

Emiratos Árabes: Introducción al Impuesto de Sociedades (CIT)



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23 de febrero de 2022

The United Arab Emirates **Ministry of Finance** (MoF) announced, on January 31, 2022, the introduction of a **Federal Corporate Income Tax** (CIT). A brief initial introduction to the proposed **Corporate Income Tax** (CIT) regime will be provided below, ahead of the publication of the relevant legislation by the authorities in mid-2022.

I. Introduction

The recent introduction of Corporation Tax is intended to reaffirm the UAE's commitment to meeting international standards of tax transparency.

The country will remain free of taxes on labor income and no taxes will be applied on income or gains derived from personal investments.

The tax regime (CIT) will come into force for financial years beginning on or after June 1, 2023. For those entities whose financial year begins with the calendar year, the tax will be applicable as of January 1, 2024.

II. Scope and tax rate

The tax will apply to all UAE businesses and commercial activities alike, with the exception of natural resource extraction, which will continue to be subject to corporate tax at the Emirati level. Therefore, all business income earned under a business license will be within the scope of the CIT.

The applicable tax is from:

A different tax rate is foreseen for large multinationals that comply with 'Pillar Two' of the "GloBE" standards (Global Anti-Base Erosion Model), included in the BEPS project of the OECD, which establishes a world minimum tax rate 15% to all those companies whose consolidated revenues exceed €750M in two of the last four financial years. Given these regulations, we can expect the UAE to consider a 15% CIT rate for multinational groups that are subject to these rules.

III. Exemptions

Dividends, capital gains from significant holdings and intra-group operations are exempt. The scope of the exemptions will be reflected in the relative federal law.

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IV. Free trade zone

Companies located within free zones (including the financial free zone) will be exempt from the CIT regime provided that: i) they comply with all regulatory requirements; and ii) do not conduct business with companies located on the mainland. The exemption is not automatic, since entities must register electronically through the portal of the federal tax authority (FTA) and file annual CIT returns. In this way, the law will continue to respect the tax incentives that these companies enjoy within the free zones as long as they comply with the exemptions that will be included in the law.

V. Losses

The UAE CIT regime will allow a company to use losses incurred (as of the effective date of the CIT) to offset taxable income in subsequent financial periods. It is considered a tax loss, for CIT purposes, when the total deductions that companies can claim is greater than the total income of the corresponding financial period.

Excess tax losses can be carried forward and used against the tax base in future years, provided that certain conditions* are met.

** Information about the conditions will be provided in the relative federal law.*

VI. Management

The Federal Tax Authority (FTA) will be in charge of administering, collecting and executing the tax. The tax will be filed—only once per period—electronically through the FTA portal.

Like other taxes in the UAE (eg VAT), companies will be subject to penalties for non-compliance with the CIT regime.

VII. Tax Cooperation

As part of the UAE's commitment as a member of the OECD Inclusive Framework, and in response to the BEPS laws and regulations [1] proposed by the OECD, the country has, in recent years, introduced a series of legislative changes in the area of tax policy.

The first of these was the Value Added Tax (VAT) in January 2018, followed by the Economic Substance Regulations issued in April 2019. The latter requires companies established in the *mainland* and in the free zone demonstrate an adequate economic presence in the country in relation to their relevant economic activities.

Important note: *The information provided in this document is not intended to comprehensively address all possible aspects of the UAE CIT regime or provide definitive answers, and should not be used for individual or business decisions. As of February 21, 2022, it may be subject to change by the UAE Ministry of Finance (MoF) as the final legislation has not been issued. For this reason, said document is merely informative and from RLD we recommend expanding the information through consultation.*

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