

The newly introduced CT(Corporate Tax) in UAE offers one of the most favorable tax regimes globally. The Corporate tax is applicable only on business income of companies, firms, and natural persons.

## **Only Business Incomes are taxable**

Any person deriving income from other sources such as salary, interest, rent, dividends or capital gains, will not be taxed on such income. However, if some income of the nature described above is received as a business, then such income may be taxable.

## **High Exemption limit for Business income**

The profits up to AED 375,000 are exempt from tax. The profit will be calculated in accordance with standard accounting practices, and all expenses directly attributable to the business will be deductible. Therefore, most of the SME businesses will be out of tax regime. However, they may need to register for the Corporate Tax.

## **FreeZones Exemption**

Exemption to approved Free Zone entities is one of the most significant tax exemptions. FZ are totally kept out of the purview of Corporate tax, however care should be taken that such companies should not have any transactions with the mainland companies. In that case incurrence of a single transaction would attract CT.

Businesses set up in free zones can be benefited from 0% corporate tax on the following:

1. Income earned from activities of businesses set up outside of the UAE, provided the applicable tax, if any, in outside jurisdiction is properly discharged.
2. Income earned from dealing with other businesses located in the same or other approved free zones.
3. Income earned from certain regulated financial services directed at foreign markets.

While income from a free zone is not a qualifying income for exemption, if it enters into a transaction with a mainland customer, if a business set up in a free zone has a branch in the mainland, then income earned by such a branch would be taxable to corporate tax at the regular rates. In such cases, the HO or parent company in the Free Zone will be exempt from CT.

Alternatively, a company which does not have any branch in the mainland but transacts with mainland UAE and if the income derived is in the nature of passive income, then such income would not be subject to corporate tax. Such passive income would include interest, royalties, dividends and capital gains from owning shares in mainland UAE companies.

Payments made to related parties located in free zones who avail the benefit of 0% corporate tax would not be deductible for the purposes of corporate tax. However, if such payment is attributed to a mainland branch of the free zone person, then the related party would be entitled to claim a deduction.

## **Tax benefit for a Group Structure**

UAE CT permits formation of a tax group and to allow full consolidation as tax grouping for essentially wholly owned companies, and permit the transfer of losses between group companies that are 75% or more commonly owned.

The companies incorporated in the UAE can form a tax group for corporate tax purposes provided the parent company holds at least 95% of the share capital and voting rights of its subsidiaries. This facility is provided in very few countries.

## **Business Restructuring Relief**

Similar to intra-group transfer of assets or liabilities within a Qualifying Group, the UAE CT Law provides tax relief on mergers, spin-offs and other corporate restructuring transactions where whole or independent part of business is being transferred in exchange of shares or other ownership interest.

## **Participation Exemption - Significant investment in other companies**

Dividends and other profit distributions as well as foreign exchange, impairment and capital gains and losses relating to ownership interests (referred to as a 'Participating Interest') in an entity (referred to as 'Participation') will be exempt from tax if:

The ownership interest is at least 5%;

A 12 month uninterrupted holding period (or the intention to hold for 12 months) is in place, and  
The Participation is subject to tax in its country or territory of residence at a rate that is not lower than 9%.

No more than 50% of the assets directly or indirectly owned by the Participation may consist of an ownership interest or entitlements that would not qualify for the Participation Exemption if these assets were held directly by the Taxable Person.

## **Foreign Tax PE Exemption**

Subject to any tax treaties, a Resident Person may establish a PE in another country depending on the domestic tax rules of this jurisdiction. The income associated with such a Foreign PE will typically be taxed there. The UAE CT Law gives the resident person the option to choose an exemption of this income in the UAE in such a situation. If the Foreign PE is subject to CT or comparable taxes at a rate of not less than 9% in the foreign jurisdiction, the exemption will be applicable. The resident person will not be able to take into consideration losses, income, expenditures, or foreign tax credits in regard to the Foreign PE in the UAE if they want to take advantage of this exemption.

## **Foreign Tax Credit**

A credit is available for any foreign taxes paid on a UAE Taxable Person's income. The foreign tax credit is limited to the amount of CT due on the relevant income. Any unutilized foreign tax credit cannot be carried forward and or back and will ultimately be lost.

Aspire Consulting has a presence across many countries. We offer following Corporate Services:

- Taxation & Assurance (Corporate & VAT)
- Company Formation & Management
- Corporate & Cross-border Advisory
- Risk Advisory and Internal Audit
- Corporate Compliance (AML/CFT, ESR)
- Accounting & Transaction Advisory
- Technology adoption & migration

We have clearly defined business processes in line with globally accepted standards. We ensure quality delivery of services and client satisfaction. Our services are tailor made to meet the needs of our clients in diverse industries, services and other sectors.

Collectively, we serve a credible base of clients in various countries including India, UAE, European and Far-east countries etc. The group is therefore able to offer good blend of knowledge and expertise based on its professional capabilities.

Our client centric approach with a focus on creating long term relationships has helped us in carving a niche in the accounting and financial services sector. We strive to provide comprehensive services ensuing legal and procedural compliances.

## TAX TEAM

Aspire Consulting tax team has a rich litany of experience dealing in global personal and corporate taxes, transfer pricing, cross-border taxation and double tax avoidance treaties for Asia pacific, Africa, Australia and America.

You are welcome to seek our competent assistance for newly introduced Corporate tax or international taxes for various jurisdictions.

You may write to any of us at [consult@theaspireconsulting.com](mailto:consult@theaspireconsulting.com) or book a consultation.

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