



jaxa جاكسا محاسبون قانونيون
chartered accountants
Assured Professionally...



CORPORATE TAX MANUAL

Version 01.24 dated 15.01.2024

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1. About this Document

I. Introduction

This manual (the “Manual”) is intended to provide a general outline as to how the Accountants/Auditors (the “Staff”) of Jaxa Chartered Accountants (the “Jaxa”) have to maintain the books of accounts (“Accounts Updation” or “Assignment”) or to carry out the accounts supervision services (“Accounts Supervision” or “Assignment”) of Jaxa’s clients (the “Client” or “Clients”) with relation to UAE Corporate Tax (“CT”). This manual is a supplement to the Jaxa’s Accounting Manual – Version 01.23 dated 26.04.2023 (“Accounting Manual”) and only the areas related to CT are dealt in this Manual and for all other areas refer the Accounting Manual.

II. Disclaimer

The information and conclusions in this Manual are based on the Federal Decree-Law No. 47 of 2022 on concerning Taxation of Corporations and Business (“CT Law” or the “Law”) as well as the various Cabinet Decisions, Ministerial Decisions, FTA Decisions, etc. issued till the date of this document and our interpretations of publicly available Ministry of Finance (“MoF”) and Federal Tax Authority’s (“FTA”) frequently asked questions and guides, all of which are subject to change and varying interpretations.

III. Limitation of liability

Please note that views of Jaxa are not binding on any authority or Court, and hence, no assurance is given that a position contrary to the opinions expressed herein will not be asserted by any authority and/or sustained by an appellate authority or a Court of law. Our view herein is based on our understanding of the various laws and regulations, which are subject to interpretations.

IV. Confidentiality

“Confidential Information” means any technical or business-related information which may include without limitation, information concerning any: (a) research, development or modification of a future or current business activity; (b) client, supplier, employee, or customer; (c) advertising, marketing or promotional activity; (d) trade secret, know-how, or invention, including any and all industrial design, process, formula, improvement, innovation (whether patented or not), and specialized technique; (e) technical data or specification, testing method; (f) business plan or model, financial statements or financial details or projections; and (g) any data, product or service whether current or proposed, provided or made available by the Jaxa or its Clients to the Staff regardless of whether such information is specifically designated as confidential and regardless of whether such information is in written, oral, electronic, or other form. The Staffs shall keep and maintain all Confidential Information in strict confidence.

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2. Getting Ready for CT

1. Standalone books of accounts

| Relevant Provisions of the CT Law | Key Observations |
|--|--|
| <ul style="list-style-type: none"> As per Article 20 of the CT Law, the Taxable Income of each Taxable Person shall be determined separately, on the basis of adequate, standalone financial statements prepared for financial reporting purposes in accordance with accounting standards accepted in the State. | <ul style="list-style-type: none"> Accounting Income means the accounting net profit or loss for the relevant Tax Period as per the financial statements prepared by the Taxable Person. Taxable Income of each Taxable Person shall be determined separately, on the basis of adequate, standalone financial statements. The financial statements have to be prepared in accordance with the applicable accounting standards in UAE. |
| <ul style="list-style-type: none"> As per Article 54 of the CT Law and subject to provisions of Ministerial Decision No. 82 of 2023, the following category of taxable person shall prepare and maintain audited financial statements: <ol style="list-style-type: none"> A Taxable Person deriving Revenue exceeding AED 50 Million during the relevant Tax Period. A Qualifying Free Zone Person | <ul style="list-style-type: none"> As per Article 4 of the Ministerial Decision No. 114 of 2023, a Taxable Person shall apply the International Financial Reporting Standards (IFRS) in preparing the financial statements. Further a Taxable Person deriving revenue that does not exceed AED 50 Million may apply International Financial Reporting Standards for small and medium-sized entities (“IFRS for SMEs”). |
| <ul style="list-style-type: none"> As per Article 56 of the CT Law, a Taxable Person shall maintain all records | <ul style="list-style-type: none"> As per Article 3(2) of the Cabinet Decision No. 74 of 2023 on the Executive Regulations of Federal Decree Law No. 28 of 2022 on Tax Procedures, a Person is liable to retain the books of accounts: |

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| <p>and documents for a period of 7 years following the end of the Tax Period to which they relate that:</p> <p>a) Support the information to be provided in a Tax Return or in any other documents to be filled with the Authority.</p> <p>Enable the Taxable Person's Taxable Income to be readily ascertained by the Authority.</p> | <ul style="list-style-type: none"> - for an additional period of 4 years in case of tax disputes, in ongoing tax audits, if the tax audit notification is served - for an additional period of 1 year from the date of submission of Voluntary Disclosure if the VD is filed in the fifth year. • The Company shall ensure that all the records and documents that substantiate the information provided in Tax Return are maintained for 7 years (or the additional period, if applicable) following the end of the Tax Period to which they relate. |
| <ul style="list-style-type: none"> • As per Article 43 of the CT Law, all amounts must be quantified in the United Arab Emirates Dirham. Any amount quantified in another currency must be converted at the applicable exchange rate set by the Central Bank of the United Arab Emirates. | <ul style="list-style-type: none"> • As per Article 2 of FTA Decision No. 13 of 2023, a Taxable Person who uses a currency for accounting purposes other than the UAE Dirham shall convert such amounts to the UAE Dirham for the purposes of calculating the Corporate Tax Payable and submitting the related Tax Return, according to the following conditions: <ul style="list-style-type: none"> a) The spot rate published by the Central Bank of the UAE as per the date of the transaction. b) If it is not practical to use the spot rate, the average monthly exchange rate of the Central Bank of the UAE. c) If it is not practical to use the exchange rates in mentioned in (a) and (b) above, the average annual exchange rate of the Central Bank of the UAE shall be used. • It is advised that the Management should make necessary steps to follow the exchange rate notified by Central Bank of the United Arab Emirates while preparing the books of accounts. |

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II. Transitional Provisions

| Relevant Provisions of the CT Law | Key Observations |
|---|--|
| <ul style="list-style-type: none"> As per Article 61 of the CT Law, a Taxable Person's opening balance sheet for Corporate Tax purposes shall be the closing balance sheet prepared for financial reporting purposes under accounting standards applied in the U.A.E. on the last day of the Financial Year that ends immediately before their first Tax Period commences. The opening balance sheet shall be prepared taking into consideration the arm's length principle in accordance relevant provisions of the CT Law Further, Ministerial Decision No. 120 of 2023 prescribe various adjustments to Taxable Income under the transitional rules. | <p>The following items will be adjusted in the Taxable Income subject to the terms and conditions prescribed in the relevant Articles of Ministerial Decision No. 120 of 2023:</p> <ol style="list-style-type: none"> Taxable Income adjustments related to gains recognized on immovable property owned prior to the Taxable Person's first tax period (Article 2 of MD 120) Taxable Income adjustments related to gains recognized on intangible assets owned prior to the Taxable Person's first tax period (Article 3 of MD 120) Taxable Income adjustments related to gains and losses recognized on financial assets and financial liabilities owned prior to the Taxable Person's first tax period (Article 4 of MD 120) Ownership of the immovable property, intangible assets and financial assets and financial liabilities by members of a Qualifying Group or a Tax Group (Article 5 of MD 120). <ul style="list-style-type: none"> If the intangible assets are valued at historical cost and all of them are owned for less than 10 years, such Intangible Assets can be treated as Qualifying Intangible Asset (QIA). The Company can elect to exclude the amount of the gain computed as below from the taxable income for the tax period in which the QIAs are disposed of: <ul style="list-style-type: none"> Step 1: Gain = Sale Consideration – Computed Cost (Cost is the higher of Original Cost or Net Book Value at the start of the first Tax Period). Step 2: Amount to be excluded: |

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Gain \times the number of days the
QIA is owned in post-CT period

Total number of days the QIA is
owned

- If all the financial assets (except Trade Receivables, where there is provision for doubtful debts or expected credit loss is already accounted) and financial liabilities are measured at historical cost basis, these also can be treated as Qualifying Financial Assets (QFA) and Qualifying Financial Liabilities (QFL).
- The Company can make adjustments towards the gain on disposals (if any) of the QFA/QFL which are existing on January 01, 2024 subject to the provisions of Article 4 of MD 120.
- The Company can elect to exclude the amount of the gain or loss that would have arisen, at the start of the first tax period, had the QFA or QFL been disposed of at market value and the cost of these assets and liabilities had been equal to the net book value.
- Where the Company is opting for the above mentioned adjustment, the election for such adjustment shall be made upon the submission of the first Tax Return and be deemed irrevocable except under exceptional circumstances and pursuant to approval by the Authority.
- For Trade Receivables, which are not stated at historical cost (as there is allowance for doubtful debts/ expected credit loss as per the unaudited management accounts), there is no adjustment permitted.

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III. Related Party transactions and Transfer Pricing Regulations

| Provisions of the CT Law | Key Observations |
|--|---|
| <p>a. Related Parties</p> <ul style="list-style-type: none"> Article 34 to 36 of the CT Law and Ministerial Decision No. 97 of 2023 deals with the treatment of transactions with related parties and connected persons Article 34 of the CT Law states that, transactions and arrangements between Related Parties must meet the arm's length standard as specified in Clauses 2, 3, 4 and 5 of this Article and any conditions that may be specified in a decision issued by the Authority. As per Article 34 (2), a transaction or arrangement between Related Parties meets the arm's length standard if the results of the transactions or arrangements are consistent with the results that would have been realized if persons who were not Related Parties had engaged in a similar transaction or arrangement under similar circumstances. The arm's length result of a transaction or arrangement between Related Parties must be determined by applying one or a combination of the transfer pricing methods prescribed in the Article 34 (3). As per Article 35 of the CT Law, Related Parties means any of the following: | <ul style="list-style-type: none"> The Company must comply with the Arm's Length Principle and Transfer Pricing Rules and Transfer Pricing Documentation and Requirements. The management has to identify all the transactions with the Related Parties and Connected Persons and ensure that these are carried out at Arm's Length Price. As per Article 55 of the CT Law, all the Companies are required to maintain the below with regard to related party transactions: <ul style="list-style-type: none"> a) Master File b) Local File c) A disclosure containing information regarding the Taxable Person's transactions and arrangements with its Related Parties and Connected Persons (As of now, FTA has not prescribed any format for filing the disclosure and therefore we are not in a position to comment on the details to be included). The management must take care while choosing Comparable data, etc. for the applicable TP method. The management need to use the comparable data of the entities in UAE first, and if the same is not available, need to use the regional comparable. If regional comparable is not obtained, then management has to use the global comparable data. As per Article 2 of the Ministerial Decision No. 97 of 2023, ONLY the following Taxable Persons are required to prepare and maintain 1. Master File and 2. Local File: |

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| <p>a) two or more natural persons related within the fourth degree of kinship or affiliation, including by way of adoption or guardianship (see below “kinship relation table” for persons covered under fourth degree)</p> <p>b) A natural and a juridical person, together with one or more Related Parties, directly or indirectly owns a 50% or more greater ownership interest or Controls the juridical person</p> <p>c) Two or more juridical persons where one juridical person, alone or together with its Related Parties, directly or indirectly owns a 50% or greater ownership interest in other juridical person or directly or indirectly controls the other juridical person or Controls such two or more juridical persons</p> <p>d) A Person and its Permanent Establishment or Foreign Permanent Establishment</p> <p>e) Two or more Persons that are partners in the same Unincorporated Partnership</p> <p>f) A Person who is the trustee, founder, settlor or beneficiary of a trust or foundation, and its Related Parties.</p> | <p>a) A Taxable person which is part of a Multinational Enterprises Group (MNE) in a tax period and the consolidated revenue of the Group is AED 3.15 Billion or more in that tax period; OR</p> <p>b) A Taxable person has a revenue of AED 200 Million or more in a tax period.</p> |
| <p>b. Connected Persons</p> | |
| <ul style="list-style-type: none"> • As per Article 36 of the CT Law, the payments to Connected persons should be at market value. • The connected persons are: <ul style="list-style-type: none"> ➤ Owner of the Taxable Person | <p>Market Value of a transaction, refers to the value that a similar transaction would fetch in the open market, at the same time and place of transaction. In case, the transaction price cannot be determined, then adjustments have to be made regarding any differences between the transactions being compared or between the parties undertaking those transactions.</p> |

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- Director or officer of the Taxable Person
- Related party of any of the above

The word 'Officer' is not defined in the CT Law or the Cabinet Decision and so this can include:

- General Manger or Manager as per Trade License or other incorporation documents,
- All Line Managers such as, but not limited to, Sales Manager, Purchase Manager, Admin Manager, etc.

The Company shall ensure that the transactions undertaken with the Connected Persons shall be priced more or less in terms with the industry standards and should be in a position to justify the same, in case FTA asks for clarification.

Since the Law is silent about the maximum amount of remuneration that can be paid, the management should make sure that the payments to all the Officers of the Company are at Arm's Length Price.

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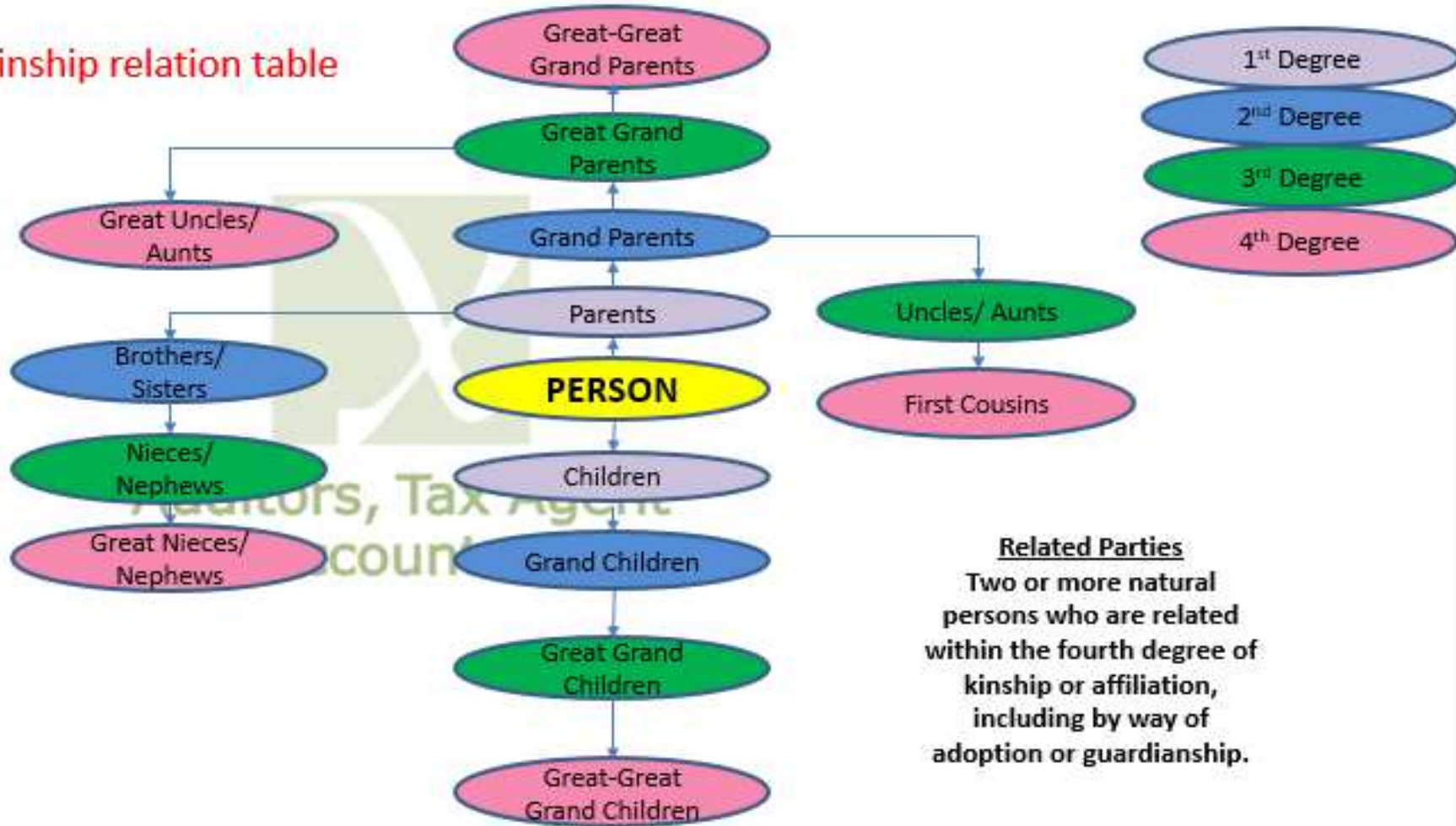
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Kinship relation table



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IV. Special Consideration with regards to deductibility of various expenses under the CT Law

General

General points to be considered by the Management:

1. Management must ensure that the expenses related to the particular tax period gets accounted in the relevant tax period itself.
2. Management should make sure that, proper supporting documents like invoice, purchase orders, contracts/agreements, payment advises, credit notes, etc. against each expense are there to substantiate that the expense was incurred wholly and exclusively for the purpose of the business.
3. If, for any expenses incurred in a tax period, supplier invoices are not received in the same tax period itself, Management should create adequate accruals for such expenses in the relevant tax period in which the expenses are actually incurred.
4. Management should ensure that there exists adequate level of **authorization** for the reimbursement of expenses to employees and expense met out of cash. Also, make sure that the supporting documents like vouchers, etc. are kept for such expenses.
5. Management must ensure that proper tax invoices are collected against all the eligible expenses subject to VAT and VAT input on such invoices are claimed as per the Federal Decree Law No. (8) of 2017 on Value Added Tax. Any recoverable input tax credit which is expensed of the Company is not eligible for deduction while computing the taxable income and the same needs to be separately accounted.
6. Management must ensure that, if any of the facilities of a Company including, but not limited to, office space, warehouses, assets, etc. are used by the related parties, then the relevant cost or a consideration should be charged to such related parties in accordance with the Arm's Length Principle.
7. Management must note that, only 50% of the entertainment expenses are eligible for deduction. Entertainment expenses refer to expenditure incurred for the purposes of receiving and entertaining the customers, shareholders, suppliers or other business partners, including, but not limited to, expenditure in connection with meals, accommodation, transportation, admission fees, facilities and equipment used in connection with such entertainment, amusement or recreation or such other expenditure.
8. Management must ensure that the below expenditure incurred in a Tax period which are Non-deductible expenditure as per Article 33 of the CT Law should be separately accounted in the Chart of Accounts for easy identification:
 - Donations, grants or gifts made to an entity that is not a Qualifying Public Benefit Entity under Article 9 of the CT Law.
 - Fines and penalties, other than amounts awarded as compensation for damages or breach of contract.
 - Bribes or other illicit payments.

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- Dividends, profit distributions or benefits of a similar nature paid to an owner of the Taxable Person.
- Amounts withdrawn from the Business by a natural person who is a Taxable Person or a partner in an Unincorporated Partnership.
- Corporate Tax imposed on a Taxable Person under the CT Law.
- Input VAT incurred by a Taxable Person that is recoverable under Federal Decree-Law No. (8) of 2017.
- Tax on income imposed on the Taxable Person outside the State.
- Such other expenditure as specified in a decision issued by the Cabinet at the suggestion of the Minister

9. A general guideline to be followed for some of the major expenses are outlined below. Please note that there are no specific regulations or guidelines issued so far by MoF/FTA till date with regard to the documents and records to be maintained for substantiating the purpose of the expenses and the below are based on our professional experience.

| Sl. No. | Expense head | Key facts to be considered |
|---------|-----------------------------------|---|
| 1. | Staff salaries and other benefits | <ul style="list-style-type: none"> • The Management should make sure that employment contracts are executed for all employees. • Whenever there is an increment/change in employee salary, it is advisable to amend the employment contract or an increment/change letter is issued to the employee and get the same countersigned by the employee as well. • Bonus, commission, etc. paid to employees should be as per the terms of the employment contract. If it is not mentioned in the employment contract, either the contract has to be amended or there should be internal memos, workings, management approvals, etc. for such bonus, commission, etc. • Proper invoices or contracts in the Company's name should be there against the accommodation charges and other similar type of expenses incurred for employees. • For annual air tickets, make sure that the amount eligible is specifically mentioned in the employment contracts itself as the labor law doesn't have any requirement to pay the annual air ticket to the employees. • It is advisable to include the payment of school fee allowances, family air tickets, medical insurance to dependents of employees or key management persons, etc. in the employment contract with the relevant employee itself. |
| 2. | Rent | <ul style="list-style-type: none"> • Make sure that lease agreement (preferably Ejari for leases in Dubai, Contracts registered with Municipality or Other Authorities in other Emirates) are executed in the Company name itself. |

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| | | <ul style="list-style-type: none"> If the office/warehouse space is shared with any other parties including related parties, make sure that the relevant proportionate rent or a fee (subject to arm's length principle) is charged to such parties or related parties. |
| 3. | Management fee & Royalty and franchise fee paid to related parties or third parties | <ul style="list-style-type: none"> The Management must ensure that there are agreements/contracts executed for substantiating the payment of management fee, royalty and franchise fee, etc. Also, make sure that such agreements/contracts are valid for the relevant tax period. Also, make sure that proper invoices, workings, etc. are collected for these expenses. If any of these are incurred from a related party, the management must ensure that the Arm's Length Principle is followed and other Transfer Pricing regulations are complied with. Any amount paid that is above the arm's length price would not be a deductible expense. |
| 4. | Commission | <ul style="list-style-type: none"> If the commission is paid to persons other than employees (for commission paid to employees – refer the Expense Head – “Staff salaries and other benefits”), it is advisable to execute agreements/contracts detailing all the terms and conditions for such payments. Also, there should be necessary management approvals, workings, etc. for such expenses to substantiate that the commission paid is for the business purposes and is not an illicit payment as mentioned in Article 33 – Non-deductible Expenditure. If the commission is based on some targets such as sales generated, contracts awarded, etc., for each payment, make sure that there are relevant sales/performance reports, etc. kept. |
| 5. | Repairs and maintenance, Insurance, etc. | <ul style="list-style-type: none"> Management must ensure that proper invoices in the name of the Company are available against each expenses. In case of Annual Maintenance Contracts, must ensure that prepayments and accruals are made in the relevant tax period itself. For insurance expenses, management should make sure that the relevant insurance policies are in the name of the Company and the insured asset/resource belongs to the Company. For payments made for more than a year (such as license fee, insurance, etc.) make sure that prepaid expenses are recognised correctly. |
| 6. | Vehicle hire, fuel, maintenance, insurance, etc. | <ul style="list-style-type: none"> Management must ensure that proper invoices in the name of the Company are available against each expenses. |

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| | | |
|----|---|---|
| | | <ul style="list-style-type: none"> In case of Annual Maintenance Contracts/ Vehicle Hire Contracts, must ensure that prepayments and accruals are made in the relevant tax period itself. For insurance expenses, management should make sure that the relevant insurance policies are in the name of the Company and the Motor vehicle is in the name of the Company. Make sure that Log Book, etc. are maintained to substantiate the use of vehicles. |
| 7. | Utilities expense, Communication charges, Printing and stationary, etc. | <ul style="list-style-type: none"> Management must ensure that the utility charges, communication charges, etc. for the full tax period is accounted for. If the utility charges of the residence of Directors/Managers/Officers are borne by the Company, make sure that the same is mentioned in the employment contracts and the Arm's Length Principle is complied with. If mobile phones are provided to the employees/consultants and the Company is bearing the charges, then there should a well-executed Mobile Phone Usage Policy in the Company and the Management has to make sure that the personal calls/usages are identified and the relevant charge is recovered from the concerned employee/consultant. |
| 8. | Travel, Hotel and other accommodation expenses | <ul style="list-style-type: none"> Management must ensure that, for travel, hotel or other accommodation expenses, etc. there are proper approvals, documents such as invoices, requisitions, etc. If any expenses incurred are in the nature of entertainment expense other than those for employees of the Company (See below regarding the entertainment expenses for employees) as mentioned in Article 32 of CT Law (listed below), make sure that the same are separately accounted in the Chart of Accounts for easy identification since only 50% of such expenses are eligible for deduction. Article 32 – Entertainment Expenditure: Expenditure incurred for the purposes of receiving and entertaining the Taxable Person's customers, shareholders, suppliers or other business partners, including, but not limited to, expenditure in connection with any of the following: <ul style="list-style-type: none"> a) Meals, accommodation, transportation, admission fees b) Facilities and equipment used in connection with such entertainment, amusement or recreation |

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| | | |
|-----|---|--|
| | | <p>c) Such other expenditure as specified by the Minister.</p> <p>Entertainment expenses for employees</p> <ul style="list-style-type: none"> • However, the current CT Law is silent on the entertainment expenses incurred towards the employees of a Taxable Person. • It may be noted that, under U.A.E. VAT Laws, VAT paid on employees' entertainment expenses are specifically listed as ineligible expenses. Since no such explicit disallowance is mentioned in the CT Law, it could be argued that entertainment expenses towards the employees are deductible expense for CT purposes. • If entertainment expenses are incurred towards the employees, the Management should have sufficient documents like tax invoices, contracts or agreements, etc., to substantiate that the expenses are incurred for the business purposes and the Article 28 is complied with. |
| 9. | Legal, license and professional fees | <ul style="list-style-type: none"> • Management must ensure that proper invoices in the company name are available against each such expense. |
| 10. | Withholding Taxes paid outside UAE (Foreign Taxes paid) | <ul style="list-style-type: none"> • From the commencement of the first Tax Period, the Company has to account the eligible Foreign Taxes paid as current assets. All ineligible Foreign Taxes paid should be separately accounted in the Chart of Accounts as non-deductible expenses. |
| 11. | Depreciation and amortization | <ul style="list-style-type: none"> • At the moment, there are no rates or methods of depreciation/amortization specified in the CT Law and hence management can use any rate/useful life/method based on its judgement. • However, it is to be noted that, such rate/useful life decided should be used consistently. • Also, needs to make sure that the relevant assets are used for the business purposes of the Company. |
| 12. | Provision Doubtful debts, Impairment, etc. | <ul style="list-style-type: none"> • Bad debts are allowed as deductible expenditure. • Provision for doubtful debts, impairment, etc. will be subject to the election of one of the options as mentioned in Article 20(3). |
| 13. | Managerial remunerations | <ul style="list-style-type: none"> • Remuneration paid to Directors/Managers/Officers or persons related to any of these is a deductible expense but subject to Arm's Length Principle/Market Value and other Transfer Pricing requirements. |

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| | | |
|-----|--|--|
| | | <ul style="list-style-type: none"> Management has to make sure that there are employment contracts executed and the remuneration paid to these persons is matching with the educational and technical qualifications of these persons. |
| 14. | Expenses reimbursed by/to related parties or third parties | <ul style="list-style-type: none"> If any of the expenses are reimbursed or recharged by/to related parties of third parties, management must make sure that proper agreements are executed. Also make sure that invoices are issued or collected in all such cases. If the reimbursement or recharge is from/to related parties, the management must ensure that the Arm's Length Principle is followed and other Transfer Pricing regulations are complied with. Any amount paid that is above the arm's length price would not be a deductible expense. |
| 15. | Foreign exchange fluctuations | <ul style="list-style-type: none"> Management of the Company must ensure that the foreign currency transactions are recorded and foreign currency balances are revalued using the rate of exchange prescribed by the U.A.E. Central Bank. Realized exchange gain/loss and Unrealized exchange gain/loss have to accounted in separate ledgers since the unrealized exchange gains/loss are subject to the election of one of the options as mentioned in Article 20(3). Separate ledgers to be created for: <ul style="list-style-type: none"> - Realized exchange gain/loss – Revenue Accounts - Unrealized exchange gain/loss – Revenue Accounts - Realized exchange gain/loss – Capital Accounts - Unrealized exchange gain/loss – Capital Accounts |

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V. Unrealized gain or loss as per Article 20(3) of the CT Law

| Relevant Provisions of the CT Law | Key facts to be considered |
|---|--|
| <p>As per Article 20(3) Taxable Person that prepares financial statements on an accrual basis may elect to take into account gains and losses on a realization basis in relation to:</p> <p>a) all assets and liabilities that are subject to fair value or impairment accounting under the applicable accounting standards; or</p> <p>b) all assets and liabilities held on capital account at the end of a Tax Period, whilst taking into account any unrealized gain or loss that arises in connection with assets and liabilities held on revenue account at the end of that period</p> <p>An unrealized gain or loss includes an unrealized foreign exchange gain or loss.</p> | <ul style="list-style-type: none"> • Assets held on capital account means: <ul style="list-style-type: none"> - assets that the Person does not trade, - assets that are eligible for depreciation, or - assets treated under applicable accounting standards as property, plant and equipment, investment property, intangible assets, or other non-current assets • Liabilities held on capital account means: <ul style="list-style-type: none"> - liabilities the incurring of which does not give rise to deductible expenditure under the CT Law, or - liabilities treated under applicable accounting standards as non-current liabilities. • Assets and liabilities held on revenue account refers to assets and liabilities other than those held on a capital account. |

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| Particulars | Option 1 | Option 2 |
|--|--|---|
| Basis | All assets and liabilities subject to Fair Value or Impairment Accounting – Realization Basis Other assets and liabilities – Unrealized Basis | All assets and liabilities held on capital account – Realization Basis All assets and liabilities held on Revenue account – Unrealized Basis |
| Relevant Provision of CT Law | Article 20(3)(a) | Article 20(3)(b) |
| Election | on election | on election |
| Revocability of Election | Any decision once selected it is irrevocable. Election should be made during the first Tax period (except under exceptions subject to approval of FTA) | |
| Available to | All Taxable Persons Except for Banks and Insurance Providers | All Taxable Persons |
| Which assets and liabilities are taxable on Realization Basis | All assets and liabilities that are subject to Fair Value or Impairment Accounting | All assets and liabilities held on capital account |
| Which assets and liabilities are taxable on Unrealized Basis | All other assets and liabilities | All assets and liabilities held on Revenue account |

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VI. Finance Costs/Interest Expenses

| Relevant Provisions of the CT Law | Key facts to be considered |
|---|---|
| As per Article 29 of the CT Law, Interest expenditure shall be deductible in the Tax Period in which it is incurred, subject to the other provisions of Article 28 and Articles 30 and 31 of the CT Law | <ul style="list-style-type: none"> Finance costs including interest is generally deductible provided these are solely business related i.e., interest on loans taken for business purposes. As per Article 30 of the CT Law, a Taxable Person's net interest expenditure deductible shall be up to 30% of the Taxable Person's accounting earnings before the deduction of interest, tax, depreciation and amortization (EBITDA) for the relevant Tax Period. The amount of net interest expenditure disallowed above (balance 70%) may be carried forward and deducted in the subsequent 10 Tax Periods. Further, <i>Article 8 of the Ministerial Decision No. 126 of 2023, the limitation of on the deductible net interest expenditure of 30% of EBITDA provided in Article 30 of the CT Law shall not apply where the net interest expenditure for the relevant Tax Period does not exceed AED 12 Million.</i> Net interest expenditure for a Tax Period is the amount by which the Interest expenditure incurred during the Tax Period, including the amount of any net interest expenditure carried forward exceeds the taxable Interest income derived during that same period. Costs related to personal loans and credit cards accounted in the books would ideally not be allowed as deduction. Guarantee fees, commitment fees, arrangement fees, etc. which are related to raising a finance (loan) is also categorized as interest costs for the purpose of CT. Interest costs incurred by a Natural Person (Sole Establishment) for business purposes do not have a limitation for deductibility. As per Article 31 of the CT Law, no deduction shall be allowed for interest expenditure incurred on a loan obtained, directly or indirectly, from a related party in respect of any of the following transactions: a) dividend or profit distribution to a related party, b) A redemption, repurchase, reduction or return of share capital to a related party, c) A capital contribution to a related party, d) The acquisition of an ownership interest in a person who is or becomes a related party following the acquisition. However, above provision shall not apply where the Taxable Person can demonstrate that the main purpose of obtaining the loan and carrying out the transaction referred above are not to gain a Corporate Tax advantage. So companies should keep loan agreements defining the terms, purpose of availing loan, etc. for this purpose. |

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VII. Small Business Relief

| Relevant Provisions of the CT Law | Key facts to be considered | | | | | | | | | | | | |
|--|--|-------------|-----------|------|------|---------|-------------|-------------|-----------|----------------|-----|----|----|
| <ul style="list-style-type: none"> • As per Article 21 of the CT Law, a taxable person, that is a Resident Person can be treated as not having derived any Taxable Income for a Tax Period where: <ul style="list-style-type: none"> a. The Revenue of the Taxable Person for the relevant Tax Period and previous Tax Periods does not exceed a threshold to be set by the Minister; and b. The Taxable Person meets all other conditions prescribed by the Minister. <p>If the above conditions are satisfied by a Taxable Person, the following provisions of the CT Law shall not apply:</p> <ul style="list-style-type: none"> a. Exempt Income as specified in Chapter Seven of the CT Law – <i>exempt income should be included in the computation of Revenue</i> b. Reliefs as specified in Chapter Eight of the CT Law – <i>relief as per Article 26 – Transfers within a Qualifying Group and Article 27 – Business Restructuring Relief are not applicable</i> c. Deductions as specified in Chapter Nine of the CT Law – <i>no deductions are permitted and so there won't be any tax loss to carry forward</i> d. Tax Loss relief as specified in Chapter Eleven of the CT Law – <i>relief as per Article 37 – Tax Loss Relief and Article 38 – Transfer of Tax Loss</i> e. Article 55 of the CT Law – <i>Transfer Pricing Documentation is not applicable. Only the TP documentation is not required. TP regulations and Arm's Length Principle should still be followed.</i> | <ul style="list-style-type: none"> • As per Ministerial Decision No. 73 of 2023 on Small Business Relief, the revenue for the relevant Tax Period should not be more than AED 3 Million for each tax period. • The threshold shall apply to Tax Periods commencing on or after 1 June 2023 and shall apply to Tax Periods that shall end on or before 31 December 2026. • Following people cannot claim the benefit of Small Business Relief: <ul style="list-style-type: none"> a. A Constituent Company of a Multi-National Enterprises Group as defined in Cabinet Decision No. 44 of 2020. b. A Qualifying Free Zone Person. • The primary condition for availing the benefit of Small Business Relief is that, the Revenue for the Tax Period should be less than AED 3 Million. The Tax Period shall be taken into account on or after June 01, 2023. • Taxable Person shall not be able to elect to apply the Small Business Relief if their Revenue in any relevant or previous Tax Period has exceeded AED 3 Million, i.e., <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>2024</th> <th>2025</th> <th>2026</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>2.5 Million</td> <td>3.5 Million</td> <td>2 Million</td> </tr> <tr> <td>SBR available?</td> <td>Yes</td> <td>No</td> <td>No</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • The revenue shall be determined in accordance with the applicable accounting standards. | | 2024 | 2025 | 2026 | Revenue | 2.5 Million | 3.5 Million | 2 Million | SBR available? | Yes | No | No |
| | 2024 | 2025 | 2026 | | | | | | | | | | |
| Revenue | 2.5 Million | 3.5 Million | 2 Million | | | | | | | | | | |
| SBR available? | Yes | No | No | | | | | | | | | | |

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VIII. Summary of changes to be made in the Chart of Accounts (CoA)

| Item | Changes to be made in the CoA |
|---|--|
| Inadmissible Expenses <ul style="list-style-type: none"> ➤ Donations, grants or gifts made to an entity that is not a Qualifying Public Benefit Entity. ➤ Fines and penalties, other than amounts awarded as compensation for damages or breach of contract. ➤ Bribes or other illicit payments. ➤ Dividends, profit distributions or benefits ➤ Amounts withdrawn from the Business by a natural person ➤ Corporate Tax imposed on a Taxable Person under the CT Law. ➤ Input VAT incurred by a Taxable Person that is recoverable ➤ Tax on income imposed on the Taxable Person outside the State. | <ul style="list-style-type: none"> • Create an Expense Group “Inadmissible expenses” and create separate ledgers for each of these expenses |
| Entertainment expenses - Travel, Hotel and other accommodation expenses, etc. | Create an Expense Group “Entertainment expenses” and create separate ledgers for each of these expenses |
| Withholding Taxes paid outside UAE (Foreign Taxes paid) | Account the eligible Foreign Taxes paid as current assets. All ineligible Foreign Taxes paid should be separately accounted in the Chart of Accounts as mentioned in “Inadmissible expenses” section of this table. |
| Provision Doubtful debts, Impairment, etc. | Bad debts are deductible expenses and so needs to be separately accounted from Provisions. |
| Foreign exchange fluctuations, other revaluations, etc. | Separate ledgers to be created for: |

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| | |
|---|--|
| | <ul style="list-style-type: none"> - Realized exchange gain/loss – Revenue Accounts - Unrealized exchange gain/loss – Revenue Accounts - Realized exchange gain/loss – Capital Accounts - Unrealized exchange gain/loss – Capital Accounts |
| <p>Corporate Tax Provision (see below table for the computation of CT provision)</p> | <p>Create an Expense Group “Corporate Tax” and create the following expense ledgers:</p> <ul style="list-style-type: none"> - Current Tax - Deferred Tax <p>Create a Group under Current Liabilities “Corporate Tax Liabilities” and create the following sub ledgers:</p> <ul style="list-style-type: none"> - Corporate Tax Payable - Deferred Tax Asset/Liability |

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IX. Compute and account the provision for Corporate Tax

Particulars

Article 20 – General Rules for Determining Taxable Income

1. The Taxable Income of each Taxable Person shall be determined separately, on the basis of adequate, standalone financial statements prepared for financial reporting purposes in accordance with accounting standards accepted in the State.
2. The Taxable Income for a Tax Period shall be the Accounting Income for that period, and to the extent applicable, adjusted for the following:
 - a. Any unrealised gain or loss under Clause 3 of this Article.
 - b. Exempt Income as specified in Chapter Seven of this Decree-Law.
 - c. Reliefs as specified in Chapter Eight of this Decree-Law.
 - d. Deductions as specified in Chapter Nine of this Decree-Law.
 - e. Transactions with Related Parties and Connected Persons as specified in Chapter Ten of this Decree-Law.
 - f. Tax Loss relief as specified in Chapter Eleven of this Decree-Law.
 - g. Any incentives or special reliefs for a Qualifying Business Activity as specified in a decision issued by the Cabinet at the suggestion of the Minister.
 - h. Any income or expenditure that has not otherwise been taken into account in determining the Taxable Income under the provisions of this Decree-Law as may be specified in a decision issued by the Cabinet at the suggestion of the Minister.
 - i. Any other adjustments as may be specified by the Minister.
3. For the purposes of calculating the Taxable Income for the relevant Tax Period, and subject to any conditions that the Minister may prescribe, a Taxable Person that prepares financial statements on an accrual basis may elect to take into account gains and losses on a realisation basis in relation to:
 - a. all assets and liabilities that are subject to fair value or impairment accounting under the applicable accounting standards; or
 - b. all assets and liabilities held on capital account at the end of a Tax Period, whilst taking into account any unrealised gain or loss that arises in connection with assets and liabilities held on revenue account at the end of that period.

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3. Graphical presentation on the taxability of Free Zone Person

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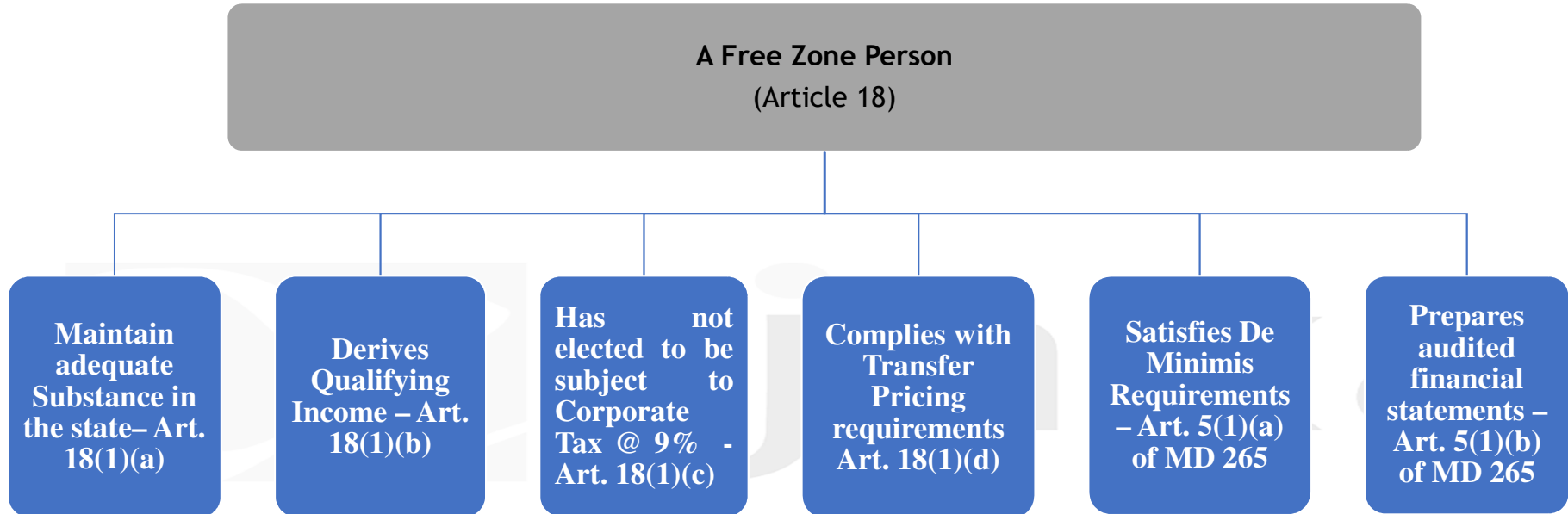
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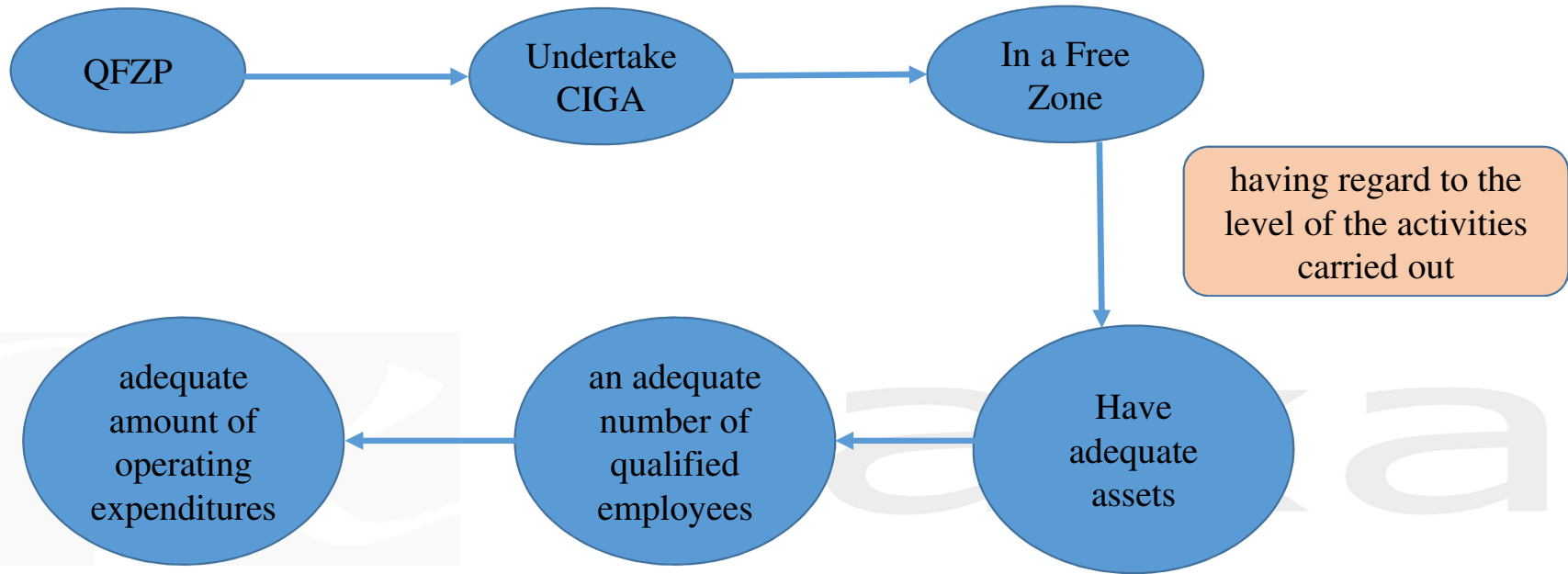
Appendix I -Graphical analysis on the taxability of Free Zone Person under UAE CT.

To become a Qualifying Free Zone Person, a Free Zone Person must meet all of the following conditions:

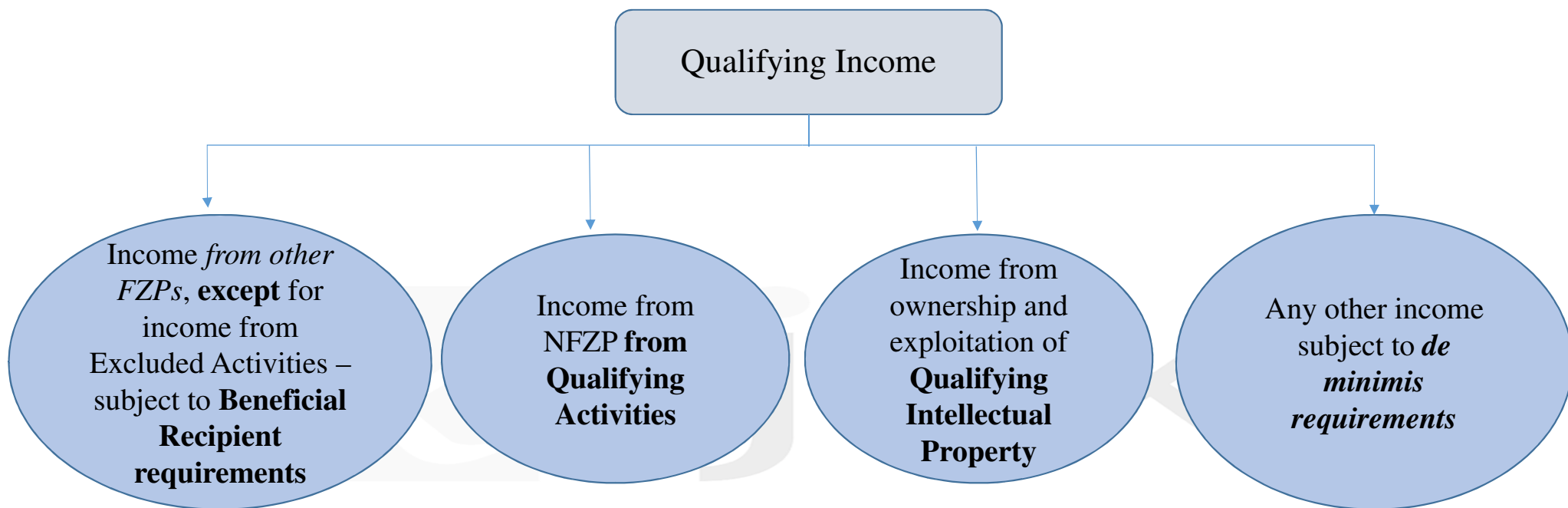


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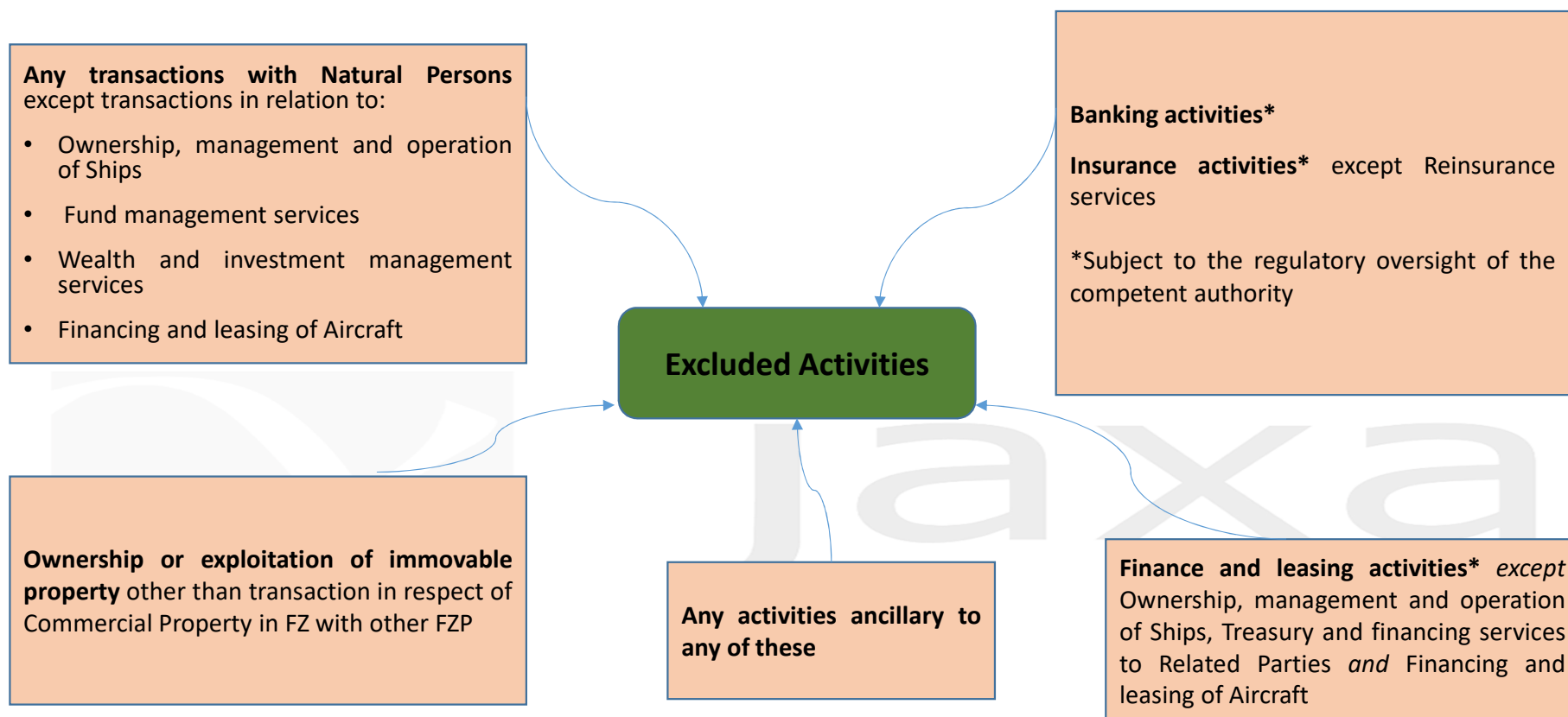
Maintaining Adequate Substance in a Free Zone and Outsourcing - Art. 8 of CD 100 of 2023



Qualifying Income - Art. 3 of CD 100 of 2023

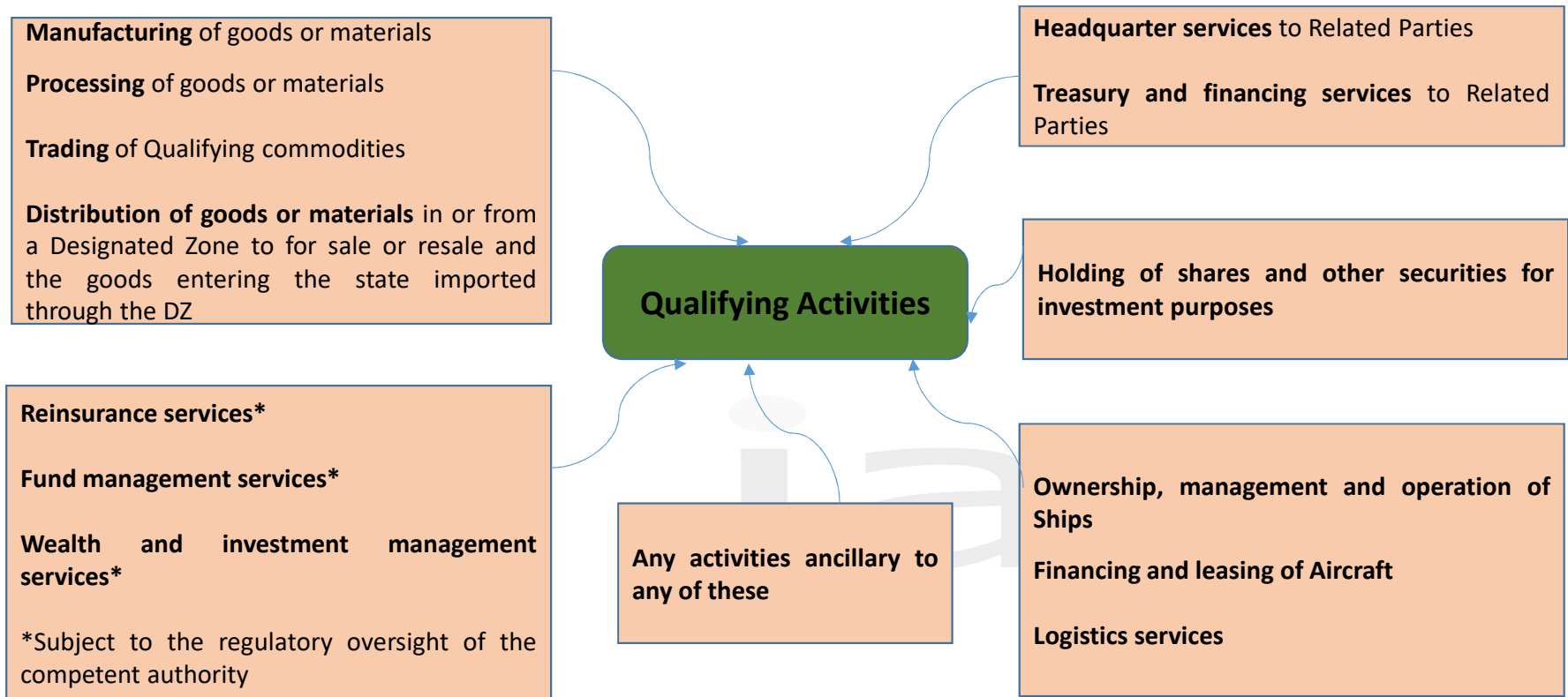


Excluded Activities - Art. 2(2) of MD 265 of 2023



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Qualifying Activities - Art. 2(1) of MD 265



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De minimis Requirements- Art. 4 of CD 100 and Art. 3 of MD 265 of 2023

Article 4 of CD 100

De minimis considered satisfied if the Non-Qualifying Revenue of a QFZP does not exceed the limit prescribed in Art. 4 of MD 265

Non-Qualifying Revenue = Revenue from Excluded Activities + Revenue from activities other than Qualifying Activities, if the customer is NFZP + Transactions with a FZP where such FZP is not a Beneficial recipient of the goods and services

Total Revenue = All revenue of the QFZP

While computing *De minimis*, no need to consider the following for Non-Qualifying Revenue and Total Revenue:

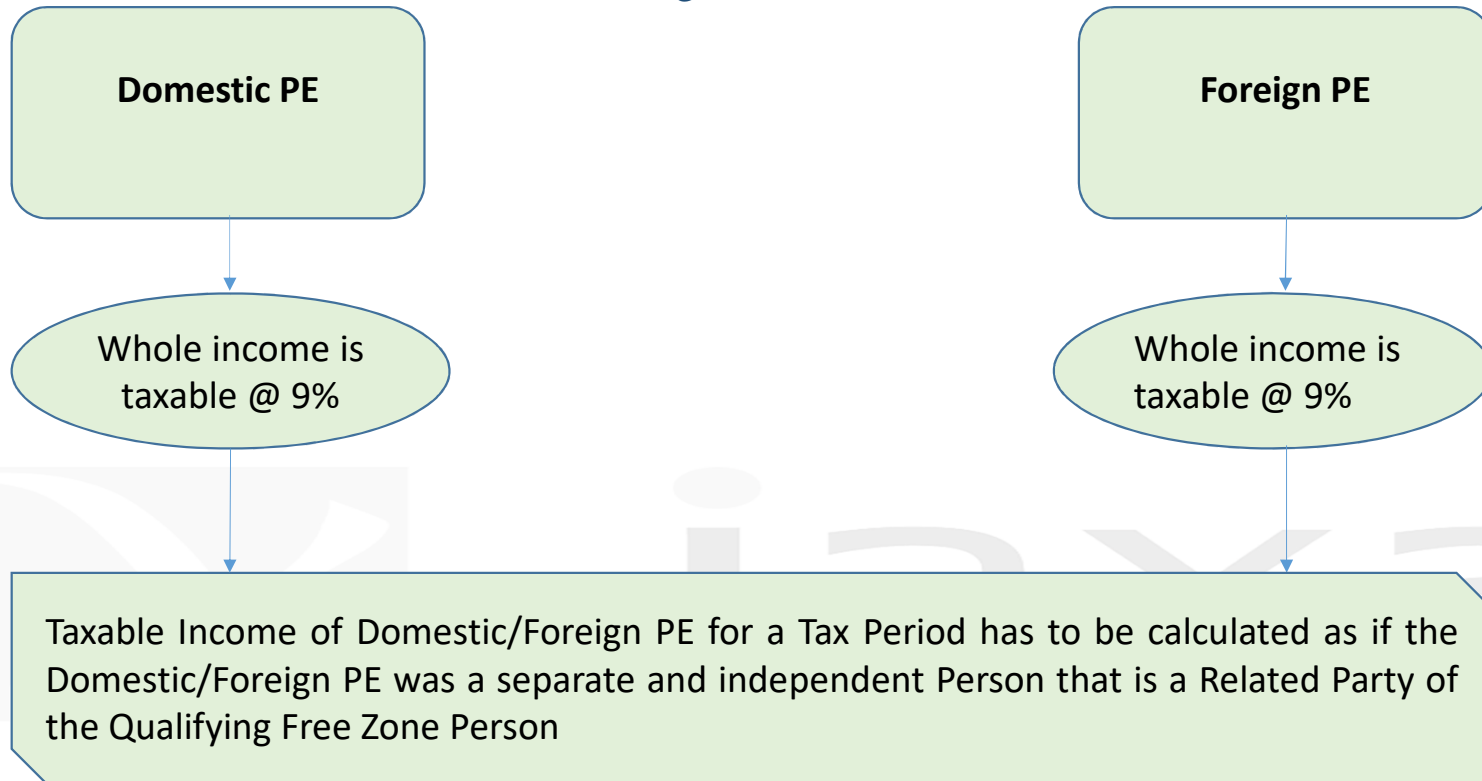
1. Revenue earned from NFZP in respect of Immovable Commercial Property located in a FZ
2. Revenue earned from any persons in respect of Immovable Non-Commercial Property located in a FZ
3. Revenue of Domestic/ Foreign PE
4. Revenue that is not a Qualifying income derived from ownership and exploitation of Qualifying Intellectual Property

Article 3 of MD265

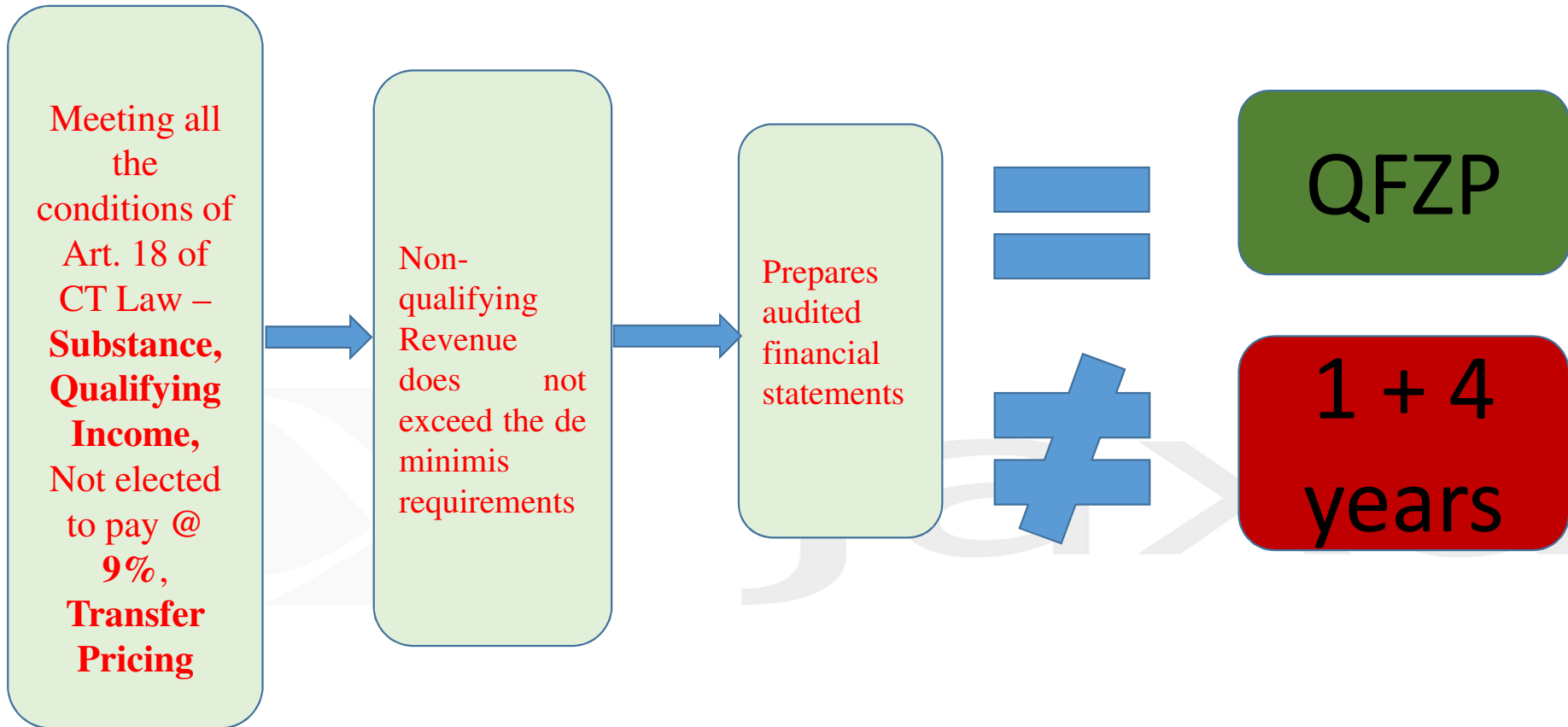
De minimis limit:
If the **Non-Qualifying Revenue in a Tax Period** does not exceed

- **5%** of the Total Revenue; or
- **AED 5 Million**, whichever is lower

Income attributable to Domestic/ Foreign PE of a QFZP – Art. 5 of CD 100 of 2023



Other conditions – Art. 5 of MD 265 of 2023



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Distribution Income of FZP

Qualifying Distribution Activities

1. Distribution of goods in or from a designated zone
2. Any service ancillary to above activity

Excluded Distribution Activities

Sale of goods to natural person*

***Natural person includes Sole Establishments also**

Distribution Income of FZP

Sales to FZP

Sales to Non - FZP in UAE

Qualifying Income

Non Qualifying Income

Sale of goods to beneficial recipient
1. in DZ
2. in other FZ

FZP customer is not the beneficial recipient

Eligible for 0% subject to De minimis

Subject to 9% CT, if De minimis is not satisfied

Sale of goods to Non-FZ customers, if the goods are moved in or from a Designated Zone

Yes

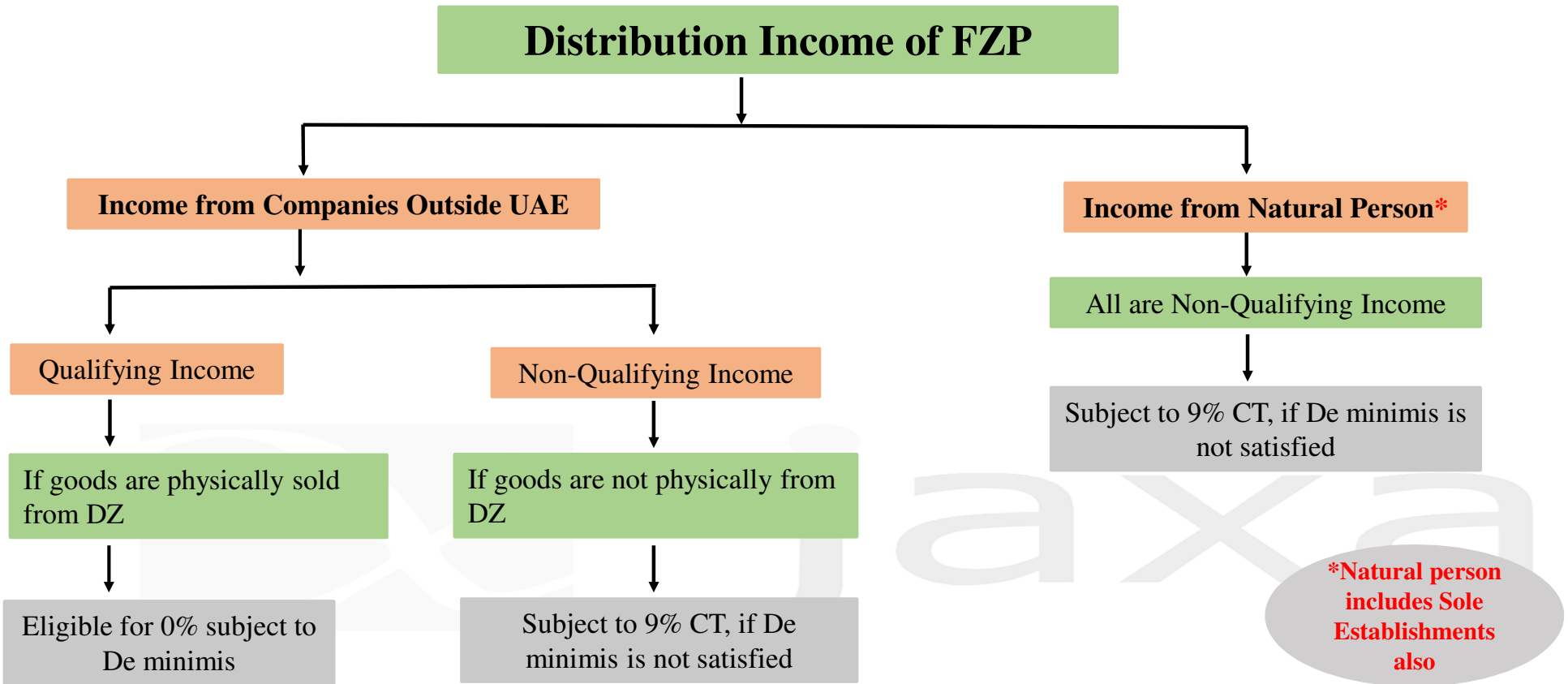
No

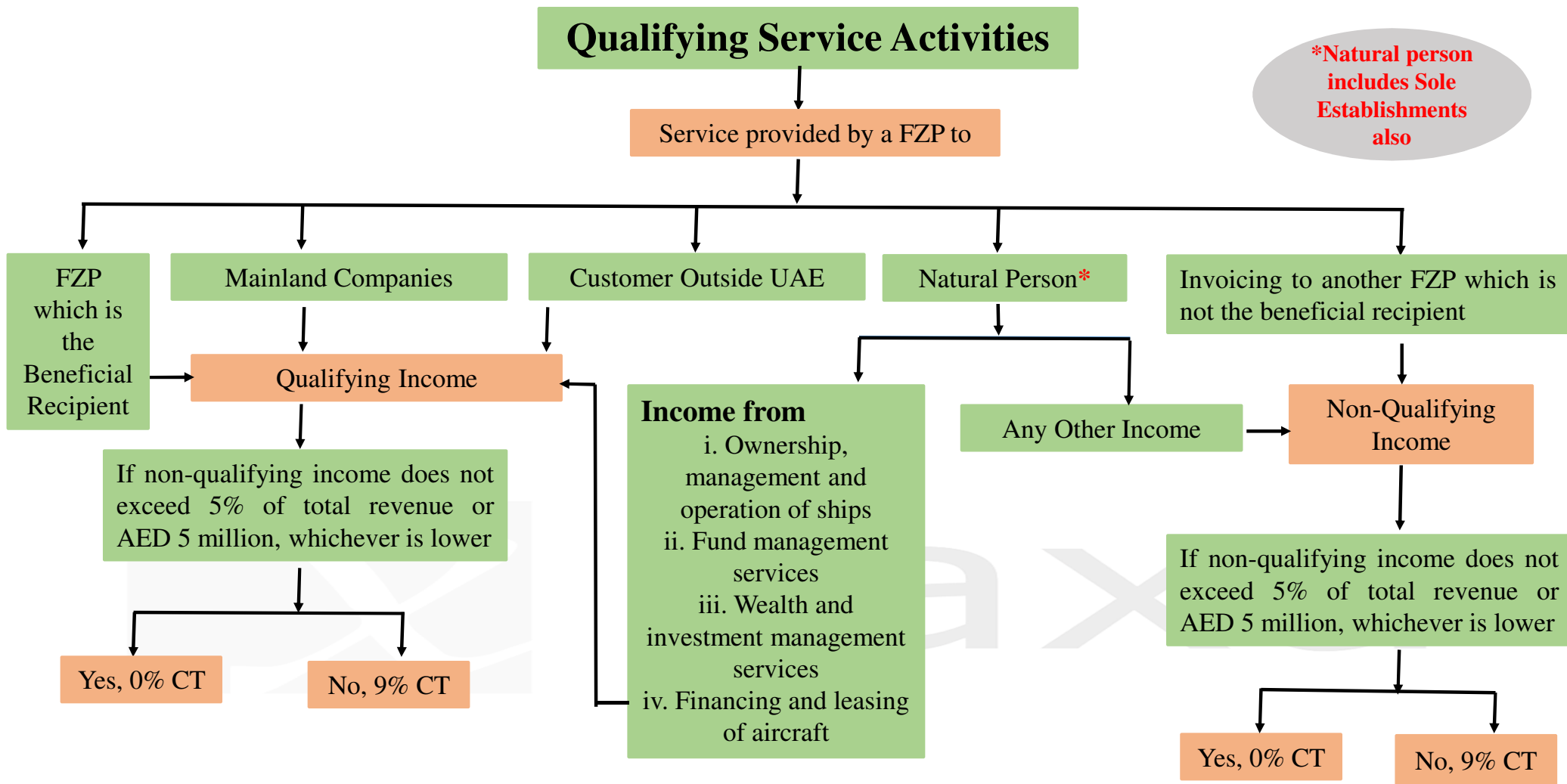
Qualifying Income

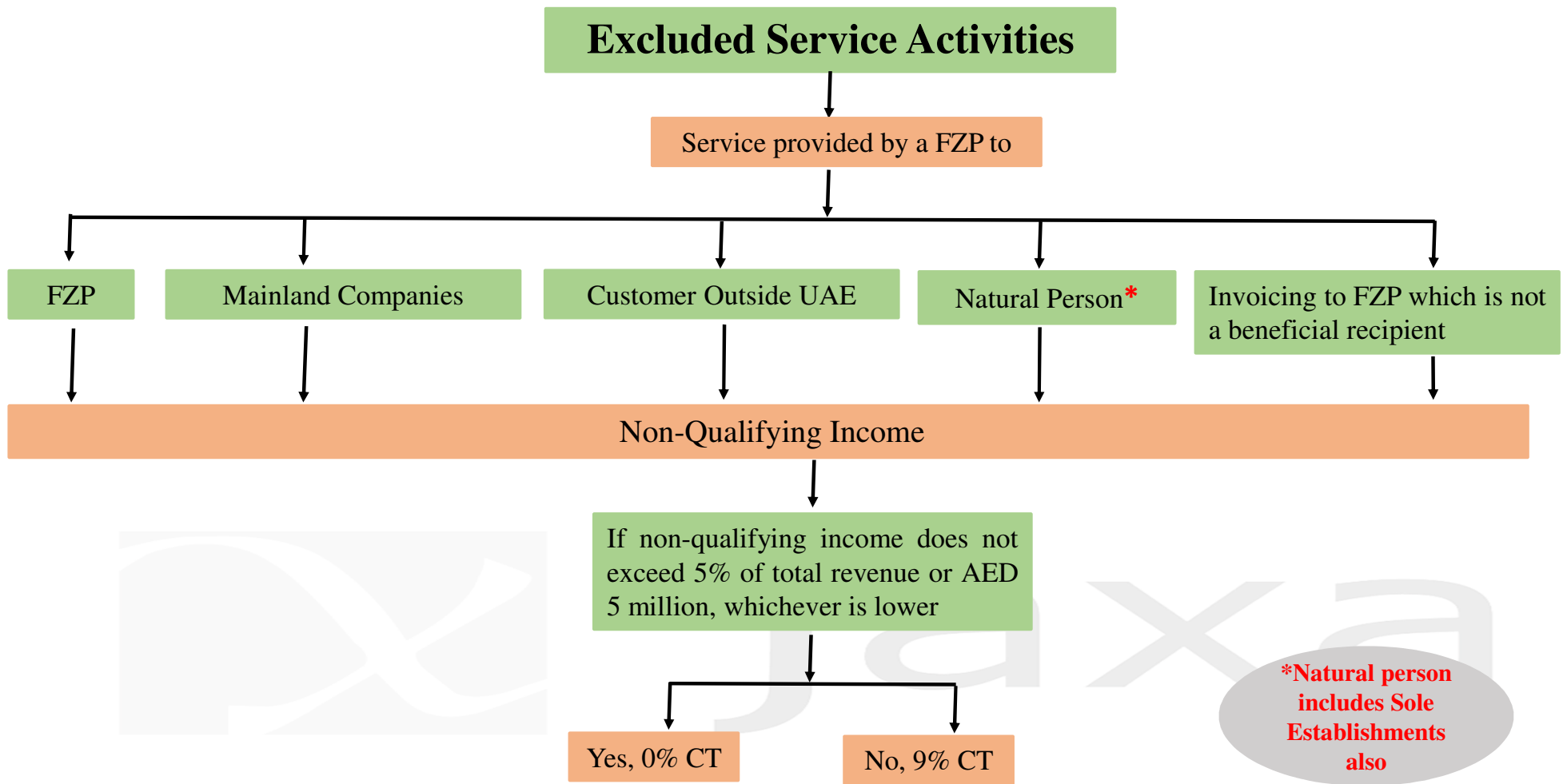
Non Qualifying Income

Eligible for 0% subject to De minimis

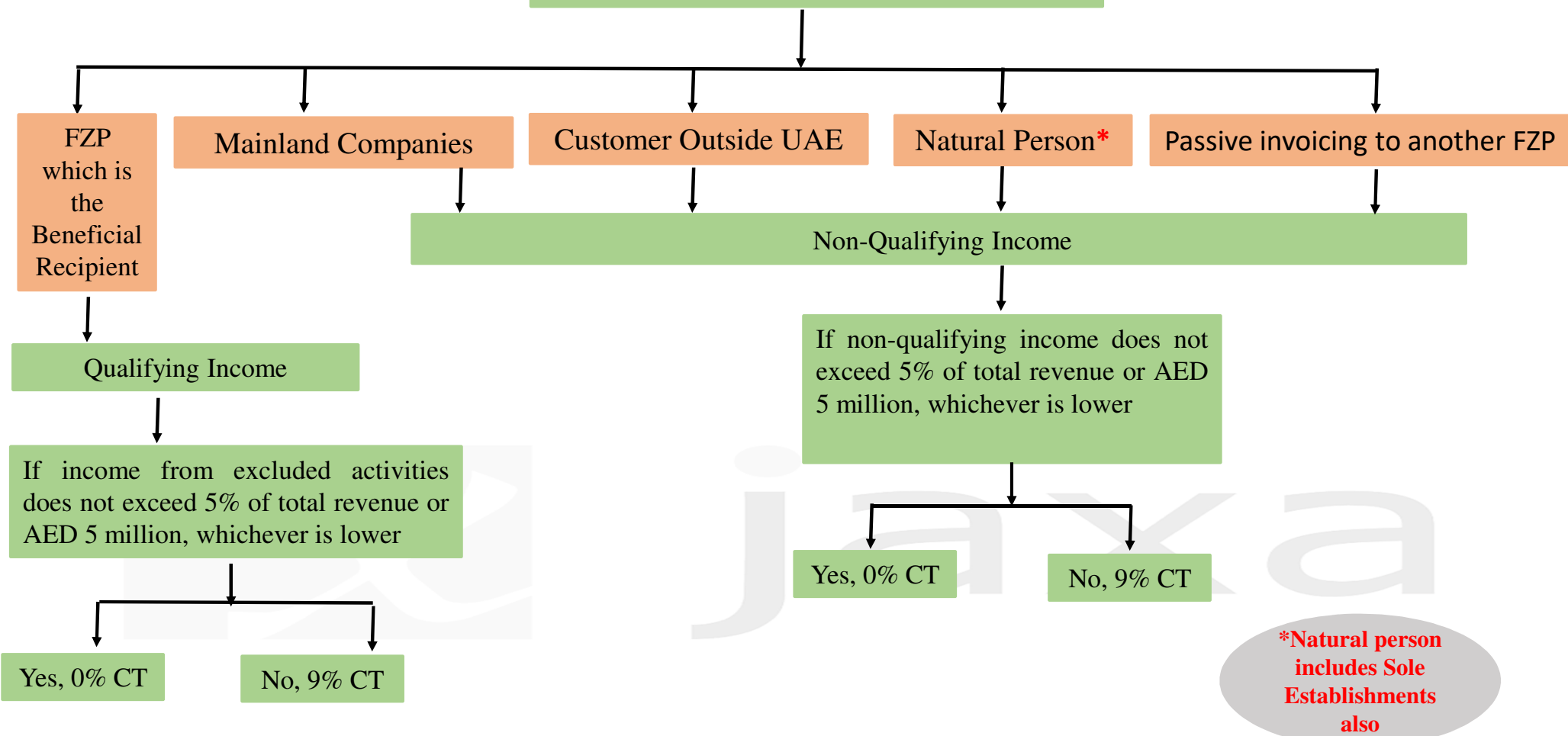
Subject to 9% CT, if De minimis is not satisfied

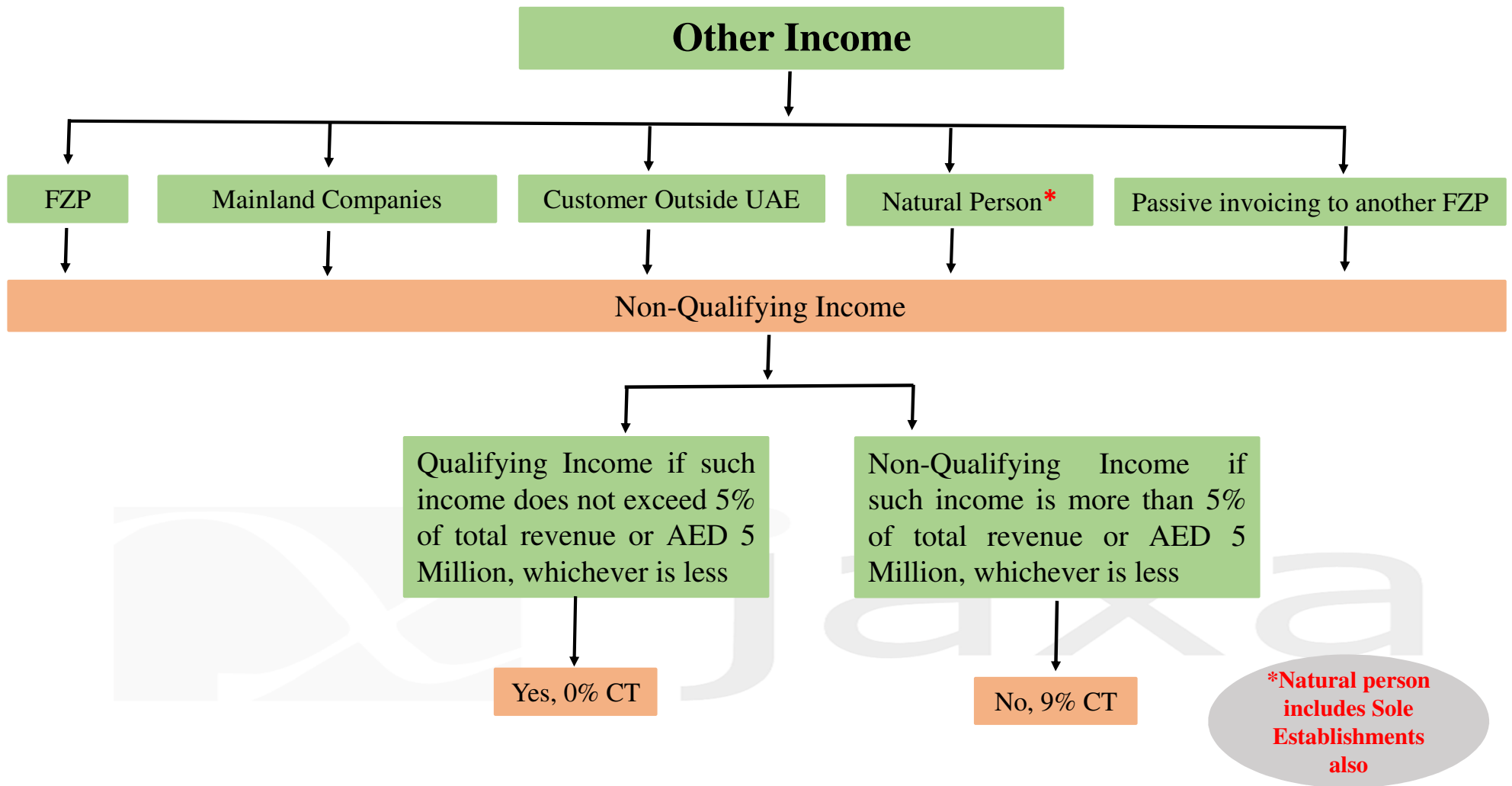






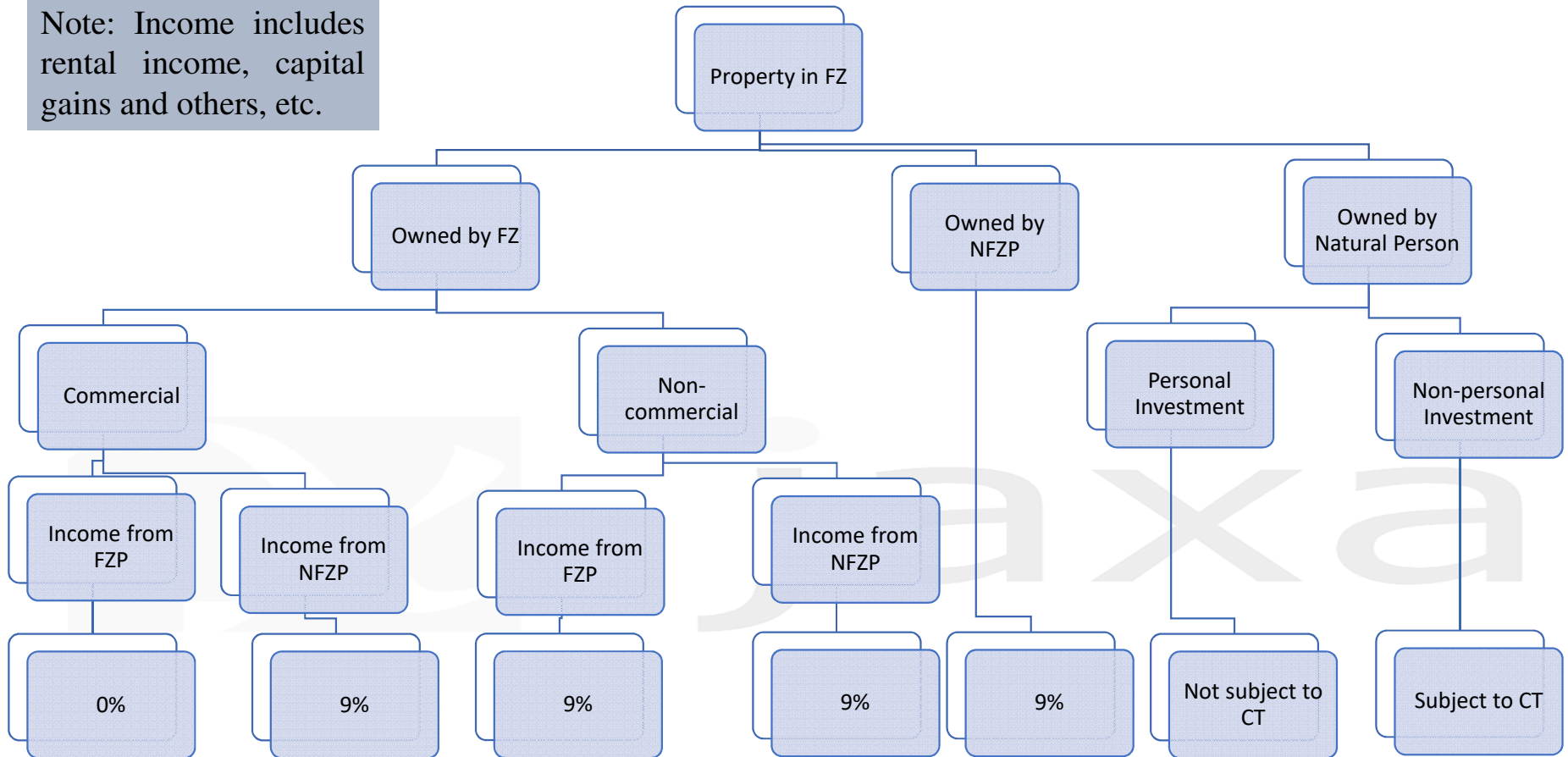
Non-Qualifying Service Activities





Immovable Property in FZ – Art. 6 of CD 100 of 2023

Note: Income includes rental income, capital gains and others, etc.



Jaxa Chartered Accountants – Internal Purposes Only