

UAE Corporate Tax: Ministerial Decisions No. 114 & 115 releases

Key Takeaways



May 2023



UAE Ministerial Decisions Release



On 9 May 2023, the Ministry of finance ('MoF') issued Decision No 114 of 2023 on the Accounting Standards and Methods for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (hereinafter referred to as the 'CT Law').

Moreover, the MoF issue on 10 May 2023 Decision No 115 of 2023 on Private Pension Funds and Private Social Security Funds for the Purposes of the the CT Law.

Both Decisions came into effect the day following their publications.

Key highlights

Decision No 114 of 2023: Accounting Standards and Methods

The Decision clarifies that financial statements ("FS") may be prepared on a cash basis (as opposed to accrual), were the Revenue does not exceed AED 3m or through an application in exceptional circumstances to the tax authorities.

Consolidated FS for a Tax Group should be prepared by means of aggregating the standalone FS of each member of the Tax Group while eliminating the intragroup transactions.

The Decision also clarifies that the International Financial Reporting Standards (IFRS) is the only applicable accounting standard that a Taxable Person is allowed to use for determining its Taxable Income. This means that persons subject to corporate tax must use the IFRS to determine its accounting profit/loss, which forms the starting point for determination of Taxable Income. It should be noted that a Taxable Person whose revenue does not exceed AED 50m is allowed to apply IFRS for small and medium-sized entities (IFRS for SMEs). IFRS for SMEs is a simplified version of the full IFRS, designed specifically for small and medium-sized entities.

Decision No 115 of 2023: Private Pension Funds and Private Social Security Funds

The UAE Corporate Tax law exempts public pension or social security fund, or a private pension or social security fund that is subject to regulatory oversight of the competent authority in the State and that meets prescribed conditions. The Decision now sets out the conditions to be met by the Private Pension Funds ("PPF") and Private Social Security Funds ("PSSF") in order to be eligible for the exemption.

As per the Decision, PPFs and PSSFs may apply to the FTA for CT exemption on meeting the following conditions:

- The fund comprises a pool of assets which have been assigned by law or contract as Pension Plan assets / fund assets or the acquisition of these assets has been financed by or with the use of contributions for the exclusive purpose of financing the Pension Plan benefits / End of Service Benefit.
- The income of the fund solely comprises prescribed income as specified in this Decision.
- The fund must have an Auditor.
- Specifically with respect to PPFs, the fund grants Pension Plan Members or Beneficiaries a right or other contractual claim or entitlement, against its assets or earnings.

The income of such funds should be earned from:

- Investments or deposits held for the purpose of fulfilling the obligation of the fund, investments should not constitute a business operated by the fund;
- Underwriting commissions that are charged for the purpose of the fund;
- Rebates of charges due or paid by the fund to the fund manager;
- Any other income derived for the benefit of Pension Plan Members or beneficiaries of the End of Service Benefit, as applicable.

The Decision outlines the responsibilities of the Auditors of the PPFs / PSSFs and highlights situations in which the FTA can withdraw the exemption provided to the funds. The Decision also states that a Taxable Person may deduct the total value of contribution made to PPF in respect of its employees limited to 15% of the employee's remuneration that is deductible for CT in the relevant Tax Period.



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Key takeaway and next steps

The application of accounting standards is a key factor to standardise corporate tax reporting. By applying the IFRS standards, the UAE CT regime provides a framework for accurate reporting and ensures a consistent and comparable approach for Taxable Persons.

On the other hand, the CT exemption for private and public funds plays a vital role in promoting investments and enhancing economic growth and development. The clarity provided was much awaited as it will allow funds to determine their CT status and understand the impact of the UAE CT regime.

We are expecting additional Decisions to be released to expand on many key provisions of the CT Law so stay tuned. For further assistance, you can reach us by emailing CT.UAE@pwc.com.



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