

# UAE CORPORATE TAX



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## INTRODUCTION

According to the UAE Federal Decree-Law No. 47 of 2022 on taxation of corporations and businesses (the "Corporate Tax Law"), businesses will become subject to UAE Corporate Tax from the beginning of their first financial year that starts on or after 1 June 2023.

### What is corporate tax (CT)?

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

### **SCOPE**

CT will apply to:

1. All businesses and individuals conducting business activities under a commercial licence in the UAE.
2. Free zone businesses (The UAE CT regime will continue to honor the CT incentives currently being offered to free zone businesses that comply with all regulatory requirements and that do not conduct business set up in the UAE's mainland.)
3. Foreign entities and individuals only if they conduct a trade or business in the UAE in an ongoing or regular manner.
4. Banking operations.
5. Businesses engaged in real estate management, construction & development.
6. Agency & brokerage activities.



## MAJOR POINTS OF CORPORATE TAX LAW (UAE)

### A. Residential Status:



#### **Resident persons are:**

1. Juridical entity which are incorporated in State, including those which are incorporated in free zone.
2. Juridical entity which are effectively managed and controlled in the State.
3. Natural persons who conduct business or business activity in the State.

#### **Non-resident persons are:**

Those who are not a resident person, but:

1. Have a Permanent Establishment (PE) in State or
2. Have state sourced income.

#### **Permanent Establishment (PE) means:**

1. A fixed or permanent place in the State through which the Business is conducted or
2. The person habitually exercises an authority to conduct a Business.
3. It includes office, branch, factory, warehouse, land, building and other real property.

#### **State sourced income is an income which is derived from:**

1. Resident person or
2. Non-resident person due to its PE in State or
3. Activities performed, assets located, capital invested, rights used, or services performed or benefitted from in the State.

#### **Examples of State Sourced Income:**

- a. Income from movable or immovable property in the State.
- b. Income from the disposal of shares or capital of a Resident Person.
- c. Income from the provision of services that are rendered or utilized or benefitted from in the State.

## **B. Tax Rate:**

1. 0% up to certain threshold limit (AED 375,000 as per Public Consultation Document Paragraph 8.2). For income above the limit, tax rate would be 9%
2. If entity is free zone person, then 0% tax rate for such free zone income. However, there would be flat rate of 9% for other income.

Note: Free zone person may opt for standard corporate tax rate (to avail the benefit of limit up to AED 375,000)

## **C. Small Business Relief:**

1. Resident person may elect for small business relief, if turnover in current tax period and previous tax period is less than a specified limit. The limit is yet to be notified by the Ministry.
2. As per Article 21(1) - It would mean that such businesses would be considered as "not having derived any taxable income".
3. Article 55 of the Decree pertaining to Transfer Pricing Documentation would not apply to such entities.
4. Benefits of certain exemptions, deductions and reliefs would not be available if this relief is opted.
5. Authority may ask for any relevant information.
6. Other conditions may be specified later.

## **D. General Interest Deduction Limitation Rule:**



1. Interest expense shall be deductible up to 30% of the taxable person's accounting EBITDA excluding any exempt income.
2. This limit shall not apply up to certain amount. Such amount is yet to be notified by the Ministry.
3. Unadjusted interest expense can be carried forward up to ten years.
4. This limit would not be applicable to bank, insurer and natural person doing business.

## **E. Entertainment Expenditure**



1. Only 50% of expense shall be allowed as tax deductible expense.
2. Example of such expense would be meals, accommodation, transportation, admission fees, facilities and equipment used in connection with such entertainment.

## **F. Exempt Income**



1. Dividends and other profit distributions received from juridical person who is Resident.
2. Dividends and other profit distributions received from participating interest in foreign juridical person.
3. Any other income from a participating interest.
4. Income of a Foreign Permanent Establishment, subject to certain conditions
5. Income derived by a non-Resident person from operating aircraft or ships in international transportation subject to certain conditions.
6. As per FAQ 36, income from employment is outside the purview of UAE CT Law. Thus, it would mean that such income is exempt.

Note: Generally, participating interest would mean, ownership of 5% or more and holding or intent to hold such interest for twelve months or more.

## **FOR MORE DETAILS:**



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