IN-DEPTH

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LEXOLOGY

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In-Depth: Corporate Tax Planning (formerly The Corporate Tax Planning Review) provides expert analysis by leading practitioners of the most important aspects of tax planning for multinational corporate groups, with a particular focus on recent developments across a wide range of jurisdictions. This analysis is contextualised with sufficient background information to make this volume accessible and useful to generalists and to tax practitioners worldwide.

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Summary

Introduction

The introduction of corporate taxation in the UAE marks a significant evolution in the country's fiscal and regulatory framework. Historically, the UAE operated as a largely tax-neutral jurisdiction for businesses, relying primarily on indirect taxes and sector-specific levies rather than a comprehensive corporate income tax system. This position shifted with the enactment of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Corporate Tax Law), which established a federal corporate tax regime applicable across the UAE.

Pursuant to article 3 of the Corporate Tax Law, corporate tax is levied on the taxable income of a taxable person at rates prescribed by the legislation. The law adopts a dual-rate structure, whereby taxable income up to 375,000 dirhams is subject to a 0% rate, while income exceeding this threshold is taxed at 9%. This approach reflects a policy balance between maintaining the UAE's competitiveness as a business hub and supporting small and medium-sized enterprises, while aligning the jurisdiction with internationally accepted tax standards.

The introduction of this regime has materially altered the approach to tax planning within the UAE. Prior to its implementation, tax considerations largely centred on investment structuring, access to double tax treaties and the utilisation of free zones, rather than the optimisation of taxable income. In contrast, the current framework necessitates a more comprehensive and compliance-driven approach to corporate structuring and tax management.

A primary consideration is determining whether an entity falls within the scope of the Corporate Tax Law. This requires an assessment of whether the entity qualifies as a "taxable person" and, if so, its classification as a resident, non-resident or exempt person. These distinctions are fundamental, as they directly affect the extent of taxable income and the entity's reporting and compliance obligations.

In addition, the Corporate Tax Law emphasises economic substance and corporate governance. This is particularly relevant for entities established in UAE free zones, which may benefit from preferential tax treatment if they qualify as Qualifying Free Zone Persons (QFZPs). Eligibility for this status is contingent upon meeting specific statutory conditions, including maintaining adequate substance, deriving qualifying income and complying with transfer pricing requirements. These conditions are clarified through guidance issued by the UAE Federal Tax Authority (FTA).

Finally, the legislation introduces a formal transfer pricing regime requiring that transactions between related parties and connected persons adhere to the arm's length principle; that is, such transactions must be conducted on terms consistent with those that would prevail between independent parties under comparable circumstances. Taxpayers are therefore required to undertake appropriate comparability analyses and to maintain sufficient documentation to evidence compliance with transfer pricing rules.

Overall, the Corporate Tax Law represents a foundational development in UAE tax law, creating a structured and internationally aligned corporate taxation system while reshaping the legal and practical considerations relevant to businesses operating within the jurisdiction.

Landscape and scope

The scope of the UAE corporate tax regime is principally determined by the provisions of the Corporate Tax Law concerning taxable persons. The legislation, which is administered by the FTA, imposes corporate tax on the taxable income of persons falling within its ambit at the rates prescribed. The regime is designed to have broad application, extending not only to juridical persons incorporated or established in the UAE, but also to certain non-resident persons deriving income connected to the UAE.

A central feature of the framework is the classification of taxable persons into resident and non-resident categories. Resident persons generally include juridical persons incorporated or established in the UAE (encompassing entities formed in both mainland jurisdictions and free zones), as well as foreign entities that are effectively managed and controlled within the UAE. In addition, natural persons conducting a business or business activity in the UAE may also fall within the definition of a resident taxable person. Non-resident persons are brought within the scope of the regime where they have a sufficient nexus to the UAE, such as through a permanent establishment or the receipt of UAE-sourced income.

Key current risk areas and planning priorities

Within this evolving framework, corporate tax planning in the UAE is increasingly characterised by a compliance-orientated approach. The introduction of a formal corporate tax system has shifted the focus away from purely structural or jurisdictional planning and towards ensuring that tax positions are robust, well-documented, and aligned with both the letter and intent of the law and with FTA guidance.

One important consideration for multinational groups is the potential formation of a tax group. The Corporate Tax Law permits qualifying entities within a group – typically a parent company and its subsidiaries – to be treated as a single taxable person, subject to conditions. This can offer practical advantages, including the consolidation of taxable results and the ability to offset losses within the group, thereby enhancing overall tax efficiency while simplifying compliance.

Transfer pricing has also emerged as a key area of focus. The Corporate Tax Law requires that transactions between related parties and connected persons adhere to the arm’s length principle, consistent with internationally recognised standards. In practice, this requires businesses to select and apply appropriate transfer pricing methodologies – such as the Comparable Uncontrolled Price, Resale Price, Cost Plus, Transactional Net Margin or Profit Split methods – based on the nature of the transaction and the availability of comparable data. Robust documentation and support for inter-company arrangements (including financing, licensing and service transactions) are essential to demonstrate compliance.

For entities operating in UAE free zones, a critical planning priority lies in maintaining eligibility for preferential tax treatment. In particular, entities seeking to qualify as QFZPs must satisfy specific statutory conditions, including maintaining adequate economic substance within the free zone and deriving income from activities designated as qualifying activities under the law. Failure to meet these requirements may result in the loss of beneficial tax status, thereby subjecting the entity to the standard corporate tax regime.

Taken together, these considerations illustrate the UAE's transition towards a structured and internationally aligned corporate tax environment, where careful planning is closely intertwined with rigorous compliance.

Outlook

As the UAE's corporate tax regime continues to mature, its trajectory points towards an increasingly structured, compliance-driven and governance-oriented system. The initial phase of implementation has largely focused on familiarising businesses with the legislative framework; however, the next stage is expected to emphasise practical application, enforcement and alignment with international best practices.

In this context, corporate tax planning is likely to evolve beyond high-level structuring considerations and into the operational integration of tax compliance within business functions. This includes ensuring that corporate structures, financial reporting systems and internal documentation processes are fully aligned with the requirements of the Corporate Tax Law and FTA guidance.

Looking ahead, particular attention is expected to centre on the practical implementation of transfer pricing rules, especially in relation to documentation standards and the defensibility of inter-company pricing. Similarly, the continued application and monitoring of free zone tax incentives will remain a key area as businesses seek to retain preferential treatment while meeting increasingly rigorous substance and compliance requirements. The interaction between the UAE regime and international tax developments – most notably the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) framework – is also expected to play a significant role in shaping future tax policy and administrative practice.

Entity selection and business operations

The Corporate Tax Law adopts a classification-based approach to determining the tax treatment of entities, with the distinction between taxable and exempt persons forming the foundation of the regime. This classification directly influences the scope of tax liability, applicable reliefs and compliance obligations.

Broadly speaking, the UAE tax system remains comparatively straightforward, comprising a federal corporate tax regime while exempting individuals from personal income tax (except where individuals conduct licensed business activities). Within this framework there are several key categories of entities and reliefs, as outlined below.

Exempt persons

Certain categories of entities engaged in public, social or sovereign functions are expressly excluded from the scope of corporate tax, including government and government-controlled entities, qualifying public benefit entities, qualifying investment funds, and specified pension or social security funds. In addition, juridical persons wholly owned and controlled by exempt persons may also qualify for exemption, provided certain conditions are satisfied.

Qualifying Free Zone Persons

Free zone entities occupy a distinctive position within the UAE tax framework. A juridical person established in a free zone may qualify as a QFZP where it satisfies specific statutory conditions, including deriving “qualifying income”, maintaining adequate economic substance within the UAE, complying with transfer pricing rules, meeting de minimis thresholds and preparing audited financial statements. Where these criteria are met, qualifying income may be subject to a 0% corporate tax rate, while non-qualifying income remains taxable at the standard 9% rate. This dual treatment underscores the conditional nature of free zone incentives.

Small business relief

To support smaller enterprises, the regime provides a simplified compliance option for eligible resident taxable persons with revenue below a prescribed threshold (currently 3 million dirhams). Where an election is made and conditions are satisfied, the entity may be treated as having no taxable income for the relevant period. This mechanism reduces both administrative and financial burdens for small businesses. Currently, the relief is available to taxable persons only for the tax period up to December 2026. Thus, unless extended or amended by the relevant authorities, the relief is not expected to be available for tax periods commencing after December 2026.

Participation exemption

The Corporate Tax Law includes provisions designed to prevent economic double taxation within corporate groups. Under the participation exemption, dividends and certain capital gains derived from qualifying ownership interests may be exempt from corporate tax, subject to ownership, holding period and other statutory requirements being met.

Foreign permanent establishment exemption

Aligning the UAE regime with common international tax practice, resident persons may elect to exclude profits attributable to a foreign permanent establishment from their UAE taxable income. Where applicable, this election mitigates the risk of double taxation on foreign-sourced business profits.

Business restructuring relief

The law facilitates tax-neutral business reorganisations by allowing the transfer of assets or liabilities within a group without immediate tax consequences, provided specified conditions are met. This relief supports commercial flexibility by ensuring that legitimate restructuring activities do not trigger unintended tax liabilities.

Tax grouping

The regime permits UAE resident entities to form a tax group where certain ownership and control thresholds – typically a minimum 95% shareholding – are satisfied. A tax group is treated as a single taxable person, enabling the consolidation of financial results, the utilisation of tax losses within the group and the filing of a single tax return. This enhances administrative efficiency and can improve overall tax outcomes.

Family foundations and similar structures

Special provisions apply to family foundations, trusts and comparable arrangements. Subject to meeting specified conditions and making the appropriate election, such entities may be treated as tax-transparent for corporate tax purposes; in effect, income is attributed directly to beneficiaries or founders rather than being taxed at the level of the entity itself.

Overall, the UAE corporate tax system reflects a hybrid approach: it introduces a broad-based corporate tax regime while preserving targeted exemptions and incentives to maintain the country's attractiveness as a business hub. Entity classification and the availability of specific reliefs therefore play a central role in shaping both tax liability and planning considerations.

Common ownership: group structures and intercompany transactions

The Corporate Tax Law provides a comprehensive framework governing the taxation of corporate groups and transactions between related parties. These rules influence how businesses structure ownership, allocate profits and losses, and manage intra-group dealings.

Ownership structure of related parties

A key feature of the regime is the ability for UAE resident entities to form a tax group. Where certain conditions are met (most notably a minimum ownership threshold of 95%), a parent company and its subsidiaries may be treated as a single taxable person. This allows for the consolidation of financial results, including the automatic offset of profits and losses across group members and the filing of a single tax return by the parent entity.

In addition to formal tax grouping, the law also permits the transfer of tax losses between commonly owned entities, provided that a minimum ownership threshold (generally 75%) and other conditions (such as alignment of financial years and accounting standards) are satisfied. These provisions offer flexibility in managing group-wide tax positions and can reduce the overall tax burden.

However, not all entities are eligible to participate in these arrangements. For example, entities benefiting from preferential regimes (such as QFZPs and certain exempt entities) are generally excluded from tax grouping. This creates a structural consideration for groups operating across both mainland and free zone jurisdictions, as the benefits of preferential tax treatment must be weighed against the advantages of consolidation.

Tax grouping and loss sharing

The Corporate Tax Law permits resident juridical persons to form a tax group. Under article 40 of the Corporate Tax Law, UAE resident entities may form a tax group where a parent entity holds at least 95% ownership in subsidiary entities (in addition to meeting other conditions).

A tax group is treated as a single taxable person, allowing automatic consolidation of results, including utilisation of tax losses within the group. The parent company is responsible for filing a consolidated corporate tax return on behalf of the group. Under article 38 of the Corporate Tax Law, tax losses may be transferred between resident entities where there is at least 75% common ownership (direct or indirect) and the entities meet other requirements (such as having the same financial year and applying consistent accounting standards).

From a tax planning perspective, tax grouping may allow corporate groups to offset profits and losses between group members, which can reduce the overall tax liability of the group. However, certain entities (such as QFZPs and Exempt Persons) are not eligible to join a tax group, which may influence structuring decisions where groups operate both mainland and free zone entities. These principles are also discussed in the FTA's Corporate Tax Guide on Tax Groups.

Tiered partnerships

The UAE regime also recognises unincorporated partnerships and similar arrangements. As a general rule, such partnerships are treated as fiscally transparent, meaning that income is not taxed at the partnership level but is instead attributed directly to the partners.

However, the law provides flexibility by allowing certain partnerships to elect to be treated as taxable persons. This introduces an element of choice in structuring joint ventures, investment platforms and family wealth arrangements. The ability to switch between transparent and opaque treatment can have significant implications for tax liability, reporting obligations and the timing of taxation.

This framework is particularly relevant in tiered or multi-level structures, where the interaction between different entity types can affect how income flows through the structure and how it is ultimately taxed.

Domestic inter-company transactions

Transactions between related parties are subject to a robust transfer pricing regime, which requires that all such dealings are conducted in accordance with the arm's length principle. This means that the terms and pricing of inter-company transactions – whether for goods, services, financing or intellectual property – must reflect those that would have been agreed between independent parties under comparable circumstances.

This requirement introduces both constraints and planning considerations. On the one hand, it limits the ability of groups to shift profits through non-commercial pricing. On the other hand, it provides a structured framework within which inter-company arrangements can be designed (provided that they are properly documented and supported by appropriate economic analysis).

The law also includes specific provisions affecting related-party payments. For example, interest on certain intra-group loans may be disallowed where the underlying transaction is considered to lack commercial substance, particularly in cases involving internal equity funding.

At the same time, the regime offers relief from economic double taxation through mechanisms such as the participation exemption. Dividends and certain gains derived from qualifying ownership interests may be exempt from corporate tax, subject to meeting prescribed conditions. This supports the use of UAE entities as holding companies and facilitates the efficient movement of profits within corporate groups.

Taken together, the UAE's approach to capitalisation and group structures reflects a balanced framework combining clear limitations – particularly in relation to interest deductibility and transfer pricing – with targeted flexibilities such as tax grouping and participation exemptions. For businesses, this underscores the importance of aligning legal structure, financing strategy and operational substance within an integrated tax planning approach.

International inter-company transactions

Cross-border inter-company transactions under the UAE Corporate Tax regime are primarily governed by a combination of transfer pricing rules, participation exemptions, withholding tax provisions and double tax treaty interaction. Taken together, these rules are designed to ensure that profits are allocated in line with economic activity while limiting opportunities for artificial base erosion or profit shifting to low-tax jurisdictions.

At the core of the framework is the principle that related-party cross-border transactions must reflect arm's length pricing, supported by appropriate documentation and economic analysis. This acts as the primary limitation on shifting income or expenses between jurisdictions, including between high-tax and low-tax environments.

Entity Forms

The Corporate Tax Law applies to both juridical persons (such as companies and other incorporated entities) and to natural persons conducting business. The concept of a "taxable person" is fundamental and includes both resident and non-resident persons. In broad terms, the regime captures UAE-incorporated entities, foreign entities effectively managed and controlled within the UAE, and non-resident entities with sufficient nexus to the UAE (such as through a permanent establishment, UAE-sourced income or income derived from immovable property located in the UAE).

Natural persons are brought within the scope of corporate tax only where they conduct a licensed business or business activity in the UAE and exceed a specified turnover threshold (currently 1,000,000 dirhams per annum). Outside of such activities, individuals generally remain outside the scope of corporate taxation.

As a default, corporate tax is imposed at the level of the entity itself; that is, companies are treated as separate taxable persons and their profits are taxed independently of their owners. This distinguishes the UAE system from those that routinely permit “flow-through” or fiscally transparent treatment. In the UAE, such transparency is available only in limited and specifically defined cases – most notably for unincorporated partnerships, certain family foundations and trust-like arrangements, where income may be treated as accruing directly to the underlying participants or beneficiaries.

Domestic income tax

The UAE corporate tax system operates on a self-assessment basis. Taxable persons are required to assess their own tax liability, file annual tax returns and settle any tax due, generally within nine months of the end of the relevant tax period.

For domestic operations, key considerations include the applicable tax rate (including eligibility for preferential regimes such as the QFZP framework), whether the entity falls within the scope of the law, and whether particular categories of income benefit from exemptions or reliefs.

Although the regime is broad-based, it incorporates important features that reduce the effective tax burden. Business expenses incurred wholly and exclusively for the purposes of the business are generally deductible, while certain categories of income – such as qualifying dividends and capital gains – may be exempt under participation exemption rules. In addition, there is currently no withholding tax on domestic payments, further simplifying internal transactions within the UAE.

International tax

In cross-border contexts, the UAE corporate tax regime is primarily structured around the concepts of tax residence and permanent establishment.

In principle, UAE resident entities are subject to tax on their worldwide income, including foreign-source income. However, this is mitigated by a number of key relief provisions. These include the participation exemption for dividends and gains from qualifying foreign shareholdings, the option to exempt profits attributable to foreign permanent establishments, and the availability of foreign tax credits to relieve double taxation on overseas income.

For non-resident entities, the regime applies where there is a sufficient economic connection to the UAE. This includes situations where a permanent establishment is created, typically requiring a degree of physical or economic presence such as a fixed place of business or dependent agent activities. The assessment of permanent establishment status is particularly relevant in regional operating models involving short-term projects, secondments or on-the-ground support activities, where unintended tax exposure may arise.

The UAE’s extensive network of double taxation agreements further shapes international tax outcomes. These agreements may override domestic rules in determining tax residence, allocating taxing rights and preventing double taxation. Accordingly, entity structuring decisions are often closely linked with treaty access and the location of management and control.

Activities and tax incentives

The UAE corporate tax regime incorporates targeted incentives designed to support specific activities and sectors. The most prominent of these is the regime applicable to QFZPs, which offers a 0% corporate tax rate on qualifying income, subject to strict conditions relating to substance, income classification and compliance.

The requirement to maintain adequate economic substance through personnel, assets and operational activity within the free zone is a key practical driver of entity selection. Businesses must ensure that core income-generating activities are genuinely conducted within the relevant jurisdiction, although certain outsourcing arrangements may be permitted where properly structured and supervised.

In addition, the regime provides favourable treatment for personal investment and real estate income earned by natural persons, subject to conditions. Family foundations and similar structures may also benefit from tax-transparent treatment where they are used for wealth management purposes and do not engage in active business operations.

Overall, the UAE approach to entity forms reflects a balance between simplicity and targeted flexibility. While the system generally adheres to entity-level taxation, the availability of specific exemptions, reliefs and preferential regimes means that careful consideration of legal form remains a critical aspect of effective tax planning.

Capitalisation requirements

The UAE corporate tax regime approaches capitalisation from a substance and earnings-based perspective, rather than through traditional “thin capitalisation” rules. Unlike jurisdictions that impose fixed debt-to-equity ratios, the UAE instead limits the tax deductibility of interest through a structured interest limitation framework. This reflects an alignment with internationally accepted standards while preserving a degree of flexibility in how businesses fund their operations.

At the core of this framework is the restriction on excessive net interest expenditure. Under the Corporate Tax Law, interest is generally deductible only up to 30% of a taxable person’s earnings before interest, tax, depreciation and amortisation (EBITDA), subject to certain thresholds and exclusions. This rule applies to both third-party and related-party debt, making it a central consideration in determining the appropriate balance between equity and debt financing.

From a planning perspective, this shifts the focus from formal capital ratios to the economic capacity of the business to support interest deductions. Entities with higher leverage relative to their earnings may find that a portion of their interest expense is disallowed in the current period. However, such disallowed amounts are not permanently lost; they may be carried forward and deducted in future periods, subject to applicable conditions.

In addition to this general limitation, the regime includes targeted anti-avoidance provisions aimed at intra-group financing arrangements. In particular, interest deductions may be denied where related-party loans are used to fund certain equity transactions, such as dividend distributions, capital reductions or the acquisition of ownership interests within the same group. These rules are designed to prevent the artificial creation of deductible interest through internal financing structures that do not reflect genuine economic activity.

It is also important to note that all interest deductions remain subject to the overarching principle that expenses must be incurred wholly and exclusively for the purposes of the business. As such, the deductibility of interest is assessed not only against quantitative limits but also against the broader requirement of commercial justification.

These capitalisation rules interact closely with other elements of the UAE tax framework. For example, businesses operating through free zone entities must also consider the implications of maintaining qualifying status, including compliance with transfer pricing requirements and substance rules. As a result, financing decisions – particularly those involving treasury and intra-group funding – require a coordinated approach that takes into account the group's overall UAE structure.

Third-party transactions

Transactions with third parties generally offer greater flexibility than related-party arrangements, though they remain subject to the general rules governing taxable income, exemptions and reliefs.

Under article 20 of the Corporate Tax Law, taxable income is based on accounting profit, subject to statutory adjustments. As a result, gains from asset or share disposals are generally taxable unless a specific exemption applies.

From a planning perspective, third-party transactions are often structured with a focus on participation exemptions, restructuring reliefs, and timing considerations around recognition of gains and losses.

Sales of shares or assets for cash

Where shares or assets are sold for cash, any resulting gain is typically included in taxable income, unless exempt.

In this context, the most significant relief is the participation exemption under Article 23. Where certain conditions are satisfied (including ownership thresholds and qualifying asset requirements), dividends and capital gains from qualifying shareholdings are exempt from corporate tax. This is particularly relevant for group structuring and holding company jurisdictions within the UAE.

Where the exemption does not apply, gains are taxable and losses may be recognised, subject to the general rules on tax loss utilisation and carry-forward under Article 37. This introduces planning considerations around timing of disposals and structuring of shareholdings to meet exemption thresholds.

Unlike some jurisdictions, the UAE does not provide broad rollover or reinvestment relief for share-for-share or asset-for-asset exchanges in the absence of specific restructuring provisions.

Tax-free or tax-deferred transactions

The Corporate Tax Law provides targeted reliefs for certain restructuring transactions. These reliefs allow businesses to reorganise without triggering immediate tax consequences.

Under Article 27, business restructuring relief may apply where a business or independent part of a business is transferred in exchange for shares or similar ownership interests. Where certain conditions are met, the transfer may occur at net book value, with no immediate gain or loss recognition. In addition, Article 26 allows certain intra-group transfers of assets or liabilities to occur on a tax-neutral basis, provided continuity of ownership and other statutory conditions are satisfied. These provisions are particularly relevant in mergers, internal reorganisations and demerger-type transactions, where commercial objectives require structural change without immediate tax cost.

Liquidation scenarios generally require careful sequencing. While liquidation may trigger taxable gains, pre-liquidation restructuring within a group may allow assets to be transferred tax-neutrally before winding up, subject to compliance with applicable relief conditions.

International considerations

In cross-border third-party transactions, the interaction between participation exemptions, foreign permanent establishment rules and treaty relief can significantly affect the net tax outcome of disposals and income flows.

The participation exemption often plays a central role in enabling tax-efficient repatriation of profits from foreign investments. Similarly, foreign permanent establishment exemptions (where elected) may exclude branch profits from UAE taxation, although this may also limit the use of foreign losses.

Although withholding tax is currently set at 0%, the statutory framework under Article 45 remains relevant as a structural feature of the regime, and may influence future policy flexibility.

A further development in the international tax landscape is the introduction of the Domestic Minimum Top-Up Tax (DMTT) under Cabinet Resolution No. 142 of 2024. Applicable to large multinational groups with consolidated revenues exceeding €750 million, DMTT ensures that a minimum effective tax rate of 15% is achieved in the UAE, where applicable, aligning the jurisdiction with global minimum tax standards under the OECD Pillar Two framework.

Indirect taxes

Alongside the federal corporate tax regime, the UAE operates a well-established system of indirect taxation that is administered by the FTA. These taxes play a significant role in the overall fiscal framework, and are particularly relevant for multinational businesses operating across consumer-facing and supply chain activities.

The most important indirect tax in the UAE is value added tax (VAT), introduced under Federal Decree-Law No. 8 of 2017. VAT applies broadly to the supply of goods and services within the UAE, at a standard rate of 5%. However, the system incorporates a number of structural distinctions that affect planning and compliance. Certain supplies are zero-rated (such as exports, international transport, and selected education and healthcare services), while others are exempt (including specific financial services and residential leasing).

VAT registration is mandatory where a business's taxable supplies and imports exceed 375,000 dirhams over a rolling 12-month period (or are expected to exceed this threshold within 30 days). Once registered, businesses are required to comply with ongoing filing, invoicing and payment obligations in accordance with VAT legislation and detailed FTA guidance.

In addition to VAT, the UAE imposes excise tax under Federal Decree-Law No. 7 of 2017. This tax applies to specific categories of goods considered harmful to public health or the environment, including tobacco products, carbonated drinks and energy drinks. Excise tax is typically levied at the point of import or manufacture, and is designed to influence consumption behaviour rather than to serve as a broad-based revenue instrument.

From a planning perspective, multinational groups operating in the UAE generally focus on supply chain positioning, place-of-supply rules and VAT grouping considerations. The correct classification of supplies (standard-rated, zero-rated or exempt) is often a key determinant of recoverable input VAT, making operational structuring and invoicing practices critical to tax efficiency. In excise contexts, compliance is more transaction-specific, focusing on product classification and importation points.

International developments and local responses

The UAE's modern tax framework has developed in close alignment with international tax policy trends, particularly those driven by the OECD/G20 BEPS project. The introduction of the Corporate Tax Law itself reflects a structural shift towards globally consistent tax standards, including transparency, substance and anti-avoidance principles.

Several core elements of the UAE regime directly mirror BEPS recommendations. Transfer pricing rules under Article 34 require all related-party transactions to follow the arm's length principle, ensuring that profits are aligned with economic activity rather than contractual allocation. These rules are supported by detailed guidance from the FTA, including documentation standards and accepted pricing methodologies. Similarly, the introduction of tax grouping rules under Article 40 and participation exemptions under Article 23 reflects internationally recognised approaches to preventing double taxation within corporate structures. These mechanisms are intended to allow economic integration of corporate groups while preserving tax neutrality for qualifying intra-group flows.

OECD-G20 BEPS initiative

The UAE has taken a series of coordinated steps in response to the BEPS agenda, focusing on transparency, substance and alignment with global minimum standards.

A central development is the incorporation of OECD-aligned transfer pricing rules within the Corporate Tax Law. These rules require taxpayers to maintain contemporaneous documentation and to ensure that cross-border and domestic related-party transactions reflect market conditions. The FTA's Transfer Pricing Guide provides additional administrative detail, including expectations around master file and local file preparation for larger groups.

In addition, the UAE has implemented complementary transparency measures beyond corporate taxation. These include country-by-country reporting obligations for large multinational groups under Cabinet Decision No. 44 of 2020, as well as economic substance requirements under Cabinet Resolution No. 57 of 2020. These frameworks require entities engaged in specified activities to demonstrate real economic presence in the UAE, reinforcing substance-based taxation principles.

Another major development is the introduction of the DMTT under Cabinet Resolution No. 142 of 2024, effective for financial years beginning on or after 1 January 2025. As noted above (see "Third-party transactions"), this measure applies to large multinational enterprise groups with consolidated global revenues exceeding €750 million, ensuring that a minimum effective tax rate of 15% is achieved in the UAE, consistent with OECD Pillar Two rules.

Taken together, these developments indicate a continued trajectory towards integration with global minimum tax and transparency standards while maintaining the UAE's competitiveness as an investment jurisdiction.

Tax treaties

The UAE maintains an extensive and expanding network of Double Taxation Avoidance Agreements (amounting to 140 as of May 2026), which forms a critical component of its international tax architecture. These treaties are designed to eliminate double taxation, reduce withholding tax burdens in treaty partner jurisdictions and provide certainty in cross-border investment structuring.

UAE tax treaties typically include provisions addressing reduced withholding tax rates on dividends, interest and royalties, subject to treaty conditions and beneficial ownership requirements. This makes treaty access particularly relevant for structures involving UAE-based holding companies, financing platforms and regional headquarters.

In addition to withholding tax relief, UAE treaties commonly define the concept of permanent establishment, allocate taxing rights between jurisdictions and include mutual agreement procedures to resolve cross-border tax disputes. These provisions play an important role in managing jurisdictional overlap and reducing double taxation risk.

The UAE is also a signatory to the OECD Multilateral Instrument, which modifies existing treaties to implement BEPS-related measures, including anti-treaty abuse provisions and enhanced dispute resolution mechanisms. This ensures that the treaty network continues to evolve in line with international standards.

Year in review

The past year in UAE corporate tax practice has been defined less by judicial precedent and more by regulatory consolidation. As the Corporate Tax Law moves from introduction to operationalisation, the FTA has issued extensive administrative guidance to clarify how the framework applies in practice. Accordingly, developments in tax planning have largely centred on interpretation, compliance alignment and the practical application of key reliefs, rather than litigation outcomes.

One of the most significant areas of focus has been the continued application of the participation exemption under article 23 of the Corporate Tax Law. This exemption, which removes qualifying dividends and capital gains arising from substantial shareholdings from taxation, has become a cornerstone of holding company structuring in the UAE. In practice, it has reinforced the jurisdiction’s role as a regional investment hub, with multinational groups increasingly aligning their ownership structures to ensure that qualifying thresholds (such as ownership percentage, holding period and qualifying asset status) are met.

A second major development has been the operationalisation of the transfer pricing regime under Article 34. The requirement that all related-party and connected-person transactions be conducted on an arm’s length basis has significantly reshaped intra-group structuring. The FTA’s Transfer Pricing Guide has clarified expectations around documentation standards, including master file and local file requirements, as well as the application of OECD-aligned methodologies. In practice, this has led to increased scrutiny of inter-company financing, management services and intellectual property arrangements, with taxpayers required to substantiate pricing with contemporaneous benchmarking analysis.

A third area of practical significance has been the QFZP regime. Free zone entities seeking to benefit from the 0% corporate tax rate on qualifying income have had to carefully assess compliance with substance requirements, qualifying activity classifications and de minimis thresholds. The FTA’s guidance has made clear that the availability of preferential treatment is conditional upon meeting periodic compliance obligations and transfer pricing alignment.

Perceived abuses

As the regime has matured, the UAE has also introduced a structured anti-avoidance architecture that aims to prevent the misuse of reliefs and ensure alignment with the Corporate Tax Law's policy intent.

At the centre of this framework is the General Anti-Abuse Rule (GAAR) under Article 50. This provision empowers the FTA to disregard or recharacterise arrangements where obtaining a corporate tax advantage is one of the principal purposes, and where such arrangements are inconsistent with the object and purpose of the legislation. In practice, this serves as a broad safeguard against artificial structuring, particularly in cases involving circular transactions, artificial intermediation or arrangements lacking commercial substance.

Complementing the GAAR are specific anti-avoidance rules embedded throughout the law. Transfer pricing rules under Article 34 ensure that intra-group pricing does not result in profit shifting to low-tax entities or jurisdictions. These rules are supported by detailed FTA guidance that emphasises substance, functional analysis and documentation as core compliance requirements.

In addition, Article 30 introduces a general interest limitation rule that restricts the deductibility of net interest expenditure above specified thresholds. This provision directly addresses leveraged structures that may otherwise be used to erode the UAE tax base through excessive intra-group financing.

Enforcement is further supported by the administrative penalty framework under Cabinet Decision No. 75 of 2023, which imposes penalties for failures such as late registration, non-compliance with filing obligations and submission of inaccurate information. Collectively, these measures reflect a compliance environment that is increasingly structured, formalised and enforcement-driven.

The introduction of the UAE Corporate Tax regime has been accompanied by the creation of a robust anti-avoidance framework designed to ensure that the system operates in line with its underlying policy objectives. Rather than responding to specific legacy abuses, the legislative approach has been to embed broad and targeted safeguards from the outset, to prevent structures that seek to obtain unintended tax advantages.

Recent successful tax-efficient transactions

As the UAE Corporate Tax regime is still in its early stages of implementation, there is currently limited judicial or administrative precedent on structured tax planning arrangements. The framework is therefore still evolving through legislative refinement, FTA guidance and emerging compliance practice, rather than through case law.

Within this developing environment, several statutory reliefs have become central to legitimate tax-efficient structuring. These include business restructuring relief under Article 27, which permits tax-neutral transfers of businesses or parts of businesses where specified conditions are met; the participation exemption under Article 23, which exempts qualifying dividends and capital gains from taxation; and the QFZP regime, which provides a 0% tax rate on qualifying income where strict conditions relating to substance, activity classification and compliance are satisfied.

In practice, these mechanisms are increasingly being used in structuring regional holding platforms, internal reorganisations and free zone-based operating models. However, their application is highly conditional, particularly in relation to ongoing compliance with substance requirements and transfer pricing obligations.

Given the absence of a developed body of case law, there remains uncertainty in a number of areas. Interpretative development is expected over time, particularly in relation to the boundaries of free zone qualifying income (including potential “tainting” issues), the application of participation exemption thresholds in complex group structures, the interaction between interest limitation rules and intra-group financing, and the classification of transactions as capital versus revenue in nature.

Special considerations

From a practical perspective, one of the most significant developments in the UAE corporate tax environment is the increasing importance of the compliance infrastructure. The FTA is placing more and more emphasis on documentation quality, disclosure accuracy and audit readiness. This is particularly evident in areas such as transfer pricing, free zone eligibility and the application of exemptions, where outcomes are highly dependent on evidentiary support.

Unlike more mature tax jurisdictions, the UAE currently has limited judicial precedent. As a result, taxpayers must rely heavily on statutory interpretation and administrative guidance issued by the FTA, necessitating proactive compliance management and conservative structuring in areas of ambiguity.

An additional practical consideration is the interaction between corporate tax and VAT. While the two regimes operate independently, certain transactions may produce divergent tax outcomes. For example, a transaction may be neutral or exempt for corporate tax purposes but still give rise to VAT liabilities (or vice versa), particularly in sectors such as real estate, financial services and intra-group service arrangements. This necessitates integrated tax planning across both regimes, rather than siloed analysis.

Outlook and conclusions

The introduction of the UAE Corporate Tax Law marks a structural shift in the country's fiscal framework, bringing it into closer alignment with international tax standards while preserving its position as a competitive investment jurisdiction.

Since its implementation, the regime has been progressively refined through cabinet decisions, ministerial decisions and detailed FTA guidance. This incremental development reflects the relative novelty of the system and the intention to allow practical application to evolve alongside administrative experience.

Looking ahead, businesses are expected to continue adjusting their legal structures, financing arrangements and cross-border operations to ensure alignment with both the letter and the evolving interpretation of the Corporate Tax Law. Transfer pricing compliance, free zone substance and qualification requirements, and the interaction between domestic reliefs and international tax rules are likely to remain key areas of focus.

Overall, the UAE corporate tax framework is characterised by a deliberate balance between a modern and internationally aligned tax system, along with a continued emphasis on economic competitiveness, investment attraction and regulatory clarity as the regime matures.

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