



A BEGINNER'S GUIDE TO
CORPORATE TAX IN THE UAE



LET'S CREATE SUCCESS TOGETHER

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The United Arab Emirates has recently passed the federal Corporate Tax Law, marking a shift in the country's tax regime. This new law applies to all businesses and commercial activities operating within all seven emirates, except for certain exemptions.

Corporate Tax in the UAE is a complex subject, and businesses are advised to have a solid understanding of the requirements and regulations to comply with the law. In this guide, we aim to provide an overview of the key features of the new law under UAE Federal Decree-Law No. 47 of 2022 along with strategies to best prepare for it.

Understanding the Basics

What is Corporate Tax?

This is a direct tax imposed on the overall profits earned by businesses and corporations. The Corporate Tax rate varies from country to country, and it can be a flat rate or a progressive tax, depending on the jurisdiction.

Who Is Subject to Corporate Tax?

Generally speaking, Corporate Tax applies to both individuals and corporations that are identified as "Taxable Persons":

- UAE Companies and organizations that are incorporated or operate within the country.
- Individuals ("Natural Persons") who conduct business activities in the UAE.
- Foreign legal entities that have a fixed business ("Permanent Establishment") in the UAE.

Juridical persons established in a UAE Free Zone are also considered "Taxable Persons" and are required to comply with Corporate Tax requirements. However, Free Zone entities that meet the conditions to be considered a Qualifying Free Zone Person can benefit from a 0% Corporate Tax on their Qualifying Income.

Non-resident persons without a Permanent Establishment in the UAE can be subject to a 0% Withholding Tax. This is a type of Corporate Tax that is deducted at the source for specific payments and typically apply to the cross-border payment of dividends, interest, royalties, and similar types of income.

Corporate Tax Terminologies

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Resident Person

A Resident Person refers to companies and similar entities that are formed or recognized under the UAE laws. This includes entities established in the UAE under mainland or Free Zone regulations, as well as those created by a specific statute, such as a special decree.

Foreign companies may also be classified as Resident Persons for Corporate Tax purposes if they are effectively managed and controlled within the UAE. This depends on the circumstances of the entity and its activities, with a key factor being where the entity's management and commercial decisions are substantially made.

Individuals or "Natural Persons" are considered Resident Persons only on business-related income earned from activities within the UAE (whether from domestic or foreign sources).

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Non-Resident Person

A Non-Resident Person refers to entities that are not classified as Resident Persons and meet either of the following conditions:

- 1) They have a Permanent Establishment within the UAE.
- 2) They derive income from a source within the UAE.

Non-Resident Persons with a Permanent Establishment in the UAE will be subject to Corporate Tax on Taxable Income that is related to their Permanent Establishment.

For certain types of UAE-sourced income that are not assigned to a Permanent Establishment in the UAE, Non-Resident Persons will be subject to Withholding Tax at a rate of 0%.

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Permanent Establishment

The definition of Permanent Establishment in UAE is crucial in determining whether a foreigner has established a sufficient presence in the country to be subject to Corporate Tax on their business profits.

This means that foreigners can refer to the relevant Commentary of Article 5 of the OECD Model Tax Convention when assessing whether they have a Permanent Establishment in the UAE. However, this assessment must also consider the provisions of any bilateral tax agreement between the country of residence of the Non-Resident Person and the UAE.

The purpose of the Permanent Establishment, the concept is to determine if and when a foreign person has established sufficient presence in the UAE to warrant the business profits of that foreign person to be subject to Corporate Tax. By establishing whether a Permanent Establishment exists or not, the tax authorities can ensure that foreign businesses operating in the UAE are paying the appropriate level of tax on their profits.



Emara Tax

The Federal Tax Authority (FTA) in the United Arab Emirates introduced a new digital platform called Emara Tax. This unified digital platform aims to help individuals and businesses manage their tax-related affairs more efficiently, which in turn benefits the overall economy of the country.

The Advantages of Emara Tax

For taxpayers in the UAE, Emara Tax enables speedy processing of tax refunds and simplified online tax payments. It also gives users access to tax-related data and tools, including online instructions, forms, and information on tax regulations.

Registration for Emara Tax

The FTA began issuing invitations to selected companies to register on the Emara Tax platform in January 2023, with priority given to companies that have a financial year starting on 1 June 2023. It is expected that the FTA will announce more details about when registration will be open to all businesses in the near future.

Corporate Tax Exemptions

In the UAE, certain types of organizations or businesses are exempt from Corporate Tax, based on their contribution and importance to the country. These entities are known as "Exempt Persons." This includes:

01 —

Permanent Establishment

Businesses or organizations that are owned by the UAE government are automatically exempt from Corporate Tax.

02__

Government Controlled Entities that are Specified in a Cabinet Decision

The UAE Corporate Tax also provides an exemption for businesses or organizations that are controlled, but not owned by the UAE government. However, at the moment, only entities that have been specifically identified by a Cabinet Decision as being exempt are eligible.

03__

Extractive Businesses and Non-Extractive Natural Resource Businesses

Extractive Businesses are involved in the extraction of oil, gas, minerals, and related natural resources. Non-Extractive Natural Resource Businesses are those companies that manage and sell natural resources, such as forestry and fisheries. Both entities are exempt from Corporate Tax, subject to meeting certain conditions.

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Qualifying Public Benefit Entities

Non-profit organizations such as charities, educational institutions, artistic, cultural and religious organizations are also exempt from Corporate Tax if they meet the conditions set by the FTA.

What Types of Income Are Exempt from Corporate Tax?

The Corporate Tax Law has set a threshold limit of AED 375,000 by which any Taxable Income that falls below this amount will be subject to a 0% Tax Rate.

In addition, certain types of income are exempt from Corporate Tax to prevent double taxation.

Dividends and capital gains earned from domestic and foreign shareholdings are generally exempt from Corporate Tax. Additionally, Resident Persons can elect to not consider income from a foreign Permanent Establishment for UAE Corporate Tax purposes, subject to certain conditions.



How Is a Taxable Person Subject to Corporate Tax?

In the UAE, like many other countries, Corporate Tax is imposed on both a residence and source basis, depending on the classification of the Taxable Person.

A Resident Person is typically taxed based on the income derived from sources both within and outside of the UAE.

On the other hand, a “Non-Resident Person” will only be taxed on the income derived from sources within the UAE.

In the context of Corporate Tax, a person’s residence is not determined by where they live (“domicile”), but rather by specific factors outlined in the Corporate Tax Law. These factors include where a company is incorporated or registered, the location of its central management and control, and where its activities are conducted.

If a person does not meet the criteria for being classified as a Resident or Non-Resident Person, they will not be considered a Taxable Person and will not be subject to Corporate Tax.

It is important to note that the determination of whether they are Taxable Persons depends on the individual circumstances of each case and the application of relevant tax laws and regulations.



What Is Corporate Tax Imposed On?

Corporate Tax is imposed on Taxable Income earned by a related individual or business in a Tax Period. The calculation and payment of Corporate Tax are done annually through the filing of a Corporate Tax Return with the Federal Tax Authority at the end of each tax period.

To calculate the Taxable Income, a company starts with its accounting income (net profit or loss before tax) based on its financial statements. The company will then make certain adjustments to arrive at its Taxable Income for the relevant tax period. These adjustments include income that is exempt from Corporate Tax and expenditure that is wholly or partially non-deductible for Corporate Tax purposes.

Corporate Tax: Deductible Expenses

All legitimate business expenses that are incurred solely to generate Taxable Income are deductible. The timing of the deduction may vary for different types of expenses and accounting methods. Expenditures for capital assets are typically recognized through depreciation or amortization deductions over the useful life of the asset.

However, certain expenses may not be fully deductible for Corporate Tax purposes and may need to be added back to the Accounting Income to determine the Taxable Income. These may include:

Types of Expenditures	Limitation to deductibility
<ul style="list-style-type: none"> · Fines and penalties (other than amounts awarded as compensation for damages or breach of contract) · Donations, grants or gifts made to an entity that is not a Qualifying Public Benefit Entity · Dividends and other profits distributions · Corporate Tax imposed under the Corporate Tax Law · Expenditure not incurred wholly and exclusively for the purposes of the Taxable person's Business · Expenditure incurred in deriving income that is exempt from Corporate Tax 	No deduction
Client entertainment expenditure	Partial deduction of 50%, of the amount of the expenditure
Interest expenditure	Deduction of net interest expenditure exceeding a certain de minimis threshold up to 30% of the amount of earnings before the deduction of interest, tax, depreciation and amortisation (except for certain activities)

Corporate Tax Rate in the UAE

The Corporate Tax rate in the UAE is set at 9% on taxable income exceeding AED 375,000. Businesses with taxable income below AED 375,000 will not be subject to Corporate Tax.

Corporate Tax will be charged on Taxable Income as follows:

Resident Taxable Persons		
· Taxable Income not exceeding AED 375,000	_____	0%
· Taxable Income exceeding AED 375,000	_____	9%
Client entertainment expenditure		
· Qualifying Income	_____	0%
· Taxable Income that does not meet the Qualifying Income definition	_____	9%

Calculating Corporate Tax in the UAE

Corporate Tax is calculated on taxable income earned by a taxable person during a tax period.

Taxable Income is calculated by making certain adjustments to the accounting income reported in the financial statements, including deduction of tax-exempt income and inclusion of non-deductible expenses.

Once the taxable income is determined, the applicable Corporate Tax rate is applied to calculate the Corporate Tax liability. For example, if a company has a taxable income of AED 500,000 the Corporate Tax liability would be calculated as follows:

Taxable Income	AED 500,000
LESS: Corporate Tax (0% Tax Rate)	- AED 375,000
Taxable Income in excess of the Threshold	AED 125,000
Applicable Tax Rate	9%
Corporate Tax Liability	AED 11,250

It is important to note that Corporate Tax is self-assessed. The calculation, declaration and filing of Corporate Tax Returns are the sole responsibility of the taxable person or its agent. Additionally, there may be certain types of income that are exempt from Corporate Tax, such as dividends and capital gains from domestic and foreign shareholdings, which are meant to prevent double taxation.





Corporate Tax: Free Zones

The Advantages of the Emara Tax

The government has announced that Free Zone companies will continue to benefit from their own specific Free Zone incentives. However, there is a possibility that some Free Zone companies may be liable to pay Corporate Tax. For example, if a Free Zone company does business with a mainland business, it will be subject to paying corporate tax on any revenue generated from that transaction.

Additionally, Free Zone companies are required to register and file a corporate tax return, even if they do not owe any tax.

When can a Free Zone Person be a Qualifying Free Zone Person?

A Free Zone Person, who is a Qualifying Free Zone Person, is eligible for a 0% Corporate Tax rate but only on their "Qualifying Income."

To be considered a Qualifying Free Zone Person, the Free Zone Person must maintain adequate substance in the UAE, derive a Qualifying Income, not have made an election to be subject to the standard Corporate Tax rate and comply with the transfer pricing requirements under the Corporate Tax Law.

Corporate Tax: Registration and Payment Deadlines

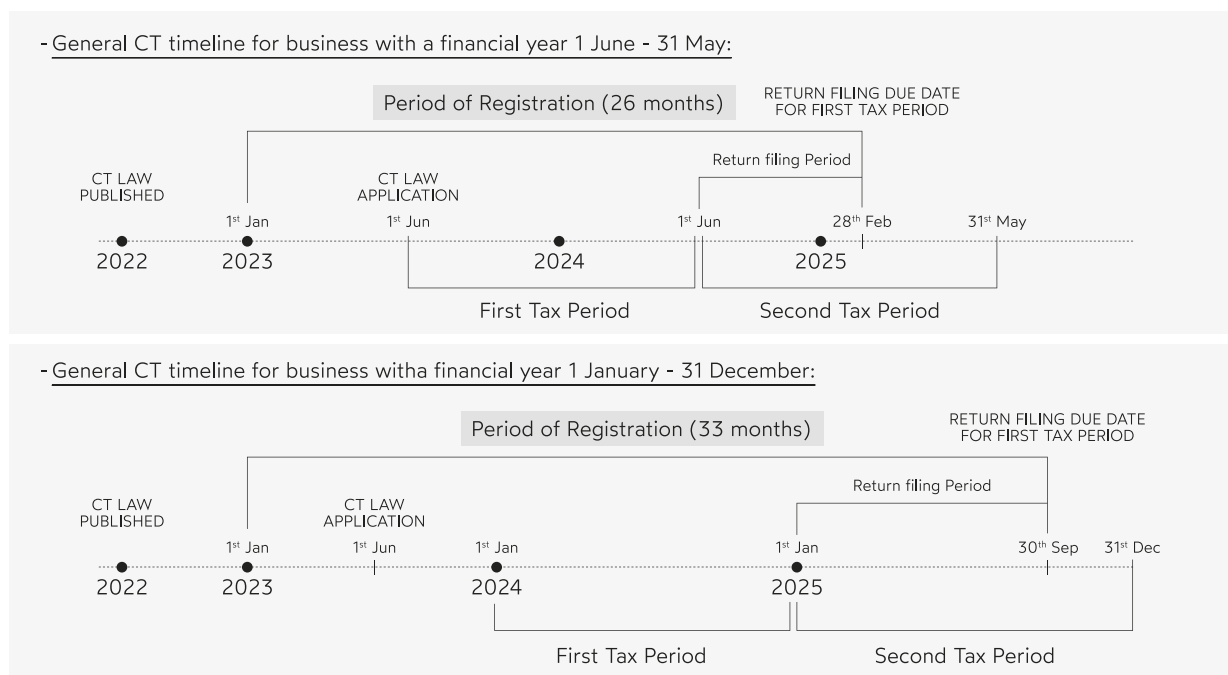
All Taxable Persons, including Free Zone Persons, must register for Corporate Tax and obtain a Corporate Tax Registration Number. Some Exempt Persons may also be requested to register.

Filing Corporate Tax Returns

Taxable Persons must file a Corporate Tax Return for each Tax Period within 9 months from the end of the relevant period.

Payment Deadlines for Taxable Persons

The FTA began issuing invitations to selected companies to register on the Emara Tax platform in January 2023, with priority given to companies that have a financial year starting on 1 June 2023. It is expected that the FTA will announce more details about when registration will be open to all businesses in the near future.



It is important to note that these deadlines may vary depending on the Taxable Person's specific situation. Consult the Corporate Tax Law and relevant authorities for further guidance.



Preparing for Corporate Tax in the UAE



01 —

Read the Corporate Tax Law and supporting information:

Familiarize yourself with the Corporate Tax Law and the supporting information provided by the UAE Ministry of Finance and the Federal Tax Authority. This will help you understand the requirements and obligations under the law.

02 —

Determine your business's Corporate Tax status:

Guided by official information, determine whether your business is subject to Corporate Tax and when it will become applicable.



03 —

Understand the requirements under the Corporate Tax Law:

Understand the specific requirements for your business under the Corporate Tax Law, including the Accounting/Tax Period, registration deadlines, filing requirements, elections, and record-keeping obligations.

04 —

Regularly check for updates and guidance:

Stay informed by regularly checking the websites of the Ministry of Finance and the Federal Tax Authority for updates and guidance on the Corporate Tax regime.





Corporate Tax Knowledge Sessions

As Dubai's most dynamic and truly international Free Zone, IFZA is committed to supporting the community's compliance with the latest regulation. We began the implementation of several activities that aimed to empower members to face the upcoming changes to our business ecosystem. If you have any questions, get in touch with your dedicated Client Engagement Manager. Stay tuned to our official communication channels for future editions of Corporate Tax and other related knowledge sharing events hosted by IFZA.



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