

# UPDATE – UAE INTRODUCES CORPORATE TAX

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## UAE Corporate Alert

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The United Arab Emirates (UAE) Ministry of Finance (Ministry) announced on 31 January 2022 that it will introduce a federal corporate tax regime for the first time in the UAE. A federal corporate tax law is expected to be issued soon along with executive regulations (CT Law).

Information set out in this alert is based on currently available guidance from the Ministry and remains subject to the CT Law provisions once issued.

It is expected that the corporate tax will come into effect on or after 1 June 2023 and will apply to profits generated during financial years starting on or after 1 June 2023. The UAE Federal Tax Authority will be responsible for administering, collecting, and enforcing corporate tax in line with rules and regulations to be issued by the Ministry.

## SCOPE OF APPLICATION

The corporate tax will apply to all UAE businesses and commercial activities undertaken by legal entities or individuals across the seven emirates. The extraction of natural resources will remain subject to an emirate-level corporation tax.

All activities undertaken by a legal entity are deemed as “business activities” that fall within the scope of the corporate tax regime. On the other hand, an individual will be deemed to have a “business” that falls within the scope of the CT Law if the individual has (or is generally required to have) a business license or permit to carry out their relevant activities in the UAE.

Companies incorporated in UAE's free zones or financial free zones will also be subject to the federal corporate tax. However, it appears that such companies will continue to enjoy applicable tax breaks and incentives in the manner and for the duration set out under the legal framework of the relevant free zone authority.

For instance, Dubai International Finance Centre (DIFC) law and the Abu Dhabi Global Market (ADGM) law provide that a DIFC- or ADGM-incorporated company is subject to a zero tax rate for a period of 50 years from the time the law in question enters into effect. Accordingly, DIFC- and ADGM-incorporated companies could expect to remain subject to zero tax rate until 2071 and 2063, respectively.

It remains unclear if the tax treatment will differ depending on whether free zone companies carry out their activities within or outside the free zone.

## RATES

The corporate tax rates will be as follows:

- A tax rate of 0% for taxable income up to AE\$375,000 (c. US\$02,095).

- A tax rate of 9% for taxable income above AE\$375,000 (c. US\$102,095).
- A different tax rate for large multinationals that meet specific criteria set with reference to the Global Anti-Base Erosion Model Rules (Pillar Two) of the OECD Base Erosion and Profit Shifting project.

## **NONTAXABLE INCOME**

Corporate tax will not apply to:

- An individual's salary or income earned through employment. However, an individual will be subject to corporate tax if his or her income is earned from activities undertaken under a freelance license or permit.
- Investment in real estate by individuals in their personal capacity, provided the individual is not required to obtain a commercial license or permit to carry out such activity in the UAE.
- Dividends, capital gains, and other income earned from owning shares or other securities in a personal capacity.
- Interest and other income earned by an individual from bank deposits or saving schemes.

## **EXEMPT INCOME**

The Ministry has also stated that the following will be exempt from corporate tax:

- Dividends and capital gains earned by a UAE business from “qualifying shareholdings” (i.e., ownership interest in a UAE or foreign company that meets certain conditions to be specified under the CT Law).
- Qualifying intra-group transactions and reorganizations that meet certain conditions and requirements to be set out under the CT Law.

## **FINAL NOTES**

Introducing corporate tax in the UAE will undoubtedly have an impact on business operations, structures, and future mergers and acquisitions activities in the UAE. We encourage businesses to assess their existing structures and operations in an effort to apply the most efficient business structures and models in light of the CT Law provisions once issued and in effect.

## **KEY CONTACTS**



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