NEW UAE TAX LAW

The UAE issued the Federal Decree-Law No.47 of 2022 on the **Taxation of Corporations and Businesses** ("the Decree") which is administered by the Ministry of Finance (MoF). The UAE Corporate Tax Law has since been supplemented by Executive Regulations, Cabinet Decisions, Ministerial Decisions and guidance issued by the Ministry of Finance and the Federal Tax Authority.

Corporate Tax applies to businesses and business activities conducted in the UAE from the beginning of their first financial year starting on or after **1 June 2023**.

The Corporate Tax regime is now fully operational, and businesses are required to comply with registration, record-keeping, filing, and payment obligations in accordance with the Corporate Tax Law and related regulations.

Businesses become subject to Corporate Tax from the beginning of their first financial year that starts on or after 1 June 2023.

<u>For Example:</u>

- **Financial Year Ending 31 May:**

  -First Tax Period : 1 June 2023 to 31 May 2024
  -Due date of filing first returns : 28 February 2025

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- **Financial Year Ending 31 December:**

  -First Tax Period : 1 January 2025 to 31 December 2025

  -Due date of filing first returns : 30 September 2026

In general, Corporate Tax Returns must be filed, and any Corporate Tax due must be paid, within nine months after the end of the relevant tax period.

Corporate tax rate:

- **Resident and Non-Resident Taxable Persons**
- 0% for taxable income up to and including AED 375,000
- 9% for taxable income exceeding AED 375,000

- **Qualifying Free Zone Persons (QFZPs)**
  - 0% on qualifying income
  - 9% on taxable income that does not meet the qualifying income definition.

A business established in a Free Zone is not automatically entitled to the 0% rate. Specific conditions must be satisfied to qualify as a Qualifying Free Zone Person.

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- **Small business Relief:** The small Business Relief scheme specifies that businesses earning a total revenue of below AED 3 million may elect to claim Small Business Relief, under which they are treated as having no taxable income for the relevant tax period. Registration and filing obligations still apply.

Unless extended by future legislation, Small Business Relief is currently available for tax periods ending on or before **31 December 2026**.

- **Large multinational companies** may be subject to a higher tax rate, subject to Pillar Two of the Organization of Economic Cooperation and Development (OECD) and the introduction of the **Domestic Minimum Top-Up Tax (DMTT)**. Companies with a total global revenue of over EUR 750 million (Approximately AED 3.15 billion AED) will belong to this category

For in-scope groups, a minimum effective tax rate of **15%** may apply from financial years beginning on or after **1 January 2025**.

<u>Exempt Income:</u>

1) Dividends and other profit distribution received
2) Capital gains from selling the shares of a subsidiary company under their ownership.

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3) Certain Foreign Permanent Establishment Income

Corporate tax policy for free zone businesses:

1) If a free zone business complies with its free zone's regulations, including those specified in the corporate tax legislation, they may qualify as a Qualifying Free Zone Person (QFZP) and benefit from a 0% Corporate Tax rate on Qualifying Income, while non-qualifying taxable income is generally subject to Corporate Tax at 9%..

2) If a business does not comply with the free zone conditions included in the tax legislation, they may cease to qualify as a Qualifying Free Zone Person (QFZP) and become subject to the normal Corporate Tax rules.

3) If a business ceases to qualify as a QFZP, they may still qualify for other options available such as the Small Business Relief rule.

Important notes

- A business established in a Free Zone is not automatically entitled to the 0% Corporate Tax rate.

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- Even if a Free Zone business qualifies as a Qualifying Free Zone Person (QFZP), they will still need to register for corporate tax, keep proper accounting records, and file an annual tax submission with FTA.
- Even where a business qualifies as a QFZP, it must still comply with transfer pricing requirements

Exempt persons Industries:

Exemption apply to business or legal entities that fit the below criteria:

1) Government or public entities : These include both federal and regional offices, departments, divisions and all other public institutions.
2) Businesses that extract or mine natural resources: Businesses that deal with the extractions or mining of natural resources in UAE are already subject to Emirate level taxation, so they don't have to file a separate tax report subject to satisfying the conditions prescribed by the Corporate Tax Law..
3) Public or regulated private entities: These include entities that deal with social benefit fund like pension or retirement planning.
4) Real estate or regulated investment funds: Similar to charitable organizations, such funds must apply to MOF and FTA to obtain a formal exemption approval.

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5) UAE Government-owned companies: UAE companies fully owned by the UAE government and listed with a ministry-level decision will receive tax exemption.

6) Charitable organizations: Entities working for charitable and social causes must register as such with MOF. Those eligible must first apply to relevant authorities to obtain a formal clearance before applying for MOF registration.

Taxable profit:

Taxable profit is normally the revenue less business-related expenses.
Some expenses need to follow specific rules as below:

- **Salaries paid to owners**
  Remuneration paid to shareholders, directors or other related parties must comply with the arm's length principle where applicable. Sole proprietors cannot generally deduct personal drawings as business expenses.

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- **Interest**

  Businesses can deduct their financing and interest costs. However the amount of interest expense that can be deducted is capped at 30% of earnings before interest taxes, depreciation and amortization (EBITDA).

  The cap has been put in place to prevent businesses from exploiting the different tax treatment of equity and debt, whereby a business may take on excessive levels debt to reduce taxable income via increased interest expenses.

- **Entertainment**

  Only 50% of entertainment spending can be deducted. This includes costs such as meals and accommodation, where they are incurred entertaining customers, suppliers, shareholders or other similar parties.

- **Foreign Branches**

  If a company has a branch in another country, they can claim a foreign tax credit for the amount of tax paid in that country in relation to that branch. Alternatively a company may apply for an exemption of the profit made by their branches outside UAE.

- **Transfer Pricing**

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The UAE Corporate Tax regime includes transfer pricing rules applicable to transactions with:

- Related parties; and
- Connected persons.

Businesses may be required to:

- Maintain transfer pricing documentation;
- Demonstrate compliance with the arm's length principle;
- Submit transfer pricing disclosures as part of their Corporate Tax Return.

Businesses with significant related-party transactions should obtain specialist advice.

What must be done by all businesses in the UAE:

1. **Register for corporate tax from June 2023 onwards.**

- All business will be subject to corporate tax from your first financial year starting on or after 1 June 2023.
- Every Business will need to register for corporate tax, including free zone companies.
- Corporate tax is separate from VAT. Even if a VAT number exist there is a need to register for corporate tax.

2. **Keep proper accounting records.**

- The UAE`s corporate tax law requires specific accounting records to be kept.

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- The accounting records will determine if the company is exempt from corporate tax or qualify for the Small Business Relief rule.

3. File a corporate tax submission with the Federal Tax Authority (FTA).

- This step need to be done after the end of your first taxable period.
- Even if you qualify for an exemption or tax relief, you still need to declare this by filing a tax submission with the FTA.

Important note: While not all businesses will have to pay corporate tax, every business-even those in free zones-must comply with these three steps.

The above are important and general guidelines.

The UAE ministry and finance may announce more clarifications on some issues, (one possibility is the introduction of time limits(maybe three years) for the small business relief).

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In the meantime we advice to obtain detailed professional advice based on your company's own circumstances