

NIRA

Assurance Advisory Compliance ERP & IT



WEBINAR ON UAE CORPORATE TAX

A Much Anticipated Tax regime in UAE

- **NIRA** is boutique consulting firm drawing strength from NIMAI's strong presence and proven credentials in GCC region specifically in UAE and RAMA's expertise on business process management, technology and compliances.
- Widening Nimai's vision "To be the Financial Consultant of choice by virtue of its superior service quality", in 2017 NIRA came into existence integrating RAMA's expertise & credentials on Business Consulting services.
- In last 3 years **NIRA** has established its strong base in UAE through its quality service delivery process & solution oriented approach.

Strength in Numbers

20+ Organizations served as part of Forbes 500

60+ Varied Industries Breadth

120+ Resource (CA, MBA, ERP Professionals & Analyst) Strength

Services Across 15+ Cities in Asia, Africa & America

Nimai-RAMA's Achievements in Last 3 year



clients served



countries served across globe



of the Clients being served for 2 years or more



clients having annual turnover of \$ 500 Mn.



entities listed on stock exchanges of USA, UAE & India



business conglomerates owned by UAE Nationals or Govt.



large consulting projects (Cost reduction, ERP, automation, Cost Reduction, SOP etc.)



clients served for ESR



clients served for VAT



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WHAT IS CORPORATE TAX

Investopedia has defined **Corporate Tax** as a tax on the **profits** of a corporation.

While FTA mentions Corporate tax is a form of **direct tax** levied on the **net income or profit of corporations** and other entities from their **business**.

TAX= % of Net profit after certain Adjustments



Business

“business” is very broad and includes any regular or ongoing activity conducted independently by a person irrespective of location and industry



Net Profit

TAXABLE INCOME

-

ELIGIBLE EXPENSES (COGS, admin, ops exp etc.)

-

CARRY FORWARD LOSSES



Tax

Net Profit * 9% - Tax Credits

UAE adopted min tax rate of 9% on adjusted profits for businesses having profits above threshold



Applicable to:

- To all UAE Legal Entities doing Business
 - ✓ Mainland
 - ✓ Freezones incl Financial Freezones
- Individuals having Business License (or required to obtain) or permit to carry out Relevant Commercial, Industrial and/ or Professional activity in UAE

Out Of Scope:

- Legal entity in business of the extraction of natural resources, which will remain subject to Emirate level corporate taxation i.e. @ 55%
- Individual Income from employment, real estate, investment in shares, Bank Interest or other personal income not related to UAE Trade or businesses



- **Dividends and capital gains** earned by a UAE business from its **qualifying shareholdings** will be exempt from UAE CT

A **qualifying shareholding** refers to an ownership interest in a UAE or foreign company that meets certain conditions to be specified in the UAE CT Law

Normally Ownership interest refers to 5-10% of holding along with certain ownership lock in period. Expected to get the details of conditions in the Law

- **Qualifying intra-group transactions** and reorganizations

Chances are that the expression “intra-group transactions” here refers to the transactions conducted amongst the members of a “Tax Group



The **taxable income** will be the accounting net profit of a business, after making adjustments for certain items to be specified under the UAE CT law

Taxable Income = Accounting profit - Exempt Income + Ineligible Deductions - Allowed Tax Deductions

The **accounting net profit** of a business is the amount reported in the financial statements prepared in accordance with **internationally acceptable accounting standards**

Detailed list of Allowed / Disallowed Deductions is not yet released but we expect the following

Allowed Deductions

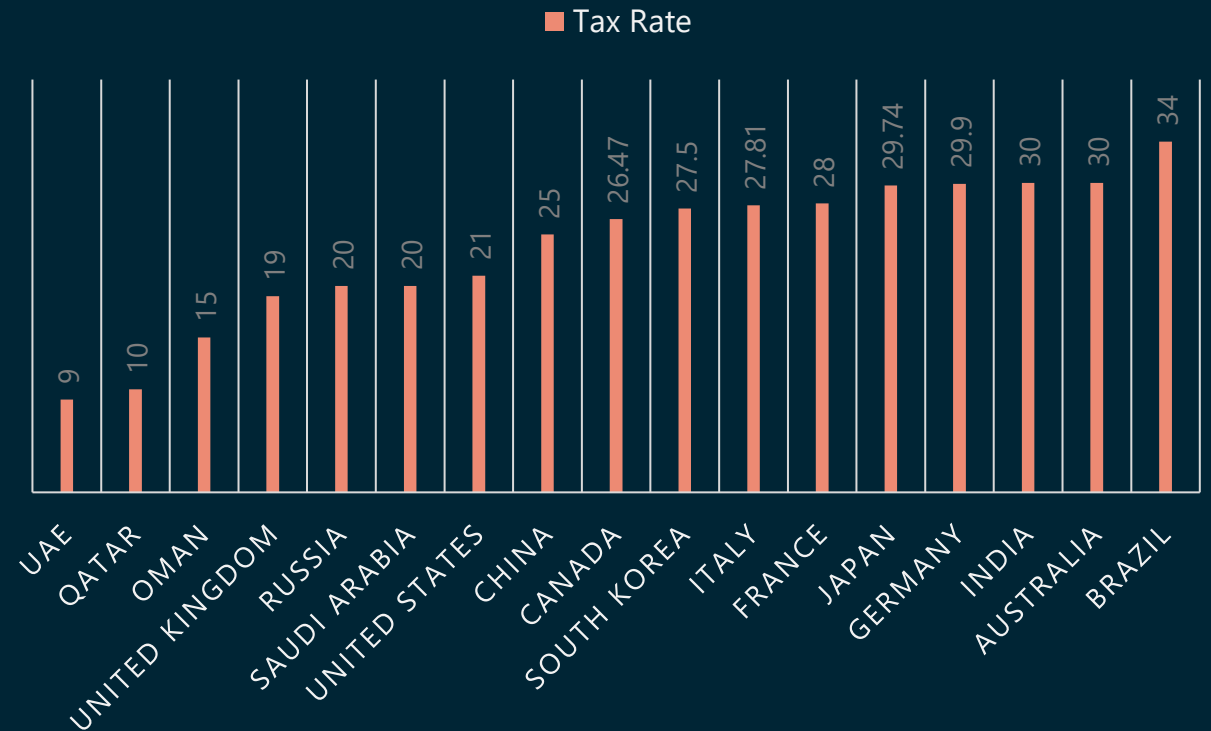
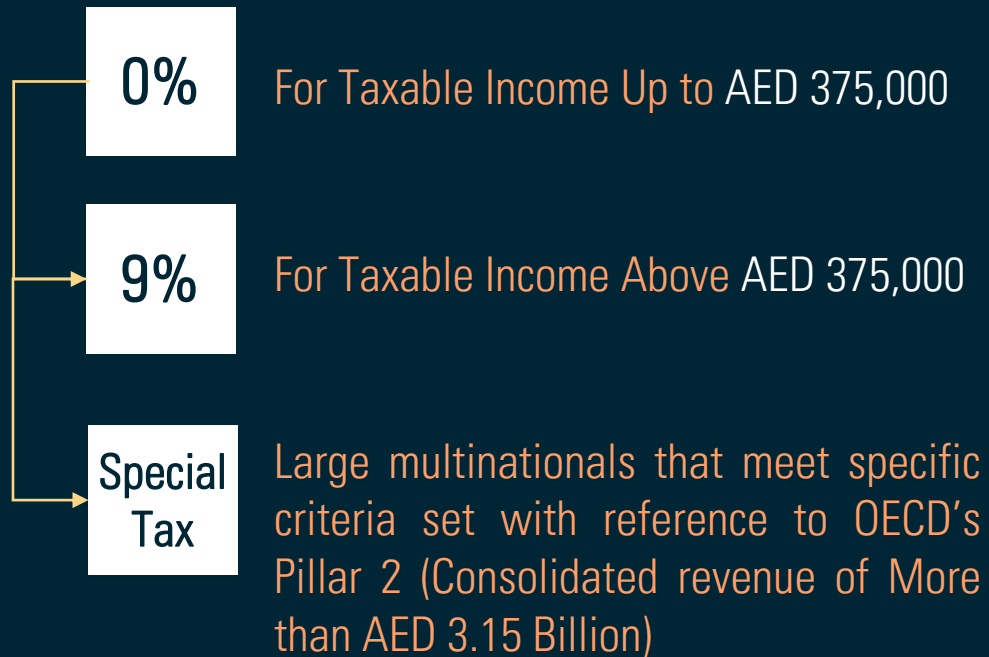
- Rental Expenses
- Electricity, Water
- COGS
- Salary and Wages
- Bad Debts
- Depreciation
- Overheads
- Interest Expenses, Subject to some controls
- Customs Duties, irrecoverable VAT as per VAT rules

Disallowed Deductions

- Provisions for Bad debts, warranties
- Fines/ Penalties
- Cap on Managerial remuneration expected
- Expenses related to Exempt Income
- Charities/ Donation expenses
- Expenses not in ALP as per transfer pricing rules
- Expenses in nature of violation or disallowed as per other regulatory laws
- Entertainment expenses, personal expenses etc.

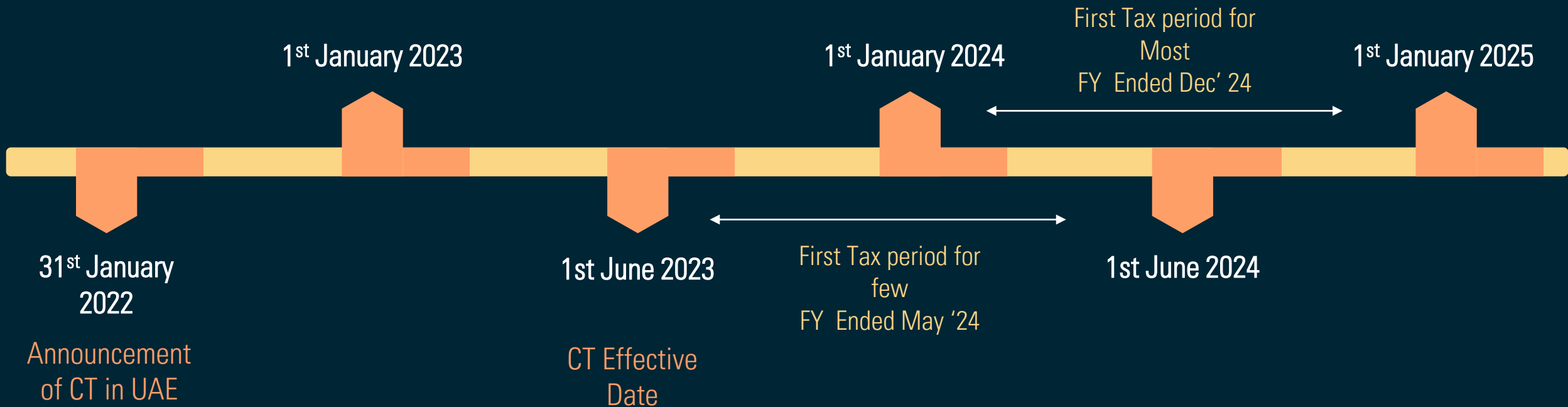


UAE has adopted for Standard Corporate Tax of **9%** for Taxable Income of above **AED 375,000**



TIMELINE – EFFECTIVE CORPORATE TAX

The Corporate tax will be applicable from Financial year Starting on or after 1st June 2021

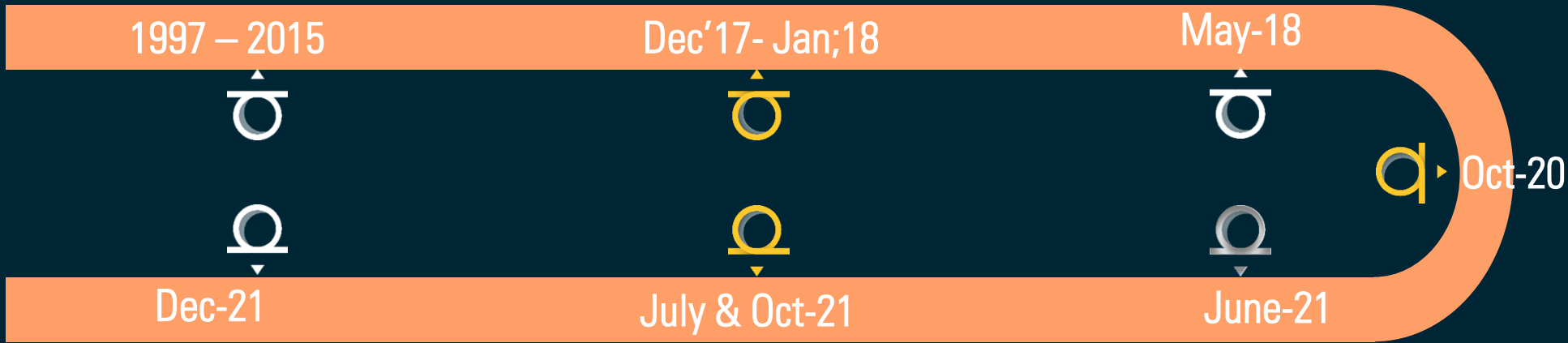


If Companies Financial Year is Starting from 1st Jan, then for the Tax Period would be 1st Jan to 31st Dec 2024

- EU Adopted Code of Conduct to curb harmful tax competition
- OECD's Report on Harmful Tax Competition
- OECD's BEPS Action Report with 15 Action Points

- UAE was added to the EU's Black List in Dec 17 of No tax Jurisdiction Countries
- Later in Jan-18 it was moved to Grey List based on commitments towards Tax reformed

- UAE joined OECD BEPS Inclusive Framework
- Committed to implement Minimum Actions (5, 6, 13 & 14)
- UAE will be subject to (and assist with) peer reviews focusing on monitoring the implementation of the BEPS Action Points



- OECD Releases the Blueprint on Inclusive Framework on Pillar One and Pillar Two

- OECD released draft model rules for implementation pna

- OECD Publishes statement with agreed components for Both Pillars
- In Oct 2 published Second Statement with additional components and implementation plan

- G20 countries endorses 2 Pillar Solution and agrees on Global Minimum Tax Rates of 15%

Over the past few years, the UAE has taken significant steps to enhance tax transparency and facilitate the exchange of information for tax purposes by bringing its domestic tax rules in line with international standards.

UAE along with G7 countries became signatory to OECD Global Minimum Tax which proposes to Tax at 15% for large MNC. In response of Pillar 2 of OECD BEPS Initiative, UAE implemented Corporate Tax



Objectives

- Cementing the UAE's Position as a World Leading Hub for Business and Investment
- Meeting International Standards for
 - ✓ Tax Transparency Preventing
 - ✓ harmful Tax practices
- Accelerating the UAE's development and transformation to achieve its strategic objectives

UAE CT is Federal tax and will be applicable to all emirates in UAE

TAX Grouping Provision

UAE Group Companies can elect to form Tax Group and File Single Tax return for all Members

NO Advance Tax

There is no Advance Tax required to be paid on provisional assessment during the Tax period

NO Withholding Tax

There will be No withholding Tax for Domestic of cross-border payments

Transfer Pricing

UAE Businesses subject to TP and TP Documentation as per OECD

Free Zone

Freezones will enjoy the benefits earlier given subject to fulfilment of regulatory requirement & **No Business with Mainland**

Tax Credits

Tax Credit would be allowed for the Tax Paid in Foreign Jurisdiction for Income earned in UAE

Carry Forward of Losses

Allowed to Carry Forward and adjust the current year Losses against Future years. **Effective from starting of CT**

Compliance

One CT return to be filed electronically
Non Compliance subject to penalties and consequences

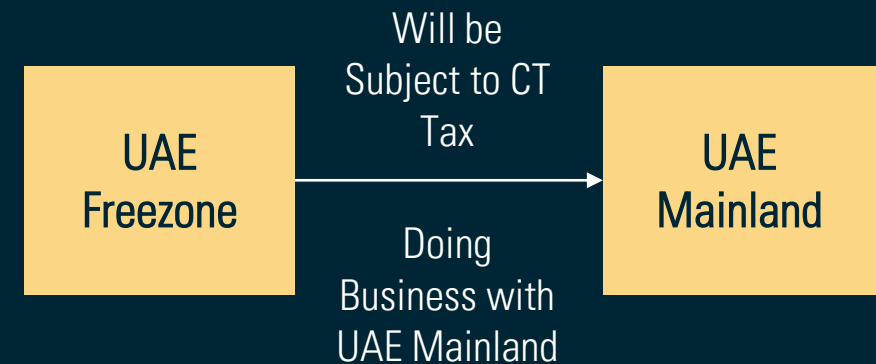
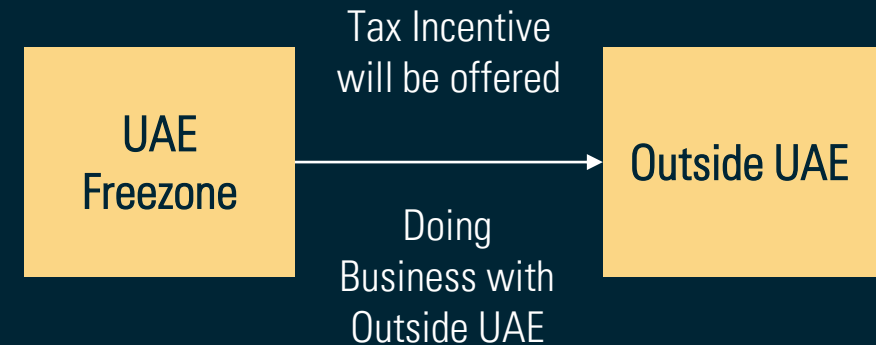
Freezones are an Important Part of UAE Economy and are being established to provide certain incentives to the business Owners there.

- UAE CT regime will continue to honor the CT incentives currently being offered to free zone businesses that comply with all regulatory requirements and that **do not conduct business with mainland UAE**
- UAE Freezone are included in CT Scope and thus would be required to file CT Returns

How Will FZ be Taxed??

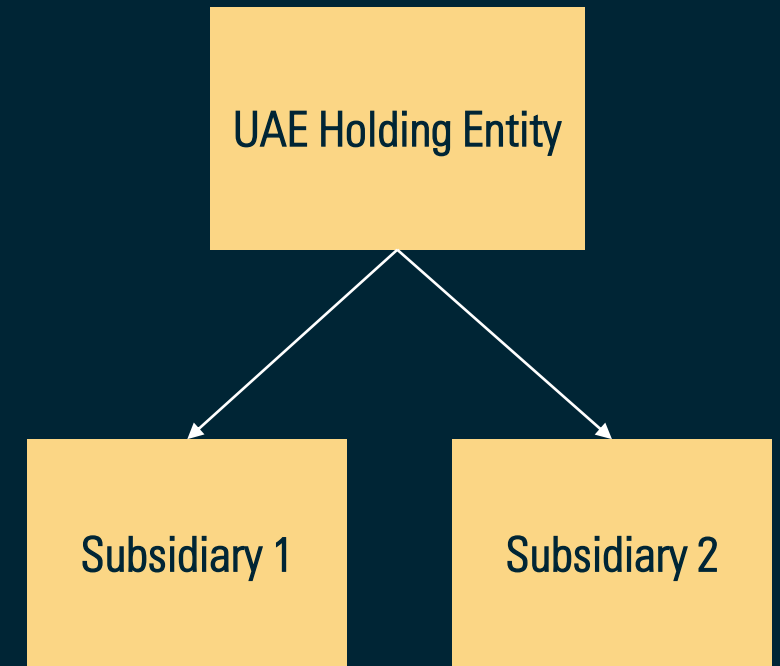
- Only on Income earned from Mainland Business?? OR
- Will be fully taxed @ 9%?? OR
- Some mechanism will be provided by Authority for Cal of Profit for Mainland Income??
- Ways of allocation of Common Overhead..

Need to wait for these answers...



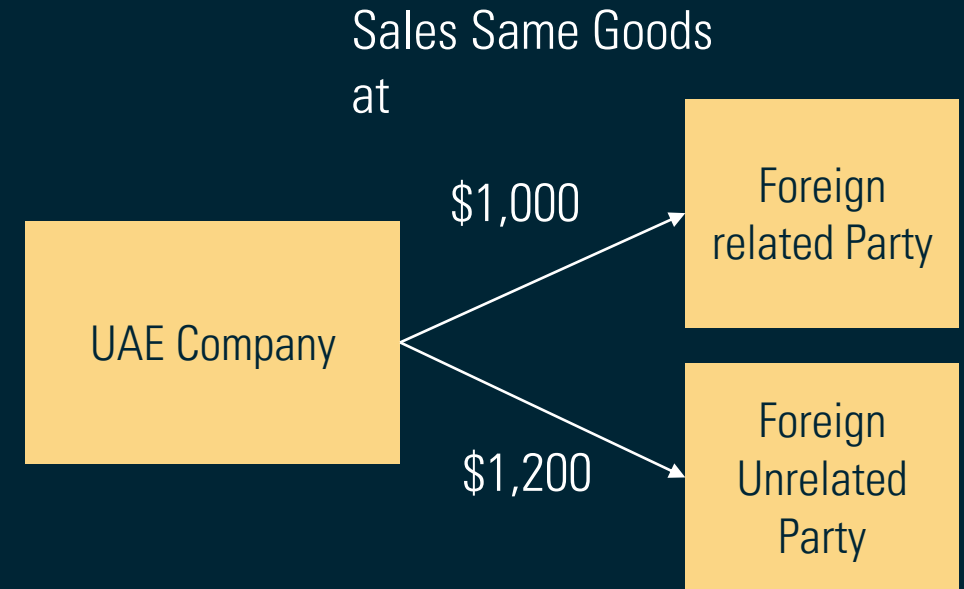
One of the Unique Feature of UAE CT is allowance of Tax Grouping of UAE Related entities subject to conditions

- Related Entities are normally where some Ownership or Control Interest is there. Once rules are out more clarity will be received
- Only One Tax Return for Whole Tax Group
- Beneficial for UAE Businesses having multiple entities and Holding structures
- Expected that Domestic Transfer pricing Rules will not be Applicable to Members of Tax group
- VAT Group and CT Tax group may be different..
- Re-organization and re-alignment may be required



Transfer pricing rules seek to ensure that transactions between related parties are carried out on arm's length terms (i.e. as if the transaction was carried out between independent parties)

- Businesses will have to comply with Transfer Pricing rules and documentation requirements set with reference of OECD Guidelines
- Multinational groups with entities in the UAE that have not recently updated their Transfer Pricing policies are recommended to do so at the earliest opportunity and certainly before the UAE CT regime becomes effective.
- Will Transfer Pricing be Applicable on Domestic Related Party Transactions is still not Clear.
- Benchmarking rules, methods, actual provisions is expected to be released with the Law and Regulations



Transaction may not be considered at ALP Necessary adjustment may have to be done

Particulars	UAE	KSA	Qatar	Oman	Kuwait
Tax Rate	9%	20%	10%	15%	15%
Filing Requirements	Annually, due date not yet defined	Within 120 days after Taxpayer year end	Within 4 month after end of FY	Within 4 month after end of FY	Within 3 months and 15 days from end of Taxable period
Transfer pricing Provision	Applicable	Applicable	Applicable	Applicable	No TP Provisions but companies to ensure Inter-company transaction are at ALP
Consolidated returns-Tax group	Permitted	Permitted only for Zakat and not for Income Tax	Not Permitted	Not Permitted	Not Permitted
Advance Tax	Not applicable	Applicable	Not applicable	Not applicable	Not applicable
Withholding Tax	Not applicable	Applicable with multiple rates	Applicable	Applicable	No WHT law but based on Tax Treaties deduction is done
Foreign Tax credit	Would be available	Not available	Not available	Allowed subject to Conditions	Allowed subject to Conditions

- « Eligible and Ineligible tax Deductions
- « **Taxation on Charities and Foundations**
- « Taxation of Freezones Entities- how will tax be calculated/ Tax Holidays
- « **Methods for Benchmarking** the Related Party Transactions- CUP, TNMM, etc.
- « Ways to get the **Foreign Tax Credits**- Full or partial, rules and regulations
- « **PE Rules and Guidance**
- « Tax Rates on **MNCs** in Pillar 2
- « **CT Vs VAT**
- « Amendments in **ESR Provisions??**
- « **Period to Carry forward losses..**

Accounting Consideration

Tax Impact due to accounting of Un-realised gains and losses due to Fair Valuation/ Forex gains Losses

Accounting of Operating Leases as per IFRS 16 and its implication

Allowed/ Disallowed expenses and its provisions

Treatment of Provisions made for warranty/ expired goods/ returned goods

Treatment of fines/ Penalties/ interest due to court judgments

Increased Control and procedure on Accountings

- Chart of Accounts
- FAR Register
- Disclosures

Strict adherence of IFRS, Increased Audit and Governance requirements

Following would be the Administration Authority

- Ministry of Finance (MOF) And
- Federal Tax Authority

Like ESR and other Laws:

➤ Ministry of Finance

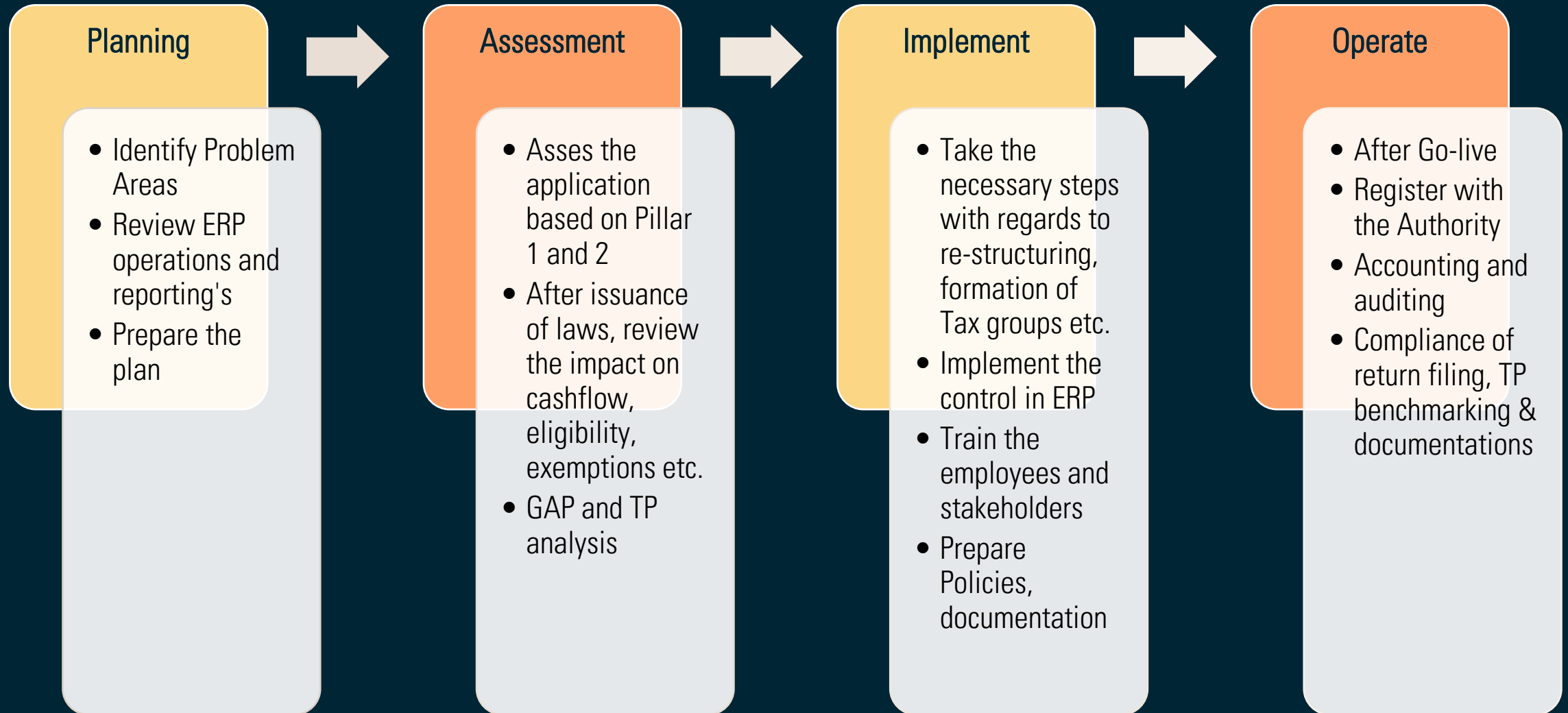
- Competent Authority for Tax treaty purpose and the international exchange of Information for Tax Purpose
- Traditionally UAE MOF only sent information but in future it is expected to receive the Information as well from Foreign Nations

➤ Federal Tax Authority

- Would be responsible for collection, administration and enforcement

More information on the registration process and ongoing compliance obligations for businesses will be provided in due course





- Develop Accounting Policies and procedure to account as per IFRS Standards

- **Re-structuring of the Organization structuring to make it more Tax efficient**

- Review Existing IT and Accounting Controls

- Educate and create awareness among stakeholder like employees, business owners, investors etc.

- Align Tax and Transfer pricing policies as per OECD Guidelines

- Upgrade IT if required



Q&A

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THANK
YOU