



النجم الموثوق للخدمات المحاسبية ش.ذ.م.م.  
Al Najm Al Mawsuq  
ACCOUNTING SERVICE L.L.C.

# CORPORATE TAX

## Al Najm Al Mawsuq Accounting Services

A Najm Al Mawsuq Alert The much anticipated Corporate Tax (CT) regime in the United Arab Emirates (UAE) is announced vide a press release by the Ministry of Finance (MoF) on 31 January 20221 including a set of Frequently Asked Questions (FAQs)2 .

### In Brief:

*UAE CT will apply to all UAE businesses and commercial activities alike. Only exception being the extraction of natural resources, which will remain subject to Emirate level corporate taxation. CT will be a federal tax and applicable across all Emirates. CT regime will be effective for financial years beginning 01 June 2023 or after. The proposed CT regime is to be based on two slab rates, 0% and 9%. 0% tax rate would be applicable for taxable*

*profits up to AED 375,000 to support small businesses and start-ups. Taxable profits beyond AED 375,000 will be taxable at 9%. There is likely to be another rate for large multinationals inline with global minimum effective tax rate as proposed under "Pillar Two" of the OECD3 Base Erosion and Profit Shifting project. Detailed laws, rules and/or guidelines are expected to be issued by mid-2022 as the MoF intends to provide businesses with a year's time for preparedness and implementation of CT regime.*

- Corporate tax to be effective 01 June 2023
- No personal taxes
- 0% and 9%, plus, the global minimum tax rate

## Specifics

**Taxable profits:** Net profits with adjustments will be considered as taxable profits. More details on the adjustments will be provided in the CT laws and rules.

**Free Zones:** The CT regime will be applicable to Free Zones. However, the UAE CT regime will continue to honour the CT incentives currently being offered to Free Zone businesses that:

- Comply with all regulatory requirements;
- Do not conduct business with mainland UAE.

**Grouping:** UAE group of companies can elect to form a tax group at their option. Such tax Group will be treated as a single taxable person. A UAE tax group will only be required to file a single tax return for the entire group which simplifies the compliance process.

**Advance and withholding taxes:** UAE businesses will not be required to make advance UAE CT payments. There will not be any UAE withholding tax on domestic and crossborder payments of any nature under the UAE CT regime.

**Losses:** Business losses post the effective date will be allowed to be offset against the taxable income in subsequent financial periods subject to conditions which will be provided in CT laws and rules. Further, tax losses from one group company may be used to offset taxable income of another group company.

**Tax credits:** Foreign CT paid on UAE taxable income can be claimed as a tax credit against the UAE CT liability.

**Transfer pricing (TP):** UAE businesses will need to comply with transfer pricing rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines.

**Registration & Compliance:** All business establishments are required to be registered under the CT regime. More information on the registration process and ongoing

compliance obligations for businesses are likely to be provided in CT law and rules.

**Penalties:** Businesses will be subject to penalties for non-compliance with the CT regime

**Najam Al Mawsuq Comments:** With a CT rate of 9%, the projected CT regime is the most competitive. Personal taxation does not apply to employment or investment taxes (dividends, interest, and capital gains). Both of these factors contribute to the UAE's growing reputation as an international commercial and talent powerhouse. By mid-2022, complete regulations, including CT statutes and rules/guidelines, should be in place. The CT regime is more likely to be based on residence than on source. Small and medium businesses will benefit from the slab rate taxation scheme, which will tax the first AED 375,000 at 0%. With the commitment to a "inclusive framework," the UAE will be able to implement BEPS 2.0 measures of global economic digitization and a worldwide minimum tax rate.

**Way forward:** It's important for the businesses and UAE Groups to review their corporate structures to prepare for the CT and TP regime. As the immediate next step, implications of the proposed CT regime should be evaluated by the businesses to decide on the further steps of implementation- grouping or regrouping or reorganising to optimise the tax, documentation, and compliance plan including a review of accounting systems. At Baker Tilly, we will be happy to support as experts in the CT regime evaluation, preparedness and implementation. Contact us for a detailed discuss to assess the likely impact of the CT Regime.

- Free Zone businesses to enjoy current incentives
- Grouping / consolidated return
- No advance or withholding taxes
- Tax credits to be available
- Loss carry forward and offset



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