



UAE TAX GUIDE · JULY 2026

Hospitality Sector

Corporate Tax | Transfer Pricing



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01

Overview of the Hospitality Sector in UAE

Sector size, growth trajectory & regulatory context

UAE Hospitality Sector: Overview

The UAE hospitality sector remains a cornerstone of the nation's non-oil economy, contributing materially to the Gross Domestic Product (GDP) while reinforcing the country's position as a leading global tourism hub.

Driven by strategic initiatives like the National Tourism Strategy 2031 and sustained infrastructure investment, the industry has demonstrated notable resilience, transitioning from post-pandemic recovery to a sustainable growth phase despite regional geopolitical tensions. As this upward trajectory continues, hospitality businesses are encountering an increasingly sophisticated regulatory environment, necessitating a comprehensive understanding of the key corporate tax (CT) and transfer pricing (TP) considerations relevant to stakeholders operating within this evolving landscape.

Key Growth Matrix



This guide provides a brief overview of the key taxes applicable to the hospitality sector, addresses critical CT and TP complexities unique to hotel value chains and finally, it outlines the exact documentation thresholds, timelines, and practical strategies required to ensure robust audit readiness under the Federal Tax Authority (FTA) framework.



02

Key Taxes Affecting the Sector

CT, VAT, Tourism Tax, Municipality Fees & Transfer Pricing

UAE's Multifaceted Tax Framework

Corporate Tax: A federal tax with a standard rate of 9% on taxable income exceeding AED 375,000. Entities established in the Free Zone and engaged in Qualifying Free Zone activities are eligible for 0% CT subject to meeting certain conditions of economic substance, compliance with arm's length requirements, preparation of audited financial statements where required, meeting the de minimis requirements and not electing to be subject to CT.

Transfer Pricing: TP provisions embedded within the UAE CT Law and operationalized through Ministerial Decision No. 97 of 2023 and the TP Guide (Guide) require that pricing for intercompany transactions to be at arm's length price (ALP) to prevent artificial shifting of profits outside of the UAE.

Value Added Tax (VAT): A federal indirect tax with a standard rate of 5% applied to most supplies of goods & services, including hotel accommodation, food and beverage services, & ancillary hotel facilities.

A deemed supply can also get triggered when goods & services are provided without consideration and the business has recovered input tax on such related costs. Therefore, any free accommodation or complimentary services & goods provided to employees/ recipients may come under the ambit of UAE VAT.

Municipality fees: An emirate-level tax applied as a flat percentage (typically 4–10%) on the revenues of hotel rooms, apartments, and dining services.

Tourism Tax: Also known as tourism dirham or tourism fees, it is an emirate-level fee charged per room per night of occupancy. In Dubai, this ranges from AED 7–20 per room per night, depending on the category of the hotel, while Abu Dhabi applies a 4%-6% fee on room rates.

Related Parties, Connected Persons & Domestic Transactions

ARTICLE 35

Related Parties

- Related parties include entities or individuals where one controls the other, or both are under common control.
- Control may arise through direct or indirect ownership of at least 50% of shares, voting rights or economic interests, or otherwise through the ability to exercise control.
- Related parties also include natural persons connected by kinship or marriage up to the fourth degree.
- Transactions between related parties must comply with the arm's length principle, regardless of whether they are domestic UAE or cross-border transactions.

ARTICLE 36

Connected Persons

- A narrower category than Related Parties, covering a Taxable Person's owners, directors, officers and their relatives up to the fourth degree.
- Payments to Connected Persons must be at **market value** (rather than solely satisfying the arm's length principle) and must be incurred **wholly and exclusively for the purposes of the business**.

Owners

Directors &
officers

Kinship (4th
degree)

Partners

Related Entities

CTP010: Where a natural person qualifies as both a Related Party and a Connected Person, they must be treated as a Related Party for UAE CT reporting purposes.

Domestic Transactions

Unlike many TP regimes, which primarily focus on cross-border transactions, the UAE CT Law also applies the arm's length principle to domestic transactions between related parties.



03

Business Models & Agency vs. Principal

Operating structures that shape CT and TP positions

Common Hotel Operating Structures



01 Management Contract

Local Ownership – Global Expertise

- Property owned by a local investor or real estate owner.
- Hotel operations managed by a specialized hotel management company.
- Operator handles branding, marketing, revenue management, and guest services.
- Owner retains ownership of the hotel asset.
- Operator earns management fees, often linked to hotel performance.

02 Franchise Model

Brand licensing

- Hotel owner operates and manages the property independently.
- Owner uses the franchisor's brand, systems, and operating standards.
- Franchise fees are typically based on hotel revenue.
- Access to reservation systems, loyalty programmes, and operational support.
- Greater owner control while benefiting from an established brand.

03 Owner-Operated Model

Full ownership & control

- Property owner directly manages hotel operations and has full control over strategic and operational decisions.
- No external operator or franchisor involved in management.
- Owner retains all profits generated by the hotel.
- Owner bears the full business and operational risks.

04 Lease Model

Fixed or variable rent

- Property owner leases the hotel to an operator.
- Owner receives fixed or variable rental payments.
- Operator manages the day-to-day hotel operations.
- Operator bears the operational risks and rewards.
- Ownership and hotel operations remain separate.

Agency vs. Principal

Evaluating whether a hospitality business acts as a Principal or an Agent is one of the most critical structural determinations under the UAE tax framework. Since UAE CT fundamentally starts with accounting net profits prepared under IFRS (specifically IFRS 15), this classification dictates how revenue is measured, how expenses are deducted, and how VAT is applied across hotel management, online bookings, and franchise operations.

The following analysis outlines the key indicators, hospitality scenarios, and corresponding tax treatments:

1. The Core IFRS 15 Framework - The Corporate Tax Baseline : Under Article 20 of the UAE CT Law, financial statements must be compliant with IFRS. Under IFRS 15 (*Revenue from Contracts with Customers*), the classification hinges entirely on Control:

Principal	Agent
<p>The entity controls the promised good or service <i>before</i> it is transferred to the customer. It records revenue on a Gross Basis (the total amount billed to the consumer).</p>	<p>The entity's performance obligation is simply to <i>arrange</i> for the provision of goods or services by another party. It records revenue on a Net Basis (only the commission or facilitation fee earned).</p>

2. Three Operational Indicators of Control

Primary Responsibility	Inventory Risk	Pricing Discretion
<p>Who is responsible for fulfilling the promise? (e.g., if a guest is injured or the room is substandard, who bears the legal liability?)</p>	<p>Who bears the loss if the asset is underutilized? (e.g., if hotel rooms remain empty, does the platform or the hotel owner lose money?)</p>	<p>Who has the power to establish the price of the service to the end consumer?</p>

Agency vs. Principal

3. The distinction between Principal and Agent shifts dramatically across standard hospitality operating models

Hotel Management Companies (ManCo vs. PropCo)

- A common structure involves a property owning company (PropCo) hiring an international or regional brand operator (ManCo) to run the day-to-day operations of the hotel.
- The Classification: The ManCo typically acts as an Agent. It manages the staff, marketing, and rooms, but does so on behalf of PropCo.
- CT/Accounting Treatment:
 - PropCo recognizes the gross room and F&B revenues and claims all associated operating expenses (payroll, utilities, depreciation) as tax deductions.
 - ManCo only recognizes its management fee and incentive fees as gross taxable revenue.

Online Travel Agencies (OTA) and Global Distribution Systems

- When a guest books a room in UAE via a third-party platform, the arrangement usually falls into one of two models:
 - The Agency Model (Disclosed Agent): The OTA facilitates the booking. The guest pays the hotel directly upon arrival, and the hotel pays a 15% commission to the OTA. The hotel reports 100% room revenue (Gross). The 15% commission is a deductible business expense for CT purposes.
 - The Merchant Model (Principal): The OTA buys blocks of rooms from the hotel at a wholesale price (e.g., AED 500) and sells them on its platform to the consumer at a retail price (e.g., AED 700). If the OTA controls the inventory and has pricing discretion, it acts as a Principal. The OTA records AED 700 as gross revenue, while the hotel records AED 500 as gross revenue.

Hotel Restaurants & Outsourced F&B

- Many hotels lease out their restaurant spaces to independent culinary brands or celebrity chefs.
 - If the Hotel acts as Principal: The restaurant operates under the hotel's POS system. The hotel collects all customer cash, reports gross F&B revenue, and pays a net payout/royalty fee to the chef.
 - If the Hotel acts as Agent: The independent brand operates its own trade license, collects money directly, and pays a fixed rent or a percentage of sales to the hotel. The hotel only records the rental/royalty income as taxable revenue.



04

Key CT and TP Considerations for the Hospitality Sector

Management fees, royalties, financing, centralized services & more

Management Fees

In the UAE, it is common for the ownership of a hotel property to be distinct from its operational management. Local property owners typically provide the capital and oversee development, while international hotel chains bring specialized operational expertise and manage the day-to-day business.

Under a typical Hotel Management Agreement, a hotel operator charges:

- a base management fee, commonly calculated as a percentage of total revenue; and
- an incentive management fee, calculated as a percentage of gross operating profit in excess of an agreed owner's priority return.

Both fee streams must individually satisfy the ALP. The base fee structure is broadly comparable to management service arrangements, but the incentive fee is more nuanced and is unique to the hotel industry requiring a specific benchmarking logic.

Management fees should be substantiated by appropriate agreements which outline the pricing mechanism to justify deductibility of the expense under the UAE CT provisions. Domestic and cross border payments currently would not be subject to withholding tax in UAE.

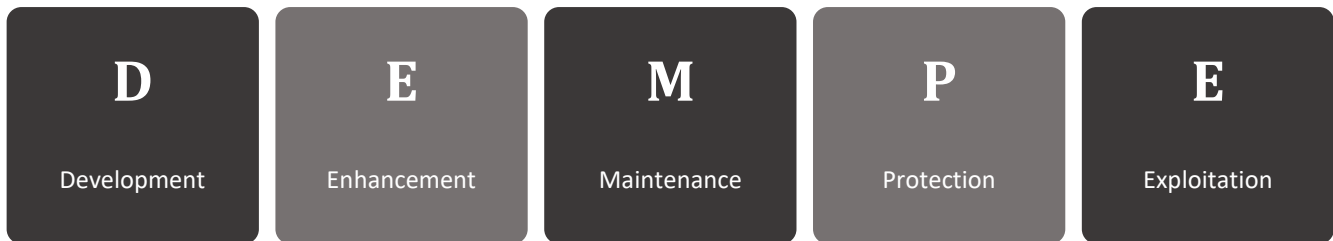


Brand Royalty Fees

Within the franchise model, hotel operators typically remit franchise or royalty fees to leverage established brand equity, proprietary operational protocols, and global distribution networks. Such payments should be consistent with the arm's length principle and aligned with the value created by the parties.

Royalty payments to UAE residents or non-residents would presently not trigger any withholding tax under UAE CT. Further, royalty income earned by a local brand from within UAE as well as overseas would be subject to UAE CT at 9%. Foreign taxes, if any, suffered would be eligible as credit against the UAE CT liability subject to certain conditions. Income from Qualifying Intellectual Property by Free Zone entities is entitled to 0% CT, however, brand being a marketing related intellectual property is not eligible for this relief.

DEMPE Framework



- Legal ownership of a brand alone does not justify entitlement to royalty income.
- Arm's length royalty rates should reflect DEMPE functions performed and controlled.
- Intangible returns should be allocated to the entity undertaking substantive DEMPE activities.
- In practice, this means that a UAE hotel which invests in local brand-building activities including marketing expenditure, customer experience investment, and market penetration may be entitled to a higher royalty rate than what is provided by the foreign parent entity.

Practical Consideration:

For example, if a Dubai luxury hotel is charged a 4% gross revenue royalty by its Singapore based brand entity, to sustain this position under FTA scrutiny, the group must demonstrate through the DEMPE analysis that the Singapore entity actively performs or controls brand development and enhancement functions that generate measurable economic value to the UAE property. Supporting evidence should include records of global marketing spend attributable to the UAE market, booking contributions, loyalty programme redemption data, and brand standards compliance costs borne by the Singapore entity.

Intercompany Financing

Hotel development is a capital-intensive activity with financing required at every stage such as acquisition, construction and working capital.

Under the UAE CT regime, SIDLR apply to related party transactions aimed at tax advantages, while GIDLR govern overall interest expenses.

Specific Interest Deduction Limitation Rules

Interest paid on related party loan obtained for following purposes is disallowed without any limit:

- Dividend or profit distribution to related party;
- Redemption, repurchase, reduction or return of share capital to a related party;
- Capital contribution to a related party;
- Acquisition of ownership interest in a person who becomes a related party after the acquisition.

General Interest Deduction Limitation Rules

Under GIDLR provisions, net interest expense is deductible up to the higher of 30% of tax-adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) or a de minimis threshold of AED 12 million. Excess interest can be carried forward for up to 10 years.

Under the ALP, the interest rate on any intercompany loan must reflect what an independent lender would charge given the borrower's credit profile, the loan's currency, tenor, security, and prevailing market conditions. Groups that apply notional rates or that have not formally documented intercompany lending terms in executed loan agreements, face significant exposure

Practical Consideration:

Intercompany financing arrangements are expected to attract increased scrutiny from tax authorities given their significance and complexity. Groups should ensure all intercompany loans are supported by executed loan agreements, a benchmarking analysis of the arm's length interest rate and supporting documentation of the credit rating methodology applied. In a capital-intensive sector like hotel development where funding moves through distinct phases (land acquisition, shell construction, and working capital), taxpayers should maintain contemporaneous documentation. If any pillar is missing, auditors have the power to entirely disallow interest deductions or recharacterize debt as equity.

Centralized Services

Centralized services and shared costs refer to the consolidation of administrative, technical, or managerial functions such as information technology (IT), human resource (HR), legal, and finance within a single entity often a regional headquarter to serve multiple members of a MNE group. Considering that headquarters, treasury, and financing services to related parties qualify for a 0% tax rate applicable to a QFZP, an option of housing these functions in qualifying Free Zones may be evaluated.

These intra-group services are a focal point for tax authorities to prevent profit shifting through inflated management fees. According to the OECD Guidelines, the validity of these charges rests on the Benefit Test. The taxpayer must demonstrate that the services provided to the recipient results in specific economic or commercial value and enhances its commercial position. Taxing authorities also scrutinize the allocation keys (e.g., headcount, revenue, or time spent) used to distribute shared costs to ensure they reflect the actual proportion of benefit received by each subsidiary, typically requiring a cost-plus remuneration unless the functions qualify as low value adding intra-group services.



Practical Consideration:

A Dubai hotel is charged a 2% regional headquarter fee for HR and IT support from a foreign parent. To sustain this under FTA audit, the hotel must produce service deliverables like IT ticket logs, HR policy documentation, training records, system access reports to demonstrate that the services were actually rendered, not duplicated internally, and generated measurable benefit. Fee levels should be benchmarked against the cost-plus margin applicable to low value-adding intra-group services. The OECD Guidelines contemplate a simplified approach involving a 5% mark-up for qualifying low value-adding intra-group services, subject to the facts and circumstances.

Other Considerations

Staff Secondment and Permanent Establishment

- Staff secondments are common in international hotel groups.
- Intercompany charges should be at arm's length.
- Cost recharges generally do not require benchmarking; mark-ups should be benchmarked.
- PE risks should be assessed separately from TP.
- PE may arise where seconded staff conclude contracts or create a fixed place of business.
- Secondment agreements should clearly define employee authority.

Supply Chain Disruptions and Regional Volatility

- Geopolitical and economic developments have increased hospitality supply chain volatility.
- Airspace restrictions and changing travel demand have affected forecasting.
- Hotels may adopt dynamic pricing and promotions to maintain occupancy.
- These conditions may distort year-end financial results for TP purposes.
- Tax authorities may scrutinise unexpected losses or margin declines in routine entities.

Entertainment Expenses

- 50% of business entertainment expenses are deductible; 50% is disallowed.
- Includes meals, accommodation, events and client/business partner hospitality.
- Staff entertainment is generally fully deductible unless private (e.g., weddings) or involving family members.
- Commercial hospitality and promotions are deductible where the Company's own products/services are offered free or at a discount.
- Complimentary stays for business partners are generally treated as entertainment and subject to the 50% limitation.
- Event hospitality (meals, accommodation, entertainment) may also fall within the entertainment rules.

Free Zone Considerations

- Hospitality groups commonly use Free Zone holding, HQ and management entities.
- QFZPs may qualify for a 0% CT rate on qualifying income subject to conditions.
- Mixed revenue streams require assessment of qualifying income and de minimis compliance.
- Hotel income from mainland UAE customers generally may not qualify.
- Failure to meet QFZP conditions may result in the 9% CT rate.
- Key considerations:
 - Services provided to mainland UAE customers.
 - Intercompany transactions with mainland group entities.
 - TP compliance.
 - Economic substance in the Free Zone.
 - Audited financial statements
 - Periodic reviews to ensure eligibility



05

Tax Losses, Group Relief & Transitional Rules

Carryforward provisions, tax grouping & opening balance considerations

Tax Losses, Group Relief & Restructuring

The hospitality sector can be significantly impacted during economic downturns such as the COVID-19 period, with many hotel operators, restaurants, and tourism businesses incurring substantial losses and undertaking group restructurings. Under the UAE CT regime, tax losses may generally be carried forward and offset against future taxable income, subject to certain conditions and limitations.

Tax losses can generally be utilized against up to

75%

taxable income in a future tax period

Unused Losses carried forward indefinitely



subject to continuity of ownership and business activity requirements

For hospitality groups operating through multiple UAE entities, the UAE CT regime also provides mechanisms for:

- The transfer of tax losses between qualifying group entities;
- The formation of UAE tax groups;
- Group restructuring reliefs for qualifying transfers of assets and liabilities.

Given that hospitality operations frequently feature fragmented corporate structures—such as separate legal entities for distinct hotel properties, standalone fine-dining concepts, centralized procurement units, and parent holding companies—tax grouping allows eligible UAE entities to be treated as a single Taxable Person for CT purposes offering benefits of immediate loss offsetting, elimination of intra group transactions and simplified administrative compliance.

These provisions may provide planning opportunities for hotel groups operating through separate ownership, operating, licensing, and management structures. However, careful analysis is required to ensure all statutory conditions are satisfied and appropriate documentation is maintained.

Transitional Rules

The introduction of UAE CT has required hospitality businesses to assess the treatment of pre-tax balances, historical reserves, existing assets and liabilities transitioning into the CT regime.

Given the capital-intensive nature of the hospitality sector, transitional considerations may arise in relation to:

- Property and fixed asset valuations;
- Historical accruals and provisions;
- Pre-corporate tax reserves;
- Deferred revenue balances;
- Unrealized gains and losses;
- Related party financing arrangements.

The UAE CT regime also provides certain transitional elections and relief mechanisms, including the potential application of realization basis elections in specific circumstances.

Businesses should ensure that opening tax positions are appropriately assessed, documented, and supported to minimize future disputes or adjustments during FTA reviews or audits.





06

Regulatory Compliance

TP documentation framework, thresholds, timelines & FTA audit priorities

Corporate Tax & Transfer Pricing

A UAE resident juridical person and a non-resident in certain cases (such as having a permanent establishment or place of effective management in the UAE) is required to file its corporate tax return within 9 months from the financial year end.

1

TP Disclosure Form

- Filed annually with the Corporate Tax return.
- Where the aggregate value of related-party transactions exceeds AED 40 million, and
- Individual transaction category exceeding AED 4 million.

2

Local File

- Mandatory for UAE entities with standalone revenue of AED 200 million or more Or for entities that are part of an MNE group with consolidated revenue exceeding AED 3.15 billion.
- Provides detailed documentation of material related-party transactions.
- Documents the functional analysis, transfer pricing method, benchmarking analysis, and arm's length outcome.

3

Master File

- Mandatory for UAE entities with standalone revenue of AED 200 million or more Or for entities that are part of an MNE group with consolidated revenue exceeding AED 3.15 billion.
- Provides a group-level overview of the business, value chain, intangibles, financing, and global TP policies.

- These files must be submitted within 30 days of an FTA request (or a later deadline specified by the FTA).
- The FTA may request supporting TP documentation even from taxpayers below the Local File and Master File thresholds.
- The standard TP audit period is five years from the end of the relevant tax period, although this may be extended in certain circumstances.



07

General Updates

Small Business Relief, Pillar Two DMTT & Foreign Tax Credits

Small Business Relief (SBR)

- SBR under Article 21 of the CT Law and Ministerial Decision No. 73 of 2023 provides eligible small hospitality businesses with relief from UAE CT.
- The relief is intended to reduce both the tax burden and compliance obligations for qualifying businesses such as boutique cafés, independent restaurants, food trucks and guest houses.

Core Threshold and Direct Tax Benefit

AED 3M or less

Revenue Threshold in the current and all previous tax periods

NIL

Taxable Income if SBR elected

31 Dec 2026

SBR is a temporary transitional measure available only for tax periods ending on or before

Permanent Lookback Rule

- The AED 3 million threshold applies to **gross revenue**, not net profit.
- Exceeding the threshold in any tax period permanently disqualifies the business from claiming SBR in future years, even if revenue later falls below AED 3 million.

Financial Trade-offs

- Businesses claiming SBR cannot carry forward tax losses incurred during the year in which the relief is claimed.
- The benefits of SBR should therefore be weighed against the potential loss of future tax relief.t.

Artificial Business Separation (Anti-Abuse Risks)

- The FTA may apply the **General Anti-Abuse Rules (GAAR)** where hospitality businesses are artificially split to remain below the AED 3 million threshold.
- Where fragmentation lacks a genuine commercial purpose, the FTA may aggregate revenues, deny SBR and impose CT and applicable penalties.

Depreciation Considerations

- UAE CT generally aligns tax depreciation with IFRS accounting depreciation and amortisation.
- Depreciation is generally deductible where assets are used wholly and exclusively for business purposes.
- Given the asset-intensive nature of the hospitality sector, depreciation policies and capital expenditure should be carefully assessed for tax purposes.

Realization Basis vs. Fair Value Adjustments

- Hospitality groups applying the IAS 40 fair value model may elect the realization basis, deferring taxation of unrealized fair value gains and losses until the property is disposed of.
- Ministerial Decision No. 173 of 2025 allows an irrevocable election to claim notional depreciation equal to the lower of 4% of original cost or the Tax Written-Down Value (TWDV).
- Any cumulative notional depreciation claimed is added back to taxable income on disposal of the property.

Transitional Rules and Asset Rebasing

- Ministerial Decision No. 120 of 2023 allows qualifying properties held before the introduction of CT to exclude pre-CT gains from taxation.
- Taxpayers may elect either the market value method or the time-apportionment method to calculate the excluded gain.
- The rebased value cannot be used to increase future depreciation deductions, which continue to be based on historical cost.

Hospitality-Specific Asset Class Considerations

- Hotels should distinguish between capital improvements and repairs and maintenance, as major refurbishments that extend an asset's useful life must be capitalised and depreciated.
- Replacement of high-turnover Operating Supplies & Equipment (OS&E) (e.g., linen, uniforms, crockery and glassware) is generally deductible as an operating expense, while initial purchases and structural fit-outs are capital in nature.

Pillar Two DMTT & Foreign Tax Credits

While most hospitality businesses are subject only to the standard UAE Corporate Tax regime, large multinational hospitality groups should assess whether they fall within the UAE's Pillar Two rules.

15%

Minimum Effective Tax Rate

EUR 750M

Consolidated annual revenue in at least 2 of the preceding 4 financial years.

FYs from 1 Jan 2025

UAE DMTT Effective Date

Who is In Scope?

- International hotel chains with UAE subsidiaries or branches.
- Global hospitality groups with hotel ownership, management, franchising or licensing operations.
- Large mixed-use real estate and hospitality groups with significant UAE operations.

Key Assessment Areas for Hospitality Groups

- Interaction of UAE CT, Free Zone incentives, participation exemption and tax credits with Pillar Two.
- UAE Effective Tax Rate (ETR) and potential DMTT exposure.
- Availability of Transitional Safe Harbours and deferred tax implications.
- Registration obligations and reporting through the Emaratax portal.
- Identification of the appropriate filing entity and availability of required financial and operational data.
- Review of asset-light structures involving management fees, franchise royalties, IP licensing and cross-border service charges, as these may produce different outcomes under Pillar Two.

Foreign Tax Credits (FTC) — Article 47

- UAE hospitality groups earning cross-border income may face double taxation on management fees, royalties, dividends and branch profits.
- Under Article 47, FTC allow foreign taxes paid to be credited against UAE CT on the same income
- Common hospitality income subject to foreign withholding taxes includes:
 - Hotel management and incentive fees.
 - Franchise and brand royalties.
 - Dividends from overseas subsidiaries or joint ventures.
- FTC is available only where the related foreign income is taxable in the UAE.
- No FTC is available where income benefits from the Participation Exemption (Article 22) or a Foreign PE exemption (Article 24), resulting in foreign taxes becoming a permanent cost.
- The FTC is limited to the lower of: Foreign tax paid; or UAE CT due on that specific foreign-sourced income (calculated at the standard rate of 9%)

Exempt Income

- While core hospitality income (e.g., rooms, F&B, spa and events) is generally subject to UAE CT, certain categories of income are exempt.
- **Dividend and Capital Gains Exemptions**
 - **Domestic dividends:** Dividends received from another UAE juridical person are exempt from CT.
 - **Foreign dividends and capital gains:** May qualify for the Participation Exemption, subject to conditions including:
 - ❖ Minimum 5% ownership.
 - ❖ 12-month holding period.
 - ❖ Foreign subsidiary subject to at least 9% corporate tax.
- **Deductibility of Related Expenses**
 - Expenses incurred to earn exempt income are non-deductible.
 - Direct costs relating to exempt income are fully disallowed.
 - Shared overheads should be allocated between taxable and exempt income using a fair and reasonable allocation method.

Realization basis

- Under Article 20(3) of the UAE CT Law and Ministerial Decision No. 134 of 2023, taxpayers preparing IFRS financial statements on an accrual basis may elect to compute taxable income on a realisation basis.
- Under this election, unrealised gains and losses on capital and revenue assets and liabilities are excluded from taxable income until they are realised, preventing taxation of non-cash accounting movements.
- **Property Revaluations**
 - Hospitality groups holding hotels, resorts and other investment properties under the IAS 16 revaluation model or IAS 40 fair value model may benefit from the election.
 - Unrealised revaluation gains and losses are excluded from taxable income until the property is sold or otherwise realised, reducing potential cash flow pressures from taxing paper gains.
- **Goodwill and Intangible Assets**
 - Hospitality acquisitions often result in goodwill and intangible assets such as brands, franchise rights and customer databases.
 - Under the realisation basis, unrealised impairment losses on these assets are not deductible until the underlying asset is disposed of or permanently written off.
- **Financial Instruments**
 - Hospitality groups may use derivatives such as interest rate swaps or utility and fuel hedging contracts.
 - Unrealised mark-to-market gains and losses on these financial instruments are excluded from taxable income until the contracts are settled, mature or are otherwise realised.



08

Conclusion & Action Framework

Building audit-ready, tax-resilient hospitality operations

Conclusion

The UAE hospitality industry is at a critical juncture, poised for robust growth while navigating an increasingly sophisticated direct tax landscape. Effectively managing the unique challenges and opportunities within this sector requires a comprehensive and proactive approach to CT and TP compliance.

- Maintain robust **contemporaneous documentation** to support FTA audits.
- Ensure all intercompany transactions comply with the **arm's length principle**.
- Establish an **annual tax compliance framework** and conduct regular tax health checks.
- Identify **regulatory gaps** and profit attribution risks arising from global personnel structures.
- Maintain accurate and well-documented **financial records**.
- Leverage **tax technology** to automate CT calculations and reporting.
- Embed strong **tax governance** to minimise compliance risks and regulatory disputes.





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