UAE Corporate Tax Guide on Accounting Standards released in November 2023

Key Takeaways

November 2023

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Corporate Tax Guide on Accounting Standards

The Federal Tax Authority (FTA) has released a Corporate Tax (CT) Guide on Accounting Standards and their interaction with Corporate Tax. The document includes detailed guidance on accepted accounting standards, taxation under realisation basis of accounting, adjustments to accounting income and transitional rules.

Key highlights

The following important considerations are covered in the guide:

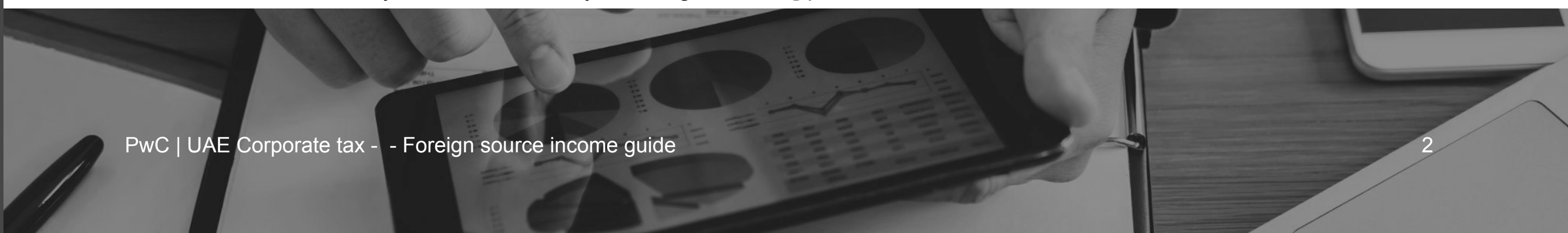
- Taxable Income - The taxable income of each Taxable Person would be determined on the basis of standalone financial statements. IFRS is the only Accounting Standard accepted in UAE for CT purposes. IFRS for SMEs can be used if the revenue of a Taxable Person does not exceed AED50m in a tax period.
- Cash basis accounting - Taxable Persons can elect to prepare financial statements under the cash basis accounting method if their revenue does not exceed AED3m in a tax period, or in exceptional circumstances.
- Election for taxation on realisation basis - This election can be made at the time of submitting the first CT return. The Guide elaborates on the provisions of Ministerial Decision 134 of 2023 and provides examples of depreciation tax adjustments when net book value exceeds original cost due to upward revaluations, as well as other examples.
- Adjustment for transactions with related parties - When a transaction price is not at arm's length, the corresponding tax adjustment would need to be made by both parties to the transaction. The Guide provides examples where the consideration paid by a related party exceeds or is lower than the Market Value along with the adjustments to be made by the transferor and the transferee, to achieve the arm's length result.
- Transactions within a Qualifying Group - The Guide elaborates that if, for example, a gain for the transferor was not taken into account for CT purposes under Article 26(1) of the CT Law, the transferee cannot claim depreciation on that gain either. The Guide provides comprehensive examples on calculating such adjustment over number of years.
- Replacing Equity method with Cost method - The Guide reiterates that for accounting of investments in associates and joint ventures, the parent company should not include the share of profit or loss of the equity accounted investment. Instead, only dividends and other profit distributions should be recognised.
- Non-deductible expenses - The Guide reiterates that any expenditure that do not meet the conditions described under Articles 28 to 33 of CT Law (including the general business test) are not deductible regardless of their treatment in the financial statements.
- Adjustments under Transitional Rules - Where a Taxable Person applies the historical cost basis, the transitional rules aim to limit taxable gains only to the portion which arises after the start of the first tax period. The Guide provides comprehensive examples of tax exempted gains for Qualifying Immovable Property, Qualifying Immovable Property, Qualifying Financial Assets and Qualifying Financial Liabilities. It also notes that the market value of immovable property will be determined by the relevant government authorities or by outsourced third parties authorised by competent authority.
- Subsequent movements in other assets or liabilities in the opening balance sheet - The CT treatment of movements in other items in the opening balance sheet will follow the accounting treatment. For example, a provision in respect of inventory recorded before a company was subject to CT and then reversed after it was subject to CT would normally be taxable at the time the credit was recorded in the accounts.
- Arm's length principle for opening balance sheet - The Guide reiterates that related party balances in the opening balance sheet should reflect arm's length pricing. If that is not the case, any deductible or taxable amounts in the first and subsequent tax periods should be adjusted to reflect the arm's length basis. As an illustration, if inventory was acquired from a related party at higher than market value, subsequent tax deduction would be restricted to the arm's length amount.

Next steps

The Guide provides clarity on certain key CT adjustments along with useful illustrations. It is critical for taxpayers to consider this guide and determine its impact on their taxable income. Accounting considerations are crucial for tax compliance and planning. Accurate financial records help in determining taxable income, identifying tax deductions, and ensuring compliance with tax laws, thus minimizing the risk of penalties.

It is essential to stay alert and adapt to evolving UAE CT legislation for tax efficiency and tax compliance.

For further assistance, you can reach us by emailing CT.UAE@pwc.com.



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