



Retail & Trading – Corporate Tax, VAT & ESR

15 September 2023



Disclaimer

The information provided herein is intended to provide a general overview on certain specific aspects of the UAE's new Corporate Income Tax laws and regulations. This document is not an official interpretation or comprehensive analysis of the Federal Decree Law No. (47) of 2022 on the Taxation of Corporations and Businesses or associated Cabinet and Ministerial Decisions. Please note that only the Ministry of Finance and the Federal Tax Authority have the authority to issue official interpretations of the CIT laws and regulations. Readers are strongly advised to only rely on official publications from these bodies for authoritative information on this subject. While we have made every effort to ensure that the information provided in this document is accurate and up-to-date at the time of publishing, the laws and regulations governing corporate income tax in the UAE are subject to change. We accept no liability for any loss or damage arising directly or indirectly from reliance on the information contained within this document. This document does not constitute legal or tax advice and should not be used as a substitute for consultation with professional legal or tax advisors.

Background & scope of UAE Corporate Tax (UAE CT)

Persons & Tax Base

Qualifying Free Zone & Distribution activities

VAT Impact on Designated Zones

Connected Persons, Related Party transactions

Allowed, Disallowed Expenses

Tax Group under CT & VAT

Impact of VAT in Retail & Distributions

Impact ESR in Distribution & Service centers

Tax Administration

Q & A



**LET US
DISCUSS
ABOUT....**



Country by country reporting (CBCR)



Economic substance regulations (ESR)



Value added tax (VAT) & excise tax



Anti-money laundering (AML)



UAE corporate tax (CT)

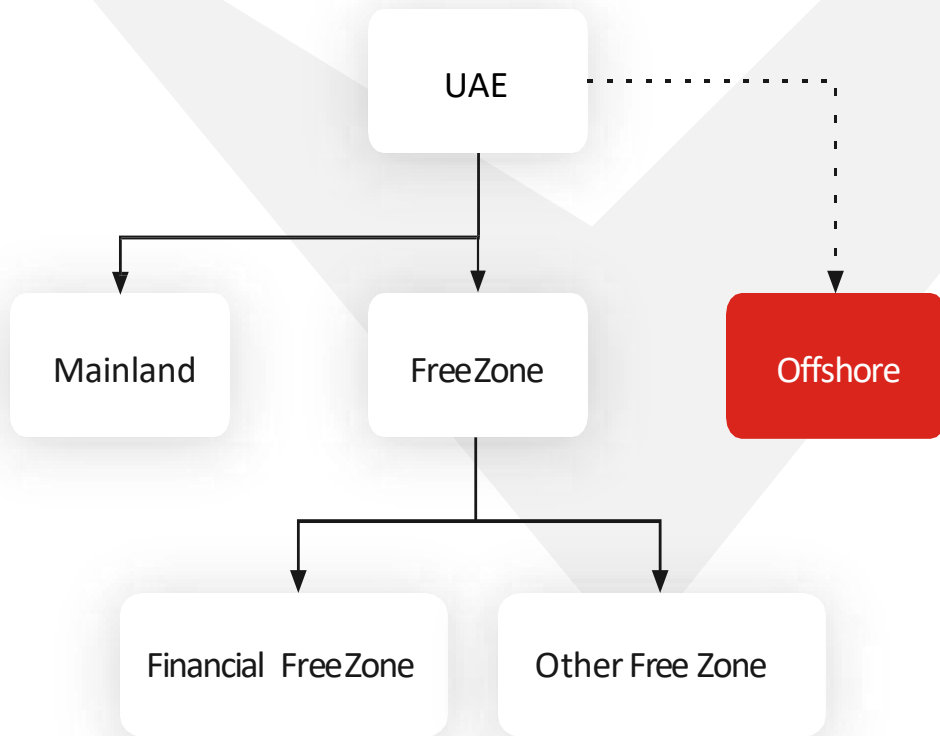
THE BACKGROUND FOR UAE CT



UAE-CORPORATE STRUCTURE



Geographic Form



Legal Form

Sole Proprietorship	Limited Liability Company
Civil Company	Public Shareholding Company
Partnership	Private Shareholding Company
Foundation/Trust	Freezone Company
Representative Office	Branch of Foreign Company
Freelancer	Branch of UAE Based Company

IMPLEMENTATION DATE OF CT

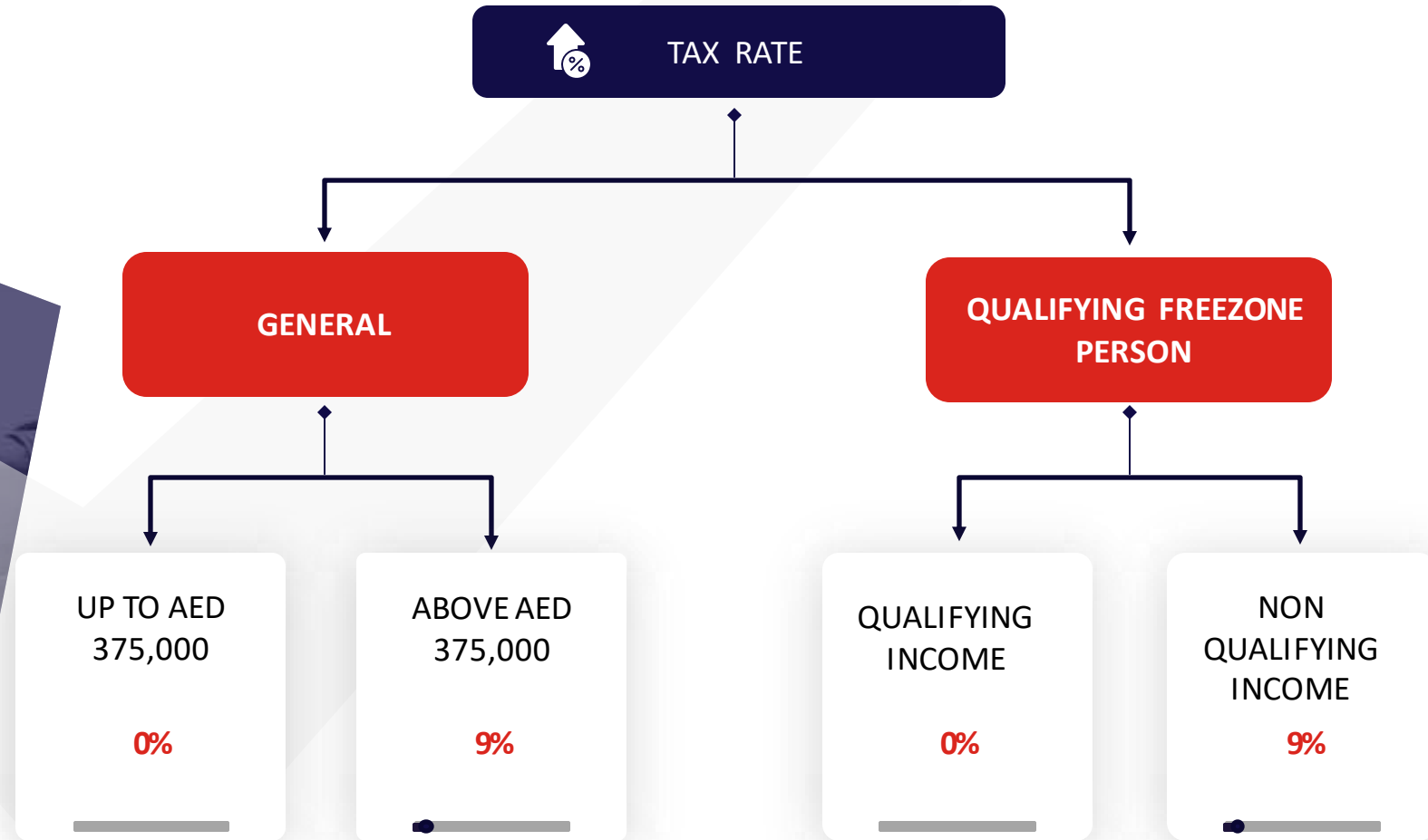
The UAE CT regime will become effective for financial years starting on or after 1 June 2023.

Entity	Financial Year	First year of CT	First return filing & payment due date
A	1 Jul to 30 Jun	1 Jul 23 to 30 Jun 24	31 Mar 25
B	1 Oct to 30 Sep	1 Oct 23 to 30 Sep 24	30 Jun 25
C	1 Jan to 31 Dec	1 Jan 24 to 31 Dec 24	30 Sept 25
D	1 Apr to 31 Mar	1 Apr 24 to 31 Mar 25	31 Dec 25

Persons & Tax Base

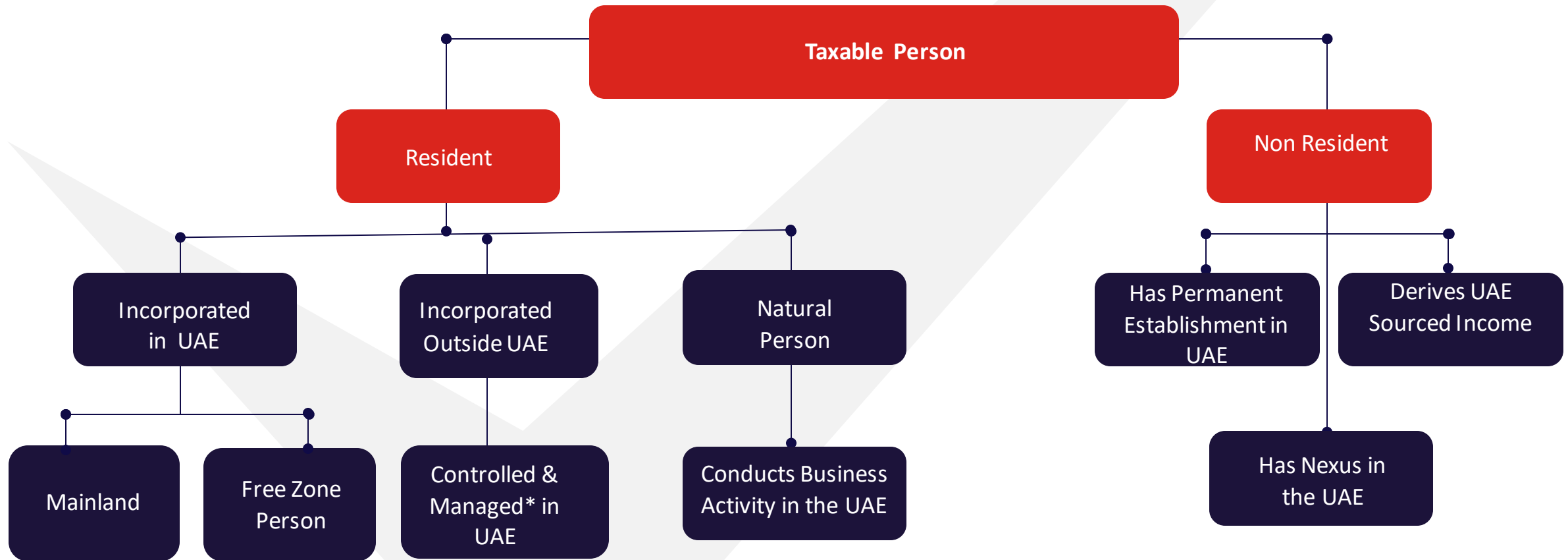


IMPOSITION OF TAX AND TAX RATE



Tax is levied on Taxable Income at the tax rates determined

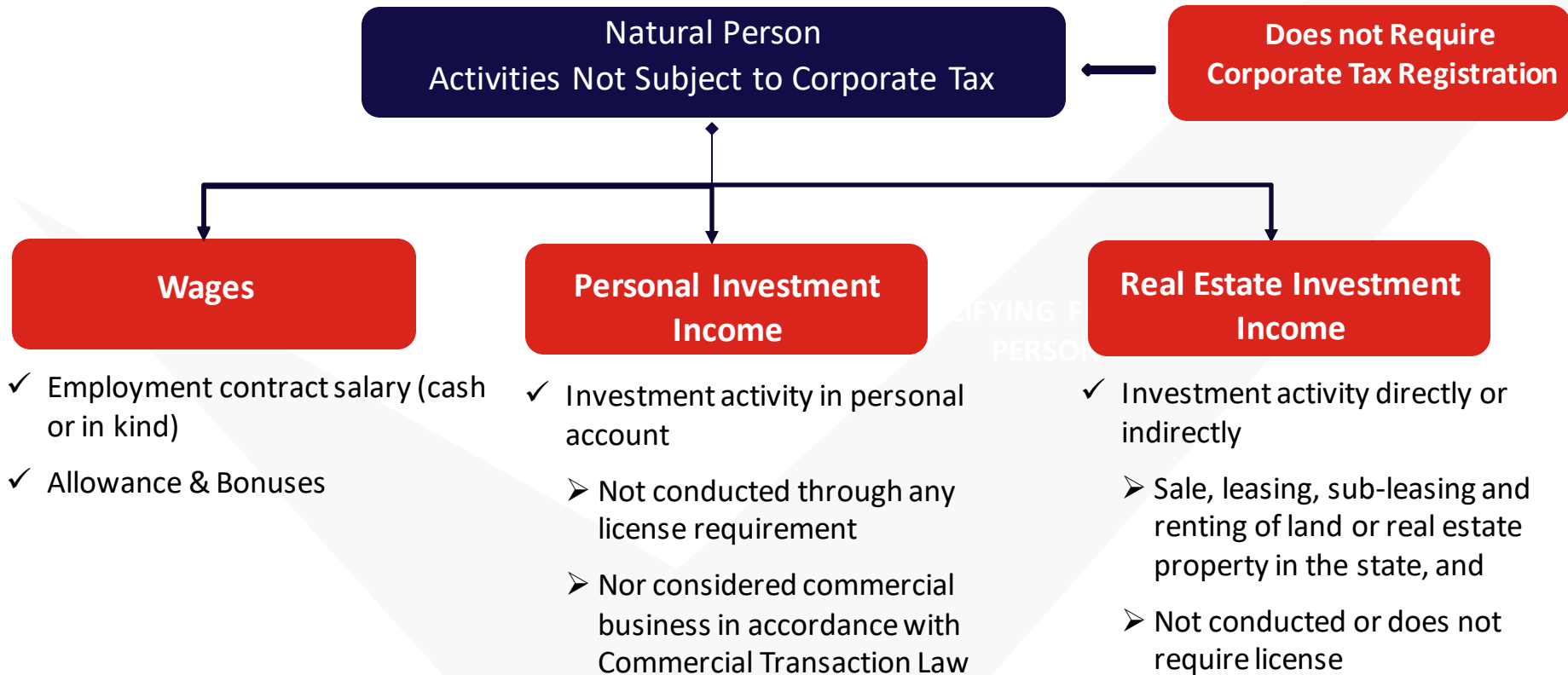
TAXABLE PERSON (WHO?)



A Branch will be treated as one and the same Taxable Person

*Determined based on Key management and Commercial decisions are in substance made and other specific factors

MD 49- Business Activities by Natural Person- Resident & Non- Resident



Natural Person Business Activities other than above which are subject to Corporate Tax, and annual turnover exceeds AED 1 million, then Corporate Tax shall be chargeable, and Registration is required.

Qualifying Free Zone & Distribution Activities



QUALIFYING FREEZONE PERSON – CONDITIONS

Maintains **adequate substance** in the State.

- Undertake its core income-generating activities in a Free Zone
- Have adequate assets, employees, operating expenditure in free zone

Maintains **Audited Financial statements**

Complies with **Arm's Length Principals** and **TP** requirements

Derives Qualifying Income

Has **not elected** to be subject to Corporate Tax

Satisfied **De Minimis** requirement



QFZP **fails to meet any of the conditions** at any particular time shall **cease the status** for that year and for next 4 years.

Activities can be even **outsourced** to **Related Party** or **third party** in a free zone. (With adequate supervision)

Qualifying Freezone entities that are part of **Large MN Group** will be **subject to GMT** once Pillar 2 is implemented in the UAE.

Adequate Substance

Corporate Tax

- ✓ Undertake its Core Income-Generating Activities (CIGA) in a Free Zone
- ✓ Have adequate **assets, employees, operating expenditure** in free zone
- ✓ Activities **can be outsourced** to related party or third party in a free zone, provided QFZ person has adequate supervision of the outsourced activity

Economic Substance Regulation

- ✓ Conducts Core Income Generating Activities (CIGA) in UAE
- ✓ Have adequate **assets, employees** (even if they are employed by another entity, or on temporary contract), operating **expenditure** in UAE
- ✓ Can **outsource CIGA**, however outsource provider must have at all times in UAE, adequate level of employees, expenditure & physical assets
- ✓ Relevant activities are **directed & managed in UAE** (quorum for board meeting is met & physically present in UAE)

Corporate Tax on Free zone Business- Qualifying & Non qualifying, (Cabinet Decision no. 55 & Ministerial Decision no. 139)

Qualifying Free Zone Person

Qualifying Income
0% Corporate Tax Income

Non-Qualifying Income
9% Corporate Tax Income

- ✓ Income from **another free zone person** (ultimate beneficial recipient) except excluded activities
- ✓ Income from **Qualifying activities** from mainland/ outside of UAE
- ✓ **Other Income** subject to **De Minimis** (non qualifying revenue does not exceed 5% of total revenue or AED 5 million, whichever is lower)

- ✓ Revenue from **immovable property in Free zone**
 - **Commercial property** transaction with **non free zone person**
 - Transaction with **any person** for **non-commercial property**
- ✓ Revenue from **Domestic Permanent Establishment** and Foreign **Permanent Establishment of QFZ**

Corporate Tax on Free zone- Qualifying Activities, (CD 55 & MD 139)

Qualifying Activities

Goods:

- ✓ Manufacturing of Goods or materials (PCD: Fully fledged & Contract/ toll manufacturing)
- ✓ Processing of Goods or materials
- ✓ **Distribution of imported goods or materials in or from a Designated Zone to reseller**

Services & Others:

- ✓ Holding of shares and other securities
- ✓ Ownership, management and operation of Ships
- ✓ Reinsurance services
- ✓ Fund management services
- ✓ Wealth and investment management services
- ✓ Headquarter services to Related Parties
- ✓ Treasury and financing services to Related Parties
- ✓ Financing and leasing of Aircraft, including engines and rotatable components
- ✓ **Logistics services**
- ✓ Ancillary activities to above

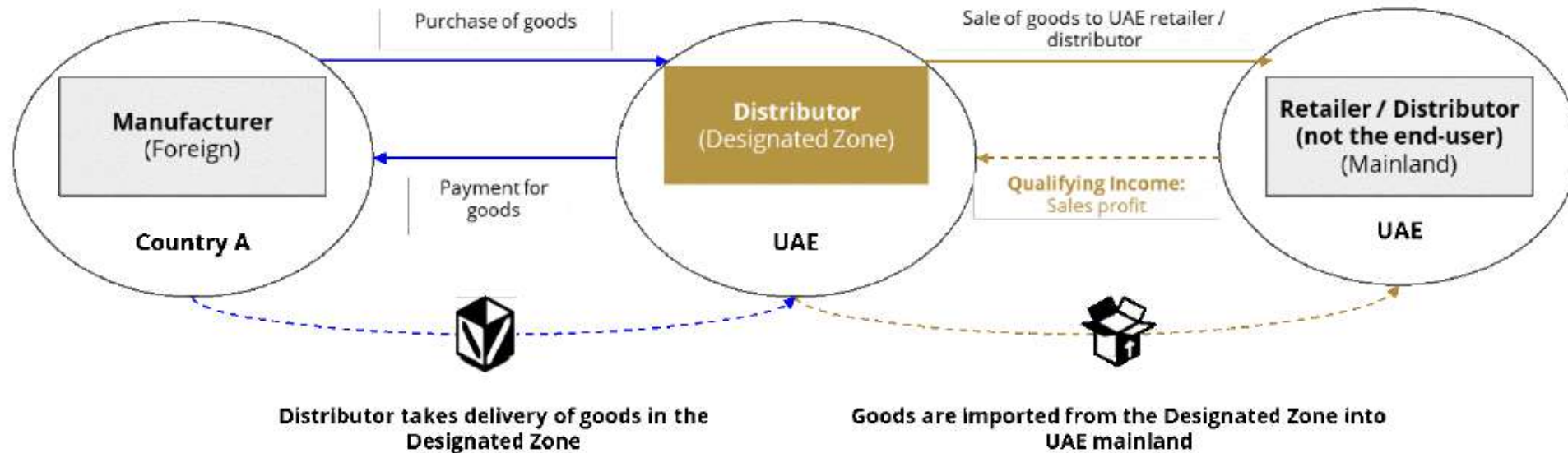
* Subject to the respective UAE regulatory authority oversight

Excluded Activities (Non-qualifying revenue)

- ✓ Transaction with Natural Person
(except to Ownership or management of ship/ Fund management services/ Wealth & investment management/ Financing & leasing of aircraft)
- ✓ Banking activities
- ✓ Insurance activities (other than reinsurance)
- ✓ Financing and leasing activities, except
 - Financing to related parties
 - Related to aircraft
- ✓ Ownership or exploitation of immovable property, except the transaction with another free zone person related to immovable commercial property in free zone
- ✓ Intellectual property assets income
- ✓ Ancillary activities to above

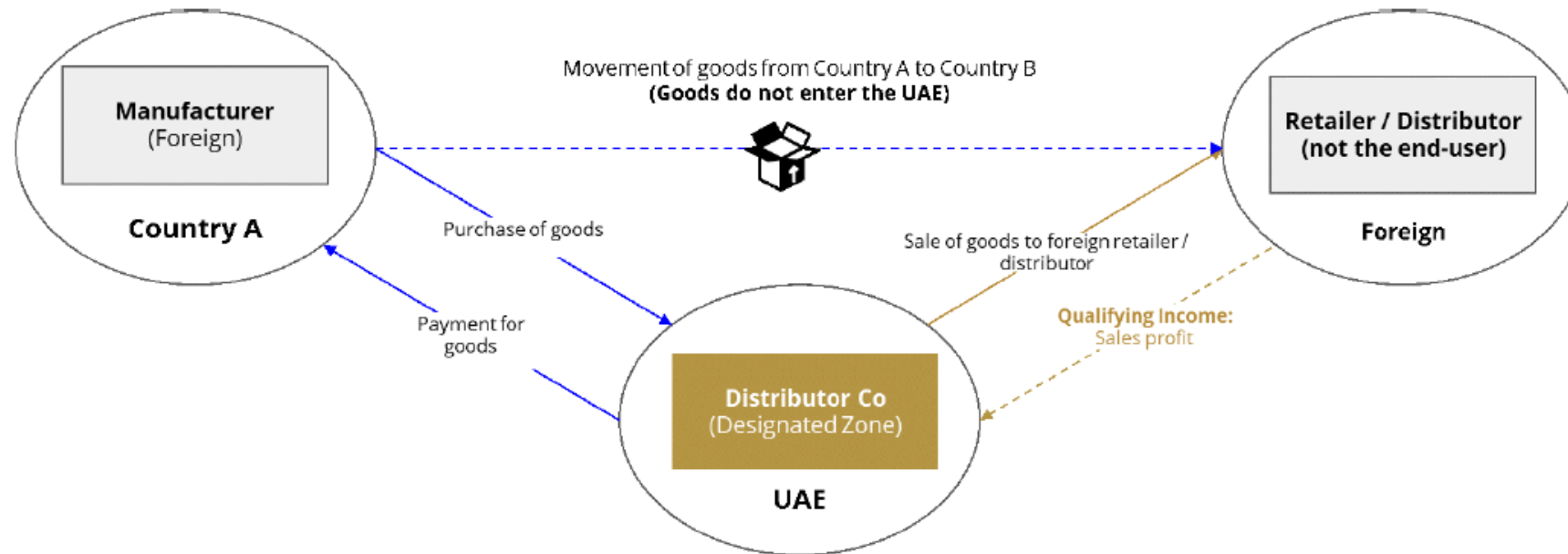
EXAMPLE – Distribution of Goods in/from Designated Zone

(2) **Distribution of goods or materials in the UAE** – The Designated Free Zone Person (Distributor Co) buys goods from Country A, and sells these goods to a retailer in the UAE. Distributor Co earns a profit / margin on the goods sold to the retailer. The goods are shipped by the Manufacturer in Country A to Distributor Co in the Designated Zone from where they are imported into the UAE.



EXAMPLE – Distribution of Goods in/from Designated Zone

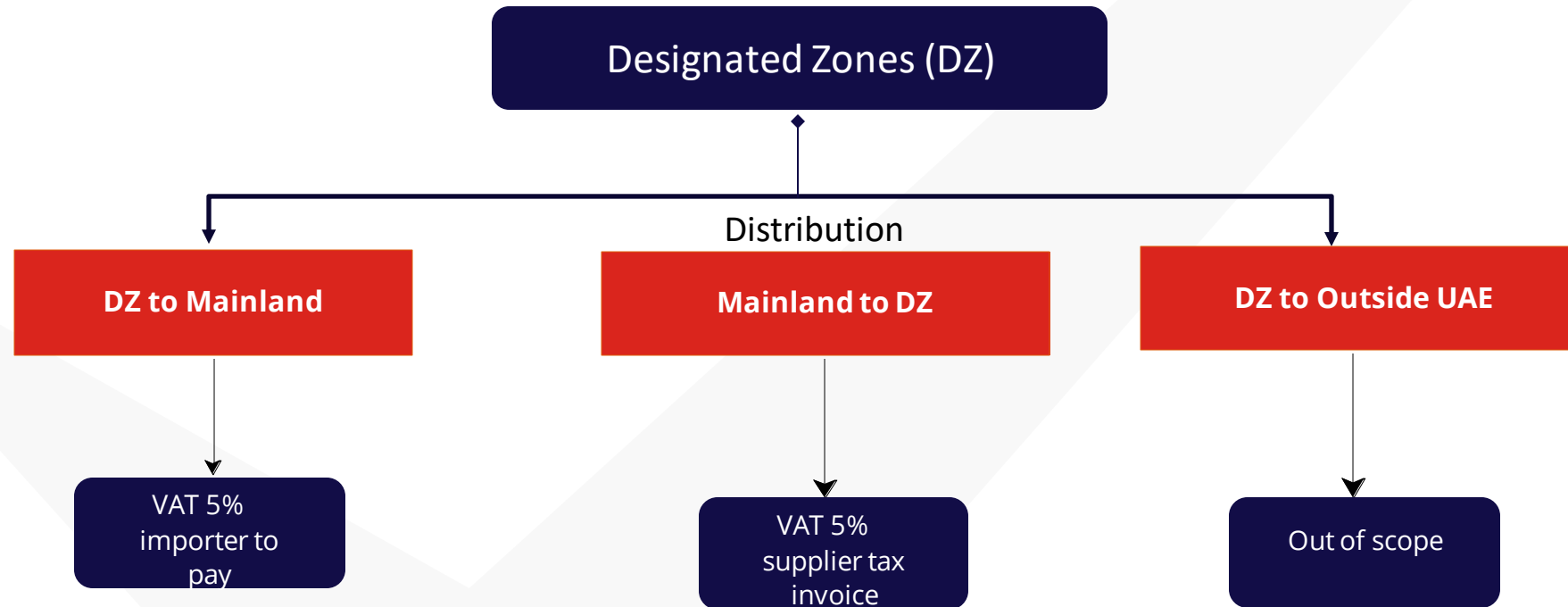
(1) Distribution of goods or materials outside of the UAE - Designated Free Zone Person (Distributor Co) buys goods from a manufacturer in Country A, and sells these goods to a retailer in Country B. Distributor Co earns a profit / margin on the goods sold to the retailer in Country B. The goods are shipped directly from the Manufacturer in Country A to the Retailer in Country B.



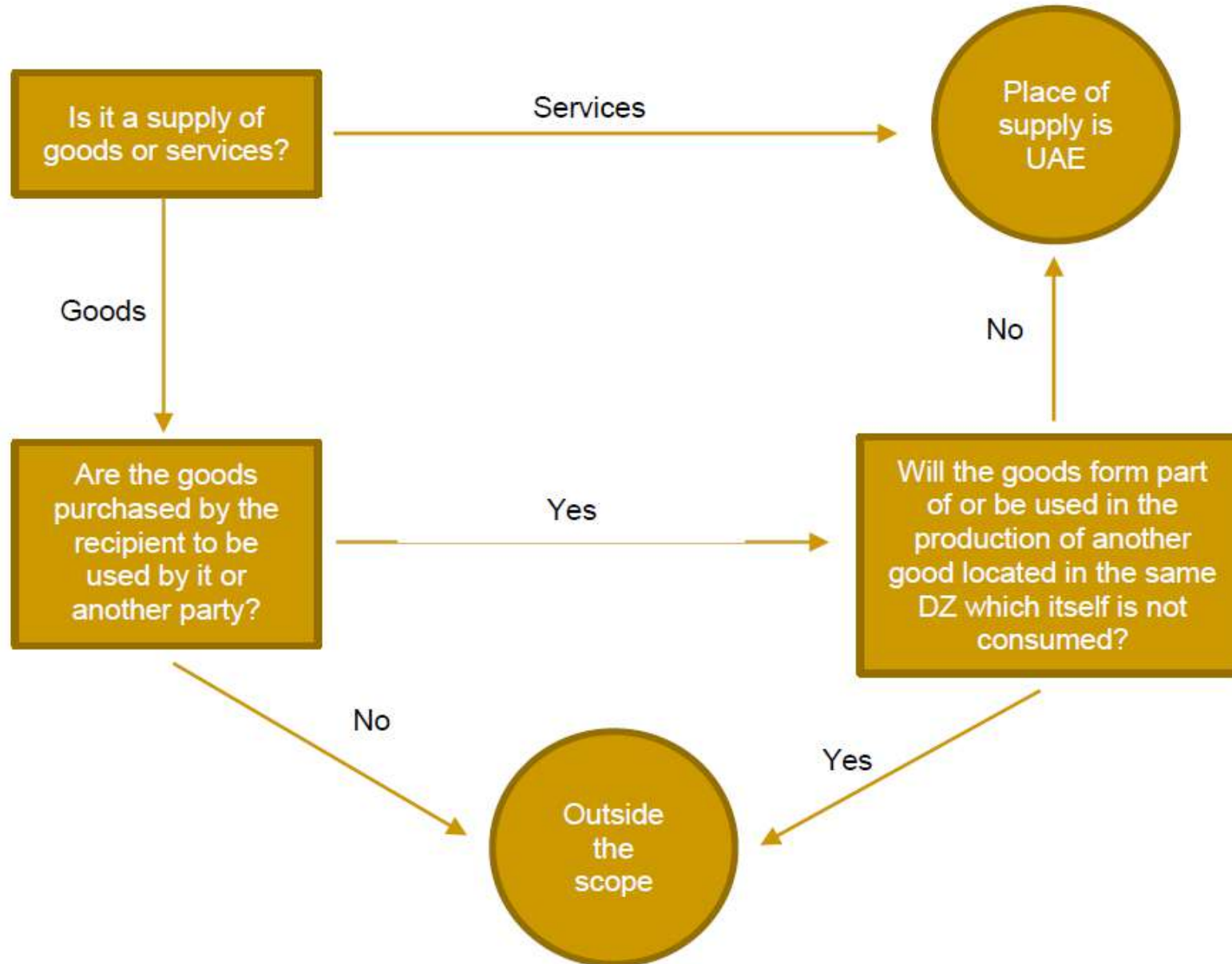
Note: This is not part of the law, this is only extracted from the Public Consultation Document on Free Zones issued by the Ministry

VAT Impact on Designated Zones





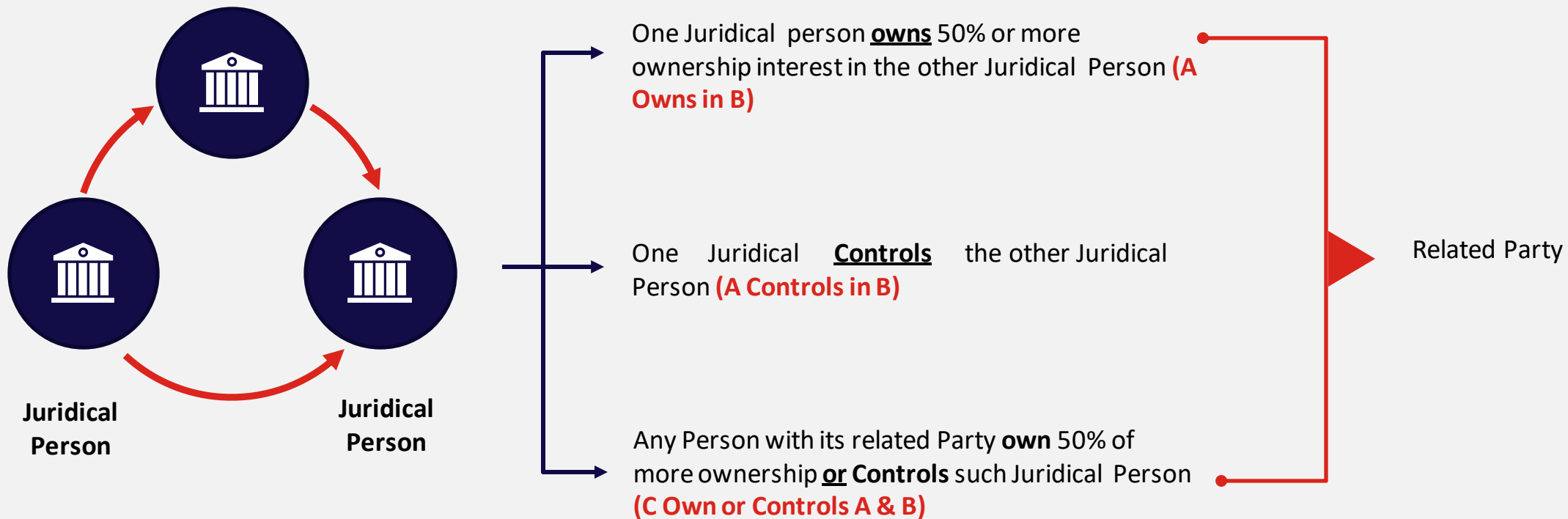
VAT – Distribution of Goods in/from Designated Zone



Connected Persons, Related Party Transactions



RELATED PARTY (ARTICLE 35)



CONNECTED PERSON (ARTICLE 36)



An owner of the Taxable Person and his/her Related Parties



A director or officer of the Taxable Person and his/ her Related Parties

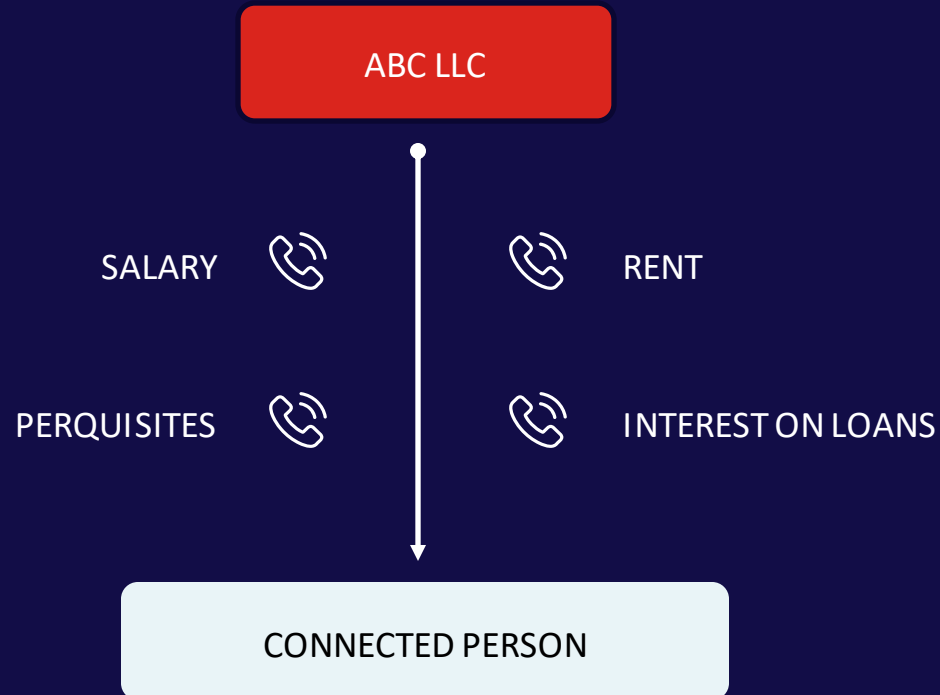
ILLUSTRATIONS - PAYMENTS TO CONNECTED PERSONS



Salary and perquisites to be justified using business/commercial rationale (Any other method) / salary benchmarks available on websites like Glassdoor











Rent payments - independent websites (dubizzle, bayut)

Interest on loans - comparison with bank rates



UN-USUAL CHANGES IN THESE PAYMENTS JUST BEFORE TAX LAW – FTA MAY SCRUTINIZE

TYPES OF RELATED PARTY TRANSACTIONS

 <p>SERVICES IT, ITeS, Sales & Marketing, Engineering, R&D, Finance, Accounting, Legal, Managerial, Procurement etc.</p>	 <p>GOODS Purchase/Sale of goods (raw materials, traded goods, finished goods)</p>	 <p>TANGIBLE PROPERTY Purchase/Sale/Transfer/Lease of Tangible Property</p>	
 <p>FINANCING ARRANGEMENTS Intra-group loans, guarantees</p>	 <p>INTANGIBLE PROPERTY (IP) Royalty and License fee</p>	 <p>CAPITAL TRANSACTIONS Issue/Investment/Transfer of shares or any others</p>	
 <p>Intra-group Services (IGS)/ Cost Contribution Arrangements (CCAs)</p>	 <p>DOMESTIC TRANSACTIONS Transactions between Mainland businesses and Free Zone Persons (which are not tax neutral)</p>	 <p>CONNECTED PERSONS Financing Arrangements Dividends, Directors remunerations or any payments to Directors, Partners relatives, Kinship</p>	

Allowed and Disallowed Expenses



DEDUCTIONS- GENERAL RULE

DEDUCTIBLE EXPENDITURE

Deductible in the Tax Period in which it is **incurred**

1 Incurred wholly & exclusively for **Business**

3 **Not** related to **Exempt Income**

2 **Not capital in nature**

4 **Other** expenditure as may be **specified in a decision**



NOTE:

If expenditure is incurred for more than one purpose, the deduction shall be allowed only for identifiable part or proportion of the expenditure relates to the business

NON DEDUCTIBLE EXPENSES

Donations, grants or gifts (other than to a Qualifying Public Benefit Entity)

Input Value Added Tax - **Claimed ITC**

Bribes or other **illicit payments**

50% Entertainment Expenses

Interest on **Related Party Loan** (without Substance)

Tax on income - outside the State
Foreign Income Tax & UAE Corporate Tax

Net interest beyond (higher of 30% of EBITDA or AED 12M)

Dividends & profit distributions

Non deductible **Penalty, Fine etc**



ENTERTAINMENT EXPENDITURE - DEDUCTION

NON-DEDUCTIBLE



Of any **entertainment, amusement, or recreation expenditure** incurred during a Tax Period related to



Customer



Shareholders



Supplier



Business Partners

Employee related expenses can it be claimed?



ENTERTAINMENT EXPENDITURE INCLUDES BUT NOT LIMITED TO



Meals



Accommodation



Transportation



Admission fees



Facilities and equipment used in connection with such entertainment, amusement or recreation

SMALL BUSINESS RELIEF

Applicable only for **Resident Taxable Person**



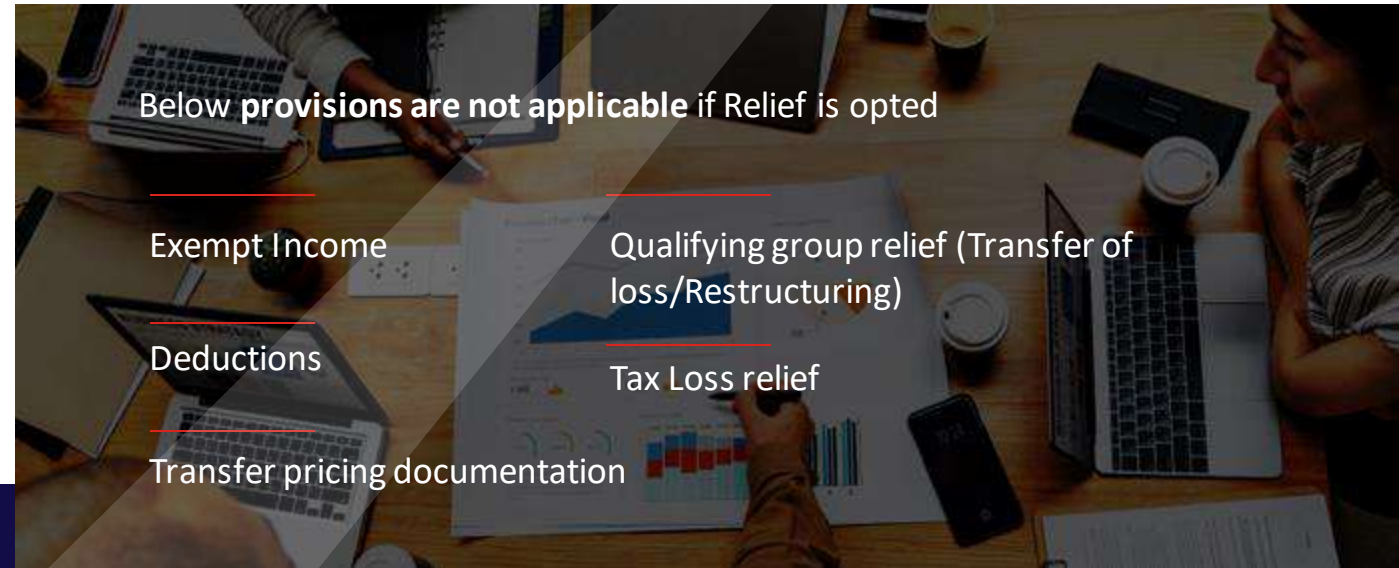
Revenue of Relevant Tax Period and previous Tax Periods **do not exceed of AED 3 millions**



Taxable Person meets all other conditions prescribed by the Minister.

If the above conditions are satisfied, Taxable Income is considered as **NIL**

- This continues to apply to subsequent Tax Periods that **end on or before 31 December 2026**.
- A Taxable Person shall **not be able to elect** this Relief if their Revenue in any relevant or previous Tax Period **exceeds AED 3 millions**.
- The **gross amount of income** derived during a Tax Period as per **accounting standards**.



Below provisions are not applicable if Relief is opted

Exempt Income

Qualifying group relief (Transfer of loss/Restructuring)

Deductions

Tax Loss relief

Transfer pricing documentation



Note: **The Authority may** take the necessary measures to **verify the threshold**, and may request **any relevant information or records** from the Taxable Person to avail the relief.

Tax Group & Qualifying Group



Tax Group

Corporate Tax

- ✓ **Juridical Resident** Person
- ✓ **95%** Ownership interest/Voting rights/Profit share (Directly/Indirectly through one or more Subsidiaries)
- ✓ **Neither Parent/Subsidiaries** are **Exempt/Qualifying Freezone Person**
- ✓ Same Financial Year (Parent and Subsidiary)
- ✓ Same Accounting Standard for preparing FS (Parent and Subsidiary)

VAT

- ✓ **Legal Person** (not natural/individual)
- ✓ Related Parties & control (**50%** market value interest, voting, or control)
- ✓ **Business and Fixed Establishment in UAE** (includes branch of foreign entity)
- ✓ Either each member or group meet the **threshold of registration**

Corporate Tax Group After-effect

Treated as **Single Taxable Person**

Parent Company shall **comply** with all obligations (**CT registration / return filing / CT Payment**)

Consolidate of Financial Statements of Parent and Subsidiaries after eliminating Inter Group transactions



Parent and Subsidiary shall be jointly and severally liable for Corporate Tax Payable (Can be limited to One or More members of the Tax Group subject to approval by the Authority)

Tax Group/Member of the tax **group shall cease to exist** with the approval of the Authority/**Failure to meet the conditions**

Parent Company can be replaced through an application

VAT Tax Group After-effect

Single TRN no. and treated as **Single Person**

Supplies between members of VAT Tax Group will be disregarded for VAT, i.e **no VAT on intra group transactions**)



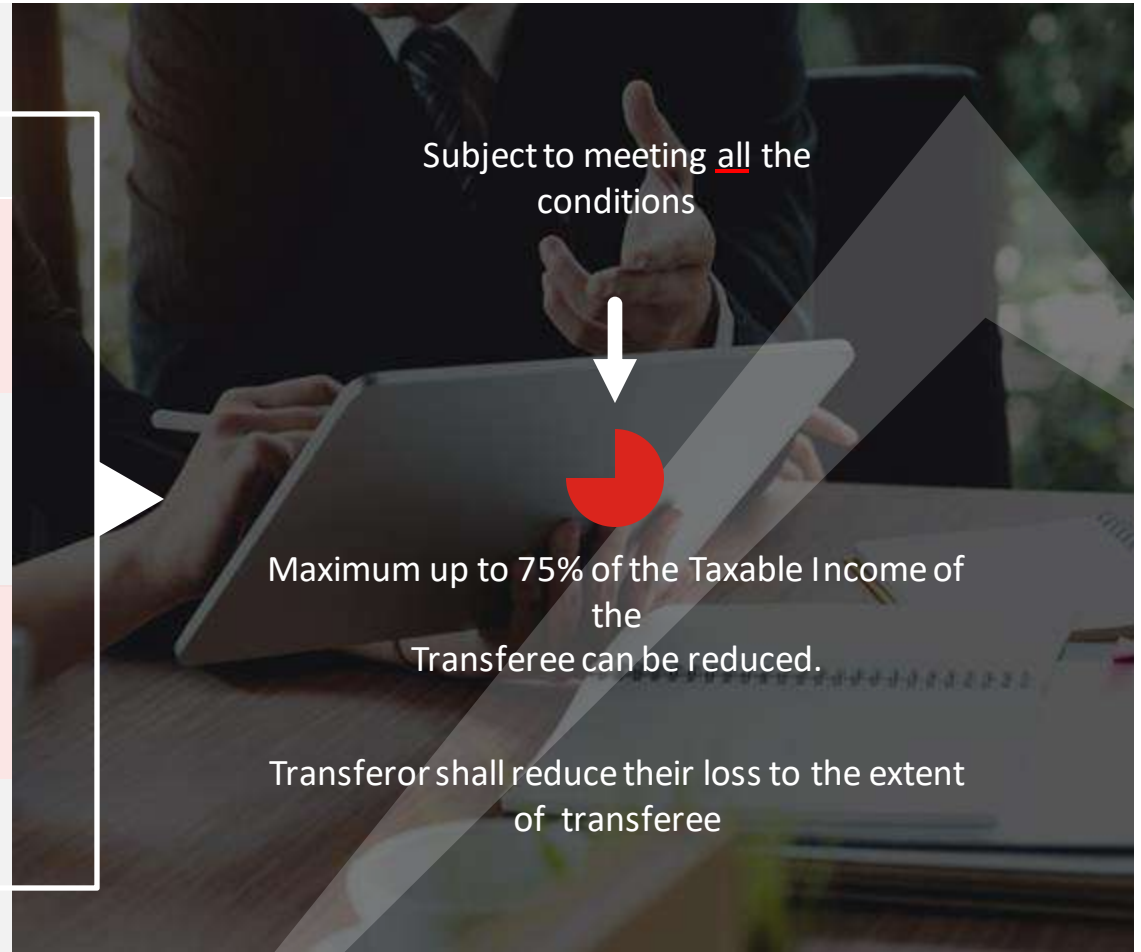
The Tax group submits only **one tax return**, summarizing supplies and purchases made by group

One member of the tax group will be appointed as its '**representative member**' for all VAT obligation

The member of the tax group are **jointly & severally liable** for any VAT debts for the period during which they were the members.

QUALIFYING GROUP

- 1 Juridical **Resident** Person
- 2 **75% Ownership interest**
(Start to End of tax period)
- Direct/Indirect
- 3 Not an **Exempt/Qualifying Free Zone Person**
- 4 **Same Financial Year**
- 5 **Same Accounting Standard** for preparing FS



Impact of VAT in Retail & Distributions



VAT Impact- Transactions in Retail & Distribution

High Sea Sale (e.g. India to China)

- » Goods are not entering to UAE, direct export one country to another- its **outside the scope of UAE VAT**

Export & Re-Export

- » **Export:** Good exported from UAE are **0% rated VAT**
- » **Re-Export:** Goods are in transit, placed in custom warehouse, re-exported by same person who imported, **then import VAT is suspended**

Consignment Sale

- » **Disclosed Agent:** Supplier is responsible for VAT (e.g. supply by HP from China to UAE, through their disclosed agent in UAE, then HP is responsible for VAT)
- » **Un-disclosed Agent:** Independent (undisclosed) agent for multiple brands are responsible for VAT

Sales Return/Credit note

- » **Adjustment** of VAT for return/credit note is done in the VAT return period in which such return /credit note is executed

Bad Debts (VAT portion adjustment)

- » Good supplied, and VAT charged, accounted
- » Consideration for the supply written off
- » More than 6 months passed from the date of supply
- » Notify customer for the amount of consideration written off

Economic Substance Regulations (ESR) Impact



ERS Impact- Transactions in Distribution & Service Center

Distribution & Service Center business

» *Applicability- Distribution business*

- ✓ Purchases (raw material/ goods) from a foreign connected person
- ✓ Distributes those raw material/ goods

» *Example of Core Income Generating Activities for **distribution business***

- ✓ Transporting & storing goods
- ✓ Managing inventory
- ✓ Order processing, fulfillment (manual or electronic)

» *Applicability- Service Center Business*

- ✓ Provides consulting, administrative or other services to a foreign connected person

» *Example of Core Income Generating Activities for **Service center business***

- ✓ Providing consulting or other administrative services

ESR Requirements

» *Notification Filing- 6 months from the end of financial year*

- ✓ Nature of relevant activity carried out
- ✓ Whether it generates relevant income
- ✓ Date of the end of its financial year
- ✓ Other information as requested

» *Annual Report- 12 months from the end of financial year*

- ✓ Economic Substance Test Requirement
- ✓ ESR regulation requisite information & documentation

Accounting Record Keeping



Time period of Record Keeping

- **8 years** including the current FY **(1+7)- CT**
- 5 years** from the end of current FY - **VAT**
- 6 years** from the end of current FY - **ESR**

- **Who? All** the Taxable Persons & Exempted Persons

Penalty for Non-Compliance

If the taxable person fails to maintain all the records, documents and other information to

- **AED 10,000** for each violation
- **AED 20,000** for each subsequent violation within 24 months from the date of the last violation
- **AED 5,000**, If the taxable person fails to submit data, records and documents related to Corporate Tax in Arabic to the FTA when requested

Audited Financial Statements

- Taxable Person deriving Revenue exceeding **AED 50,000,000** during the relevant Tax Period
- **A Qualifying Free Zone Person**

Note: The Authority may seek further information through auditable documents to verify a person's Tax obligations and registration responsibility status.

Accounting Record keeping required- Corporate Tax

Accounting Record Keeping

Records related to Business Activities

- Balance sheet and profit & loss accounts
- Records of wages and salaries
- Records of fixed assets
- Inventory records and statements along with stock count records
- Others based on the activity

Documents supporting entries in the books

- Business-related correspondence, invoices, and tax invoices, licenses and agreements/contracts related to the business
- Taxpayer's records of elections, assessments, determinations, and calculations related to the Business, including the basis and method used
- Related party transaction records and circumstances of such transactions, including transfer pricing documents.
- Records of fixed assets

VAT Records

- ✓ Tax invoices, licenses, contracts related to business, relevant correspondence
- ✓ Calculation/working for taxable VAT
- ✓ Related party transactions, transfer pricing document

Records to be maintained in English and if requested to be translated in Arabic

CT Administration



REGISTRATION

All taxpayers will be required to register

To be registered before filing the first CT return

No registration threshold

CT RETURNS

One CT return for the Tax Period

To be filed within 9 months following the end of the Tax Period

Electronically register through the website of the FTA

UAE Corporate Tax Computation Template		
Particulars	Amount in AED	Amount in AED
Accounting profit/ loss as per financials		xxxx
Less: Exempt income		(xxx)
Add: Expenses/ Deductions not allowed		xxx
Donations, grants or gifts	xxx	
Fines and penalties	xxx	
Bribes or other illicit payments	xxx	
Dividends, profit distributions or benefits of a similar nature paid	xxx	
Corporate Tax for the tax period	xxx	
Input VAT incurred by a Taxable Person that is recoverable	xxx	
Tax on income imposed on the Taxable Person outside the State	xxx	
Other deductions	xxx	
Add/(Less): Adjustments		xxx/ (xxx)
Intra group transfers	xxx/ (xxx)	
Unrealised gains/ losses	xxx/ (xxx)	
Other adjustments	xxx/ (xxx)	
Taxable Income		xxx
Tax payable		xxx
Less: With Holding Tax		(xxx)
Less: Foreign Tax credit		(xxx)
Less: Relief		(xxx)
Business restructuring relief	(xxx)	
Tax loss relief	(xxx)	
Balance Tax Payable/ (Refund receivable)		xxx



Notes:

The template is prepared purely based on the Decree Law provisions.

There are certain conditions to be complied with for some of the elements included in the template.

KEY AREAS TO BE LOOKED INTO (ILLUSTRATIVE)

SN CORPORATE STRUCTURE RELATED

- 1 Review the Corporate Structure (Pre-tax regime Structures) & assess the need of structural changes
- 2 **Free Zone** companies to ensure adequate **substance in UAE**
- 3 Review and decide on registration - **Group/Stand alone**

SN OTHERS

- 1 Identification of **related parties/transaction** with related parties, plan for the documentation
- 2 Identify **exempted income** under CT
- 3 Impact of CT on **Cashflow/ Profit/ Debt-Equity** structure
- 4 Accounting – **Chart of accounts / System changes** to comply with CT
- 5 Review the possible deductible & **non-deductible expenses** & the method to chose
- 6 NR – Test of **PE** & assess the **UAE sourced** income
- 7 Review the **contracts and legal agreements**
- 8 Team **training** on CT
- 9 Mock assessment for 2021, 2022





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