

UAE Introduces Corporate Income Tax

As expected, United Arab Emirates (UAE) have announced the introduction of Corporate Income Tax on 31 January 2022. As a signatory to the Two Pillar package driven by the Organization for Economic Co-operation and Development (OECD), UAE has introduced the Corporate Tax (CT) in line with the Global Minimum Tax Proposal under Pillar 2.



Applicability

- CT applicable to all UAE businesses and commercial activities.
- CT effective for financial years starting on or after 1 June 2023.
- CT will apply across all emirates.
- Free zone businesses subject to UAE CT - CT regime will honour the CT incentives currently offered to free zone businesses that comply with all regulatory requirements and that do not conduct business with mainland UAE.



Rates

- 0% for taxable income up to AED 375,000 (approx. USD 102,100);
- 9% for taxable income above AED 375,000; and
- 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 (BEPS) project.



Exemptions/Exceptions

- Business engaged in extraction of natural resources. However, they will continue to be subject to the tax decrees issued by the respective Emirate.
- Individual's salary or other income (except business income carried under commercial license).
- Dividend and capital gains income earned by UAE entity from its qualifying investments.
- Qualifying intragroup transaction and re-organizations subject to certain conditions.
- Foreign investor's income derived from dividends, capital gains, interest, royalties and other investment returns.



Compliances

- Registration Requirement – Process to be prescribed.
- Corporate Income Tax Return filing annually (No provisional or advance CT filings prescribed).
- Individual's salary or other income (except business income carried under commercial license).



Key Highlights

1. CT would apply to free zone businesses that do not comply with all regulatory requirements and conduct business with mainland UAE. Registration and filing requirements would also apply.
2. Carry forward of losses from CT effective date would be allowed. Group level tax set-off would be allowed subject to certain conditions.
3. UAE group of companies can form a tax group and select to be treated as a single taxable entity, subject to certain conditions.
4. No withholding tax on local or cross border payments.
5. Tax Credit would be allowed for foreign taxes paid on UAE taxable income.
6. Transfer pricing rules and documentation requirements would apply as per OECD Transfer Pricing Guidelines.

Who is impacted?

Companies based in UAE need to be geared up to adapt to these new changes. The companies need to evaluate the applicability of the provisions, align structure to make it tax-efficient in UAE, align policies for related party transactions, book-keeping, etc.

Applicability to foreign persons

Foreign entities and foreign individuals will be subject to CT only if they conduct a trade or business in the UAE in an ongoing or regular manner. Moreover, CT will generally not be levied on a foreign investor's income derived from dividends, capital gains, interest, royalties and other investment returns.

Way forward for companies

Once the law is announced, businesses will require to consider the following aspects:

- Assess the current position of the company and carry out an impact assessment.
- Re-structure/re-organization existing corporate structure to make it tax-efficient.
- Align tax and transfer pricing policies for an intra-group transaction to align with OECD guidelines.
- Review existing Accounting, booking keeping system and gear up for audits which may be required for CT purposes.
- Obtaining registrations and compliances, as required by the law

We at Nexdigm are poised to assist businesses in UAE in aligning their policies, tax positions and structure as per the evolving tax landscape in the region. Our dynamic and experienced teams are well-suited to generate solutions that offer stability and help remain compliant.