



TRAINING ON MICROSOFT TEAMS CORPORATE TAX SESSION 1

Speaker

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Corporate Tax Overview, and implementation objectives

OECD - Implementation of 15% global minimum tax

- Domestic tax **base erosion and profit shifting (BEPS)** due to multinational enterprises exploiting gaps and mismatches between different countries' tax systems affects all countries. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately.
- Business operates internationally, so governments must act together to tackle BEPS and restore trust in domestic and international tax systems. **BEPS practices cost countries 100-240 billion USD in lost revenue annually**, which is the equivalent to 4-10% of the global corporate income tax revenue.
- Working together in the OECD/G20 Inclusive Framework on BEPS, **141 countries and jurisdictions are implementing 15 Actions to tackle tax avoidance**, improve the coherence of international tax rules, ensure a more transparent tax environment and address the tax challenges arising from the digitalisation of the economy.



BEPS - 15 Actions

	Action 1 Tax Challenges Arising from Digitalisation
	Action 2 Neutralising the effects of hybrid mismatch arrangements
	Action 3 Controlled Foreign Company
	Action 4 Limitation on Interest Deductions
★	Action 5 Harmful tax practices
★	Action 6 Prevention of tax treaty abuse
	Action 7 Permanent establishment status
	Action 8-10 Transfer Pricing
	Action 11 BEPS data analysis
	Action 12 Mandatory Disclosure Rules
★	Action 13 Country-by-Country Reporting
★	Action 14 Mutual Agreement Procedure
	Action 15 Multilateral Instrument

★ Minimum Standard

The Global Anti-Base Erosion Rules (**GloBE**)

Where the MNE Group has EUR 750 million or more of reported revenue in at least two Fiscal Years in the four-year period immediately preceding the tested Fiscal Year, the Constituent Entities that make up the MNE Group will be within the scope of the GloBE Rules.

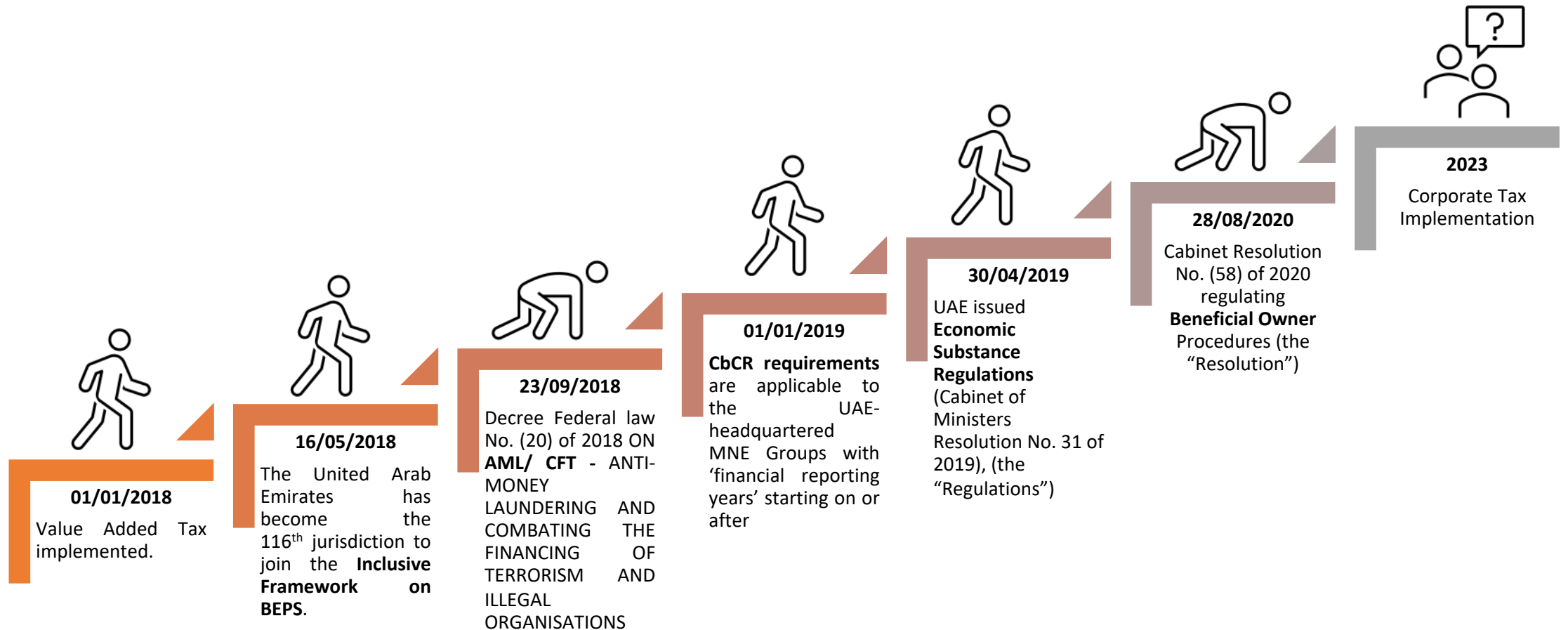


Undertaxed payments rule (UTPR)

Undertaxed payments rule (UTPR): denies deduction or imposes source-based taxation for payments to a related entity if that payment was not subject to tax above the minimum tax rate.



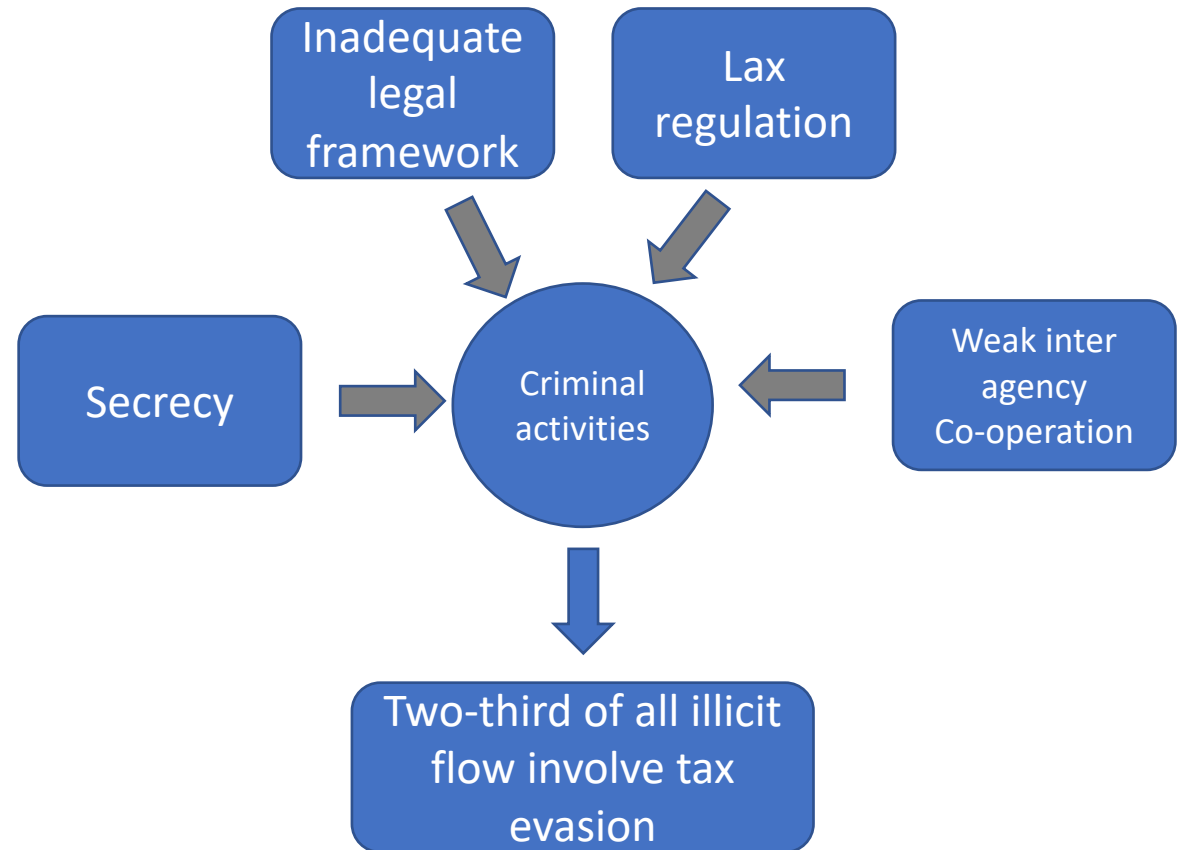
Steps for compliance



TAX CRIME AND MONEY LAUNDERING

There are substantial similarities between the techniques used to launder the proceeds of crimes and to commit tax crimes.

Reference : <https://www.oecd.org/ctp/crime/about-tax-and-crime.htm>



Why every step is important ?

1. demonstrating through case studies and statistics a sustained increase in outbound MLA (Mutual Legal Assistance) requests to help facilitate investigation of TF, ML, and high-risk predicates;
2. identifying and maintaining a shared understanding of the ML/TF risks between the different DNFBP sectors and institutions;
3. showing an increase in the number and quality of STRs filed by FIs and DNFBPs;
4. achieving a more granular understanding of the risk of abuse of legal persons and, where applicable, legal arrangements, for ML/TF;
5. providing additional resources to the FIU to strengthen its analysis function and enhance the use of financial intelligence to pursue high-risk ML threats, such as proceeds of foreign predicate offenses, trade-based ML, and third-party laundering;
6. demonstrating a sustained increase in effective investigations and prosecutions of different types of ML cases consistent with UAE's risk profile; and
7. proactively identifying and combating sanctions evasion, including by using detailed TFS guidance in sustained awareness-raising with the private sector and demonstrating a better understanding of sanctions evasion among the private sector.

Why all this...



- Transparency
- Trail
- Governance – ecosystem
- Search
- Seizure



Coverage of Corporate Tax

Current Status

- ➔ Emirates level Corporate Income Tax.
- ➔ Free Zone – “Corporate Tax Holiday”



Today

Emirates level Corporate Income Tax

The United Arab Emirates does not have a **Federal** Corporate Income Tax regime however Corporate Income Tax is levied by the government of individual **Emirate**.

Emirates level Corporate Income Tax is applicable to:

- Branches of foreign banks;
- Foreign oil companies engaged in upstream petroleum activities.



Corporate Tax - Free Zone

Corporate Tax incentives currently being offered to free zone businesses, with the benefit of corporate tax holiday.



ADGM provides with a 50-year 0% corporate tax holiday and access to an extensive network of double tax treaties.

<https://www.adgm.com/setting-up/corporate-treasury/overview>



DIFC provides a 40-year guarantee of zero taxes on corporate income and profits, enhanced by the UAE's wide network of double taxation avoidance treaties with regulators and central banks. <https://www.difc.ae/business/starting-business/>



Introduction of Corporate Tax (Federal) in the UAE...

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Corporate tax is a form of direct tax levied on the net income or profit of corporations and other entities from their business.

Corporate tax is sometimes also referred to as “Corporate Income Tax” or “Business Profits Tax” in other jurisdictions

UAE Corporate Tax will apply to all UAE businesses, except for the extraction of natural resources, which will remain subject to Emirate level corporate taxation. Foreign entities and individuals will be subject to Corporate Tax only if they conduct a trade or business in the UAE in an ongoing or regular manner.

UAE Corporate Tax will apply equally to all categories of profits and other (net) income reported in the financial statements prepared in accordance with internationally acceptable accounting standards.



Introduction of Corporate Tax (**Federal**) in the UAE...

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What is Corporate Tax?

- Corporate Tax is a form of direct tax levied on the net income or profit of corporations and other businesses.
- Corporate Tax is sometimes also referred to as “Corporate Income Tax” or “Business Profits Tax” in other jurisdictions.

Why is the UAE introducing Corporate Tax?

Corporate Tax regime is based on international best practices, to strengthen the UAE's position as a leading global hub for business and investment and accelerate the UAE's development and transformation to achieve its strategic objectives.



Introducing a CT regime reaffirms the UAE's commitment to meeting:

international standards for tax transparency and

preventing harmful tax practices

Tax
Transparency

Preventing
harmful tax
practices

When will the Corporate Tax regime become effective?

The Corporate Tax regime will become effective for financial years starting on or after 1 June 2023

01 June 2023

Financial Year	Corporate Tax will be applicable from
July - June	01 July 2023
Jan - Dec	01 Jan 2024
Apr - Mar	01 Apr 2024

Scope, exemption and rate of Corporate Tax

Coverage of Corporate Tax

All activities undertaken by a legal entity[#] will be deemed “business activities” and hence be within the scope of Corporate Tax.

Notes #:

Legal entity, includes business income earned by an individual or legal entity under a commercial license, or obligated to be registered by the virtue of legislation.

Coverage of Corporate Tax

Tax authorities may not be concerned about the manner or means of acquiring income. The income might have been earned illegally or resorting to unlawful means. ***Illegality has no bearing on its taxability.*** #

Notes #:

Taxing an income does not legitimize the income.



Coverage of Corporate Tax

The taxable income will be the accounting net profit of a business, after making adjustments for certain items to be specified under the Corporate Tax Law.

The accounting ***net profit of a business***[#] is the amount reported in the financial statements prepared in accordance with internationally acceptable accounting standards

Notes #:

Corporate Tax will be applicable to income earned from activities carried out by businesses, which includes freelance license / permit.

Scope of Corporate Tax

Corporate Tax will be applicable to all UAE businesses and commercial activities... with an exemption.

Income exempt from Corporate Tax

Dividends and Capital Gain - Dividends and capital gains earned by a UAE business from its qualifying shareholdings[#] will be exempt from Corporate Tax.

Notes #:

An ownership interest in a UAE or foreign company that meets certain conditions to be specified in the Corporate Tax law

Income exempt from Corporate Tax

Intra-group transactions - Qualifying intra-group transactions and reorganizations will not be subject to UAE CT provided the necessary conditions are met.

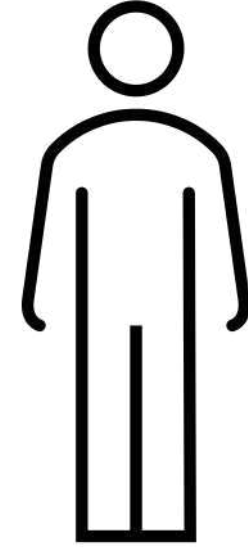
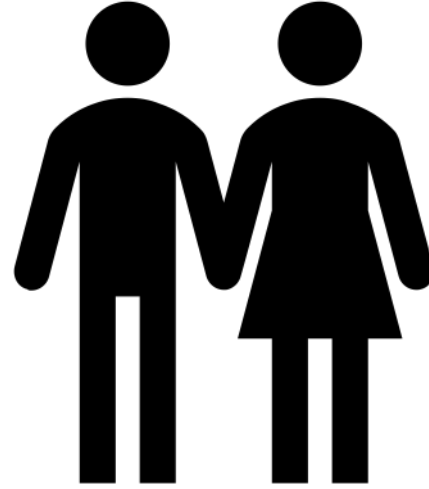
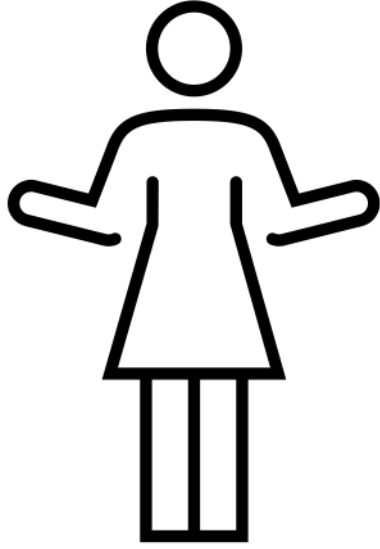
Income exempt from Corporate Tax

Income from Free Zone Business - Free zone businesses will be subject to Corporate Tax, but the Corporate Tax regime will continue to honour the Tax incentives currently being offered to free zone businesses that comply with all regulatory requirements and that do not conduct business with mainland UAE.


Income exempt from Corporate Tax

Businesses engaged in the extraction of natural resources:



Businesses engaged in the extraction of natural resources will remain subject to Emirate level corporate taxation and be outside the scope of UAE CT



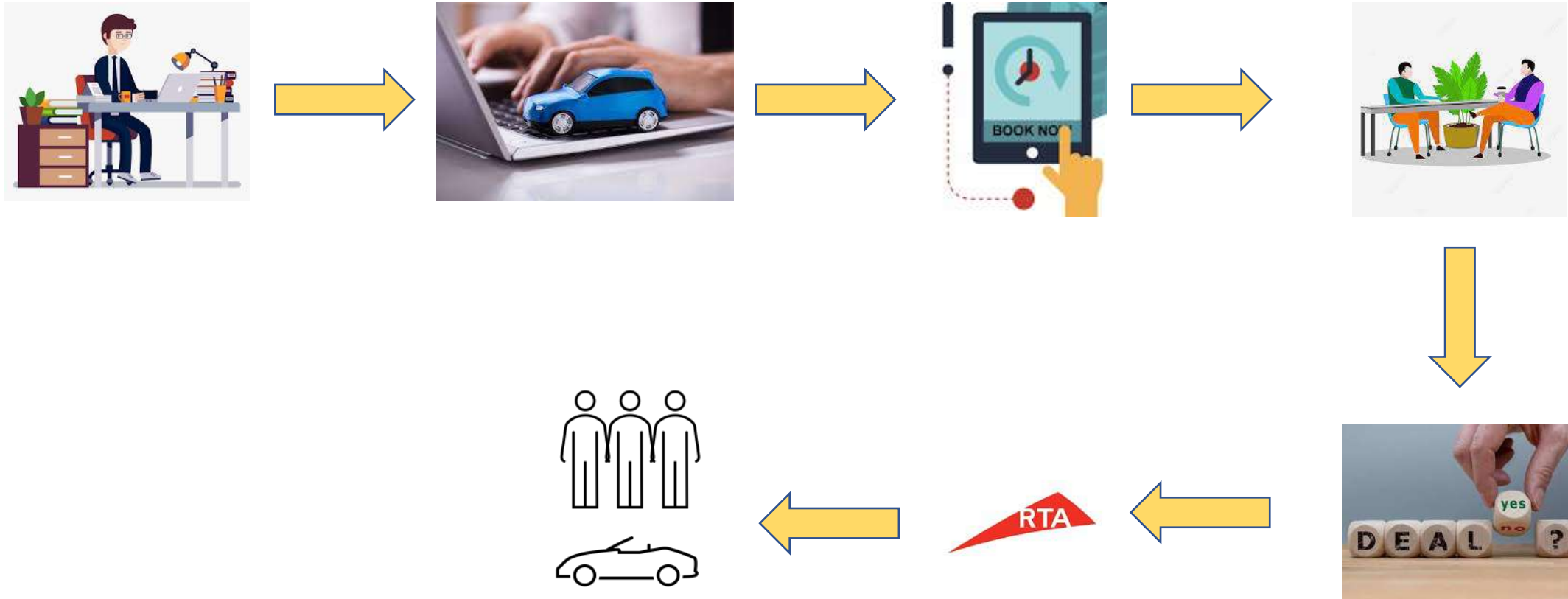
Applicability to Individual's



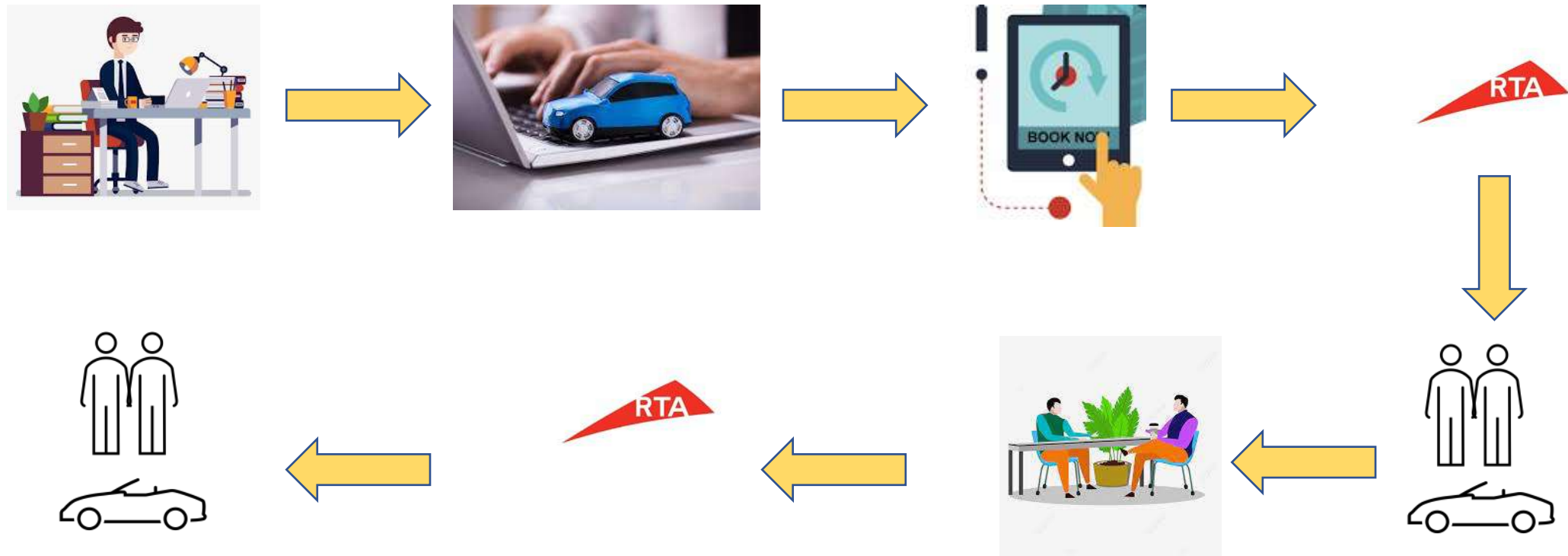
Let's understand what is
business and what is personal
transaction.



Case - 1



Case - 2



Will an individual who has a commercial license to carry out business in the UAE be subject to UAE Corporate Tax...

Business **income earned under a commercial license** will be within the scope of UAE Corporate Tax...

Applicability to Individual's income under Corporate Tax

Income earned by
Freelance
Professionals.

Income earned
under commercial
License.

Salary Income.

Real-estate
investment, under
individual capacity.

Income from
Investments –
Dividend, Capital
Gains.

Interest on Bank
Deposits.

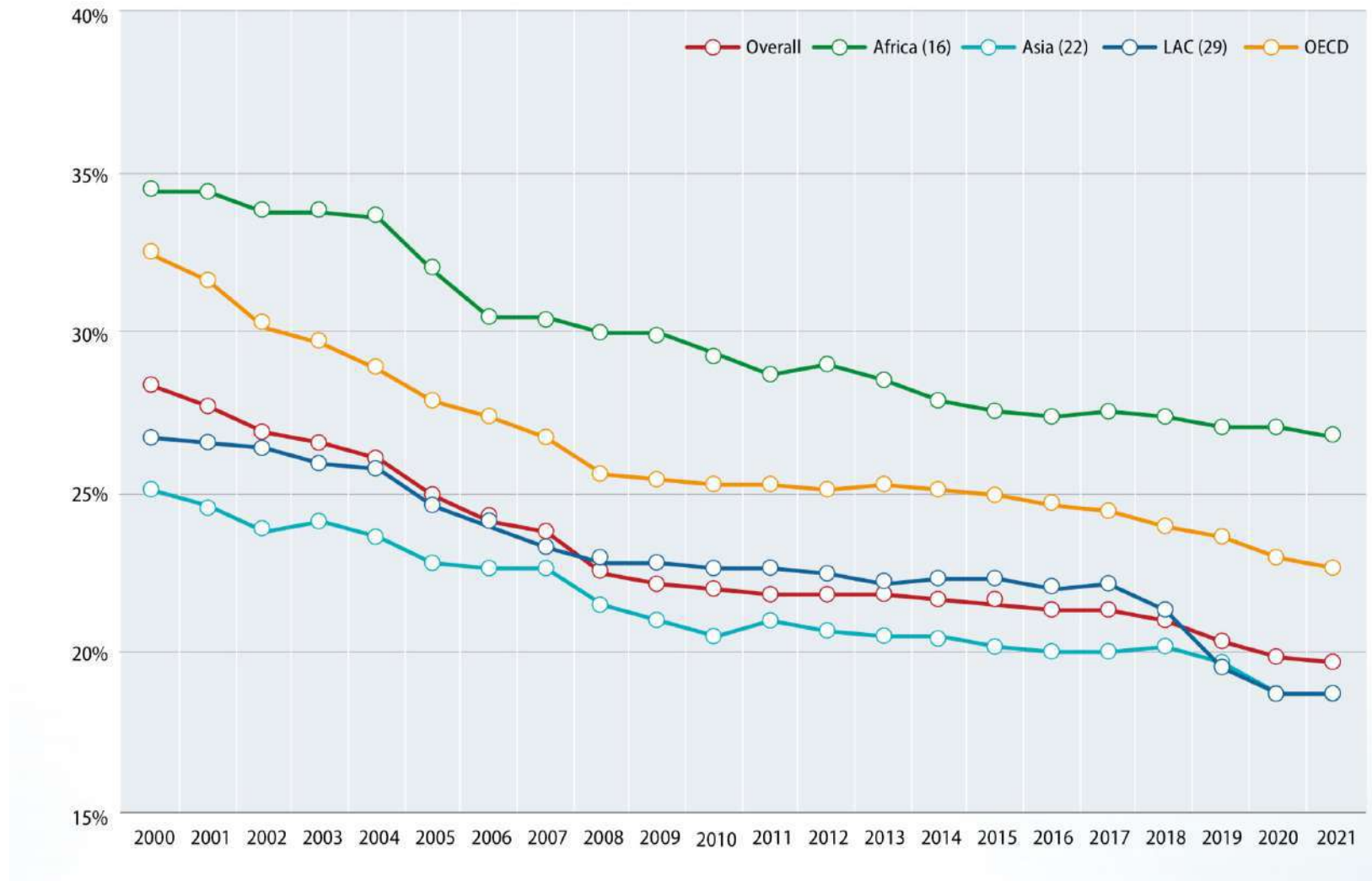
Real Estate

Investment in real estate by individuals in their personal capacity may not be subject to Corporate Tax provided the individual is not required to obtain a commercial license or permit to carry out such activity in the UAE.

This may create different tax structure, base on investment in real estate held, legislation will provide more clarity on subject.

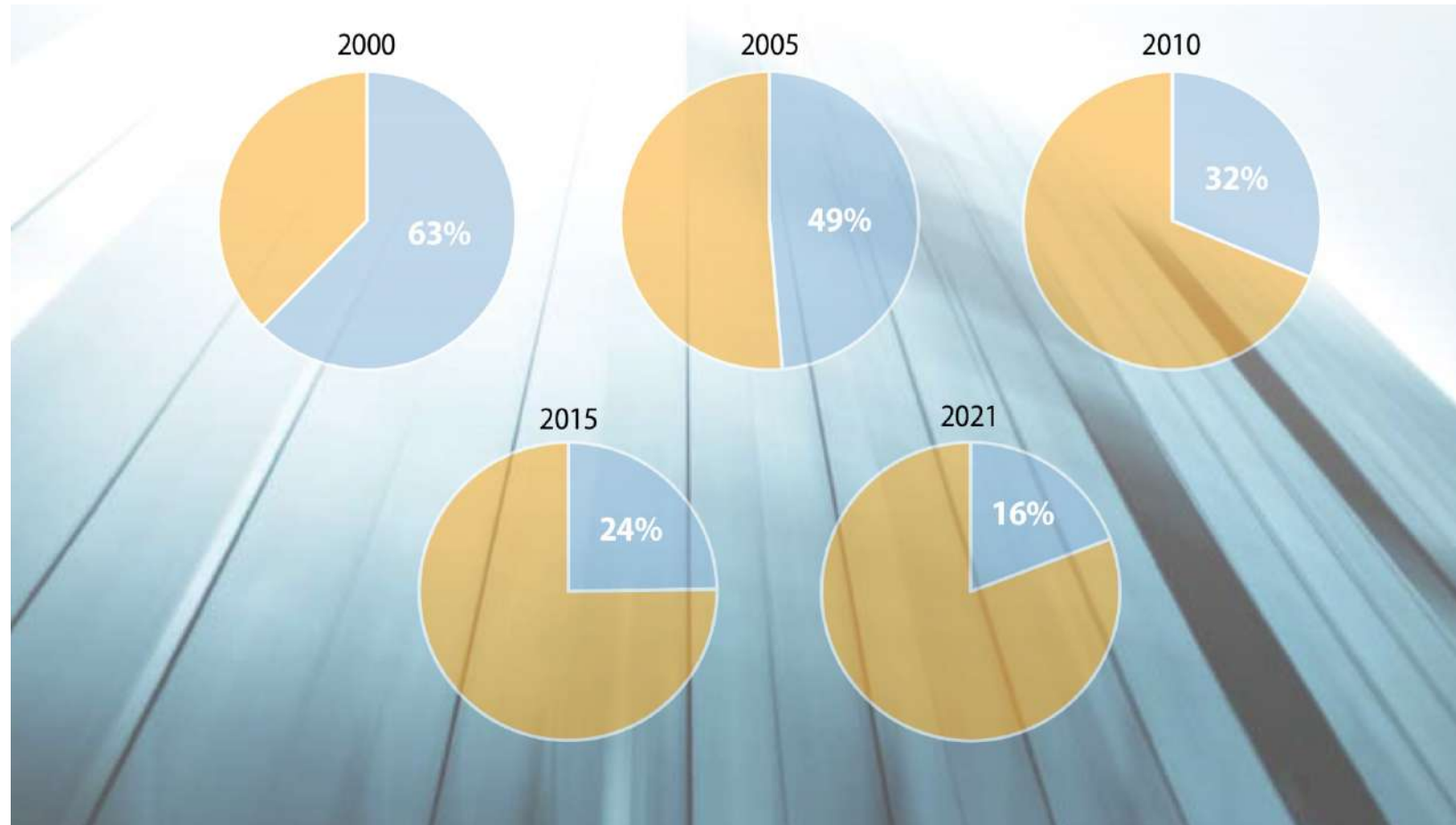


Average statutory corporate income tax rates by region



Source: <https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-third-edition.pdf>

Percentage of jurisdictions with statutory corporate rates greater than, or equal to 30%



Source: <https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-third-edition.pdf>

Rate of Tax

Multinational enterprises (MNEs) with annual revenue over 750 million euros, under Global anti-Base Erosion Rules (GloBE rules) provide a global minimum tax of 15%.

Other businesses, will be taxed at below slab rate:

Slab Rate	Taxable Income
0%	up to AED 375,000;
9%	above AED 375,000

Example:

Income of AED 400,000 will be calculated as:

Slab Rate	Taxable Income	Tax Amount
0%	up to AED 375,000;	0
9%	above AED 375,000	AED 2,250 Tax on AED 25,000 (i.e. AED 400,000 – AED 375,000)

Tax implication for Foreign person

Tax implication for Foreign person

Foreign entities and individuals will be subject to UAE Corporate Tax only if they conduct a trade or business in the UAE in an ongoing or regular manner.

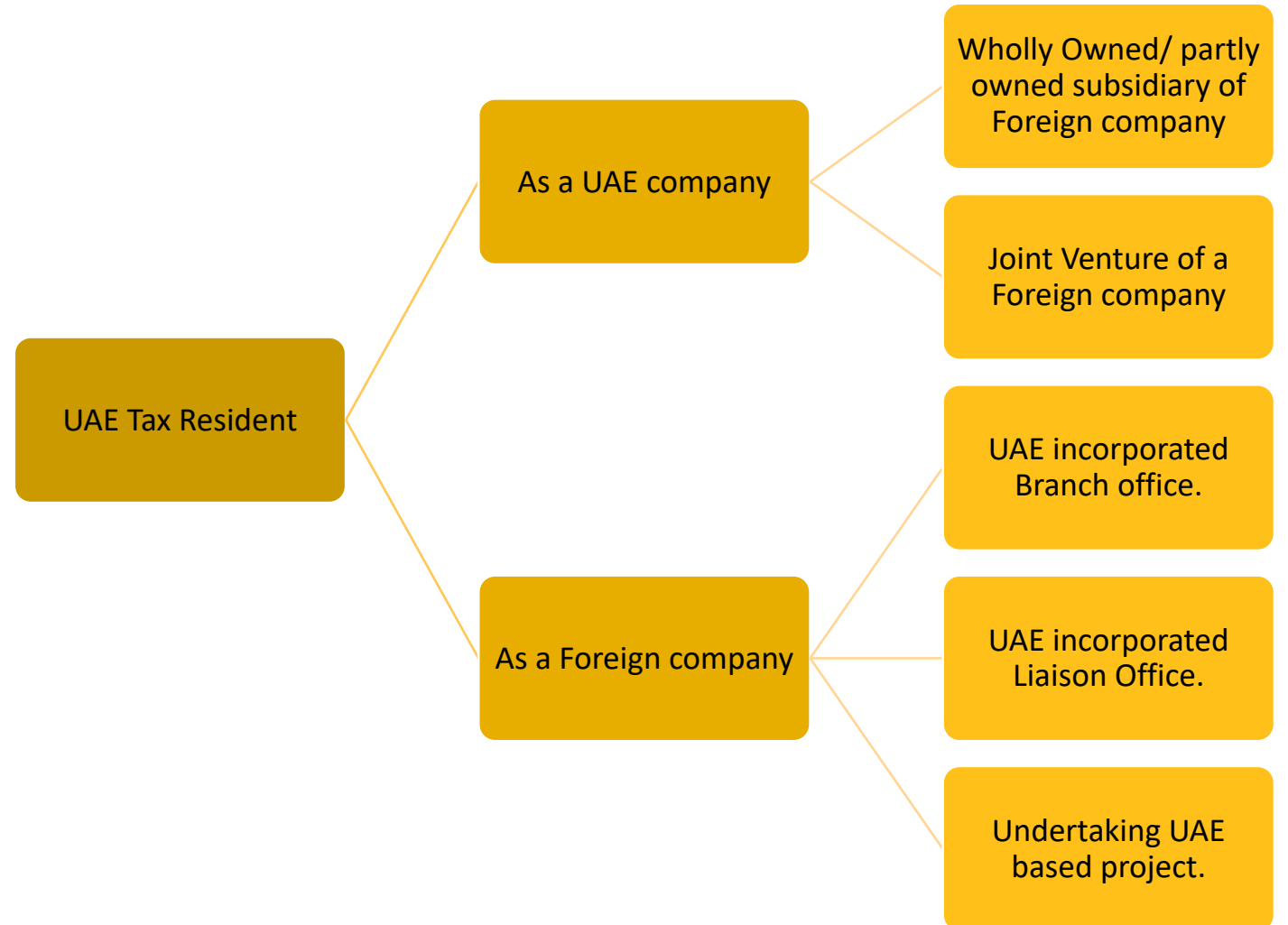
Foreign person

A foreign person includes a nonresident alien individual, foreign corporation, foreign partnership, foreign trust, foreign estate, and any other person that is not a resident / citizen of the country (UAE).

Tax Residential Status

The company **may** qualify as a UAE Taxable Person, if:

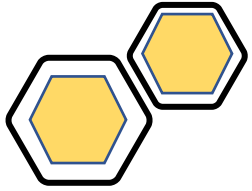
- The company / establishment is a company registered / incorporated in UAE, or
- The company's **place of effective management** during the financial year is in UAE.





Place of Effective Management

In order to understand the tax residential status of any company, it is important to briefly understand the concept of the place of effective management. The definition of place of effective management may mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made. The concept of the place of effective management is internationally accepted and various tax treaties entered speak about the concept of a place of effective management for the purpose of deciding the tax residential status of any company.



UAE Corporate Tax may not be levied on a foreign investor's income from dividends, capital gains, interest, royalties and other investment returns



Royalties, may have implication on account of BEPS framework, need to look for the legislation requirements

Tax implication for Free Zone



Tax implication for Free Zone

Free zone businesses will be subject to UAE Corporate Tax, but the UAE Corporate Tax regime will continue to honour the Corporate Tax incentives currently being offered to free zone businesses that comply with all regulatory requirements and that do not conduct business with mainland UAE.

Free Zone

Most of the free zones in UAE, if not all, do not permit a company registered with such free zone to do business outside the free zone in the mainland unless such company obtains appropriate license from the local authority.





Obligations for Free Zone companies

A business established in a free zone will be required to register and file a Corporate Tax return, to claim the benefits of no / lower tax application.

Further details on the compliance obligations of free zone businesses will be provided in due course, through the legislation.

No different treatment for different free zone

The UAE Corporate Tax treatment that will apply to businesses in free zones will be the same across all free zones



Salient Features, for implementation of Corporate Tax.

Set-off of Losses

The UAE Corporate Tax regime will allow a business to use losses incurred (as from the UAE Corporate Tax effective date) to offset taxable income in subsequent financial periods.

A loss for Corporate Tax purposes (tax loss) would arise when the total deductions the businesses can claim are greater than the total income for the relevant financial period.



Tax Group

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



Once a family, always a family.

Applicability of single slab for the group

Withholding tax

UAE withholding tax may not be applicable on domestic and cross-border payments of any nature under the UAE Corporate Tax regime.



Tax Credits

Foreign Corporate Tax paid on UAE taxable income will be allowed as a tax credit against the UAE Corporate Tax liability.

The foreign tax credit will be used to **offset income tax paid abroad**. UAE Tax Resident who pay income taxes imposed by a foreign country can claim the credit. The credit may reduce your UAE Corporate Tax liability and help ensure that corporates are not taxed twice on the same income.



Transfer Pricing

Transfer price, also known as transfer cost, is the price at which related parties transact with each other, such as during the trade of supplies or labor between departments. Transfer prices may be used in transactions between a company and its subsidiaries, or between divisions of the same company in different countries.



Transfer Pricing

Transfer prices that differ from market value will be advantageous for one entity, while lowering the profits of the other entity.

Multinational companies can manipulate transfer prices in order to shift profits to low tax regions.

To remedy this, regulations enforce an arm's length transaction rule that requires pricing to be based on similar transactions done between unrelated parties.











Transfer Pricing

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



Administration





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 Latest News

222' Federal Tax Authority: One Year Extension on Grace Period to Benefit From Re-Determination of Administrative Penalties Few Days |

Home > Taxes > Corporate Tax > Registration For Corporate Tax(Coming Soon)

Registration For Corporate Tax(Coming Soon)

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What Is Corporate Tax?

Getting Ready(Coming Soon)

Registration For Corporate Tax(Coming Soon)

Filing Returns & Payments(Coming Soon)

Coming Soon...

61

Corporate Tax – Session 1 –AAA & RHMC

Actions to be taken, for implementation of Corporate Tax.

Actions to be taken

Assessment of ability to generate financial statements at business license level.



Actions to be taken

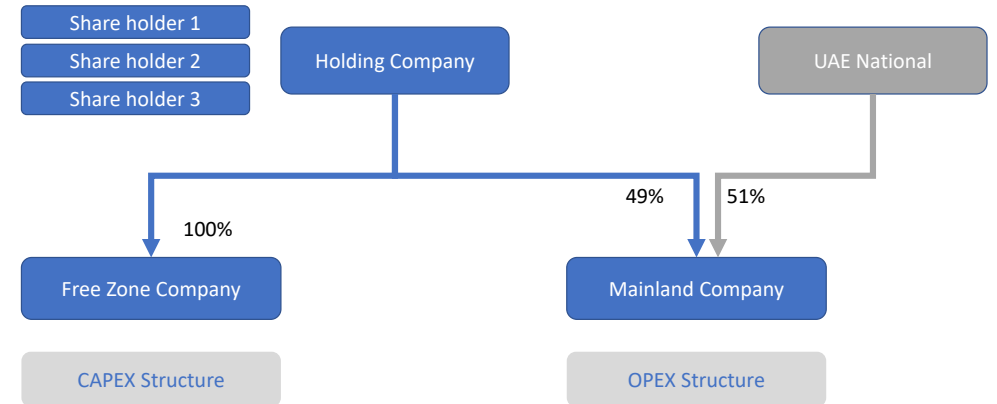
Impact Assessment, i.e. review of business model and accounting policies.



Actions to be taken

Organisation structure review, primarily for entities having business / licenses in mainland, free zone, and multi-country presence.

UAE Controlling Structure



Actions to be taken

Conduct impact assessment & review of remunerations paid to shareholders, beneficial owners. As per prelim assessment, remuneration / benefits to shareholders and beneficial owners may not be considered as allowable expenses under Corporate Tax.



Actions to be taken

Review existing contracts and business model, for assessment of cost impact on account of disallowable expenses.



Actions to be taken

Documentation, will play a critical part in the Corporate Tax implementation, it's important to review the origination, destination documents for impact assessment.



Actions to be taken

Digitization will be the strong pillar for Corporate Tax implementation in UAE, along with regulatory coordination. It's important to assess the 360° impact of inhouse and regulatory framework.



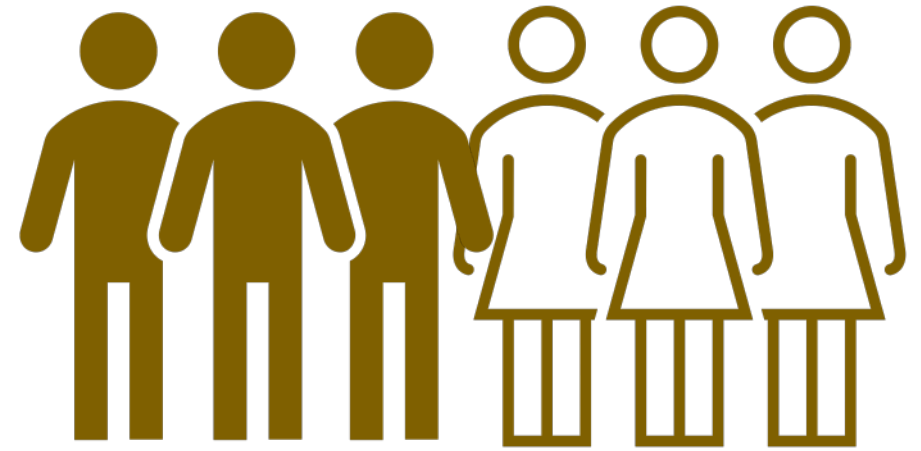
Actions to be taken

Financial statements are prepared in accordance with internationally acceptable accounting standards.



Actions to be taken

Resource assessment should be conducted for implementation cost, staff recruitment and training cost, technology upgrade along with professional engagement.





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