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DIGITAL ASSETS, REAL TAXES: UAE CORPORATE TAX PERSPECTIVE

Part 3 – Facilitating & Support Industries

Swipe

BACKGROUND

In Part 1, we discussed the corporate tax implications impacting mining activities and in Part 2, we highlighted the key tax considerations for Investment and Holding entities.
As we culminate this series currently, in Part 3 we enumerate the tax issues applicable to the facilitating and supporting industries in relation to digital assets.

The taxation of such entities under the UAE Corporate Tax (CT) Law presents a multifaceted landscape. Irrespective of Free Zone benefit eligibility, applying transfer pricing principles to arrive at arm's length price remains complex, given the evolving nature of digital business models. These initial challenges reflect the sector's nascency and are expected to stabilize as regulatory clarity and market practices mature.

> *This culminating Part 3 of our digital asset tax series explores how UAE CT applies to support and related Businesses in the Digital Assets Ecosystem*

THE ECOSYSTEM

Entities in the Ecosystem

The digital assets sector is rapidly evolving, characterized by substantial transaction volumes, sophisticated digital infrastructure, and a growing workforce.

This ecosystem is versatile and dynamic, encompassing entities that enable the issuance, trading, custody, insurance and transfer of digital assets. Each entity plays a critical role in ensuring secure transactions, operational integrity, and regulatory alignment across jurisdictions.

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THE ECOSYSTEM (CONT.)

Legal Advisors & Consultants

Investment Funds & Holding Companies

Exchanges, NFT Marketplaces & Trading Platforms

Digital Assets Ecosystem

Developers & Infrastructure Providers

Mining Companies & NFT Creators

Insurance Companies

Wallet & Payment Service Providers

CORPORATE TAX

Applicable Tax Rate

The UAE does not have a separate corporate tax regime for entities operating within the digital assets ecosystem. Such entities are subject to the standard CT rate of 9% on taxable income exceeding AED 375,000.

Entities that qualify as Free Zone Persons and meet the prescribed conditions may benefit from the preferential 0% CT rate.

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FREE ZONE PERSONS

Qualifying Activities

The scope of Qualifying Activities under the **Free Zone Guide** are restricted and encompasses only limited activities relevant to entities operating within the digital assets ecosystem. These include:

- Holding of shares and other securities for investment purposes
- Reinsurance services
- Fund management activities
- Wealth and investment management services
- Headquarter functions, treasury, and financing support to related parties

FREE ZONE PERSONS

"Ancillary activities" that are directly related to and support the main qualifying activity are also considered as Qualifying Activities.

The registration of a wide array of entities engaged in diverse operations within the digital assets ecosystem—particularly with ADGM and DIFC—reflects the UAE government's intent to extend Free Zone benefits to a broad spectrum of activities.

Case Study

Glocal LLC, registered as a Qualified Free Zone Person (QFZP), is a custodian providing wallet/storage services to crypto asset holders.

Let's say Glocal LLC provides custodian services to Abacus Fund that is a Free Zone entity eligible for 0% CT. Income earned by Glocal LLC from services rendered to Abacus Fund may be eligible for the 0% CT rate, as it is derived from a QFZP that is the beneficial recipient of the services, provided Glocal LLC continues to meet other QFZP conditions.

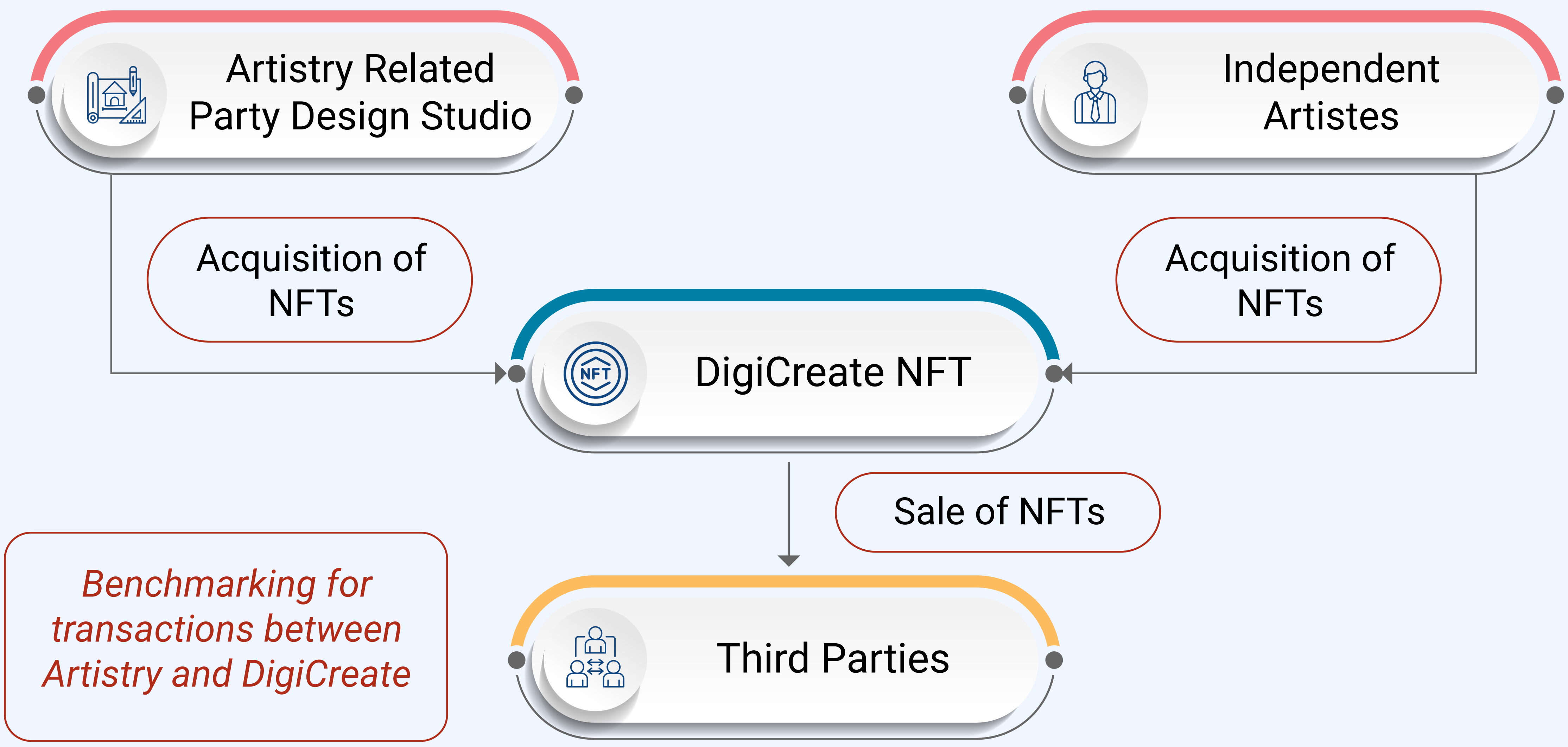
TRANSFER PRICING

Fair price!

The digital assets ecosystem presents significant challenges to conventional transfer pricing practices and jurisprudence.

Its inherent characteristics—such as price volatility, asset uniqueness, and decentralized operating models lacking a physical nexus—complicate the application of traditional transfer pricing methodologies.

Case Study



TRANSFER PRICING (CONT.)

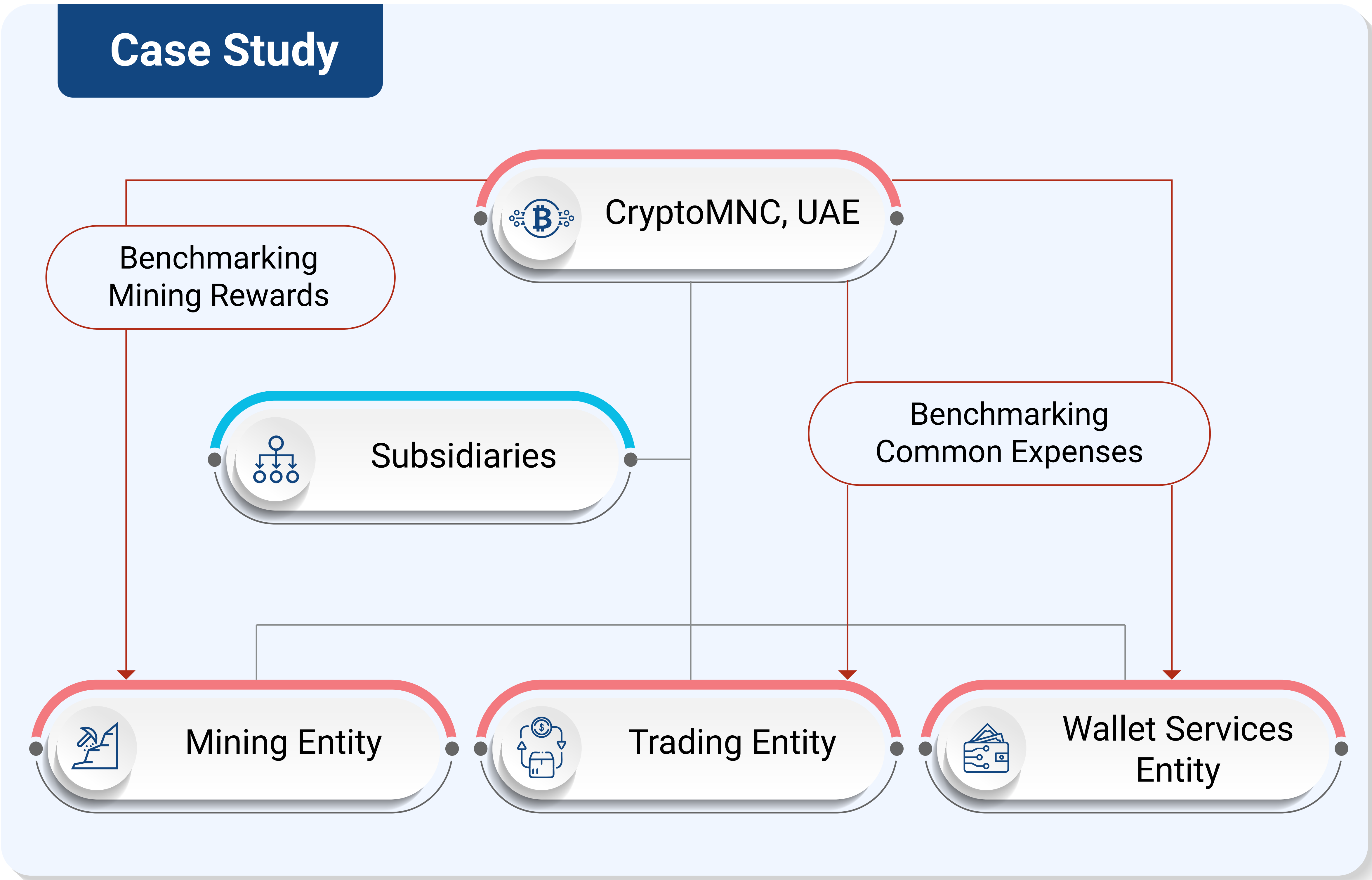
Benchmarking transactions for acquisition of NFTs from Artistry poses unique challenges:

- identification of reliable comparables as each NFT embodies a distinct blend of creative attributes—such as uniqueness and rarity, design complexity, and market appeal
- wide differences between acquisition and eventual sale price due to inherent price volatility driven by market dynamics
- difficult to apply traditional transfer pricing methods, such as the Comparable Uncontrolled Price (CUP) method and the Transactional Net Margin Method (TNMM) due to the absence of comparable products or similar entities.

Further, the allocation of profits between DigiCreate and Artistry on the ultimate sale of NFTs necessitates a reasonable profit allocation mechanism (eg. **depending on whether Artistry bears the risks and rewards for the NFTs created or merely acts as a support entity**).

To address these challenges, DigiCreate should consider procuring independent expert valuations expert and executing comprehensive intra-group agreements. These agreements should clearly define the roles, responsibilities, risks assumed and pricing governance mechanisms between related parties.

TRANSFER PRICING (CONT.)



Remuneration of the Mining Entity:

The compensation structure for the mining entity should be determined based on the nature and extent of risks assumed. If the entity operates as a full-fledged miner—bearing entrepreneurial risk, capital investment, and operational control—it may be entitled to residual profits. Conversely, if it functions as a limited-risk or support entity, a routine return based on cost-plus or comparable margins may be more appropriate.

TRANSFER PRICING (CONT.)

Allocation of Common Expenses:

Common expenses such as costs related to technical infrastructure, electricity, and business development should be allocated using a method that reflects the actual benefit derived by each entity. Depending on the nature of the expense, allocation keys may include usage-based metrics (e.g., server time or energy consumption), headcount ratios, or revenue contribution.

These examples highlight that inter-company transactions come in many diverse forms and must be evaluated on a fact-specific basis. While this adds complexity, it also creates opportunities for businesses to optimize their tax positions in a compliant manner by aligning them with the arm's length principle.

KEY TAKEAWAYS

Assess activity eligibility for QFZPs to determine alignment with Qualifying Activities.

Maintain robust transfer pricing documentation, including method selection rationale and functional analysis.

Allocate common expenses transparently, using allocation keys tied to actual benefit or usage.

Design optimal organizational structures for multi-service entities to balance tax efficiency with compliance.

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