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Tax Alert on Family Foundations

FTA Issues Updated Guidance on the Taxation of Family Foundations

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EXECUTIVE SUMMARY

The UAE Federal Tax Authority (FTA) has released an updated version of its Corporate Tax Guide on the Taxation of Family Foundations (CTGFF1), replacing the previous guidance issued in May 2025. The updated guide provides significant clarifications regarding the corporate tax treatment of family foundations, trusts, family offices and multi-tier ownership structures.

The guidance is particularly relevant for high-net-worth individuals, family businesses, private investment structures, family offices and entities holding family wealth through foundations or trusts.

The updates provide greater certainty around the application of fiscal transparency rules and highlight several areas where existing structures may require review to ensure continued eligibility for tax-transparent treatment.

KEY DEVELOPMENTS

1. Clarification on Trust Structures

The FTA has confirmed that unincorporated trusts, including those established in financial free zones such as DIFC and ADGM, are generally treated as fiscally transparent by default as Unincorporated Partnerships. This means that such trusts do not need to make an application under Article 17(1) to be treated as fiscally transparent.

Conversely, incorporated trusts and similar legal arrangements remain separate juridical persons and are subject to Corporate Tax unless they satisfy the relevant conditions to obtain tax-transparent treatment. In addition, a Waqf that qualifies as a Qualifying Public Benefit Entity may be exempt from Corporate Tax.

Why this matters

Families using trust structures now have greater certainty regarding the tax treatment of assets and investments held through those arrangements.

The distinction between incorporated and unincorporated arrangements should be reviewed carefully, as the resulting Corporate Tax consequences may differ significantly.

2. LLCs Cannot Qualify as Family Foundations

One of the most significant clarifications in the updated guide is that a UAE Limited Liability Company (LLC) is not considered a "similar entity" to a foundation.

As a result, an LLC cannot itself qualify as a Family Foundation or apply directly for fiscal transparency under the Family Foundation provisions.

Furthermore, an LLC cannot act as the ultimate Family Foundation vehicle for the purposes of the Family Foundation provisions.

However, an LLC may still qualify for tax-transparent treatment where it is wholly owned and controlled by a qualifying Family Foundation and all relevant conditions are met.

Why this matters

Many family wealth structures utilise LLCs as holding vehicles.

The clarification confirms that LLCs cannot serve as the ultimate Family Foundation vehicle and may require restructuring where tax-transparent treatment is intended.

3. Additional Guidance on Multi-Tier Ownership Structures

The updated guide introduces detailed guidance on multi-layer family ownership arrangements.

The FTA has confirmed that:

- Tax-transparent treatment may extend through multiple entities.
- An uninterrupted chain of tax-transparent entities must exist.
- Any non-transparent entity in the ownership chain breaks eligibility.
- Conditions must be satisfied continuously throughout the relevant Tax Period. Failure to satisfy the conditions at any point during the Tax Period may result in the loss of tax-transparent treatment from the beginning of that Tax Period.
- Multiple Family Foundations may jointly own a qualifying entity.
- The parent entity must be treated as fiscally transparent for the whole of the subsidiary’s Tax Period.
- If an entity in the chain fails the conditions, entities below it may also lose eligibility.

Why this matters

Many family groups operate through several holding companies and investment vehicles.

The guidance confirms that a single non-qualifying entity within the structure could potentially cause multiple downstream entities to lose tax-transparent status.

A review of existing ownership chains may therefore be warranted.

4. Transfers of Assets into Family Foundations

The FTA has clarified the tax consequences of transferring assets into a Family Foundation.

As founders and Family Foundations are Related Parties, transfers must generally occur at market value.

Importantly, where an individual transfers personal investments or real estate investments into a Family Foundation, the transfer should not create UAE Corporate Tax consequences for the individual.

However, transfers made by corporate entities may trigger taxable gains or losses depending on the facts and circumstances.

Why this matters

This clarification provides welcome certainty for private individuals undertaking succession planning or wealth preservation initiatives through Family Foundations.

Corporate groups should continue to assess potential tax implications before transferring assets into foundation structures.

5. Tax Status Changes Following Acquisitions or Disposals

The updated guide addresses situations where a company becomes wholly owned and controlled by a Family Foundation.

Where the required conditions are satisfied, the company may cease to be a Taxable Person and be treated as an Unincorporated Partnership for UAE Corporate Tax purposes.

Likewise, where such a company is sold and ceases to be controlled by a Family Foundation, it may revert to being a taxable person.

Importantly, the FTA has clarified that no adjustment is made to the tax basis of underlying assets solely because of the change in tax status.

Why this matters

This guidance is particularly relevant for family-owned real estate and investment holding structures.

Groups contemplating acquisitions, disposals or reorganisations should assess whether a change in tax status could arise and understand the resulting compliance implications.

6. Family Offices Remain Within the Corporate Tax Net

The guide confirms that Single Family Offices (SFOs) and Multi-Family Offices (MFOs) will generally not qualify for tax-transparent treatment because they typically carry on business activities.

Accordingly, such entities remain subject to UAE Corporate Tax.

However, family offices established in a Free Zone may still benefit from the 0% Corporate Tax regime where they derive Qualifying Income from Qualifying Activities that are subject to regulatory oversight by a competent UAE authority and satisfy all relevant conditions.

The FTA has also clarified that merely holding a licence may not be sufficient. The relevant activities must generally be subject to appropriate regulatory oversight in order to qualify.

The FTA also emphasises that services provided between Family Foundations and Family Offices must be conducted on arm's length terms.

Why this matters

Family offices should not assume that ownership by a Family Foundation automatically results in tax-transparent treatment.

Existing transfer pricing arrangements and Free Zone qualification positions should be reviewed in light of the updated guidance.

ACQUISORY OBSERVATIONS

The updated guide represents another step by the FTA towards providing greater certainty for private wealth and family office structures operating in the UAE.

While much of the guidance confirms existing market understanding, several clarifications are particularly important:

- LLCs cannot act as Family Foundations.
- Multi-tier structures require continuous compliance and uninterrupted transparency.
- Asset transfers into foundations require careful consideration of related party and valuation rules.
- Family offices remain taxable entities despite being part of wider family wealth structures.
- Changes in ownership can alter an entity's Corporate Tax status without resetting tax basis values.

Families and private wealth groups should review existing structures to assess whether any adjustments are required to preserve intended Corporate Tax outcomes.

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