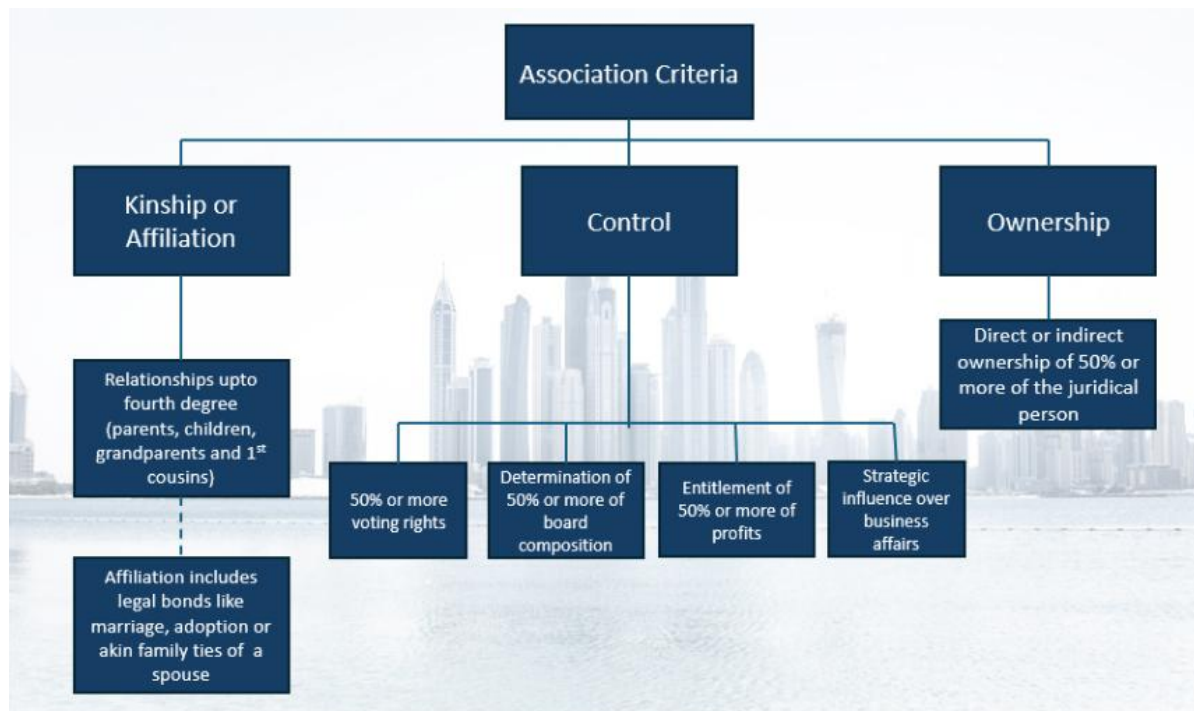
Related Parties and Connected Persons

The scope of Transfer Pricing extends to two categories of persons - Related Parties and Connected Persons.

Related Parties

Related Parties is defined under Article 35 of the CT Law and the following represent the main criteria:

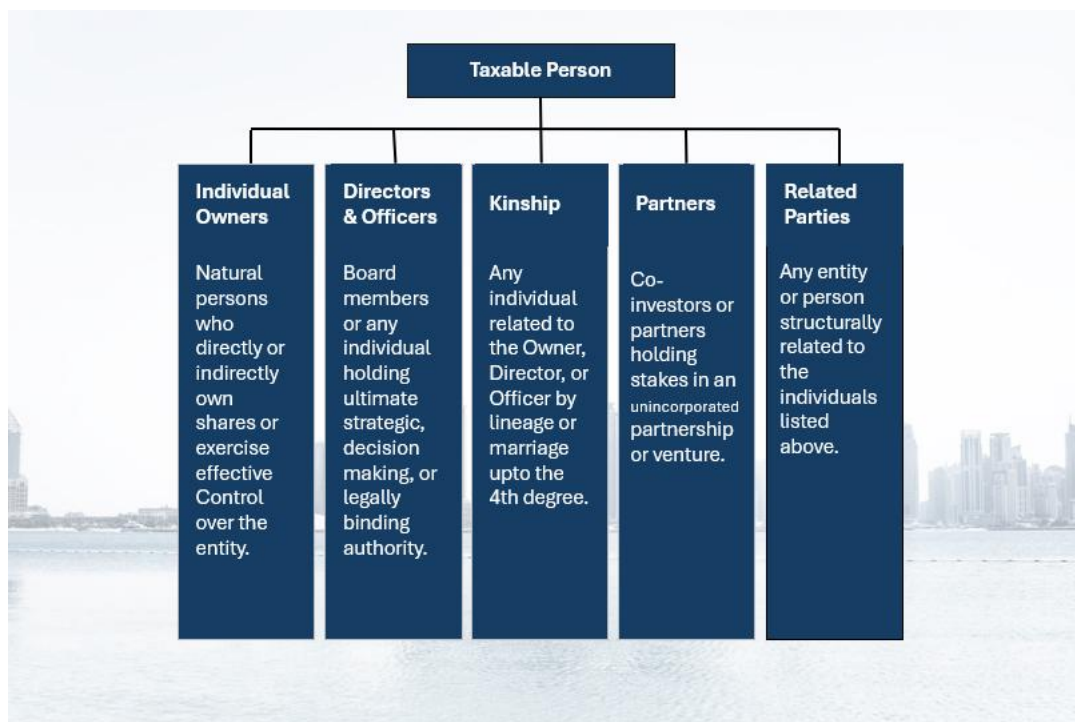
- ✓ Kindship or affiliation
- ✓ Control
- ✓ Ownership
- ✓ A Person and its Permanent Establishment or Foreign Permanent Establishment.
- ✓ Two or more Persons that are partners in the same Unincorporated Partnership.
- ✓ A Person who is the trustee, founder, settlor or beneficiary of a trust or foundation, and its Related Parties.



Under Article 34 of the UAE CT Law, all transactions and arrangements between Related Parties must meet the Arm's Length standard.

Connected Persons

Connected Persons is defined under Article 36 of the CT Law, it includes:



The FTA has clarified via Public Clarification CTP010, that for Connected Person purposes, the status of a Director or Officer is determined based on substance rather than a formal job title. This definition applies to any natural person on the Board (or its equivalent) or any individual holding ultimate strategic, decision-making, or legally binding authority. From a compliance perspective, businesses must look past organizational charts to evaluate actual decision making behaviour, ensuring any payment or benefit is benchmarked to Market Value and aggregate

payments exceeding AED 500,000 per connected person is accurately disclosed in the tax return.

As per Article 36 of the UAE CT Law, payments or benefits provided to Connected Persons are deductible only if its as per Market Value and is incurred wholly and exclusively for the purpose of the Taxable Person's business.

Transfer Pricing Compliance

Where a taxable person engages in transactions with Related Parties or Connected Persons, the UAE Corporate Tax Law requires that such transactions be supported by appropriate documentation demonstrating compliance with the arm's length principle, as set out under Article 55 of the CT Law and further detailed in Ministerial Decision No. 97 of 2023.

Disclosure Form

Taxable persons that meet the prescribed thresholds, or that otherwise enter into transactions with Related Parties or Connected Persons, are generally required to file a Transfer Pricing Disclosure Form together with their Corporate Tax return, summarizing the nature, value and category of related party dealings during the relevant Tax Period.

Under Article 55 of the UAE CT Law and the UAE Transfer Pricing Guide (Guide), the Disclosure Form is a mandatory filing requirement designed to provide the FTA with standardized data on all controlled transactions.

Key features:

- Submitted annually with the CT return;
- Used for risk assessment by the FTA;
- To be submitted within 9 months from the end of the relevant tax period.

Master File and Local File

Taxpayers that meet certain revenue or group thresholds are required to maintain a Master File and a Local File in line with OECD BEPS Action 13 standards. These thresholds currently apply where:

- the taxable person is part of a MNE Group with consolidated group revenue of AED 3.15 billion or more in the relevant Tax Period; or
- the taxable person's own revenue in the relevant Tax Period is AED 200 million or more.

The Master File provides a high-level overview of the MNE Group's global business operations and transfer pricing policies, while the Local File provides detailed information on the taxpayer's own related party and connected person transactions, including functional analysis and benchmarking support.

As per Article 55 of the CT Law, every Taxable Persons must maintain both a Master File and a Local File if their transactions meet specific conditions or thresholds prescribed by the Minister. These files are the primary technical records used to justify the pricing of intercompany transactions.

Key features of Master File

- Serves as a blueprint of a MNE group's global operations.
- The Guide specifies that the file must include detailed information across five categories:
- The group's organizational structure;

- A description of the various business lines;
- The group's strategy regarding intangible property;
- The group's intercompany financial activities;
- The group's consolidated financial and tax positions.

Local File

Under Article 55 of the UAE CT Law and the Guide, the Local File serves as a detailed transactional document that supplements the Master File.

Key features of Local File

- Focuses on the material intercompany transactions of the UAE Taxable Person, providing detailed information, functional and economic analyses.

Retention and Submission

Transfer pricing documentation must be maintained and, upon request from the Federal Tax Authority, submitted within 30 days. Records must generally be retained for a period of seven years following the end of the relevant Tax Period, consistent with the general record-keeping requirements under the CT Law.

Country-by-Country Report

UAE-headquartered MNE Groups with consolidated group revenue of AED 3.15 billion or more are required to file a Country-by-Country Report with the UAE Ministry of Finance, disclosing the global allocation of income, taxes paid and economic activity across jurisdictions, in line with UAE Cabinet Resolution No. 44 of 2020 and subsequent amendments.

Under Article 55 of the UAE CT Law and the Guide, the Country-by-Country Reporting (CbCR) framework acts as the final pillar of the three-tiered documentation approach.

Key features of CbCR

- High-level overview of the global allocation of income, taxes paid, and indicators of economic activity across all jurisdictions where the MNE operates.

Filing	Trigger threshold	Deadline
TP Disclosure Form – RPT	Aggregate Related Party transactions > AED 40 million in a tax period. Once this aggregate threshold is met, the taxpayer must provide detailed disclosures for any specific transaction category (e.g., Sale of goods, service fees, royalties) that exceeds AED 4 million.	Filed with the CT return – within 9 months of tax period end
TP Disclosure Form – Connected Persons	Payments/benefits to Connected Persons > AED 500,000 in the tax period	Filed with the CT return – within 9 months of tax period end
Local File	Revenue ≥ AED 200 Million, or constituent member of an MNE Group with consolidated revenue ≥ AED 3.15 billion	Not filed; provide within 30 days of FTA request

Master File	Same as Local File (revenue ≥ AED 200 million or MNE Group consolidated revenue ≥ AED 3.15 billion)	Not filed; provide within 30 days of FTA request
CbCR Notification	MNE Group consolidated revenue > AED 3.15 billion in preceding financial year	By the last day of the Group's financial reporting year
CbCR (full report)	Same as CbCR Notification – filed by the reporting entity	Within 12 months from the end of the reporting financial year

Penalties

Under the UAE tax regime, a comprehensive framework of administrative penalties and interest on tax underpayments are levied to ensure timely compliance. The penalties are mainly listed under Cabinet Decision No. 129 of 2025.

Failure	Penalty
Late filing – TP Disclosure Form	AED 500/month for first 12 months, then AED 1,000/month thereafter
Inaccurate TP Disclosure Form data	AED 500 (1st violation); AED 1,000 (repeated)
Failure to maintain/provide Local or Master File	AED 10,000 (1st violation); AED 20,000 (repeated within 24 months)
Failure to provide requested Arabic translation	AED 5,000
Voluntary disclosure – before audit notice	1% per month on the tax difference
Voluntary disclosure – after audit notice	Additional fixed 15% penalty, on top of the monthly 1% interest

Practical Risk Areas

- Absence of contemporaneous benchmarking studies to support pricing of intercompany financing, management fees and royalties;
- Inconsistent treatment of the same transaction across the Local File, the Disclosure Form and the financial statements;
- Late or incomplete documentation that cannot be produced within the 30-day response window.

Practical Example

- A UAE entity forming part of a multinational group with consolidated revenue of AED 4 billion is required to maintain both a Master File and a Local File, even if its own UAE revenue is below AED 200 million, because the group-wide threshold has been exceeded.

Special considerations for specific cases

While the ALP applies to all related party transactions, certain complex scenarios require specific analysis under the UAE Transfer Pricing framework. As per the Guide, businesses should exercise caution in the following areas:

➤ Financial Transactions

Intra-group financing, including loans, cash pooling, and financial guarantees, are high priority areas for the FTA and must be priced according to market conditions. The Guide highlights several key sub-categories:

- **Treasury functions:** Within an MNE Group, treasury functions are typically centralized to enhance efficiency and optimize liquidity. Activities can range from basic administrative support to sophisticated strategic financial management. If the treasury unit acts primarily as a service provider, it should typically be remunerated on a cost-plus basis; where it acts as an in-house bank, taking strategic decisions and assuming significant financial risk, it may be entitled to a more substantial return reflecting what independent parties would have agreed in similar circumstances.

Practical Example

- Group Treasury Co in the UAE executes trades and arranges funding for its group entities but does not take positions for its own account or bear credit risk. It is acting as a service provider, so it is remunerated on a cost-plus basis (costs incurred plus an arm's length mark-up), rather than retaining any treasury margin.

- **Intra-Group Loans:** To benchmark intra-group loans, analysis must go beyond interest rates. Factors such as the borrower's creditworthiness, the purpose of the loan, and the security or collateral provided, the commercial rationale, and whether an independent lender would have provided a loan of that size and on those terms should be considered.

Practical Example

- A UAE parent company provides a AED 50 million unsecured 5-year loan to its subsidiary to fund business expansion.
- The subsidiary has limited assets, a short operating history, and weak financial ratios.
- In determining an arm's length interest rate, the analysis should assess the subsidiary's standalone creditworthiness, the absence of security, the loan amount and tenor, and whether an independent lender would have been willing to lend AED 50 million on similar terms.
- The interest rate should therefore reflect the subsidiary's risk profile rather than the parent's stronger credit standing, while also considering any benefit arising from expected group support that does not amount to an explicit guarantee.

- **Cash Pooling:** A treasury strategy used to manage liquidity by balancing surplus and deficit positions across group members. The benefits of the cash pool, such as reduced interest costs are shared among the participants. The benefits are allocated in a manner that reflects the contributions and risks of each member. The cash pool leader's remuneration depends on functions performed: administrative-only tasks warrant a service fee, while material risk-bearing may justify a share of the interest spread.

Practical Example

- Five group entities participate in a notional cash pool led by a UAE treasury centre. The leader simply nets balances and passes through the pool bank's rates with no risk-taking of its own, so it earns a modest administrative fee, while the interest-rate benefit from netting surplus and deficit positions is shared among the participating entities in proportion to their average contributed balances.

- **Hedging:** Used to mitigate FX or interest-rate volatility. A centralized treasury unit may execute hedges on behalf of group members; pricing should reflect the value provided, typically costs incurred plus an appropriate mark-up.

Practical Example

- A UAE treasury centre enters forward FX contracts to hedge a Japanese subsidiary's JPY payables. The treasury centre passes on the external bank's hedge cost to the subsidiary plus a small mark-up reflecting the administrative and monitoring function it performs – it does not retain the hedge gain/loss itself, since it is not taking the underlying FX risk.

- **Financial Guarantees:** A fee is only justified if the guarantee provides a deliberate concerted action that yields a clear economic benefit to the borrower, such as a lower interest rate or access to a larger loan. A guarantee fee should not be charged for implicit support that a subsidiary receives simply by being part of a larger, creditworthy MNE Group, as this is not a deliberate service provided by the parent.

Practical Example

- A parent issues an explicit guarantee enabling its UAE subsidiary to borrow at 4% instead of the 5.5% it could secure standalone. A guarantee fee priced on the 1.5% benefit (the "yield approach") is justified. By contrast, no fee is chargeable where the subsidiary simply benefits from a marginally better rate due to being part of a well-known group, with no explicit guarantee given.

- **Captive insurance:** Considered at arm's length only where there is a genuine transfer of risk to the captive. Premiums should be comparable to those an independent insurer would charge for similar risks, given the policy terms and market conditions.

Practical Example

- A UAE-based captive insures group property risk and retains a meaningful share of that risk on its own balance sheet (rather than reinsuring it all back to the market). Premiums are benchmarked against quotes from independent insurers for comparable coverage, supporting that the captive is performing a genuine risk-transfer function rather than simply repatriating profit.

- **Intra-Group Services**

The provision of services between group members (such as management, administrative, or technical support) must meet two primary tests to be considered at arm's length:

- **Benefit Test:** It must be demonstrated that the service provided provides economic or commercial value to the recipient that enhances its commercial position.
- **Arm's Length Charge:** The charge must reflect what independent parties would have agreed upon. This often involves a cost-plus method, ensuring the markup is consistent with market standards.

Shareholder activities performed solely due to ownership interest, duplicated services, and incidental benefits gained merely by being part of a larger MNE group are specifically excluded from being chargeable. Once a service is identified as chargeable, remuneration is determined using a direct or indirect charge method: direct charge applies where services are provided to one entity and costs are directly identifiable; indirect charge applies where services benefit several group members, using an allocation key (e.g., turnover, headcount) that reflects each member's share of the benefit, plus an appropriate mark-up.

For low value-adding intra-group services that are supportive in nature and do not involve unique intangibles, the Guide allows a simplified approach, often using a standard 5% mark-up.

Practical Example

- A UAE regional head office provides HR, IT support, payroll, and finance support services to its 8 subsidiaries across the Middle East.
- The annual cost of providing these services is AED 4 million. As the services benefit multiple entities, the costs are pooled and allocated using headcount, which reflects the level of benefit received by each subsidiary.
- A subsidiary employing 20% of the group's workforce would therefore be allocated (4 million * 20%) AED 800,000 of costs. As these are low value-adding services, a 5% mark-up is applied, resulting in a charge of AED 840,000.

The group must be able to demonstrate that the subsidiaries received a benefit from the services and that headcount is an appropriate allocation key. In contrast, costs relating to the parent company's review of group strategy and oversight of its investments are shareholder activities and are therefore excluded from the cost pool and not charged to subsidiaries.

➤ Intangibles

An intangible is something that is neither a physical nor a financial asset, capable of being owned or controlled for use in commercial activities, whose use or transfer would be compensated between independent parties.

Legal ownership alone does not entitle an entity to the returns from an intangible. An arm's length analysis requires a Development, Enhancement, Maintenance, Protection, and Exploitation (DEMPE) analysis to identify which entities perform the functions, contribute the assets, and manage the risks. Entities performing the most significant DEMPE functions and managing the most important risks should receive a corresponding share of the intangible-related profits.

Practical Example

- A UAE entity holds legal title to a regional trademark but a related foreign entity runs all marketing campaigns, controls brand strategy, and funds advertising spend.
- Despite the UAE entity's legal ownership, a DEMPE analysis would attribute most of the trademark's return to the foreign entity actually performing the development and exploitation functions, with the UAE entity entitled only to a return for its limited role (e.g., as registered titleholder).

➤ Cost Contribution Arrangements (CCA)

A CCA is a contractual framework among business enterprises to share the costs and risks of developing, producing, or obtaining assets, services, or rights. Each participant's contribution must be proportionate to the expected benefits it will receive. Businesses must maintain clear documentation outlining the participants, the scope of activities, and the methodology for allocating costs and benefits.

Practical Example

- Three group entities jointly fund a shared R&D platform expected to benefit each in proportion to their projected future sales of products developed on the platform.
- Contributions are set using projected sales share as the allocation key (e.g., 50%/30%/20%), and a CCA agreement documents participants, scope, and the basis for cost-sharing so the arrangement can be supported on review.

➤ Business Restructuring

Business restructuring involves cross-border or domestic reorganization of commercial or financial relations between Related Parties – for example, terminating or renegotiating existing contracts, or a change in functional profile such as moving from a full-fledged manufacturer to a contract manufacturer. From a TP perspective, it should be evaluated whether independent parties in comparable circumstances would have agreed to the restructuring, and whether compensation would have been paid for the surrender of rights or the transfer of functions.

Practical Example

- A UAE entity is converted from a full-fledged distributor (carrying inventory and credit risk, owning customer relationships) into a limited-risk distributor for a related foreign principal, who now takes on those risks.
- Because the UAE entity is giving up valuable functions, assets (e.g., customer relationships), and risk-bearing capacity built up over several years, an exit/compensation payment for that surrendered profit potential would typically be expected, in addition to repricing its ongoing remuneration going forward.

➤ Permanent Establishment

For profit attribution, PE is treated as a distinct and separate enterprise. Transactions between the PE and its head office (or other PEs) must be priced at arm's length, as if they were independent entities.

Practical Example

- A foreign company's UAE branch (PE) negotiates and concludes sales contracts with local customers, while the head office manufactures the goods.
- Profit is attributed to the UAE PE as if it were an independent sales agent dealing with the head office at arm's length. For example, the PE might be remunerated on a commission or limited-risk distributor basis, with the residual manufacturing profit retained by the head office.

➤ Group Synergies

Group synergies occur when the combined operations of an MNE Group yield efficiency, cost savings, or profit higher than the sum of what each member could achieve independently. Benefits may be incidental (arising simply from being part of a larger, creditworthy group) or deliberate (created through intentional, organized efforts, such as centralized purchasing). The Guide specifies that benefits from deliberate synergies should be shared among contributing members in a manner that reflects their respective contributions and functions.

Practical Example

- A group centralizes procurement of raw materials across 15 operating entities, using its combined purchasing volume to negotiate a 6% discount with suppliers that no single entity could achieve alone.

Because this saving results from a deliberate, organized group effort (not mere group membership), it should be shared among the participating entities based on their relative purchasing volumes rather than retained entirely by the central procurement entity.

CHAPTER 9

Audited Financial Statements and Record Keeping



Overview

The UAE Corporate Tax regime relies heavily on the integrity and accuracy of financial reporting, as taxable income is generally derived from accounting profit reported in financial statements.

Businesses subject to Corporate Tax must therefore maintain appropriate financial records and supporting documentation to substantiate their tax positions and ensure compliance with the Corporate Tax Law.

These provisions require taxpayers to maintain sufficient records to allow the Federal Tax Authority (FTA) to verify the accuracy of Corporate Tax returns.

Financial Reporting Basis

Taxable income under the Corporate Tax regime is generally determined based on financial statements prepared in accordance with internationally recognized accounting standards, most commonly International Financial Reporting Standards (IFRS).

The reliance on recognized accounting standards ensures that the determination of taxable income is based on consistent and transparent financial reporting.

Businesses must ensure that:

- accounting records accurately reflect business activities
- financial statements are prepared consistently from period to period
- appropriate documentation supports all accounting entries

Where financial statements are prepared using IFRS, the resulting accounting profit typically forms the starting point for the Corporate Tax computation.

Audited Financial Statements — Revenue Threshold

Revenue ≤ AED 50 million
Audited FS generally not mandatory*

Revenue > AED 50 million
Audited FS required

**Certain categories of taxpayers (e.g. Qualifying Free Zone Persons) may be required to maintain audited financial statements irrespective of revenue.*

Audit Requirements

Certain taxpayers may be required to maintain audited financial statements under the Corporate Tax framework as set out under Article 54 of the CT law and further mentioned in the Ministerial Decision No.84 of 2025.

In particular, audited financial statements may be required where:

- the taxpayer's revenue exceeds AED 50 million during the relevant tax period;
- the taxpayer is a Qualifying Free Zone Person seeking to benefit from the preferential 0% Corporate Tax regime; or
- the taxpayer is a Tax Group, which is required to prepare and maintain audited special-purpose financial statements in accordance with the applicable Corporate Tax requirements.

For Tax Periods commencing on or after 1 January 2025, Ministerial Decision No. 84 of 2025 requires audited financial statements for Qualifying Free Zone Persons and audited special-purpose financial statements for Tax Groups, regardless of whether the AED 50 million revenue threshold is exceeded.

The audit requirement supports the reliability of financial reporting used in determining taxable income.

Where an audit is required, the financial statements must be reviewed by an independent auditor licensed in the UAE.

Audit Requirement Decision Guide

Question	Outcome where Yes
Is the Taxable Person a Tax Group?	Audited Special-Purpose Financial Statements Required
Is the Taxable Person a QFZP?	Audited Financial Statements Required
Does Revenue Exceed AED 50 Million?	Audited Financial Statements Required
If none of the above apply	No Audit Required Solely Under Corporate Tax Rules

Record Retention Requirements

Taxpayers must maintain adequate records and supporting documentation to substantiate the information reported in their Corporate Tax returns as set out under Article 56 of the CT Law.

This generally includes records relating to:

- financial statements
- accounting books and ledgers
- invoices and contracts
- documentation supporting tax adjustments
- records relating to related party transactions

Under the UAE tax framework, such records must generally be retained for a minimum period of seven years following the end of the relevant tax period.

Maintaining complete records is essential in the event that the Federal Tax Authority conducts a review or audit.

Supporting Documentation

In addition to financial statements, businesses must maintain documentation supporting key Corporate Tax positions.

This may include:

- calculations supporting taxable income adjustments
- documentation supporting tax relief claims
- transfer pricing documentation
- records relating to tax loss utilization

Such documentation ensures that taxpayers can demonstrate how their Corporate Tax liability was determined.

Governance Considerations

Given the reliance on financial reporting in determining taxable income, businesses should ensure that appropriate internal controls and governance processes are implemented.

Key governance practices may include:

- maintaining clear accounting policies aligned with applicable standards
- ensuring timely preparation of financial statements
- documenting Corporate Tax adjustments in tax computations
- implementing internal review procedures for Corporate Tax filings

Robust governance processes help ensure that Corporate Tax reporting remains accurate and defensible in the event of regulatory review.

Record Keeping for VAT Purposes

The UAE VAT regime relies on the accuracy and completeness of transactional records, as VAT is assessed based on supplies made, received, and reported in periodic VAT returns.

Businesses registered for VAT must maintain proper records and supporting documentation to substantiate their VAT positions and ensure compliance with UAE VAT legislation.

The framework governing VAT compliance and record keeping is primarily established under:

- Federal Decree-Law No. 8 of 2017 on Value Added Tax
- Federal Decree-Law No. 28 of 2022 on Tax Procedures

These provisions require taxpayers to maintain sufficient records to enable the Federal Tax Authority (FTA) to verify the accuracy of VAT returns.

VAT Reporting Basis

VAT is reported based on taxable supplies, imports, and input tax incurred

Businesses must ensure that:

- All taxable supplies are correctly identified and reported.
- Input VAT recovery is supported and in line with legislation.
- VAT treatment is applied correctly (standard-rated, zero-rated, exempt, or out of scope).
- Records are maintained to support the place of supply and nature of transactions (not only the tax invoices, but also the official & commercial documents such as customs declarations, exit certificates, agreements & contracts with the suppliers & customers, apportionment calculation, VAT reconciliation, etc.).

VAT returns are typically prepared based on accounting records; however, adjustments may be required to ensure compliance with UAE VAT rules.

Record Retention Requirements

VAT-registered businesses are required to maintain adequate records to support the information reported in VAT returns.

This generally includes:

- Tax invoices and tax credit notes.
- import and export documentation.
- contracts and agreements.
- accounting records and VAT workings.
- documentation supporting input VAT recovery.

Under UAE VAT regulations, records must be retained for a minimum of five years (and up to 15 years in case of tax evasion).

Supporting Documentation

Businesses must retain documentation to support key VAT positions, including:

- ✓ classification of supplies (standard, zero-rated, exempt)
- ✓ evidence for zero-rating (e.g., export documentation)
- ✓ calculations for input VAT apportionment (where applicable)
- ✓ documentation for reverse charge mechanism (RCM) transactions This ensures that VAT positions are clear, traceable, and defensible.

Audit Requirement — Decision Flow

Revenue >
AED 50 million?



Qualifying Free
Zone Person?



Audited Financial
Statements Required

A "yes" at either of the first two checkpoints generally triggers the audited financial statements requirement under Ministerial Decision No. 84 of 2025.

CHAPTER 10

Registration, Filing and Administrative Procedures



Overview

Businesses subject to UAE Corporate Tax must comply with a range of administrative obligations, including registration with the Federal Tax Authority (FTA), filing Corporate Tax returns, and paying any tax due.

These requirements form part of the broader tax administration framework established under:

- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses
- Federal Decree-Law No. 28 of 2022 on Tax Procedures

Compliance with these administrative procedures is essential to ensure that businesses meet their Corporate Tax obligations and avoid potential penalties.

Corporate Tax Compliance Timeline (Illustrative)



A Taxable Person must generally file its Corporate Tax return and settle any Corporate Tax due within nine months from the end of the relevant Tax Period.

Corporate Tax Registration

All persons subject to UAE Corporate Tax must register with the Federal Tax Authority (FTA) and obtain a Corporate Tax Registration Number (TRN) as mentioned under Article 51 of the CT Law.

Registration is generally required for:

- UAE resident juridical persons
- non-resident persons with a Permanent Establishment in the UAE
- natural persons conducting business activities that fall within the scope of Corporate Tax

Registration must be completed within the timeframe prescribed under the relevant FTA decisions, which may vary depending on the type of Taxable Person and date of incorporation, establishment or recognition.

Once registered, the taxpayer becomes subject to the Corporate Tax compliance obligations established under the Corporate Tax Law.

Corporate Tax Deregistration

A Taxable Person may be required to deregister for Corporate Tax where it ceases to be subject to Corporate Tax, in accordance with Article 52 of Federal Decree-Law No. 47 of 2022 (the "UAE CT Law").

Corporate Tax deregistration may be required in circumstances such as:

- cessation of business activities;
- liquidation or dissolution of a juridical person;
- termination of a Permanent Establishment in the UAE; or
- where the person no longer falls within the scope of UAE Corporate Tax.

A deregistration application must be submitted to the Federal Tax Authority ("FTA") within 3 months of the date the entity ceases to exist, cessation of the Business, dissolution.

The Taxable Person remains responsible for completing any outstanding Corporate Tax obligations up to the date of deregistration, including the filing of any required Corporate Tax returns and settlement of Corporate Tax liabilities.

Failure to submit a deregistration application within the prescribed timeframe may result in administrative penalties.

Practical Example

- A UAE company enters liquidation and permanently ceases business operations on 30 June 2026.
- The company must assess its Corporate Tax deregistration obligations, submit the relevant application to the FTA within 3 months i.e. by 30 September 2026, and ensure that all Corporate Tax filing and payment obligations up to the cessation date are completed.

Tax Periods

Corporate Tax is assessed based on tax periods, which generally correspond to the taxpayer's financial year.

For most businesses, the tax period will therefore align with the accounting period used in preparing financial statements.

Practical Example

- Financial Year Corporate Tax Period 1 January – 31 December Same period 1 July – 30 June Same period
- The Corporate Tax regime first applies to financial years beginning on or after 1 June 2023.
- Businesses should ensure that their financial reporting period is clearly defined for Corporate Tax purposes.

Filing of Corporate Tax Returns

Registered taxpayers are required to file Corporate Tax returns with the Federal Tax Authority for each tax period.

The return must generally include:

- taxable income for the relevant tax period
- adjustments applied under the Corporate Tax Law
- the calculation of Corporate Tax payable
- disclosures relating to related party transactions where required

Under Article 53 of Federal Decree-Law No. 47 of 2022 (the "UAE CT Law"), a Taxable Person must generally file its Corporate Tax Return within nine months from the end of the relevant Tax Period. Under Article 48 of the UAE CT Law, any Corporate Tax payable is generally due within the same nine-month period.

Financial Year End	Corporate Tax Return Due Date	Payment Due Date
31 December 2025	30 September 2026	30 September 2026
31 March 2026	31 December 2026	31 December 2026
30 June 2026	31 March 2027	31 March 2027

Businesses should ensure that Corporate Tax filing deadlines are monitored based on their specific financial year-end, as late submission of Corporate Tax Returns or late payment of Corporate Tax may result in administrative penalties.

Practical Example - Corporate Tax Filing Deadline

- ABC LLC has a financial year ending 31 December 2025.
- The company's Tax Period will run from 1 January 2025 to 31 December 2025. ABC LLC must:
 - ✓ prepare its Corporate Tax computation and Corporate Tax Return; submit its Corporate Tax Return through the FTA portal; and
 - ✓ pay any Corporate Tax liability due.
- Both the Corporate Tax Return filing and Corporate Tax payment must be completed no later than 30 September 2026, being nine months after the end of the relevant Tax Period.

Payment of Corporate Tax

Where Corporate Tax is payable, the amount due must generally be paid within the same deadline as the filing of the tax return.

Payment must be made through the payment channels designated by the Federal Tax Authority.

Businesses should ensure that appropriate processes are in place to calculate tax liabilities and arrange payment within the required timeframe.

Amendments to Tax Returns

Where an error or omission is identified after the submission of a Corporate Tax return, taxpayers may be required to submit a voluntary disclosure to correct the return.

Voluntary disclosures allow taxpayers to amend previously filed tax returns and ensure that the correct tax position is reported to the FTA. Timely correction of errors helps reduce the risk of penalties arising from inaccurate filings.

Deregistration

In certain circumstances, a taxpayer may apply for Corporate Tax deregistration which has been set out under Article 52 of the UAE CT Law.

Deregistration may occur where:

- the business ceases its activities
- the entity is liquidated or dissolved
- the taxpayer no longer meets the conditions requiring Corporate Tax registration

The taxpayer must submit a deregistration request to the Federal Tax Authority in accordance with the procedures established by the FTA.

Governance Considerations

Effective management of Corporate Tax compliance requires businesses to establish internal processes for monitoring filing obligations and deadlines.

Key governance practices include:

- ✓ maintaining an internal Corporate Tax compliance calendar
- ✓ ensuring timely preparation of financial statements
- ✓ reviewing Corporate Tax computations before filing
- ✓ maintaining documentation supporting tax positions

Implementing structured compliance processes helps ensure that Corporate Tax obligations are met efficiently and accurately.

VAT Compliance and Administrative Requirements

Businesses subject to UAE VAT must comply with a range of administrative obligations, including registration with the Federal Tax Authority (FTA), filing VAT returns, and paying any VAT due within the timelines.

Compliance with these administrative procedures is essential to ensure that businesses meet their VAT obligations and avoid potential penalties.

VAT Registration

All persons meeting the mandatory registration threshold must register with the Federal Tax Authority (FTA) and obtain a Tax Registration Number (TRN).

Registration is generally required for:

- Businesses exceeding the mandatory registration threshold.
- Businesses making taxable supplies or imports in the UAE.
- Businesses may also apply for voluntary registration where the relevant threshold is met.
- Registration must be completed within the timeframe specified by the FTA.
- Once registered, the taxpayer becomes subject to the VAT compliance obligations established under the VAT Law.

Registration Requirements

- VAT registration is mandatory if taxable supplies and / or imports exceed AED 375,000 during the previous 12-month period or are expected to exceed the mandatory threshold during the next 30 (thirty) days.
- Voluntary registration is possible for businesses with taxable supplies or taxable expenses exceeding AED 187,500.
- For the mandatory threshold, the Person required to register for Tax must file a Tax Registration application with the Authority within 30 (thirty) days of being required to register.

Input VAT Recovery

- Input VAT incurred on purchases used for taxable supplies or supplies made outside the UAE that would be taxable if made in the UAE or exempt if made outside the UAE and which are treated as zero rated can generally be reclaimed.
- Input VAT on exempt supplies cannot be recovered.
- Proper documentation is required to support VAT recovery.

Tax Periods

VAT is reported based on tax periods, which are assigned by the Federal Tax Authority.

Tax periods are typically:

- Quarterly (standard practice), or
- Monthly (for certain taxpayers, as determined by the FTA).

Each tax period represents the timeframe for which VAT must be calculated and reported.

Businesses should ensure that transactions are accurately captured within the correct tax period.

Filing of VAT Returns

Registered taxpayers are required to file VAT returns with the Federal Tax Authority for each tax period. The return must generally include:

- Value of taxable supplies (standard-rated and zero-rated)
- Value of exempt supplies
- Reverse Charge Mechanism on the import of goods & services (RCM)
- Output VAT due.
- Input VAT recoverable
- Net VAT payable or refundable. VAT returns must be submitted within 28 days following the end of the relevant tax period, unless otherwise specified by the FTA.

Payment of VAT

Where VAT is payable, the amount due must generally be settled within the same deadline as the VAT return submission.

Payment must be made through the channels designated by the Federal Tax Authority.

Businesses should ensure that appropriate processes are in place to calculate VAT liabilities and arrange timely payment to avoid penalties.

Amendments to VAT Returns

Where an error or omission is identified after submission of a VAT return, taxpayers may be required to submit a voluntary disclosure to correct the error.

- Voluntary disclosures enable taxpayers to amend previously filed returns and ensure that the correct VAT position is reported to the FTA.
- Timely correction of errors helps mitigate potential penalties.

Scenario	The Taxpayer shall
If the error(s) result in the payable tax being overstated or understated by more than AED 10,000.	File VD
If the error(s) result in the payable tax being overstated or understated by less than AED 10,000.	Correct the error in the tax return for the period in which it was identified.
Input VAT has not been claimed in the first and second tax periods.	File VD
Where variances do not result in any change to the VAT treatment	File VD

VAT Deregistration

In certain circumstances, a taxpayer may apply for VAT deregistration.

Deregistration may occur where:

- The business ceases making taxable supplies
- The business is liquidated or no longer required to be registered, etc.
- The taxpayer must submit a deregistration request to the Federal Tax Authority in accordance with the applicable procedures within 20 business days from the date the deregistration obligation started.

CHAPTER 11

Penalties, Assessments and Disputes



Overview

The UAE Corporate Tax framework includes a structured system of administrative penalties, tax assessments, and dispute resolution procedures designed to ensure compliance with Article 60 of the UAE CT Law.

The enforcement and administration of Corporate Tax are governed primarily by:

- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses
- Federal Decree-Law No. 28 of 2022 on Tax Procedures and further enhanced under Federal Decree-Law No. 17 of 2025

These laws establish the powers of the Federal Tax Authority (FTA) to review Corporate Tax filings, issue assessments, and impose penalties where non-compliance occurs.

Understanding the administrative framework is an important component of effective Corporate Tax governance.

Administrative Penalties

Administrative penalties may be imposed where taxpayers fail to comply with Corporate Tax obligations. Penalties may arise in situations such as:

- failure to register for Corporate Tax
- failure to file a Corporate Tax return within the prescribed deadline
- failure to maintain required records and documentation
- submission of incorrect or incomplete information to the Federal Tax Authority

The specific penalty amounts are established under the UAE administrative penalty framework issued by the relevant authorities.

Businesses should therefore ensure that appropriate compliance processes are in place to minimize the risk of penalties.

Violation	Administrative Penalty
Failure to register for Corporate Tax within prescribed timeline	AED 10,000
Failure to maintain required records and documents	AED 10,000 for first violation, AED 20,000 for repeated violation within 24 months from the date of the last violation
Failure to submit records in Arabic when requested by the FTA	AED 5,000
Failure to update tax records	AED 1,000 for first violation, AED 5,000 for repeated violation within 24 months from the date of the last violation
Late submission of a Corporate Tax Return	AED 1000 for the first time. AED 2000 in case of repetition within 24 months.
Late payment of Corporate Tax	Monthly penalty calculated at 14% per annum on the unpaid tax amount
Failure to deregister for Corporate Tax within prescribed timeline	AED 1,000 initially and AED 1,000 per month thereafter (capped at AED 10,000)
Incorrect Tax Return	AED 500, unless corrected before the filing deadline OR submission of Voluntary Disclosure to correct the tax return without resulting in difference of due tax.
Submission of Voluntary Disclosure after the due date and resulting in additional tax due	A monthly penalty of 1% on the Tax Difference, for each month or part thereof.
Failure to submit Voluntary Disclosure after being notified by FTA that taxpayer would be subject to tax audit	Flat penalty of 15% on tax difference and Monthly penalty of 1% for each month or part thereof on the tax difference for a period following the due date of CT return until the date of issuance of the Tax Assessment
Submission of VD after being notified by FTA that taxpayer would be subject to tax audit	Flat penalty of 15% on tax difference and Monthly penalty of 1% for each month or part thereof on the tax difference for the period following the due date of CT return until the date of submitting the Voluntary Disclosure
Failure to facilitate a Tax Audit	AED 20,000

Selected Fixed Administrative Penalties (Illustrative)

Failure to facilitate a Tax Audit	AED 20,000
Failure to register for Corporate Tax	AED 10,000
Failure to maintain records (1st violation)	AED 10,000
Failure to submit records in Arabic	AED 5,000
Failure to update tax records (1st violation)	AED 1,000
Failure to deregister (initial)	AED 1,000
Late submission of CT return (1st time)	AED 1,000
Incorrect Tax Return	AED 500

Excludes percentage/monthly-based penalties (e.g. late payment, Voluntary Disclosure). See table for full details.

Tax Assessments

The Federal Tax Authority has the authority to review Corporate Tax filings and issue tax assessments where it determines that the tax reported by a taxpayer is incorrect.

A tax assessment may arise where:

- the taxpayer fails to submit a Corporate Tax return

- the FTA determines that the tax return contains inaccuracies
- additional tax becomes payable following a review or audit

Where an assessment is issued, the taxpayer may be required to pay the additional tax due, together with any applicable penalties.

Clarifications and Reviews

The Federal Tax Authority may also conduct reviews or audits to verify the accuracy of information provided in Corporate Tax returns as set out under Article 59 and 60 of the UAE CT Law.

During a review process, the FTA may request supporting documentation relating to:

- ✓ financial statements
- ✓ Corporate Tax calculations
- ✓ transfer pricing documentation
- ✓ records supporting tax adjustments

Taxpayers must cooperate with such requests and provide the requested documentation within the timeframe specified by the FTA.

Maintaining clear documentation of tax positions helps facilitate an efficient review process.

Reconsideration Process

Where a taxpayer disagrees with a decision issued by the Federal Tax Authority, the taxpayer may submit a request for reconsideration.

A reconsideration request allows the taxpayer to formally request that the FTA review its decision.

The request must generally be submitted within 20 business days of the date on which the taxpayer was notified of the decision.

The reconsideration request should include supporting documentation explaining why the taxpayer believes the decision should be reconsidered.

Tax Dispute Resolution

If the taxpayer remains dissatisfied following the reconsideration process, the dispute may be escalated to the Tax Disputes Resolution Committee (TDRC).

The TDRC is an independent body responsible for reviewing disputes between taxpayers and the Federal Tax Authority.

The committee reviews the facts of the case and issues a decision regarding the disputed tax matter.

Where necessary, decisions of the TDRC may be further appealed through the UAE court system in accordance with applicable legal procedures.

Governance Considerations

Businesses should implement governance processes designed to minimize the risk of disputes with the Federal Tax Authority.

Key practices include:

- ✓ maintaining accurate financial records
- ✓ documenting Corporate Tax calculations and adjustments
- ✓ ensuring timely submission of Corporate Tax returns
- ✓ reviewing compliance procedures periodically

Strong governance and documentation practices can help reduce the likelihood of disputes and support effective engagement with the tax authority where questions arise.

VAT Penalties, Assessments, and Dispute Resolution Framework

The UAE VAT framework includes a structured system of administrative penalties, tax assessments, and dispute resolution procedures designed to ensure compliance with the VAT Law.

These laws establish the powers of the Federal Tax Authority (FTA) to review VAT filings, issue assessments, and impose penalties where non-compliance occurs.

Understanding the administrative framework is an important component of effective VAT governance.

Administrative Penalties

Administrative penalties may be imposed where taxpayers fail to comply with VAT obligations. Penalties may arise in situations such as:

- Failure to register for VAT.
- Failure to file VAT returns within the prescribed deadline
- Late payment of VAT due
- Submission of incorrect or incomplete information to the Federal Tax Authority

The specific penalty amounts are established under the UAE administrative penalty framework.

Description of violation *	Penalty
Failure to submit requested information in Arabic	Penalty is AED 5,000
Failure to update tax record kept by the FTA	First violation penalty is AED 1,000. Repeated violation penalty is AED 5,000 within 24 months
Failure to notify appointment of Legal Representative	Penalty is AED 1,000
Failure to pay Payable Tax on time	Penalty at an annualised 14% rate, accrued monthly on outstanding tax.
Incorrect Tax Return	Penalty is AED 500 (first violation) and AED 2,000 (repeated violation).
Voluntary Disclosures	Flat penalty of 1% monthly on tax difference until VD submission. If a VD is filed after audit notification, an additional 15% fixed penalty applies.
Voluntary Disclosures after audit notification is issued	Fixed penalty reduced from 50% to 15%. Monthly penalty of 1% continues until VD submission.

- These outlines selected administrative penalties for certain violations, in accordance with the latest amendments to the UAE VAT Law, effective from 14 April 2026.

Businesses should ensure that appropriate compliance processes are in place to minimize the risk of penalties.

Tax Assessments

The Federal Tax Authority has the authority to review VAT returns and issue tax assessments where it determines that the VAT reported is incorrect.

A tax assessment may arise where:

- The taxpayer fails to submit a VAT return
- The FTA identifies inaccuracies in the VAT return
- Additional VAT becomes payable following a review or audit

Where an assessment is issued, the taxpayer may be required to pay the additional VAT due, together with any applicable penalties.

Clarifications and Reviews

The Federal Tax Authority may conduct reviews or audits to verify the accuracy of VAT returns. During a review process, the FTA may request supporting documentation relating to:

- VAT returns and workings.
- Tax invoices and credit notes.
- Import and export documentation.
- Contracts and agreements.
- Records supporting input VAT recovery.

Taxpayers must cooperate with such requests and provide the requested documentation within the timeframe specified by the FTA.

Maintaining clear documentation of VAT positions helps facilitate an efficient review process.

Reconsideration Process

Where a taxpayer disagrees with a decision issued by the Federal Tax Authority, the taxpayer may submit a request for reconsideration.

A reconsideration request allows the taxpayer to formally request that the FTA review its decision.

The request must generally be submitted within 40 business days from the date of notification of the decision. The request should include supporting documentation explaining the basis for the reconsideration.

CHAPTER 12

Interaction with International Tax Frameworks



Overview

The UAE Corporate Tax regime operates within the broader context of international tax rules and cooperation frameworks. As a globally integrated economy, the UAE participates in a number of international initiatives designed to promote transparency, prevent double taxation, and address base erosion and profit shifting.

Key international elements relevant to the UAE Corporate Tax system include:

- Double Tax Treaties (DTTs)
- Tax Residency Certification
- Withholding Tax framework under UAE Corporate Tax
- OECD Base Erosion and Profit Shifting (BEPS) initiatives
- Pillar Two Global Minimum Tax developments

These mechanisms help ensure that the UAE Corporate Tax system remains aligned with international tax standards while supporting cross-border investment and economic activity.

UAE Corporate Tax — International Framework Touchpoints

Double Tax Treaties
Relieve double taxation;
allocate taxing rights

**Tax Residency
Certification**
Evidences UAE tax
residency status

**Withholding Tax
Framework**
Applies to certain UAE-
sourced income

BEPS / Pillar Two
Global minimum tax and
anti-avoidance
alignment

Double Tax Treaties

The UAE maintains an extensive network of double tax treaties with jurisdictions around the world which has been set out under Article 66 of the UAE CT Law.

Double tax treaties are designed to:

- ✓ prevent the same income from being taxed in multiple jurisdictions
- ✓ allocate taxing rights between treaty partners
- ✓ provide mechanisms for resolving cross-border tax disputes

Under these treaties, businesses operating across borders may benefit from relief mechanisms such as:

- ✓ reduced withholding tax rates in foreign jurisdictions
- ✓ exemptions for certain categories of income
- ✓ mutual agreement procedures between tax authorities

The UAE's treaty network supports the country's position as an international business hub by reducing tax barriers to cross-border investment.

Tax Residency Certificates

In order to access treaty benefits, taxpayers may be required to obtain a Tax Residency Certificate (TRC) issued by the UAE authorities.

A Tax Residency Certificate confirms that an entity or individual is considered a tax resident of the UAE for treaty purposes.

To obtain a TRC, applicants typically must demonstrate that:

- the entity is established or incorporated in the UAE
- the entity is effectively managed and controlled in the UAE
- the entity maintains sufficient economic presence in the UAE

As per a recent update, UAE FTA has introduced three additional documentation requirements for UAE entities applying for a Tax Residency Certificate (TRC) under the UAE–India DTAA:

- Beneficial ownership of capital
- Control by UAE residents
- Place of effective management (POEM) in the UAE

Withholding Tax Framework

Under the UAE Corporate Tax Law, withholding tax is generally applied at a rate of 0% on certain categories of UAE-sourced income paid to non-residents as set out under Article 45 of the UAE CT Law.

The 0% rate reflects the UAE's long-standing policy of maintaining a tax-efficient environment for cross-border transactions.

Although withholding tax applies at a 0% rate under the Corporate Tax Law, the framework preserves the ability to apply withholding tax if required under future legislative changes.

In practice, cross-border payments may still be subject to withholding tax in the foreign jurisdiction, depending on the domestic tax rules and applicable treaty provisions.

Foreign Tax Relief Framework

Under the UAE Corporate Tax regime, foreign tax relief is primarily achieved through a Foreign Tax Credit (FTC) under Article 47, which allows UAE Taxable Persons to offset foreign corporate income or withholding taxes against their UAE tax liability, capped at the lower of the actual foreign tax paid or the corresponding UAE corporate tax due on that income (foreign revenue minus attributable foreign expenses) with no option to carry forward excess credits. Indirect taxes (like VAT or sales tax), customs duties, penalties, and interest cannot be claimed as FTC.

Practical Example

- If a UAE company pays 15% foreign tax on foreign income, but the applicable UAE CT rate on that income is 9%, the allowable credit is capped at 9%.

OECD BEPS Framework

Overview

The UAE participates in the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), which seeks to address international tax avoidance strategies. These rules have been set out under Cabinet Decision No.142 of 2024.

As part of this framework, the UAE has implemented several measures consistent with global tax standards, including:

- transfer pricing rules aligned with OECD principles
- economic substance requirements for certain entities
- country-by-country reporting obligations for large multinational groups

These measures contribute to greater transparency and alignment with international tax norms.

Pillar Two – Global Minimum Tax

The OECD's Pillar Two initiative introduces a global minimum tax framework intended to ensure that large multinational enterprises pay a minimum effective tax rate on their global profits.

The framework generally applies to multinational groups with consolidated global revenue exceeding EUR 750 million.

Pillar Two introduces mechanisms such as:

- the Income Inclusion Rule (IIR)
- the Undertaxed Profits Rule (UTPR)
- the Domestic Minimum Top-Up Tax

In response to these global developments, the UAE has introduced a Domestic Minimum Top-Up Tax applicable to large multinational groups operating in the jurisdiction.

These developments aim to ensure that the UAE remains aligned with international tax standards while preserving its attractiveness as a global investment destination.

Governance Considerations

Businesses operating across multiple jurisdictions should consider the interaction between UAE Corporate Tax and international tax rules when structuring cross-border operations.

Key considerations include:

- the availability of treaty benefits
- transfer pricing compliance
- the impact of global minimum tax rules on multinational groups
- the documentation required to support cross-border tax positions

Careful consideration of international tax rules helps businesses manage global tax risk and maintain compliance with both domestic and international requirements.

CHAPTER 13

Exemptions: Consolidated Overview



Categories of Exempt Income and Persons

The CT Law provides for both Exempt Persons, who fall entirely outside the scope of Corporate Tax, and specific categories of Exempt Income that may be excluded from the Taxable Income of an otherwise taxable person. These categories are summarized below for ease of reference, drawing on the detailed treatment in earlier chapters.

Exempt Persons (by Default or Notification)

Government Entities and Government Controlled Entities (subject to conditions)

- Extractive Businesses and Non-Extractive Natural Resource Businesses meeting prescribed conditions
- Qualifying Public Benefit Entities listed in a Cabinet Decision
- Qualifying Investment Funds meeting the conditions of Article 10 of the CT Law
- Public and private pension or social security funds meeting prescribed conditions
- Wholly owned and controlled UAE subsidiaries of certain Exempt Persons

Categories of Exempt Income

- Dividends and other profit distributions received from UAE juridical persons
- Income from Participating Interests qualifying under the Participation Exemption
- Income of a Foreign Permanent Establishment, where the Foreign PE Exemption election is made

- Income derived by a non-resident from operating or leasing aircraft or ships used in international transportation, subject to reciprocity conditions

Relief from Double Taxation — Mechanisms

Mechanism	How It Works
Double Tax Treaty Relief	Reduces or eliminates double taxation under an applicable UAE tax treaty
Foreign Tax Credit	Foreign tax suffered on foreign-source income credited against UAE CT, capped at the UAE CT payable on that income
Foreign PE Exemption	Income of an elected Foreign Permanent Establishment excluded from UAE taxable income
Participation Exemption	Dividends and gains on qualifying shareholdings excluded from UAE taxable income

Practical Note

Some exemptions apply automatically, while others require an application to, or notification of, the Federal Tax Authority and the satisfaction of ongoing conditions. Exempt status is generally not automatic for entities other than those specifically identified in the law, and continued eligibility depends on meeting the relevant requirements

Exemptions: Consolidated Overview

Exempt Persons	Exempt Income Categories
• Government Entities & Government Controlled Entities	• Dividends from UAE juridical persons
• Extractive & Non-Extractive Natural Resource Businesses	• Income from qualifying Participating Interests
• Qualifying Public Benefit Entities	• Foreign PE income (where election made)
• Qualifying Investment Funds (Article 10)	• Aircraft/ship income of non-residents (reciprocity)
• Public/private pension & social security funds	
• Wholly owned UAE subsidiaries of certain Exempt Persons	

Some exemptions apply automatically; others require application to, or notification of, the FTA and satisfaction of ongoing conditions.

CHAPTER 14

Family Foundations



Overview

The UAE Corporate Tax regime allows a Family Foundation, trust or similar entity that meets the conditions of Article 17 of the CT Law to apply to be treated as an Unincorporated Partnership, meaning income is generally treated as accruing directly to the founders, settlors or beneficiaries rather than being taxed at the level of the Foundation itself.

Family Foundation — Simplified Structure



Where conditions are met, a Family Foundation may apply to be treated as an Unincorporated Partnership, i.e. fiscally transparent for UAE Corporate Tax purposes.

Qualifying Conditions

- The Foundation is established for the benefit of identified or identifiable natural persons, or for the benefit of a public benefit entity
- The principal activity is to receive, hold, invest, disburse or otherwise manage assets associated with savings or investment
- The Foundation does not conduct a business that would otherwise constitute a Taxable Person if carried out directly by the founders or beneficiaries

Application and Ongoing Compliance

An application for transparent treatment must be submitted to the Federal Tax Authority, and the relevant conditions must continue to be satisfied on an ongoing basis. Where conditions cease to be met, the Foundation may become subject to Corporate Tax in its own right from the relevant Tax Period.

Wholly Owned Subsidiaries

Subsidiaries that are wholly owned and controlled by a qualifying Family Foundation may, in certain circumstances, also apply for transparent treatment, allowing income across the wider structure to flow through to the underlying beneficiaries on a look-through basis.

Practical Risk Areas

- Failure to file the transparency application within the prescribed timeline, resulting in default taxation as an opaque entity
- Commercial or active trading activity within the Foundation structure that jeopardizes the qualifying conditions
- Inadequate governance documentation evidencing the identity of beneficiaries and the purpose of asset holding

Foundation Vehicles Available in the UAE

A UAE Family Foundation is typically established under one of the three principal onshore foundation regimes summarised below. Each confers separate legal personality on the Foundation, and each may, subject to satisfying Article 17 of the CT Law, apply for fiscally transparent treatment.

Vehicle	Governing Regime	Typical Use
DIFC Foundation	DIFC Foundations Law (Dubai International Financial Centre)	Wealth and succession planning; commercial and philanthropic holding structures
ADGM Foundation	ADGM Foundations Regulations (Abu Dhabi Global Market)	Family wealth structuring; private trust company arrangements
RAK ICC Foundation	RAK ICC Foundations Regulations (Ras Al Khaimah)	Cost-efficient holding and succession vehicle

Foundation vs. Trust — Key Distinctions

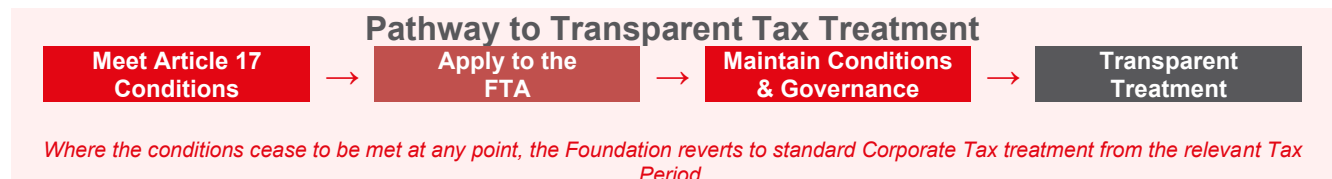
- A Foundation has separate legal personality and holds assets in its own name; a trust has no separate legal personality, and assets are held by the trustee.
- A Foundation is governed by a Charter and By-laws, typically administered by a Council; a trust is governed by a Trust Deed and administered by a trustee.
- Both vehicles may, subject to satisfying the relevant conditions, apply for fiscally transparent treatment under Article 17 of the CT Law.

Tax Treatment Compared — Transparent vs Non-Qualifying Foundation

Aspect	Transparent Foundation (conditions met)	Non-Qualifying Foundation
Corporate Tax at Foundation level	None — income treated as accruing directly to founders/beneficiaries	Taxed as an ordinary Taxable Person (0% up to AED 375,000; 9% above)
Compliance	Foundation generally still registers with the FTA; income is reported and taxed at beneficiary level per their own status	Standard CT registration, return filing and record-keeping obligations apply
Change in status	Applies from the relevant Tax Period once the application is accepted and conditions continue to be met	Where conditions cease to be met, opaque treatment applies from the relevant Tax Period onward

Example

A UAE Family Foundation holds a portfolio of listed investments directly and a wholly owned real estate holding company for the benefit of three identified family members. Provided the Foundation applies to the FTA and continues to satisfy the Article 17 conditions, its investment income is treated as accruing directly to the three beneficiaries, who account for it according to their own tax status. The wholly owned real estate subsidiary may separately apply for look-through treatment so that the wider structure is taxed consistently at the level of the ultimate beneficiaries.



Interaction with Other Regimes

Where a Family Foundation structure forms part of a wider group that meets the EUR 750 million DMTT/Pillar Two consolidated revenue threshold, the UAE Constituent Entities may separately fall within the Domestic Minimum Top-up Tax regardless of the Foundation's transparent status for standard Corporate Tax purposes (see Chapter 15). Where underlying operating subsidiaries conduct activities outside the UAE, Permanent Establishment exposure in the relevant foreign jurisdiction should also be considered (see Chapter 14).

CHAPTER 15

Permanent Establishment (PE)



Overview

A Non-Resident Person is subject to UAE Corporate Tax on the Taxable Income attributable to a Permanent Establishment (“PE”) in the UAE, as set out under Articles 11, 12 and 14 of the UAE CT Law.

The concept of a PE generally follows internationally recognised principles consistent with the OECD Model Tax Convention, adapted to the UAE’s domestic legislative framework. However, where an applicable Double Taxation Agreement provides a narrower PE definition or a different threshold, the provisions of that agreement should also be considered.

The existence of a PE is determined based on the specific facts and circumstances, including the nature, duration and regularity of the activities conducted in the UAE, the premises available to the Non-Resident Person and the authority exercised by persons acting on its behalf.

Permanent Establishment — Common Triggers

Fixed Place PE
A fixed place of business through which business is wholly or partly carried on

Agency PE
A dependent agent habitually concludes contracts on behalf of the non-resident

Construction / Installation PE
Site, project or supervisory activity exceeding a six-month threshold

A Non-Resident Person with a UAE Permanent Establishment is generally subject to Corporate Tax on income attributable to that PE.

Fixed Place of Business PE

A Fixed Place PE arises where a Non-Resident Person has a fixed or permanent place in the UAE through which the business of the person is wholly or partly carried on.

A fixed or permanent place may include:

- a place of management;
- a branch;
- an office;
- a factory;
- a workshop;
- land, buildings or other real property;
- an installation or structure used for the exploration of natural resources; or
- a mine, oil or gas well, quarry or other place of natural resource extraction.

The premises do not necessarily need to be legally owned or formally leased by the Non-Resident Person. A PE risk may arise where premises are effectively available to the Non-Resident Person and are used with a sufficient degree of permanence to conduct its business activities.

The activities conducted through the fixed place must form part of the business of the Non-Resident Person. Merely having customers, suppliers or investments in the UAE does not, by itself, establish a Fixed Place PE.

Construction, Installation and Supervisory Projects

A building site, construction project, assembly or installation project, or supervisory activities connected with such a site or project may constitute a PE where the relevant activities continue for more than six months.

In determining whether the six-month threshold is exceeded, connected activities carried out at the site or project by Related Parties of the Non-Resident Person may also be taken into account. Projects should not be artificially divided between related entities or contracts in order to remain below the relevant duration threshold.

Where a Double Taxation Agreement applies, the agreement may prescribe a different project-duration threshold and should therefore be reviewed separately.

Agency PE

An Agency PE may arise where a person in the UAE has and habitually exercises authority to conduct a Business or Business Activity on behalf of a Non-Resident Person.

This may occur where the person:

- habitually concludes contracts on behalf of the Non-Resident Person; or
- habitually negotiates contracts that are routinely concluded by the Non-Resident Person without material modification.

The assessment should consider the actual conduct of the parties rather than only the written contractual arrangements. A PE risk may therefore arise where contracts are formally signed outside the UAE but the key commercial terms are habitually negotiated and effectively agreed by persons operating in the UAE.

An Agency PE generally should not arise where the person acts as an independent agent in the ordinary course of its own business. However, an agent may not be regarded as independent where it acts exclusively or almost exclusively for the Non-Resident Person or is not legally or economically independent from that person.

Exclusions from PE

A fixed or permanent place used solely to conduct activities of a preparatory or auxiliary nature should not generally constitute a PE.

Examples may include:

- storing, displaying or delivering goods belonging to the Non-Resident Person;
- maintaining stock solely for processing by another person;
- purchasing goods or collecting information for the Non-Resident Person; or
- carrying out another activity, or combination of activities, that remains preparatory or auxiliary to the overall business.

The exclusion should be assessed by reference to the nature of the Non-Resident Person's overall business. An activity that is preparatory or auxiliary for one business may represent a core income-generating activity for another.

The exclusion may also be denied under the anti-fragmentation rule where the Non-Resident Person or a Related Party divides a cohesive business operation between different locations or entities and the combined activities are not preparatory or auxiliary in nature.

The mere presence of an individual in the UAE may not create a PE where the presence results from a temporary and exceptional situation. An employee's presence may also be excluded where the UAE activities are not part of the core income-generating activities of the Non-Resident Person or its Related Parties and the Non-Resident Person does not derive UAE State Sourced Income.

Attribution of Profits

Where a PE is established, only the income and expenditure attributable to that PE are included in determining the Non-Resident Person's UAE Taxable Income.

Profit attribution generally follows the arm's length principle, treating the PE as if it were a separate and independent enterprise carrying on the same or similar activities under the same or similar conditions.

The attribution analysis should consider:

- the functions performed by the PE;
- the assets used in carrying out those functions;
- the risks assumed and managed through the PE;
- dealings between the PE and its foreign head office or other parts of the enterprise; and
- expenditure incurred for the purposes of the PE's activities.

The Non-Resident Person should maintain appropriate financial information and supporting documentation to demonstrate how the income and expenditure attributable to the PE were determined.

Where a juridical Non-Resident Person becomes subject to Corporate Tax because it has a PE in the UAE on or after 1 March 2024, it must generally submit its Corporate Tax registration application within six months from the date on which the PE comes into existence.

Fixed Place PE vs Agency PE — Compared

Aspect	Fixed Place PE	Agency PE
Trigger	A fixed place of business through which the business is wholly or partly carried on	A dependent agent habitually concluding contracts on behalf of the non-resident
Physical presence	Required — office, branch, site, etc.	Not required — driven by the agent's authority and conduct
Common example	A branch office or project site in the UAE	A UAE-based agent who negotiates and concludes sales contracts

Practical Risk Areas

- ❖ Foreign personnel regularly using UAE premises to perform the core business activities of a Non-Resident Person.
- ❖ Construction, installation or supervisory activities exceeding the six-month threshold, including connected activities undertaken by Related Parties.
- ❖ UAE-based employees, distributors or representatives habitually negotiating or agreeing the principal terms of contracts on behalf of a foreign enterprise.
- ❖ Contracts being formally approved outside the UAE without material changes to terms negotiated in the UAE.
- ❖ Activities being divided between Related Parties or locations to seek to rely on the preparatory or auxiliary exclusion.
- ❖ Agents acting exclusively or almost exclusively for a Non-Resident Person and therefore not satisfying the independent-agent exception.
- ❖ Inadequate financial records or transfer pricing documentation supporting the amount of profit attributed to a recognised PE.

Practical Example

- A foreign engineering company operates from a dedicated project office in the UAE and sends personnel to perform installation and supervisory activities for an eight-month project.
- Subject to the terms of any applicable Double Taxation Agreement, the duration and nature of the activities may create a Fixed Place PE. The foreign company would then need to register for Corporate Tax and determine the income and expenditure attributable to the UAE PE.

CHAPTER 16

UAE Domestic Minimum Top-up Tax (DMTT) and Pillar Two



Overview

In response to the OECD/G20 Pillar Two initiative, the UAE introduced a Domestic Minimum Top-up Tax (DMTT) applicable to in-scope Multinational Enterprise (MNE) Groups, effective for Financial Years commencing on or after 1 January 2025. The DMTT was introduced under Cabinet Decision No. 142 of 2024, with detailed mechanics subsequently issued under Ministerial Decision No. 88 of 2025.

Rate Comparison — UAE Standard CT vs DMTT / Pillar Two

UAE Standard Corporate Tax

9%

DMTT / Pillar Two Minimum Rate

15%

DMTT Scope Threshold

MNE Group consolidated global revenue $\geq$
EUR 750 million
in ≥ 2 of the preceding 4 Financial Years

Scope of Application

The DMTT applies to Constituent Entities located in the UAE that are members of an MNE Group with consolidated global revenue of EUR 750 million or more, as reported in the Consolidated Financial Statements of the Ultimate Parent Entity, in at least two of the four Financial Years immediately preceding the tested Financial Year.

The threshold is assessed by reference to the consolidated revenue of the MNE Group rather than the standalone revenue of an individual UAE entity. Accordingly, a UAE entity with relatively limited local revenue may nevertheless fall within scope where it forms part of a sufficiently large international group.

Specific rules apply to matters such as mergers, demergers, Joint Ventures and changes in the composition of an MNE Group. Certain entities may also be excluded from the DMTT rules, including entities satisfying the relevant requirements to be treated as Investment Entities.

Mechanics of the Top-up Tax

The DMTT calculation is performed on a jurisdictional blending basis by aggregating the relevant income and taxes of the UAE Constituent Entities of the MNE Group.

The UAE effective tax rate is broadly determined by dividing Adjusted Covered Taxes by the group's net GloBE Income in the UAE. Where the resulting effective tax rate is below the 15% minimum rate, a Top-up Tax percentage is calculated based on the difference between the effective tax rate and 15%.

The Top-up Tax percentage is generally applied to the MNE Group's excess profit in the UAE after deducting the Substance-Based Income Exclusion. This exclusion is calculated by reference to qualifying payroll costs and tangible assets located in the UAE and is intended to recognise genuine economic substance within the jurisdiction.

Accordingly, the DMTT liability is not necessarily equal to the difference between the standard 9% UAE Corporate Tax rate and the 15% minimum rate. Differences in the Corporate Tax and GloBE tax bases, deferred tax positions, tax credits, exempt income and the Substance-Based Income Exclusion may materially affect the final liability.

By collecting the Top-up Tax domestically, the UAE retains taxing rights that might otherwise accrue to other jurisdictions applying the IIR or UTPR.

Safe Harbours

Safe Harbours may reduce the compliance burden by allowing the Top-up Tax for the UAE to be treated as nil without requiring the MNE Group to complete the full GloBE calculation, provided the applicable conditions are satisfied.

The Transitional Country-by-Country Reporting ("CbCR") Safe Harbour may apply for qualifying Financial Years where the MNE Group satisfies at least one of the following tests:

- the de minimis test;
- the simplified effective tax rate test; or
- the routine profits test.

The tests rely on information contained in a Qualified CbCR and Qualified Financial Statements. Groups should therefore confirm that the source data and accounting records satisfy the relevant requirements before relying on the Safe Harbour.

The UAE's QDMTT Safe Harbour status also generally means that an MNE Group should not be required to perform a separate GloBE Top-up Tax calculation in another jurisdiction in respect of its UAE Constituent Entities, subject to the detailed OECD requirements.

Interaction with Standard Corporate Tax

In-scope groups must assess both their standard UAE Corporate Tax liability and any incremental DMTT liability.

The DMTT operates alongside, rather than as a replacement for the standard UAE Corporate Tax regime. The two computations require separate analysis because the Corporate Tax and GloBE rules contain different treatments for certain categories of income, expenses, tax losses, deferred taxes, tax credits and intra-group transactions.

A UAE Constituent Entity may therefore have limited or no liability under the ordinary Corporate Tax computation but may still contribute to a DMTT liability at the UAE jurisdictional level. Similarly, payment of Corporate Tax at 9% does not automatically result in a DMTT charge of 6%.

Compliance and Filing

Separate registration requirements apply for UAE DMTT purposes, and registration for ordinary UAE Corporate Tax does not satisfy the DMTT registration obligation. Federal Tax Authority Decision No. 12 of 2026 prescribes the registration, deregistration and related notification timelines for Entities subject to UAE Top-up Tax. An Entity must submit its Top-up Tax registration application within seven months from the end of the first Fiscal Year in which it is in scope. As a transitional rule, an Entity with a Fiscal Year ending before 30 April 2026 must submit its registration application no later than 30 November 2026. Where a Domestic Designated Filing Entity has been appointed, it may submit the relevant registration applications and notifications on behalf of the applicable UAE domestic group members.

An Entity must generally submit a Top-up Tax deregistration application within six months from the earlier of the date on which it ceases to exist or the end of the Fiscal Year in which it leaves the MNE Group and is no longer in scope. As a transitional rule, an Entity that ceased to exist before 30 June 2026 must submit its deregistration application no later than 31 December 2026. Deregistration is subject to the Entity having filed all due Top-up Tax Returns and Pillar Two Information Returns and settled all outstanding Top-up Tax and penalties. Decision No. 12 of 2026 also prescribes separate timelines for notifying the FTA where an MNE Group becomes out of scope or subsequently returns within scope.

In-scope MNE Groups must maintain sufficient information to identify their UAE Constituent Entities, calculate GloBE Income or Loss, determine Adjusted Covered Taxes and support any Safe Harbour relied upon.

The normal filing and payment deadline is generally 15 months after the end of the relevant Financial Year. An extended deadline of 18 months generally applies for the first Financial Year in which the MNE Group becomes subject to the rules.

Groups should establish responsibility for the UAE DMTT filing process and coordinate the required information with the Ultimate Parent Entity, other group reporting entities and the teams responsible for Corporate Tax, transfer pricing, accounting and Country-by-Country Reporting.

Practical Risk Areas

- Groups assuming that the DMTT does not apply without testing the EUR 750 million revenue threshold against the Ultimate Parent Entity's Consolidated Financial Statements.
- Assessing only the standalone revenue or profitability of the UAE Constituent Entities rather than considering the wider MNE Group and UAE jurisdictional position.
- Failure to identify all UAE Constituent Entities, Permanent Establishments, Joint Ventures or other arrangements relevant to the DMTT calculation.
- Failure to track temporary differences, deferred tax positions and tax credits required for the GloBE effective tax rate computation.
- Relying on the Transitional CbCR Safe Harbour without confirming that the CbCR and underlying financial information satisfy the qualifying requirements.
- Inadequate coordination between the Pillar Two reporting team and the standard Corporate Tax, transfer pricing, finance and financial reporting teams.

CHAPTER 17

Amendments to the VAT / Excise tax



Overview

The UAE has introduced significant amendments to the Tax Procedures Law through Federal Decree-Law No. 17 of 2024 and Federal Decree-Law No. 17 of 2025, strengthening the tax administration framework with a focus on digitalization, procedural clarity, enhanced audit powers, and stricter enforcement. These changes impact all businesses and require improvements in tax governance, systems, and compliance processes.

A key development is the formal introduction of an Electronic Invoicing System within the law. While previously not defined, it now has a full legal mandate, with the Minister of Finance authorized to determine the scope of application, categories of taxpayers, implementation timelines, and detailed technical and procedural requirements.

The Federal Tax Authority's (FTA) audit powers have been significantly expanded. While a 10-business-day notice period generally continues to apply, the FTA may now conduct unannounced audits in cases involving suspected tax evasion, obstruction, or risk of evidence loss. In addition, the FTA is empowered to temporarily seal business premises for up to 72 hours and may review not only financial records but also electronic data and third-party information.

The amendments also introduce greater procedural clarity by setting specific timelines for FTA actions. The FTA is now required to notify taxpayers of tax assessments within 10 business days and penalty assessments within 5 business days. Furthermore, administrative penalties are now capped at a maximum of twice the amount of the tax due, providing more certainty for taxpayers.

In addition, formal deadlines have been introduced for submitting tax refund applications, addressing a gap in the previous framework. While the general statute of limitations remains at

five years, the amendments allow for extensions in certain cases, reinforcing the FTA's ability to address non-compliance.

Enforcement measures have been significantly strengthened. Tax evasion may result in fine not less than the evaded Tax amount and not more than (3) three times the amount of evaded Tax, and/or potential imprisonment.

Other serious violations, such as submitting false documents, destroying or concealing records, or obstructing tax audits, may result in penalties of up to AED 1 million and/or possible imprisonment. Repeat offenses are subject to more severe penalties, and failure to cooperate during an audit may result in penalties imposed directly on the taxpayer or their tax agent.

Overall, these amendments reflect a shift toward a more robust and technology-driven tax environment, requiring businesses to enhance internal controls, maintain accurate documentation, and ensure full compliance with evolving regulatory requirements.

Key Tax Procedures Amendments

10 business days Standard tax audit notice period	5 business days Notice of penalty assessments	72 hours Max period FTA may seal business premises	2× tax due (cap) Maximum administrative penalty cap	5 years General statute of limitations
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Selected timelines and caps introduced under Federal Decree-Law No. 17 of 2024 and Federal Decree-Law No. 17 of 2025 amending the Tax Procedures Law.

Excise Tax

The UAE has introduced important amendments to the Excise Tax framework through Federal Decree-Law No. 19 of 2022, Federal Decree-Law No. 7 of 2025, and Federal Decree-Law No. 17 of 2025. These updates enhance the excise tax regime by refining definitions, strengthening compliance requirements, and improving enforcement mechanisms.

The amendments align the Excise Tax framework with modern tax administration practices and reinforce controls over excise goods such as tobacco products, sweetened beverages, energy drinks, and electronic smoking devices.

Key Definitions and Scope Updates

Several key definitions have been clarified and expanded to enhance regulatory certainty.

The concept of a Designated Zone now explicitly includes fenced free zones supervised by approved Warehouse Keepers, with stricter controls to be outlined in the Executive Regulations. Warehouse Keepers must be formally registered and approved by the Federal Tax Authority (FTA).

The definition of a Stockpiler has also been clarified to include any person holding excise goods for which tax payment cannot be evidenced. In addition, concepts such as voluntary disclosure and tax evasion have been aligned with the updated Tax Procedures Law, with a broader scope for enforcement.

Taxable Activities

Excise Tax continues to apply to key activities, including:

- production of excise goods within the UAE for business purposes,
- import of goods into the UAE,
- release of goods from designated zones (i.e., when goods leave a tax-suspended environment), and
- stockpiling of goods where tax has not been proven as paid.

These rules reinforce taxation at critical points in the supply chain.

Excise Tax Rates and Calculation

Excise tax in the UAE is calculated based on the designated retail price (excluding VAT) of specific harmful goods.

As of January 1, 2026, sugary drinks use a tiered volumetric system, while other products are taxed at 50% (carbonated drinks) or 100% (tobacco, energy drinks, electronic smoking devices) of the excise price.

Designated Zones and Compliance

Designated Zones continue to play a central role in the excise tax regime. The amendments confirm that qualifying zones may be treated as “outside the State” for excise purposes, while also clarifying exceptions where certain activities within the zone are still considered to occur within the UAE.

Enhanced rules also govern the movement of goods between designated zones, reinforcing compliance controls.

Deductibility and Refund Mechanism

The amendments clarify the circumstances under which the excise tax may be deductible. Deductibility is generally allowed for exported excise goods, goods used in the production of other excise goods, and situations where tax rates are reduced (limited to the difference), as well as other cases approved by the FTA.

Refund rules have also been refined. Where recoverable tax exceeds payable tax, the excess is typically carried forward to future periods. Refunds may be claimed where excess amounts remain after offsetting across tax periods.

Record Keeping and Documentation

Businesses dealing with excise goods are required to maintain comprehensive records, including:

- Production, import, and stockpiling records,
- Any Excise Tax arising under the stockpiling provisions is required to be declared in the "Stockpiling" section of the Excise Tax return for the tax period covering December 2019. The amount reported should be fully supported by detailed calculations and underlying records that reconcile to the value declared in the Excise Tax return.

- Furthermore, in accordance with the Excise Tax legislation, any person carrying on a business is required to maintain audited records evidencing the quantities of excise goods held during the 12-month period preceding 1 December 2019. These records should be sufficient to determine the stock of excise goods for the purposes of the stockpiling provisions, regardless of whether the stock is considered normal or excess.
- Export documentation and supporting evidence, Direct exports:
- The supplier physically exports the goods to a destination outside the UAE.
- The supplier retains both official and commercial evidence of export.
- The goods are not used, consumed, or altered between the date of supply and the date of export, other than to the extent necessary to prepare them for export.

Indirect exports

- The overseas customer physically exports the goods outside the UAE.
- The overseas customer obtains the required official and commercial evidence of export and provides a copy to the supplier.
- The goods are not used, consumed, or altered between the date of supply and the date of export, other than to the extent necessary to prepare them for export.

For these purposes:

- ✓ Official evidence of export refers to export documentation issued by the relevant UAE Customs authority.
- ✓ Commercial evidence of export may include documents such as:
- ✓ Airway bill;
- ✓ Bill of lading;
- ✓ Consignment note; or
- ✓ Certificate of shipment.

The Federal Tax Authority (FTA) may also prescribe alternative forms of evidence depending on the nature of the export or the goods being exported.

- Detailed stock records including losses or damage

A taxable person may submit a declaration to the Federal Tax Authority (FTA) to request a waiver of Excise Tax on excise goods that are lost, damaged, or become unfit for consumption while stored in a Designated Zone.

The declaration may be submitted in the following cases:

- **Physical Loss:** The FTA will review the declaration and may approve a full or partial waiver of the Excise Tax liability. Additional information may be requested where necessary.
- **Natural Shortage:** A declaration may be submitted for losses arising from the nature of the excise goods during production, storage, or transportation within a Designated Zone. The declaration must be supported by a report issued by an independent competent authority and does not require prior FTA approval.
- **Laboratory Samples:** A declaration may be submitted for excise goods provided to an independent competent authority for laboratory testing to determine the natural shortage percentage. No prior FTA approval is required.

Excise tax calculations and supporting documentation.

In regards to maintaining an Excise Tax record, together with the relevant supporting calculations and documentation, that includes:

- Excise Tax due on imported excise goods.
- Excise Tax due on locally produced excise goods.
- Excise Tax due on stockpiled excise goods, where applicable.
- Details of deductible Excise Tax, including:
 - Excise Tax paid on exported excise goods;
 - Excise Tax paid on excise goods that become a component of another excise good; and
 - Any amounts of Excise Tax paid to the Federal Tax Authority in error.

CHAPTER 18

Research and development (R&D) Tax Incentives



Overview

The UAE Ministry of Finance has approved the introduction of a Research and Development (R&D) Tax Incentive, intended to support innovation-driven activity and align the UAE with OECD Frascati Manual standards for qualifying R&D expenditure. The same is effective for tax periods starting on or after 1 January 2026.

R&D Tax Credit — Claim Process

Assess
Eligibility
(Frascati
Criteria)



Pre-Approval
(R&D Council)



Track &
Document
Costs



File CT Return
& Claim Credit



Utilize / Carry
Forward

Pre-approval from the Emirates Research and Development Council is a mandatory precondition to claiming the credit, not an optional step.

Mechanics

The Ministry of Finance introduced a Research and Development (R&D) Tax Credit regime through Cabinet Decision No. 215 of 2025, with detailed implementation rules issued under Ministerial Decision No. 24 of 2026. The incentive operates as an expenditure-based, non-refundable tax credit, generally ranging between 15% and 50% of qualifying R&D expenditure incurred in the UAE. Unlike a refundable credit, it cannot generate a cash repayment: it may only

be used to offset a Taxable Person's Corporate Tax (and, where applicable, Top-up Tax) liability, with any unutilized balance generally available to be carried forward indefinitely, subject to the conditions of Ministerial Decision No. 24 of 2026.

Annual R&D Spend Tier (AED)	Min. Active Staff	Credit Rate	Max. Credit
First 1,000,000	2 Staff	15%	AED 150,000
1,000,001 to 2,000,000	6 Staff	35%	AED 350,000
2,000,001 to 5,000,000	14 Staff	50%	AED 1,500,000

Eligible Expenses

- **Staff Cost Uplift:** Salaries/benefits of active R&D personnel enjoy a 30% statutory overhead multiplier.
- **Other Cost Bases:** Consumables, software licenses, utilities, and local third-party outsourcing.

Qualifying Activities

The UAE has strictly aligned its definition of R&D with the OECD Frascati Manual. An eligible project must fulfill five core criteria:

- **Novel:** Aim to create new findings or knowledge.
- **Creative:** Rely on original, non-obvious concepts.
- **Uncertain:** The ultimate outcome or technical feasibility cannot be predicted at the outset.
- **Systematic:** Conducted according to a planned, documented process.
- **Transferable/Reproducible:** Lead to results that can be credited, transferred, or reproduced. Activities in the fields of social sciences, humanities, and the arts are explicitly excluded.

Road Map to Claiming Credit

- Verify project aligns with global Frascati pillars.
- Obtain pre-approval - Submit to Emirates R&D Council for validation.
- Maintaining contemporaneous project-level documentation evidencing technological uncertainty and the systematic nature of the work
- Separately tracking qualifying R&D costs within the general ledger to support a future claim. Records to be kept for 7 Years for technical narratives and financial records for FTA inspection.

Minimum Project Threshold and Eligible Claimants

- A minimum qualifying R&D expenditure of AED 500,000 per project per Tax Period applies (excluding the 30% staff-cost uplift); projects falling below this threshold do not generate a credit, regardless of how well they otherwise satisfy the Frascati criteria.
- Taxable Persons applying Small Business Relief under Article 21 of the CT Law are not eligible to claim the R&D Tax Credit.

- Free Zone Persons may claim the credit, but generally only to the extent the related income is subject to the standard 9% Corporate Tax rate or forms part of Top-up Tax liability, rather than 0% qualifying income.

Example

A company incurs AED 3,000,000 of qualifying R&D expenditure in a Tax Period and meets the minimum average R&D staff headcount required for each tier. The non-refundable credit is computed on a tiered basis as follows:

Tier	Qualifying Spend in Tier	Rate	Credit
First AED 1,000,000	AED 1,000,000	15%	AED 150,000
AED 1,000,001 – 2,000,000	AED 1,000,000	35%	AED 350,000
AED 2,000,001 – 3,000,000	AED 1,000,000	50%	AED 500,000
Total	AED 3,000,000	—	AED 1,000,000

The resulting AED 1,000,000 credit — within the overall AED 2,000,000 per-entity (or Tax Group) per-Tax-Period cap — is first used to offset the company's Corporate Tax liability for the period, with any unutilized balance generally carried forward indefinitely, subject to the conditions of Ministerial Decision No. 24 of 2026.

Interaction with Pillar Two / DMTT

Because the R&D Tax Credit is non-refundable, it would generally not qualify as a "Qualifying Refundable Tax Credit" under the OECD GloBE Rules, and is therefore generally expected to reduce Adjusted Covered Taxes for DMTT/Pillar Two purposes rather than being treated as GloBE Income — potentially increasing the effective Top-up Tax exposure of an in-scope MNE Group even as it reduces the Group's standard Corporate Tax liability. See Chapter 15 for the DMTT computation mechanics.

R&D Tax Incentive — Refundable Credit Rate by Spend Tier

First AED 1,000,000 of R&D spend (max credit AED 150,000)

15%

AED 1,000,001 – 2,000,000 (max credit AED 350,000)

35%

AED 2,000,001 – 5,000,000 (max credit AED 1,500,000)

50%

Effective for tax periods starting on or after 1 January 2026, subject to Ministerial Decision No. 24 of 2026.

CHAPTER 19

UAE E-Invoicing System



Overview

The UAE is implementing a mandatory Electronic Invoicing (“e-Invoicing”) System as part of its wider digital tax administration framework. The system is supported by amendments to the UAE tax legislation, with the Ministry of Finance authorised to determine its scope, technical requirements and implementation timeline.

The framework follows a Continuous Transaction Control model based on the “five-corner” data exchange model. Under this model, electronic invoices are exchanged between suppliers and customers through Accredited Service Providers rather than being submitted directly by businesses to the Federal Tax Authority.

UAE E-Invoicing — Five-Corner Exchange Model



Structured, machine-readable invoices are exchanged via Accredited Service Providers based on the OpenPeppol standard — not submitted directly to the FTA.

The system is based on the international OpenPeppol standard and requires invoices to be issued, transmitted and received in a structured, machine-readable format. Accordingly, a PDF invoice sent by email would not, by itself, constitute an electronic invoice for the purposes of the mandatory system.

The scope and implementation timeline of the UAE Electronic Invoicing System are principally set out in Ministerial Decision No. 243 of 2025 and Ministerial Decision No. 244 of 2025.

Scope and Key Requirements

The mandatory Electronic Invoicing System generally applies to persons conducting business in the UAE in relation to:

- Business-to-Business (“B2B”) transactions; and
- Business-to-Government (“B2G”) transactions.

This is subject to the specific exclusions prescribed under the relevant Ministerial Decisions. Supplies made to natural persons acting solely in a private or consumer capacity are generally outside the current mandatory scope.

An electronic invoice must generally be issued and transmitted for each in-scope business transaction. An electronic credit note must also be issued where, for example:

- a transaction is cancelled;
- the agreed consideration is reduced;
- a refund is provided in full or in part; or
- an administrative or numerical error is identified.

Both issuers and recipients are required to process electronic invoices and electronic credit notes through their appointed Accredited Service Providers. The documents must contain the mandatory data fields and particulars prescribed by the Ministry of Finance.

The Electronic Invoicing requirements operate alongside the UAE VAT invoicing rules. Businesses must therefore ensure that electronic invoices and credit notes continue to satisfy the relevant VAT requirements where the transaction is subject to VAT.

Phased Rollout

Implementation of the Electronic Invoicing System is being phased according to the annual revenue and legal status of the relevant person.

The pilot programme commenced on 1 July 2026 with a selected group of taxpayers. Businesses with annual revenue exceeding AED 50 million must:

- appoint an Accredited Service Provider no later than 30 October 2026; and
- fully implement the Electronic Invoicing System from 1 January 2027.

The deadline for appointing an Accredited Service Provider for this category was extended from 31 July 2026 to 30 October 2026 following an amendment to Ministerial Decision No. 244 of 2025. The mandatory implementation date of 1 January 2027 remains unchanged.

Businesses with annual revenue below AED 50 million must:

- appoint an Accredited Service Provider no later than 31 March 2027; and
- implement the Electronic Invoicing System from 1 July 2027.

In-scope Government Entities must:

- appoint an Accredited Service Provider no later than 31 March 2027; and
- implement the Electronic Invoicing System from 1 October 2027.

Businesses should determine their applicable implementation phase by reference to their annual revenue and legal status. The Electronic Invoicing implementation thresholds are separate from the VAT registration thresholds.

Phased Rollout — Businesses Above AED 50 Million Revenue

30 Oct

2026

Appoint Accredited Service Provider

1 Jan

2027

Full implementation deadline

Businesses below AED 50 million revenue: appoint a Service Provider by 31 March 2027 and implement by 1 July 2027.

Accredited Service Providers

Businesses within the scope of the Electronic Invoicing System will generally be required to appoint an Accredited Service Provider to facilitate the issuance, transmission, receipt and reporting of electronic invoices and electronic credit notes.

The Accredited Service Provider will connect the business's accounting or invoicing system with the wider Electronic Invoicing network and facilitate the exchange of invoice information between the supplier, customer and relevant government platform.

Although businesses may use an Accredited Service Provider to support implementation and ongoing compliance, responsibility for the completeness and accuracy of electronic invoices and compliance with the applicable legal requirements remains with the business.

Businesses should therefore undertake appropriate due diligence when selecting a provider and ensure that contractual arrangements address system availability, data protection, record retention, error resolution and ongoing technical support.

Readiness Considerations

Businesses should begin preparing for Electronic Invoicing by:

- confirming the applicable Accredited Service Provider appointment and mandatory implementation dates;
- mapping existing ERP, accounting and invoicing systems against the UAE Electronic Invoicing data dictionary and technical standards;
- selecting and onboarding an Accredited Service Provider ahead of the applicable deadline;
- identifying all B2B and B2G transactions that will fall within scope;
- reviewing customer and supplier master data to ensure that the mandatory invoice information is available;
- assessing the impact on electronic credit notes, self-billing arrangements, advance payments, intercompany transactions and cross-border transactions;
- integrating internal systems with the selected Accredited Service Provider;
- testing the issuance, transmission, receipt and rejection of electronic invoices and electronic credit notes; and
- aligning Electronic Invoicing records with accounting records and VAT reporting processes.

Early engagement with the Electronic Invoicing requirements is recommended due to the operational lead time required to select a provider, update systems, cleanse data and test the end-to-end invoicing process.

The implementation of Electronic Invoicing will require coordination between tax, finance, accounts receivable, accounts payable, procurement, information technology and legal teams. Businesses should therefore treat implementation as a wider operational transformation project rather than solely as a tax compliance exercise.



Closing Remark

The UAE tax environment continues to evolve alongside the country's broader regulatory and digital agenda. This handbook has been prepared as a practical reference to help businesses understand the principal areas of the UAE tax framework and the compliance considerations that arise in day-to-day operations.

As the regime develops, effective tax management will increasingly depend on strong governance, accurate financial information, timely implementation and close coordination between tax, finance and operational teams.

Acquisory remains committed to supporting businesses across the UAE and wider GCC with practical, commercially focused tax advisory and compliance support, helping organizations respond confidently to change and maintain robust tax governance as their operations grow.

This guide is intended for general informational purposes only and does not constitute professional tax advice. Readers are advised to consult their local tax advisors before making decisions based on its contents.



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