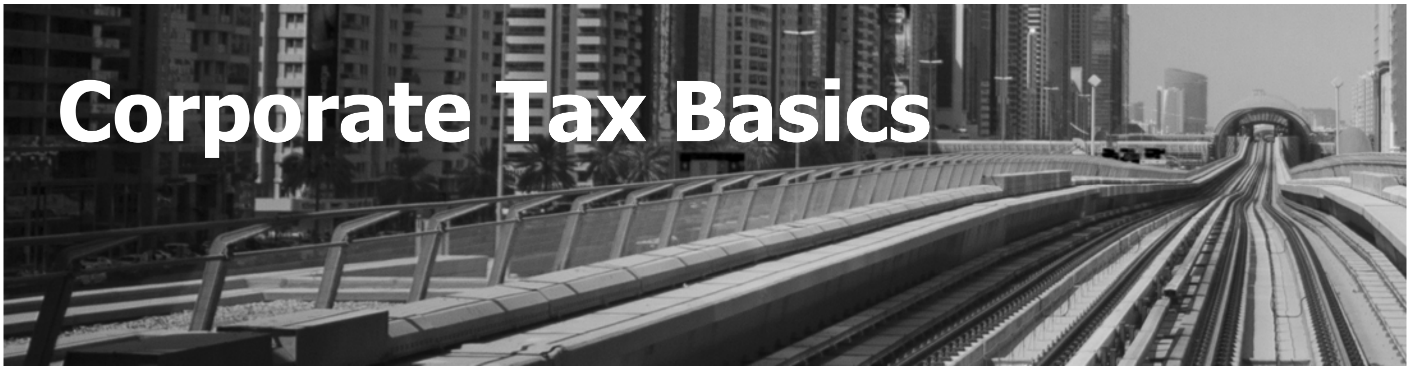
CATALYST
CA-TAX ANALYSTS
Envisaging Financial Brilliance

Everything You Need to Know About UAE Corporate Tax

Learn how corporate tax works and the benefits for businesses



Corporate Tax Basics

The United Arab Emirates (UAE) Ministry of Finance has announced a new tax regime to keep up with the growth of the UAE's economy and make it more transparent. This new regime, Corporate Tax (CT), will be effective from June 1, 2023. All taxpayers must register for UAE CT and obtain a Corporate Tax Registration Number, as specified by the Minister. Some exempt entities, such as government-owned companies, charities, and individuals who earn personal income may also be asked by the Federal Tax Authority to register for UAE CT. Corporate tax returns must be submitted within nine months following the end of the relevant tax period.

Corporate Tax in the UAE

Corporate Tax (CT), a form of direct tax, also known as Corporate Income Tax or Business Profits Tax, is levied on a business's net income or profit. The new regime for this tax was announced with a major aim of streamlining the UAE's tax system, while also diversifying state revenue and improving development and investments.

If your business works around the fiscal year, corporate tax will be applied from June 1, 2023.
If your business works around the calendar year, corporate tax will be applied from January 1, 2024.

Corporate tax rates

When the new regime comes into effect, the following rates will apply:

- 0% for annual taxable profits within AED 375,000
- 9% for annual taxable profits crossing AED 375,000

How to calculate corporate tax liability?

- For a business not exceeding profit AED 375,000, the tax is calculated as follows: Taxable income: AED 375000 X 0/100 = 0
- For a business exceeding the non-taxable threshold, tax is calculated as follows:

For instance, if the net profit is AED 1,000,000 then,

Total profit: AED 1,000,000
Tax exempt income: AED 375,000
Taxable income = Total profit - deductions
AED 1,000,000 - AED 375,000 = AED 625,000
Taxable final income = AED 625,000 x (9/100) = AED 56,250

To whom is it applicable?

The corporate tax applies to all UAE-incorporated businesses operating within the seven emirates, as well as foreign businesses with a:

Permanent establishment in the UAE earning UAE-sourced income
Tax residence by way of management and control in the UAE.
Note: Unincorporated partnerships will be considered “transparent” for UAE corporate tax purposes. Although this partnership may not be taxed, the income will be taxed in the hands of fellow partners.

Who is a Qualifying Free Zone Person?

A qualifying free zone person (QFZP) is someone who:

Maintains sufficient substance in the UAE such as physical assets or deploys employees for your company.
Derives qualified income and the same is approved by the Minister.
Has not chosen to be charged corporate tax at the standard rates.
Abides by the transfer pricing rules and maintains the relevant transfer pricing documentation.

What are the corporate tax rates for qualifying free zones?

Free zones are areas within the UAE that allow 100% foreign ownership and are often focused on one industry. A Qualifying Free Zone Person (QFZP) can avail the 0% corporate tax benefit on their qualifying income.
Certain rules apply based on where you are located or the nature of your transactions:

- Corporate tax is charged 0% if your entity operates outside the UAE, within the same free zone or within any other free zone. If your entity belongs to a free zone but your income from the mainland is passive, your corporate tax will be calculated at 0%. However, you have to pay 9% tax for business tractions with mainland companies.
- If you have a company or a branch that's registered in a free zone, you'll be subject to 0% corporate tax but will still have to file returns.
- Even though you qualify for 0% CT, you are expected to register and file a 0% tax return. Besides this, it is important that your audited statements claim 0% benefits. Free zones benefitting from 0% are not entitled to form a group but are entitled to have a regular status and can be a part of the corporate tax regime.

This benefit of 0% corporate tax also applies to transactions that take place between free zone entities and their group companies in the mainland UAE.

What relief do small businesses get?

If your company falls under the small business category, you can seek “small business relief”. Besides this, you can be designated as having no taxable income during the corresponding tax period along with a 0% CT rate for taxable income up to and including AED 375,000. You may also be subject to simplified compliance requirements. Besides these, you will need an FTA election to receive relief for small businesses.

Who is exempt from Corporate Tax?

The following entities and gains are exempt from corporate tax:

1. The federal and emirate governments and their departments, authorities, and other public institutions.
2. Fully government-owned UAE companies.
3. Businesses involved in the extraction and use of natural resources (ex. upstream oil and gas companies).
4. Government-listed charities.
5. Social security and retirement pension funds and investment funds.
6. Profits from intra-group transactions and group restructuring.
7. Capital gains and dividends received by UAE companies from the sale of shares of a subsidiary company. However, the UAE shareholder company must own at least 5% of the subsidiary company’s shares.
8. Individuals who earn personal income through an activity that doesn’t need a license.

How corporate tax affects tax groups?

If you have a resident group of companies in the UAE, you can form a tax group and have it treated as a single taxable entity. To form a tax group, every member of the group must work around the same financial year. Besides this, no member (neither the parent company nor a subsidiary) must use the 0% corporate tax rate.

However, to be treated as one entity, the parent company should hold at least 95% of the share capital and voting rights of its subsidiaries. In case you don't meet the 95% threshold, you can transfer losses between the group companies, as long as they're at least 75% commonly owned.

To avoid double taxation, you can avail credit for a foreign tax paid in a foreign jurisdiction against the corporate tax that applies to any foreign-sourced income (as long as it's not otherwise exempt).

What financial information will your company have to maintain for UAE CT?

To evaluate the taxable income, you are required to create and preserve financial statements, accounting books, and all financial reports. You should also have all supporting documentation and records, such as the CT return or any other filings with the Authority. If you fall under the exempt category, every record necessary to prove your exempt status must be kept on file.

Following the conclusion of the applicable tax period, records and documents must be preserved for at least seven years.