# Determination of Taxable Income

## Corporate Tax Guide | CTGDTI1

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# 1. Glossary

**Accounting Income:** The accounting net profit or loss for the relevant Tax Period as per the Financial Statements prepared in accordance with the provisions of Article 20 of the Corporate Tax Law.

**Accounting Standards:** The accounting standards specified in Ministerial Decision No. 114 of 2023.

**Accrual Basis of Accounting:** An accounting method under which the Taxable Person recognises income when earned and expenditure when incurred.

**AED:** The United Arab Emirates dirham.

**Authority:** Federal Tax Authority.

**Bank:** A Person licensed in the UAE as a bank or finance institution or an equivalent licensed activity that allows the taking of deposits and the granting of credits as defined in the applicable legislation of the UAE.

**Business:** Any activity conducted regularly, on an ongoing and independent basis by any Person and in any location, such as industrial, commercial, agricultural, vocational, professional, service or excavation activities or any other activity related to the use of tangible or intangible properties.

**Business Activity:** Any transaction or activity, or series of transactions or series of activities conducted by a Person in the course of its Business.

**Business Restructuring Relief:** A relief from Corporate Tax for Business restructuring transactions, available under Article 27 of the Corporate Tax Law and as specified under Ministerial Decision No. 133 of 2023.

**Cash Basis of Accounting:** An accounting method under which the Taxable Person recognises income and expenditure when cash payments are received and paid.

**Connected Person:** Any Person affiliated with a Taxable Person as determined in Article 36(2) of the Corporate Tax Law.

**Corporate Tax:** The tax imposed by the Corporate Tax Law on juridical persons and Business income.

**Corporate Tax Law:** Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments.

**Corporate Tax Payable:** Corporate Tax that has or will become due for payment to the FTA in respect of one or more Tax Periods.

**Dividend:** Any payments or distributions that are declared or paid on or in respect of shares or other rights participating in the profits of the issuer of such shares or rights which do not constitute a return on capital or a return on debt claims, whether such payments or distributions are in cash, securities, or other properties, and whether payable out of profits or retained earnings or from any account or legal reserve or from capital reserve or revenue. This will include any payment or benefit which in substance or effect constitutes a distribution of profits made in connection with the acquisition or redemption or cancellation of shares or termination of other ownership interests or rights or any transaction or arrangement with a Related Party or Connected Person which does not comply with Article 34 of the Corporate Tax Law.

**Double Taxation Agreement:** An international agreement signed by two or more countries for the avoidance of double taxation and the prevention of fiscal evasion on income and capital.

**Exempt Income:** Any income exempt from Corporate Tax under the Corporate Tax Law.

**Exempt Person:** A Person exempt from Corporate Tax under Article 4 of the Corporate Tax Law.

**Financial Statements:** A complete set of statements as specified under the Accounting Standards applied by the Taxable Person, which includes, but is not limited to, statement of income, statement of other comprehensive income, balance sheet, statement of changes in equity and cash flow statement.

**Financial Year:** The Gregorian calendar year, or the twelve-month period for which the Taxable Person prepares Financial Statements.

**Foreign Permanent Establishment:** A place of Business or other form of presence outside the UAE of a Resident Person that is determined in accordance with the criteria prescribed in Article 14 of the Corporate Tax Law.

**Foreign Tax Credit:** Tax paid under the laws of a foreign jurisdiction on income or profits that may be deducted from the Corporate Tax due, in accordance with the conditions of Article 47(2) of the Corporate Tax Law.

**Free Zone Person:** A juridical person incorporated, established, or otherwise registered in a Free Zone, including a branch of a Non-Resident Person registered in a Free Zone.

**FTA:** Federal Tax Authority, being the Authority responsible for the administration, collection and enforcement of federal taxes in the UAE.

**Functional Analysis:** The analysis aimed at identifying the economically significant activities and responsibilities (functions) undertaken, assets used or contributed, and risks assumed by the parties to the transactions.

**General Interest Deduction Limitation Rule:** The limitation provided under Article 30 of the Corporate Tax Law.

**IFRS:** International Financial Reporting Standards.

**IFRS for SMEs:** International Financial Reporting Standard for small and medium-sized entities.

**Immovable Property:** Means any of the following:

a. Any area of land over which rights or interests or services can be created.
b. Any building, structure or engineering work attached to the land permanently or attached to the seabed.
c. Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

**Insurance Provider:** A Person licensed in the UAE as an insurance provider that accepts risks by entering into or carrying out contracts of insurance, in both the life and non-life sectors, including contracts of reinsurance and captive insurance, as defined in the applicable legislation of the UAE.

**Interest:** Any amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic Financial Instrument and other payments economically equivalent to interest, and any other amounts incurred in connection with the raising of finance, excluding payments of the principal amount.

**Islamic Financial Instrument:** A financial instrument which is in compliance with Sharia principles and is economically equivalent to any instrument provided for under Article 2(2) of Ministerial Decision No. 126 of 2023, or a combination thereof.

**Market Value:** The price which could be agreed in an arm’s-length free market transaction between Persons who are not Related Parties or Connected Persons in similar circumstances.

**Minister:** Minister of Finance.

**Net Interest Expenditure:** The Interest expenditure amount that is in excess of the Interest income amount as determined in accordance with the provisions of the Corporate Tax Law.

**Non-Free Zone Person:** Any Person who is not a Free Zone Person.

**Non-Resident Person:** The Taxable Person specified in Article 11(4) of the Corporate Tax Law.

**Participating Interest:** An ownership interest in the shares or capital of a juridical person that meets the conditions referred to in Article 23 of the Corporate Tax Law.

**Participation:** The juridical person in which the Participating Interest is held.

**Participation Exemption:** An exemption from Corporate Tax for income from a Participating Interest, available under Article 23 of the Corporate Tax Law and as specified under Ministerial Decision No.116 of 2023.

**Pension Plan:** A contract having an explicit objective of providing benefits upon a defined retirement age in the UAE, prior to which the benefits cannot be paid without incurring a significant contractual penalty. It may also provide benefits in cases of disability and death.

**Pension Plan Member:** A natural person who is making contributions, or on behalf of whom contributions are being made, to a private pension fund and is accumulating assets or entitlements in the private pension fund.

**Permanent Establishment:** A place of Business or other form of presence in the UAE of a Non-Resident Person in accordance with Article 14 of the Corporate Tax Law.

**Person:** Any natural person or juridical person.

**Qualifying Free Zone Person:** A Free Zone Person that meets the conditions of Article 18 of the Corporate Tax Law and is subject to Corporate Tax under Article 3(2) of the Corporate Tax Law.

**Qualifying Group:** Two or more Taxable Persons that meet the conditions of Article 26(2) of the Corporate Tax Law.

**Qualifying Group Relief:** A relief from Corporate Tax for transfers within a Qualifying Group, available under Article 26 of the Corporate Tax Law and as specified under Ministerial Decision No. 132 of 2023.

**Qualifying Income:** Any income derived by a Qualifying Free Zone Person that is subject to Corporate Tax at the rate specified in Article 3(2)(a) of the Corporate Tax Law.

**Qualifying Infrastructure Project:** A project that meets the conditions of Article 14 of Ministerial Decision No. 126 of 2023.

**Qualifying Infrastructure Project Person:** A Resident Person that meets the conditions of Article 14(2) of Ministerial Decision No. 126 of 2023.

**Qualifying Public Benefit Entity:** Any entity that meets the conditions set out in Article 9 of the Corporate Tax Law and that is listed in a decision issued by the Cabinet at the suggestion of the Minister.

**Recognised Stock Exchange:** Any stock exchange established in the UAE that is licensed and regulated by the relevant competent authority, or any stock exchange established outside the UAE of equal standing.

**Related Party:** Any Person associated with a Taxable Person as determined in Article 35(1) of the Corporate Tax Law.

**Resident Person:** The Taxable Person specified in Article 11(3) of the Corporate Tax Law.

**Revenue:** The gross amount of income derived during a Tax Period.

**Small Business Relief:** A Corporate Tax relief that allows eligible Taxable Persons to be treated as having no Taxable Income for the relevant Tax Period in accordance with Article 21 of the Corporate Tax Law and Ministerial Decision No. 73 of 2023.

**Specific Interest Deduction Limitation Rule:** The limitation provided under Article 31 of the Corporate Tax Law.

**State Sourced Income:** Income accruing in, or derived from, the UAE as specified in Article 13 of the Corporate Tax Law.

**Tax Loss:** Any negative Taxable Income as calculated under the Corporate Tax Law for a given Tax Period.

**Tax Period:** The period for which a Tax Return is required to be filed.

**Tax Return:** Information filed with the FTA for Corporate Tax purposes in the form and manner as prescribed by the FTA, including any schedule or attachment thereto, and any amendment thereof.

**Taxable Income:** The income that is subject to Corporate Tax under the Corporate Tax Law.

**Taxable Person:** A Person subject to Corporate Tax in the UAE under the Corporate Tax Law.

**Transfer Pricing:** Rules on setting of arm's length prices for controlled transactions, including but not limited to the provision or receipt of goods, services, loans and intangibles.

**Turnover:** The gross amount of income derived during a Gregorian calendar year.

**UAE:** United Arab Emirates.

**Unincorporated Partnership:** A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the applicable legislation of the UAE.

**Withholding Tax:** Corporate Tax to be withheld from State Sourced Income in accordance with Article 45 of the Corporate Tax Law.

**Withholding Tax Credit:** The Corporate Tax amount that can be deducted from the Corporate Tax due in accordance with the conditions of Article 46 of the Corporate Tax Law.

# 2. Introduction

## 2.1. Overview

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses and its amendments ("Corporate Tax Law") was issued on 3 October 2022 and was published in Issue #737 of the Official Gazette of the United Arab Emirates ("UAE") on 10 October 2022.

The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits ("Corporate Tax") in the UAE.

The provisions of the Corporate Tax Law apply to Tax Periods commencing on or after 1 June 2023.

## 2.2. Purpose of this guide

This guide is designed to provide general guidance to Taxable Persons for determining their Taxable Income and calculating their Corporate Tax Payable under the Corporate Tax Law. It provides readers with an overview of:

- the adjustments required to be made to the Accounting Income for determining the Taxable Income under the Corporate Tax Law, and
- the adjustments required to be made to the Taxable Income for calculating the Corporate Tax Payable under the Corporate Tax Law.

Specific aspects of the Corporate Tax Law, which are covered in detail in other guides, are not covered here. The FTA has published a number of subject-specific Corporate Tax guides including on Tax Groups, Unincorporated Partnerships, Small Business Relief, Free Zone Persons, Extractive Business and Non-Extractive Natural Resource Business, Qualifying Group Relief, Business Restructuring Relief, and Transfer Pricing.

## 2.3. Who should read this guide?

The guide should be read by any Person who wants to know how to determine Taxable Income and calculate the Corporate Tax Payable. It is intended to be read in conjunction with the Corporate Tax Law, the implementing decisions and other relevant guidance published by the FTA.

## 2.4. How to use this guide

The relevant articles of the Corporate Tax Law and the implementing decisions are indicated in each section of the guide.

It is recommended that the guide is read in its entirety to provide a complete understanding of the definitions and interactions of the different rules. Further guidance on some of the areas covered in this guide can be found in other topic-specific guides.

In some instances, examples have been used to illustrate how key elements of the Corporate Tax Law apply to a Taxable Person for determining their Taxable Income and calculating their Corporate Tax Payable. The examples in the guide:

- show how these elements operate in isolation and do not show all the possible interactions with other provisions of the Corporate Tax Law that may occur. They do not, and are not intended to, cover the full facts of the hypothetical scenarios used nor all aspects of the Corporate Tax regime, and should not be relied upon for legal or tax advice purposes, and
- are only meant for providing the readers with general information on the subject matter of this guide. They are exclusively intended to explain the rules related to the subject matter of this guide and do not relate at all to the tax or legal position of any specific juridical or natural persons.

## 2.5. Legislative references

In this guide, the following legislation will be referred to as follows:

- Federal Decree-Law No. 8 of 2017 on Value Added Tax and its amendments is referred to as "Federal Decree-Law No. 8 of 2017",
- Federal Decree-Law No. 32 of 2021 on Commercial Companies is referred to as "Federal Decree-Law No. 32 of 2021",
- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments, is referred to as "Corporate Tax Law",
- Federal Law No. 41 of 2023 on the Regulation of the Auditing Profession is referred to as "Federal Law No. 41 of 2023",
- Cabinet Decision No. 49 of 2023 on Specifying the Categories of Businesses or Business Activities Conducted by a Resident or Non-Resident Natural Person that are Subject to Corporate Tax is referred to as "Cabinet Decision No. 49 of 2023",
- Cabinet Decision No. 56 of 2023 on Determination of a Non-Resident Person's Nexus in the State for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as "Cabinet Decision No. 56 of 2023",
- Ministerial Resolution No. 403 of 2015 Concerning the International Standards of the Auditing Profession is referred to as "Ministerial Resolution No. 403 of 2015",
- Ministerial Decision No. 73 of 2023 on Small Business Relief for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as "Ministerial Decision No. 73 of 2023",
- Ministerial Decision No. 82 of 2023 on the Determination of Categories of Taxable Persons Required to Prepare and Maintain Audited Financial Statements for the

Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 82 of 2023”,

- Ministerial Decision No. 114 of 2023 on the Accounting Standards and Methods for the Purposes of Federal Decree Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 114 of 2023”,
- Ministerial Decision No. 115 of 2023 on Private Pension Funds and Private Social Security Funds for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 115 of 2023”,
- Ministerial Decision No. 116 of 2023 on the Participation Exemption for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 116 of 2023”,
- Ministerial Decision No. 120 of 2023 on the Adjustments Under the Transitional Rules for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 120 of 2023”,
- Ministerial Decision No. 126 of 2023 on the General Interest Deduction Limitation Rule for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 126 of 2023”,
- Ministerial Decision No. 132 of 2023 on Transfers Within a Qualifying Group for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 132 of 2023”,
- Ministerial Decision No. 133 of 2023 on Business Restructuring Relief for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 133 of 2023”,
- Ministerial Decision No. 134 of 2023 on the General Rules for Determining Taxable Income for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No.134 of 2023”, and
- Federal Tax Authority Decision No. 5 of 2023 on Conditions for Change in Tax Period for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 5 of 2023”.

### 2.6. Status of this guide

This guidance is not a legally binding document, but is intended to provide assistance in understanding the tax implications of the Corporate Tax regime in the UAE. The information provided in this guide should not be interpreted as legal or tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every

case. It is based on the legislation as it stood when the guide was published. Each Person's own specific circumstances should be considered.

The Corporate Tax Law, the implementing decisions and the guidance materials referred to in this document will set out the principles and rules that govern the application of Corporate Tax in the UAE. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.

# 3. Determination of Taxable Income and calculation of Corporate Tax Payable – An Overview

## 3.1. Introduction

Under the UAE Corporate Tax Law, the starting point for determining Taxable Income is the Accounting Income. This is the accounting net profit or loss for a relevant Tax Period, based on the Financial Statements prepared in accordance with IFRS, or IFRS for small and medium-sized entities (IFRS for SMEs) or as per the income and expenditure statement maintained by Taxable Persons that follow the Cash Basis of Accounting.

The Accounting Income is subject to adjustments, which are set out in Article 20(2) of the Corporate Tax Law, in order to determine the Taxable Income for Corporate Tax purposes.

## 3.2. Determining Taxable Income

An illustrative list of the adjustments that may be relevant in determining Taxable Income is as follows:

| Adjust | Item | Amount (AED) | Legal Reference[1] |
|---|---|---|---|
| **Accounting Income of the Taxable Person** | | xxx | |
| +/- | Unrealised gain or loss (if election made) | … | 20(2)(a) |
| +/- | Exempt Income (and exempt losses): | … | 20(2)(b) |
| | • Dividends and other profit distributions | | |
| | • other income/loss from Participating Interests | | |
| | • income/expenditure of Foreign Permanent Establishment (if election made) | | |
| +/- | Reliefs: | | 20(2)(c) |
| | • Qualifying Group Relief | … | |
| | • Business Restructuring Relief | … | |
| + | Non-deductible expenditure: | … | 20(2)(d) |
| | • expenditure not incurred wholly and exclusively for Business | | |
| | • expenditure of a capital nature | | |
| | • disallowed Net Interest Expenditure (to be carried forward) and specific non-deductible Interest costs | | |

[1] This column refers to the relevant paragraph of Article 20(2) of the Corporate Tax Law for each category of adjustments.

| Adjust | Item | Amount (AED) | Legal Reference[1] |
|---|---|---|---|
| | • disallowed entertainment expenditure | | |
| | • expenditure in relation to Exempt Income | | |
| | • other non-deductible expenditure | | |
| +/- | Adjustments for Related Party transactions not at arm's length | … | 20(2)(e) |
| - | Incentives/special reliefs (none at present) | … | 20(2)(g) |
| +/- | Adjustments specified in a Ministerial Decision[2] | … | 20(2)(i) |
| **Taxable Income before Tax Loss relief** | | **xxx/(xxx)** | |
| - | Tax Loss relief set-off (see table below) | (xx) | 20(2)(f) |
| **Taxable Income subject to Corporate Tax** | | xxx/(xxx) | |

| **Calculation of Tax Loss relief** | | | |
|---|---|---|---|
| **Adjust** | **Item** | **Amount (AED)** | **Legal Reference** |
| - | Tax Loss brought forward | xxx | 20(2)(f) |
| + | Tax loss transferred to another Taxable Person (if applicable) | xxx | |
| - | Tax Loss received from another Taxable Person (if applicable) | xxx | |
| **Subtotal: Tax Losses** | | xxx | |
| **Tax Loss available to set-off, subject to 75% of the Taxable Income before Tax Loss relief** | | **xxx** | |

The above list is not exhaustive, and further adjustments may be required according to the Taxable Person's specific circumstances.

### 3.3. Calculation of Corporate Tax Payable

Once the Taxable Income for the relevant Tax Period has been determined, it is subject to Corporate Tax at the following rates:[3]

- 0% on the portion of the Taxable Income not exceeding AED 375,000.
- 9% on the portion of the Taxable Income exceeding AED 375,000.

A Qualifying Free Zone Person is subject to Corporate Tax at the following rates:[4]

- 0% on the Qualifying Income.
- 9% on the Taxable Income that is not Qualifying Income.

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[2] For example, Ministerial Decisions No. 120 and 134 of 2023.
[3] Article 3(1) of the Corporate Tax Law.
[4] Article 3(2) of the Corporate Tax Law.

This guide will be relevant to a Qualifying Free Zone Person to the extent it has Taxable Income that is not Qualifying Income.

The Corporate Tax liability is first reduced by any Withholding Tax Credit,[5] followed by Foreign Tax Credit,[6] in order to calculate the Corporate Tax Payable or refundable.[7]

The current Withholding Tax rate applicable in the UAE is 0%. However, until the categories of income that are subject to Withholding Tax are specified in a Cabinet Decision, which is not yet issued, Withholding Tax is not applicable in the UAE.

The following table illustrates this:

| Adjust | Item | Amount (AED) | Legal Reference[8] |
|---|---|---|---|
| **Taxable Income subject to Corporate Tax** | | xxx/(xxx) | |
| | 0% up to AED 375,000 | 0 | 3(1) |
| | 9% above AED 375,000 | xxx/0 | |
| **Corporate Tax liability** | | **xxx/(xxx)** | |
| - | Withholding Tax Credit | … | 44 |
| - | Foreign Tax Credit (under Article 47 of the Corporate Tax Law, or under the relevant Double Taxation Agreement) | (xxx) | |
| **Corporate Tax Payable/(refundable)** | | **xxx/(xxx)** | |

### 3.4. Overview of case studies

This guide covers key concepts for the determination of Taxable Income along with 9 case studies in Chapters 5 to 13 to further illustrate some of these concepts. Each case study provides an illustrative extract of financial information from the Financial Statements for the purposes of demonstrating the principles of the Corporate Tax Law. The extracts are not intended to represent the complete Financial Statements or the FTA's view on the application of Accounting Standards.

The guide is not intended to provide a detailed discussion on concepts or topics already covered in other guides.

The case studies in this guide cover the following concepts.

[5] Article 46 of the Corporate Tax Law.
[6] Article 47 of the Corporate Tax Law.
[7] Article 44(1) and (2) of the Corporate Tax Law.
[8] This column refers to the relevant Article of the Corporate Tax Law for each step.

| Case Study 1: | **Deductible and non-deductible expenditure**<br>This case study covers the adjustments to be made to Accounting Income relating to deductible and non-deductible expenditure (excluding Interest deduction limitation rules). |
|---|---|
| **Case Study 2:** | **Interest expenditure**<br>This case study covers the adjustments to be made to Accounting Income relating to Interest expenditure. It covers the applicability of the General and Specific Interest Deduction Limitation Rules (i.e. deductible and non-deductible Interest expenditure and the treatment of disallowed/unutilised Net Interest Expenditure). |
| **Case Study 3:** | **Tax Loss relief**<br>This case study covers the adjustments to be made to Accounting Income relating to Tax Loss relief and the treatment of unutilised Tax Losses. |
| **Case Study 4:** | **Interest expenditure and Tax Loss relief**<br>This case study covers the adjustments to be made to Accounting Income in a situation where there is both unutilised/carried forward Net Interest Expenditure and Tax Losses. |
| **Case Study 5:** | **Transfer of Tax Loss and limitation on Tax Loss carried forward**<br>This case study covers the application of provisions relating to the transfer of a Tax Loss and the limitation on the use of Tax Loss carried forward. |
| **Case Study 6:** | **Cash Basis of Accounting**<br>This case study covers the determination of Taxable Income and calculation of Corporate Tax Payable in the case of a Taxable Person having Revenue equal to or less than AED 3 million and applying the Cash Basis of Accounting. |
| **Case Study 7a:** | **Unrealised gains and losses, Exempt Income**<br>This case study covers the adjustments to be made to Accounting Income for unrealised gains or losses, and for Exempt Income (such as Dividends, income from Participating Interests) including expenditure incurred in earning Exempt Income. |
| **Case Study 7b:** | **Foreign Permanent Establishment**<br>This case study covers the adjustments to be made to Taxable Income in relation to the Foreign Permanent Establishment exemption |
| **Case Study 8:** | **Non-Resident Person conducting Business in the UAE through a Permanent Establishment**<br>This case study covers the determination of Taxable Income and calculation of Corporate Tax Payable in the case of a Non-Resident Person operating in the UAE through a Permanent Establishment. |

# 4. Determination of Taxable Income and calculation of Corporate Tax Payable – Key concepts

This section provides a broad overview of the most common concepts under the Corporate Tax Law which are relevant for determination of Taxable Income and calculation of Corporate Tax Payable. The practical application of these concepts is discussed from Section 5 onwards in various case studies.

The selected topics are not exhaustive. Therefore, Taxable Persons are advised to read this guide along with the General Guide on Corporate Tax and/or other subject-specific guides which may be applicable depending on the Taxable Person's facts and circumstances.

## 4.1. Starting point for determination of Taxable Income

Financial Statements are a set of documents that record the activities and financial performance of a Business and are a key element of the Taxable Income calculation. A Taxable Person's Accounting Income (accounting net profit or loss) as stated in the Financial Statements is used as the starting point for determining Taxable Income.

Taxable Persons that earn Revenue that does not exceed AED 3 million in a Tax Period may use the Cash Basis of Accounting.[9] Once a Taxable Person's Revenue exceeds AED 3 million in a Tax Period, they must prepare Financial Statements using the Accrual Basis of Accounting, except under exceptional circumstances and following the FTA's approval.[10] The Revenue amount (of AED 3 million) must be considered in line with the arm's length standard.

Taxable Persons must prepare Financial Statements in accordance with IFRS. However, Taxable Persons that earn Revenue that does not exceed AED 50 million may apply IFRS for SMEs.[11] The Revenue amount (of AED 50 million) must be considered in line with the arm's length standard.

Additionally, Taxable Persons deriving Revenue exceeding AED 50 million during the relevant Tax Period are required to maintain audited Financial Statements.[12]

For companies incorporated in the UAE, (or operating in the UAE through a Permanent Establishment situated in the UAE), the audit must be performed by a UAE-registered auditor, pursuant to Federal Law No. 41 of 2023 on the Regulation of the Auditing

[9] Article 2(1) of Ministerial Decision No. 114 of 2023.
[10] Article 20(1) of the Corporate Tax Law and Article 2 of Ministerial Decision No. 114 of 2023.
[11] Article 4(2) of Ministerial Decision No. 114 of 2023.
[12] Article 54(2) of the Corporate Tax Law and Article 2 of Ministerial Decision No. 82 of 2023.

Profession and its amendments, read together with Ministerial Resolution No. 403 of 2015 concerning the International Standards for the Auditing Profession, or any other applicable legislation.

## 4.2. Tax Period

The Tax Period for a Taxable Person (other than a natural person) is their Financial Year, or part thereof, for which a Tax Return is required to be filed. This usually means the 12-month period for which they prepare their Financial Statements.

Where a Taxable Person (other than a natural person) applies to the FTA to change its Tax Period, the first Tax Period resulting from such change, may not be shorter than six months or longer than 18 months.

The Tax Period of a Taxable Person that is a natural person is always the Gregorian calendar year, i.e. 1 January to 31 December. Regardless of when a natural person commences Business during a particular year, their Tax Period will be the Gregorian calendar year (i.e. the 12-month period from 1 January to 31 December) in which they (i) commenced Business and (ii) their Turnover exceeds AED 1 million.

The first Tax Period for natural persons is the 12-month period starting from 1 January 2024 to 31 December 2024.

## 4.3. Unrealised gains and losses

It is common for assets or liabilities held by a Business to change in value for accounting purposes, even where no transactions have taken place. For example, assets on the balance sheet may be revalued, or holdings of foreign currencies or loan liabilities denominated in a foreign currency may fluctuate with exchange rates.

As the value of an asset or liability changes, gains or losses could arise even where there has been no actual disposal or transfer (i.e. “realisation”) of the asset or liability. Taxable Persons are required to include any realised and unrealised gains and losses reported in the Financial Statements in the determination of their Taxable Income. This is unless the election to use the realisation basis is made, in which case only the realised gains and losses are considered in the determination of Taxable Income.

In addition, any realised or unrealised gains and losses that are reported in the Financial Statements, insofar as they would not be subsequently recognised in the statement of income, must also be taken into account in the determination of Taxable Income.[13] By way of example, if an amount of income is not recognised in the income

[13] Article 2(1) of Ministerial Decision No. 134 of 2023.

statement, but is reflected in the statement of comprehensive income in the Financial Statements, then such income may need to be taken into account in the determination of Taxable Income.

#### 4.3.1. Election to use the realisation basis

For the purpose of determining Taxable Income, Businesses that prepare Financial Statements using the Accrual Basis of Accounting may elect to take into account gains and losses on a realisation basis.[14] Broadly, this election can be made either in relation to all assets and liabilities that are subject to fair value or impairment accounting under the applicable Accounting Standards (i.e. IFRS or IFRS for SMEs), or only for assets that are held on capital account.[15]

An election to apply the realisation basis must be made by the Taxable Person during the first Tax Period. The election is irrevocable except under exceptional circumstances, pursuant to approval by the FTA.[16] If the Taxable Person does not make the election to apply the realisation basis in their first Tax Period, then this will be considered an irrevocable election in itself.

Refer to Section 11 (Case Study 7a) for details on the treatment of unrealised gains or losses while determining Taxable Income.

### 4.4. Exempt Income

Several income exemptions are provided for within the Corporate Tax regime.[17] The purpose of these exemptions is to either:

- exempt the income arising from ownership interests in another juridical person or a Foreign Permanent Establishment on the basis that it has already been taxed, or
- align the UAE Corporate Tax treatment with international standards, and in particular, in relation to the taxation of international transportation.

Generally, in the absence of a specific provision to the contrary, these exemptions are symmetrical. This means that, typically, expenditure incurred in deriving Exempt Income cannot be deducted for Corporate Tax purposes.[18]

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[14] Article 8(1) of Ministerial Decision No. 134 of 2023.
[15] Article 20(3) of the Corporate Tax Law.
[16] Article 8(3) of Ministerial Decision No. 134 of 2023.
[17] Articles 22 to 25 of the Corporate Tax Law.
[18] Article 28(2)(b) of the Corporate Tax Law.

#### 4.4.1. Domestic Dividends

Dividends, and other profit distributions, received from a juridical person that is a Resident Person are exempt from Corporate Tax.[19] There are no additional conditions that a Taxable Person has to meet in order to benefit from this exemption.

#### 4.4.2. Participation Exemption

##### 4.4.2.1. Dividends and other profit distributions from foreign juridical persons

Dividends and other profit distributions received from foreign juridical persons are exempt from Corporate Tax if the recipient has a Participating Interest in a foreign juridical person.[20] A Participating Interest is a 5% or more ownership interest in the shares or capital of a juridical person (the "Participation") subject to the conditions below.

A Participating Interest exists where all of the following conditions are met:[21]

- The Taxable Person has an ownership interest of 5% or more in the shares or capital of the Participation. As an alternative to the requirement to have a 5% or more ownership interest, a Taxable Person will be treated as having a Participating Interest in a Participation where the aggregate acquisition cost of ownership in that juridical person is AED 4 million or more.
- The Participation has been held, or is intended to be held, for an uninterrupted period of at least 12 months.
- The Taxable Person is entitled to at least 5% of profits available for distribution by the Participation and at least 5% of the liquidation proceeds of the Participation.
- Not more than 50% of the Participation's direct and indirect assets consist of ownership interests that would not have qualified for the Participation Exemption if they were held directly by the Taxable Person.
- The Participation is resident for tax purposes throughout a given Tax Period in another country that levies a tax that is applied on a similar basis to Corporate Tax and at a headline statutory tax rate of at least 9% (i.e. the "subject to tax" requirement). The subject to tax requirement is also considered to have been met if it can be demonstrated that the Participation is subject to a tax on income, equity or net worth at an effective rate of at least 9% on profits.

[19] Article 22(1) of the Corporate Tax Law.
[20] Article 22(2) and (3) of the Corporate Tax Law.
[21] Article 23(2) of the Corporate Tax Law.

#### 4.4.2.2. Participation Exemption for other income and gains

Other income and gains may also be exempt if they are derived from a Participating Interest. The requirements for both a domestic and a foreign Participating Interest are the same, save that a Participating Interest in a Qualifying Free Zone Person or an Exempt Person is considered to meet the subject to tax requirement.[22]

If a Taxable Person holds a Participating Interest and the relevant conditions continue to be met, it will be exempt from Corporate Tax on:

- gains or losses on the transfer, sale, or other disposition of the whole or part of the Participating Interest,[23]
- foreign exchange gains or losses in relation to the Participating Interest,[24] and
- impairment gains or losses in relation to the Participating Interest.[25]

Expenditure incurred in relation to the acquisition, transfer, sale, or other disposition of the whole or part of the Participating Interest will not be deductible while determining Taxable Income.[26] This includes professional fees, due diligence costs, litigation costs, commissions and brokerage fees, and other associated costs.[27] Instead, this expenditure should be capitalised as part of the acquisition cost of the Participating Interest.[28]

Only income received by the Taxable Person in their capacity as a shareholder (i.e. as an owner of the ownership interest) can be exempt. Other income earned from the Participation from other relationships, such as that of a debtor-creditor (for example, Interest income received) or service provider (for example, service fee received), will remain subject to Corporate Tax unless exempt under other applicable provisions.[29]

Refer to Section 11 (Case Study 7a) for details on the treatment of domestic Dividends, income from a Participating Interest and expenditure incurred in relation to Exempt Income while determining Taxable Income.

[22] Article 23(4) of the Corporate Tax Law.
[23] Article 23(5)(b) of the Corporate Tax Law.
[24] Article 23(5)(c) of the Corporate Tax Law.
[25] Article 23(5)(d) of the Corporate Tax Law.
[26] Article 10(1) of Ministerial Decision No. 116 of 2023.
[27] Article 10(2) of Ministerial Decision No. 116 of 2023.
[28] Article 10(4) of Ministerial Decision No. 116 of 2023.
[29] Article 11(2) of Ministerial Decision No. 116 of 2023.

#### 4.4.3. Foreign Permanent Establishment exemption

To eliminate potential international double taxation, a Resident Person can make an election to have the income and associated expenditure derived from Foreign Permanent Establishments exempted from Corporate Tax in the UAE where the relevant conditions are met.[30]

Where such an election is made, the Resident Person shall not include the following items in the determination of Taxable Income:

- losses in any of its eligible Foreign Permanent Establishments,[31] and
- income, and associated expenditure, in any of its eligible Foreign Permanent Establishments.[32]

In addition, any Foreign Tax Credit otherwise available as a reduction in the Corporate Tax Payable, will not be available to be used by the Resident Person if an election is made.[33]

In determining the income, expense or loss of each Foreign Permanent Establishment that is treated as exempt, a Resident Person and its Foreign Permanent Establishments must be treated as separate and independent Businesses in accordance with internationally accepted profit attribution methods, such as the separate entity approach, and any transactions which take place between them must be treated as having taken place at Market Value.[34]

Where a Resident Person elects to exclude the income, expenses and losses of the Foreign Permanent Establishments from the calculation of its Taxable Income, the election will apply to all the Resident Person's Foreign Permanent Establishments which are subject to Corporate Tax, or a tax of a similar character to Corporate Tax, in the relevant foreign country at a rate of not less than 9% (i.e. the "subject to tax requirement").[35]

Additionally, if a Resident Person has utilised a Tax Loss incurred in their Foreign Permanent Establishment, that Tax Loss must be fully offset by the Taxable Income from the Foreign Permanent Establishment in a subsequent Tax Period or Tax Periods before the Resident Person can elect to apply the Foreign Permanent Establishment exemption.[36]

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[30] Article 24(1) of the Corporate Tax Law.
[31] Article 24(2)(a) of the Corporate Tax Law.
[32] Article 24(2)(b) of the Corporate Tax Law.
[33] Article 24(2)(c) of the Corporate Tax Law.
[34] Article 24(4) and (5) of the Corporate Tax Law.
[35] Article 24(6) and (7) of the Corporate Tax Law.
[36] Article 13(1) of Ministerial Decision No. 116 of 2023.

Refer to Section 12 (Case Study 7b) for details of the Foreign Permanent Establishment exemption while determining Taxable Income.

## 4.5. Deductible and non-deductible expenditure

Accounting Income is calculated by deducting a Business's normal day-to-day expenditure i.e. revenue expenditure, incurred during the course of regular Business operations, from the Revenue earned in the same Tax Period. However, not all expenditure recognised under the general accounting rules is deductible for Corporate Tax purposes. Non-deductible expenditure will need to be added back to Accounting Income when determining Taxable Income.

In general terms, to be deductible, expenditure must be incurred wholly and exclusively for the purposes of the Taxable Person's Business and must not be capital in nature. These aspects are briefly discussed in Sections 4.5.1 to 4.5.7 below. The "wholly and exclusively" condition is applicable to all expenditures claimed as a deductible expense for Corporate Tax purposes.

Expenditure is deductible in the Tax Period in which it is incurred, subject to the provisions of the Corporate Tax Law.

No deduction is allowed in relation to the following:

- expenditure not incurred for the purposes of the Taxable Person's Business,
- expenditure incurred in deriving Exempt Income, and
- losses not connected with or arising out of the Taxable Person's Business.

### 4.5.1. Expenditure incurred wholly and exclusively for the Business

The general rule is that expenditure must be incurred wholly and exclusively for the purposes of the Taxable Person's Business and must not be capital in nature for the expenditure to be deductible for Corporate Tax purposes.[37]

Additional specific deduction rules are applicable for specific categories of expenditure, for example, entertainment expenditure (see Section 4.5.10) and Interest expenditure (see Sections 4.6 and 4.7).

It is necessary to consider the purpose for incurring the expenditure to assess whether it can be deducted for Corporate Tax purposes. For it to be fully deductible, the expenditure needs to be incurred "wholly and exclusively" for Business purposes. If

[37] Article 28(1) of the Corporate Tax Law.

expenditure is incurred for more than one purpose, the proportion of the expenditure that is incurred for non-Business purposes is not deductible for Corporate Tax purposes and must be added back when determining Taxable Income.[38]

### 4.5.2. Employment related expenditure

Employee costs are generally considered to be wholly and exclusively incurred for Business purposes provided that they are not excessive (and subject to the requirement to meet the arm's length standard where employees are Related Parties or Connected Persons).

As such, it is not relevant whether an employee is paid wholly in cash or also receives other benefits, such as a car for personal use. In this situation, the personal use should be viewed in the same way as the employee spending their cash salary on items for their personal benefit. The same applies to other benefits, such as medical insurance or a flight allowance (for spouse and children). In other words, the cost is wholly and exclusively for Business purposes as rewarding employees is wholly a Business purpose. The same principle applies in relation to costs incurred for entertainment of employees, for example, for team building at a seasonal function, or to reward performance.

This should be distinguished from entertainment expenditure incurred to entertain business partners or customers as discussed in more detail in Section 4.5.10below.

Refer to Section 5 (Case Study 1) for the treatment of expenditure incurred wholly and exclusively for the purposes of the Business while determining Taxable Income.

### 4.5.3. Expenditure incurred in deriving Exempt Income

Expenditure incurred in relation to deriving Exempt Income is not deductible when determining Taxable Income.[39]

### 4.5.4. Expenditure incurred for more than one purpose

If expenditure is incurred for more than one purpose, the portion of the expenditure which can be deducted must be determined as follows:[40]

- any identifiable part or proportion of the expenditure incurred wholly and exclusively for the purposes of deriving Taxable Income, is deductible, and

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[38] Article 28(2)(a) of the Corporate Tax Law.
[39] Article 28(2)(b) of the Corporate Tax Law.
[40] Article 28(3) of the Corporate Tax Law.

- an appropriate proportion of any unidentifiable part or proportion of the expenditure incurred for the purposes of deriving Taxable Income that has been determined on a fair and reasonable basis, having regard to the relevant facts and circumstances of the Taxable Person's Business, is deductible.

Based on the above, if expenditure is incurred partly for Business purposes and partly for some other purpose, the amount must be apportioned so that only the part relating to deriving Taxable Income will be allowed as a deduction. This includes any identifiable part or proportion of any unidentifiable expenditure incurred wholly and exclusively for the purposes of deriving Taxable Income that has been determined on a fair and reasonable basis.[41] What is fair and reasonable will depend on the circumstances and facts of each case. In many cases, there will be more than one method of apportioning expenses which is fair and reasonable to use.

Allocation keys are criteria used to determine how expenses can be assigned or distributed across different departments, products, services, or divisions within a Business. These keys can be applied to factors such as headcount, floor space, usage, time spent, or any other measurable and reasonable basis. The primary goal of allocation keys is to provide a fair and accurate distribution of expenses, allowing for a more accurate determination of the income arising from each income component.

The appropriate allocation key will depend on the nature of the expense and the contribution that it makes to each income component. In many cases, an allocation that prorates expenses based on Revenue will be considered as a reasonable allocation. However, this will not always be the case and the following principles should be considered to determine whether Revenue or some other basis will be appropriate to allocate each expense item. For example:

**Cause and effect:** An allocation should be consistent with identifiable cause-and-effect relationships (for example, machinery running hours may be an appropriate allocation key to allocate maintenance costs).

**Benefits derived:** An allocation should be commensurate with the benefits received.

The allocation key chosen must be logical and must fairly represent the benefit that the expense generates for each income component. The allocation key should also be used consistently for each Tax Period, unless there is a change in fact pattern which may justify a change in allocation or methodology.

[41] Article 28(3) of the Corporate Tax Law.

The fair and reasonable approach chosen should accurately reflect the underlying activity, should not be unnecessarily burdensome and complex for the Taxable Person to determine and justify, or for the FTA to understand and review.

If the expenditure incurred for more than one purpose cannot be apportioned on a fair and reasonable basis, it will not be allowed as a deduction for Corporate Tax purposes.

Refer to Section 5 (Case Study 1) for the treatment of expenditure incurred for more than one purposes while determining Taxable Income.

#### 4.5.5. Non-arm's length expenditure

Payments or benefits provided by a Taxable Person to its Related Parties and/or Connected Persons would be deductible only to the extent that the payment or benefit corresponds with the Market Value of the service or benefit provided by the Related Parties and/or Connected Person, and where the payment or benefit is incurred wholly and exclusively for the purposes of the Taxable Person's Business.[42]

For example, the salary or bonus paid to directors or officers of a company or an owner of the Taxable Person would be deductible when determining Taxable Income, but only insofar as this salary corresponds with the Market Value rates for such services rendered. In order to determine if the value of a service or benefit provided matches its Market Value, the arm's length standard should be applied.[43]

#### 4.5.6. Capital expenditure

Capital expenditure is not deductible when determining Taxable Income. Capital expenditure is any expenditure that creates an enduring benefit to a Business. This is in contrast to revenue expenditure, which supports the day-to-day operations of the Business. For example, purchasing a long-term asset like machinery would be a capital expense, but paying for routine maintenance to keep the machinery running would be a revenue expense. The question of whether expenditure is of a capital or revenue nature will depend on the particular facts and circumstances and will need to be determined on a case-by-case basis, in line with the Accounting Standards applied by the Taxable Person.
In relation to capital expenditure, the following principles are laid out in Article 7 of Ministerial Decision No. 134 of 2023:

- No deduction shall be allowed for depreciation, amortisation or other change related to capitalised expenditure, where such expenditure would not have been deductible had it been an expenditure that is not capital in nature.

[42] Articles 34, 35 and 36 of the Corporate Tax Law.
[43] Articles 34 and 36(5) of the Corporate Tax Law.

- Expenditures that are capital in nature that have not been deducted for the purpose of calculating the Taxable Income, other than those under the above bullet point, shall be deductible in the calculation of gains or losses upon the realisation of the asset or liability.
- In this respect, expenditures that are capital in nature shall be those treated as such under the Accounting Standards applied by the Taxable Person.

While capital expenditure is not deductible, when determining Taxable Income, the depreciation of the cost of capital assets is a deductible expense for Corporate Tax purposes. Depreciation is an accounting concept which allows for the cost of an asset to be spread over the life of the asset (representing the reduction of the asset's value).

In certain cases, a Taxable Person may have an accounting policy to not capitalise low value capital items that do not meet the recognition criteria, as per the relevant Accounting Standard. Such expenditure is directly expensed in the income statement. In such circumstances, the accounting treatment should be followed and the expense will be fully deductible in the Tax Period in which it is incurred, provided that it is not otherwise non-deductible.

In accordance with the relevant Accounting Standard, the Taxable Person may capitalise the directly attributable costs or costs initially incurred to acquire or construct an asset. In certain cases, a part of these costs, if debited to the income statement, would not have been allowed as a deduction while determining Taxable Income.

Article 7 of Ministerial Decision No. 134 of 2023 states that the depreciation/ amortisation charge which relates to such non-deductible expenditure will also not be allowed as a deduction for the purpose of determining Taxable Income. Examples of such expenditure that could be capitalised include fees paid to Related Parties/Connected Persons which do not meet the arm's length standard (see Section 4.5.5) or, fines and penalties levied by a statutory body/government on the acquisition or construction of the asset (see Section 4.5.9) etc. Since these expenses are generally not deductible while determining Taxable Income, the corresponding depreciation charge will also not be deductible.

**Example 1: Non-deductible capitalised expenditure**

A company incurs a fine of AED 50,000 due to non-compliance with environmental regulations while building an environmental control system. This amount is not deductible while calculating the Taxable Income as it is considered a punitive expense rather than an ordinary Business expense.

If the company capitalises this fine as part of the cost base of the environmental

control system (an asset), with the intention to depreciate the amount over a 10-year period (assumed life of the asset), the Corporate Tax treatment will differ from the accounting treatment. Based on Article 7 of Ministerial Decision No. 134, no depreciation deduction is allowed for an expense that, if not capitalised, would not be deductible (i.e. AED 50,000 in this case).

Therefore, even though the fine is capitalised and included in the cost of the asset, the company will not be permitted to claim the annual depreciation of AED 5,000 (i.e. AED 50,000/10 years) as a deduction.

The treatment of capital expenditure when determining Taxable Income is covered in Section 5 (Case Study 1) and Section 11 (Case Study 7a) for a Taxable Person following the Accrual Basis of Accounting and in Section 10 (Case Study 6) for a Taxable Person following the Cash Basis of Accounting.

#### 4.5.7. Pre-incorporation or pre-trade expenses

Certain expenditure may be incurred before the Business is officially incorporated (for example, in the case of a company), which are typically associated with the process of setting up a Business. Examples include feasibility studies, registration fees, legal and professional fees in relation to incorporation documents, etc.

As a general rule, unless specified otherwise, any such expenditure incurred wholly and exclusively for the Business that is not capital in nature would be allowed as a deduction in the Tax Period in which it is incurred.[44] “Incurred” means the time at which it is required to be recorded in the Financial Statements based on IFRS or IFRS for SMEs, where a Taxable Person uses the Accrual Basis of Accounting.

Similarly, in the case of the Cash Basis of Accounting, the pre-incorporation expenses will be allowed in the first Tax Period to the extent recorded in the income and expenditure statement.

Thus, pre-incorporation expenditure, (though incurred before the Business is officially incorporated or set-up), will be allowed as a deduction to the extent to which it is recorded in the income statement once the company is incorporated (or the Business is set up), in line with the relevant Accounting Standards, subject to meeting the general deduction criteria under the Corporate Tax Law[45] and provided that it has not been claimed as deductible expenditure by another Taxable Person.

[44] Article 28(1) of the Corporate Tax Law.
[45] Chapter Nine of the Corporate Tax Law.

A Taxable Person may also incur pre-trading expenses i.e. expenditure incurred after a Business is incorporated or set-up, but before it starts generating revenue or conducting its normal trading operations. These expenses typically occur during the pre-launch phase, when a Business is preparing to commence its commercial activities. Examples include costs associated with product development, marketing and advertising expenses, office setup costs, utilities, office equipment, expenses for hiring and training employees before the commencement of operations, etc.

Where such pre-trading expenditure is recorded as an expense in the Financial Statements, it will be allowed as a deduction in the Tax Period when it is incurred, subject to meeting the general deduction criteria under the Corporate Tax Law,[46] even if the Business has not started generating Revenue in the Tax Period in which the expense is incurred.

Refer to Section 5 (Case Study 1) for the treatment of expenditure incurred prior to commencement of Business when determining Taxable Income.

#### 4.5.8. Creation & reversal of provisions (bad debts, write-off and recovery)

A provision is typically recognised when a past event has created a legal or constructive obligation, an outflow of resources is probable, and the amount of the obligation can be estimated reliably. The amount recognised is the best estimate of the settlement amount at the end of the Financial Year.

Considering the above, if a Taxable Person records a provision in its Financial Statements in accordance with the relevant Accounting Standards (i.e. IFRS or IFRS for SMEs), the provision will be allowed as a deduction, as long as it satisfies the requirements for deductibility of expenditure under the Corporate Tax Law (so for instance it is not in respect of an illegal payment – see Section 4.5.9).

If such a provision is released or reversed in a subsequent Tax Period, there are no specific adjustments required to be made to the release or reversal. Therefore, the relevant credit to the Financial Statements (i.e. income) will be treated as Taxable Income for Corporate Tax purposes.

In instances where a provision was recorded before a Taxable Person's first Tax Period and then reversed after the Person becomes subject to Corporate Tax, the reversal is taxable when the credit is recorded in the Financial Statements.

[46] Chapter Nine of the Corporate Tax Law.

#### 4.5.8.1. Bad debts, write-off and recovery

A bad debt is a receivable that is determined to be uncollectable. This may result in a provision, but it can also lead to a Business writing off the receivable, i.e. no longer recognising it. In either case, there would normally be an expense in the income statement.

If a balance is written off as a bad debt and this is in accordance with the relevant Accounting Standards (i.e. IFRS or IFRS for SMEs), the bad debt expense will be deductible when determining Taxable Income, as long as it satisfies the requirements for deductibility of expenditure in the Corporate Tax Law. Further, if a balance which was written off in a prior Tax Period is subsequently recovered, the credit to the income statement will be taxable in the Tax Period in which it is recognised in accordance with the requirements of IFRS or IFRS for SMEs, as applicable.

Refer to Section 5 (Case Study 1) for the treatment of provisions when determining Taxable Income.

### 4.5.9. Non-deductible expenses

Aside from the circumstances discussed above, deductions are also specifically disallowed for:

- a donation, grant or gift made to an organisation that is not a Qualifying Public Benefit Entity (see Section 5, i.e. Case Study 1 for details).[47] Any amounts paid by Taxable Persons in relation to Zakat will only be deductible if it is paid to a Qualifying Public Benefit Entity,
- any fines and penalties, other than amounts awarded as compensation for damages or breach of contract (see Section 5, i.e. Case Study 1 for details),[48]
- bribes or other illicit payments (see Section 5 , i.e. Case Study 1 for details),[49]
- Dividends, profit distributions or benefits of a similar nature paid to an owner of the Taxable Person (see Section 5, i.e. Case Study 1 for details),[50]
- amounts withdrawn from the Business by a natural person who is a Taxable Person or a partner in an Unincorporated Partnership,[51]
- Corporate Tax,[52]
- recoverable input Value Added Tax (see Section 5, i.e. Case Study 1 for details),[53]

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[47] Article 33(1) of the Corporate Tax Law.
[48] Article 33(2) of the Corporate Tax Law.
[49] Article 33(3) of the Corporate Tax Law.
[50] Article 33(4) of the Corporate Tax Law.
[51] Article 33(5) of the Corporate Tax Law.
[52] Article 33(6) of the Corporate Tax Law.
[53] Article 33(7) of the Corporate Tax Law.

- tax on income imposed outside the UAE (however, tax relief may be available as a Foreign Tax Credit),[54] and
- contributions made by employers to a private pension fund in respect of its employees which are not paid in the Tax Period, or are in excess of 15% of the employee's total remuneration in the relevant Tax Period (see Section 5, i.e. Case Study 1 for details).[55]

Local taxes that are not in the nature of Corporate Tax, such as municipal and property taxes, will be deductible.

However, a tax under an Emirate Law, such as that paid by branches of foreign banks in the UAE is not allowed as a deduction from Taxable Income under the Corporate Tax Law. The availability or not, of a credit against a tax under Emirate Law in respect of Corporate Tax, such as under Dubai Law No. 1 of 2024 on Taxation of Foreign Banks Operating in the Emirate of Dubai, does not alter this.

#### 4.5.10. Entertainment expenditure

Entertainment is considered as hospitality of any kind and entertainment expenditure is the expense of providing entertainment. It is common to incur such costs for the entertainment, amusement or recreation of customers, shareholders, suppliers, or other business partners, such as hospitality at restaurants, cultural events, sporting events, hotel stays and similar trips. Entertainment expenditure usually serves to build relationships and promote the Business in a more informal or social setting. Entertainment expenditure includes expenditure in connection with meals (food and beverages), accommodation, transportation, admission fees, as well as facilities and equipment used in connection with such entertainment.[56]

However, this type of expenditure often contains a private element that is provided for the enjoyment or hospitality of the recipients/guests that would prevent the expenditure from being wholly and exclusively incurred for Business purposes. Thus, a 50% deduction for entertainment expenditure is allowed for Corporate Tax purposes.[57]

For Corporate Tax purposes, the accounting classification of a particular expense is not relevant when considering whether such an expense is entertainment expenditure.

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[54] Articles 33(8) and 47 of the Corporate Tax Law.
[55] Article 5(2) of Ministerial Decision No. 115 of 2023.
[56] Article 32(2) of the Corporate Tax Law.
[57] Article 32(1) of the Corporate Tax Law.

#### 4.5.10.1. Entertainment for employees

Entertainment expenditure should be distinguished from expenditure incurred in relation to employees. Employment related expenditure will not fall under the ambit of entertainment expenditure and should be fully deductible, provided that it is incurred wholly and exclusively for the Taxable Person's Business.

Based on the above, expenditure reported in the Financial Statements that is incurred for employee/staff entertainment, such as staff parties, off-site events/away-days or rewards for meeting performance targets, are employee related expenses as opposed to entertainment expenses and can be fully deducted for Corporate Tax purposes. However, if an expense is incurred for an event which is private in nature, such as a wedding for family members who happen to also be staff, it will not be deductible for Corporate Tax purposes.

Where a Taxable Person organises conferences and/or business events for employees, their spouses and children (such as team building events or seasonal events), for which it incurs expenditure on catering, this expenditure will be deductible since it relates to the Business of the Taxable Person and is not meant for the entertainment of non-employees, provided that the expenditure is not excessive.

#### 4.5.10.2. Incidental expenses

Any expense incurred which is incidental to a Business purpose (for example, food or drink provided during a Business meeting) shall not be considered as entertainment expenditure. Food and refreshments in an office setting would generally be considered as incidental and in connection with the Business and, hence, would be fully deductible. A further example of an incidental expense which would not be considered as entertainment expenditure would be where a retailer provides complimentary refreshments to prospective customers.

Expenditure incurred for Business purposes (other than for employees) on food and beverages at a venue such as a restaurant, whether or not accompanied by any other form of entertainment (for example, a live band) cannot be considered as incidental, and so would be entertainment expenditure subject to the 50% deduction rule.

#### 4.5.10.3. Commercial hospitality

Where a Taxable Person provides commercial hospitality as part of their Business or Business Activity, such expenditure would not be considered as entertainment expenditure. For example, where an airline provides a washbag or in-flight entertainment, or where hotels provide packaged or mid-week promotions, such expenditure would be considered as ordinary Business expenditure and not

entertainment expenditure. However, where benefits are provided to clients and business partners that are not considered commercial hospitality or promotions, then such expenditure incurred would be considered as entertainment expenditure and would be subject to the 50% restriction (e.g. providing business partners with complimentary stays at hotels).

#### 4.5.10.4. Marketing or advertising expenditure

The 50% deduction rule does not apply to other marketing expenditure, such as advertising, online promotion, attending trade shows or direct marketing campaigns, which is deductible in line with the general principles of the Corporate Tax Law, subject to being wholly and exclusively incurred for Business purposes.

Whether an item of expenditure can be considered as marketing expenditure or entertainment expenditure, will largely depend on the industry in which the Taxable Person operates. Where marketing involves expenditure on the promotion of a Taxable Person's goods or services, for example, demonstrating a car at a racetrack, the necessary costs of doing so will not be subject to the 50% restriction.

However, (typically discretionary) costs of providing hospitality at the event such as meals, a musical performance or accommodation will be subject to the 50% restriction for entertainment expenditure.

Expenditure would not be subject to the 50% deduction rule, where it involves a Business advertising its own services or products by making them available to the general public at a reduced price or for free. This will also be the case where only certain individuals can benefit because they will generate publicity for the Business, such as a restaurant giving a free meal to a food critic, a spa providing free entry to an influencer, a trial run of hotel facilities provided to a potential bulk buyer of the product, etc.

As another example, a Taxable Person taking a group of clients to a sporting event and providing them with tickets, meals and drinks in a corporate box will be treated as entertainment expenditure. Hence, only 50% would be treated as deductible for Corporate Tax purposes, whereas a Taxable Person purchasing a booth at a trade show to display the company's new product line would be treated as sales/marketing expenditure for running the Business and, hence, deductible for Corporate Tax purposes.

Sponsorship costs (for example, sponsoring an event) will be deductible where such costs are incurred for marketing purposes. However, to the extent that benefits are received as part of that sponsorship (for example, tickets to a sporting event) and the benefits are used to entertain business partners and/or customers, then the value of

these benefits will be considered as entertainment expenditure and will be subject to the 50% deduction

Refer to Section 5 (Case Study 1) for the treatment of entertainment expenditure while determining Taxable Income.

## 4.6. General Interest Deduction Limitation Rule

### 4.6.1. Meaning of Interest

Businesses regularly borrow money and take out loans for a wide variety of reasons, for example, to purchase Business assets, to meet costs, or increase working capital. As a result, Interest is a common Business expense.

Interest expenditure can be deducted when determining Taxable Income for the Tax Period in which it is incurred, subject to the general rules for deductibility.[58] In addition, such expenditure is subject to the General Interest Deduction Limitation Rule (refer Section 4.6 for details).[59]

For the purposes of the General Interest Deduction Limitation Rule, Interest means any amount that is accrued or paid for the use of money or credit, including discounts, premiums, profit paid in respect of an Islamic Financial Instrument, other payments economically equivalent to interest, and any other amounts incurred in connection with the raising of finance, but does not include payments of the principal amount.[60] These categories are elaborated on below.

#### 4.6.1.1. Interest component on financial assets and liabilities

The Interest component (or other payments that are economically equivalent to Interest) that is included in the financial returns on a financial asset or liability is considered as Interest expenditure or income for the purposes of the General Interest Deduction Limitation Rule, regardless of the classification and treatment of such amounts under the applicable Accounting Standards (i.e. IFRS or IFRS for SMEs).[61]

Interest shall include, but not be limited to, the Interest component on the following:[62]

- performing and non-performing debt instruments,
- interests held in collective investment schemes that primarily invest in cash and cash equivalents,

[58] Articles 28 and 29 of the Corporate Tax Law.
[59] Article 30 of the Corporate Tax Law.
[60] Article 1 of the Corporate Tax Law.
[61] Article 2(1) of Ministerial Decision No. 126 of 2023.
[62] Article 2(2) of Ministerial Decision No. 126 of 2023.

- collateralised asset backed debt securities and similar instruments,
- agreements for the sale and subsequent repurchase of the same security at a future date at an agreed upon price,
- stock lending and similar agreements for the disposal of a security subject to an obligation or right to reacquire the same or a similar designated security,
- securitisations and similar transactions involving the transfer of assets in exchange for the issuance of securities that entitle the holder to proceeds generated from these assets,
- lease or hire purchase arrangements where all the risks and rewards incidental to the ownership of the underlying asset have been substantially transferred to the lessee, and
- factoring and similar accounts receivable purchase transactions.

#### 4.6.1.2. Amounts incurred in connection with raising finances

Any amount incurred in connection with the raising of finance shall be considered as Interest expenditure or income for the purposes of the General Interest Deduction Limitation Rule.[63] This includes, but is not limited to, the following:[64]

- fees such as guarantee fees, arrangement fees, commitment fees, etc. and
- interest component on financial derivative instruments such as forward contracts, futures contracts, options, interest rate and foreign exchange swap agreements, any financial derivative instrument used to hedge risks directly connected with raising finance.

#### 4.6.1.3. Islamic Financial Instruments

Islamic Financial Instruments are financial instruments that follow Sharia principles and are economically equivalent to any instrument mentioned in Section 4.6.1.1 above. The equivalent Interest component on such instruments shall be treated as Interest expenditure or income for the purposes of the General Interest Deduction Limitation Rule.[65]

#### 4.6.1.4. Finance and non-finance lease

The finance element of finance lease and non-finance lease payments shall be considered as Interest for the purposes of the General Interest Deduction Limitation Rule, and this includes both expenditure in relation to the finance cost element and income received therefrom.[66]

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[63] Article 3(1) of Ministerial Decision No. 126 of 2023.
[64] Article 3(2) and (3) of Ministerial Decision No. 126 of 2023.
[65] Article 4 of Ministerial Decision No. 126 of 2023.
[66] Article 5 of Ministerial Decision No. 126 of 2023.

- For the purposes of finance lease payments, the finance element as recorded in the accounts of a Taxable Person prepared in accordance with the applicable Accounting Standards (i.e. IFRS or IFRS for SMEs) shall be considered as Interest.
- For the purposes of non-finance lease payments, the finance element is the share of any lease payment that is in proportion to the share of the total cost of the lease as attributable to the total finance element.

#### 4.6.1.5. Foreign exchange movements

All foreign exchange gains and losses accruing from Interest shall also be considered as Interest for the purposes of the General Interest Deduction Limitation Rule.[67]

#### 4.6.1.6. Capitalised Interest

Where an amount that is deemed to be Interest is capitalised in the accounts of the Taxable Person in accordance with the applicable Accounting Standards (i.e. IFRS or IFRS for SMEs), the income and expenditure attributable to such capitalised Interest amount shall be subject to the General Interest Deduction Limitation Rule.[68]

### 4.6.2. Application of the General Interest Deduction Limitation Rule

A Taxable Person's Net Interest Expenditure is subject to the General Interest Deduction Limitation Rule. The Net Interest Expenditure is the difference between the amount of Interest expenditure incurred (including any carried forward Net Interest Expenditure) and the Interest income derived during a Tax Period.[69]

Where the Net Interest Expenditure exceeds AED 12 million in a Tax Period, the amount of deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA (earnings before the deduction of Interest, tax, depreciation and amortisation) for a Tax Period, calculated as the Taxable Income for the Tax Period with adjustments for:[70]
  - Net Interest Expenditure for the relevant Tax Period,
  - depreciation and amortisation expenditure taken into account in determining the Taxable Income for the relevant Tax Period,
  - any Interest expenditure (minus Interest income) relating to historical financial assets or liabilities held prior to 9 December 2022, and

[67] Article 6 of Ministerial Decision No. 126 of 2023.
[68] Article 7 of Ministerial Decision No. 126 of 2023.
[69] Article 30(2) of the Corporate Tax Law.
[70] Article 30(1) of the Corporate Tax Law and Article 9(1) of Ministerial Decision No. 126 of 2023.

- any Interest expenditure (minus Interest income) relating to Qualifying Infrastructure Projects.
- or the de minimis threshold of AED 12 million.[71]

This is known as the General Interest Deduction Limitation Rule.

If the Net Interest Expenditure is below the de minimis threshold of AED 12 million for a Tax Period, the General Interest Deduction Limitation Rule does not apply.[72] This means that, subject to the Specific Interest Deduction Limitation Rule,[73] the full amount of Interest expenditure incurred in a Tax Period can be deducted.

The de minimis threshold of AED 12 million is adjusted in proportion to the length of the Tax Period, if the relevant Tax Period is more than or less than 12 months.[74]

Where the Net Interest Expenditure is less than the higher of 30% of adjusted EBITDA (see Section 4.6.4) and AED 12 million (as adjusted for a Tax Period of more than or less than 12 months), no adjustment is required under the General Interest Deduction Limitation Rule. The Net Interest Expenditure for the relevant Tax Period will be deductible.

Any Net Interest Expenditure disallowed in a Tax Period by the General Interest Deduction Limitation Rule can be carried forward and utilised in the subsequent 10 Tax Periods in the order in which the amount was incurred, subject to the same conditions as the General Interest Deduction Limitation Rule.[75]

To determine the deductible and non-deductible Net Interest Expenditure, the following components need to be calculated:

- Net Interest Expenditure, and
- 30% of adjusted EBITDA.

### 4.6.3. Calculation of Net Interest Expenditure

As noted above, Net Interest Expenditure is the difference between the amount of Interest expenditure incurred (including any carried forward Net Interest Expenditure) and the Interest income accrued. Net Interest Expenditure will include all Interest components discussed in Section 4.6.1.

[71] Article 8 of Ministerial Decision No. 126 of 2023.
[72] Article 8(1) of Ministerial Decision No. 126 of 2023.
[73] Article 31 of the Corporate Tax Law.
[74] Article 8(3) of Ministerial Decision No. 126 of 2023.
[75] Article 30(4) of the Corporate Tax Law.

However, the following will not be considered while calculating the Net Interest Expenditure for the purposes of the General Interest Deduction Limitation Rule:

- Interest expenditure that is disallowed under any other provisions of the Corporate Tax Law,[76] for example, the Specific Interest Deduction Limitation Rule[77] (see Section 4.7) or non-arm's length amounts,[78]
- Interest income or Interest expenditure related to grandfathered debts (i.e. prior to 9 December 2022),[79] and
- Interest income and Interest expenditure in relation to Qualifying Infrastructure Projects.[80]

An illustrative list of the adjustments that may be relevant in calculating the Net Interest Expenditure is as follows:

| Adjust | Calculation of Net Interest Expenditure | Amount (AED) |
|---|---|---|
| | Net Interest Expenditure based on the Financial Statements (i.e. Interest expenditure less Interest income) | xxx |
| **Less:** | Interest expenditure that is disallowed under any other provisions of the Corporate Tax Law[81] | **(xxx)** |
| **Less:** | Net Interest Expenditure related to grandfathered debts[82] | **(xxx)** |
| **Less:** | Net Interest Expenditure related to Qualifying Infrastructure Projects[83] | **(xxx)** |
| **Add:** | Net Interest Expenditure carried forward from previous 10 Tax Periods[84] | xxx |
| | **Total Net Interest Expenditure for the relevant Tax Period** | **xxx** |

#### 4.6.4. Calculation of 30% of adjusted EBITDA

For the purposes of the General Interest Deduction Limitation Rule, EBITDA for a Tax Period is the Taxable Income calculated in accordance with the general rules for determining Taxable Income[85] (i.e. all adjustments are required to be made except for adjustments in relation to the General Interest Deduction Limitation Rule and Tax Loss relief provisions). Such Taxable Income (even if negative) before the General Interest

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[76] Article 30(2) and (5) of the Corporate Tax Law.
[77] Article 31 of the Corporate Tax Law.
[78] Article 34 of the Corporate Tax Law.
[79] Article 11 of Ministerial Decision No. 126 of 2023.
[80] Articles 9(2) and 14 of Ministerial Decision No. 126 of 2023.
[81] Article 30(5) of the Corporate Tax Law.
[82] Articles 9 and 11 of Ministerial Decision No. 126 of 2023.
[83] Articles 9 and 14 of Ministerial Decision No. 126 of 2023.
[84] Article 30(2) and (4) of the Corporate Tax Law.
[85] Article 20 of the Corporate Tax Law.

Deduction Limitation Rule and Tax Loss relief is required to be increased by the following, to arrive at the "adjusted EBITDA" for the purposes of the General Interest Deduction Limitation Rule:[86]

- Net Interest Expenditure for the relevant Tax Period (see Section 4.6.3),
- depreciation and amortisation expenditure taken into account in determining the Taxable Income for the relevant Tax Period,
- any Interest income or expenditure relating to historical financial assets or liabilities held prior to 9 December 2022, and
- any Interest income or Interest expenditure in relation to Qualifying Infrastructure Projects.

If the adjusted EBITDA as per the above results is a negative amount, then the adjusted EBITDA will be considered to be AED 0.[87]

An illustrative list of the adjustments that may be relevant in calculating the adjusted EBITDA is as follows:

| Adjust | Calculation of adjusted EBITDA | Amount (AED) |
|---|---|---|
| | **Accounting Income/(loss)** | **xxx/(xxx)** |
| +/- | All adjustments as per Article 20 of the Corporate Tax Law, except General Interest Deduction Limitation Rule and Tax Loss provisions | **xxx/(xxx)** |
| | **Taxable Income before General Interest Deduction Limitation Rule and Tax Loss relief** | **xxx** |
| + | Net Interest Expenditure other than relating to grandfathered debt instruments and Qualifying Infrastructure Projects (see Section 4.6.3) | **xxx** |
| + | Depreciation of fixed assets | **xxx** |
| + | Amortisation of development cost | **xxx** |
| + | Net Interest Expenditure relating to grandfathered debt instruments (see Section 4.6.3) | **xxx** |
| + | Net Interest Expenditure relating to Qualifying Infrastructure Projects (see Section 4.6.3 ) | **xxx** |
| | **Adjusted EBITDA** | **xxx** |
| | **30% of adjusted EBITDA** | **xxx** |

### 4.6.5. Exceptions to the General Interest Deduction Limitation Rule

The General Interest Deduction Limitation Rule does not apply to:[88]

- Banks,

[86] Article 9(1) and (2) of Ministerial Decision No. 126 of 2023.
[87] Article 9(1) of Ministerial Decision No. 126 of 2023.
[88] Article 30(6) of the Corporate Tax Law.

- Insurance Providers, or
- natural persons undertaking a Business or Business Activity in the UAE.

Refer to Section 6 (Case Study 2) for details of the applicability of the General Interest Deduction Limitation Rule while determining Corporate Tax.

### 4.7. Specific Interest Deduction Limitation Rule

No deduction is allowed for Interest expenditure incurred on a loan obtained, directly or indirectly, from a Related Party in respect of any of the following transactions:[89]

- a Dividend or profit distribution to a Related Party,
- a redemption, repurchase, reduction or return of share capital to a Related Party,
- a capital contribution to a Related Party, or
- the acquisition of an ownership Interest in a Business that is, or becomes, a Related Party following the acquisition.

The purpose of this provision is to prevent the Corporate Tax base from being eroded by transactions and arrangements between Taxable Persons and their Related Parties for the sole or main purpose of creating deductible Interest expenditure where the income derived from the relevant transaction or arrangement can benefit from an exemption from Corporate Tax.

Whilst generally these deductions are not allowable for Corporate Tax purposes, the deduction restriction does not apply if the Taxable Person can demonstrate that the main purpose of obtaining the loan and carrying out the transaction is not to obtain a Corporate Tax advantage.[90] This will be based on the specific facts and circumstances applicable to each transaction. However, if it can be demonstrated that the Related Party receiving the Interest is subject to Corporate Tax or a similar tax in a foreign country at a rate of at least 9% on the Interest income, then no Corporate Tax advantage will be deemed to have arisen.[91]

Refer to Section 6 (Case Study 2) for details on applicability of the Specific Interest Deduction Limitation Rule while determining Taxable Income.

### 4.8. Tax Losses

Where a Taxable Person's deductible expenditure exceeds its income that is subject to Corporate Tax, it will have negative Taxable Income. This is known as a Tax Loss.

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[89] Article 31(1) of the Corporate Tax Law.
[90] Article 31(2) of the Corporate Tax Law.
[91] Article 31(3) of the Corporate Tax Law.

A Taxable Person that has incurred a Tax Loss will be able to use the Tax Loss to reduce its Taxable Income in future Tax Periods (provided the necessary conditions are met, see Section 4.8.2).[92]

The Taxable Person can carry forward the Tax Loss and offset it against the Taxable Income in subsequent Tax Periods. The Tax Loss carried forward can be used to reduce the Taxable Income in the subsequent Tax Periods by a maximum of 75% of that Taxable Income.[93]

A Taxable Person cannot claim Tax Loss relief for:[94]

- losses incurred before the date of commencement of Corporate Tax,
- losses incurred before a Person becomes a Taxable Person, or
- losses incurred from an asset or activity that generates income which is exempt from Corporate Tax.

In certain circumstances, a Tax Loss can also be offset against the Taxable Income of another Taxable Person (see Section 4.8.3).

#### 4.8.1. Tax Loss relief

A Taxable Person must first offset the Tax Loss against its own Taxable Income before it can be transferred to another Taxable Person or carried forward to subsequent Tax Periods. If in any Tax Period the Taxable Person is unable to offset the Tax Loss against its own Taxable Income, then it can transfer the Tax Loss to another Taxable Person or carry forward the Tax Loss (subject to meeting the necessary conditions).[95]

Whilst transferring the Tax Loss to another Taxable Person is optional, carrying forward any unused Tax Loss is not. For example, if Company A has incurred a Tax Loss of AED 8,000,000 in Year 1, it can transfer the Tax Loss to Company B (assuming the necessary conditions for transfer are met) in Year 1, up to 75% of Company B's Taxable Income of Year 1. If Company A has any unutilised Tax Loss (say AED 5,000,000), after the transfer to Company B, the remaining Tax Loss must be carried forward by Company A to Year 2 (assuming the necessary conditions for carry forward are met).

Continuing from the above, for instance, in Year 2 the Taxable Income of Company A and Company B is AED 4,000,000 and AED 7,000,000, respectively. Company A is required to utilise 3,000,000 (being 75% of its Taxable Income of AED 4,000,000) of the Tax Loss that has been carried forward from Year 1 (i.e. AED 5,000,000) before

[92] Article 37 and Article 39 of the Corporate Tax Law.
[93] Article 37(2) of the Corporate Tax Law.
[94] Article 37(3) of the Corporate Tax Law.
[95] Articles 37(4), 38 and 39 of the Corporate Tax Law.

any portion of such Tax Loss can be transferred to Company B. After Company A has offset its own Taxable Income against the carried forward Tax Loss, it can transfer the remaining Tax Loss of AED 2,000,000 (i.e. AED 5,000,000 less AED 3,000,000) to Company B.

If a Taxable Person has brought forward Tax Losses from a previous Tax Period of less than 75% of their Taxable Income, they must use all of the Tax Losses in the current Tax Period and cannot choose to carry these Tax Losses forward to a subsequent Tax Period (or transfer them).[96] Tax Losses cannot be carried back to previous Tax Periods.

A Taxable Person must first utilise its own brought forward Tax Losses before it can utilise a Tax Loss transferred to it.[97]

Refer to Section 7 (Case Study 3) for the treatment of a Tax Loss while determining Taxable Income.

#### 4.8.2. Limitation on carry forward of Tax Losses

Specific rules apply for juridical persons that have Tax Losses carried forward and have had a change of ownership in the Tax Period.

A Tax Loss can be carried forward by a Taxable Person, provided the owners of the Taxable Person continuously hold at least 50% ownership from the start of the period in which the Tax Loss is incurred, to the end of the Tax Period in which the Tax Loss is used to offset against Taxable Income.

If there is a change in ownership of more than 50%, Tax Losses can still be carried forward provided the same or similar Business is carried on following the change in ownership.[98]

These rules do not apply where the Taxable Person's shares are listed on a Recognised Stock Exchange.[99]

If the conditions are met, the Tax Losses must be carried forward.

A natural person can carry forward a Tax Loss without the need to consider the above limitation rule, as the concept of ownership interest does not apply in the case of a natural person.

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[96] Article 37(4) of the Corporate Tax Law.
[97] Article 37(4) of the Corporate Tax Law.
[98] Article 39(1)(a) and (b) of the Corporate Tax Law.
[99] Article 39(3) of the Corporate Tax Law.

Refer to Section 9 (Case Study 5) for treatment of a Tax Loss if there is change in ownership, while determining Taxable Income.

#### 4.8.3. Transfer of Tax Losses

Tax Losses may be transferred between Taxable Persons that are both Resident Persons and juridical persons. All of the following conditions must be met:[100]

- either of the entities has a direct or indirect ownership interest of at least a 75% in the other, or a third entity has a direct or indirect ownership interest of at least 75% of the shares in both,
- the Financial Year of each Taxable Person ends on the same date,
- both Taxable Persons prepare their Financial Statements using the same Accounting Standards, and
- none of the entities are Exempt Persons or Qualifying Free Zone Persons.

Taxable Persons must meet the qualifying common ownership conditions from the start of the Tax Period in which the Tax Loss is incurred to the end of the Tax Period in which the transferred Tax Loss is used by the other Taxable Person (i.e. receiving entity) against its Taxable Income.[101]

The Taxable Person who transfers the Tax Losses will reduce its available Tax Losses by the amount transferred.[102]

Transferred Tax Losses can reduce the recipient's Taxable Income by a maximum of 75% of their Taxable Income in that Tax Period.[103] Thus the maximum Tax Loss that can be transferred to the recipient is 75% of their Taxable Income in that Tax Period. It is not possible to transfer a Tax Loss in excess of 75% of the recipient's Taxable Income.

A single Taxable Person may transfer their Tax Losses to more than one Taxable Person provided that in each case the relationship of the recipient Taxable Person with the Taxable Person transferring their Tax Losses meets the relevant conditions. Similarly, a recipient company can claim Tax Losses from more than one transferring company provided that the total Tax Loss offset does not exceed 75% of the recipient's Taxable Income and that all other conditions for the transfer of Tax Losses are met.

Refer to Section 9 (Case Study 5) for the implications of transferring a Tax Loss while determining Taxable Income.

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[100] Article 38(1) of the Corporate Tax Law.
[101] Article 38(1)(d) of the Corporate Tax Law.
[102] Article 38(2)(c) of the Corporate Tax Law.
[103] Article 38(2)(a) and (b) of the Corporate Tax Law.

## 4.9. Tax credits

In some cases, Taxable Persons may be entitled to credits which they can use to offset against their Corporate Tax liability. These credits arise if they have paid tax on the same income already, either in the UAE or in a foreign country.

As part of the introduction of Corporate Tax, the UAE has introduced a Withholding Tax that applies to certain categories of income paid to a Non-Resident Person to the extent the income is not attributed to a Permanent Establishment in the UAE.[104] No such categories have been prescribed so far and the rate of this tax is 0%, meaning that, currently, no tax is to be withheld.

If the rate is changed in the future, a Non-Resident Person who becomes subject to Corporate Tax will be able to reduce their Corporate Tax Payable by any Withholding Tax that has already been deducted in the same Tax Period.[105] This is known as Withholding Tax Credit. Any excess Withholding Tax Credit will be refunded.[106]

### 4.9.1. Foreign Tax Credit

Corporate Tax Payable may be reduced by any available Foreign Tax Credit for the same Tax Period.[107] Foreign Tax Credit is the amount of foreign taxes paid on foreign source income which has not been exempted. A Foreign Tax Credit under Article 47 of the Corporate Tax Law is allowed even if foreign tax is paid in a jurisdiction with which the UAE does not have a Double Taxation Agreement.

A Double Taxation Agreement to which the UAE is a party may specify a method of providing relief from double taxation which is different to the Foreign Tax Credit rules set out in Article 47 of the Corporate Tax Law. Article 66 of the Corporate Tax Law provides that to the extent the terms of a Double Taxation Agreement are inconsistent with provisions of the Corporate Tax Law, the terms of the Double Taxation Agreement shall prevail.

A Foreign Tax Credit is available for any foreign tax that is of a similar character to Corporate Tax. The following conditions should be all satisfied for a foreign tax to be considered of similar character to Corporate Tax:

- the foreign tax is imposed by and payable to the government (federal or state government) of a foreign jurisdiction,
- payment of the foreign tax is compulsory and enforceable by tax laws in that foreign jurisdiction, and

[104] Article 45(1) of the Corporate Tax Law.
[105] Article 46(1) of the Corporate Tax Law.
[106] Article 46(3) of the Corporate Tax Law.
[107] Article 47(1) of the Corporate Tax Law.

- the foreign tax is imposed on profit or net income (i.e. income less deductions). Foreign withholding tax is deemed to meet this requirement.

In order to claim a Foreign Tax Credit, the pre-tax foreign source income must be included in the Taxable Income of the Taxable Person. The amount of Corporate Tax due should be calculated based on the overall Taxable Income, and Foreign Tax Credit can then be deducted from the amount of Corporate Tax Payable.

#### 4.9.2. How to calculate Foreign Tax Credit

The amount of Foreign Tax Credit cannot exceed the amount of Corporate Tax due in the UAE on the foreign source income.[108] Thus, the amount of Foreign Tax Credit is the lower of the following:

(i) The actual amount of tax paid on foreign source income in the foreign jurisdiction.
(ii) The amount of the Corporate Tax due in the UAE on the foreign source income.

Since Corporate Tax applies to income on a net basis (Revenue less expenditure), the net foreign source income is to be determined by deducting economically linked expenditure from the relevant income. The deductibility of expenditure will be in accordance with the relevant rules in the Corporate Tax Law.[109] It is possible that the foreign country has taxed the foreign source income on a gross basis, particularly in the case of withholding tax. However, since the Corporate Tax Law taxes income net of expenses, a Foreign Tax Credit is to be determined on net foreign source income.

As there are two rates of Corporate Tax in the UAE (i.e. 0% and 9%), the Corporate Tax due on foreign source income is to be determined on a weighted average basis using the following formula:

*Corporate Tax due on relevant foreign source income = X * Y/ Z, where:*
*X= Corporate Tax due on total Taxable Income of the Taxable Person before any Foreign Tax Credit,*
*Y= Relevant net foreign source income, and*
*Z= Total Taxable Income of the Taxable Person*

#### 4.9.3. Unutilised Foreign Tax Credit

Any unutilised Foreign Tax Credit cannot be carried forward to future Tax Periods or carried back to earlier Tax Periods.[110] Thus, an unutilised Foreign Tax Credit will be

[108] Article 47(2) of the Corporate Tax Law.
[109] As set out in Chapter Nine of the Corporate Tax Law.
[110] Article 47(3) of the Corporate Tax Law.

forfeited. Further, a Corporate Tax deduction for the unutilised Foreign Tax Credit is not possible.[111] No refund will be given for unutilised Foreign Tax Credit.

In addition, Foreign Tax Credit can only be applied after any Withholding Tax Credit has been applied.[112]

### 4.10. Taxation of Non-Resident Persons

A Non-Resident Person is subject to Corporate Tax in the UAE if it conducts Business in the UAE through a Permanent Establishment[113] or derives State Sourced income from the UAE[114] or derives income through a nexus (i.e. Immovable Property situated in the UAE) in the case of a juridical person.[115]

If a Non-Resident Person has a Permanent Establishment or nexus in the UAE, it will be subject to Corporate Tax in relation to the Taxable Income that is attributable to such Permanent Establishment or nexus.[116]

#### 4.10.1. Income attributable to Permanent Establishment

A Permanent Establishment has the meaning contained in Article 14 of the Corporate Tax Law. A Person and its Permanent Establishment are Related Parties[117] and should be treated as separate and independent entities. This approach is known as the “separate entity approach”.

The transactions between Related Parties or Connected Persons where one of the parties is a Permanent Establishment need to be conducted in line with the arm’s length standard.

##### 4.10.1.1. The separate entity approach

In certain situations, a Non-Resident Person may perform activities which result in the creation of a Permanent Establishment in the UAE.

Such a Non-Resident Person is required to attribute the appropriate amount of income and associated costs to its Permanent Establishment in accordance with the arm’s length standard.

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[111] Article 33(8) of the Corporate Tax Law.
[112] Article 44(1) and (2) of the Corporate Tax Law.
[113] Article 11(4)(a) and Article 14 of the Corporate Tax Law.
[114] Article 11(4)(b) and Article 13 of the Corporate Tax Law.
[115] Article 11(4)(c) of the Corporate Tax Law read and Cabinet Decision No. 56 of 2023.
[116] Article 12(3)(a) and (b) of the Corporate Tax Law.
[117] Article 35(1)(d) of the Corporate Tax Law.

The arm's length standard requires treating a Permanent Establishment as if it is a separate entity that operates independently from the parent entity to which the Permanent Establishment belongs (i.e. its head office), and also to the other entities of the group.

In order to accurately attribute the profit between the Permanent Establishment and its parent, a two-step analysis is required:

- **Step one**: Conduct a functional analysis to identify the functions performed by the Permanent Establishment on one side, and the head office on the other side, treating each as separate to the other. This analysis should also take into account the assets used and the risks assumed by the Permanent Establishment and the head office, respectively.
- **Step two**: Determine the compensation relating to arrangements or dealings between the Permanent Establishment and the head office, commensurate with their respective functions performed, assets deployed, and risks assumed.

For further information on the two-step approach, see the FTA Corporate Tax Guide on Transfer Pricing. This analysis is expected to form part of the Transfer Pricing documentation prepared for each period.

The approach adopted should be pragmatic, taking into consideration cost-benefit considerations and should be fact and circumstance specific.

Where expenses are incurred for a specific income stream, those expenses should be allocated directly to that category of income. However, if the head office incurs expenses that cannot be directly attributed to the Permanent Establishment, the head office will need to allocate those expenses between the head office and Permanent Establishment on an arm's length basis using appropriate allocation keys. This allocation should be consistent with the arm's length standard (refer to Section 4.5.4 for a further explanation on allocation keys).

Refer to Section 13 (Case Study 8) for the determination of Taxable Income in the case of a Non-Resident Person operating in the UAE through a Permanent Establishment.

# 5. Case Study 1: Deductible and non-deductible expenditure

This case study covers the adjustments to be made to Accounting Income while determining the Taxable Income for Corporate Tax purposes relating to deductible and non-deductible expenditure (Article 20(2)(d) of the Corporate Tax Law). Adjustments relating to the Interest deduction limitation rules are covered in Section 6 (Case Study 2).

## 5.1. Facts

Company F is a company incorporated in and a tax resident of the UAE. It is operating in the healthcare industry. It was incorporated on 1 January 2024. It prepares Financial Statements on an Accrual Basis of Accounting, and its Tax Period is the Gregorian calendar year.

Company F has a wholly owned subsidiary, Company Q (a company incorporated in and a tax resident of the UAE) that is the philanthropic arm of Company F. Company Q is a Qualifying Public Benefit Entity and is exempt for Corporate Tax purposes. [118]

One of Company F's key senior personnel (Ms K) is also the managing director of Company Q. Company F's employee records (timesheets) show that Ms K spends approximately 70% of her time working for Company F's Business (including developing marketing strategies and coordinating client relations). The remaining 30% is spent on Company Q's charitable activities (organising community events and service projects). Ms K is employed by Company F and her entire salary cost is borne by Company F.

An extract of the figures from the standalone Financial Statements of Company F for the 2024 Gregorian calendar year is as follows (amounts in AED):

| Relevant figures | | Sub-total Amount | Total Amount |
|---|---|---|---|
| | Revenue from sales | | 70,000,000 |
| | **Total Revenue (A)** | | **70,000,000** |
| **Less** | **Expenditure:** | | |
| | Cost of goods sold | | (23,000,000) |
| | Salary, wages and bonuses (including housing allowance, health insurance for employee and their dependants, air travel | | |

[118] Article 9 of the Corporate Tax Law.

| Relevant figures | | Sub-total Amount | Total Amount |
|---|---|---|---|
| | allowance for employees and their dependants, etc.): | | |
| | • *to employees* | (10,500,000) | |
| | • *to directors (who are shareholders)* | (5,000,000) | |
| | • *shared employee cost* | (2,000,000) | (17,500,000) |
| | Employee benefits (for home working) | - | (500,000) |
| | Local taxes (property and municipal tax) | | (500,000) |
| | Other purchases: | | |
| | • *software licence (right to use for 1 year)* | (900,000) | |
| | • *low value, high volume medical equipment (life 2 years)* | (700,000) | |
| | • *items purchased for subsidiary* | (700,000) | (2,300,000) |
| | Employee travel expenditure: | | |
| | • *during working days* | (50,000) | |
| | • *during non-working days* | (20,000) | (70,000) |
| | Entertainment expenses: | | |
| | • *entertainment (employees)* | (900,000) | |
| | • *entertainment (business partners)* | (500,000) | |
| | • *entertainment (shareholders' family members)* | (200,000) | (1,600,000) |
| | Donations and gifts to: | | |
| | • *Qualifying Public Benefit Entities* | (500,000) | |
| | • *other Persons* | (700,000) | (1,200,000) |
| | Fines/penalties and compensation: | | |
| | • *speeding fines – employees* | (20,000) | |
| | • *breach of customer contract* | (600,000) | |
| | • *customer compensation* | (900,000) | |
| | • *professional fees (for defending legal claims by customers)* | (400,000) | (1,920,000) |
| | Bribe to a customer's employee to enter into new contract | - | (2,000,000) |
| | Rent (paid to shareholder for office space) | - | (900,000) |
| | Irrecoverable input VAT | | (150,000) |
| | Contribution to private pension fund* | | (3,000,000) * |
| | Pre-incorporation expenses (incurred by shareholders) | | (500,000) |
| | Provision for bad debts | | (500,000) |
| | Provision for customer warranties | | (600,000) |
| | Provision for fines and penalties | | (1,000,000) |
| | **Total Expenditure (B)** | | **(57,240,000)** |

| Relevant figures | | Sub-total Amount | Total Amount |
|---|---|---|---|
| | **Accounting Income [(A) – (B)]** | | **12,760,000** |

*Out of the AED 3,000,000 contribution to the private pension fund, AED 1,000,000 remained unpaid during the 2024 Gregorian calendar year.

### 5.2. Determining Taxable Income and calculating Corporate Tax Payable

Company F's computation of Taxable Income and Corporate Tax Payable for the 2024 Gregorian calendar year along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| Adjust | Relevant adjustments | Amount | Note |
|---|---|---|---|
| | **Accounting Income** | **12,760,000** | |
| + | **Disallowed expenditure as per Article 28:**[119] | | |
| | • Not incurred for Business: Items purchased on behalf of the subsidiary (no reimbursement) | 700,000 | 5.3.3 |
| | • Expenditure incurred for more than one purpose | 600,000 | 5.3.4 |
| | • Entertainment expenditure for shareholders' family members | 200,000 | 5.3.3 |
| + | **Disallowed expenditure as per Article 32:**[120] | | |
| | • 50% of entertainment expenditure for business partners | 250,000 | 5.3.5 |
| + | **Non-deductible expenditure as per Article 33:**[121] | | |
| | Donations and gifts to Persons other than Qualifying Public Benefit Entities | 700,000 | 5.3.6 |
| | • Speeding fines and penalties | 20,000 | 5.3.7 |
| | • Inducement Bribe to a customer's employee to secure a new contract | 2,000,000 | 5.3.8 |
| + | • **Other disallowed expenditure** | | |
| | Unpaid contribution to private pension fund | 1,000,000 | 5.3.11 |

[119] Article 28 of the Corporate Tax Law.
[120] Article 32(1) of the Corporate Tax Law.
[121] Article 33 of the Corporate Tax Law.

| Adjust | Relevant adjustments | Amount | Note |
|---|---|---|---|
| | • Provision for fines and penalties (in relation to statutory body regulating healthcare industry) | 1,000,000 | 5.3.13 |
| | • **Taxable Income** | **19,230,000** | |
| | 0% up to AED 375,000 | 0 | |
| | 9% above AED 375,000 | 1,696,950 | |
| | **Corporate Tax Payable** | **1,696,950** | |

## 5.3 Explanatory notes

### 5.3.1 Expenditure incurred wholly and exclusively for the purpose of the Business

As noted in Section 4.5.1, expenditure that is incurred wholly and exclusively for the purposes of the Taxable Person's Business (which is not capital in nature) is deductible for Corporate Tax purposes.[122]

(A) Salary and bonus paid to directors who are shareholders:

Shareholders Mr A and Mr B are executive directors of Company F, involved in the day-to-day operations of the company and have signed an employment contract with Company F. The salary and variable pay to such director-shareholders is as per prevailing industry standards. Amounts paid are for the services rendered by Mr A and Mr B to Company F in their capacity as executive directors and not as shareholders.

Accordingly, the amounts paid to the executive directors as employees will be considered as incurred wholly and exclusively for the Business of Company F, and hence, deductible expenditure i.e. no adjustment is required to the Accounting Income while determining the Taxable Income in relation to the AED 5,000,000 paid to the directors. It is assumed for the purpose of the example that the payment to director-shareholders is at arm's length.

(B) Employee benefits (for home working):

Company F employs certain professionals who are required to exclusively work from home. Company F agrees to reimburse the increased associated cost for such employees (such as home office set up, and part of the utility bills).

[122] Article 28(1) of the Corporate Tax Law.

The cost incurred for the employees' home working will be considered as incurred wholly and exclusively for the Business of Company F, and hence deductible expenditure, i.e. no adjustment is required to the Accounting Income while determining the Taxable Income in relation to home-office expenses of AED 500,000.

(C) Local taxes

Company F has paid local taxes of AED 500,000 in relation to property tax and municipal tax with respect to its business premises. This expenditure is incurred by Company F wholly and exclusively for the purposes of its Business.[123]

Such local taxes are not in the nature of Corporate Tax, which is specifically treated as a non-deductible expenditure.[124] Hence, such local taxes will be deductible, and no further adjustment is required.

### 5.3.2 Capital vs revenue expenditure

As noted in Section 4.5.6, capital expenditure is expenditure that creates an enduring benefit to a Business and is not deductible for Corporate Tax purposes.

Company F has incurred capital expenditure of AED 700,000 in relation to certain low value, high volume medical equipment that has a useful life of 2 years. Company F's accounting policy is not to capitalise low value capital items and, therefore, this expenditure is recorded as an expense in the income statement. Thus, this expenditure is not treated as capital expenditure for accounting purposes by Company F. In the circumstances, this expenditure should be deductible in the year in which it is incurred. If the medical equipment was capitalised, the cost of acquisition would not be deductible. However, the depreciation in relation to such equipment would be deductible.

Licence fees for the use of specific software for one year will be revenue expenditure in the absence of any enduring benefit. Hence, the AED 900,000 is deductible, and no adjustment is required.

### 5.3.3 Expenditure not incurred for the purpose of Business

As noted in Section 4.5.1, if expenditure is not incurred for the purpose of the Taxable Person's Business, then it is disallowed i.e. it must be added back when determining Taxable Income.[125]

[123] Article 28(1) of the Corporate Tax Law.
[124] Article 33(6) of the Corporate Tax Law.
[125] Article 28(2)(a) of the Corporate Tax Law.

Company F has purchased items on behalf of its subsidiary. Accordingly, AED 700,000 that is not incurred for the Business of Company F is disallowed while determining Taxable Income, assuming there is no reimbursement of expenditure by the subsidiary to Company F.

If there was a partial reimbursement of expenditure by the subsidiary to Company F, then only the amount that is not reimbursed would be disallowed in the hands of Company F as it was not incurred for the Business of Company F.

Further, Company F has incurred AED 200,000 for the entertainment of shareholders' family members. Since this expenditure is not incurred for the Business of Company F, it is disallowed.

#### 5.3.4 Expenditure incurred for more than one purpose

As noted in Section 4.5.4, if expenditure is incurred partly for Business purposes and partly for some other purpose, the amount must be apportioned so that only the part relating to the derivation of Taxable Income will be allowed as a deduction.

(A) Employee travel expenditure:

Company F has incurred AED 70,000 on travel expenses for its employees, AED 20,000 of which relates to personal travel by employees during weekends or non-working hours. However, since the entire expenditure of AED 70,000 is incurred for the benefit/wellbeing of the employees, i.e. as part of the company's efforts to reward/retain the employees, it is directly connected to the Business of Company F. Therefore, the whole cost will be considered to be incurred for the purpose of the Business of Company F – in the same way as a fair market employee benefit, for instance – and hence, will be allowed as a deduction, i.e. no adjustment is required while determining Taxable Income, provided the aggregate amount is in line with the arm's length standard.

(B) Shared employee cost:

Company F has incurred AED 2,000,000 towards Ms K's salary cost (including housing allowance, health insurance for employee and their dependents, air travel allowance for employee and their dependents, etc.). Ms K spends 30% of her time working for Company Q. From the total salary of Ms K, i.e. AED 2,000,000, an apportionment based on the time spent working for Company F and Company Q will mean that AED 1,400,000 (70% of AED 2,000,000) will qualify as Business expenditure related to Company F's Business. The remaining AED 600,000 (30% of AED 2,000,000) will not be allowed as Business expenditure. Accordingly, AED 600,000 will be disallowed, i.e. added back, while determining the Taxable Income of Company F, unless this cost is recharged to Company Q at arm's length.

#### 5.3.5 Entertainment expenditure

Company F has incurred entertainment expenditure of AED 1,600,000. As per the specific rules in relation to entertainment expenditure, as noted in Section 4.5.10:
(A) AED 900,000 for entertainment of company employees would be 100% deductible.
(B) AED 500,000 for entertainment of business partners would be 50% deductible, i.e. AED 250,000.

In addition, as noted in Section 5.3.3, AED 200,000 for entertainment for shareholders' families is disallowed as not being incurred for the purpose of Business.

Accordingly, the following expenditure is disallowed, i.e. added back, while determining Taxable Income:
(A) AED 250,000 relating to entertainment expenditure for business partners.
(B) AED 200,000 relating to entertainment expenditure for shareholders' families. (see Section 5.3.3)

#### 5.3.6 Donations, gifts

As noted in Section 4.5.9, donations, grants or gifts made to a Person other than a Qualifying Public Benefit Entity are non-deductible expenditure for Corporate Tax purposes.[126]

Accordingly, AED 700,000 relating to donations and gifts made to Persons other than a Qualifying Public Benefit Entity are disallowed, i.e. added back, while determining Taxable Income.

#### 5.3.7 Fines, penalties and compensation

- Fines, penalties:

As noted in Section 4.5.1 the deductibility of any expenditure will depend on whether it is incurred wholly and exclusively for the purposes of the Business.

If the payment is for infraction/breach of any laws, rules or regulations or is imposed as punishment, then it will not be allowable for Corporate Tax purposes, for example, fines and penalties levied by a statutory body/government. It does not matter if such fines or penalties are incurred in the normal course of Business, they will be disallowed for Corporate Tax purposes.

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[126] Article 33(1) of the Corporate Tax Law.

Thus, as noted in Section 4.5.9, payment of fines or penalties, other than compensation for damages or breach of contract, is not deductible expenditure.[127]

Company F has paid AED 20,000 relating to speeding fines levied on the company employees, which were incurred during the performance of the employees' work. Given the nature of expenditure is a fine/penalty due to the infraction of law, it is non-deductible expenditure.

- Compensation for damages or breach of contract:

Generally, where the payment is intended to provide restitution for damages caused by virtue of normal/day-to-day Business operations, then it will be allowable as a deduction for Corporate Tax purposes, for example, compensation paid to a customer for breach of contract.

Expenditure relating to breach of customer contract (AED 600,000), compensation paid to customers (AED 900,000) and professional fees for defending a lawsuit filed by a customer for legal claims (AED 400,000) pertains to the normal/day-to-day Business operations of Company F. These amounts (i.e. compensation and professional fees to defend lawsuits) are deductible for Corporate Tax purposes and so no adjustment is required when determining Taxable Income.

### 5.3.8 Bribes, illicit payments

No deduction is allowed for bribes or other illicit payments even if the expenditure is recorded as a cost under accounting principles.[128] In this example, the expenditure of AED 2,000,000 relates to inappropriately seeking to influence a customer's employee to award a contract to Company F. Such a payment, even if wholly incurred for Business purposes, is in the nature of a bribe, and is non-deductible for Corporate Tax purposes i.e. added back when determining Taxable Income.

### 5.3.9 Payments to Connected Persons

Payments to Connected Persons, which includes an owner or director, are only deductible to the extent they represent Market Value for the service or benefit provided.[129]

Company F entered into a lease agreement for office space with shareholder Mr A which is at Market Value. As long as this is purely for the Business of Company F and

[127] Article 33(2) of the Corporate Tax Law.
[128] Article 33(3) of the Corporate Tax Law.
[129] Article 36(1) and (2) of the Corporate Tax Law.

at a Market Value rate, no adjustment is required in relation to rent paid to the shareholder of AED 900,000.

#### 5.3.10 Input Value Added Tax

As noted in Section 4.5.9, no deduction is allowed for Input Value Added Tax incurred by a Taxable Person that is recoverable.[130] However, irrecoverable Input Value Added Tax is allowed as a deduction as it represents a permanent cost to the Business, provided the underlying expenditure meets the general rules of deduction i.e. it is incurred wholly and exclusively for the purposes of the Business. Accordingly, irrecoverable Input Value Added Tax of AED 150,000 that is incurred wholly and exclusively for the purposes of the Business will be allowed as a deduction while determining the Taxable Income.

If Input Value Added Tax is levied on expenditure that does not qualify as deductible expenditure for Corporate Tax purposes, it will also not be deductible. For example, any Input Value Added Tax on personal (non-Business) expenditure is not deductible.

In the event that recoverable Value Added Tax had been recorded as an expense in the accounts, it will not be deductible i.e. it is required to be added back when determining Taxable Income if it has been recorded as an expense.

#### 5.3.11 Contributions to a private pension fund

As noted in Section 4.5.9, an employer can claim a deduction for contributions made to a private pension fund in respect of its employees who are Pension Plan Members in the Tax Period in which such contributions are “paid”.[131] However, an employer may not claim a deduction for contributions exceeding 15% of an employee’s total remuneration for the relevant Tax Period.[132] Thus, in order to be deductible, the relevant contribution must be actually paid in the relevant Tax Period and must not exceed this 15% threshold. Therefore, any unpaid contributions and any excess contributions (i.e. contributions exceeding 15% of the employee’s total remuneration) will not be allowed as a deduction.

Accordingly, of the AED 3,000,000 pension fund cost, only the unpaid contribution of AED 1,000,000 will be disallowed, i.e. added back, when determining Taxable Income. The balance of AED 2,000,000 that was paid by Company F is within the threshold of 15% of each employee’s total remuneration and so is deductible.

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[130] Federal Decree-Law No. 8 of 2017.

[131] Article 5(1) of Ministerial Decision No. 115 of 2023.

[132] Article 5(2) of Ministerial Decision No. 115 of 2023.

### 5.3.12 Expenses incurred prior to commencement of Business

As noted in Section 4.5.7, subject to any specific restrictions, the general rule is that any expenditure incurred wholly and exclusively for the Business is allowed as a deduction in the Tax Period in which it is incurred.[133]

Mr A and Mr B, shareholders of the company, incurred pre-incorporation expenditure in relation to professional fees, registration fees, etc. to incorporate Company F. Such costs are reimbursed to Mr A and Mr B by Company F and in accordance with IFRS are expensed by Company F in its first Financial Year, i.e. the current Tax Period. Accordingly, no adjustment is required to be made in relation to the pre-incorporation expenses of AED 500,000 when determining Taxable Income.

### 5.3.13 Creation and reversal of provisions

As noted in Section 4.5.8, if a Taxable Person is carrying a provision in its Financial Statements in accordance with the applicable Accounting Standards (i.e. IFRS or IFRS for SMEs), any movement in the provision will be taken into account in the determination of Taxable Income and be deductible, if applicable, as long as it relates to an expense which would be deductible under the Corporate Tax Law.

If such a provision is released or reversed in the following Tax Period, there are no specific adjustments required to be made with regards to the release or reversal. Therefore, the relevant credit to the Financial Statements will be treated as Taxable Income for Corporate Tax. However, if a provision is made in relation to expenditure that is disallowable under the Corporate Tax Law, it will not be allowed as a deduction while determining Taxable Income.

Accordingly, no adjustment is required when determining Taxable Income for:

- provision for bad debts of AED 500,000, and
- provision for customer warranties of AED 600,000 (customer warranties in relation to sale of various medical equipment).

However, Company F has also made a provision for fines and penalties of AED 1,000,000 on the expectation that the same will be levied by the statutory body regulating the healthcare industry. Since the provision is for an underlying expense which is non-deductible under the Corporate Tax Law, i.e. fines and penalties, it will not be allowed as a deduction while determining Taxable Income and, hence, is required to be added back.

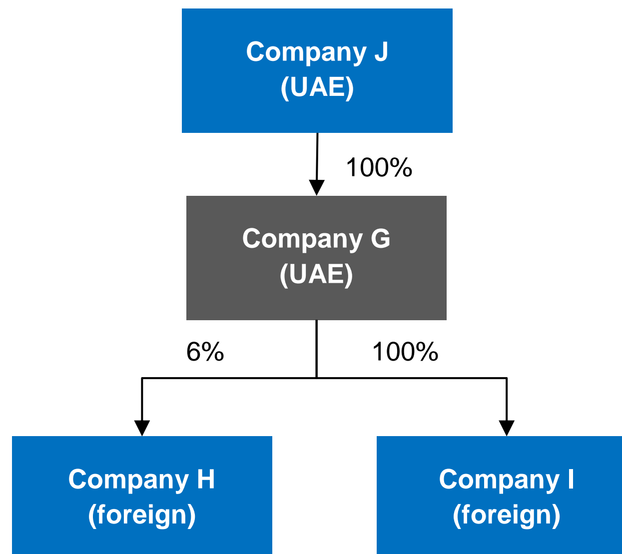
[133] Article 28(1) of the Corporate Tax Law.

# 6. Case Study 2: Interest expenditure

This case study covers the adjustments to be made to Accounting Income while determining the Taxable Income for Corporate Tax purposes relating to deductible and non-deductible expenditure (Article 20(2)(d) of the Corporate Tax Law). It covers the applicability of the General and Specific Interest Deduction Limitation Rules (i.e. deductible and non-deductible Interest expenditure and the treatment of disallowed/unutilised Net Interest Expenditure).

## 6.1. Facts

Company G is a company incorporated in and a tax resident of the UAE. It is engaged in the trading of electronic equipment in the UAE. It prepares Financial Statements on an Accrual Basis of Accounting, and its Tax Period is the Gregorian calendar year.




It owns 6% of the shares in Company H (a company incorporated in and a tax resident of Country H). Company H is a Participating Interest of Company G and satisfies all the conditions of the Participation Exemption.

During the 2025 Gregorian calendar year, Company G:

- Obtains a loan from its wholly owned subsidiary, Company I (a company incorporated in and a tax resident of Country I) on 1 December 2025. Country, I does not levy a tax similar to Corporate Tax.
- Declares and pays a Dividend to its holding company, Company J (a company incorporated in and a tax resident of the UAE) on 5 December 2025. Payment of the Dividend is funded by the loan from Company I.

An extract of the figures from the standalone Financial Statements of Company G for the 2025 and 2026 Gregorian calendar years is as follows (amounts in AED):

| Relevant figures | Amount | Amount |
|---|---|---|
| | 2025 | 2026 |
| **Revenue:** | | |
| Trading income | 150,000,000 | 170,000,000 |
| Dividend from Company H (Participation) | 20,000,000 | 25,000,000 |
| Interest income: | | |
| • Interest income (trade receivables i.e. debtors) | 20,000,000 | 32,000,000 |
| • Interest income (loans to third parties) | 12,000,000 | 22,000,000 |
| **Total Revenue (A)** | **202,000,000** | **249,000,000** |
| **Less: Expenditure** | | |
| Cost of goods sold | (60,000,000) | (51,000,000) |
| Salaries and wages | (15,000,000) | (34,000,000) |
| General expenses | (7,500,000) | (8,500,000) |
| Professional fees (for acquisition of Company H i.e. Participation) | (7,500,000) | - |
| Depreciation of fixed assets | (3,000,000) | (4,000,000) |
| Amortisation of development cost | (1,000,000) | (2,000,000) |
| Interest expense: | | |
| • Interest expense (on loan for Company H acquisition) | (10,000,000) | (8,000,000) |
| • Interest expense on debt instrument agreed on in 2022 | (2,000,000) | (2,000,000) |
| • Interest expense (USD bank loan) | (30,000,000) | (18,000,000) |
| • foreign exchange loss on Interest on bank loan | (2,500,000) | (3,000,000) |
| • Interest expense (trade payables i.e. creditors) | (22,500,000) | (23,000,000) |
| • guarantee fees (not related to the loan from Company I or the debt instrument of 2022) | (1,000,000) | (2,500,000) |
| • Interest expense (loan from Company I) | (28,000,000) | (30,000,000) |
| **Total expenditure (B)** | **190,000,000** | **186,000,000** |
| **Accounting Income before tax [(A) – (B)]** | **12,000,000** | **63,000,000** |

## 6.2. Determining Taxable Income and calculating Corporate Tax Payable

Company G's computation of Taxable Income and Corporate Tax Payable for the 2025 and 2026 Gregorian calendar years along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| | Relevant adjustments | Amount 2025 | Amount 2026 | Note |
|---|---|---|---|---|
| **Accounting Income** | | 12,000,000 | 63,000,000 | - |
| - | Exempt Income: Participation Exemption | (20,000,000) | (25,000,000) | 6.3.1 |
| + | Non-deductible expenditure: incurred for deriving Exempt Income | 7,500,000 | - | 6.3.2 |
| + | Non-deductible expenditure: Interest expense on loan from Related Party (Company I) | 28,000,000 | 30,000,000 | 6.3.3 |
| +/- | Net Interest Expenditure | 13,750,000 | (13,750,000) | 6.3.4 |
| **Taxable Income** | | **41,250,000** | **54,250,000** | **-** |
| | 0% up to AED 375,000 | 0 | 0 | - |
| | 9% above AED 375,000 | 3,678,750 | 4,848,750 | - |
| **Corporate Tax Payable** | | **3,678,750** | **4,848,750** | |

## 6.3. Explanatory notes

Interest expenditure can be deducted when calculating Taxable Income for the Tax Period in which it is incurred, subject to the General and Specific Interest Deduction Limitation Rules, set out below.[134]

### 6.3.1. Adjustments in relation to Exempt Income

As noted in Section 4.4.2.1, Dividends from a Participating Interest in a foreign juridical person are exempt.[135] Accordingly, the Dividends of AED 20,000,000 (in 2025) and AED 25,000,000 (in 2026) received from Company H are disregarded, i.e. deducted.[136]

[134] Article 29 of the Corporate Tax Law.
[135] Article 22(2) of the Corporate Tax Law.
[136] Article 20(2)(b) of the Corporate Tax Law.

#### 6.3.2. Adjustment in relation to expenditure incurred in deriving Exempt Income

As noted in Section 4.5.3, expenditure (except Interest expenditure) incurred in relation to deriving Exempt Income is not deductible when determining the Taxable Income.[137]

Company G has incurred professional fees which relate to a Participating Interest that will give rise to Exempt Income. Accordingly, the professional fees of AED 7,500,000 in 2025 are added back.

Interest expenditure of AED 10,000,000 (in 2025) and AED 8,000,000 (in 2026) on the acquisition and holding of Participating Interests is not required to be added back. It is deductible subject to the General Interest Deduction Limitation Rule.[138]

#### 6.3.3. Specific Interest Deduction Limitation Rule

As noted in Section 4.7, the Specific Interest Deduction Limitation Rule prohibits deduction of Interest expenditure incurred on a loan obtained directly or indirectly from a Related Party for, inter alia, Dividend or profit distribution to a Related Party[139] if the Related Party receiving the Interest is not subject to Corporate Tax, or a similar tax in a foreign country at a rate of at least 9%, on the Interest income.[140]

In this case, Company G has incurred Interest expenditure on a loan from a Related Party, i.e. Company I, that is not subject to Corporate Tax in the UAE or in Country I. Furthermore, Company G has utilised the borrowed funds to pay Dividends to its shareholder, i.e. Company J. Accordingly, Interest expenditure of AED 28,000,000 (in 2025) and AED 30,000,000 (in 2026) on the loan obtained from Company I will be fully disallowed by the Specific Interest Deduction Limitation Rule.[141]

Such Interest will not form part of Net Interest Expenditure when applying the General Interest Deduction Limitation Rule[142] (see Section 6.3.4.1).

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[137] Article 28(2)(b) of the Corporate Tax Law.
[138] Article 10(3) of Ministerial Decision No. 116 of 2023.
[139] Article 31(1) of the Corporate Tax Law.
[140] Article 31(3) of the Corporate Tax Law.
[141] Article 20(2)(d), 28 and 31 of the Corporate Tax Law.
[142] Article 30(5) of the Corporate Tax Law.

### 6.3.4. General Interest Deduction Limitation Rule

As noted in Section 4.6.2, when the Net Interest Expenditure exceeds AED 12 million in a Tax Period, as per the General Interest Deduction Limitation Rule, the amount of deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA for a Tax Period and,
- the de minimis threshold of AED 12 million.[143]

Considering the above, to determine the deductible Interest expenditure,[144] the following components need to be calculated:

- Net Interest Expenditure, and
- 30% of adjusted EBITDA.

#### 6.3.4.1. Calculation of Net Interest Expenditure

For the purposes of the General Interest Deduction Limitation Rule, the following amounts are considered Interest, amongst others. Hence, they are required to be included in the Net Interest Expenditure calculation:

- Foreign exchange gains and losses accruing from Interest.[145] Accordingly, the foreign exchange losses of AED 2,500,000 (for 2025) and AED 3,000,000 (for 2026) relating to the bank loan Interest are required to be considered in the Net Interest Expenditure calculation.
- Guarantee fees incurred in connection with raising finance.[146] Accordingly, guarantee fees of AED 1,000,000 (for 2025) and AED 2,500,000 (for 2026) are required to be considered in the Net Interest Expenditure calculation.

However, the following amounts are not included in the Net Interest Expenditure calculation for the purposes of the General Interest Deduction Limitation Rule:

- Net Interest Expenditure related to grandfathered debts (i.e. prior to 9 December 2022).[147] Accordingly, Interest expense of AED 2,000,000 (for 2025) and AED 2,000,000 (for 2026) on the debt instrument agreed in 2022 are not required to be considered in the Net Interest Expenditure calculation.
- Interest expenditure that is disallowed under any other provision of Corporate Tax Law (i.e. other than the General Interest Deduction Limitation Rule) such as Article 34 (arm's length principle/standard) or Article 31 (Specific Interest Deduction Limitation Rule) is also not included in the calculation of Net Interest Expenditure.[148] Accordingly, Interest on the loan from Company I (a Related Party) of AED

[143] Article 8 of Ministerial Decision No. 126 of 2023.
[144] Articles 29, 30 and 31 of the Corporate Tax Law.
[145] Article 6 of Ministerial Decision No. 126 of 2023.
[146] Article 3(2) of Ministerial Decision No. 126 of 2023.
[147] Article 11 of Ministerial Decision No. 126 of 2023.
[148] Article 30(5) of the Corporate Tax Law.

28,000,000 (for 2025) and AED 30,000,000 (for 2026), that has been used to pay Dividends, is excluded from the Net Interest Expenditure calculation (see Section 6.3.3).

Considering the above, the calculation of Net Interest Expenditure for Company G for the 2025 and 2026 Tax Periods is as follows (amounts in AED):

| | Net Interest Expenditure | Amount 2025 | Amount 2026 |
|---|---|---|---|
| **Interest expenditure:** | | | |
| | Interest expense on loan for acquisition of Company H (Participation) | 10,000,000 | 8,000,000 |
| | Interest expense (USD bank loan) | 30,000,000 | 18,000,000 |
| | Foreign exchange loss on Interest on bank loan | 2,500,000 | 3,000,000 |
| | Interest expense (trade payables i.e. creditors) | 22,500,000 | 23,000,000 |
| | Guarantee fees (not related to the loan from Company I and to the debt instrument of 2022) | 1,000,000 | 2,500,000 |
| **Total Interest expenditure (A)** | | **66,000,000** | **54,500,000** |
| **Interest income:** | | | |
| | Interest income (trade receivables, i.e. debtors) | 20,000,000 | 32,000,000 |
| | Interest income (loans to third parties) | 12,000,000 | 22,000,000 |
| **Total Interest income (B)** | | **32,000,000** | **54,000,000** |
| **Sub-total: Net Interest Expenditure for current year [(A) – (B)]** | | **34,000,000** | **500,000** |
| + | Net Interest Expenditure disallowed/carried forward from 2025 (see Section 6.3.4.3) | - | 13,750,000 |
| **Total Net Interest Expenditure** | | **34,000,000** | **14,250,000** |

#### 6.3.4.2. Calculation of 30% adjusted EBITDA

For the purposes of the General Interest Deduction Limitation Rule, EBITDA for a Tax Period is the Taxable Income calculated in accordance with the general rules for determining Taxable Income as per Article 20 of the Corporate Tax Law, i.e. all adjustments are required to be made except for adjustments in relation to the General Interest Deduction Limitation Rule and Tax Loss relief provisions. This Taxable Income (or loss) before the General Interest Deduction Limitation Rule and Tax Loss relief is increased by the following, to arrive at the "adjusted EBITDA" for the purposes of the General Interest Deduction Limitation Rule:

- Net Interest Expenditure for the relevant Tax Period,
- depreciation and amortisation expenditure taken into account in determining the Taxable Income for the relevant Tax Period,
- any Interest income or expenditure relating to historical financial assets or liabilities held prior to 9 December 2022, and
- any Interest income or expenditure relating to Qualifying Infrastructure Projects.

If the adjusted EBITDA, as per the above, results in a negative amount, then the adjusted EBITDA will be considered to be AED 0.[149]

Considering the above, calculation of adjusted EBITDA for the purposes of the General Interest Deduction Limitation Rule for the 2025 and 2026 Tax Periods in case of Company G is as follows (amounts in AED):

| | **30% of adjusted EBITDA** | **Amount 2025** | **Amount 2026** | | **Note** |
|---|---|---|---|---|---|
| | **Accounting Income/(loss)** | 12,000,000 | 63,000,000 | | |
| - | Exempt Income: Participation Exemption | (20,000,000) | (25,000,000) | | 6.3.1 |
| + | Non-deductible expenditure: incurred for deriving Exempt Income | 7,500,000 | - | | 6.3.2 |
| + | Non-deductible expenditure: Interest expense on loan from Related Party (Company I) | 28,000,000 | 30,000,000 | | 6.3.3 |
| | **Taxable Income before General Interest Deduction Limitation Rule and Tax Loss relief** | **27,500,000** | **68,000,000** | | |
| + | Net Interest Expenditure | 34,000,000 | 14,250,000 | | 6.3.4.1 |
| + | Depreciation of fixed assets | 3,000,000 | 4,000,000 | | |
| + | Amortisation of development cost | 1,000,000 | 2,000,000 | | |
| + | Interest expense on debt instrument agreed on in 2022 | 2,000,000 | 2,000,000 | | |
| | **Adjusted EBITDA** | **67,500,000** | **90,250,000** | | |
| | **30% of adjusted EBITDA** | **20,250,000** | **27,075,000** | | |

#### 6.3.4.3. Determining deductible and non-deductible Net Interest Expenditure

As noted above, the deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA, and
- the de minimis threshold of AED 12 million.

Considering the above, the calculation of deductible and non-deductible Net Interest Expenditure for the 2025 and 2026 Tax Periods for Company G is as follows:

*2025 Tax Period:*

Company G's Net Interest Expenditure of AED 34,000,000 (see Section 6.3.4.1) is deductible up to the greater of 30% of its adjusted EBITDA, i.e. AED 20,250,000 (see

[149] Article 9 of Ministerial Decision No. 126 of 2023.

Section 6.3.4.2), or the de minimis of AED 12,000,000. As 30% of adjusted EBITDA is higher than the de minimis amount, deductible Net Interest Expenditure for the 2025 Tax Period will be AED 20,250,000. Therefore, the adjustment to the Accounting Income in relation to Net Interest Expenditure when determining the Taxable Income is as follows (amounts in AED):

| Relevant figures | Amount |
|---|---|
| Net Interest Expenditure | 34,000,000 |
| Less: Net Interest Expenditure allowed | (20,250,000) |
| **Adjustment to Accounting Income: Disallowed Net Interest Expenditure (i.e. amount to be added back) and carried forward to the 2026 Tax Period** | **13,750,000** |

Company G's Net Interest Expenditure in 2025 is AED 34,000,000, of which it can deduct only AED 20,250,000 in the 2025 Tax Period. Accordingly, AED 13,750,000 (AED 34,000,000 minus AED 20,250,000) will not be deductible (i.e. will be added back in the Taxable Income calculation) but can be carried forward to the subsequent 10 Tax Periods.[150]

*2026 Tax Period:*

Company G's Net Interest Expenditure for the 2026 Tax Period is AED 14,250,000 (see Section 6.3.4.1) that includes:

- current year Net Interest Expenditure of AED 500,000, and
- the disallowed/carried forward Net Interest Expenditure from the 2025 Tax Period of AED 13,750,000.

Company G's Net Interest Expenditure of AED 14,250,000 for the 2026 Tax Period is deductible up to the greater of 30% of its adjusted EBITDA, i.e. AED 27,075,000 (see Section 6.3.4.2), or the de minimis of AED 12,000,000. As 30% of adjusted EBITDA is higher than the de minimis amount, deductible Net Interest Expenditure for the 2026 Tax Period will be capped at 30% of adjusted EBITDA, i.e. AED 27,075,000. Thus, the full amount of the Net Interest Expenditure of AED 14,250,000 is deductible in the 2026 Tax Period. Therefore, the adjustment to the Accounting Income in relation to Net Interest Expenditure is as follows (amounts in AED):

[150] Article 30(4) of Corporate Tax Law.

| Relevant figures | Amount |
|---|---|
| Net Interest Expenditure for the current year (amount included in the income statement) | 500,000 |
| Less: Total Net Interest Expenditure deductible (including carried forward Net Interest Expenditure) | (14,250,000) |
| **Adjustment to Accounting Income (i.e. additional Net Interest Expenditure to be deducted)** | **(13,750,000)** |

Thus, in 2026, Company G obtains relief for all of the Interest disallowed in 2025 as well as its current year Net Interest Expenditure.

# 7. Case Study 3: Tax Loss relief

This case study covers the adjustments to be made to Accounting Income while determining Taxable Income for Corporate Tax purposes in relation to Tax Loss relief and the treatment of an unutilised Tax Loss under Article 37 as introduced by Article 20(2)(f).

For the application of provisions relating to the transfer of a Tax Loss and limitation on Tax Loss carried forward, refer to Section 9 (Case Study 5).

## 7.1. Facts

Company K is a company incorporated in and a tax resident of the UAE. It is engaged in manufacturing and selling clothes in the UAE. It prepares Financial Statements on an Accrual Basis of Accounting, and its Tax Period is the Gregorian calendar year. The relevant facts are as follows:

- Company K has a branch office in Country L for manufacturing and selling products in Country L. As per the domestic tax laws of Country L, the branch office is treated as a permanent establishment of Company K in Country L and the operations are subject to tax at 10% in Country L. No loss has previously been incurred in Country L until the 2025 Tax Period. There is no Double Taxation Agreement between the UAE and Country L.
- Company K acquired 100% of the shares in Company M (a company incorporated in and a tax resident of Country M) on 1 January 2025. Company M is a Participating Interest for Company K and meets all the conditions for the Participation Exemption. The shares of Company M were disposed of for a loss of AED 1,000,000 on 31 May 2026.
- Company K made an election for the Foreign Permanent Establishment exemption for the Tax Periods ending 31 December 2025 and 2026.[151]
- There has been no change in the shareholders or the Business of Company K during the 2025 and 2026 Gregorian calendar years.[152]

An extract of the figures from the standalone Financial Statements of Company K for the 2025 and 2026 Gregorian calendar years is as follows (amounts in AED):

[151] Article 24 of the Corporate Tax Law.
[152] It is assumed that conditions prescribed under Article 39 of the Corporate Tax Law are not breached.

| Relevant figures | Amount 2025 | Amount 2026 |
|---|---|---|
| **Revenue from sales (A)** | 60,000,000 | 86,000,000 |
| **Less: Expenditure:** | | |
| Cost of goods sold | (44,000,000) | (32,000,000) |
| Write-off of obsolete stock | (500,000) | - |
| Salaries and wages | (20,000,000) | (26,000,000) |
| Entertainment event for business partners in Country L | (1,000,000) | (1,500,000) |
| Depreciation | (5,500,000) | (6,000,000) |
| Marketing expense | (5,000,000) | (7,000,000) |
| Trade licence (for sales in Country L) | (50,000) | (50,000) |
| Loss on sale of shares (Company M) | - | (1,000,000) |
| Foreign exchange loss on sale of shares (Company M) | - | (2,000) |
| **Total expenditure (B)** | **(76,050,000)** | **(73,552,000)** |
| **Accounting Income [(A)-(B)]** | **(16,050,000)** | **12,448,000** |

Income and expenditure attributable to Country L operations (branch office) and included in the above figures are as follows (amounts in AED):

| Relevant figures | Amount 2025 | Amount 2026 |
|---|---|---|
| Revenue from sales (A) | 5,000,000 | 7,000,000 |
| Less: Expenditure | | |
| • cost of goods sold | (6,500,000) | (4,500,000) |
| • entertainment event for business partners in Country L | (1,000,000) | (1,500,000) |
| • trade licence (obtained for sales in Country L) | (50,000) | (50,000) |
| **Total expenditure (B)** | **(7,550,000)** | **(6,050,000)** |
| **Accounting Income [(A)-(B)]** | **(2,550,000)** | **950,000** |

### 7.2. Determining Taxable Income and calculating Corporate Tax Payable

Company K's computation of Taxable Income and Corporate Tax Payable for the 2025 and 2026 Gregorian calendar years along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| Adjust | Relevant adjustments | Amount 2025 | Amount 2026 | Note |
|---|---|---|---|---|
| | **Accounting Income** | (16,050,000) | 12,448,000 | |
| + | Exempt loss: Participation Exemption | - | 1,000,000 | 7.3.1 |
| + | Foreign exchange loss Participation Exemption | - | 2,000 | 7.3.1 |
| +/- | Exempt loss/income: Foreign Permanent Establishment Exemption | 2,550,000 | (950,000) | 7.3.2 |
| | **Taxable Income/(loss) before Tax Loss relief** | **(13,500,000)** | **12,500,000** | |
| - | Tax Loss relief | - | (9,375,000) | 7.3.3 |
| | **Taxable Income/ (Tax Loss)** | **(13,500,000)** | **3,125,000** | |
| | 0% up to AED 375,000 | 0 | 0 | |
| | 9% above AED 375,000 | - | 247,500 | |
| | **Corporate Tax liability** | - | 247,500 | |
| - | Foreign Tax Credit | - | - | 7.3.2 |
| | **Corporate Tax Payable** | - | **247,500** | |
| | Tax Loss available to be carried forward | 13,500,000 | 4,125,000 | 7.3.3 |

## 7.3. Explanatory notes

### 7.3.1. Exempt Income: Participation Exemption

As noted in Section 4.4.2.2, gains or losses on the disposal of a Participating Interest (or part thereof) are excluded from Taxable Income. Similarly, foreign exchange gains or losses in relation to a Participating Interest are excluded while determining the Taxable Income.[153]

Accordingly, the loss on sale of shares of Company M of AED 1,000,000 and the foreign exchange loss of AED 2,000 on the sale of shares of Company M for the 2026 Tax Period are added back.

### 7.3.2. Exempt Income: Foreign Permanent Establishment

The Foreign Permanent Establishment exemption is available for the following reasons:

[153] Article 23(5)(c) of the Corporate Tax Law.

- The Foreign Permanent Establishment is subject to Corporate Tax at a rate of not less than 9% (i.e. 10% in Country L in this case).[154]
- No Tax Loss from the Foreign Permanent Establishment has previously been utilised.[155]

Company K has, therefore, made an election in the 2025 and 2026 Tax Periods to exclude the net profits and losses of its Foreign Permanent Establishment while determining its Taxable Income for Corporate Tax purposes. Accordingly, the following adjustments are made to Company K's Taxable Income calculation:

- the net loss of AED 2,550,000 incurred during the 2025 Tax Period is added back, and
- the net income of AED 950,000 earned during the 2026 Tax Period is deducted.

A credit for foreign tax paid by Company K on its Country L operations is not available where an election for the Foreign Permanent Establishment exemption has been made.[156]

#### 7.3.3. Tax Loss relief

As noted in Section 4.8, a Taxable Person can carry forward a Tax Loss and offset it against Taxable Income in subsequent Tax Periods, subject to meeting certain conditions.[157] The Tax Loss carried forward can be used to reduce the Taxable Person's income in the Tax Period by a maximum of 75% of that Taxable Income.

The Taxable Income of Company K in this case for the 2026 Tax Period is AED 12,500,000. Accordingly, Company K can utilise AED 9,375,000 of Tax Loss to offset its Taxable Income (i.e. 75% of AED 12,500,000).[158] Considering the above, the Tax Loss relief and Tax Loss carried forward for Company K is as follows (amounts in AED):

| | Details of Tax Loss | Amount 2025 | Amount 2026 |
|---|---|---|---|
| | Current year Tax Loss | 13,500,000 | - |
| | Tax Loss brought forward | - | 13,500,000 |
| (i) | Total Tax Loss available | 13,500,000 | 13,500,000 |
| (ii) | Maximum Tax Loss offset (75% of AED 12,500,000 in 2026) | - | 9,375,000 |

[154] Article 24(7) of the Corporate Tax Law.
[155] Article 13(1) of Ministerial Decision No. 116 of 2023.
[156] Article 24(2)(c) of the Corporate Tax Law.
[157] Article 39 of the Corporate Tax Law.
[158] Article 37(2) of the Corporate Tax Law.

| | Details of Tax Loss | Amount 2025 | Amount 2026 |
|---|---|---|---|
| (iii) | Tax Loss utilised during the Tax Period [lower of (i) or (ii)] | - | (9,375,000) |
| | **Tax Loss carried forward [(i) – (iii)]** | **13,500,000** | **4,125,000** |

Additionally, the Tax Loss relating to the Foreign Permanent Establishment cannot be offset against the UAE operations given that Company K has elected for the Foreign Permanent Establishment exemption.[159]

[159] Article 37(3)(c) of the Corporate Tax Law.

# 8. Case Study 4: Interest expenditure and Tax Loss relief

This case study covers the adjustments to be made to Accounting Income while determining the Taxable Income for Corporate Tax purposes in a situation where there is both unutilised/carried forward Net Interest Expenditure and Tax Losses.

## 8.1. Facts

Company N is a company incorporated in and a tax resident of the UAE. It is operating in the hospitality industry in the UAE. It prepares Financial Statements on an Accrual Basis of Accounting, and its Tax Period is the Gregorian calendar year.

An extract of the figures from the standalone Financial Statements of Company N for the 2025 and 2026 Gregorian calendar years is as follows (amounts in AED):

| | Relevant figures | Amount 2025 | Amount 2026 |
|---|---|---|---|
| | Revenue from sales | 110,000,000 | 132,500,000 |
| | Interest income on bank deposits | 3,500,000 | 1,200,000 |
| **Total Revenue (A)** | | **113,500,000** | **133,700,000** |
| **Less** | **Expenditure:** | | |
| | • cost of sales | (64,000,000) | (72,000,000) |
| | • depreciation and amortisation | (8,000,000) | (8,000,000) |
| | • general expense | (55,000,000) | (5,000,000) |
| | • Interest expense (bank loan) | (19,000,000) | (15,200,000) |
| **Total expenditure (B)** | | **(146,000,000)** | **(100,200,000)** |
| **Accounting Income [(A) – (B)]** | | **(32,500,000)** | **33,500,000** |

## 8.2. Determining Taxable Income and calculating Corporate Tax Payable

Company N's computation of Taxable Income and Corporate Tax Payable for the 2025 and 2026 Gregorian calendar years along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| Adjust | Relevant adjustments | Amount 2025 | Amount 2026 | Note |
|---|---|---|---|---|
| | **Tax Loss brought forward** | 0 | (29,000,000) | |
| | **Accounting Income/(loss)** | **(32,500,000)** | **33,500,000** | |
| +/- | Net Interest Expenditure | 3,500,000 | (3,500,000) | 8.3.4 |
| | Taxable Income (before Tax Loss relief) | (29,000,000) | 30,000,000 | |

| Adjust | Relevant adjustments | Amount 2025 | Amount 2026 | Note |
|---|---|---|---|---|
| - | Tax Loss Relief allowed (75% of Taxable Income) | N/A | (22,500,000) | 8.3.5 |
| | Taxable Income | (29,000,000) | 7,500,000 | |
| | 0% up to AED 375,000 | N/A | - | |
| | 9% above AED 375,000 | N/A | 641,250 | |
| | **Corporate Tax Payable** | **N/A** | **641,250** | |

| Details of Tax Loss | Amount 2025 | Amount 2026 |
|---|---|---|
| Tax Loss for the year | 29,000,000 | - |
| Tax Loss brought forward | - | 29,000,000 |
| Tax loss utilised (75% of Taxable Income) | - | (22,500,000) |
| Unutilised Tax Loss carried forward | 29,000,000 | 6,500,000 |

## 8.3. Explanatory notes

### 8.3.1. General Interest Deduction Limitation Rule

As noted in Section 6 (Case Study 2), as per the General Interest Deduction Limitation Rule, when the Net Interest Expenditure exceeds AED 12,000,000 in a Tax Period, the amount of deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA, and
- the de minimis threshold of AED 12,000,000.

Considering the above, to determine the deductible Interest expenditure[160], the following components need to be calculated:

- Net Interest Expenditure,[161] and
- 30% of adjusted EBITDA.

### 8.3.2. Calculation of Net Interest Expenditure

As noted in Section 4.6.2, the Net Interest Expenditure is the difference between the amount of Interest expenditure incurred (including any carried forward Net Interest Expenditure) and the Interest income derived during a Tax Period. Considering the above, calculation of Net Interest Expenditure for Company N for the 2025 and 2026 Tax Periods is as follows:

[160] Articles 29, 30 and 31 of the Corporate Tax Law.
[161] Article 30(2) and Article 30(5) of the Corporate Tax Law.

| Net Interest Expenditure | | Amount 2025 | Amount 2026 |
|---|---|---|---|
| + | Interest expense on bank loan | 19,000,000 | 15,200,000 |
| - | Interest income from bank deposits | (3,500,000) | (1,200,000) |
| **Sub-total: Net Interest Expenditure for year** | | **15,500,000** | **14,000,000** |
| + | Net Interest Expenditure disallowed/carried forward from 2025 (see Section 8.3.4) | - | 3,500,000 |
| **Total Net Interest Expenditure** | | **15,500,000** | **17,500,000** |

### 8.3.3. Calculation of 30% adjusted EBITDA

For the purposes of the General Interest Deduction Limitation Rule, EBITDA for a Tax Period is the Taxable Income calculated in accordance with the general rules for determining Taxable Income as per Article 20 of the Corporate Tax Law, i.e. all adjustments are required to be made except for adjustments in relation to the General Interest Deduction Limitation Rule and Tax Loss relief provisions. This Taxable Income (or loss) before the General Interest Deduction Limitation Rule and Tax Loss relief is increased by the following, to arrive at the “adjusted EBITDA” for the purposes of the General Interest Deduction Limitation Rule:

- Net Interest Expenditure for the relevant Tax Period,
- depreciation and amortisation expenditure taken into account in determining the Taxable Income for the relevant Tax Period,
- any Interest income or expenditure relating to historical financial assets or liabilities held prior to 9 December 2022, and
- any Interest income or expenditure relating to Qualifying Infrastructure Projects.

If the adjusted EBITDA, as per the above, results in a negative amount, then the adjusted EBITDA will be considered to be AED 0.[162]

Considering the above, the calculation of adjusted EBITDA for the purposes of the General Interest Deduction Limitation Rule for the 2025 and 2026 Tax Periods for Company N is as follows (amounts in AED):

[162] Article 9 of Ministerial Decision No. 126 of 2023.

| | **30% of adjusted EBITDA** | **2025** | **2026** | **Note** |
|---|---|---|---|---|
| | **Accounting Income/(loss)** | **(32,500,000)** | **33,500,000** | |
| | **Taxable Income before General Interest Deduction Limitation Rule and Tax Loss relief** | **(32,500,000)** | **33,500,000** | |
| + | Net Interest Expenditure | 15,500,000 | 17,500,000 | 8.3.2 |
| + | Depreciation and amortisation | 8,000,000 | 8,000,000 | |
| | **Adjusted EBITDA** | **(9,000,000)** | **59,000,000** | |
| | **30% of EBITDA** | **-** | **17,700,000** | |

#### 8.3.4. Determining deductible and non-deductible Net Interest Expenditure

As noted above, the deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA, and
- the de minimis threshold of AED 12,000,000.

If the adjusted EBITDA, as per the above, results in a negative amount, then the adjusted EBITDA will be considered to be AED 0.[163]

Considering the above, the calculation of the deductible and non-deductible Net Interest Expenditure for the 2025 and 2026 Tax Periods for Company N is as follows:

*2025 Tax Period:*

Company N's Net Interest Expenditure of AED 15,500,000 (see Section 8.3.2) is deductible up to the greater of 30% of its adjusted EBITDA, i.e. zero (see Section 8.3.3), or the de minimis of AED 12,000,000. Thus, AED 12,000,000 is the maximum deductible Net Interest Expenditure in 2025. Therefore, the adjustment to the Accounting Income in relation to Net Interest Expenditure is as follows (amounts in AED):

| **Relevant figures** | **Amount** |
|---|---|
| Net Interest Expenditure | 15,500,000 |
| Less: Net Interest Expenditure deductible | (12,000,000) |
| **Adjustment to Accounting Income: Disallowed Net Interest Expenditure (carried forward to the 2026 Tax Period) i.e. amount to be added back** | **3,500,000** |

[163] Article 9 of Ministerial Decision No. 126 of 2023.

Company N's Net Interest Expenditure in 2025 is AED 15,500,000, of which it can deduct only AED 12,000,000 in the 2025 Tax Period. Accordingly, AED 3,500,000 (AED 15,500,000 minus AED 12,000,000) can be carried forward to the subsequent 10 Tax Periods.[164]

*2026 Tax Period:*

Company N's Net Interest Expenditure deductible is AED 17,500,000 that includes:

- current year Net Interest Expenditure of AED 14,000,000; and
- the disallowed/carried forward Net Interest Expenditure from the 2025 Tax Period of AED 3,500,000.

Company N's Net Interest Expenditure deductible of AED 17,500,000 for the 2026 Tax Period is deductible up to the greater of 30% of its adjusted EBITDA i.e. AED 17,700,000 (see Section 8.3.3) or the de minimis of AED 12,000,000. Hence, Company N can deduct its entire Net Interest Expenditure of AED 17,500,000 in 2026. Therefore, the adjustment to the Accounting Income in relation to Net Interest Expenditure is as follows (amounts in AED):

| Relevant figures | Amount |
|---|---|
| Net Interest Expenditure for the current year (amount included in the income statement) | 14,000,000 |
| Less: Total Net Interest Expenditure deductible (including carried forward Net Interest Expenditure) | (17,500,000) |
| **Adjustment to Accounting Income (i.e. additional Net Interest Expenditure to be deducted)** | **(3,500,000)** |

Thus, in 2026, Company N obtains relief for all of the Interest disallowed in 2025, as well as its 2026 Net Interest Expenditure.

### 8.3.5. Determining Tax Loss relief and Tax Loss carried forward

As noted in Section 7 (Case Study 3), a Tax Loss can be used to reduce Taxable Income in future Tax Periods (provided the necessary conditions are met).[165] The Tax Loss carried forward can be used to reduce the Taxable Person's income in the Tax Period by a maximum of 75% of the Taxable Income for that Tax Period.[166]

[164] Article 30(4) of the Corporate Tax Law.
[165] Article 37(1) and Article 39 of the Corporate Tax Law.
[166] Article 37(2) of the Corporate Tax Law.

The Tax Loss incurred in the 2025 Tax Period is AED 29,000,000. Accordingly, Company N can set off AED 22,500,000 against its Taxable Income of the 2026 Gregorian calendar year (75% of AED 30,000,000). The unutilised Tax Loss of AED 6,500,000 can be carried forward to subsequent Tax Periods indefinitely.[167]

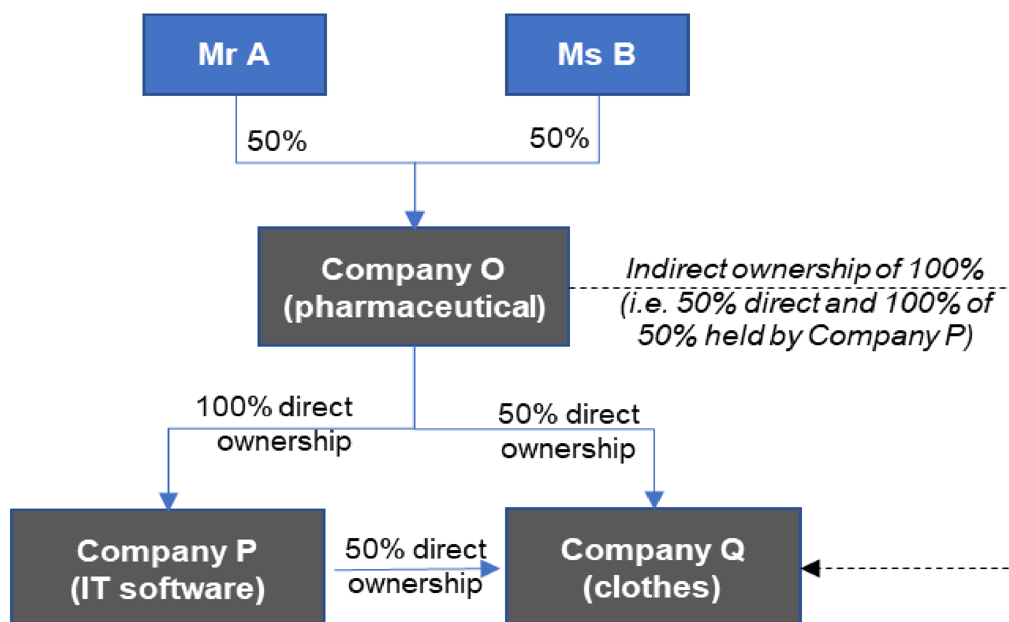
[167] Article 37(4) of the Corporate Tax Law.

# 9. Case Study 5: Transfer of Tax Loss and limitation on Tax Loss carried forward

This case study covers the application of provisions relating to the transfer of Tax Loss and the limitation on Tax Loss carried forward (Articles 38 and 39 of the Corporate Tax Law).

## 9.1. Facts

Companies O, P and Q are incorporated in and tax resident of the UAE. They are engaged in manufacturing and developing pharmaceutical products, IT software and clothes respectively. They all have a Tax Period corresponding to the Gregorian calendar year and prepare their Financial Statements on an Accrual Basis of Accounting and using the same Accounting Standards. The ownership structure of each company is as follows:




Details of the Taxable Income, before Tax Loss relief, for each company is as follows (amounts in AED):

| Taxable Income | Company O | Company P | Company Q |
|---|---|---|---|
| **2024** | (40,000,000) | 10,000,000 | 5,000,000 |
| **2025** | 10,000,000 | 4,000,000 | 8,000,000 |
| **2026** | 7,000,000 | 6,000,000 | 5,000,000 |

- For the 2024 and 2025 Gregorian calendar year, Company O transfers part of its Tax Loss to Company P and Company Q, that is up to 75% of their respective Taxable Income (see Section 9.2 for details).
- During the 2026 Gregorian calendar year, Mr A and Ms B decide to transfer part of their shares (40% each i.e. 80% in total) in Company O to Mr C and Ms D equally, who then decide to change the Business of Company O from manufacturing pharmaceutical products to undertaking clinical trials. This resulted in a substantial change to the assets of the Business, including employees and other operations. There is no change in the ownership interest or Business of Company P and Company Q.

### 9.2. Determining Taxable Income and calculating Corporate Tax Payable

The computation of Taxable Income and Corporate Tax Payable for the 2024, 2025 and 2026 Gregorian calendar years, for each company, along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| 2024: Details of Tax Loss | Company O | Company P | Company Q | Note |
|---|---|---|---|---|
| **Taxable Income before Tax Loss relief** | **(40,000,000)** | **10,000,000** | **5,000,000** | 9.3.1(a) |
| Less: Tax Loss relief | N/A | (7,500,000) | (3,750,000) | |
| Taxable Income subject to Corporate Tax | | 2,500,000 | 1,250,000 | |
| 0% up to AED 375,000 | | - | - | |
| 9% above AED 375,000 | | 191,250 | 78,750 | |
| **Corporate Tax Payable** | **-** | 191,250 | 78,750 | |
| **Tax Loss carried forward** | **28,750,000** | **-** | **-** | |

| 2025: Details of Tax Loss | Company O | Company P | Company Q | Note |
|---|---|---|---|---|
| **Taxable Income before Tax Loss relief** | 10,000,000 | 4,000,000 | 8,000,000 | 9.3.1 (b) |
| Less: Tax Loss relief | (7,500,000) | (3,000,000) | (6,000,000) | |
| Taxable Income subject to Corporate Tax | 2,500,000 | 1,000,000 | 2,000,000 | |
| 0% - up to AED 375,000 | - | - | - | |
| 9% - above AED 375,000 | 191,250 | 56,250 | 146,250 | |
| **Corporate Tax Payable** | **191,250** | **56,250** | **146,250** | |
| **Tax Loss carried forward** | **12,250,000** | **-** | **-** | |

| 2026: Details of Tax Loss | Company O | Company P | Company Q | Note |
|---|---|---|---|---|
| **Taxable Income before Tax Loss relief** | **7,000,000** | **6,000,000** | **5,000,000** | 9.3.2 |
| Less: Tax Loss relief | - | - | - | |

| Taxable Income subject to Corporate Tax | 7,000,000 | 6,000,000 | 5,000,000 | |
|---|---|---|---|---|
| 0% up to AED 375,000 | - | - | - | |
| 9% above AED 375,000 | 596,250 | 506,250 | 416,250 | |
| **Corporate Tax Payable** | 596,250 | 506,250 | 416,250 | |
| **Tax Loss carried forward** | **-** | **-** | **-** | |

### 9.3. Explanatory notes

#### 9.3.1. Conditions for transfer of Tax Loss

As noted in Sections 4.8.1 and 4.8.3, a Taxable Person must first offset the Tax Loss against its own Taxable Income before it can be transferred to another Taxable Person or carried forward to subsequent Tax Periods. If in any Tax Period the Taxable Person is unable to offset the Tax Loss against its own Taxable Income, then it can transfer the Tax Loss to another Taxable Person or carry forward the Tax Loss (subject to meeting the necessary conditions).[168]

a) In 2024, Company O incurred a Tax Loss. It can transfer its 2024 Tax Loss as follows:
   - Company P: AED 7,500,000 i.e. 75% of Company P's Taxable Income of AED 10,000,000, and
   - Company Q: AED 3,750,000 i.e. 75% of Company Q's Taxable Income of AED 5,000,000.

The remaining Tax Loss will be carried forward to 2025 by Company O, as follows (amounts in AED):

| **2024: Details of Tax Loss** | **Company O** |
|---|---|
| Tax Loss incurred in 2024 | 40,000,000 |
| Less: Tax Loss transferred to Company P | (7,500,000) |
| Less: Tax Loss transferred to Company Q | (3,750,000) |
| Tax Loss carried forward to 2025 | 28,750,000 |

b) For 2025, as noted above, Company O must use the carried forward Tax Loss to offset its own Taxable Income up to 75% of that Taxable Income for 2025 (i.e. AED 7,500,000) before any remaining Tax Loss can be transferred to group companies as follows:
   - Company P: AED 3,000,000 i.e. 75% of Company P's Taxable Income of AED 4,000,000, and
   - Company Q: AED 6,000,000 i.e. 75% of Company Q's Taxable Income of AED 8,000,000

[168] Article 37(4), 38 and 39 of the Corporate Tax Law.

The remaining Tax Loss will be carried forward to 2026 by Company O, illustrated as follows (amounts in AED):

| 2025: Details of Tax Loss | Company O |
|---|---|
| Tax Loss brought forward from 2024 | 28,750,000 |
| Less: Tax Loss utilised in 2025 by Company O | (7,500,000) |
| Less: Tax Loss transferred to Company P | (3,000,000) |
| Less: Tax Loss transferred to Company Q | (6,000,000) |
| Tax Loss carried forward to 2026 | 12,250,000 |

### 9.3.2. Limitation on Tax Loss carried forward

As noted in Section 4.8.2, a Tax Loss can be carried forward by a Taxable Person provided the owners of the Taxable Person continuously hold at least 50% ownership from the start of the period in which the Tax Loss is incurred, to the end of the Tax Period in which the Tax Loss is used to offset against Taxable Income, or the same or similar Business is carried on following the change in ownership.[169]

In the 2026 Tax Period, the owners of Company O cease to hold at least 50% ownership interest. Additionally, there is also a change in the Business of Company O. Since Company O fails to meet the required conditions discussed above, it cannot utilise, transfer or carry forward the remaining Tax Loss of AED 12,250,000 and so it will be forfeited.

[169] Article 39 of the Corporate Tax Law.

# 10. Case Study 6: Cash Basis of Accounting

Taxable Persons that earn Revenue that does not exceed AED 3,000,000 in the Tax Period may use the Cash Basis of Accounting.[170] Once a Taxable Person's Revenue exceeds AED 3,000,000 in the Tax Period, they must prepare Financial Statements using the Accrual Basis of Accounting except under exceptional circumstances and following the FTA's approval.[171]

This case study covers the mechanism to determine the Taxable Income and Corporate Tax Payable in cases where a Taxable Person follows the Cash Basis of Accounting.

## 10.1. Facts

Company V is a company incorporated in and a tax resident of the UAE. It runs a travel agency. It prepares and maintains its accounts on the Cash Basis of Accounting, and its Tax Period is the Gregorian calendar year. Company V has not elected for the Small Business Relief available under the Corporate Tax Law.[172]

An extract of the figures from the accounts of Company V for the 2025 Gregorian calendar year is as follows (amounts in AED, and indicate actual receipts and payments):

| Relevant figures | | Amount | Amount |
|---|---|---|---|
| | Revenue pertaining to services: | | |
| | • *rendered and received in 2025* | 1,900,000 | |
| | • *to be rendered in 2026 (advance payments received)* | 700,000 | |
| | • *rendered in 2024 (late payments received)* | 300,000 | 2,900,000 |
| | Dividend received from Company W (UAE company) | | 45,000 |
| | Amounts received from sale of old computers | | 40,000 |
| | **Total Revenue (A)** | | **2,985,000** |
| Less | **Expenditure:** | | |
| | Salary, wages and bonus paid in 2025: | | |
| | • *pertaining to 2024* | (290,000) | |
| | • *pertaining to 2025* | (435,000) | (725,000) |
| | Rent paid in 2025: | | |
| | • *pertaining to 2025* | (232,000) | |

[170] Article 2(1) of Ministerial Decision No. 114 of 2023.
[171] Article 20(1) of the Corporate Tax Law and Article 2(1) of Ministerial Decision No. 114 of 2023.
[172] Article 21 of the Corporate Tax Law.

| Relevant figures | | Amount | Amount |
|---|---|---|---|
| | • *pertaining to 2026* | (174,000) | (406,000) |
| | Contribution to private pension fund paid in 2025* | | (181,250) * |
| | Entertainment expense paid: | | |
| | • *For employees* | (55,100) | |
| | • *For business partners* | (40,600) | (95,700) |
| | Amount paid for purchase of new computers | | (600,000) |
| | Interest paid on loans | | (400,000) |
| | **Total expenditure (B)** | | **(2,407,950)** |
| | **Accounting Income [(A) - (B)]** | | **577,050** |

*AED 130,000 out of AED 181,250 relates to contribution made (actually paid) to a private pension fund that is more than 15% of each employee's total remuneration (i.e. the Pension Plan Member's total remuneration).

In addition to the above extract, Company V also received a working capital loan of AED 1,500,000 during the 2025 Gregorian calendar year from an unrelated party.

Company V followed the Cash Basis of Accounting in the 2025 Tax Period and it is assumed that Company V follows the Cash Basis of Accounting in the 2026 Tax Period.

### 10.2. Determining Taxable Income and calculating Corporate Tax Payable

Company V's computation of Taxable Income and Corporate Tax Payable for the 2025 Gregorian calendar year along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| Adjust | Relevant adjustments | Amount | Note |
|---|---|---|---|
| | **Accounting Income** | **577,050** | |
| - | Exempt Income: Dividend from Company W (UAE company) | (45,000) | 10.3.4 |
| | Non-deductible expenditure: | | |
| + | • entertainment expense for business partners (50%) | 20,300 | 10.3.5 |
| + | • excess contribution to private pension fund | 130,000 | 10.3.6 |
| | **Taxable Income** | **682,350** | |
| | 0% up to AED 375,000 | - | |
| | 9% above AED 375,000 | 27,662 | |
| | **Corporate Tax Payable** | **27,662** | |

## 10.3. Explanatory notes

### 10.3.1. Cash Basis of Accounting

As noted in Section 4.1, for Corporate Tax purposes, the accounting net profit or loss as stated in the Financial Statements of a Taxable Person forms the starting point for determining their Taxable Income.

The financial accounting method adopted by the Taxable Person will determine when income and expenditure is recognised in the Financial Statements. Taxable Persons that earn Revenue that does not exceed AED 3,000,000 can follow the Cash Basis of Accounting wherein the income and expenditure is recognised when cash payments are actually received or paid.

### 10.3.2. Calculation of Revenue

Revenue is defined in the Corporate Tax Law as "the gross amount of income derived during a Tax Period".[173] Revenue is not restricted to the sale of goods or services by a Business. It includes all income earned in the Tax Period and will include, for example, income from sale of assets, Exempt Income, etc.

Revenue is different from profit. Profit is the difference between Revenue of a Business and its expenditure. Only Revenue, not expenditure, is relevant to determine eligibility to adopt the Cash Basis of Accounting.

Businesses that are registered for VAT are required to charge VAT on certain products or services that they sell. The VAT charged should not be included in the calculation of Revenue. This is because the VAT collected must be transferred to the FTA and does not belong to the Business.

The Cash Basis of Accounting does not alter the nature of payments. For example, the receipt of a loan or repayment of loan (principal amount) is not Revenue or expenditure (though the Interest element on such loans will be taxable or deductible subject to normal rules). Accordingly, the loan of AED 1,500,000 received by Company V during the 2025 Gregorian calendar year should not be included in the calculation of Revenue.

As Company V's Revenue does not exceed AED 3,000,000, it is eligible to adopt the Cash Basis of Accounting.

[173] Article 1 of the Corporate Tax Law.

### 10.3.3. Income and expenditure recognised on a payment basis

As noted above, under the Cash Basis of Accounting, income and expenditure are recognised when cash payments are actually received or paid.

If Company V has received any income in the current Tax Period that relates to previous Tax Periods (i.e. late receipts) or future Tax Periods (i.e. advance receipts), such receipts will be deemed to be the Revenue of the current Tax Period. Accordingly, the following income will be taken into account for Corporate Tax purposes in the 2025 Gregorian calendar year, i.e. the year of receipt even if services are not performed by Company V in the same Tax Period:

- income received in advance of AED 700,000 for services yet to be rendered by Company V, and
- income received late (i.e. late payment from customers) of AED 300,000 for services rendered by Company V in the 2024 Gregorian calendar year.

Similarly, if Company V has made payments in the current Tax Period that relate to previous Tax Periods (i.e. late payments) or future Tax Periods (i.e. advance payment), such payments will be treated as expenditure of the current Tax Period. Accordingly, the following expenditure will be taken into account for Corporate Tax purposes in the 2025 Gregorian calendar year, i.e. the year of payment even if services are not received by Company V in the same Tax Period:

- salary relating to the 2024 Gregorian calendar year of AED 290,000, and
- rent relating to the 2026 Gregorian calendar year of AED 174,000.

No adjustment is required in relation to the above items of income and expenditure while determining the Taxable Income. The starting point for determination of Taxable Income of Company V will be the Accounting Income of AED 577,050.

### 10.3.4. Exempt Income: Dividend from Resident Person

As noted in Section 4.4.1, Dividends and other profit distributions received from a Resident Person that is a juridical person are exempt from Corporate Tax.[174] There are no additional conditions in order to benefit from this exemption.

Accordingly, the Dividend of AED 45,000 received from Company W is disregarded (i.e. it is deducted) when determining the Taxable Income.

[174] Article 22(1) of the Corporate Tax Law.

#### 10.3.5. Entertainment expenditure

Company V has incurred entertainment expenditure of AED 95,700 out of which AED 40,600 relates to business partners. As per the specific rules in relation to entertainment expenditure, as noted in Section 4.5.10, 50% of the entertainment expenditure incurred in relation to business partners will be disallowed i.e. AED 20,300 (i.e. 50% of AED 40,600).

#### 10.3.6. Contribution to private pension fund

As noted in Section 4.5.9, an employer can claim a deduction for contributions made to a private pension fund in respect of its employees who are Pension Plan Members in the Tax Period in which such contributions are “paid”.[175] However, an employer may not claim a deduction for contributions exceeding 15% of an employee’s total remuneration for the relevant Tax Period.[176]

Accordingly, the excess contribution of AED 130,000, though actually paid by Company V, will be disallowed, i.e. added back, when determining Taxable Income.

#### 10.3.7. Capital expenditure

As noted in Section 4.5.6, capital expenditure is expenditure that creates an enduring benefit to a Business and is not deductible for Corporate Tax purposes. However, the depreciation of the costs of capital assets is a deductible expense for Corporate Tax purposes.

Depreciation is an accounting concept which allows for the cost of an asset to be spread over the life of the asset (representing the reduction of the asset’s value), even though there is no cash outlay to the Business.

However, Taxable Persons that apply the Cash Basis of Accounting do not consider any notional items (i.e. without any cash outlay) in their books of accounts such as depreciation. Income and expenditure are recorded only when payment is actually made or received. Hence, under the Cash Basis of Accounting, a deduction may be taken in respect of assets purchased. This replaces the tax relief which would ordinarily be given for depreciation on the Accrual Basis of Accounting (as no depreciation is recorded under the Cash Basis of Accounting).

In this case, Company V has purchased computers for AED 600,000 and this will be treated as an allowable deduction for Corporate Tax purposes, even though it is capital in nature as Company V follows the Cash Basis of Accounting. Therefore, no

[175] Article 5(1) of Ministerial Decision No. 115 of 2023.
[176] Article 5(2) of Ministerial Decision No. 115 of 2023.

adjustment is required to the Accounting Income while determining the Taxable Income in this regard.

#### 10.3.8. Interest expenditure

Interest expenditure can be deducted when calculating Taxable Income for the Tax Period in which it is incurred[177] (or "paid" in case the Taxable Person follows the Cash Basis of Accounting), subject to the General and Specific Interest Deduction Limitation Rules.[178]

If the Net Interest Expenditure is below the AED 12,000,000 de minimis threshold for a Tax Period, the General Interest Deduction Limitation Rule does not apply.[179] However, should the Interest expenditure of a Taxable Person that follows the Cash Basis of Accounting exceed AED 12,000,000 then the General Interest Deduction Limitation Rule will apply.

[177] Article 29 of the Corporate Tax Law.

[178] Article 30 and Article 31 of the Corporate Tax Law.

[179] Article 30(3) and Article 8(1) of Ministerial Decision No. 126 of 2023.

# 11. Case Study 7a: Unrealised gains and losses, Exempt Income

This case study covers the adjustments to be made to Accounting Income when determining the Taxable Income for Corporate Tax purposes relating to:

- unrealised gains or losses (Article 20(2)(a) of the Corporate Tax Law), and
- Exempt Income and related expenditure (Article 20(2)(b) of the Corporate Tax Law).

## 11.1. Facts

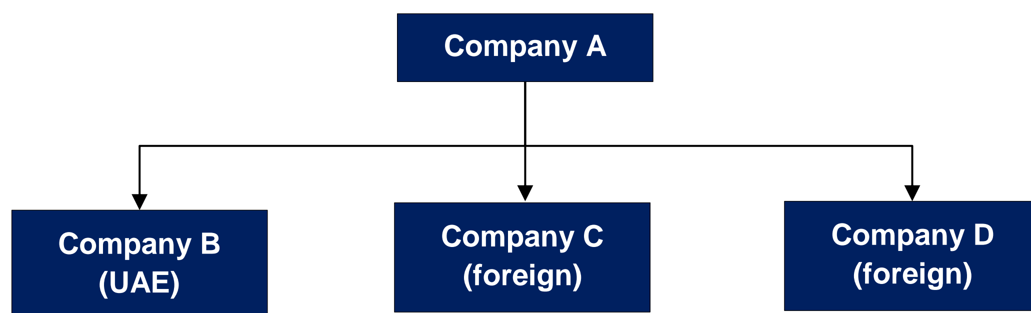
Company A is a company incorporated in and a tax resident of the UAE. It is engaged in manufacturing and selling pharmaceutical products in the UAE. It prepares Financial Statements under IFRS on an Accrual Basis of Accounting. Its Tax Period is the Gregorian calendar year.

Company A has the following long-standing ownership interests/operations:

- 100% of the shares in Company B, a company incorporated in and a tax resident of the UAE.

During the 2025 Gregorian calendar year, Company A acquired:

- 7% of the shares in Company C, a company incorporated in and a tax resident of Country C.
- 5% of the shares in Company D, a company incorporated in and a tax resident of Country D.
- Company C and Company D are both Participating Interests for Company A.[180]




Company A has made the election to take into account gains and losses for all assets and liabilities subject to fair value or impairment accounting on a realisation basis.[181]

[180] It is assumed that the conditions of Article 23 of the Corporate Tax Law are satisfied.
[181] Article 20(2)(a) and 20(3)(a) of the Corporate Tax Law.

An extract of the figures from the standalone Financial Statements of Company A for the 2025 Gregorian calendar year is as follows (amounts in AED):

| Relevant figures | | Amount |
|---|---|---|
| | Revenue from sales | 50,000,000 |
| | Other income: | |
| | • unrealised gains on land | 1,000,000 |
| | • Dividend from Company B | 500,000 |
| | • Dividend from Company C | 500,000 |
| | **Total Revenue (A)** | **52,000,000** |
| Less | **Expenditure:** | |
| | cost of goods sold | (17,500,000) |
| | salary and wages | (10,000,000) |
| | general expenses | (6,000,000) |
| | depreciation of items other than mentioned below | (7,000,000) |
| | depreciation of capitalised expenditure – professional fees paid to connected person, not at arm's length | (500,000) |
| | unrealised loss on inventory | (1,200,000) |
| | impairment loss on shares of Company D (not sold) | (900,000) |
| | costs of acquiring shares in Company C and Company D (due diligence and commission) | (1,000,000) |
| | **Total expenditure (B)** | **(44,100,000)** |
| | **Accounting Income [(A) - (B)]** | **7,900,000** |

### 11.2. Determining Taxable Income and calculating Corporate Tax Payable

Company A's computation of Taxable Income and Corporate Tax Payable for the 2025 Gregorian calendar year along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| | Relevant adjustments | Amount | Note |
|---|---|---|---|
| **Accounting Income** | | **7,900,000** | |
| - | Unrealised gains on land | (1,000,000) | 11.3.1 |
| + | Unrealised loss on inventory | 1,200,000 | |
| + | Impairment loss on shares of Company D | 900,000 | |
| - | Exempt Income: Dividend from Resident Person | (500,000) | 11.3.2 |
| - | Exempt Income: Participation Exemption | (500,000) | 11.3.3 |

| | Relevant adjustments | Amount | Note |
|---|---|---|---|
| + | Non-deductible expenditure: incurred in deriving Exempt Income | 1,000,000 | 11.3.4 |
| + | Non-deductible expenditure: depreciation of capitalised expenditure | 500,000 | 11.3.5 |
| | **Taxable Income** | **9,500,000** | |
| | 0% up to AED 375,000 | - | |
| | 9% above AED 375,000 | 821,250 | |
| | **Corporate Tax Payable** | 821,250 | |

## 11.3. Explanatory notes

### 11.3.1. Unrealised gains and losses

As noted in Section 4.1, Businesses who prepare their Financial Statements on an Accrual Basis of Accounting may elect to take into account gains and losses on a realisation basis.

Company A has elected to take into account relevant gains or losses on a realisation basis (i.e. on disposal/transfer) for all assets and liabilities that are subject to fair value or impairment accounting as per IFRS.[182] Accordingly, the following items relating to unrealised gains or losses that form part of the Accounting Income should be adjusted when determining the Taxable Income:

(a) unrealised gain on land of AED 1,000,000 should be deducted,
(b) unrealised loss on inventory of AED 1,200,000 should be added back, and
(c) impairment loss on shares of Company D of AED 900,000 should be added back (i.e. non-deductible).

The result is that a net unrealised loss of AED 1,100,000 should be added back to the Accounting Income to determine the Taxable Income.

The impairment loss on shares of AED 900,000 could equally be treated as non-deductible in terms of Article 23(5)(d) of the Corporate Tax Law because it relates to a Participating Interest (Company D is a Participating Interest of Company A).

**Variation 1: Company A makes an election under Article 20(3)(b) for the realisation basis only for assets and liabilities held on capital account:**

If Company A makes an election under Article 20(3)(b), the following adjustments should be made to the Accounting Income when determining the Taxable Income:
(a) unrealised gain on land of AED 1,000,000 should be deducted,

[182] Article 20(2)(a) and 20(3)(a) of the Corporate Tax Law.

(b) no adjustment is required in relation to unrealised loss on inventory of AED 1,200,000 as the same is not held on capital account, and
(c) impairment loss on shares of Company D (held on capital account) of AED 900,000 should be added back.

The result is that a net unrealised gain of AED 100,000 should be deducted from the Accounting Income to determine the Taxable Income.

The impairment loss on shares of AED 900,000 could equally be treated as non-deductible by Article 23(5)(d) of the Corporate Tax Law because it relates to a Participating Interest (Company D is a Participating Interest of Company A).

**Variation 2: Company A makes no election under Article 20(3):**

If Company A does not make an election under Article 20(3) of the Corporate Tax Law, then no adjustment will be made in relation to unrealised gains or losses. This is irrespective of whether the assets or liabilities are held on the capital or revenue account, unless the unrealised gain or loss relates to an impairment gain or loss in relation to a Participating Interest.[183]

In this case, Company D is a Participating Interest of Company A. Accordingly, the impairment loss on the shares of Company D of AED 900,000 should be added back when determining the Taxable Income, regardless of whether any election under Article 20(3) has been made.

#### 11.3.2. Exempt Income: Dividend from Resident Person

As noted in Section 4.4.1, Dividends and other profit distributions received from a Resident Person that is a juridical person are exempt from Corporate Tax[184]. There are no additional conditions in order to benefit from this exemption.

Accordingly, the Dividend of AED 500,000 received from Company B is disregarded (i.e. it is deducted) when determining Taxable Income.

#### 11.3.3. Exempt Income: Participation Exemption

As noted in Section 4.4.2.1, Dividends and other profit distributions received from foreign juridical persons are exempt from Corporate Tax if the recipient has a

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[183] Article 23(5)(d) of the Corporate Tax Law.
[184] Article 22(1) of the Corporate Tax Law.

Participating Interest in the foreign company (i.e. they will not be taken into account when determining Taxable Income).[185]

Accordingly, the Dividend of AED 500,000 received from Company C is disregarded (i.e. it is deducted) when determining Taxable Income.

#### 11.3.4. Non-deductible expenditure: expenditure incurred in deriving Exempt Income

As noted in Section 4.5.3, expenditure incurred in relation to deriving Exempt Income is not deductible when determining Taxable Income.[186]

Company A has incurred due diligence fees and commission of AED 1,000,000 in acquiring the shares in Company C and Company D. The shareholdings are Participating Interests, and the income Company A earns from them is Exempt Income. Accordingly, the expenditure incurred of AED 1,000,000 will be disallowed when determining Taxable Income. Instead, this expenditure should be capitalised as part of the acquisition cost of the Participating Interest.[187]

#### 11.3.5. Non-deductible expenditure: depreciation of capitalised expenditure

As noted in Section 4.5.6, depreciation of capitalised expenditure, which is otherwise not deductible, will not be deductible while calculating Taxable Income.

Company A has paid professional fees to a Connected Person that is not at arm's length. This payment has been capitalised as part of the cost of the asset in accordance with the relevant Accounting Standards as it is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating. During the year, the depreciation charge in respect of this is AED 500,000. Since, the portion of the payment (professional fees in this case) to a Connected Person that is not arm's length will not be deductible for Corporate Tax purposes, the corresponding element of the depreciation charge relating to the capitalised amount is likewise disallowed when determining Taxable Income.

[185] Article 22(2) and (3) of the Corporate Tax Law.
[186] Article 28(2)(b) of the Corporate Tax Law.
[187] Article 10(4) of Ministerial Decision No. 116 of 2023.

# 12. Case Study 7b: Foreign Permanent Establishment

This case study covers the adjustments to be made to the Accounting Income for Exempt Income in relation to Foreign Permanent Establishments including expenditure incurred in earning such Exempt Income.

This case study builds on discussed in Section 11. Only the additional aspects relating to the Foreign Permanent Establishment are discussed here.

## 12.1. Facts

In addition to the facts set out in Section 11 (Case Study 7a):

- Company A has a branch office (Branch E) in Country E for manufacturing and selling pharmaceutical products in Country E.
- Under the domestic tax laws of Country E, Branch E is a permanent establishment of Company A in Country E.
- The rate of corporate tax in Country E is 10%.
- No loss has been incurred in Branch E so far (i.e. until the 2025 Tax Period).
- There is no Double Taxation Agreement between the UAE and Country E.

During the 2025 Gregorian calendar year:

- Company B (a subsidiary of Company A) supplied Branch E with inventory worth AED 2,000,000 for no consideration.
- The inventory was consumed/sold during the year.

Company A has made the election for the Foreign Permanent Establishment exemption.[188]

An extract of the figures from the standalone Financial Statements of Company A for the 2025 Gregorian calendar year is as follows (amounts in AED):

| Relevant figures | UAE operations amount | Branch E operations amount | Total amount |
|---|---|---|---|
| Revenue from sales: | 50,000,000 | 35,000,000 | 85,000,000 |
| Other income: | | | |
| • Unrealised gains on land | 1,000,000 | - | 1,000,000 |
| • Dividend from Company B | 500,000 | - | 500,000 |
| • Dividend from Company C | 500,000 | - | 500,000 |
| **Total Revenue (A)** | **52,000,000** | **35,000,000** | **87,000,000** |

[188] Article 24 of the Corporate Tax Law.

| Relevant figures | UAE operations amount | Branch E operations amount | Total amount |
|---|---|---|---|
| Less Expenditure: | | | |
| • cost of goods sold* | (17,500,000) | (11,200,000) | (28,700,000) |
| • salary and wages | (10,000,000) | (7,000,000) | (17,000,000) |
| • general expenses | (6,000,000) | (5,250,000) | (11,250,000) |
| • depreciation | (7,500,000) | (3,500,000) | (11,000,000) |
| • foreign exchange loss (actual) | - | (90,000) | (90,000) |
| • unrealised loss on inventory | (1,200,000) | (700,000) | (1,900,000) |
| • impairment loss (Company D shares - not sold) | (900,000) | - | (900,000) |
| • costs of acquisition (due diligence and commission) | (1,000,000) | - | (1,000,000) |
| **Total expenditure (B)** | **(44,100,000)** | **(27,740,000)** | **(71,840,000)** |
| **Accounting Income [(A) - (B)]** | **7,900,000** | **7,260,000** | **15,160,000** |
| **Tax paid in Country E** | **-** | **726,000** | **726,000** |

*The inventory worth AED 2,000,000 is received for no consideration from Company B and so no cost is recorded. However, Revenue is recorded when the inventory is sold during the year.

When Company A paid taxes (AED 726,000) in Country E in relation to its Branch E operations, the impact of a Transfer Pricing adjustment was not taken into account.

### 12.2. Determining Taxable Income and calculating Corporate Tax Payable

Company A's computation of Taxable Income and Corporate Tax Payable for the 2025 Gregorian calendar year along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| Adjust | Relevant adjustments | Amount | Note |
|---|---|---|---|
| **Accounting Income** | | **15,160,000** | |
| - | Unrealised gains on land | (1,000,000) | 11.3.1 |
| + | Impairment loss on shares of Company D | 900,000 | 11.3.1 |
| + | Unrealised loss on inventory | 1,200,000 | 12.3.1 |
| - | Exempt Income: Dividend from Resident Person | (500,000) | 11.3.2 |
| - | Exempt Income: Participation Exemption | (500,000) | 11.3.3 |
| + | Non-deductible expenditure: incurred for deriving Exempt Income | 1,000,000 | 11.3.4 |
| - | Transaction with Related Party | (2,000,000) | 12.3.2 |

| Adjust | Relevant adjustments | Amount | Note |
|---|---|---|---|
| - | Exempt loss/income: Foreign Permanent Establishment Exemption | **(5,260,000)** | 12.3.3 |
| | **Taxable Income/(loss)** | **9,000,000** | |
| | 0% up to AED 375,000 | - | |
| | 9% above AED 375,000 | 776,250 | |
| | **Corporate Tax liability** | 776,250 | |
| | Foreign Tax Credit | - | 12.3.4 |
| | **Corporate Tax Payable** | **776,250** | |

## 12.3. Explanatory notes

### 12.3.1. Unrealised gains and losses

As noted in Section 11.3.1, Company A has made an election to consider all gains or losses on a realisation basis for assets and liabilities subject to fair value or impairment accounting under IFRS.

Company A has total unrealised loss on inventory of AED 1,900,000 out of which AED 700,000 relates to the Foreign Permanent Establishment, i.e. Branch E.

Accordingly, the unrealised loss on inventory of AED 1,200,000 that is in relation to the UAE operations should be added back to the total Accounting Income while determining the Taxable Income of Company A.

### 12.3.2. Transaction with Related Party

As noted in Section 4.4.3, transactions between a Foreign Permanent Establishment and Related Parties (i.e. Company B in this case) are required to be treated as if they have taken place at Market Value. The cost of free products, having a Market Value of AED 2,000,000, should be adjusted for in determining the Taxable Income of Company A.

Note a corresponding adjustment will be made while determining the Taxable Income of Company B (i.e. AED 2,000,000 will be added to its Accounting Income).

As explained below, the income and expenditure (adjusted for any Related Party transactions) of the Foreign Permanent Establishment must be disregarded on the basis that Company A has elected to apply the Foreign Permanent Establishment Exemption.

### 12.3.3. Exempt Income: Foreign Permanent Establishment

As noted in Section 4.4.3, the Foreign Permanent Establishment exemption is available if the following conditions have been satisfied:

- Foreign Permanent Establishment is subject to Corporate Tax at a rate of not less than 9% (i.e. 10% in Country E).[189]
- No Tax Loss from the Foreign Permanent Establishment has previously been utilised.[190]

As the above conditions are satisfied, Company A has elected for the Foreign Permanent Establishment exemption in relation to Branch E. Accordingly, the income and associated expenditure of Branch E must be calculated as if Branch E is a separate and independent Business in accordance with internationally accepted profit attribution methods, such as the separate entity approach, and any transactions which take place between Branch E and its head office or Related Parties (Company B in this case) must be treated as having taken place at Market Value.[191] Thus, the cost of the free products referred to above, having a Market Value of AED 2,000,000, should be included as a cost in the hands of the Foreign Permanent Establishment (Branch E). Such income and associated expenditure should then be excluded from Company A's Accounting Income in the determination of its Taxable Income.

Thus, as Company A has elected to apply the Foreign Permanent Establishment Exemption, the Accounting Income, i.e. exempt income of AED 5,260,000 (being Accounting Income of AED 7,260,000 less the transfer pricing adjustment of AED 2,000,000) of the Foreign Permanent Establishment should be excluded while determining the Taxable Income of Company A.

Thus, net income (that is treated as Exempt Income) of the Foreign Permanent Establishment of AED 5,260,000 is deducted when determining the Taxable Income of Company A.

### 12.3.4. Foreign Tax Credit

As noted in Section 4.4.3, making an election for the Foreign Permanent Establishment exemption means that no Foreign Tax Credit is available.[192]

Accordingly, no credit for taxes paid of AED 726,000 in Country E with respect to the Foreign Permanent Establishment, i.e. Branch E, will be available to Company A in the UAE.

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[189] Article 24(7) of the Corporate Tax Law.
[190] Article 13(1) of Ministerial Decision No. 116 of 2023.
[191] Article 24(4), (5) and Article 35(1)(d) of the Corporate Tax Law.
[192] Article 24(1) and (2)(c) of the Corporate Tax Law.

**Variation: Company A does not make an election for the Foreign Permanent Establishment exemption**

This example is based on the facts laid down in Section 11 and 12, i.e. Case Study 7a and 7b, and explains the variation in Corporate Tax treatment if Company A does not make an election for the Foreign Permanent Establishment exemption.

If Company A does not make an election to claim the Foreign Permanent Establishment exemption, it will have to include all income and associated expenditure related to its Foreign Permanent Establishment (i.e. Branch E in this case) while determining its Taxable Income for Corporate Tax purposes. Accordingly, the following additional adjustments will be required to be made (as compared to instances when the Foreign Permanent Exemption election is made):

- income and expenditure of Branch E to be taken into account, including the unrealised loss on inventory of AED 700,000, and
- transaction with Related Party of AED 2,000,000 to be deducted.

The Taxable Income and Corporate Tax Payable for Company A, without Foreign Permanent Establishment exemption is as follows (amounts in AED):

| Adjust | Relevant adjustments | Amount | Note |
|---|---|---|---|
| **Accounting Income** | | **15,160,000** | |
| - | Unrealised gains on land | (1,000,000) | 11.3.1. |
| + | Impairment loss on shares of Company D | 900,000 | 11.3.1. |
| + | Unrealised loss on inventory (including related to Branch E) | 1,900,000 | 12.3.1. |
| - | Exempt Income: Dividend from Resident Person | (500,000) | 11.3.2. |
| - | Exempt Income: Participation Exemption | (500,000) | 11.3.3. |
| + | Non-Deductible expenditure: incurred for deriving Exempt Income | 1,000,000 | 11.3.4. |
| - | Transaction with Related Party | (2,000,000) | 12.3.2 |
| | **Taxable Income** | **14,960,000** | |
| | 0% up to AED 375,000 | - | |
| | 9% above AED 375,000 | 1,312,650 | |
| | **Corporate Tax liability** | **1,312,650** | |
| - | Foreign Tax Credit | (522,954) | 12.3.5 |
| | **Corporate Tax Payable** | **789,696** | |

### 12.3.5. Determining Foreign Tax Credit available to offset Corporate Tax liability

As noted in Section 4.9.1, Corporate Tax Payable can be reduced by a Foreign Tax Credit in respect of the same Tax Period,[193] provided the foreign source income is not exempt for Corporate Tax purposes, i.e. the pre-tax foreign income is included in the Taxable Income. In this case, Company A has not elected for the Foreign Permanent Establishment exemption, i.e. the income and associated expenditure forms part of the Taxable Income and, hence, Company A can claim Foreign Tax Credit.

As noted in Section 4.9.2, the amount of Foreign Tax Credit cannot exceed the amount of Corporate Tax due on the foreign source income.[194]

Thus, the amount of Foreign Tax Credit that can be offset against the Corporate Tax liability in case of Company A is AED 522,954 which is lower of the following:

(i) the actual amount of tax paid on foreign source income in the foreign jurisdiction (i.e. AED 726,000);

(ii) the amount of the Corporate Tax due on the net foreign source income (i.e. AED 522,954) which is calculated as follows:

*Corporate Tax due on foreign source income* = $\frac{X*Y}{Z}$, *where:*

*X= Corporate Tax due on total Taxable Income of the Taxable Person before any Foreign Tax Credit (i.e. AED 1,312,650),*

*Y= relevant net foreign source income (i.e. AED 5,960,000)*

*Z= total Taxable Income of the Taxable Person (i.e. AED 14,960,000).*

### 12.3.6. Unutilised Foreign Tax Credit

As noted in Section 4.9.3, Foreign Tax Credit cannot be carried forward or back.[195] No refund is available for unutilised Foreign Tax Credit.

Accordingly, even though Company A has incurred tax of AED 726,000 on its Branch E operations in foreign jurisdictions, the unutilised portion of AED 203,046 (AED 726,000 less AED 522,954) will be forfeited.

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[193] Article 47(1) of the Corporate Tax Law.

[194] Article 47(2) of the Corporate Tax Law.

[195] Article 47(3) of the Corporate Tax Law.

# 13. Case Study 8: Non-Resident Person conducting Business in the UAE

This case study covers the determination of the Taxable Income and Corporate Tax Payable in the case of a Non-Resident Person operating in the UAE through a Permanent Establishment.

## 13.1. Facts

Company N is a company incorporated in and a tax resident of Country N and operates in the construction sector. It prepares Financial Statements on an Accrual Basis of Accounting, and it prepares accounts for the Gregorian calendar year. There is no Double Taxation Agreement between the UAE and Country N.

Company N executed a construction project in the UAE for 10 months during the 2024 Gregorian calendar year. Details of the project and an extract of the figures from the Financial Statements of Company N for the 2024 Gregorian calendar year are as follows (amounts in AED):

| Relevant figures | UAE operations amount | Country N operations amount | Total amount |
|---|---|---|---|
| Revenue from construction contracts: | 30,000,000 | 70,000,000 | 100,000,000 |
| Other income: | | | |
| • rental income from property in UAE | 2,000,000 | - | 2,000,000 |
| • Dividend from UAE company | 500,000 | - | 500,000 |
| **Total Revenue (A)** | **32,500,000** | **70,000,000** | **102,500,000** |
| **Less: Expenditure** | | | |
| • cost of goods sold | (21,000,000) | (49,000,000) | (70,000,000) |
| • salary and wages | (4,500,000) | (10,500,000) | (15,000,000) |
| • head office expenses | (1,500,000) | (3,500,000) | (5,000,000) |
| • gifts to business partners | (700,000) | - | (700,000) |
| **Total expenditure (B)** | **(27,700,000)** | **(63,000,000)** | **(90,700,000)** |
| **Accounting Income [(A) - (B)]** | **4,800,000** | **7,000,000** | **11,800,000** |

## 13.2. Determining Taxable Income and calculating Corporate Tax Payable

Company N's computation of Taxable Income and Corporate Tax Payable for the 2024 Tax Period along with relevant adjustments and explanatory notes is as follows (amounts in AED):

| Adjust | Relevant adjustments | Amount | Note |
|---|---|---|---|
| | **Accounting Income (UAE operations)** | **4,800,000** | |
| - | **Exempt Income: Dividend** | (500,000) | 13.3.4 |
| + | **Non-deductible expenditure** | | |
| | • gifts to business partners | 700,000 | 13.3.5 |
| | **Taxable Income** | **5,000,000** | |
| | 0% up to AED 375,000 | **-** | |
| | 9% above AED 375,000 | 416,250 | |
| | **Corporate Tax Payable** | **416,250** | |

## 13.3. Explanatory notes

### 13.3.1. Income attributable to a Permanent Establishment

A Non-Resident Person that conducts Business in the UAE through a Permanent Establishment is subject to Corporate Tax on the Taxable Income that is attributable to such Permanent Establishment.

A Person and its Permanent Establishment are treated as Related Parties.[196] Accordingly, as noted in Section 4.10, when determining the Taxable Income of a Non-Resident Person with a Permanent Establishment in the UAE, the UAE Permanent Establishment, though an extension of the Non-Resident Person, will be treated as a separate and independent entity. Transactions between such Non-Resident Person's head office and its UAE Permanent Establishment need to be conducted in line with the arm's length standard.

In this case, since Company N has a Permanent Establishment in the UAE, it is required to attribute appropriate income and associated costs to the Permanent Establishment in accordance with the arm's length standard.

Accordingly, when determining the Taxable Income of Company N, all the income and associated expenditures that are directly related to the UAE Permanent Establishment are required to be considered:

- Revenue from construction contract: AED 30,000,000
- cost of goods sold AED 21,000,000, and

[196] Article 35(1)(d) of the Corporate Tax Law.

- salary and wages: AED 4,500,000.

#### 13.3.2. Head office expenses

In addition to the above, Company N incurs expenditure on administrative staff, IT infrastructure, centralised services like HR and legal functions in Country N for all its operations, including operations in the UAE.

Company N allocates these centralised costs across all its operations on an arm's length basis. Accordingly, Company N has allocated AED 1,500,000 as head office expenses for its UAE operations.

Considering the head office expenses are incurred for the purposes of Company N's Business in the UAE, the allocated amount is allowable expenditure for Corporate Tax purposes. Hence, no adjustment is required in relation to head office expenses of AED 1,500,000 when determining the Taxable Income.

#### 13.3.3. Income attributable to nexus in the UAE

A Non-Resident Person that has a nexus in the UAE by way of an Immovable Property is subject to Corporate Tax on the Taxable Income that is attributable to such Immovable Property.[197]

Company N has received rental income of AED 2,000,000 from property in the UAE, which creates a nexus for Company N. Accordingly, it will be subject to Corporate Tax. No adjustment is required when determining the Taxable Income as it already forms part of the Accounting Income.

#### 13.3.4. Exempt Income: Dividend from a juridical person that is a Resident Person

As noted in Section 4.4.1, a Dividend received from a juridical person that is a Resident Person is exempt from Corporate Tax.[198] Accordingly, the Dividend of AED 500,000 is excluded when determining the Taxable Income of Company N.

#### 13.3.5. Non-deductible expenditure

As noted in Section 4.5.9, donations, grants or gifts made to a Person other than a Qualifying Public Benefit Entity are non-deductible expenditure for Corporate Tax purposes.[199]

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[197] Article 11(4)(c) and Article 12(3)(c) of the Corporate Tax Law and Cabinet Decision No. 56 of 2023.
[198] Article 22(1) of the Corporate Tax Law.
[199] Article 33(1) of the Corporate Tax Law.

Accordingly, AED 700,000 relating to gifts given to business partners of Company N (i.e. that are not given to a Qualifying Public Benefit Entity) are disallowed, and therefore, added back while determining Taxable Income.

# 14. Updates and Amendments

| Date of amendment | Amendments made |
|---|---|
| July 2024 | • First version |