# UAE Corporate Tax - Year-end considerations

*Check-list from UAE Corporate Tax standpoint*

Up North Advisors

# Key year-end considerations

Most of the UAE corporates follow Calendar Year as their Tax Period. The UAE Corporate Law ('the Law') provides that the Accounting Income is the starting point for determination of Taxable Income. The Law further provides for adjustments to such Accounting Income that are necessary to be accounted before closure of the books/ statutory audit closure for the relevant Tax Period. In this regard, the following are some of the key year-end adjustments/ considerations.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| **Transfer Pricing Margin Analysis** | **Free Zone Status Evaluation** | **Tax Provisioning** | **Deferred Tax Adjustments** | **Tax Grouping** |

# Transfer Pricing Margin Analysis

The UAE Corporate Tax Law requires Related Party Transactions must be conducted at arm's length. Therefore, the transfer pricing margins of Related Party Transactions are to be tested to evaluate adherence of margins to arm's length principle.

## Transactions not in arm's length

- **Option 1:** Making true-up/true-down adjustments to arrive at arm's length price *before* the closure of books
- **Option 2:** Making true-up/true-down adjustments in the Corporate Tax Return *post* book closure

## Adjustments in Tax Return

Any true-down adjustment recorded in the Tax Return is allowed only after **FTA's approval**. In case where the FTA has *not approved* of the same, the amount of adjustment shall be considered *nil*.

## Indirect tax considerations

Understanding the indirect tax implications (VAT/ Customs) pursuant to transfer pricing adjustments is crucial i.e., whether or not such adjustments are to be amended in relevant indirect tax filings.

## Documentation

Any year-end transfer pricing adjustment should be clearly documented. Documentation such as updated transfer pricing reports, segmental margins analysis can substantiate such year-end adjustments.

# Thresholds for reporting

***The applicability of thresholds for transfer pricing reporting is linked to different metrics. Hence, it is ideal that a Taxable Person performs a periodic assessment of both transaction values: with Related Parties & Connected Persons AND Revenues: Consolidated & Standalone to ensure reporting readiness in the corporate tax return.***

## AED 40 million

*(Aggregate of **transaction values** with Related Parties)*

The Taxable Person is required to complete the Transfer Pricing Schedule in the Tax Return

## AED 4 million

*(Aggregate of each **transaction type** with Related Parties)*

Disclosures about the specifics of transactions such as name of the Related Party, Transfer Pricing Method applied are required in the Tax Return.

## AED 500,000

*(Aggregate of **payments/ benefits** to each Connected Person)*

Disclosures about the specifics of transactions such as name of the Connected Person, nature of transaction are required in the Tax Return.

## AED 3.15 billion; *(Consolidated Group **Revenue**)*

## AED 200 million *(Stand-alone **Revenue**)*

The Taxable Person is required to maintain Transfer Pricing Documentation i.e., both Master File & Local File

# Important year-end considerations

## Tax Provisioning

- Tax provisioning involves review of all relevant elections and the potential impact of such elections on Taxable Income.
- Further, the trial balance of a Taxable Person is reviewed to identify necessary adjustments to the Accounting Income as required by the Law.
- Thereafter, the year end provision to be set aside for meeting tax obligation under the Law is accounted in the books.

## Free Zone Status Evaluation

- All core income generating activities related to the Qualifying Revenue streams of a Free Zone Person are evaluated to determine whether the same qualify for adequate substance in Free Zone or Designated Zone.
- All streams of income of a Free Zone Person are individually assessed to determine whether the Free Zone Person satisfies *de minimis* requirements.
- This is necessary to evaluate the Free Zone status of the Taxable person to assess correct tax provisioning.

## Deferred Tax Adjustments

- Identification of temporary differences between the tax base and the carrying amount of assets & liabilities forms the basis for calculation of deferred tax adjustments.
- Such temporary differences arise due to transitional rules, consolidation adjustments, realisation basis election, interest capping, tax losses etc.
- At year end, adjustments are made to reflect the correct amounts for deferred taxes based on estimates and assumptions.

## Tax Grouping

- The relevance for a Resident Taxable Person in forming a Tax Group is evaluated from a tax neutrality perspective.
- Such evaluation involves consideration of relevant provisions in the Law such as Qualifying Group Relief and offset of Pre-Grouping Losses.
- The decision of Tax Group formation is important for businesses operating with multiple entities, offering both long-term tax planning benefits and administrative efficiencies.

# Recommendations

1. It is critical for the Taxable Persons to perform periodic assessment of Related Party Transactions in order to ensure transactions are at arms length/ make transfer pricing adjustment before the closure of books, which can eliminate the compliance burden at the time of Tax Return filing.

2. It is recommended that a Taxable Person implements robust recordkeeping systems compliant with IFRS to accurately track the financial numbers, in order to perform a systematic review of trial balances and individual transactions, thereby appropriately ensuring compliance readiness.

3. Free Zone Persons are recommended to maintain detailed documentation such as office lease agreement, employee contracts, meeting minutes/ vendor contracts to support the economic substance. Additionally, *de minimis* evaluation must be performed from tax provisioning perspective.

4. It is essential that a Taxable Person is aware of the various elections available in the Law such as realisation basis, small business relief to appropriately plan for the subsequent Tax Periods. This is necessary for determining the temporary differences while computing deferred tax.

5. Considering that current Calendar Year is coming to a close, Taxable Persons willing to form a Tax Group is advised to file an application with the FTA before December 31, 2024, since the deadline to file such application is before the end of Tax period wherein decision to form the Tax Group arose.

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