

# Taxation of Corporations and Businesses

Federal Decree law No 47 of 2022



AUDIT & ASSURANCE | ACCOUNTING | TAX | CONSULTANCY



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## Taxation on corporations and businesses

Since last 6 years UAE has progressively introduced Excise tax, VAT, ESR, CbCR, UBO declaration, Involuntary loss of employment (ILOE). Has amended Commercial companies Law, Federal labor laws, Data protection Law, Free zones commercial laws, Anti money laundering law and now the introduction of Tax on Corporations & Businesses. ( Tax law)

Changing regulatory Environment

Tax law was issued on 3<sup>rd</sup> October 2022 and was made effective within 15 days from the date of publication. Cabinet Decisions, Ministerial Decisions, FTA guidance notes, Tax law procedures, International Agreements and references to OECD guidelines are to be referred along with law

Federal Decree Law No 47 of 2022 (Law)

This Law shall apply to Financial year commencing on or after 1 June 2023. CT and return filing is mandatory for all the companies except that which fall under the exemption. Corporate tax ('CT') return filing will be due on or before 9 months from end of Financial year. Taxable income above AED 375000 will be taxed at 9% . Audited FS required if revenue more than 50 million or if the entity is part of MNE group or entity is taking benefit of 0% being a free zone company.

Applicability

Need to satisfy certain conditions to be considered as Qualifying Free Zone Person (QFZP)

Companies in Free zones ( FZ)

# Summary of provisions in law



## Tax Registration

Any Taxable Person shall register for Corporate Tax with the Authority in the form and manner and within the timeline prescribed by the Authority and obtain a Tax Registration Number, except in circumstances prescribed by the Minister.



## Tax Returns

A Taxable Person must file a Tax Return, as applicable, to the Authority in the form and manner prescribed by the Authority no later than (9) nine months from the end of the relevant Tax Period, or by such other date as directed by the Authority.



A Taxable Person shall maintain all records and documents for a period of (7) seven years following the end of the Tax Period to which they relate that:  
Support the information to be provided in a Tax Return or in any other document to be filed with the Authority.  
Enable the Taxable Person's Taxable Income to be readily ascertained by the Authority.

## Record Keeping



The Authority may, by notice or through a decision issued by the Authority, request a Taxable Person to submit the financial statements used to determine the Taxable Income for a Tax Period in the form and manner and within the timeline prescribed by the Authority.

## Financial Statements



## Basic Information



### General Anti-abuse Rule

The entering into or carrying out of the transaction or arrangement, or any part of it, is not for a valid commercial or other non-fiscal reason which reflects economic reality; main purposes of the transaction or arrangement, or any part of it, is not to obtain a Corporate Tax advantage.



### Transitional Rules

Opening balance sheet shall be the closing balance sheet prepared under accounting standards applied in the State on the last day of the Financial Year that ends immediately before their first Tax Period commences and at arm's length principle



- Dividends and other profit distributions received from a juridical person that is a Resident Person.
- Participating interest refers to holding of equitable interest in shares or profits by more than 5% and meeting other conditions specified in the Act.
- Any other income from a Participating Interest.
- Income of a Foreign Permanent Establishment & Non-Resident Person from operating aircraft or ships in international transportation that meets the conditions

### Exempt Income



A Govt entity & Govt controlled entity,  
A Person engaged in an Extractive Business & Non-Extractive Natural Resource Business,  
A Qualifying Public Benefit Entity & Qualifying Investment Fund  
A public pension or social security fund, or a private pension or social security fund (regulatory oversight, meets any other conditions that may be prescribed by the Minister. )  
Juridical person incorporated in the State that is wholly owned and controlled by an Exempt Person



### Exempt Person

# Basic Information

## Small Business Relief

Tax relief is available to Taxable Person's Revenue threshold for the relevant Tax Period and previous Tax Periods shall be up to AED 3,000,000 (three million dirhams) for each Tax Period.



## 0% Withholding Taxes

UAE Corporate tax has prescribed 0% withholding tax



Dedn and tax credits

Corporate tax due can be reduced by the foreign taxes paid for its branches/entities for the relevant tax period



Taxable person can deduct the withholding tax paid in foreign country from the tax liability



## Withholding Tax Credit

## Foreign Tax Credits

## Basic Information

### Permanent Establishment (PE)

The main purpose of the Permanent Establishment concept in the UAE Corporate Tax Law is to determine if and when a foreign person has established sufficient presence in the UAE to warrant the business profits of that foreign person from the state sourced income to be subject to Corporate Tax.

### Place of Effective Management

In case the group of companies outside UAE is managed & controlled from within UAE, place of Effective management needs to be evaluated

### Other provisions

State Sourced Income are following :

- a. Where it is derived from a Resident Person.
- b. Where it is derived from a Non-Resident Person and the income received has been paid or accrued in connection with, and attributable to, a Permanent establishment of that Non-Resident Person in the State.
- c. Where it is otherwise accrued in or derived from activities performed, assets located, capital invested, rights used, or services performed or benefitted from in the State

### State source income

On 29th July 2023, the UAE Ministry of Finance has introduced the Cabinet Decision No. (75) of 2023 outlining the applicable administrative penalties for violations related to the application of Law No. (47) of 2022 on the Taxation of Corporations and Businesses ("Corporate Tax Law").

### Penalties



### IFRS 15 Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.



This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

An entity shall consider the terms and conditions of contracts and all relevant facts and circumstances when applying this Standard..

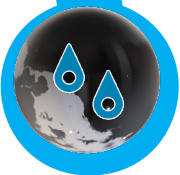
### IFRS 16 Leases



The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's statement of financial position; and transactions and other events of the current period that are recognized in an entity's financial statements.

### IAS 12 Income Taxes



The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.



### IAS 16 Property, Plant and Equipment



# TAX GROUPING

## 95% Holding

The Parent Company owns at least 95% (ninety-five percent) of the share capital or Voting rights or profit and loss of the Subsidiary.

## UAE resident person

The Resident Persons must be juridical persons.

Neither the Parent Company nor the Subsidiary is an Exempt Person.

Neither the Parent Company nor the Subsidiary is a Qualifying Free Zone Person.

Both the Parent Company and the Subsidiary prepare their financial statements using the same accounting standards

## Nonexempt QFZP

## Same AS for FS



### Tax Loss carry forward

A Tax Loss can be offset against the Taxable Income of subsequent Tax Periods



### UAE resident person

Both Taxable Persons are juridical persons.

Both Taxable Persons are Resident Persons.



Either Taxable Person has a direct or indirect ownership interest of at least 75% (seventy-five percent) in the other, or a third Person has a direct or indirect ownership interest of at least 75% (seventy-five percent) in each of the Taxable Persons.

### 75% Holding



The Financial Year of each of the Taxable Persons ends on the same date.

Both Taxable Persons prepare their financial statements using the same accounting standards.

### Same AS for FS





### Related Party

Natural Person – fourth kinship and Juridical person – holding more than 50% either singly or jointly



### Connected Person

Person shall be considered a Connected Person of a Taxable Person if that Person is:

- a) An owner of the Taxable Person.
- b) A director or officer of the Taxable Person.



Master file  
Local Level file  
Disclosure form  
Transfer pricing documentation



### Transfer Pricing Documentation

The transaction or arrangement are consistent with the results that would have been realized if Persons who were not Related Parties had engaged in a similar transaction or arrangement under similar circumstances.

### Arm's Length Transaction



# Taxation of Corporations and Businesses as applicable to Free Zone Companies

Cabinet Decision 100 & Ministerial Decision 265 of 2023

**Cabinet  
Decision 100  
& Ministerial  
Decision 265  
of 2023**

**Certain Conditions to be maintained**

- Adequate substance
- Derives qualifying income
- Comply with Arm's Length principle & have Transfer pricing documentation
- Preparation and maintenance of Audited financial statements
- Should not have elected voluntarily to be subject to pay 9% CT

**Core Income generating Activity  
( CIGA )**

CIGA has to be from the free zone company in the UAE, but can be outsourced to firm in the free zone

If both qualified and unqualified activity exist, then income from nonqualified activity should be less than 5% of total income or 5,000,000 whichever is less.

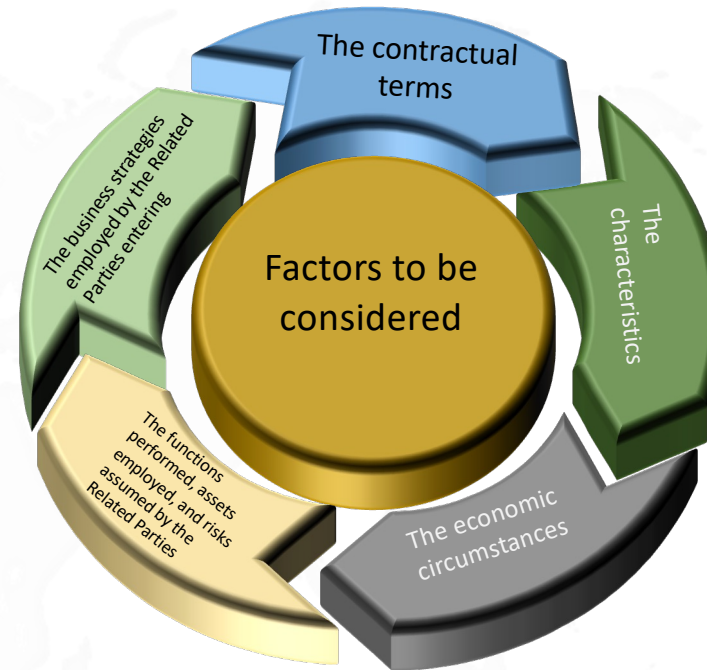
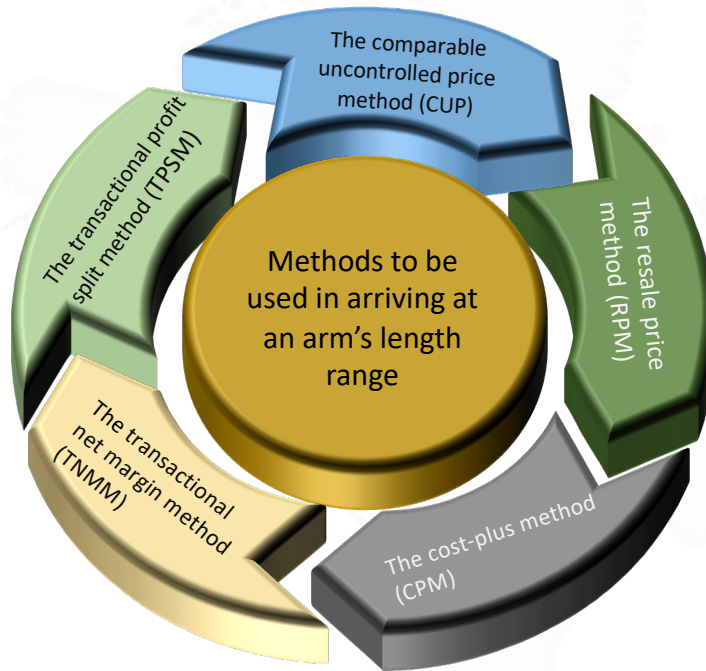
**De minimis requirements.**

- All transactions including services are Qualifying income.
- Should not be in the list of excluded activities.
- Should meet the definition of beneficial recipient
- Income generated from Commercial property in the Free zone to the Free zone person is Qualifying income.
- Income should not be attributable to domestic or foreign PE.

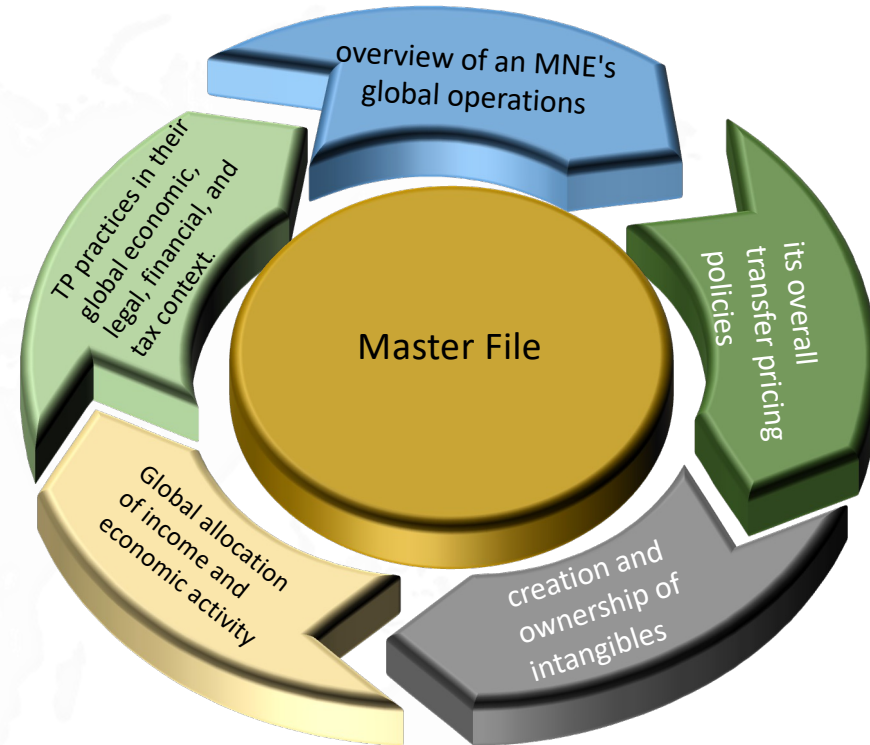
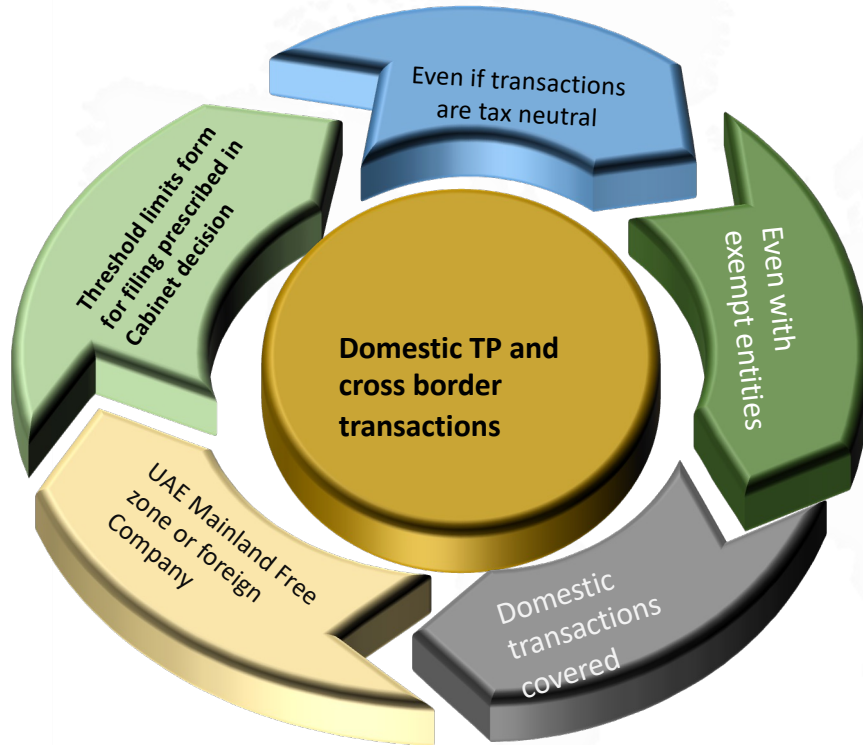
**Free zone to Free zone**

# Transfer pricing Regime

## Transfer Pricing Regime



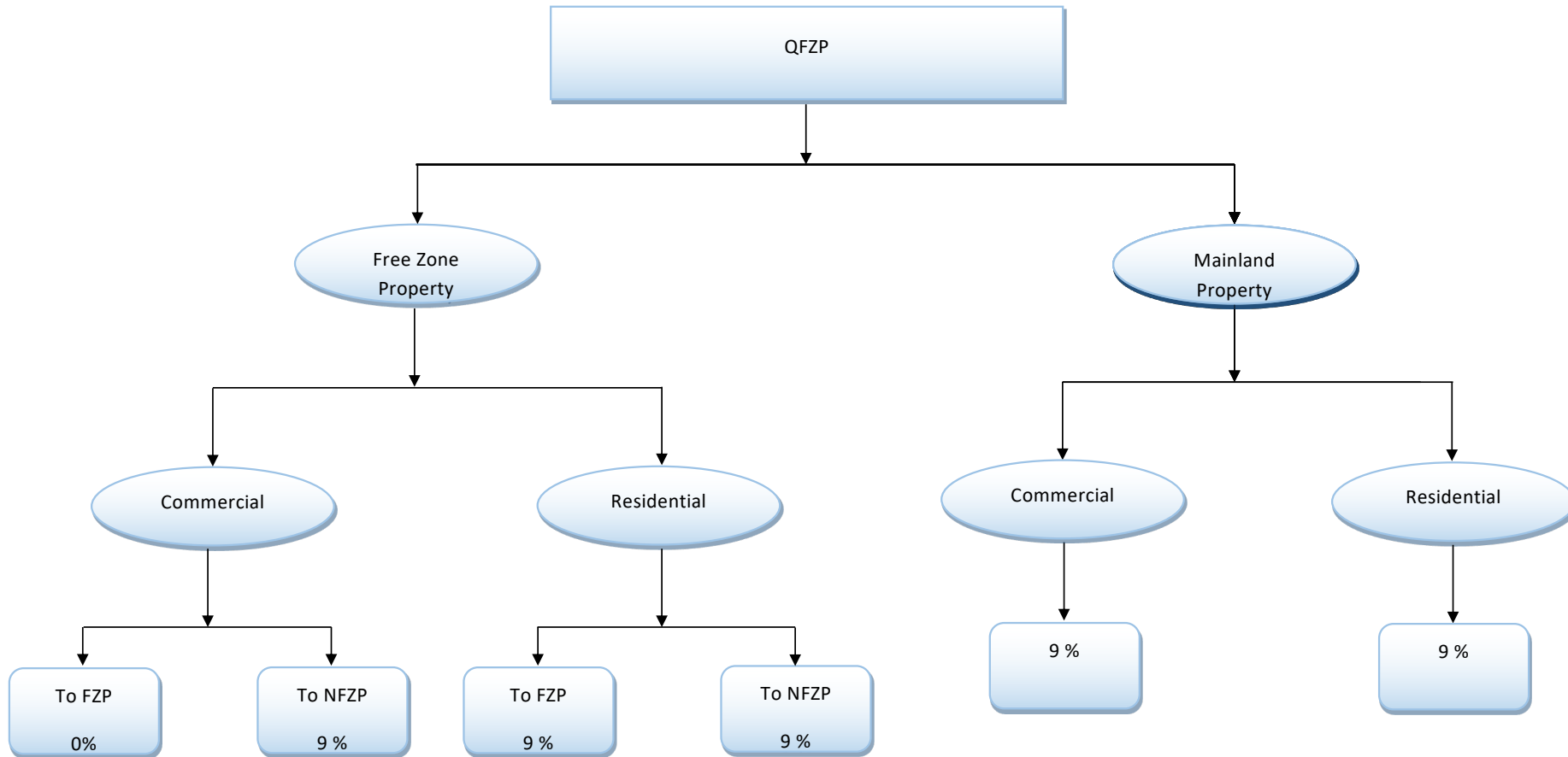
## Transfer Pricing Regime





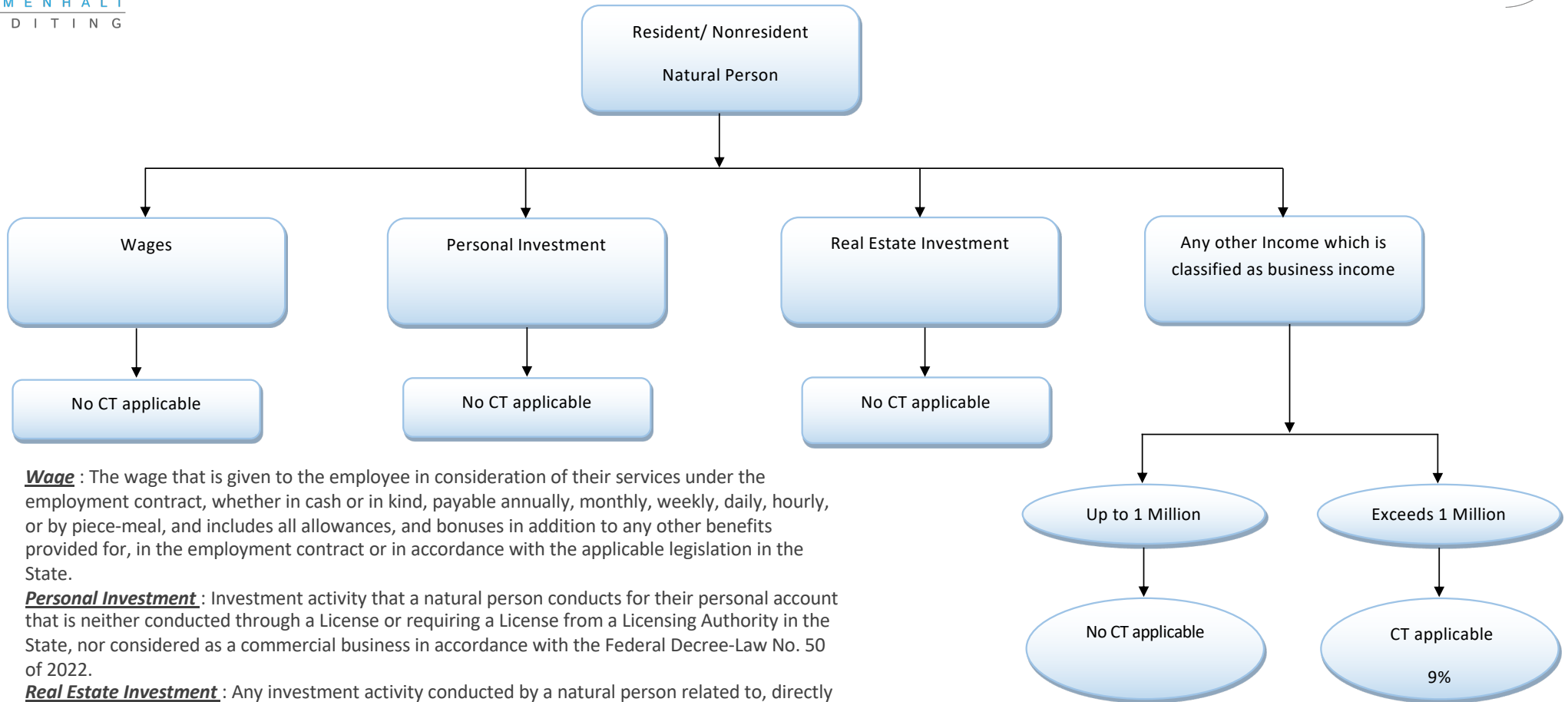
# Immovable property

## Immovable Property



# Taxability of Natural person

## Taxability of Natural Person



**Wage** : The wage that is given to the employee in consideration of their services under the employment contract, whether in cash or in kind, payable annually, monthly, weekly, daily, hourly, or by piece-meal, and includes all allowances, and bonuses in addition to any other benefits provided for, in the employment contract or in accordance with the applicable legislation in the State.

**Personal Investment** : Investment activity that a natural person conducts for their personal account that is neither conducted through a License or requiring a License from a Licensing Authority in the State, nor considered as a commercial business in accordance with the Federal Decree-Law No. 50 of 2022.

**Real Estate Investment** : Any investment activity conducted by a natural person related to, directly or indirectly, the sale, leasing, sub-leasing, and renting of land or real estate property in the State that is not conducted or does not require to be conducted through a License from a Licensing Authority.

# Calculation of Taxable Income

## Calculation of Taxable Income

	Net Profit As per financial statements (A)	XXX
LESS:	2.A Unrealised Loss on Revenue Items	(XX)
	2.B Exempt Income: Dividends (Resident Person)	(XX)
	2.C Exempt Income: Dividends (Participating Interest in a foreign juridical person)	(XX)
	2.D Exempt Income: Other profit distributions (Resident Person)	(XX)
	2.E Exempt Income: Other profit distributions (Participating Interest in a foreign juridical person)	(XX)
	Subtotal of Items 2.A to 2.E (B)	(XX)
ADD:	3.A Unrealised Gain on Revenue Items	XX
	3.B Donations, grants or gifts to non Qualifying Public Benefit Entity.	XX
	3.C Fines and penalties	XX
	3.D Bribes or other illicit payments	XX
	3.E Dividends, profit distributions to Owner	XX
	3.F Interest expenditure incurred on a loan obtained from Relative party	XX
	3.G Disallowed Interest Expenditure Third party (Over capping rule of 30% on EBITDA)	XX
	3.H Disallowed Entertainment Expenditure (50% of Total)	XX
	Subtotal of Items 3.A to 3.H (C)	XX
	(D) GROSS TAXABLE INCOME (A+C-B)	XXX
	Gross Taxable income upto AED 375,000	0
	TAX @9% (D- AED 375,000)	XX
LESS:	Relief:Transfers Within a Qualifying Group	(XX)
	Relief:Business Restructuring Relief	(XX)
	Foreign Tax Credit	(XX)
	Final Corporate Tax Liability	XX

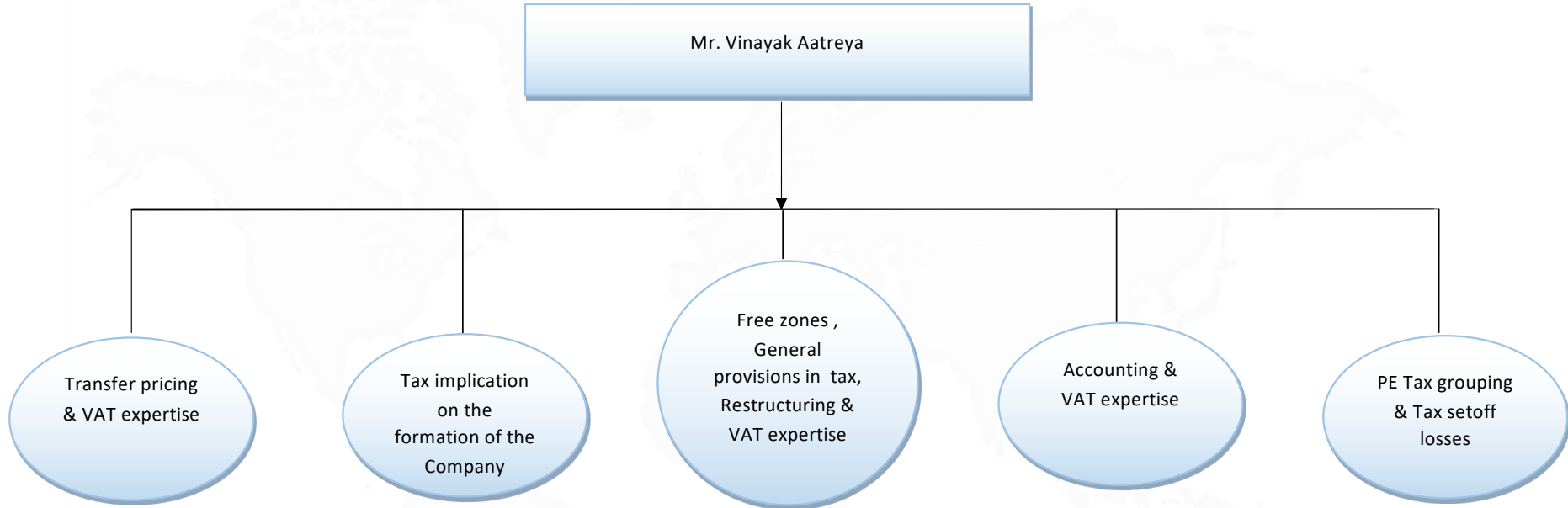
# About M & M and its Services for Corporate Tax

## M & M can assist you in CT

- 1 Impact Analysis
- 2 Corporate Tax Implementation & training
- 3 Transfer Pricing
- 4 Permanent Establishment Advisory
- 5 Registration & Filing
- 6 Double Tax Avoidance Treaty
- 7 Computation of taxable income
- 8 Tax Setoff claims
- 9 Tax Residency
- 10 Structural changes



## Our Corporate Tax Team



## Updates About M&M



### About us

Member of MGI worldwide giving us **access to 251 partners in 102 countries**.  
We are an **established local player with global connect with** cross border services and services in local jurisdiction, delivered with high quality



### Our Affiliate

Is into **technological sphere and has global presence** in data analytic , blockchain solution, process automation, IT system implementation, software development including technology, support Data Analytics



### Our expertise

In UAE covers clients in **diverse sectors** like Insurance, investment funds, Pharmaceutical, technology steel, advertising media having turnover over USD 10 billion



### Growth

With the **growing expertise and the need to provide individualized solutions** to the client, we have streamlined our core functions into five verticals of services covering Audits, Tax, Accounting, Business set up and advisory services related to AML and compliance services



### Presence

We have increased our presence in **Abu Dhabi & converted one of our office in Ibn Battuta gate Dubai for training** of our staff and clients.



### Innovations

With the help of our affiliate, **we have developed our in-house audit tool** that allows us to seamlessly collect documents in a secured portal for clients and working on many more such value add on products.

The content of this Article has been prepared using unofficial English translation published as "Taxation of Corporations and Businesses Federal Decree-Law No. 47 of 2022 – Issued 3 October 2022 ".The intent of this document is to have a quick and an easy access to information and does not purport to be a legal document. One should consult a tax expert before taking any actions based on this article. This presentation has been prepared on 14<sup>th</sup> of February and might undergo changes based on any clarifications, cabinet decisions and guidance note received from any authority

**THANK YOU**



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