SATURDAY INTERNATIONAL TAX GYAN !!!

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Corporate Tax Regime Announced in UAE - Part II

(Public Consultation Document)



Date: 28.05.2022

TOPICS COVERED (PART-I)

Overview

Taxable Person

Basis of Taxation

Calculation of CT Liability

TOPICS COVERED (PART-II)

Calculation of taxable income

Administration

TOPICS THAT WILL BE COVERED (UPCOMING PARTS)

Groups

Transfer pricing

International Tax Developments

BASIS OF CALCULATING TAXABLE INCOME

Accounting net profit will be used for determining taxable income hence two sets of books of accounts need not be maintained.

Businesses will use their financial period but in the absence of same, tax period will be Gregorian calendar year

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Although IFRS are commonly used in UAE, but alternative financial reporting standards is allowed for certain taxpayers (eg. Startups and small businesses).

TRAETMENT OF UNREALISED GAINS AND LOSSES

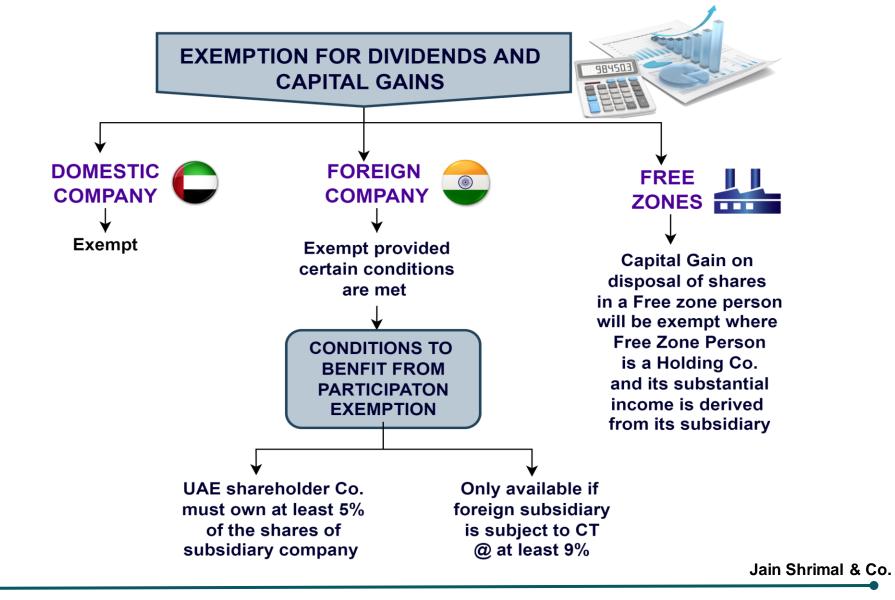
While calculating taxable income, unrealised gains or losses on



Unrealised gains or losses arise in instances where an asset or liability held by a business has changed in value but no transaction to generate a gain or loss has yet taken place.

NOTE:

- 1. Capital items are items that have a long term impact on business (Eg: Machinery, long term liability etc).
- 2. Revenue items are items that have a short term impact on business.



FOREIGN BRANCH PROFIT EXEMPTION





for taxes paid in the foreign branch country



elect to claim an exemption for their foreign branch profits

NOTE:

- The UAE company can elect to claim exemption of foreign branch but same shall be applicable on all branch and such election will be irrevocable.
- This exemption may not be available where the foreign a branch is not subject to sufficient level of tax in foreign jurisdiction in which it is located and the election to claim a branch profit exemption will be irrevocable.
- Other exempt income: Also, the UAE CT regime will exempt income earned by a non resident from operating or leasing of aircraft or ships used in international transportation.

EXPENSE DEDUCTION LIMITATIONS

Interest Capping Rules

Interest and other similar financing cost are considered as a deductible expense under UAE CT regime.

Interest
deduction is
restricted to 30%
of Earning before
interest, tax,
depreciation and
amortization
(EBITDA)

Interest capping rules will not apply to banks, insurance businesses, other regulated financial service entities and businesses carried on by natural persons.

Related party interest will only be deductible if there is a valid commercial reason exist.

A valid commercial reason will considered exist if the related party lender is subject to CT of atleast 9% of interest income earned.

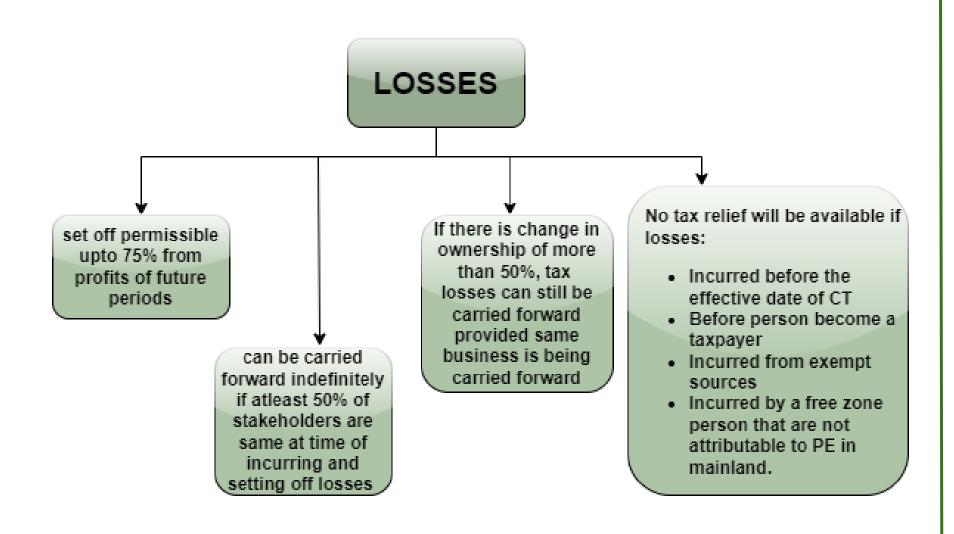
NON-DEDUCTIBLE EXPENSE

Related party
payment to a Free
zone person which
Is taxed at 0% will
not deductible for
CT purposes.
However it will be
deductible if
payment is
attributable to
MAINLAND branch

Expenses to entertain stakeholders of businesses is restricted upto 50% of such expenditure.

Administrative penalties, recoverable VAT are not tax deductible.

Donation to unapproved charitable Or public benefit organization are not tax deductible.



ADMINISTRATION

Registration	 Tax registration no. to be obtained by taxpayer from Federal tax authority (FTA). If not obtained by taxpayer voluntarily, FTA can automatically register a business.
De-registration	 When business ceases to be subject to CT, business need to apply for deregistration within 3 months from date of cessation, subject to the satisfaction of FTA. If not, FTA may deregister the person based on available information
Filing	 A business will file one tax return for each tax period. Business is not required to file provisional CT return and no advance payments of CT is required.
Tax Return and Payment	 Annual tax return filing needs to be submitted and tax has to be paid within 9 month of end of relevant tax period.
Refund	A taxpayer can apply to the FTA to request a refund.
Assessment	 CT return can be subject to assessment and amended assessment may be challenged by the taxpayer.
Documentation Required	 A business will required to maintain financial and other records that explain information in CT Return. Requirement of audit by an accredited audit firm is and will continue to be determined by applicable company laws and regulations. The UAE CT regime will require a Free Zone Person to have audited financial statements if it wants to benefit from 0% CT regime.

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Source and previous articles UAE CT

Link for source document by UAE government:

https://www.mof.gov.ae/en/resourcesAndBudget/Documents/UAE_CT-Public_Consultation_Document_English.pdf

Link for first post on introduction of UAE CT: https://jainshrimal.com/uae-introduces-corporate-tax/

Link for Part I on UAE CT. Corporate Tax in UAE Part-I



Visit our website blog for previous case laws.-Blog – Jain Shrimal & Co.



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