



UAE Tax Flash

Tax Flash News – Tax guide on Corporate Tax Returns: further insights

The UAE Federal Tax Authority (FTA) recently released a comprehensive guide on Corporate Tax Returns (hereinafter referred to as 'the Guide').

The Guide provides essential insights into the procedural and reporting requirements for filing the first UAE Corporate Tax (CT) return, including detailed guidance on completing the CT return form and disclosures required under the various schedules. Further to our summary published previously, in this alert, we explore highlights of the Guide and important points for Taxpayers to note:

A. General

- A Tax Return must be completed and filed online through EmaraTax portal within 9 months of the end of the Tax period.
- A Tax Return must be submitted by:
 - a Taxable Person or its Tax Agent or a Legal Representative
 - In the case of an Unincorporated Partnership treated as a separate Taxable Person, the appointed responsible partner
 - In the case of a Tax Group, the Parent Company of the Tax Group

Exempt Persons are not required to complete a Tax Return unless (in certain limited circumstances and depending on the type of Exempt Person) they have a taxable business.

- The Tax Return form has 8 Sections and 11 Schedules. In order to determine its Taxable Income, a Taxpayer is required to first complete the Sections. The answers to these Sections would determine the 'Schedules' which the Taxpayer would be required to complete.

The Tax Return would auto-populate certain fields based on the information appearing on the EmaraTax portal of the Taxpayer (e.g. based on the information filled in the tax registration process). Therefore, the accuracy of information input on the EmaraTax portal as well as the 8 Sections becomes critical to ensure that all auto-populated information is appearing accurately, and the required Schedules are appearing while filing the Tax Return.

- If the Taxpayer makes an election which applies to more than one Tax Period (e.g. opting out of the 0% rate for free zone persons, realization basis of taxation, application of transitional rules), it will automatically reflect in the Taxpayer's subsequent years' Tax Return.
- Any error (or aggregate of errors) in the previous Tax Return which has an impact of reducing the tax amount by up to AED 10,000, can be corrected in the current period Tax Return by way of an adjustment. Any other error in respect of a prior Tax Period should be amended by way of a Voluntary Disclosure only.

B. Specific disclosure requirements

1. Financial Statements

- Taxpayers are required to submit financial statements along with the CT return. The financial statements are required to be audited where the Taxpayer exceeds the revenue threshold of AED 50 million or avails the Qualifying Free Zone Person ('QFZP') benefit. The Tax Return form requires disclosure of the auditor's details and the audit opinion i.e. whether it is qualified or not.
- During the process of completing the Tax Return, the Taxable Person may be required to upload other documentary evidence. The exact requirements will depend on various factors including the category of Taxable Person and reliefs claimed. Additional documents may include:
 - Valuation certificate for immovable property/financial assets where transitional rules are applied.
 - Tax residency certificate if the Taxpayer claims tax residency in another jurisdiction
 - Evidence of foreign taxes paid when claiming foreign tax credit

2. Accounting information

- Taxpayers are required to provide a detailed, standalone breakdown of their financial statements i.e. the statement of profit or loss, statement of financial position, and statement of other comprehensive income in accordance with IFRS. For those using the cash basis of accounting, only the statement of profit or loss needs to be filled.

3. Qualifying Free Zone Persons

- For a QFZP, the Accounting Income (i.e. net profits/loss as per the financial statements) must be split between Qualifying Income (subject to a CT rate of 0%) and 'Other income' (subject to a CT rate of 9%). The figure to be shown as Qualifying Income should include all revenue relating to Qualifying Income less expenditure incurred in deriving such Qualifying Income. A similar principle would apply while determining 'Other income'.
- A QFZP is also required to complete the relevant parts of the Tax Return form including the schedule for financial information and tax adjustments. They are also required to disclose:
 - Substance related information, including the number of employees, operating expenditure, details of outsourcing provider(s) (like name and TRN).
 - Details of EBITDA and salaries and wages attributable to each Emirate
- For disclosure relating to employees, the following needs to be noted:
 - An indicator of where an employee is located would be where they spend the majority of their working time.
 - The average number of employees is required to be disclosed i.e. average of FTE at the beginning and end of the year.

4. Transitional Rules

- Businesses opting to elect transitional rules for assets such as immovable property, intangibles, and financial assets are required to complete the relevant schedules, regardless of whether these assets were disposed of within the tax period.
- Essential fields for this schedule include address, makani number, date of ownership, original cost, net book value at the beginning of the first tax period, and market value (if opted for the Valuation method).
- In case of a transfer, the name and TRN of the transferee need to be provided.

5. Transfer Pricing (TP) Disclosures

- Taxpayers are required to disclose related party transactions exceeding AED 40 million in market value or as per the value in the financial statements, with individual disclosures for transactions per category above AED 4 million.
- Dividends declared between related parties do not need to be included in the calculation of the above thresholds and also not disclosed in the related party schedule.
- The FTA mandates separate reporting of gross and arm's length values, with adjustments automatically recorded in the Related Party transaction Schedule. A TP adjustment that reduces taxable income will only be accepted following a successful application to the FTA.
- The schedule for Connected Persons should be completed only if the aggregate value of transactions exceeds AED 500,000. For those Connected Persons where the aggregate payment or benefits exceeds AED 500,000, transactions must be disclosed to confirm adherence to the arm's length standard.

6. Dividend Schedule

- The name and TRN for each UAE resident person from whom dividend or profit distribution is received needs to be input in this schedule. Any dividend from exempt entities is not required to be included here as the same is not exempt.

C. Key takeaways and actions for Taxpayers

1. Data accuracy in EmaraTax portal

- Ensuring that the Taxpayer's data in the EmaraTax portal is accurate and comprehensive helps identify the exact tax schedules they must complete. This accuracy streamlines the Tax Return process by presenting only the relevant schedules, reducing the complexity and potential for errors.

2. Data collection for Tax Returns

- **Collation of information:** Tax teams should proactively gather relevant data, such as:
 - Income Classification: Breakdown of qualifying and non-qualifying income and related expenses, essential for Free Zone Persons (QFZP).
 - Interdepartmental Data: Collect employee data from HR (e.g. emirate-wise salary data) to meet substance requirements, and specific transaction details from the Finance department.
- **Advance preparation for transactional data:** Taxpayers need to collect detailed data regarding transacting parties, including TRNs, especially for:
 - Related-party transactions
 - Domestic dividend exemptions
 - Asset transfers under transitional rules
- **Preparation for TP Disclosure**
 - Taxpayers must gather comprehensive information on all related party transactions, enabling them to identify those transactions, including dealings with Connected Persons that meet the applicable thresholds, for disclosure in the Related Party and Connected Person Schedules.
 - Additionally, any deviations from the arm's length principle should be identified well in advance of submitting the Schedules to ensure accurate reporting.
- **TRN relevance:** As per the Guide, if the TRN for a dividend-paying resident is unavailable, it might indicate that the entity is not a UAE resident Taxpayer. This could impact the treatment of dividends or profit distributions, potentially disqualifying them from exemption status.

3. Document submission beyond financials

- While financial statements are mandatory, Taxpayers should evaluate any additional documentation to submit voluntarily with the Tax Return to minimize follow-up questions or clarifications from the FTA.

4. Tax elections

- **Initial Tax elections:** In the first tax period, Taxpayers must undertake careful analysis before making the elections, some of which are irrevocable. These include:
 - Opting out of the 0% tax rate for free zone persons
 - Choosing the realization basis of taxation
 - Applying transitional rules
- **Documentation for decisions:** Decisions on these elections should be well-supported by relevant documents, such as valuation certificates for transitional rules.

Although the Tax Return form is not yet publicly available, the Guide is a vital tool for Taxpayers to plan their compliance lifecycle effectively. It aids in preparing necessary documentation, identifying and collecting key data points for Tax Returns, and reviewing TP policies for related-party transactions. By following the Guide, Taxpayers can proactively streamline their compliance processes and minimize potential risks or errors in their Tax Return filing.

If you need any assistance, please reach out to your advisors at KPMG or the contacts mentioned below.

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