



Corporate Tax and UAE Real Estate: Key Practical Issues That Continue to Be Overlooked

SUMMARY

Eighteen months into the UAE Corporate Tax regime, the most significant challenges facing real estate organisations are no longer headline concepts, such as the 9% rate or the AED 375,000 threshold. Instead, the impact is being felt through the technical, structural, and operational issues that arise in day-to-day business activity. Real Estate groups, often spanning development, leasing, hospitality, facilities management, and holding structures, are encountering tax outcomes that differ substantially depending on how activities are organised, recognised and accounted for.

As the regime continues to mature, it is increasingly clear that the industry must refine how activities are classified, how mixed-use income and expenses are allocated, how development-stage profits are recognised, and how free-zone or private wealth structures respond to a more sophisticated regulatory framework. Our article outlines the key areas that continue to be overlooked and provide practical insights for real estate businesses navigating this evolving landscape.

INTRODUCTION: A SECTOR UNDER STRATEGIC TAX PRESSURE

- The introduction of Corporate Tax has brought a new level of scrutiny to the UAE real estate sector. While the assets themselves remain central to commercial activity, it is the *nature of the income-generating activities*, not the property, that determines the tax outcome. This shift has exposed long-standing operational models that were not designed with a corporate tax regime in mind.
- Real estate groups that integrate development, leasing, hospitality, community management and investment holding within the same legal entity now face inconsistent and often unintended tax consequences. The new environment requires a careful reassessment of both structural and operational assumptions.

Key Dynamics Shaping the Real Estate CT Landscape

Economic Expansion & Sector Growth:

The UAE real estate sector continues to benefit from population growth, foreign investment, and major development pipelines. As new projects scale in size and complexity, Corporate Tax is emerging as an external factor that influences long-term planning, financing structures, and investor expectations

Increasing International Alignment:

The UAE is strengthening alignment with global tax and governance standards as part of its broader economic strategy. This shift increases the importance of transparency, documentation, and consistency across real estate structures – especially those involving cross-border investors.

Changing Investor & Lender Behavior:

Institutional investors, banks, and JV partners are beginning to incorporate Corporate Tax considerations into feasibility assessments, covenant designs, return projects and deal negotiations. CT is becoming a factor that shapes commercial terms, not just compliance processes.

Technology, Data & Reporting Expectations:

Regulators and market participants increasingly expect real estate groups to have better-integrated financial systems, clearer reporting lines, and improved data governance. Tax Authorities are moving toward more analytical oversight and granularity of their financial and operational records.

1. REAL ESTATE ACTIVITIES ARE NOT TAXED UNIFORMLY UNDER CORPORATE TAX

- The UAE Corporate Tax regime does not treat all real estate activities in the same way. Instead, tax outcomes depend on the specific nature of the activity performed, rather than the underlying property asset. As a result, business models that combine development, leasing, hospitality and service activities often face multiple tax treatments within a single entity.

Long-Term vs Short-Term Leasing

- **Long-term residential leasing:** Remains outside the scope of Corporate Tax when carried out directly by natural persons; however, once undertaken through companies or incorporated SPVs, the income becomes taxable in full.
- **Short-term residential leasing:** Short-term rentals, serviced apartments, and hospitality-style offerings are treated as taxable business activities irrespective of the underlying property, as they fall within the scope of commercial or hospitality operations.

The way real estate activities are structured and performed can significantly alter their Corporate Tax treatment, making activity classification a critical first step in assessing tax exposure.

Commercial Leasing & Ancillary Services

- **Commercial Leasing:** Commercial leasing is always treated as taxable business income under the Corporate Tax regime, regardless of whether the activity is isolated or part of a broader real estate portfolio.
- **Facilities Management & Community Services:** Facilities Management, community management, and related service activities are considered separate taxable businesses, and their income must be assessed independently from leasing or development functions.

Practical Insight

Segregating leasing, facilities management, and development functions across separate entities can help maintain clearer tax boundaries and reduce unintended CT exposure.

2. MIXED USE ASSETS REQUIRE ROBUST ALLOCATION METHODS

- Mixed use developments that combine residential, commercial, retail and hospitality components are common across the UAE real estate market. Under the Corporate Tax regime, these developments require careful allocation of income and expenses to ensure that each component is treated correctly for tax purposes. The allocation methods must be reasonable, consistent, and supported by clear documentation, as even minor misclassifications can lead to material compliance risks.

Misclassification Risks

- Serviced apartment or short-stay revenue that is incorrectly treated as residential income can inadvertently bring an otherwise exempt or out-of-scope activity into the taxable regime.
- Similarly, revenue generated from commercial components that overlap with community or shared-service functions can be misallocated if internal charging mechanisms are not clearly defined.

Centralized Cost Allocation Challenges

- Many real estate groups centralize functions such as marketing, administration, utilities, facilities management, or security. Without a clear and supportable allocation policy, these costs may be inaccurately spread across taxable and non-taxable activities.
- Inconsistent cost allocation can distort the taxable position of individual assets or entities, leading to exposures that become apparent only at year-end or during audit review.

Documentation & Internal Policy Requirements

- To withstand scrutiny, allocation methodologies should be formally documented, consistently applied, and aligned with how the business operates in practice.
- Groups with complex master-developments or large investment portfolios may need to adopt more granular allocation keys, supported by data from property management systems, valuation teams or operational records.

3. WHAT THIS MEANS FOR DEVELOPERS

- **Revenue Recognition Ahead of Cash Flow**

Under percentage-of-completion accounting, developers may recognize taxable profits years before meaningful cash is received from buyers, creating pressure on liquidity and funding arrangements

- **Delayed Expense Recognition**

Major development costs, such as land acquisition, infrastructure, and financing are typically capitalized, meaning deductible expenses arise later than taxable revenues, leading to material timing mismatches. .

- **Impact on Feasibility & Project Economics:**

Timing differences can distort project feasibility models, as tax liabilities crystallize earlier than projected returns, requiring developers to revisit pricing, phasing, and cash-flow planning.

- **Greater Scrutiny on Assumptions**

Tax Authorities are likely to examine the consistency of revenue recognition policies, capitalization approaches, and project delivery timelines to ensure taxable profit aligns with economic reality.

PRACTICAL STEPS DEVELOPERS SHOULD TAKE

Key steps to prepare

Model Tax Timing Early:

Incorporate Corporate Tax assumptions into feasibility studies and cash-flow forecasts to identify time gaps before project commitments are made

Reassess Capitalization

Policies: Review which costs are capitalized and when they become deductible, ensuring your approach is consistent with accounting standards and tax guidance

Engage Lenders and

Investors Early: Discuss timing implications with financing partners, as earlier-than-expected tax liabilities may require adjustments to loan structures

Step 01

Step 02

Step 03

Step 04

Step 05

Review Revenue Recognition

Policies: Assess whether current percentage-of-completion methods, milestones, and contract structures align with CT expectations

Strengthen Project Documentation:

Maintain clear evidence supporting project timelines, construction progress, valuation milestones, and cost allocations – all of which influence taxable outcomes.

A comparison of how Corporate Tax applies to different investor types

Investor Category	CT Treatment	Key Conditions/Tests	Key Risks
Natural Persons (direct ownership)	<ul style="list-style-type: none"> Out of scope for CT unless conducting a business activity 	<ul style="list-style-type: none"> Long-term leasing of residential property generally not considered a 'business' for CT purposes 	<ul style="list-style-type: none"> Risk arises if activity becomes structured, repeated, or professionally managed (reclassification into CT scope)
Individuals using SPVs/Companies	<ul style="list-style-type: none"> Fully in scope – entity becomes a taxable person 	<ul style="list-style-type: none"> All rental income becomes taxable, even for long-term residential leasing (unless specifically exempt) 	<ul style="list-style-type: none"> Unintended CT exposure where individuals incorporate for liability/financing reasons
Corporate real estate groups (mainland)	<ul style="list-style-type: none"> All income taxable unless specifically exempt 	<ul style="list-style-type: none"> Activity-based analysis required for leasing, FM, hospitality, asset management 	<ul style="list-style-type: none"> Misclassification, incorrect revenue timing, transfer pricing exposures
Free Zone entities	<ul style="list-style-type: none"> 0% applies only if income qualifies as 'Qualifying Income'. Most real estate activities do not qualify 	<ul style="list-style-type: none"> Must meet substance + non-exclusion conditions 	<ul style="list-style-type: none"> Non-qualifying revenue pulls entity into 9% taxation; legacy free-zone structures no longer achieve intended outcomes
Developers	<ul style="list-style-type: none"> Taxed on accounting profit (often earlier than cash) 	<ul style="list-style-type: none"> Percentage-of-completion method; capitalised costs 	<ul style="list-style-type: none"> Timing mismatches leading to tax arising before cash inflows; pressure on financing and feasibility

4. EVOLVING REGULATORY LANDSCAPE

a. Increased Clarity Through Formal Guidance

- Recent Federal Tax Authority decisions and sector-specific clarifications continue to refine the boundary between taxable and non-taxable real estate activities.
- Guidance on free zone qualifying income, activity classification, and natural person treatment is helping groups reassess long-standing assumptions and align their structures with CT intent

b. Greater Emphasis on Substance & Economic Reality

- Regulators are placing increased weight on where functions are genuinely performed, who performs them, and how decisions are made- requiring real estate groups to demonstrate operational substance across their entities.
- Paper-based structures without meaningful activity or decision-making are becoming harder to defend, particularly within free zone groups or those with centralized service functions.

c. Strengthening of Transfer Pricing and Intra-Group Governance

- Intra-group arrangements such as asset management, development oversight, and shared services now require supportable pricing policies aligned with transfer pricing principles.
- Tax Authorities are expected to focus on whether charges between entities, particularly between free zone and mainland companies, reflect actual value creation.
- Groups may need to formalize agreements, update documentation and ensure consistent application across the portfolio.

d. Increased Data Expectations and Audit Readiness

- As compliance systems mature, Tax Authorities are expected to adopt more data-led approaches to reviewing operations, including analytics on revenue timing, allocation methods, and intercompany transactions.
- Record-keeping requirements will become more important, especially for mixed-use developments, development timelines, and percentage-of-completion documentation.

The regulatory environment is shifting from broad principles to detailed expectations, requiring real estate groups to strengthen substance, documentation, and governance across their structures.

CONCLUSION

Corporate Tax has now become a structural feature of the UAE real estate landscape. As the regime continues to mature, the most significant challenges lie not in the headline rate, but in how activities are classified, how income and costs are allocated, and how structures align with substance and operational reality.

Real Estate groups that proactively assess their business models, strengthen documentation, and integrate tax considerations into commercial planning will be best positioned to manage risk and respond to regulatory developments.

As the environment evolves, early alignment with the principles of the CT regime will be central to maintaining compliance, safeguarding value, and ensuring long-term competitiveness.

For investors and companies, the message is clear: the time to prepare is now.