

TAXATION OF REITS: INCREASINGLY ATTRACTIVE

Swipe



WHAT ARE REITS?



Real Estate Investment Trusts (REITs) are an investment vehicle through which investors pool resources and acquire real estate assets.



The investors in REITs receive units in return for their investment which, like shares, represents entitlements over the underlying asset (i.e., real estate assets).



Since REITs are a pool of funds they are typically regulated by a competent authority.



In the UAE, REITs are regulated by the Securities and Commodities Authority (SCA).

TYPICAL INCOME STREAMS OF THE REIT AND THE INVESTORS



REIT INCOME STREAMS

Mainly rental income, sale of property income, interest income and investment income from investments in other REITs/Govt securities



INVESTORS EARNINGS

Investors earn dual income from the REIT.

Dividends

Rental income is collected from properties by REIT and distributed in the form of dividends to the unitholders.



Capital Appreciation

Appreciation of the property value is reflected by an increase in NAV. Investors can realize gains by sale of REIT units.



UAE REIT REGULATIONS



Particulars	Mainland REIT	Free Zone REIT	
Regulator	SCA	Dubai Financial Services Authority for DIFC	Financial Services Regulatory Authority for ADGM
Form	Investment company/trust	Listed Investment company/trust	Investment company/trust
Investment in Real Estate assets out of total assets	At least 75%, Can invest in under-development properties provided it is in preparation for sale, management, lease or disposal	100% (40% retention in cash or specified securities allowed), Can invest \leq 30% of total assets in under-development properties	Primary investment in real estate Can invest \leq 30% of total assets in under-development properties



UAE REIT REGULATIONS



Particulars	Mainland REIT	Free Zone REIT	Free Zone REIT
Real Estate earnings	Receive at least 90% of its total revenue from real estate, interest, dividends and capital earnings relating to such real estate	"Not specified"	"Not specified"
Mandatory annual Dividend distribution to unitholders	At least 80% of its net profits	At least 80% of its net profits	At least 80% of its net profits
Borrowing restriction	≤ 50% of total assets value	≤ 70% of total assets value	≤ 65% of total assets value



UAE CT REGULATIONS:



QUALIFYING FUNDS UNDER ARTICLE 10

Under Article 10 of UAE CT law, REIT would qualify for exemption where the following conditions are satisfied:



REIT is regulated by competent authority in the State



Units are listed or made available to sufficiently wide investors

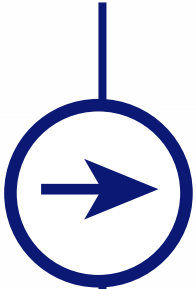


The main purpose is not to avoid corporate tax

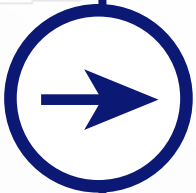


Other prescribed conditions under Cabinet decision 81/2023 on next page

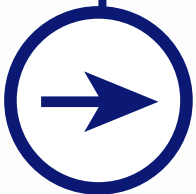




The value of the real estate portfolio (excluding land) under the management or ownership of the REIT should exceed AED 100M.



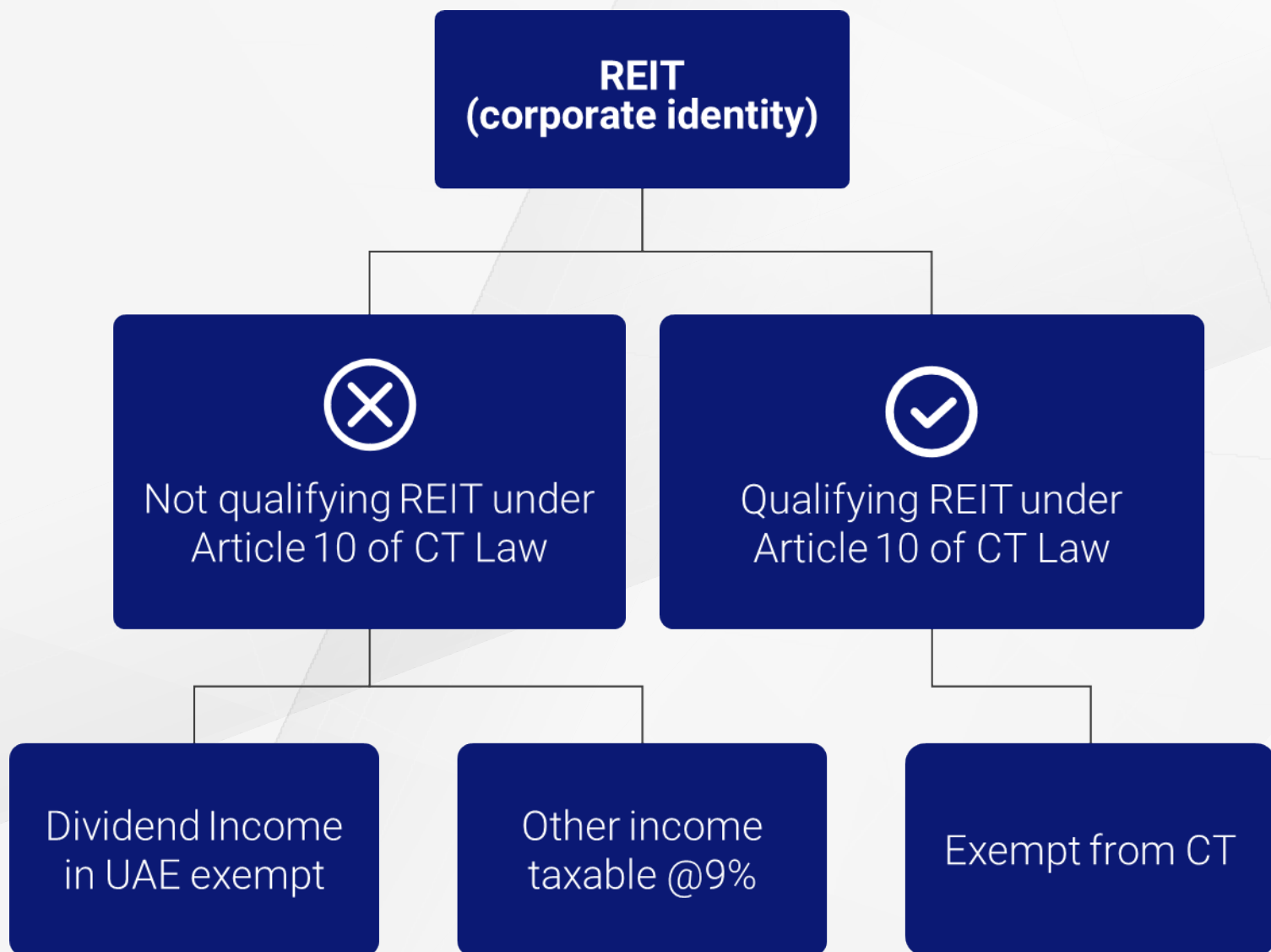
A minimum 20% of the REIT capital is floated on the Recognized Stock Exchange or is directly wholly owned by two or more institutional investors (e.g. governmental entities, banks, insurance providers,) that are not Related Parties.



An average real estate asset percentage of at least 70% is maintained annually.

CT EXEMPTION IS NOT AUTOMATIC - REIT MUST APPLY TO FTA FOR QUALIFYING STATUS AFTER MEETING THE ABOVE CONDITIONS.

TAXABILITY OF REIT



*Notably, Cabinet decision 81 states that a non-transparent unincorporated partnership can qualify for the CT exemption where conditions of Article 10 are satisfied.

TAXABILITY OF INVESTORS



In the case of **natural persons** who are unitholders - Dividends and capital gains from REIT would be exempt from corporate tax.



If resident unitholders are **corporates or artificial judicial persons**, dividends in UAE would be exempt. However, capital gains would be taxable at @9% as regular income.



For **Non-resident unitholders**, whether individuals or corporate – source/nexus rule, treaty provisions, or existence of PE would be determining factors



CLARITY AWAITED



BOTH REITS AND CT LAW, ARE BEING LOOKED AT TOGETHER KEENLY. SOME CLARIFICATIONS WOULD HELP:



Taxation of income of trustees in the form of fees and that of fund managers



Conditions for related party/connected person payments from REIT



Whether Free zone properties held under REIT would qualify for exemptions



Taxation of unlisted/Private REITs

KEY TAKEAWAYS



REITs offer liquidity, allowing investors to convert their investments into cash quickly, unlike real estate itself.



Flexibility of options and investment in diverse properties.



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