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UAE Corporate Tax - Year 2

What Changed? Learnings of the Past

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UAE Corporate Tax: Year 2 – Agenda for Today

01 What Changed?

CT Regulations

- Key Aspects of CT Regulations
- Development CT Regulations

QFZP Updates

- Qualified Commodity Trading
- Agreed Upon Procedures for Distribution Activities

Other Updates

- Tax Group amendments
- Realisation Method & Depreciation
- MAP and APA
- R & D Tax Credit
- Summary of Private Clarifications
- Pillar Two & International Tax Updates
- Tax Return & Portal Updates

02 Lessons from Year 1 Filing

Year 1 Review & Year 2 Actions

- Common Mistakes Observed in First CT Returns
- Audit Triggers & High-Risk Areas
- Action Plan

01

SECTION ONE

What Changed?

Quick Recap

Keeping Pace with Corporate Tax Change

132 CT Regulatory instruments issued till date

	Until Sep 2025	Since	Cumulative total
Federal Decree-Laws	2	5	7
Ministerial Decisions	29	5	34
Guides	25	4	29
Bulletins	2	1	3
Public Consultation Docs	2	1	3
Cabinet Decisions	18	3	21
FTA Decisions	10	6	16
Public Clarifications	9	4	13
Manuals	6	0	6

Counts shown as: issued until September 2025 · issued since | circle = cumulative total

Free Zone Updates

QFZP - Qualifying Commodity Trading

VS

THEN - MD 265

- Qualifying Commodities limited to metals, minerals.
- Commodities generally needed to be traded in raw form.
- No explicit recognition of related commodities for pricing purposes.

NOW - MD 229

- Expanded to include Metals, minerals & steel alloys, Agricultural commodities, Industrial chemicals, Refined oil products, petrochemicals & Associated By-products, Environmental commodities (e.g., carbon credits).
- Expanded to include physical trading, hedging derivatives and structured commodity financing
- Commodity qualifies where a Quoted Price exists through
  - ✓ recognised exchange or
  - ✓ recognised price reporting agency

QFZP - Qualifying Commodity Trading

Action: Revision of First Corporate Return filed ?

- Does your commodity now qualify under MD 229?
- Was non-qualifying income reported in Year 1?
- Is an amendment or reassessment required?
- Do you have adequate documents to substantiate revision of Year 1 Return ?

QFZP - Additional compliance Requirements for QFZPs engaged in Distribution Activities

THEN

Self-Assessment Approach

- No auditor certification or AUP report submission requirement.
- KYC documents and supporting records to be maintained.
- Documents to demonstrate that goods/materials were imported, stored, and distributed through a Designated Zone.

VS

NOW - FTA Decision No. 6 of 2026

For the FY beginning January 1, 2026

- **Independent external auditor AUP report required**
- **Compliance verification** of Qualifying Activities and Designated Zone conditions
- **Maintain supporting documentation**: contracts, customs records, inventory records, and KYC documents
- **Submission deadline:** AUP report to be filed with the FTA **within 30 days after the Corporate Tax return filing due date**

QFZP - Additional compliance Requirements for QFZPs engaged in Distribution Activities

Check your Compliance Need

Action: Appointment of Auditor

- Ensure documentation on
  - ✓ Reseller Status
  - ✓ Designated Zone importation - Import documentation, shipping documents of goods entering the State, etc.
- Coordination across tax / finance teams and the business teams

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Other Updates

Tax Group

THEN

- Consolidated Financial Statements as per IFRS
- Business combinations: Goodwill, bargain-purchase gains and fair-value uplifts are recognised.
- Only groups with consolidated Revenue > AED 50m required audited FS (MD 82/2023)

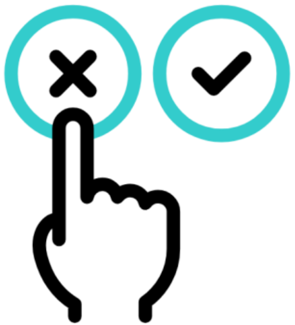
NOW - Corporate Tax Public Clarification CTP011

From FY beginning January 1, 2025

- **Special-purpose aggregation framework** (not full IFRS consolidation)
- **IFRS 3/10 consolidation effects excluded**: goodwill, bargain purchase gains & fair value adjustments
- **No investment-equity elimination**: parent investment and subsidiary equity aggregated gross
- **Mandatory audited aggregated FS** for all Tax Groups, irrespective of revenue threshold

> **"Same group, same numbers - the accounting basis flips entirely in Jan 2025 and Taxable Income moves with it."**

What Can Go Wrong?



- Wrong framework used
- Goodwill incorrectly included
- Non-elimination errors
- Audit requirement overlooked

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Elections: Realisation Basis – Allowance of Depreciation

THEN

- Fair value gains and losses on Investment Property generally followed accounting treatment for CT purposes.
- IAS 40 investment properties measured at **fair value were not depreciated**
- Tax relief primarily depended on fair value movements and disposal adjustments

NOW - MD 173/2025

From FY beginning January 1, 2026

- Taxpayers may claim a **tax depreciation deduction** on the building component of fair value investment properties
- Ongoing tax deduction available irrespective of accounting depreciation
- Removes a key tax disadvantage of the fair value model

Elections: Realisation Basis – Allowance of Depreciation

Action Required

- Identify investment properties held under the IAS 40 fair value model
- Segregate **land and building components**
- **Remember it is timing and cash-flow benefit**, not a permanent tax saving.

Small Business Relief

THEN

VS

NOW

SBR eligibility

Tax Periods that end on or before 31 December 2026

Now (MD No. 131 of 2026)

Tax Periods that end on or before 31 December 2029

“ **Even if no SBR chosen for 2024 & 2025, you can go for another 4 years ???** ”

Mutual Agreement Procedure

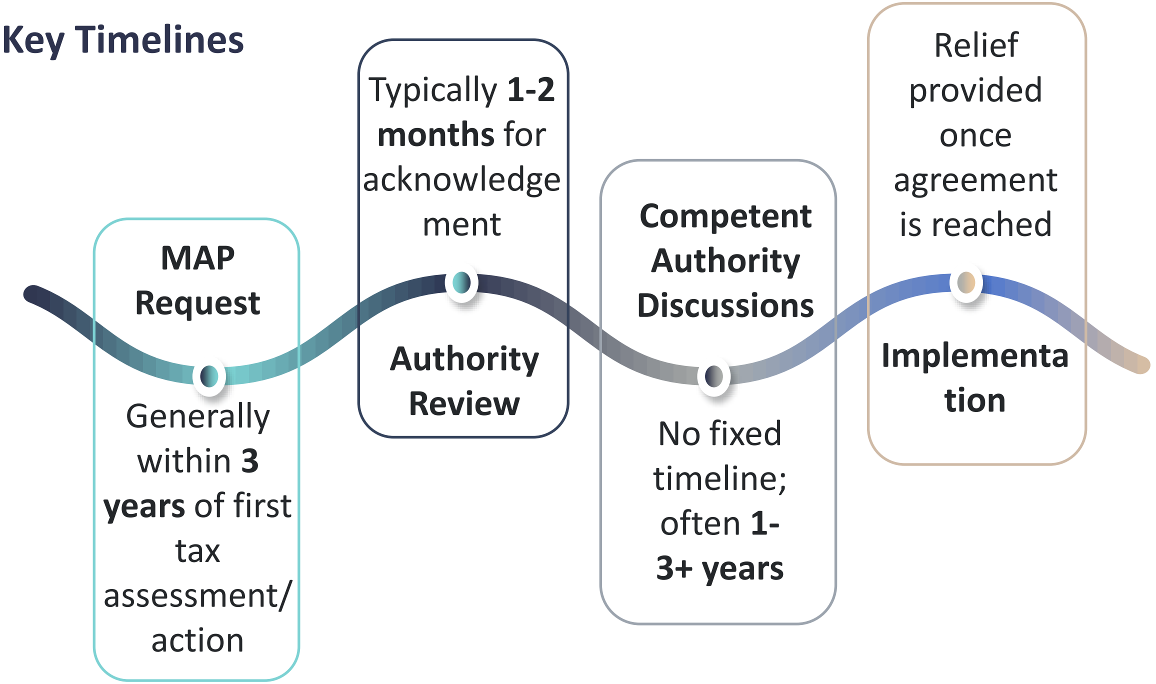
Who Can Apply

UAE Tax Residents
Facing double taxation under a tax treaty

Non-Residents
Taxed contrary to treaty provisions

Related Parties
Transfer pricing adjustments creating double taxation

Key Timelines



> *MAP is a **valuable but slow-moving tool** for UAE taxpayers facing cross-border double taxation — best suited for **high-value, treaty-covered disputes** where litigation is not preferred.*

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Advance Pricing Arrangement

2024

- FTA Decision No. 4 of 2024 (eff. 1 Jul 2024) operationalized Article 59 of the CT Law
- Start date for receiving applications promised for Q4 2024
- No APA applications were accepted in 2024, as the UAE APA programme had not yet commenced.

2025

- FTA Decision No. 2 of 2025 deferred the commencement of **Unilateral APA applications to Q4 2025**.
- 30 Dec 2025: APA Guide (CTGAPA1) published; domestic UAPA applications open
- AED 100m materiality threshold

2026

- New APA fees take effect 1 Jan 2026: AED 30K new / AED 15K renewal
- Cross-border Unilateral APA applications expected to open (date TBA)
- Bilateral (BAPA) / Multilateral (MAPA) routes still pending, no start date

"APA is negotiated agreement not a tax assessment. Option to not conclude the APA"

Research & Development Tax Credit

VS

THEN

- UAE Corporate Tax framework did not provide a dedicated R&D tax credit.
- Only a consultation document released

“**Whether R&D Tax Credit available under CT can be considered as *Qualifying Refundable and Marketable Tax Credits* for Pillar Two Purpose?**”

NOW - MD 24/2026 & CDN 215 of 2025

From FY beginning January 1, 2026

- *Qualifying businesses can reduce their UAE corporate tax liability by 15% to 50% of eligible research and development expenditure.*
- R&D Project pre-approval from the Council required
- *Eligible expenditure*
  - ✓ *staff costs (with a 30% overhead uplift),*
  - ✓ *consumables directly attributable to qualifying R&D, and*
  - ✓ *UAE-based subcontracting costs.*

Key Highlights - Private Clarifications

Summary of Private Clarifications

Holding Shares for Investment Purposes

Shares can qualify as being held for **investment purposes even if disposed of within 12 months**, provided intent is demonstrated.

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“Private Clarifications are binding only on the Applicant. However, it indicates FTA’s approach. Revisit before filing”

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Summary of Private Clarifications

Holding Shares for Investment Purposes

Shares can qualify as being held for **investment purposes even if disposed of within 12 months**, provided intent is demonstrated.

Free Zone

Multiple FZ branches - assessed as a single Taxable Person.

TP adjustment in CT Return - does not disqualify QFZP status.

Related-party visa employees -can count where the FZP bears the economic cost and controls employment.

Shared workspace -can satisfy substance where it is sufficient and commensurate with the activity.

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Participation Exemption-Imp Clarifications

Fair value gains or losses are not covered by participation exemption (impairment gain / loss covered).

The **AED 4 million ownership threshold** overrides the alternative 5% ownership and profit entitlement tests.

Beneficial ownership can qualify as a participating interest where economic rights and control exist, even without strict legal ownership.

Dividends can remain exempt even when paid from **pre-acquisition retained earnings**.

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Foreign Holding Company Relief

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Absence of a UAE trade licence does not automatically prevent a PE from existing.

A fixed place used for core income-generating activities may create a PE based on facts and circumstances.

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Tax Losses

The 75% ownership test can be satisfied through **beneficial ownership**, not only legal ownership.

Financial Statement

Where audited accounts are required, the **auditor must be** a [illegible] auditor.

Taxable Income Principles

- [illegible] provisions and [illegible] recognised under IFRS are generally taxable when recognised in profit or loss.
- Government grants follow IFRS accounting treatment unless a specific exemption applies.

HQ Services Scope

- HQ services **cover** senior/general [illegible] planning, risk management [illegible] coordination/support.
- HQ service provided to only one RP would also be considered as Qualifying Activity

Arm's Length Valuation of Group Holdings

- **Transfers of shares** to Related Parties must be valued at arm's length.
- Where only bare legal title is held with no economic rights, a nominal arm's length value may be appropriate – aligned to book value, etc. (fact-specific).

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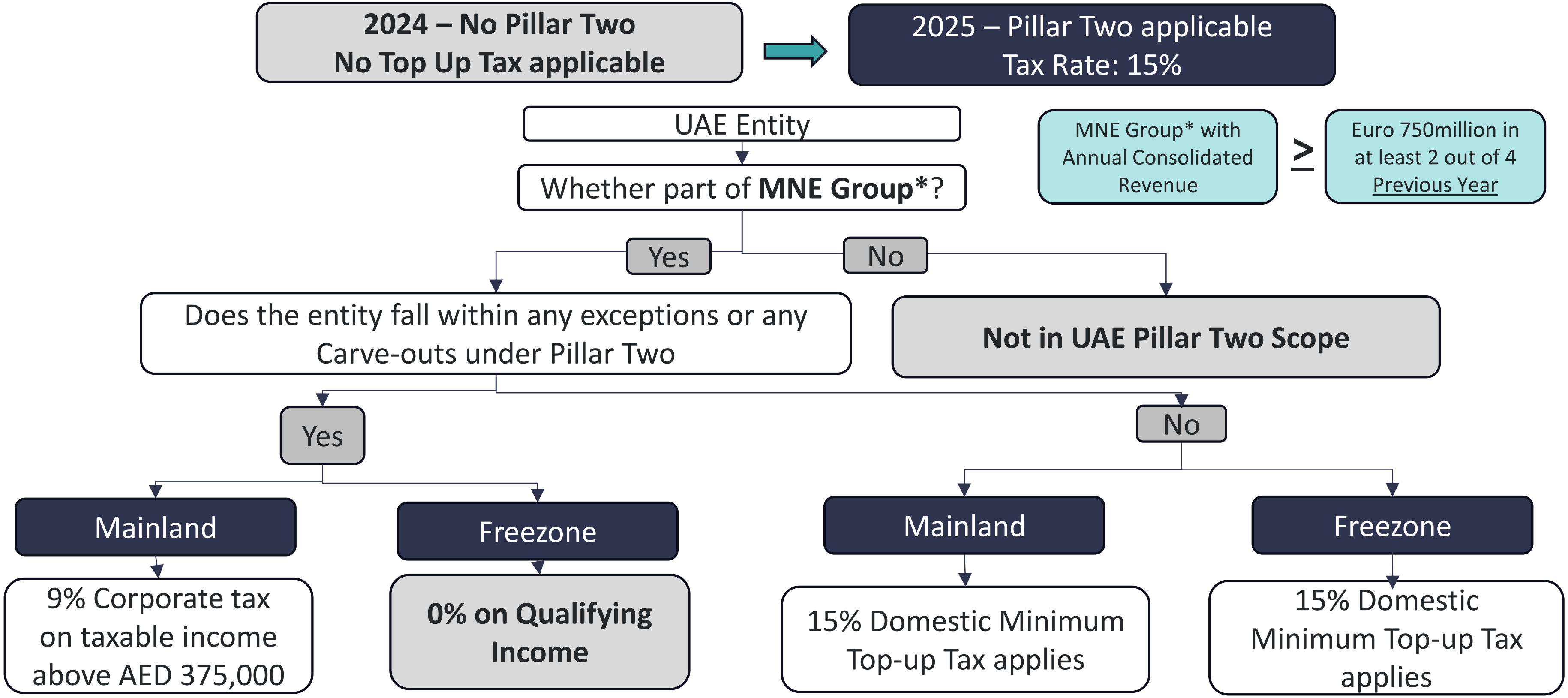
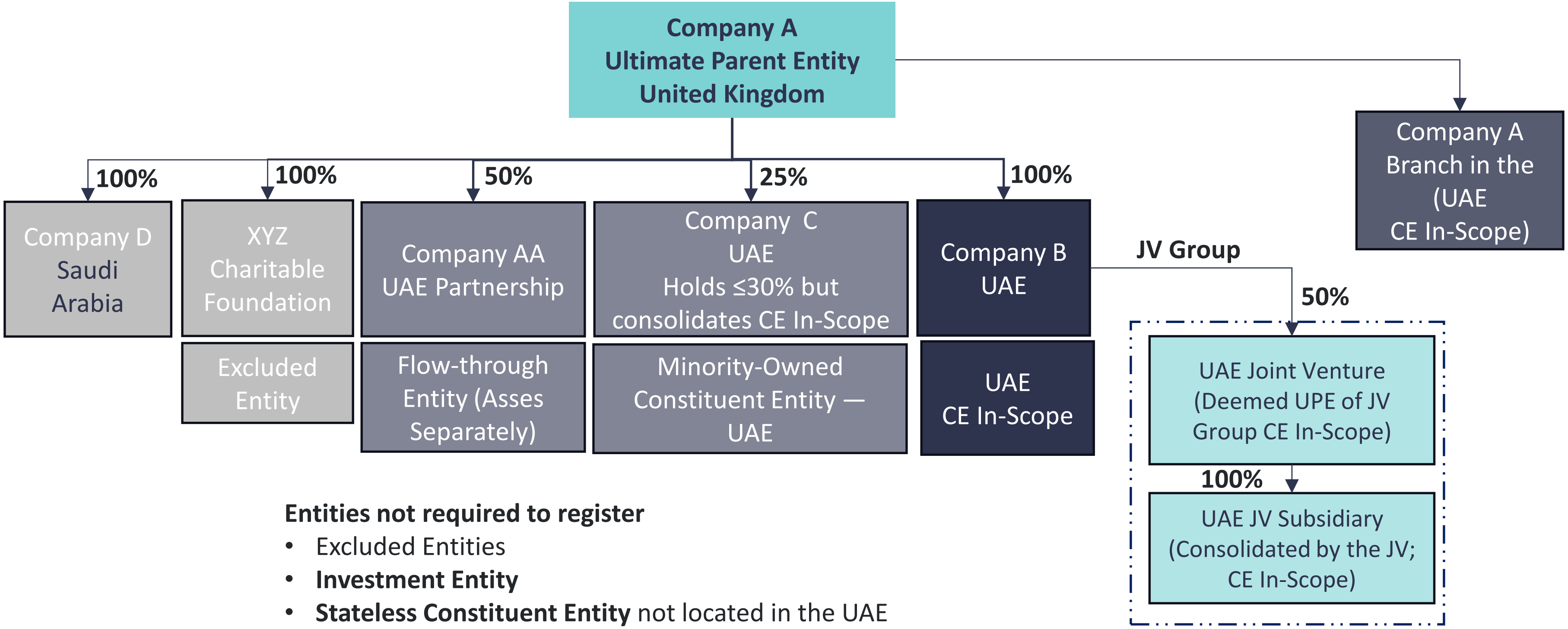
OECD Pillar Two

Imposition of Top-Up Tax on Multinational Enterprises - OECD Pillar Two



Entity with a Fiscal Year ending before 30 April 2026 - Deadline for Pillar Two Registration – **November 30, 2026** *(Federal Tax Authority Decision No. 12 of 2026)*

Types of Constituent Entities



Entities not required to register

- Excluded Entities
- **Investment Entity**
- **Stateless Constituent Entity** not located in the UAE
- **Stateless Tax Transparent** Entity not located in the UAE

FY 2025 Tax Return Disclosure Enhancements

New Data Input - The Ownership Chain

Corporate Tax Return

Shareholding Details

Name of multinational enterprise (MNE) group to which the Taxable Person belongs (if applicable) (Optional)

Name of the ultimate parent company of the Taxable Person

Country of tax residency of the ultimate parent company

Tax identification number or tax registration number of the ultimate parent company (Optional)

Name of the immediate parent company of the Taxable Person

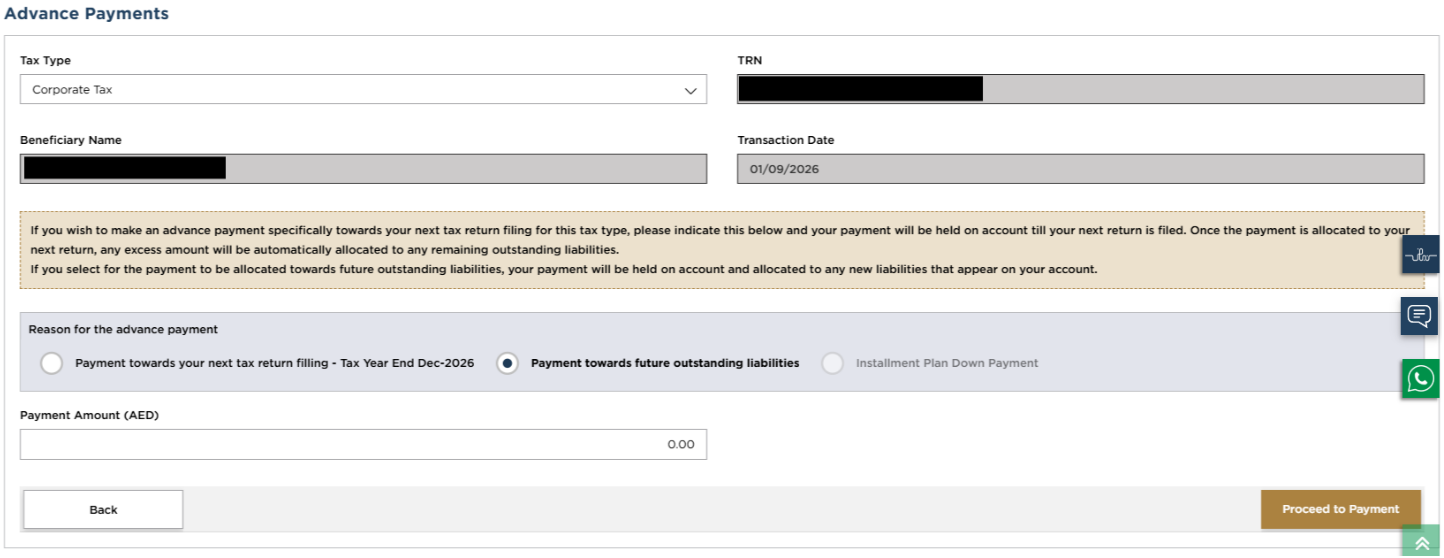
Country of tax residency of the immediate parent company

Tax identification number or tax registration number of the immediate parent company (Optional)

"UPE and IPE details to be filled this year, mandatory for all CT Returns, including Small Business Relief.

Previously only mentioned in the FS, now FTA can draw the complete chain and linking for entities. Specifically, UAE based groups."

Advance Tax Payments



Then - FY 2024

No advance tax payment facility was available.

VS

Now - FY 2025

Taxpayers have the option to make Advance Payments for Corporate Tax, in relation to:

- Next Tax Return Filing
- Towards future outstanding liabilities

02

SECTION TWO

Lessons from the First UAE Corporate Tax Filing Season

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Common Errors Observed in Year 1 Filings

#1 Activity as per license not same as source of income as per financials	**#2** VAT Recoverable but not recovered claimed as expense	**#3** Expenses in respect of exempt income claimed as deduction	**#4** Prior Period / Pre-paid expense not identified	**#5** Foreign tax credit claimed of full amount of taxes paid / withheld
#6 Wrong Election selected	**#7** Audited Financials not filed	**#8** TP documentation and supporting for adoption of TP Policy.	**#9** TP disclosure Form not reconciled with RP as per Financials	**#10** Mismatch of Withholding tax certificates with income as per financials

File Voluntary CT Disclosure, if impact of error / omission on CT liability exceeds AED 10,000

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Audit Triggers – High Risk Areas

Detailed Documentation Request – Trial balance, Bank Statement, Ledgers,

Nature of Documents/ Details sought by FTA

Targeted Request – Eg. RP/CP Transactions, FTC, Transitional Provision

- **T** – Transitional Relief Claims
- **R** – Related Party Financing
- **I** – Incentive and Free Zone Benefit Claims
- **G** – Group & TP Adjustments
- **G** – Global Tax Issues (Pillar 2 / MNE selections)
- **E** – Elections
- **R** – Relief & Foreign Tax Credit Claims

Where significant tax benefits exist, robust documentation should follow

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Summary Key takeaways & action checklist before Concluding tax filing for 2026

1.

Financials
- Accounting framework
- TP checks
- Income mapping
- Non-deductibles
- Transitional rules

2.

Portal
- Entity details
- Filing history
- Correspondence inbox
- Tax Group changes
- Advance tax payment

3.

Elections
- Realisation Basis MD 134
- QFZP annual confirmation
- Transitional Relief MD 120
- Small Business Relief
- MNE checks

4.

Loss Utilisation
- 75% cap on loss offset
- Continuity test
- Interest EBITDA rule
- 10-period interest carry forward

5.

Foreign Tax
- FTC documentation
- PE exemption consistency
- Arm's length PE pricing

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