



Stuart & Hamlyn

CHARTERED ACCOUNTANTS



FAQ Corporate Tax

VAT MADE SIMPLE



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 CT?**

- A competitive CT regime based on international best practices will cement 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

▮ **Is the UAE the first country to introduce CT?**

- Most countries in the world have a comprehensive CT regime, including most of the GCC Member States

When will the UAE CT regime become effective?

- The UAE CT regime will become effective for financial years starting on or after 1 June, 2023

Examples:

- ❑ A business that has a financial year starting on 1 July, 2023 and ending on 30 June, 2024 will become subject to UAE CT from 1 July, 2023 (which is the beginning of the first financial year that starts on or after 1 June, 2023)
- ❑ A business that has a (calendar year) financial year starting on 1 January 2023 and ending on 31 December 2023 will become subject to UAE CT from 1 January 2024 (which is the beginning of the first financial year that starts on or after 1 June 2023)

▮ **Will UAE CT be applicable to businesses in each Emirate?**

- The UAE CT is a Federal tax and will therefore apply across all Emirates

▮ **What will be the role of the Federal Tax Authority?**

- The Federal Tax Authority will be responsible for the administration, collection, and enforcement of UAE CT

▮ **What will be the role of the Ministry of Finance?**

- The Ministry of Finance will remain the ‘competent authority’ for purposes of bilateral/multilateral agreements and the international exchange of information for tax purposes

Who will be subject to UAE CT?

- 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

Will foreign entities and individuals be subject to UAE CT?

- 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

How do you determine whether a legal entity has a “business” that will be within the scope of UAE CT?

- All activities undertaken by a legal entity will be deemed “business activities” and hence be within the scope of UAE CT

⚡ **How do you determine whether an individual has a “business” that will be within the scope of UAE CT?**

- This would generally be done by reference to the 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

⚡ **How do you determine the business profit / income that will be subject to UAE CT?**

- The taxable income will be the accounting net profit / income of a business, after making adjustments for certain items to be specified under the UAE CT law
- The accounting net profit / income of a business is the amount reported in the financial statements prepared in accordance with internationally acceptable accounting standards

What will the UAE CT rates be?

- The CT rates are:
 - i. 0% for taxable income up to AED 375,000;
 - ii. 9% for taxable income above AED 375,000; and
 - iii. 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 is meant by “large” multinationals?”

- A multinational corporation is a corporation that operates in its home country, as well as in other countries through a foreign subsidiary, branch or other form of presence / registration. Merely earning income from outside its home country without a foreign presence or registration would not make a business a multinational corporation
- In the context of the global minimum effective tax rate as proposed under 'Pillar Two' of the OECD Base Erosion and Profit Shifting project, “large” refers to a multinational corporation that has consolidated global revenues in excess of EUR 750m (c. AED 3.15 bn)

▮ **Will an individual's salary income be subject to UAE CT?**

- UAE CT will not apply on an individual's salary and other employment income (whether received from the public or private sector)

▮ **Will an individual who has a commercial license to carry out business in the UAE be subject to UAE CT?**

- Business income earned under a commercial license will be within the scope of UAE CT

⚡ **Will an individual who invests in UAE real estate be subject to UAE CT?**

- The investment in real estate by individuals in their personal capacity should not be subject to UAE CT provided the individual is not required to obtain a commercial license or permit to carry out such activity in the UAE

⚡ **Will an individual be subject to CT on investment returns?**

- Individuals will not be subject to UAE CT on dividends, capital gains and other income earned from owning shares or other securities in their personal capacity

▮ **Will the income earned by a freelance professional be subject to UAE CT?**

- UAE CT will generally apply to income earned from activities carried out under a freelance license / permit, albeit no CT will be payable unless the annual net income of the freelance professional exceeds AED 375,000 (see below)

▮ **Will income earned by an individual from bank deposits be subject to UAE CT?**

- Interest and other income earned by an individual from bank deposits or saving schemes will not be subject to UAE CT

‣ If a business has earned taxable income of AED 400,000 in a given financial year, what will be the UAE CT amount payable?

- The CT liability will be calculated as follows:
 - i. Taxable income of AED 0 - AED 375,000 at 0% = AED 0
 - ii. Portion of taxable income exceeding AED 375,000 (i.e. AED 400,000 - AED 375,000 = AED 25,000) at 9% = AED 2,250
 - iii. The UAE CT liability for the year will be AED 0 + AED 2,250 = AED 2,250
 - iv. The final amount of UAE CT payable will be reduced by any foreign taxes incurred on the relevant income (see below further questions on this topic)

▮ Will anyone be exempt from UAE CT?

- Businesses engaged in the extraction of natural resources will remain subject to Emirate level corporate taxation and be outside the scope of UAE CT
- Information on other UAE CT exemptions and exclusions will be provided in due course

▮ Will any income be exempt from UAE CT?

- Dividends and capital gains earned by a UAE business from its qualifying shareholdings will be exempt from UAE CT

▮ What is a 'qualifying' shareholding?

- 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

▮ **Will intra-group transactions be exempt from UAE CT?**

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

▮ **Will a foreign company or individual be subject to UAE CT?**

- If a foreign company or individual is engaged in a business in the UAE in an ongoing or regular manner, they will be subject to UAE CT

▮ **Will income earned by a foreign investor be subject to UAE CT?**

- UAE CT will generally not be levied on a foreign investor's income from dividends, capital gains, interest, royalties and other investment returns

▮ **Will a free zone business be subject to UAE CT?**

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



▮ **Will a free zone business be required to register and file a CT return?**

- A company established in a free zone will be required to register and file a CT return
- Further details on the compliance obligations of free zone businesses will be provided in due course

▮ **Will the UAE CT treatment be different for a free zone business established in a financial free zone?**

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



▫ **Will the oil and gas sector and other extractive industries be subject to the UAE CT regime?**

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

▫ **Will the banking sector be subject to the UAE CT regime?**

- Banking operations will be subject to UAE CT
- Further details on the current Emirate level corporate taxation will be provided in due course



▮ **Will the real estate sector be subject to the UAE CT regime?**

- Businesses engaged in real estate management, construction, development, agency and brokerage activities will be subject to UAE CT

▮ **Will the UAE CT regime allow prior year losses to reduce future taxable income?**

- The UAE CT regime will allow a business to use losses incurred (as from the UAE CT effective date) to offset taxable income in subsequent financial periods
- A loss for CT purposes (tax loss) would arise when the total deductions the businesses can claim are greater than the total taxable income for the relevant financial period

▫ **Will excess CT losses be allowed to be carried forward and used in future years?**

- Excess tax losses may be carried forward and used against taxable income in future years, provided certain conditions are met
- Further information on the UAE CT loss carry-forward rules will be provided in due course

▫ **Will a group be able to utilise the tax losses of one group company against the taxable income of another group company?**

- Tax losses from one group company may be used to offset taxable income of another group company, provided certain conditions are met
- Further information on the group loss utilisation rules will be provided in due course



„ **Will a group of UAE companies be able to form a “fiscal unity” for UAE CT purposes?**

- 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 is withholding tax?**

- Withholding tax is tax collected at source by the payer on behalf of the recipient of the income
- Withholding taxes exist in many tax systems and are typically used in respect of dividends, interest, royalties and similar payments

▮ **What is the withholding tax rate under the UAE CT regime?**

- UAE withholding tax will not be applicable on domestic and cross-border payments of any nature under the UAE CT regime

▮ **Will foreign CT paid on UAE taxable income be recognised under the UAE CT regime?**

- Foreign CT paid on UAE taxable income will be allowed as a tax credit against the UAE CT liability

▮ **What are transfer pricing rules?**

- Transfer pricing rules seek to ensure that transactions between related parties are carried out on arm's length terms (i.e. as if the transaction was carried out between independent parties)

▮ **Will transfer pricing rules be applicable to UAE businesses?**

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

▮ **Will businesses be required to register for UAE CT purposes?**

- More information on the registration process and ongoing compliance obligations for businesses will be provided in due course

▮ **How often will UAE businesses need to file a UAE CT return?**

- Only one CT return will need to be filed per financial period
- No provisional or advance CT filings will be required
- A financial period is generally a year

▮ **Will the CT return need to be filed electronically?**

- The CT return will need to be filed electronically.
- Further guidance will be issued in this regard in due course

▮ **Will businesses be required to pay tax in advance?**

- UAE businesses will not be required to make advance UAE CT payments

▮ **Are there any consequences for non-compliance under the CT regime?**

- Similar to other taxes in the UAE (e.g. VAT), businesses will be subject to penalties for non-compliance with the CT regime.
- Further information on the UAE CT compliance obligations and applicable penalties will be released in due course

Summary:

1. Most important aspect at this stage is the coverage of proposed corporate taxation:
2. Oil and Gas companies which are in extraction of natural resources will be taxed by respective Emirates and not part of Corporate Tax
3. Banking companies will be part of corporate taxation, the treatment in relation to emirate level tax will be clarified
4. Real estate business is subject to corporate taxation
5. Dividend and capital gains from qualifying shareholding will be exempt so all holding companies are not likely to be taxable
6. Corporate taxation will apply in same manners across all free zones, some freezone entities that do not conduct business in mainland UAE may enjoy certain incentives subject to certain conditions.



Thank You!



Joseph Philip



04 295 11 91 | 04 295 31 55



dubai@stuaham.com



www.stuaham.com