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Newsletter

News Highlights

- **UAE begins Corporate Tax with exemptions for free zones**
- **Federal Tax Authority convenes Tax Agents Forum to discuss agents’ role in implementing Corporate Tax in the UAE**
- **UAE issues corporate tax decisions on restructuring, group transfers and taxable income**

UAE begins Corporate Tax with exemptions for free zones

The UAE began rolling out a 9% business tax, with exemptions for the many free zones that power its economy, as the formerly tax-free oil producer seeks to boost non-oil revenue and remain a regional commercial hub.

The business tax follows a 5% value-added tax (VAT) introduced in 2018, gradually eroding the United Arab Emirates tax-free status that helped it carve out a role as an international trade and tourism hub and magnet for the ultra-rich.

The Ministry of Finance, in new regulations on Thursday, said qualifying entities in the UAE's more than 30 free zones - which export tens of billions of dollars of goods to neighboring states - will be subject to a 0% rate, even when dealing with the mainland on certain strategic activities such as manufacturing, goods processing, and logistics services.

"The regime has been designed to ensure strategic sectors will thrive in the free zones. Some level of migration may happen but the overall objective is ensuring the UAE remains attractive," Shabana Begum, MoF's executive director for tax policy told media, when asked whether the tax exemptions would encourage companies to relocate to free zones.

The government has said it introduced the tax to align with international efforts to combat tax avoidance, as well as to address challenges arising from the digitalization of the global economy. The UAE does not levy personal income taxes.

Tax reform is gradually appearing across the Gulf Cooperation Council (GCC), which has historically funded budgets from hydrocarbon revenues. In 2017, GCC states agreed to introduce VAT.

The UAE tax coincides with a new global minimum corporate tax from the Organisation for Economic Cooperation and Development (OECD), signed by 136 signatories including the UAE, to ensure big companies pay a minimum of 15% and make tax avoidance harder.

The UAE has yet to publish regulations on how the OECD tax will be implemented, but if it had not introduced its own corporate tax system, another country where the company has a presence would have the right to collect the 15%, tax experts say.

The UAE legislation levies 0% or 9% but with caveats for smaller earners and excluding personal income from employment, investment, and real estate.

Federal Tax Authority convenes Tax Agents Forum to discuss agents’ role in implementing Corporate Tax in the UAE

The Federal Tax Authority (FTA) virtually convened a meeting of the Tax Agents Forum for registered Tax Agents across the UAE to highlight their role and the regulations they are required to follow as Corporate Tax goes into effect in the country.

The meeting contrasted Tax Agents’ role with that of the Advisory Business Group, established by the FTA to streamline tax administration, operate the tax system, implement tax policy, explore the challenges facing the business sector and Tax Agents, and build constructive relations with them.

The Forum discussed the general principles of Corporate Tax, as well as the latest developments in the tax procedures law in the UAE, and ways to support the FTA’s efforts to improve tax system services, in line with international best practices and standards. The meeting also covered the topic of e-commerce and the export of services for Value Added Tax (VAT) purposes, along with a range of other related topics.

Furthermore, the forum discussed the Tax Agents Classification initiative, which was recently launched by the Authority with the aim of facilitating tax compliance for taxpayers, by providing them with a clear, accurate, and flexible online procedure that allows them to select a Tax Agent specializing in the sector that their economic activity falls under, out of a list of ten sectors. The ten sectors were selected after a careful study of the cumulative experiences of the FTA’s authorized and registered Tax Agents.

“The Tax Agents Classification initiative is one of the key transformational projects the Authority is working on with the aim of developing its services and meeting the needs and aspirations of customers, which, in turn, enhances the UAE’s competitiveness and expedites its transition to a highly developed government system in the future,” she explained.

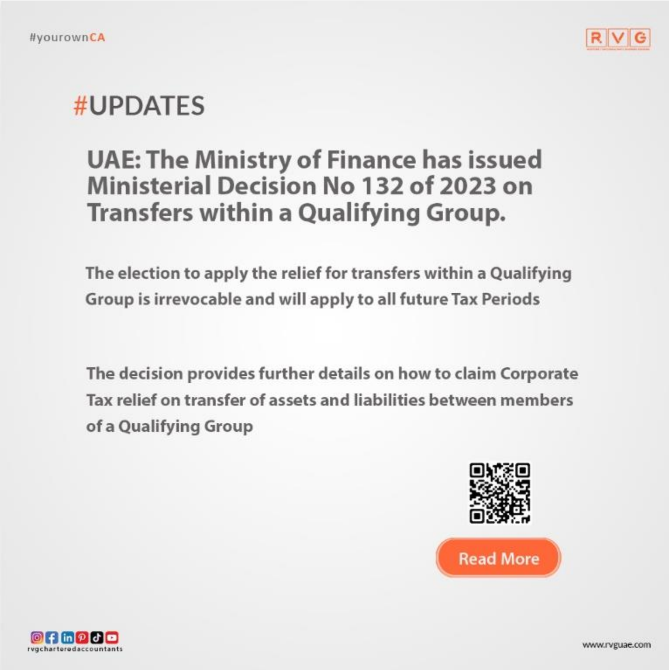
“Moreover, the initiative helps promote taxpayer satisfaction with regards to Tax Agent services, and streamlines the process of selecting the most suitable Tax Agent, specialising in the economic activity each taxpayer operates under,” Al Dahmani added. “The Tax Agents Forum enables the Authority to listen to Tax Agents’ views and opinions, which supports the process of improving services and developing initiatives and projects.”

The UAE plans to keep the rate of corporate tax unchanged for the foreseeable future, undersecretary of the Ministry of Finance Younis Al Khouri told The National in January.

Despite the introduction of the new tax regime, the UAE will still have a "very favorable tax environment on an internationally competitive basis as the overall business environment remains strong", Ms Malik said.“For the corporates here they will have to adjust, but in the long term it will strengthen macroeconomic stability.”

UAE issues corporate tax decisions on restructuring, group transfers and taxable income

The UAE Ministry of Finance has issued three new decisions on corporate tax ahead of its introduction on June 1, covering details on restructuring, taxable income and intra-group transfers.



One of the decisions "provides details on how to claim corporate tax relief on transfer of assets and liabilities between members of a qualifying group", the ministry said in a statement.

The conditions under which business mergers and other restructuring transactions can be undertaken without triggering a corporate tax liability is clarified by the second decision.

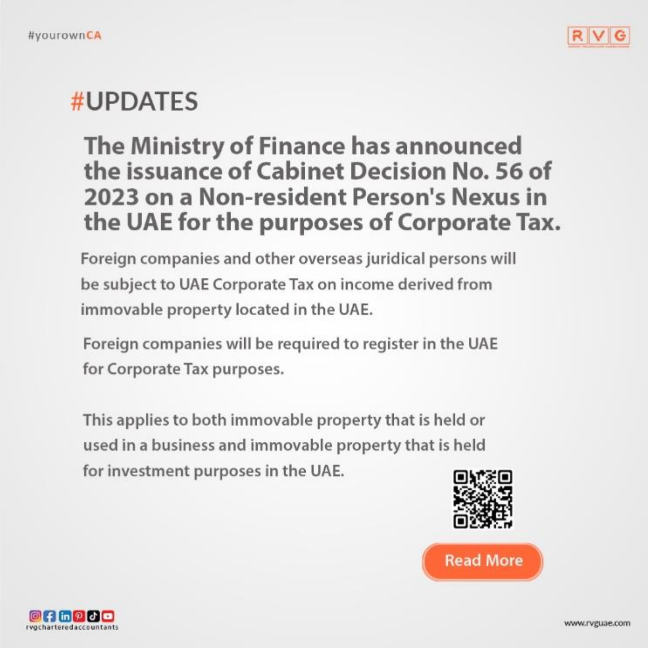
Meanwhile, the third decision outlines the general rules for determining taxable income to streamline the process for UAE businesses.

The new decisions "aim to simplify the process of determining taxable income in addition to providing tax relief for intra-group transfer of assets or liabilities between members of the same qualifying group or when carrying out specific organisational restructuring", said Younis Al Khoori, undersecretary of the Ministry of Finance.

"This reflects the Ministry of Finance's commitment to ease the burden of compliance on taxpayers based on international best practice to maintain the UAE's favourable business environment and drive economic growth."The UAE will apply the federal corporate tax with a standard statutory rate of 9 percent starting from the financial year beginning on or after June 1, 2023.

UAE Corporate Tax : Non-residents person's nexus in the UAE

The UAE Ministry of Finance announced the issuance of a cabinet decision on a non-resident person's nexus in the UAE for the purpose of corporate tax.



According to the decision, foreign companies and other non-resident juridical persons will be subject to corporate tax on income derived from real estate and other immovable property located in the UAE and will be required to register for corporate tax purposes. This applies to both immovable property that is held or used in a business and immovable property that is held for investment purposes in the UAE.

Non-resident juridical persons with immovable property will be subject to corporate tax on a net-income basis. This allows for relevant expenditure that meets the conditions set out in the corporate tax law to be deducted when calculating taxable income.

Register Now for your Corporate Tax

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Disclaimer: All the information is sourced from the latest updates of the Ministry of Finance, and media updates

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