

# UAE Corporate Tax: Taxation of Partnerships Guide

Key Takeaways



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# Taxation of Partnerships Guide



The Federal Tax Authority (FTA) has released a Corporate Tax (CT) Guide on Taxation of Partnerships. This guide serves as a significant resource, providing clarifications and additional insights on various important topics in relation to the taxation of Partnerships as well as the associated compliance requirements.

## Key highlights

### Overview of the guidance

- The guidance covers such matters as the different types of partnerships and their key features, which partnerships will be viewed as taxable persons for CT purposes, the CT treatment of unincorporated partnerships, and the application of specific areas of the CT law to partnerships. It also covers the associated compliance requirements.

### Different types of partnerships

- In the UAE, partnerships can be incorporated or unincorporated.
- An incorporated partnership has a separate legal personality, it is a Taxable Person subject to CT by default. The Guide provides illustrative list of entities (e.g. including General Partnership, Limited Partnership, Limited Liability Partnership) considered as incorporated partnerships and, therefore, treated as juridical persons under the CT Law. This is an important development that Limited Partnerships that have separate legal personality (which is the case for all DIFC LPs and is an election for ADGM LPs), are considered Taxable Persons.
- An unincorporated partnership (e.g. consortium of companies or contractual joint venture) is typically considered “fiscally transparent”, whereby its partners are individually subject to CT instead. However, the partners in an unincorporated partnership can apply for the partnership itself to be treated as a Taxable Person “fiscally opaque” whereby it is subject to CT itself.

### Tax reliefs

- Unincorporated partnerships which are “fiscally opaque” Taxable Persons, should not be considered as Free Zone Persons and may not qualify for 0% CT regime. This also applies to a Branch of an Unincorporated Partnership in a Free Zone.
- Participation Exemption (PEX) will be tested at the level of “fiscally opaque” partnerships (unincorporated or incorporated). For “fiscally transparent” unincorporated partnerships, the PEX will be tested at the level of its partners (applicable even in case a partner is a natural person).
- Small Business Relief exempts eligible Resident Persons with revenue under AED3 million from CT. For “fiscally transparent” partnerships, eligibility is assessed individually for each partner. In “fiscally opaque” partnerships, it is determined at the partnership level.

### Deduction rules

- General CT rules on deductible expenditure apply similarly to partners and “fiscally opaque” partnerships. In “fiscally transparent” partnerships, partners' taxable income must account for their respective share of expenditure.
- The Interest Deduction Limitation Rule applies to the individual partners of “fiscally transparent” partnerships (natural persons excluded, juridical persons included), while “fiscally opaque” partnerships are directly subject to the rule (based on partnership's EBITDA).

### Foreign tax

- If the unincorporated partnership has suffered any foreign tax, a credit may be available against the CT by the Unincorporated Partnership where it is treated as a Taxable Person, subject to facts and circumstances. Where it is “fiscally transparent”, the Foreign Tax Credit is allocated among the partners in accordance with their distributive share in the Unincorporated Partnership.





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## Key highlights (cont'd)

### Foreign partnerships

- A foreign partnership may be regarded as “fiscally transparent” unincorporated partnership if:
  - (a) it is not subject to tax under the laws of the foreign jurisdiction where it is established;
  - (b) each partner is individually subject to tax on their distributive share of any income of the foreign partnership as and when the income is received by or accrued to the foreign partnership;
  - (c) the partnership submits an annual declaration to FTA to confirm (a) and (b); and
  - (d) there are adequate arrangements for tax information exchange between the foreign jurisdiction of the partnership and the UAE.
- If the foreign partnership does not meet these conditions, then it may be regarded as “fiscally opaque” for UAE CT purposes. It could be subject to CT in the UAE on the same basis as a Non-Resident Taxable Person if it has a Permanent Establishment (PE) or nexus in the UAE.
- Based on the guide, income from an investment into a “fiscally opaque” foreign partnership is eligible for PEX if all PEX conditions are met.

### Transfer Pricing

- Transactions between related parties, including partners in unincorporated partnerships and any related parties of a partner in an unincorporated partnership, must follow arm's length standards.

### CT compliance obligations

- For “fiscally transparent” partnerships, individual partners have to determine their CT obligations in relation to the partnership. However, such partnerships are also required to register for CT, although this compliance obligation does not mean the partnership itself would be subject to CT.
- Unincorporated partnerships which elected to be subject to CT and partnerships which are considered as “fiscally opaque” should maintain financial statements and must obtain audited financial statements if the revenue exceeds AED 50 million.
- “Fiscally opaque” partnerships shall file a CT return by the standard deadline, i.e. 9 months after the end of the tax year.

### General Anti Abuse Rules (GAAR)

- GAAR allows the FTA to adjust transactions aimed at gaining unjust CT advantages. For example, if a partnership is established or subsequent changes are made to obtain a CT advantage, this could be subject to adjustment under GAAR and the applicable penalties.

## Next steps

The Guide provides guidance and clarity on taxation of Partnerships and compliance requirements. Careful consideration and application of these guidelines are necessary for taxpayers.

For further assistance, you can reach us at [CT.UAE@pwc.com](mailto:CT.UAE@pwc.com).

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