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UAE Corporate Tax

Webinar

For all the latest news on UAE Corporate Income Tax, visit our dedicated CIT website:
<https://home.kpmg/ae/en/home/services/tax/corporate-income-tax-in-the-uae.html>

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KPMG Lower Gulf Limited

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Getting ready






Highlights of the UAE CIT



 Effective Date	<ul style="list-style-type: none">— Effective for financial years starting on or after 1 June 2023— December year end – first CIT year is 1 January 2024 to 31 December 2024, returns in mid 2025— March year end – first CIT year is 1 April 2024 to 31 March 2025, returns in second half of 2025— June year end – first CIT year is 1 July 2023 to June 2024, returns in end of 2024
 Rates	<p>Progressive tax rates</p> <ul style="list-style-type: none">— 0% for taxable income below AED 375,000— 9% for taxable income above AED 375,000; e.g. – if taxable income is AED 500,000, 9% applies on AED 125,000— Possible 15% (though not stated in announcement) for large multinationals/groups even if local where Pillar 2 (global minimum tax) provisions apply (consolidated group turnover more than EUR 750 mn)
 In-scope taxable persons	<ul style="list-style-type: none">— Any person conducting commercial activities (Trade License being the main criteria to determine applicability of CIT)— All UAE businesses (branches, FTZ /mainland entities, foreign PEs) operating in UAE under a commercial license— Taxable income : Income generated from commercial activities such as provision of goods/services, gains on disposal of tangible or intangible assets, interest, royalties, dividends etc.— Taxable losses in a certain year may be carried forward to subsequent periods to offset taxable income
 Exemptions and Exclusions	<ul style="list-style-type: none">— Businesses engaged in the extraction of natural resources to subject to Emirate level corporate taxation and be outside the scope of UAE CIT— Individuals should generally not be in-scope unless they undertake a business that is linked to a trade license— Dividends & capital gains earned by UAE business from qualifying shareholdings in and outside UAE (details to be provided in the law)— No withholding tax on domestic and cross border payments— Gains from Qualifying intra-group transactions & reorganizations shall be exempt subject to additional conditions being met

Highlights of the UAE CIT



 Tax grouping and losses	<ul style="list-style-type: none">— UAE group of companies may elect to form a fiscal unity group for CT purposes, subject to conditions – there might be a need for new consolidated audited financial statements for CT purposes)— Generally, a very high shareholding threshold (in subsidiary) is needed to qualify for a CT group (might be different from VAT grouping requirements)— Taxable losses incurred by one entity of the group may offset taxable income of another entity within the group— One tax filing will be required for the entire group.
 Tax payments	<ul style="list-style-type: none">— Financial income (as per IFRS / US GAAP) will have to be adjusted to arrive at taxable income (for exemptions, permanent and temporary differences, prior year taxable losses)— Self declaration will need to be made once per year. No provisional or advance tax payments is needed— Foreign tax credits (as usually governed by double taxation treaties) on UAE taxable income to be allowed as tax credits to offset tax liability
 Free Zones	<ul style="list-style-type: none">— Free Zone entities will be treated as taxable entities subject to 0% rate provided they comply with all regulatory requirements and do not conduct business with mainland UAE.— Free Zone entities need to register and file annual CIT returns (might need to provide audited financial statements)— Additional guidance expected on the scope of 'not conducting business with mainland UAE— Additional guidance required on how Tax Residency Certificates will be issued to FTZ entities claiming exemption from CIT
 Transfer Pricing	<ul style="list-style-type: none">— UAE businesses will be required to comply with TP rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines
 Administration	<ul style="list-style-type: none">— Federal Tax Authority would be responsible for the administration, collection, and enforcement of UAE CIT— Detailed compliance obligations and applicable penalties covered as per the tax procedure law issued in 2017

Free zones



The UAE has decided to honor its commitments to businesses registered in free zones – but there are a several aspects to consider:

Exception criteria

- 1 Comply with all regulatory requirements; and
- 2 Not conduct business with mainland UAE

- “Doing business with mainland” -The Law may provide more clarity
- Free zones include financial free zone
- Irrespective of tax status, annual CT return needs to be filed
- Tax Grouping Free zone & non-Free zone entities?

Passive income exemptions



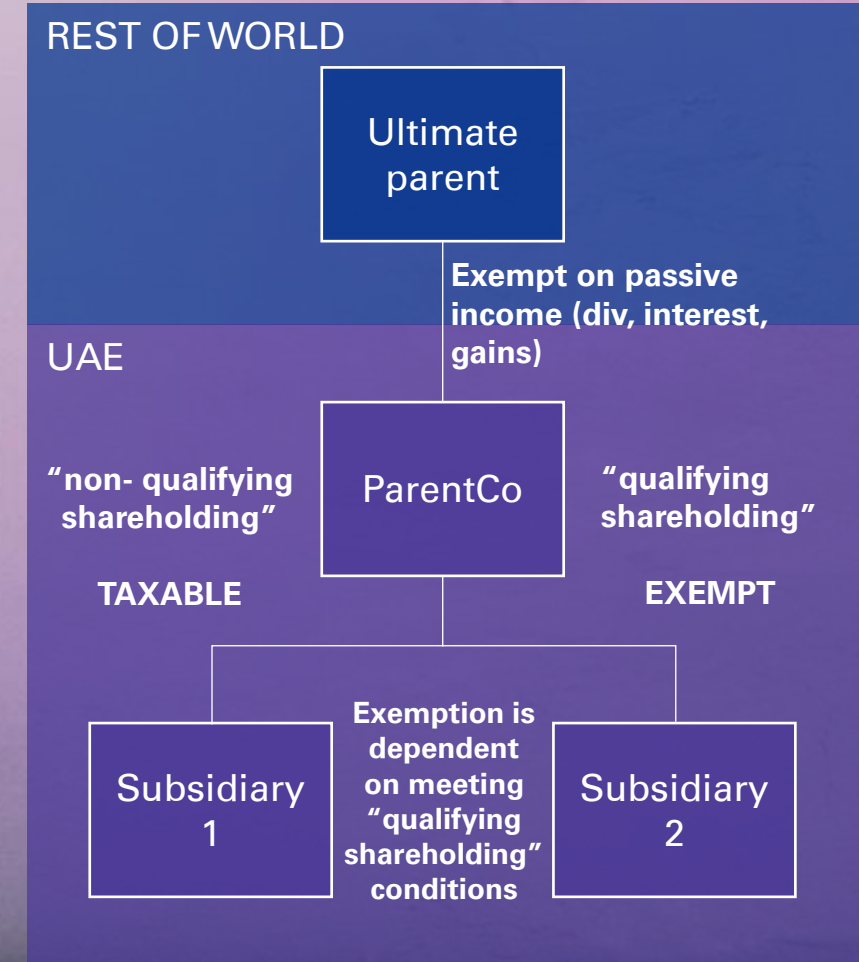
The UAE is expected to continue to be a competitive holding company regime

Dividends and capital from “qualifying shareholding” will be exempt from CIT

- Regimes equivalent to participation exemption / substantial shareholding concepts is anticipated
- Conditions will be set out in the law

There is no withholding tax (WHT) on domestic or cross-border payments.

Foreign persons are exempt from the Law on investment related returns (e.g. dividends, gains, royalties etc.) if not conducting trade or business in the UAE



Transfer pricing



**Shift in approach to
intra-group
transactions**



**Domestic vs Cross
Border intra-group
transactions**



**Expected to be in
accordance with OECD
guidelines**

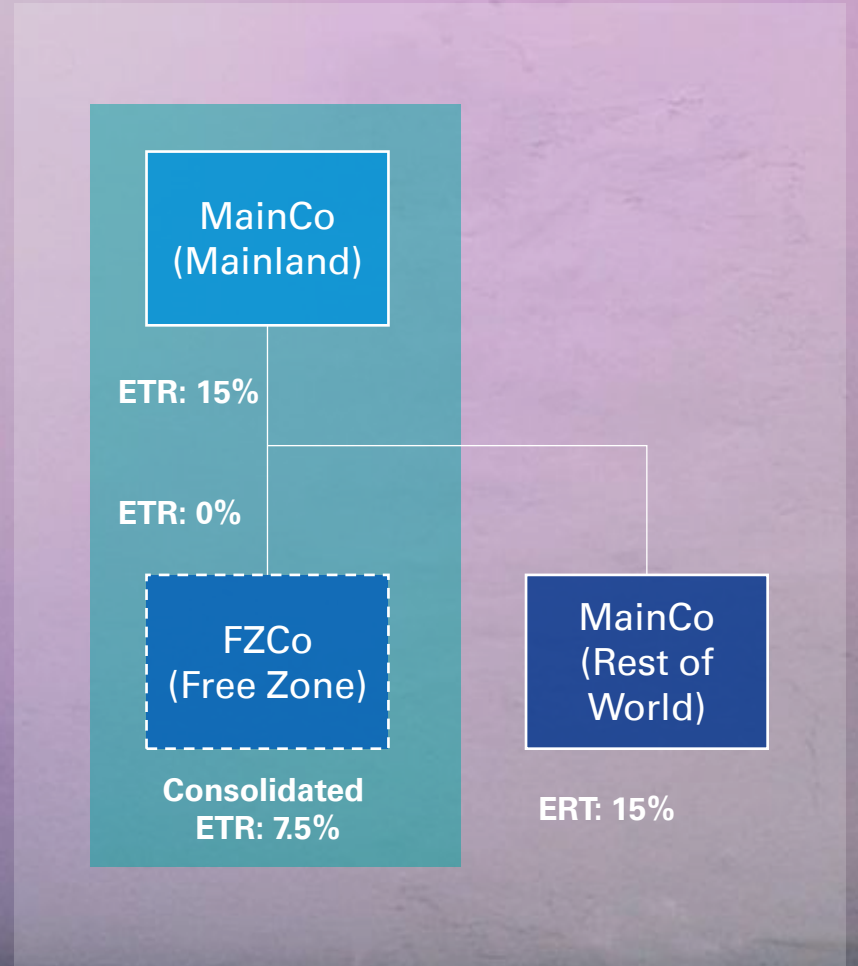


**Documentation and
threshold requirements**

BEPS 2.0 and corporate tax

- ①
- ②
- ③
- ④
- ⑤
- ⑥
- ⑦
- ⑧

- Free zone entities impact on jurisdictional Effective Tax Rate
- Implications of the gap year between BEPS 2.0 being implemented in 2023 and corporate tax year commencing 2024



Accounting considerations

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**Change of
year end**



**Accounting for
restructuring and
carve outs
for common
control entities**



**Managing tax
provisions**



**Controls and
process around
accounting**

Chart of accounts

Process

Governance

Disclosure

Accounting considerations

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**Tax impact of
Un-realised gains
and losses on
fair valuation**



**Tax impacts of items
recognized in Other
Comprehensive
income or
other equity**



**Tax impact of
Exchange gains
and losses**



**Tax impact of
IFRS 9 Expected
credit losses**



**Tax impact of
restatements in
prior years/
change in policy**



**Deductibility of
accounting provisions
for warranty**



**Taxation/deductibility
of effective
interest rates on
Receivables/Payables**



**Tax impact of
impairments**

Indirect taxes and corporate tax

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**Group restructuring
VAT implications**



**Difference between
corporate tax and
VAT group**



**Transactions between
corporate tax groups
and VAT groups**



**Place of establishment
vs Permanent
Establishment**



**CT deductions &
non-deductible VAT /
Apportionment**



Deemed supplies



**Transfer pricing's
impact on customs
valuation / import VAT**



**FTA data matching
between
CT/VAT/ESR**

Getting Ready



Most businesses will have a minimum of 16 months to prepare before the Law comes into effect on 1 June 2023

Making changes following release of the Law?

Where to start?

- Corporate structure review & entity rationalization
- Intracompany transaction and operating model review
- Scenario based corporate tax exposure assessment
- Internal controls and governance
- Review related impact on accounting, indirect tax and technology

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