

TAX GROUPS

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BACKGROUND



Businessmen often have multiple companies which are formed to undertake different businesses, for better management, collaborations, reporting and so on.

With increased number of entities, come more compliance costs and efforts. To streamline tax compliances of entities within a common group, tax laws of various countries permit forming of tax groups. Some countries with group taxation are Germany, France, Italy, UK and USA.

Let us understand this in detail and its relevance from a UAE context.



RELEVANCE OF TAX GROUP IN UAE CT



In a Tax group, two or more taxpayer entities are considered as a single taxable entity for tax purposes.

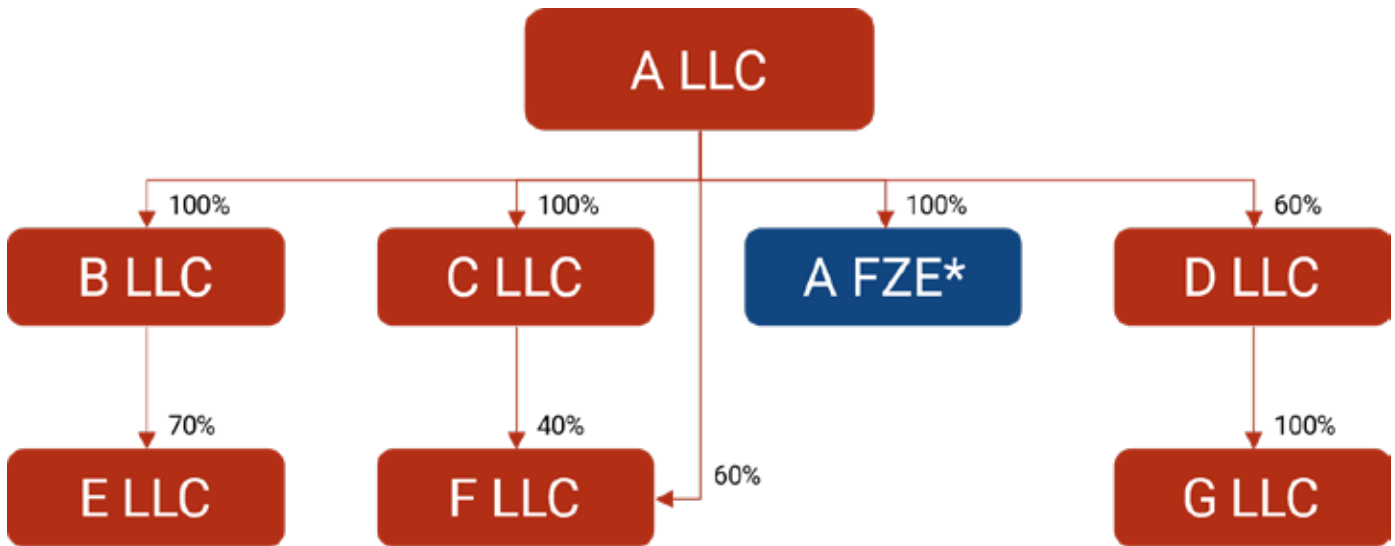
UAE CT proposes an option for resident group of companies to form tax groups, subject to below conditions:

- ✓ parent company to have at least 95% direct or indirect holding in its subsidiaries
- ✓ all group companies must have the same financial year
- ✓ neither the parent nor subsidiary are 0% CT rate companies in a Free Zone

The illustration on the next page should clarify further.

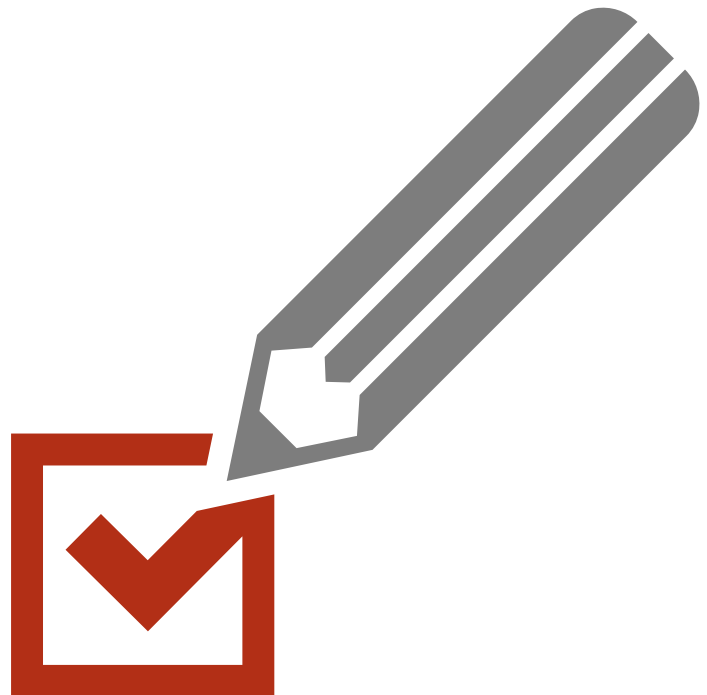


ILLUSTRATION 1



*A FZE subject to 0% CT rate

In the above scenario, A LLC along with its subsidiaries B LLC, C LLC and F LLC can form a Tax Group



BENEFITS OF FORMING A CT GROUP



Besides lower number of entities filing tax returns and attendant transfer pricing compliances, the profits of one entity can be used to set-off losses incurred in another entity, resulting in lower tax cost for the group.

Intrigued to know more on tax benefit! Read on.



ILLUSTRATION 2



(AED '000s)

Particulars	A LLC	B LLC	C LLC	ABC LLC – CT Group
Revenue (non-intra groups)	1,200	1,600	1,000	3,800
Revenue (intra group)	0	400	500	0
Costs (non-intra groups)	(1,300)	(800)	(1,300)	(3,400)
Costs (intra group)	(0)	(500)	(400)	0
Net Taxable Income	(100)	700	(200)	400
Tax exemption	0	375	0	375
Tax Liability @ 9%	0	29.25	0	2.25

In the illustration above, group-level taxation is beneficial as losses of A LLC and C LLC are set-off against the taxable Income of B LLC.



HOW TO FORM A CT GROUP?



A signed notice would need to be filed with Federal Tax Authority by parent and subsidiaries (forming part of the Group). Parent company would be responsible for administration and payment of corporate tax.

Specifics of forming the tax group would be known when final CT law is published.



CT GROUP AND VAT GROUP



Should CT Group be same as a VAT Group?

Not necessarily. CT Group can be different from VAT Group. Important to note that criteria's for forming CT Group and VAT group are also different.



PARTING THOUGHTS



In case you have business in UAE with multiple group companies, it would be critical to evaluate formation of CT groups.

Points to be considered while evaluating CT groups are:

- ✓ Holding structure
- ✓ Percentage of legal ownership
- ✓ UAE tax residency of companies
- ✓ Alignment of financial year
- ✓ Elimination of inter-company transactions
- ✓ Tax savings by forming CT group



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