UAE Corporate Tax

Key priorities before 1 January 2024

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UAE CT - key priorities before 1 January 2024

UAE Corporate Tax (CT) will become effective for many businesses from 1 January 2024, and there are many things to consider in order to prepare for implementation. These include understanding the CT implications of your legal, financial, and operational profile, as well as planning the people, processes and systems required to comply with the rules.

With so many things to consider, this document highlights some of the key areas businesses should prioritise before the end of 2023.

1. Consider Free Zone Footprint

Businesses in the Free Zones (FZs) have the opportunity to benefit from a 0% CT rate. However, the conditions to be a Qualifying Free Zone Person (QFZP) are complex and FZ businesses should not assume these will be met. We therefore recommend businesses review their footprint and profile to ensure they meet all conditions on or before 1 January 2024. Priority actions:

- Analyse the pros and cons of qualifying versus remaining in the standard 9% CT regime, including the practical requirements to comply and maintain QFZP status.
- Consider and plan whether any updates are required to transactions, pricing, intercompany agreements, documentation, etc to ensure all conditions are met.
- Review and plan the relevant operational substance in light of this critical condition of the regime.

2. Review Group Structure

The holding, financing, investment and operating structure of a Group will impact its tax profile. Importantly, it may also impact its ability to make certain elections like grouping, or the incidence of tax on certain income like dividends and gains. Priority actions:

- Review legal entity structure and consider whether this gives rise to any CT inefficiencies or limits opportunities (such as grouping). For private groups, review the separation between corporate and private ownership.
- Review funding structure and consider whether this gives rise to opportunities or risks, such as limits on interest deductions, or non-deductible capital.
- Based on the above, identify and execute any updates as required, including considering rationalisation of unnecessary entities or structures.

3. Review Financial Profile

The UAE CT profile of each taxpayer will primarily be driven by the financial profile of the businesses. Accounting policies, entries, and disclosures which are not carefully considered can therefore potentially give rise to unintended tax outcomes. Priority actions:

- Review accounting policies which could impact key areas of tax, such as items recorded in Other Comprehensive Income, provisioning, depreciation, revaluation and amortisation.
- Review major expense categories to ensure they meet the tax deduction requirements, especially those specifically regulated by the tax legislation (interest, entertainment, exempt income expenses, etc.).
- Review and consider whether deferred tax needs to be provided in the financial statements for FY2023.

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4. Plan Transfer Pricing Profile

Compliance with transfer pricing (TP) rules and regulations is a core requirement of the CT regime. This will not only impact the effective tax rate of businesses, but also how they allocate, account for and document income within the Group in a sustainable and defensible manner. Priority actions are the below, but there is still time after 1 January 2024 to ensure readiness with the TP rules and regulations:

- Review the TP model to ensure alignment with the operating model;
- Ensure the transactional design is in line with the value creation within the group based on the key functions, assets and risks.
- Design TP policies that are aligned with the arm's length principle that can be implemented throughout financial year 2024 by incorporating TP adjustments before closing the financial statements or through TP adjustments in the CT return.

5. Review Foreign Entity Profile

Entities incorporated outside of the UAE may still be exposed to CT here by virtue of their actual or deemed presence in UAE. The activities of certain management, employees, dependent agents, projects, etc can give rise to future tax liabilities and compliance burdens. Priority actions:

- Identify any foreign company Directors or senior management who exercise effective management of the company from the UAE. Identify key commercial activities of foreign companies which are being carried on in the UAE by employees or related parties based in the UAE.
- Make any updates to board composition, delegation of authority, governance procedures, and operating models to manage and mitigate any potential unintended outcomes.

6. Consider Claims & Elections

The CT legislation allows for certain elections and claims to optimise the tax burden. Priority actions:

- Consider use of transitional rules to mitigate taxation on pre-CT gains / appreciation of capital assets.
- Ensure all requirements are met for CT grouping, sharing of tax losses, and other reliefs.

7. Review Operational Readiness

Effective management of the new UAE CT obligations requires effective finance and tax operations, processes and IT systems. Priority actions:

- Ensure that you can generate separate Trial Balances for each entity, as the CT Law requires separate and standalone financial statements for each entity.
- Review Chart of Accounts and determine the need of tax sensitisation in respect of tracking tax exempt incomes, qualifying vs non-qualifying incomes for QFZP, non-deductible expenses and TP adjustments.
- Form a view on how UAE CT will be governed, as this will impact the extent that you need to adapt or change your IT Systems and Tax Department, including hiring plans and budgets.
- Ensure responsibilities between Tax and other teams are clear and formalized, and other areas of the business are informed about the upcoming changes.
- Conduct internal awareness sessions and training to non-tax functions such as legal, accounting, procurement, business development, human resources and C-suite.

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Key takeaways and next steps

Preparation for UAE CT may potentially require updates to legal structures, financial profile, operations, processes, and systems. We recommend businesses understand their position with respect to all of the topics above as a matter of priority before 1 January 2024.

Please reach out to us through your PWC contact or the tax specialist contacts below. You can also reach us by emailing CT.UAE@pwc.com.

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