

SATURDAY INTERNATIONAL TAX GYAN !!!

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Corporate Tax Regime Announced in UAE



Date: 05.02.2022

Brief background of tax in UAE

- ❖ Corporate taxation in Dubai is currently limited only to banks and oil companies.
- ❖ Oil companies in Dubai are subject to a maximum amount of 55% corporate income tax on the UAE-sourced income.
- ❖ Branches of foreign banks in Dubai, subject to 20% tax rate on their Dubai source income.
- ❖ Free trade zones (FTZs) have their own rules and regulations and there is no corporate tax.
- ❖ In the year 2018, the VAT was introduced in the UAE to provide a new source of income. VAT is a tax on the consumption or use of goods and services levied at each point of sale.
- ❖ UAE have implemented an excise tax, generally ranging from 50% to 100%, non-essential goods which includes tobacco products and carbonated drinks/energy drinks, luxury cars etc.
- ❖ Companies established in UAE can get benefit from the double taxation treaties signed by UAE and there is no tax on dividends / no withholding tax imposed for foreign or local investments.

Introduction of corporate tax in UAE

- ❖ The UAE will introduce a federal **Corporate Tax on business profits effective for financial years starting on or after 1 June 2023.**
- ❖ The UAE Corporate Tax regime has been designed to incorporate best practices globally and minimise the compliance burden for UAE businesses.
- ❖ Let's understand the structure of corporate Tax rate announced by UAE:

Particulars	Corporate Tax rate
Taxable Profit upto AED 3,75,000	0%
Taxable Profit above AED 3,75,000	9%

- ❖ UAE has introduced this corporate tax rate in support of the global minimum effective tax rate as proposed under [“Pillar Two” of the OECD Base Erosion](#) and Profit Shifting project.
- ❖ 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 project

FAQ in relation to corporate tax in UAE

01 Who will be subject to UAE CT?

Ans: UAE CT will apply to all UAE businesses and commercial activities alike, except for the extraction of natural resources, which will remain subject to Emirate level corporate taxation.

02 How do you determine whether a legal entity has a “business” that will be within the scope of UAE CT?

Ans: All activities undertaken by a legal entity will be deemed “business activities” and hence be within the scope of UAE CT

03 How do you determine whether an individual has a “business” that will be within the scope of UAE CT?

Ans: This would generally be done by reference to the individual having (or being required to obtain) a business licence or permit to carry out the relevant commercial, industrial and/or professional activity in the UAE

04 How do you determine the business profit / income that will be subject to UAE CT?

Ans: The taxable income will be the accounting net profit of a business, after making adjustments for certain items to be specified under the UAE CT law. The accounting net profit of a business is the amount reported in the financial statements prepared in accordance with internationally acceptable accounting standards

FAQ in relation to corporate tax in UAE

05 Will an individual who has a commercial license to carry out business in the UAE be subject to UAE CT?

Ans: Business income earned under a commercial license will be within the scope of UAE CT.

06 Will the income earned by a freelance professional be subject to UAE CT?

Ans: UAE CT will generally apply to income earned from activities carried out under a freelance license / permit, albeit no CT will be payable unless the annual net income of the freelance professional exceeds AED 375,000.

07 Will a foreign company or individual be subject to UAE CT?

Ans: Foreign entities and individuals will be subject to UAE CT only if they conduct a trade or business in the UAE in an ongoing or regular manner.

08 Will transfer pricing rules be applicable to UAE businesses?

Ans: UAE businesses will need to comply with transfer pricing rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines

FAQ in relation to corporate tax in UAE

Effect of Corporate Tax of UAE on businesses in Free Zones: As we have experienced that Foreign companies in UAE generally register in free zone in UAE, hence below are some important FAQ related to effect of corporate tax on free zone companies:

➤ **Will a free zone business be subject to UAE CT?**

Ans: Free zone businesses will be subject to UAE CT, but the UAE CT regime will continue to honour the CT incentives currently being offered to free zone businesses that comply with all regulatory requirements and that do not conduct business with mainland UAE.

➤ **Will a free zone business be required to register and file a CT return?**

Ans: A business established in a free zone will be required to register and file a CT return
Further details on the compliance obligations of free zone businesses will be provided in due course.

➤ **Will the UAE CT treatment be different for a free zone business established in a financial free zone?**

Ans: The UAE CT treatment that will apply to businesses in free zones will be the same across all free zones.

To whom Corporate Tax would not apply

The corporate tax rate announced by UAE recently would not be applicable to the following person's or cases:

- An individual's salary and other employment income (whether received from the public or private sector).
- The investment in real estate by individuals in their personal capacity should not be subject to UAE corporate tax provided the individual is not required to obtain a commercial license or permit to carry out such activity in the UAE.
- Individuals will not be subject to UAE CT on dividends, capital gains and other income earned from owning shares or other securities or interest income earned from bank deposit or saving scheme in their personal capacity.
- Businesses engaged in the extraction of natural resources will remain subject to Emirate level corporate taxation and be outside the scope of UAE corporate tax.
- Foreign entities would not be subject to corporate unless they conduct a trade or business in UAE.
- No corporate tax will apply to even commercial activity where taxable income does not exceed AED 3,75,000.

Source: [Corporate Tax \(mof.gov.ae\)](https://mof.gov.ae)

Our Comments

1. UAE has been center point of major global trading companies, therefore taxing it would be a big hit for those multi-nationals.
2. As we know most of the trading of foreign companies happen through free trade zone and hence this will not have an immediate impact on such foreign multinational companies.
3. Now, UAE would not only be looked at with a negative mindset of being a tax heaven by other countries, but this will give a new identity to the country. Also, it will reaffirm UAE's commitment to meeting international standards for tax transparency and preventing harmful tax practices.
4. The compliance would increase related to taxes and hence this could be an opportunity for the Indian Chartered Accountants to increase their practice as we had seen at the time of VAT introduction.
5. This is an important and required step to comply with the recently announced pillar two of OECD model convention.



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