



**Newsflash:
UAE announces Implementation of Corporate Tax
with effect from 1 June 2023**

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3 February 2022

1.0 BACKGROUND

1.1 As a historic development, on 31 January 2022, the Ministry of Finance ('MoF') of United Arab Emirates ('UAE') issued an initial guidance rolling out the implementation of corporate taxation ('CT') regime effective from 1 June 2023. Basis the initial guidance, one of objective of CT regime is meeting international standard for tax transparency and preventing harmful tax practices.

1.2 There is lot of work going on in the international taxation space like implementation of Two Pillar Solution addressing the tax challenges arising from the digitalisation of the economy, effectuating the Multilateral Instruments ('MLI'), policy making in exchange of information etc. Global consensus on Minimum Taxation at the rate of 15% through Pillar Two of Action Plan 1 of Base Erosion Profit Shifting ('BEPS') leading 'low/ nil tax' or so called 'tax heavens' to revisit their taxation regime.

1.3 The initial guidance and FAQs issued provides the highlights of the UAE CT regime and detailed legislation on applicability, implementation, administration etc. will be released later. Salient features of UAE corporate tax regime are as under:

2.0 SALIENT FEATURES OF UAE CORPORATE TAXATION

2.1 Effective Date

The corporate tax regime will become effective for financial years starting on or after 1 June 2023. For example, below table explains the first-time applicability of CT:

Any Business that has its Financial Year from	UAE CT be made effective from
1 July 2023 to 30 June 2024	1 July 2023
1 January 2023 to 31 December 2023	1 January 2024

2.2 Scope and Rate

All UAE businesses are under scope of corporate tax except those in the extraction of natural resources i.e., oil and gas which would remain subjected to the Emirate level taxation. The Corporate tax will be applicable to all 7 Emirates of the UAE i.e. Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Quwain, Fujairah, and Ras Al Khaimah,

The corporate tax would be chargeable on taxable income which will be the accounting net profit of a business, after making adjustments for certain items. All activities undertaken by a legal entity will be deemed ‘business activities’ and within the scope of UAE CT.

The corporate tax will **not apply** to

- Personal income from employment, real estate¹ and other investments. However, any income earned by an individual from UAE Trade or Business would be subject to tax including income earned by freelancers from freelance license/permit;
- Any other income earned by an individual that does not arise from a business or other form of commercial activity licensed or otherwise permitted to be undertaken in the UAE.
- Dividends, capital gains, Interest income etc. earned in UAE from qualifying shareholding².
- Qualifying intra-group transactions and reorganizations

The notified **corporate tax rate** is as under:

Taxable Income	Tax Rate
up to AED 375,000	0%
above AED 375,000	9%
A different tax rate (to be notified later) for large multinationals ³	

2.3 Free Zone Businesses

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. It is provided that registration and filing of corporate tax return would be applicable.

2.4 No withholding tax or advance tax

UAE withholding tax will not be applicable on domestic and cross-border payments. No advance tax payments are required.

¹ *Businesses engaged in real estate management, construction, development, agency and brokerage activities will be subject to UAE CT*

² *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*

³ *Large Multinational to mean 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. 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)*

2.5 Tax on foreign investors

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 and capital gain, royalties, interest, dividend from investment shall generally be exempt.

2.6 Group Taxation

A UAE group of companies can elect to form a tax group and be treated as a single taxable entity/ person, subject to satisfaction of certain conditions. UAE tax group would only be required to file a single tax return for the entire group.

2.7 Carry Forwarding and Set-off of losses

CT regime will allow a business to use losses incurred to offset taxable income in subsequent financial periods. Further, the tax losses from one group company may be used to offset taxable income of another group company.

2.8 Relief of Double Taxation

Foreign taxes paid will be allowed to be credited against the UAE corporate tax liability.

2.9 Single Annual Corporate Tax Return

Single Corporate Tax Return shall be required to be filed for each financial year.

2.10 Transfer Pricing

Transfer pricing rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines would be applicable.

Reference for the FAQs issued by UAE Ministry of Finance pertaining to the UAE CT:

<https://www.mof.gov.ae/en/resourcesAndBudget/Pages/faq.aspx>

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This newsflash provides an overview on the new UAE Corporate Tax regime to be made applicable w.e.f.1 June 2023. It may be noted that nothing contained in this newsflash should be regarded as our opinion and facts of each case will need to be analyzed to ascertain applicability or otherwise of the said judgement and appropriate professional advice should be sought for applicability of legal provisions based on specific facts. We are not responsible for any liability arising from any statements or errors contained in this newsflash.

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