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UAE Pillar Two: Top-Up Tax for Multinational Enterprises

By Shahram Safai, Shruti Baghel and Anita Hajynia| 14 September 2026

As the UAE Corporate Tax framework continues to evolve, the UAE Federal Tax Authority (**FTA**) has recently issued another significant decision, Decision 12 of 2026 (**Decision 12**), that may have far-reaching implications for businesses forming part of Multinational Enterprise (**MNE**) Groups.

As part of the UAE's implementation of the OECD's Global Anti-Base Erosion (**GloBE**) Rules, the UAE introduced the Pillar-Two framework through Cabinet Decision 142 of 2024 (**Decision 142**), which applies to financial years beginning on or after January 1, 2025. Under Decision 142, the UAE Domestic Minimum Top-up Tax (**DMTT**) applies to an MNE Group where the Group has UAE constituent entities and its consolidated revenue is EUR 750 million or more in at least two of the four fiscal years immediately preceding the relevant fiscal year (**an in-scope MNE**).

Further to the implementation of the DMTT regime, the FTA has recently issued Decision 12 (effective from financial years beginning on or after January 1, 2025), which prescribes registration and de-registration timelines for an in-scope MNE.

What is UAE DMTT?

As the UAE's jurisdictional Effective Tax Rate (**ETR**) is below 15% (with Corporate Tax generally applying at 9% or 0%, subject to applicable exemptions), a top-up tax may arise to bridge the shortfall. The DMTT ensures that the additional tax attributable to low-taxed UAE profits of an in-scope MNE is collected in the UAE rather than potentially by another jurisdiction under Pillar-Two framework.

The DMTT rules apply to both UAE and foreign headquartered MNE Groups operating in the UAE. It is relevant to note that DMTT is assessed at the UAE jurisdictional level and is separate from the UAE Corporate Tax regime.

What does this mean for Free Zone tax incentive under the Corporate Tax Law?

The UAE's 0% free zone corporate tax rate is overridden for in-scope entities. Accordingly, under DMTT, if a UAE free zone entity, that is an in-scope entity, at a group level pays an effective tax rate below 15%, a top-up tax may apply to reach the minimum tax rate. However, domestic groups and MNEs that fall below the Pillar-Two revenue threshold remain unaffected and may continue to benefit from the 0% tax benefits, subject to meeting the relevant Qualifying Free Zone Person conditions prescribed under the UAE Corporate Tax Law (Federal Decree 47 of 2022).

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Shahram is a partner at Afridi & Angell. His practice consists of advising on tax, corporate law and real estate. He heads the firm's tax and real estate teams and has been highly sought after by boards and shareholders for strategic legal advice. Shahram is qualified as a solicitor in England and Wales and is a member of the California State Bar. He is also a registered professional engineer. Shahram is a past Chairman of the Canadian Business Council of Dubai and the Northern Emirates.

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Registration and De-registration Timelines.

As a first step towards the practical implementation of Pillar-Two in the UAE, Decision 12 prescribes the registration and de-registration requirements and timelines for an in-scope MNE. The Decision also permits an MNE Group to appoint a Domestic Designated Filing Entity (in accordance with Decision 142), to submit the registration and de-registration applications on behalf of the MNE Group.

Below are the prescribed registration and de-registration timelines:

Registration:

i. General Rule: Registration application must be submitted within 7 months from the end of the first fiscal year in which the entity gets covered within the scope of DMTT.

ii. Transitional Rule: Where the entity's fiscal year ends before April 30, 2026, registration application must be submitted on or before November 30, 2026.

De-Registration:

iii. General Rule: De-registration application must be submitted within 6 months from the earlier of (a) the date the entity ceases to exist; or (b) the end of the fiscal year in which the entity leaves the MNE Group and is no longer in-scope.

iv. Transitional Rule: An entity that ceased to exist before June 30, 2026 must submit a de-registration application on or before December 31, 2026.

It is relevant to note that the FTA will reserve the right to approve a de-registration application subject to the entity settling all its tax liabilities and penalties payable as well as fulfilling of its filing obligations, including the Top-Up tax return and Pillar-Two information returns, as applicable.

In-Scope and Out-of-Scope Notification

In addition to the above, the FTA has also introduced a notification requirement for entities that are members of an MNE Group that cease to be within the scope of Pillar-Two. The notification must generally be submitted within 6 months from the end of the tested fiscal year and will remain valid for the tested fiscal year and the following 4 consecutive fiscal years, unless the entity subsequently submits an in-scope notification.

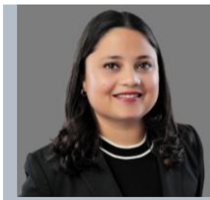
To-do list for an in-scope entity:

i. Confirm whether the MNE Group meets the EUR 750 million revenue threshold and identify all such UAE constituent entities;

ii. Assess whether a Domestic Designated Filing Entity should be appointed among the MNE Group entities;

iii. Take steps to submit Pillar-Two registration application to the FTA before the prescribed general and transitional deadlines to mitigate the risk of administrative penalties.

Afridi & Angell would be pleased to assist you with assessing whether your UAE entity falls within the scope of the DMTT and, where applicable, assist with completing its Pillar-Two registration or de-registration with the FTA.■



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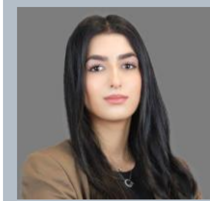

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Afridi & Angell

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