

SATURDAY INTERNATIONAL TAX GYAN !!!

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Corporate Tax Regime Announced in UAE - Part III (Public Consultation Document)



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TOPICS COVERED (PART-I)

Overview

Taxable
Person

Basis of
Taxation

Calculation of
CT Liability

TOPICS COVERED (PART-II)

Calculation of
taxable income

Administration

TOPICS COVERED (PART-III)

Groups

Transfer
pricing

TAX GROUPS



- A UAE group can elect to form tax group if parent company hold **at least 95%** shareholding and voting rights in it's subsidiaries.
- It is **optional** to form tax groups.

- Entities are **restricted** to form tax groups which are exempt from CT or have a free zone entity enjoying 0% tax.

- Only **one single tax return** will be required to file per group.
- **F.Y** should be common for all entities for which tax group benefit is being claimed.

- **Parent company** is responsible for administration and payment of CT.
- Parent company will have to consolidate the financial accounts and **eliminate** transactions between parent and each subsidiary group member

Transfer of Losses

Group companies can transfer losses even if they do not meet the requirement of minimum 95% common ownership or do not want to form a tax group.

The transfer of losses is permissible between group companies at least 75% or more common ownership

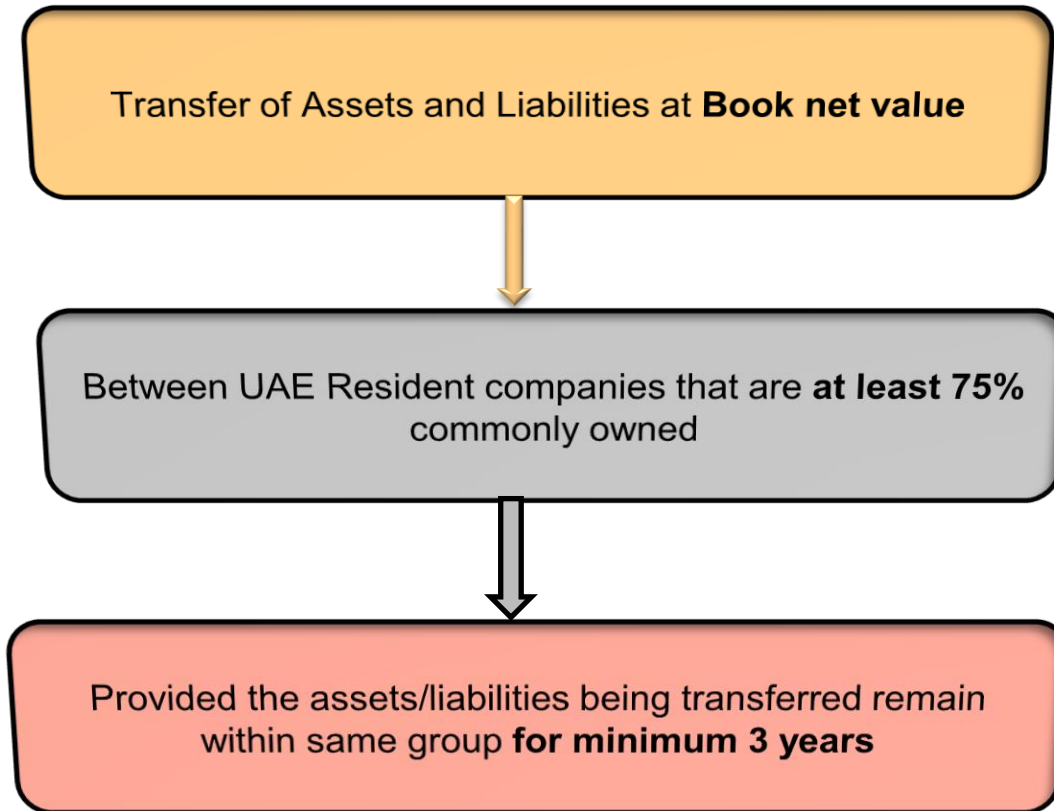
When non tax group companies can transfer losses?



GROUP EFFECT/ COMPLIANCE

- ❖ The proposed UAE CT regime will allow for an **exemption** or deferral of CT in respect of transfer of assets or liabilities between members of a group.
- ❖ The CT regime will allow certain corporate reorganization transactions (e.g., mergers) to be undertaken on a tax neutral basis, such that **no taxable gain or loss arises**.
- ❖ There is no change in the **ultimate ownership** of the business or assets being transferred.
- ❖ To form a tax group, **a notice signed** by the parent company and all subsidiaries will need to be submitted to the FTA.
- ❖ The parent company and each subsidiary will be jointly and severally liable for the group's CT. This joint and several liability can be limited to one or more named members of the tax group, with approval from the FTA

INTRA GROUP TRANSFER OF ASSETS/LIABILITIES



RESTRUCTURING RELIEF

The UAE CT regime will **exempt or allow** deferral of taxation where whole business or independent parts of business are transferred in exchange for shares or other ownership interests.

Transfer at their **net book value**, so that neither a gain nor a loss needs to be taken into account when calculating taxable income.

Any restructuring relief will be 'clawed back' if within **three years** of the restructuring

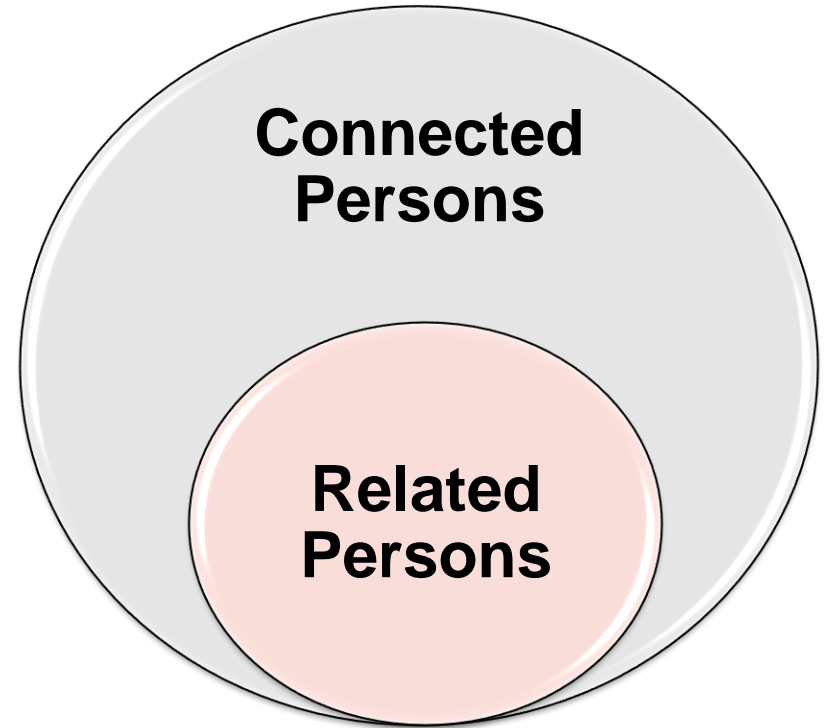
Tax Group Summary

Common Ownership	95% of Share capital and voting rights
Inclusion Free Zone/Exempt Companies	No
Inclusion Branch/PE	Yes
Transfer losses For Tax group	Yes
For Non-Tax group	Yes (with some conditions)
Intra group restructuring relief	Relief taken back if within 3 years business transferred to third party
Intra group assets/ liabilities transfer	Relief from tax on Intra group transfer of assets/ liabilities is allowed if it is held for minimum 3 years
Administration & Payment	Parent
Application	Notice signed by parent & subsidiaries

TRANSFER PRICING

- ❖ The UAE CT regime proposes transfer pricing rules to ensure that the price of a transaction is not influenced by the relationship between the parties involved. So UAE proposes to apply the internationally recognized “**Arm’s length**” principle to transactions and arrangements between **Related parties** and with **Connected persons**.

- As per UAE CT regime, **transactions and arrangements** between Related Parties and Connected Persons are to be performed at the **arm's length price**.
- **Connected persons** is a broader term which includes Related Parties.



RELATED PARTIES

RELATED PARTIES FOR UAE CT PURPOSES:

A related party is an individual or entity who has a **pre-existing relationship with a business** that is within the scope of the UAE CT regime **through ownership, control or kinship** (in the case of natural persons).

- Two or more individuals related to the **fourth degree of kinship or affiliation**, including by birth, marriage, adoption or guardianship.
- An **individual and a legal entity** where alone, or together with a related party, the individual directly or indirectly **own a 50% or greater share** in, or controls, the legal entity.
- **Two or more legal entities where one legal entity alone**, or together with a related party, directly or indirectly **owns a 50% or greater share** in, or controls, the other legal entity.
- **Two or more legal entities** if a taxpayer **alone, or with a related party**, directly or indirectly **owns a 50% share** of each or controls them.
- A **taxpayer and its branch** or permanent establishment.
- **Partners** in the same unincorporated partnership.
- **Exempt and non-exempt** business activities of the same person.

KINSHIP

Kinship is not been defined in the UAE CT regime. Though, in general parlance, according to the dictionary of Anthropology, Kinship system **includes socially recognized relationships** based on supposed as well as actual genealogical ties. These relationships are the result of social inter action and recognized by society.

It is the **bond of blood or marriage** which binds people together in group.

Degree of kin refers to the **closeness of a family member** to another family member.

The **fourth degree of kinship** relationship includes great-great grandparent, great-grandparent, grandparent, parent, great uncle, great aunt, uncle, aunt, brother, sister, first cousin, child, grandchild, great-grandchild, great-great grandchild, nephew, niece, great nephew, or great niece.

CONNECTED PERSONS

- Connected Persons are different from Related Parties .
- **A person will be considered as 'connected'** to a business **if** he or she is :

An individual who directly or indirectly **has an ownership interest in, or controls,** the taxable person.

An **individual related to the owner, director or officer** of the taxable person **to the fourth degree of kinship** or affiliation, including by birth, marriage, adoption or guardianship.

Where the taxable person is a **partner** in an unincorporated partnership, any other partner in the same partnership.

A **director or officer** of the taxable person.

A **related party** of any as discussed above.

ARM'S LENGTH PRINCIPLE

- ❖ All transactions with Related Party and connected persons should be set out with transfer pricing rules and arm's length principle as per **OECD Transfer Pricing Guidelines**.
- ❖ **Arm's length price** should be determined using one of the internationally recognized transfer pricing methods, or any other different methods where business can demonstrate that the specified methods cannot be reasonably applied to determine an arm's length result.

TRANSFER PRICING DOCUMENTATION REQUIREMENTS

Submission of disclosures
containing transactions with
Related Parties and Connected
Persons.

**Maintenance of master and local
file** (as prescribed under OECD BEPS
Action 13)

Source and previous articles UAE CT

Link for source document by UAE government: [Public Consultation Document of UAE CT](#)

Link for earlier post on UAE CT: <https://jainshrimal.com/uae-introduces-corporate-tax/>

Link for Part I on UAE CT: [Corporate Tax in UAE Part-I](#)

Link for Part II on UAE CT: [Corporate Tax in UAE Part-II](#)



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