



## COPORATE TAX REGIME IN THE UAE FROM JUNE 2023



On 31 January 2022, the UAE Ministry of Finance (MOF) announced the introduction of Federal Corporate Tax (UAE CT) on business profits effective for the financial years starting on or after 01 June 2023, with a standard statutory tax rate of 9% and a 0% tax rate for taxable profits up to AED 375,000.

Since joining the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) in May 2018, the UAE has actively participated in various initiatives and discussions to improve the transparency of the international tax environment and the coherence of the global tax system.

UAE confirmed its support to the global minimum tax rate proposed under “Pillar Two” of BEPS in mid-2021, and the introduction of UAE CT will provide a basis for the UAE to execute its support by applying a different rate to large multinationals.

### Initial takeaways

#### When will it apply?

- Effective for financial years starting **from 01 June 2023**
- Businesses with calendar year (January to December) as the Financial year will be subject to UAE CT for the financial year January to December 2024

#### What is the **rate** of Corporate Tax?

- **0% tax rate** for the taxable income up to AED 375,000
- **9% tax rate** for the taxable income exceeding AED 375,000
- Supporting “Pillar Two” of BEPS, different tax rate applicable to large multinationals with Global turnover exceeding Euro 750 million (AED 3.15 Billion)
- UAE CT will be levied on **adjusted accounting net profits**

#### Who is **subject** to Corporate Tax?

- Applicable to all businesses and commercial activities in the UAE
- Business income earned by an individual under a commercial license will be subject to UAE CT
- Free zone businesses will be subject to UAE CT but will receive tax incentive provided they comply with the regulatory requirements and do not conduct business with mainland UAE
- Businesses engaged in the extraction of natural resources will be subject to Emirate level corporate taxation and not to the UAE CT

#### What is **exempted** from Corporate Tax?

- **Dividends and Capital Gains** earned by a UAE business from qualifying shareholdings
- Qualifying intra-group transactions and reorganizations
- Revenue from extraction of natural resources that is subject to Emirate level corporate taxation
- Information on other UAE CT exemptions and exclusions will be provided in the law

#### What does it mean to a group of companies?

- A UAE group of companies can elect to form a tax group and be treated as a single taxable person, provided certain conditions are met
- A UAE tax group will only be required to file a single tax return for the entire group

#### What does it mean to Freezone businesses?

- Free zone businesses will be subject to UAE CT; required to register and file a CT return
- Will receive tax incentive provided they comply with regulatory requirements and do not conduct business with mainland UAE
- Further details on compliance obligations of free zone businesses will be provided under the law
- UAE CT treatment that will apply to businesses in free zones will be the same across all free zones



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## Initial takeaways <sup>[cont'd]</sup>

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### What does it mean to foreign entities and individuals?

- Foreign entities and individuals will be subject to UAE CT only if they conduct a trade or business in the UAE in an ongoing or regular manner
- **Dividends, capital gains, interest, royalties, and other investment returns** earned by a foreign investor will not be subject to UAE CT

### What does it mean to UAE individuals?

- The following earned by a UAE individual in his personal capacity is not subject to UAE CT
  - » Salary and other employment income, Irrespective from source (public or private sector)
  - » Investments in real estate (provided individual is not required to obtain a commercial license or permit to carry out such activity in the UAE)
  - » Dividends, capital gains, and other income earned from owning shares or other securities
  - » Interest and other income earned from bank deposits or saving schemes
- Business income earned by individual under a commercial license will be subject to UAE CT; includes freelancing professionals
- If individual is required to obtain a business license or permit to carry out commercial, industrial, and/or professional activity in the UAE, he would be regarded as having a business that will be within the scope of UAE CT

### Tax Credits and Incentives

- UAE CT regime will allow a business to carry forward losses incurred (as from UAE CT effective date)
- Such losses can be used to offset taxable income in subsequent financial periods

- Tax losses from one group company may be used to offset taxable income of another group company, provided certain conditions are met
- Foreign tax will be allowed as credit against UAE CT payable

### Transfer Pricing

UAE businesses will need to comply with transfer pricing rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines

### Tax Administration

- The Federal Tax Authority (FTA) will be responsible for the administration, collection, and enforcement of UAE CT
- MOF will remain 'competent authority' for purposes of bilateral/multilateral agreements and international exchange of information for tax purposes
- Businesses, including free zone businesses, will be required to register and comply with ongoing obligations
- One CT return will need to be filed per financial period
- No provisional or advance CT filings will be required
- No withholding tax on domestic or cross border payments
- Similar to other taxes in the UAE (e.g. VAT), businesses will be subject to penalties for non-compliance with CT regime



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### What's next?

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With further information on the Corporate Tax Regime expected by mid-2022, UAE businesses are given ample time to prepare for the introduction of the Corporate Tax in the UAE.

We recommended the business review the following to set the ground ready for the implementation of UAE CT.

- Analyse CT requirements applicable to business activities carried out. Understand what is expected to be taxable resp. exempt
- Understand compliance obligations preliminary set by the authority. Review hiring vs. outsourcing option
- Check for adequate bookkeeping. Unless included in the Tax Group for CT purposes, each legal entity required to report taxable income separately
- Check whether business maintains accounting records following internationally accepted accounting standards. Revenue subject to CT is the accounting net profit as per financial statements (after adjustments to be specified in the UAE CT Law)
- Analyse if documentation maintained by the business as on date could be adequate to justify business profits subjected to UAE CT; re-mediate if necessary. Tax authorities could review books of accounts and the supporting documents

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### Who we are

We are a multi-services platform catering to a broad spectrum of clients — from individual entrepreneurs and local SMEs to wealthy international families, to established blue-chip companies and multinationals. Our one-stop-shop offering is unique in the Middle East: a holistic and cross-disciplinary combination of a market-leading corporate services firm, a law firm's specialist expertise and a regulatory & compliance services practice, all through one single platform.

We have broad experience in facilitating entry-to-market for businesses across all major fields of activities. We have a one-of-a-kind practical expertise understanding and handling complex corporate structures.

Headquartered in the UAE, we are an entrepreneurial firm for entrepreneurial clients.

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### Who will assist you



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