



Cross Link International

CORPORATE TAX 2023

**Power Moves: Three Key
Strategies for Businesses in
the UAE**



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3 THINGS TO FOLLOW

These three guidelines are imperative for all businesses operating in the UAE to adhere to.



1) From June 2023 onwards, all UAE businesses, including free zone entities, must register for corporate tax.

- Your business will be subject to corporate tax from your first financial year starting on or after 1 June 2023.
- Every business, including free zone companies and freelancers, must register for corporate tax.
- Corporate tax is distinct from VAT. Even if you already have a VAT number, you will still need to register separately for corporate tax.

2) Maintaining accurate and organized accounting records is a fundamental requirement for all businesses operating in the UAE.

- The corporate tax law in the UAE necessitates the maintenance of specific accounting records.
- Your company's tax obligations will be determined based on the information reflected in your accounting records.

3) All businesses in the UAE are obligated to file their corporate tax submission with the Federal Tax Authority (FTA).

- The tax declaration process must be carried out after the completion of your first taxable period.
- Even if your business qualifies for an exemption or tax relief, it is still necessary to declare this by filing a tax submission with the Federal Tax Authority (FTA).

These three steps are crucial for all businesses in the UAE to comply with, irrespective of whether they are subject to corporate tax or located in free zones.

WHAT IS THE CORPORATE TAX RATE IN THE UAE?



The UAE Ministry of Finance (MOF) has devised a taxation policy with three distinct categories:



Category 1

Businesses with annual net profits of up to AED 375,000 are not subject to any tax and have a 0% tax rate.

Category 2

Businesses with annual net profits exceeding AED 375,000 are taxed at a rate of 9%.



Category 3

Large multinational companies fall under a different tax rate classification, based on Pillar Two of the Organisation for Economic Cooperation and Development (OECD) base erosion and profit shifting (BEPS) project. Companies with a total global revenue surpassing AED 3.15 billion are included in this category, and they face a higher tax rate for profits over AED 3.5 billion.



WHAT IS CORPORATE TAX POLICY FOR BUSINESSES OPERATING IN FREE ZONES?

The UAE government, in line with its commitment to fostering a business-friendly environment within free zones, has implemented a specific corporate tax policy for such businesses. It is important to note that being registered in a free zone does not automatically exempt a business from corporate tax.

The corporate tax policy for free zone businesses is as follows:

- 1 **Exemption Eligibility:** Free zone businesses may qualify for a tax exemption if they comply with the regulations set forth by their respective free zone, including those outlined in the corporate tax legislation.
- 2 **Exemption Compliance:** Failure to comply with the free zone conditions specified in the tax legislation may result in the loss of the tax exemption for the business.
- 3 **Alternative Options:** In the event that a business loses its free zone exemption, there may still be alternative options available, such as the Small Business Relief rule.

Note: Even if a free zone business qualifies for a tax exemption, they are still required to register for corporate tax, maintain proper accounting records, and submit an annual tax return to the Federal Tax Authority (FTA).

The corporate tax policy for free zone businesses is as follows:

FREELANCERS

To practise as an independent professional or freelancer in the UAE, you need a professional licence, which will automatically bring you under the tax regime. If you are a freelancer whose annual revenue is over AED 3 million and profit is over AED 375,000, you will likely have to pay the 9% corporate tax for the appropriate income amount, unless you qualify for one of the exemptions available.

IMPORTANT:

Freelancers in the UAE may still need to pay the 9% corporate tax if their annual revenue is over AED 3 million and profit is over AED 375,000.



Is the Small Business Relief rule applicable to your business?



The Small Business Relief rule aims to provide assistance to start-ups, small and medium-sized enterprises (SMEs), and micro businesses in the UAE by reducing their corporate tax obligations and alleviating compliance expenses.

If your business falls under the following revenue threshold, you may be eligible for the Small Business Relief:

- Revenue Below AED 3 Million = No Tax
- According to the Small Business Relief scheme, businesses with a total revenue below AED 3 million for each relevant or previous tax period are exempt from paying corporate tax.

Until the end of 2026, the Small Business Relief scheme guarantees that businesses generating a total revenue below AED 3 million for each tax period are exempt from paying corporate tax.

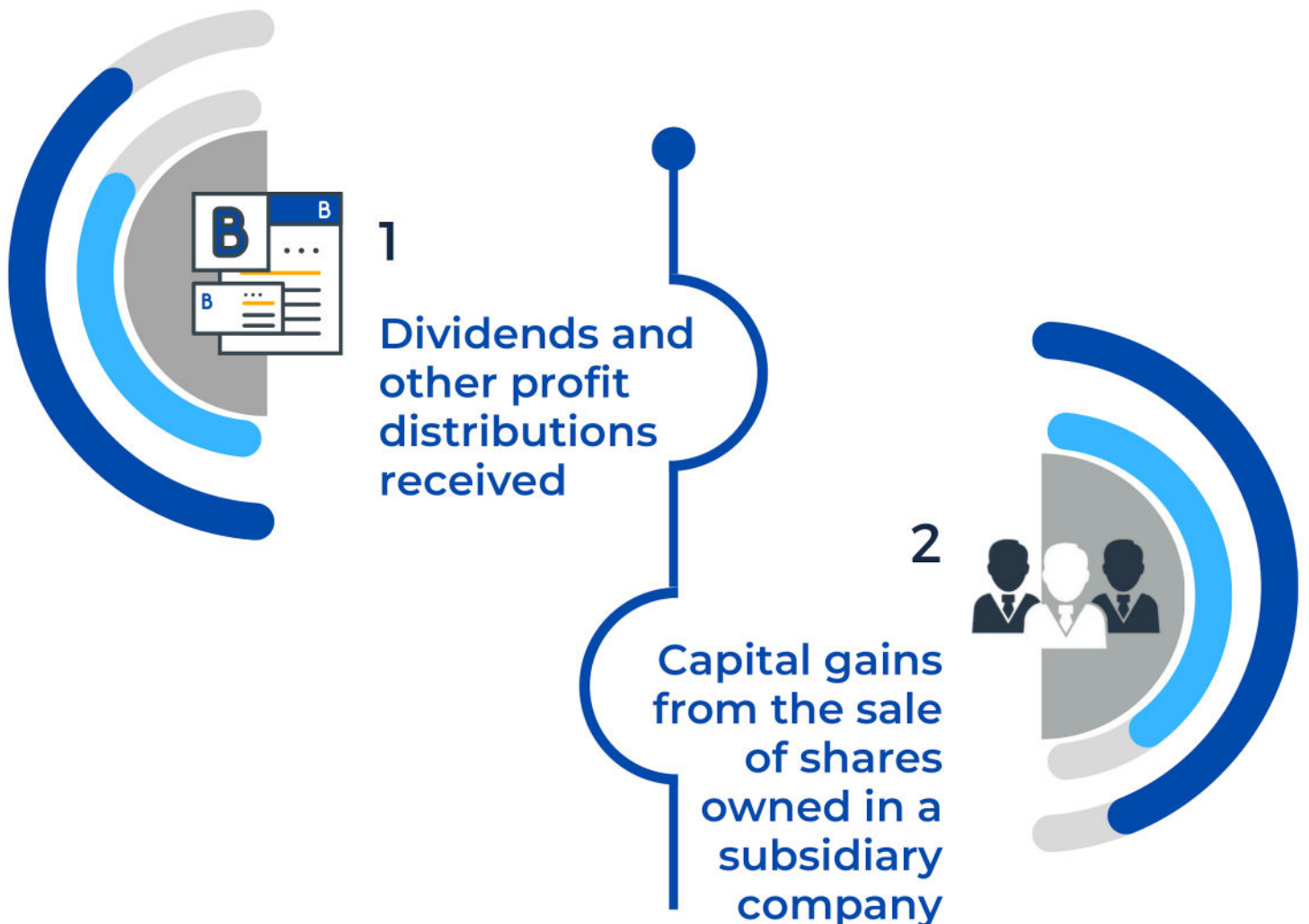
How is taxable profit calculated?

Generally, taxable profit is determined by subtracting business-related expenses from revenue. Certain expenses have specific guidelines, including:

- **Owner Salaries:** Salaries paid to owners must adhere to the "arms-length" principle, meaning they should be set at a fair market rate comparable to what an unrelated employee would receive in a similar employment arrangement.
- **Interest:** Businesses can deduct financing and interest costs, but the deduction for interest expense is limited to 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA). This cap prevents excessive debt-driven tax reduction strategies by ensuring equitable treatment between equity and debt.
- **Entertainment:** Only 50% of entertainment expenses can be deducted, including costs for meals and accommodation when incurred for the purpose of entertaining customers, suppliers, shareholders, or similar parties.
- **Foreign Branches:** Companies with branches in other countries may claim a foreign tax credit for the tax paid in that country concerning the branch. Alternatively, a company may seek exemption for profits generated by its branches outside the UAE.

INCOME SOURCES EXEMPTED:

The MOF has declared that the following income sources will generally be exempt:



Businesses or legal entities meeting the following criteria can qualify for corporate tax exemption.

INDUSTRIES ELIGIBLE FOR EXEMPTION:



GOVERNMENT OR PUBLIC ENTITIES

This category encompasses federal and regional offices, departments, divisions, and all other public institutions.



NATURAL RESOURCE EXTRACTION OR MINING

Entities involved in extracting or mining natural resources in the UAE are subject to Emirate-level taxation and do not need to file a separate tax report.



PUBLIC OR REGULATED PRIVATE ENTITIES

This includes entities managing social benefit funds like pension or retirement planning.



REAL ESTATE OR REGULATED INVESTMENT FUNDS

Similar to charitable organizations, these funds must seek formal exemption approval by applying to the MOF and FTA.



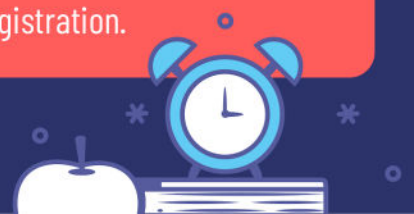
UAE GOVERNMENT-OWNED COMPANIES

Companies fully owned by the UAE government and listed with a ministry-level decision are granted tax exemption.



CHARITABLE ORGANIZATIONS

Entities dedicated to charitable and social causes must register as such with the MOF. Eligible organizations must obtain formal clearance from relevant authorities before applying for MOF registration.





VAT vs Tax

IS CORPORATE TAX EQUIVALENT TO VAT?

Corporate tax is applicable to a company's annual net profits, while VAT is collected by businesses from customers during product or service sales and remitted to the government. **IMPORTANT:** Businesses already registered for VAT must also register for corporate tax.

VAT

VAT is a consumption tax imposed on goods and services, paid by the customer at the time of purchase. In contrast, corporate tax is levied on a business's taxable income.

TAX

Corporate tax is paid directly to the government and is calculated based on the company's net income, not the total revenue or sales volume.

Require additional information on UAE's corporate tax law? Contact our team for further details.

Get in touch now for
a free consultation
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