



UAE CORPORATE TAX HANDBOOK

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Corporate Tax in the UAE Overview Handbook

As per the latest information available as on 16th of February 2022

To the Handbook

The United Arab Emirates (UAE) Ministry of Finance (Ministry) announced on 31 January 2022 that it will introduce a federal corporate tax regime for the first time in the UAE. A federal corporate tax law is expected to be issued soon along with executive regulations (CT Law).

Information set out in this alert is based on currently available guidance from the Ministry and remains subject to the CT Law provisions once issued.

It is expected that the corporate tax will come into effect on or after 1 June 2023 and will apply to profits generated during financial years starting on or after 1 June 2023. The UAE Federal Tax Authority will be responsible for administering, collecting, and enforcing corporate tax in line with rules and regulations to be issued by the Ministry.

WHAT IS CORPORATE TAX?

A corporate tax is a type of direct tax that is levied on the profits and net income of corporations. In some jurisdictions, corporate tax is also known as "Corporate Income Tax" or "Business Profits Tax".

Individuals will still not be subject to tax on their incomes from employment, real estate, equity investments or other personal income unrelated to a UAE trade or business, the ministry said. The tax also won't be applied to foreign investors who don't conduct business in the country.



What are the reasons for the UAE's introduction of Corporate Tax?

The UAE will be recognized as a global hub for business and investment if it implements a competitive CT regime based on international best practices. This will accelerate its development and transformation as it strives to achieve its strategic goals.

The UAE has introduced a CT regime as part of its commitment to meeting international standards for tax transparency and preventing harmful tax practices.

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HOW SOON WILL THE UAE CT REGIME TAKE EFFECT?

The UAE CT regime will take effect from 1 June 2023 onwards

Examples:

- 1) For businesses with a financial year starting on 1 July 2023 and ending on 30 June 2024, UAE CT will apply from 1 July 2023 (which is the start of the first financial year after 1 June 2023).
- 2) If a business has a (calendar year) financial year that starts on 1 January 2023 and ends on 31 December 2023, it will be subject to UAE CT from 1 January 2024 (which is when the first financial year begins on or after 1 June 2023).

HOW MUCH WILL THE UAE CT RATES BE?

The CT rates are:

- 0% for taxable income up to AED 375,000;
- 9% for taxable income above AED 375,000; and
- A different tax rate for large multinationals that meet specific criteria set with reference to 'Pillar Two' of the OECD Base Erosion and Profit Shifting project.



What are "large" multinationals?

Multinational corporations operate both within their home country as well as in other countries through subsidiaries, branches, or other forms of presence. A business earning income from outside its home country without a foreign presence or registration is not considered multinational.

A multinational corporation that has consolidated global revenues of more than EUR 750 million (about AED 3.15 billion) qualifies as large under the global minimum effective tax rate under 'Pillar Two' of the OECD Base Erosion and Profit Shifting project.

SCOPE OF APPLICATION

- UAE CT will apply to all UAE businesses and commercial activities alike, except for the extraction of natural resources, which will remain subject to Emirate level corporate taxation UAE.

- All activities undertaken by a legal entity will be deemed “business activities” and hence be within the scope of UAE CT.
- Individual having (or being required to obtain) a business licence or permit to carry out the relevant commercial, industrial and/or professional activity in the UAE.

Income exempt from CT

- Dividends and capital gains earned by a UAE business from its qualifying shareholdings will be exempt from UAE CT.
- A qualifying shareholding refers to an ownership interest in a UAE or foreign company that meets certain conditions to be specified in the UAE CT law.
- Qualifying intra-group transactions and reorganizations will not be subject to UAE CT provided the necessary conditions are met.

CT in the UAE will not be applied to

- Employment income, income from real estate, income from savings, investment returns and other income earned by individuals in their personal capacity that is not attributable to a UAE trade or business;
- Dividends, capital gains and other investment returns earned by foreign investors.

Corporate Tax- Individual

- **The UAE is not looking to introduce a personal income tax.** We understand that UAE CT will not be applicable to the individuals and their personal income (e.g., salary, dividends, capital gains, income from real estate holdings etc.)

Corporate Tax- Foreign Person

- The press release and FAQs imply that the UAE will not impose corporate tax or withholding tax on foreign companies and individuals that invest in or make loans to UAE businesses, or who otherwise earn income that is not related to a “trade or business conducted in the UAE in an ongoing or regular manner”.

We assume this means that the UAE CT regime will only tax foreign companies and individuals that have a ‘permanent establishment’ in the UAE, and we would expect the UAE to design its domestic ‘taxable presence’ rules in line with international practice and the definition of ‘permanent establishments’ in the latest OECD Model Tax Convention.

Corporate Tax- Freezone

- Free Zone businesses **will be able to continue to benefit from** existing Free Zone CT holidays / 0% taxation regimes, provided they comply with all regulatory requirements and do not conduct business with mainland UAE. The press release and FAQs do not confirm for how long the Free Zone tax regimes will be grandfathered, which may mean that the existing Free Zone tax holiday periods (which range between 5 and 50 years) will be respected.

HOW WE CAN HELP

If you have not yet considered the impact of the UAE CT on your business, we would be happy to assess your position and guide you as to what actions are required to make sure you are ready to comply with CT once it becomes effective. Should you have any questions, we have a designated team who will be able to assist you. You can reach us by emailing CT.audit@alyaauditors.com.