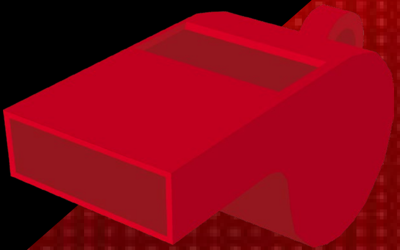

TAX ALERT
April 16, 2025

Cabinet Decision No. 34 of 2025 on Qualifying Investment Funds and Qualifying Limited Partnership and Cabinet Decision No. 35 of 2025 on Determination of a Non-Resident Person's Nexus in the UAE.

Overview

Under the UAE Corporate Tax Law, **Qualifying Investment Funds (QIFs)** are treated as exempt persons, provided certain conditions are met. Cabinet Decision (**CD**) No. 81 of 2023 had earlier outlined additional requirements **for Investment Funds** and **Real Estate Investment Trusts (REITs)** to attain QIF status and set out rules for taxing income derived by or through such funds in the hands of investors. These were further clarified in the **Corporate Tax Guide on Investment Funds and Investment Managers** issued by the Federal Tax Authority (FTA) in May 2024. ***[Click here to read our detailed alert on the Tax Guide]***

Continuing its efforts to reinforce the UAE's appeal as an investment hub and to offer greater clarity to fund structures, the Ministry of Finance has now issued **CD No. 34 of 2025**, which **repeals and replaces*** CD No. 81 of 2023. This new Decision introduces a more refined framework for the taxation of QIFs and legislates the concept of **Qualifying Limited Partnerships (QLPs).** In parallel, CD No. 35 of 2025 has been issued to amend the **nexus rules**, repealing and replacing* CD No. 56 of 2023.

**For financial years starting on or after 1 January 2025.*

a) A brief snapshot:

Before delving into the detailed changes introduced by these CDs, a snapshot of the key changes is set out below:

- **Natural persons** investing in QIFs or QLPs **remains outside the scope of UAE Corporate Tax** in respect of income earned by these QIFs / QLPs.
- **Income earned by QIFs is fully exempt in the hands of both the QIFs and its investors** (except in certain circumstances as discussed in the later part of this alert).
- **Non-compliance with the "diversity of ownership" condition** no longer **jeopardizes** the QIF status of an Investment Fund. However, if the diversity of ownership condition is breached, the **income becomes taxable in the hands of juridical investors**, subject to specified exceptions. Notably, the scope of "diversity of ownership" has been **expanded** to include parameters such as **voting rights**, **board composition, profit entitlements, and business control**.
- **Investment manager condition** to qualify as QIF has been removed.
- A clear **intent to tax income from immovable property** has been introduced. Under CD No. 34 of 2025, 80% of income derived from UAE immovable property by QIFs (other than REITs) is **taxable in the hands of investors** if immovable assets exceed 10% of total fund assets. For REITs, **80% of such income** is generally taxable in investors' hands.

- As mentioned above, juridical investors are subject to tax on income earned by QIFs under certain circumstances. In line with this, nexus rules have been expanded via CD No. 35 of 2025 to include such circumstances and accordingly, **bring foreign juridical investors under such 'nexus' rule**. The term "non-resident persons", which covers non-resident individuals, therefore has been replaced with "**foreign juridical person**" in the new CD No. 35 of 2025 to implicitly exclude 'non-resident individuals', being natural persons.

Under the previous CD, nexus was limited to income derived from immovable property. Consequently, a foreign juridical person (being an investor in QIF) without having a UAE Permanent establishment was taxable only on its share of immovable property income earned by such QIF.

Under the revised nexus rules, all taxable income derived by a QIF (not only immovable property income), in case of exceeding "diversity of ownership threshold", may now trigger tax liability in the hands of such foreign juridical person, even if such foreign juridical person does not have a permanent establishment in the UAE.

b) Detailed analysis

In this part, we have provided a **comparative summary** of the key changes introduced through the new CDs and its implications for investment funds and respective investors.

1) QIFs other than REITs

Sr. No	Particulars	Cabinet Decision 81 of 2023	Cabinet Decision 34 of 2025
1	Conditions to qualify as QIF	In addition to the basic conditions provided under Article 10 of the UAE CT Law, investment funds were required to meet four additional conditions: • Investment business condition • **Diversity of ownership condition** • **Investment manager condition** • Independence condition Refer to our [earlier tax alert] for a detailed explanation of each condition.	While the basic conditions continue to remain the same (and applicable), the following additional conditions have been removed: • **Diversity of ownership condition (Refer Note 1 below)** • **Investment manager condition** Further, a new condition has been introduced that the fund is required to provide its investors with all information, document and data necessary for the purpose of computing their taxable income. This requirement ensures that investors are able to accurately determine their tax liability in relation to income earned through the QIF, which may be taxable in their hands under certain circumstances (**as discussed in point 3 below**). *While the QIFs were earlier also practically required to provide this information to investors but now such a requirement has been explicitly included as a pre-requisite condition*

Sr. No	Particulars	Cabinet Decision 81 of 2023	Cabinet Decision 34 of 2025
2	Taxability of QIF	Treated as **exempt** from Corporate Tax.	**Unchanged** – QIF remains an exempt person.

3	Taxability of investors in QIF – in relation to income earned by QIF	QIFs were required to classify their net distributable income into the following categories:
		• Net Exempt Income
		• Net income from immovable property
		• Net interest income
		• Net other income
		
		Subsequently, the above income (except net exempt income) was taxable in the hands of the investors depending on their respective tax residence status in the UAE.
			Investors are not subject to tax on income earned by QIF, except in the following scenarios:
			• **Scenario 1- Exceeding "Diversity of ownership" threshold –**
			The concept of "diversity of ownership" remains consistent with that under Cabinet Decision No. 81 of 2023—i.e., no investor and its related parties should hold more than 30% (where the fund has fewer than 10 investors) or 50% (otherwise).
			
			However, Cabinet Decision No. 34 of 2025 broadens the scope of this condition beyond mere ownership interest to now also cover:
			- Voting rights
			- Composition of board of directors
			- Profit sharing
			- Influence over the conduct of business and affairs of the QIF
			
			In cases where the **diversity of ownership threshold is exceeded, juridical investors are required to include their share of QIF income in their taxable income.** However, this rule is subject to the following **key exceptions:**
			
			- **Exception 1**: A newly established QIF is provided with a grace period for the first **two financial years**, to meet diversity condition, subject to sufficient evidence of intent. **(Refer Note 2 below)**
			- **Exception 2**: After the lapse of first two financial years, a breach of the diversity requirement **will not trigger taxability** in the following cases:
			  ○ The breach is due to circumstances **beyond the control** of the QIF or its investors and does **not exceed an aggregate of 90 days** in a financial year; or
			  ○ The breach arises due to the **liquidation or termination** of the QIF.

Sr. No	Particulars	Cabinet Decision 81 of 2023	Cabinet Decision 34 of 2025
3	Taxability of investors in QIF – in relation to income earned by QIF		• **Scenario 2 - Immovable property percentage (as defined in CD 34 of 2025) exceeds 10% in a FY.** In such cases, 80% of the income from immovable property becomes taxable in the hands of juridical investors on a pro-rata basis. **Exception to Scenario 2:** If **80% or more of the immovable property income is distributed within nine months**, and the investor has **exited the fund prior to the date of distribution**, then **such income is not taxable** in the hands of that investor. **Offset against capital gains:** Where an investor derives **capital gains** upon exit from the QIF, and such gains are **not exempt** under the participation exemption (due to unmet conditions), a deduction is allowed for any **undistributed income** of the QIF on which the investor has already paid tax. This deduction is limited **to the extent of the capital gains amount** and is intended to avoid double taxation. • Depreciation adjustments also apply to income taxed under both scenarios. • Lastly, the nexus rules have been amended to cover the above two Scenarios. This has been discussed in the later part of this alert.
4	Taxability of investors in QIF – in relation to profit distributed by QIF	• Dividends received in excess of income already taxed (under point 3) are taxable in the hands of the investors. This is assessed cumulatively across all tax years.	• **Fully exempt** – all profit distributions by the QIF are exempt in the hands of the investor, without any limitations.
5	Others		The new Decision allows a Non-Resident Person to appoint a Tax Agent to act on its behalf with respect to its obligations under this Decision.

Few remarks:

Note 1 - While the diversity of ownership condition has been removed as a criterion for QIF status, it now plays a central role in determining the taxability of income in the hands of investors. Notably, the definition of "ownership" has been broadened beyond mere ownership interest. As a result, the onus of taxability (without jeopardizing the QIF status of fund) shifts from the fund to its juridical investors when the diversity condition is not met.

Note 2 – The new Decision does not explicitly address situations where a new fund fails to meet the ownership diversity condition in the third year. It remains unclear whether investor taxation would retrospectively apply from Year 1 or commence from Year 3, when the breach occurs.

2) REITs

Sr. No	Particulars	Cabinet Decision 81 of 2023	Cabinet Decision 34 of 2025
1	Conditions to qualify as QIF	In addition to the basic conditions provided under Article 10 of the UAE CT Law, REITs were required to meet three additional conditions: • Condition 1 - Real estate asset value (excluding land) must exceed AED 100 million; • Condition 2A - At least 20% of share capital floated on a recognised stock exchange; or • Condition 2B – At least 20% of share capital directly owned by two or more institutional investors (at least two unrelated) • Condition 3 - Average real estate asset percentage ≥70% during the financial year Refer to our [earlier tax alert] for a detailed explanation of each condition.	While the basic conditions continue to remain applicable, key refinements in additional conditions are as follows: • Condition 1 – Value of immovable property (as defined under CD No. 34 of 2025), excluding land, to be considered for the purpose of computing AED 100 million threshold under this condition. *No definition of "Real estate asset" was provided in the previous CD decision. Also, the term "immovable property" has now replaced "real estate asset" in the new decision (i.e. CD No. 34 of 2025) and has been further defined.* *This definition is aligned with the definition of immovable property earlier provided in CD No. 56 of 2023 (old CD for Nexus) and now provided in CD No. 35 of 2025 (New CD for Nexus).* Additionally, assets held through REIT-owned SPVs are explicitly included in the new Decision. While it was earlier not specifically included in the previous CD but was explained in the corporate tax guide issued on investment funds. • Condition 2A - REIT and its related or connected person **must not subscribe** to floated shares.

Sr. No	Particulars	Cabinet Decision 81 of 2023	Cabinet Decision 34 of 2025
			• Condition 2B – Federal and Local Governments have been removed from the list of institutional investors. However, juridical person wholly owned and controlled by government or government-controlled entities are now included. • Condition 3 – Must be based on average value of rental income-generating immovable property over the financial year. In addition, similar to QIFs other than REIT, REITs are now required to provide investors with all relevant information, documents, and data needed to compute their taxable income.
2	Taxability of REIT	Treated as exempt from Corporate Tax.	**Unchanged** – REIT remains an exempt entity.
3	Taxability of investors in REIT – in relation to income earned by REIT	Same as QIFs other than REIT.	Investors are subject to tax on income earned by REIT on the immovable properties to the extent of 80%. The taxability provisions are same as applicable under Scenario 2 for QIFs other than REIT (as explained above).
4	Taxability of investors in QIF – in relation to profit distributed by REIT	Dividends received in excess of income already taxed (under point 3) are taxable in the hands of the investors. This is assessed cumulatively across all tax years.	**Fully exempt** – all profit distributions by the REIT are exempt in the hands of the investor, without any limitations.
5	Others		Same as QIF as discussed above: Non-Resident Persons may appoint a Tax Agent for compliance purposes.

Few remarks:

The conditions for REIT to qualify as a QIF have been made more stringent. Specifically, the immovable property percentage must now be calculated based only on **rental-generating immovable property, excluding properties held solely for capital appreciation.**

3) QLPs

Sr. No	Particulars	Provisions as provided in CD 34 of 2025
1	Definition	A limited partnership, recognized as a juridical person, established in accordance with the prevailing legislation of the State for the exclusive purpose of collective investment. This establishment must be under a legal framework that explicitly permitted the formation of such partnerships on or before June 1, 2023, or any other legal framework as may be prescribed by the Minister.
2	Conditions to qualify as QLP	A QLP must satisfy the following criteria: • Its **principal business activity** must be **investment-related** (similar to QIFs – refer to our earlier alert for details). • It **must not derive income** from immovable property located in the UAE. • Its **main or principal purpose must not be tax avoidance.**
3	Taxability of QLP	Treated as **exempt** from Corporate Tax.
4	Entities owned by QLP	Similar to QIFs, a **juridical person** wholly (directly or indirectly) owned and controlled by a QLP may also apply for exemption – **provided**: • It conducts any of the **permissible activities**, and • **It does not derive income from UAE immovable property.**
5	Taxability of investors in QLP – in relation to income earned by QLP	QLP is treated as a **tax-transparent entity**. Income earned by the QLP (and its wholly owned entities) is **taxable in the hands of juridical investors** on a **proportionate basis.**
6	Taxability of investors in QLP – in relation to profit distributed by QLP	**Fully exempt** – all profit distributions by the QLP are exempt in the hands of the investor, without any limitations.
7	Exemption Application	If a QLP: • **Fails to apply for exemption in the first applicable tax period, or** • **Fails to meet the qualifying conditions during a tax period,** Then it shall **cease to be an exempt person** from the beginning of that tax period and for the **next four tax periods.**
8	Others	• Where QLP ceases to be an exempt person, the opening values for Corporate Tax purposes post-exemption are: - For assets and liabilities held prior to exemption period, use the closing value at the end of the financial year immediately preceding the exemption, plus any capitalized costs during the exemption period. - For assets and liabilities acquired during the exemption period, use cost as per applicable accounting standards and capitalized costs, based on the arm's length principle.

4) Interplay of CD No. 34 with CD No. 35 of 2025

Cabinet Decision No. 35 of 2025 repeals and replaces CD No. 56 of 2023 **for financial year starting on or after 1 January 2025**.

a) **Provision as per old CD** - The earlier CD defined "**nexus**" in a narrow sense, applying **only to income from immovable property** earned by a **non-resident person.**

b) **Key changes introduced** - Cabinet Decision No. 35 significantly **expands the definition of "nexus",** bringing additional income streams within scope, particularly in relation to **juridical investors in QIFs**, under the following scenarios:

- For QIFs other than REITs:
  - Failure to meet diversity of ownership (i.e. Scenario 1 above in para B.1); and
  - Failure to meet immovable property percentage (i.e. Scenario 2 above in para B.1)
- For REITs being QIF – All cases. As explained above, the immovable property income earned by REIT (being a QIF) is taxable in the hands of the juridical investors.

Further, in relation to Scenario 2 and in the case of Income from REIT, the Decision also clarifies the **timing of nexus** as follows:

- If 80% or more of the income from UAE immovable property is distributed within 9 months, the nexus is triggered on the date of distribution.
- In all other cases, the nexus is triggered on the date of acquiring the interest in the UAE immovable property.

c) **Few remarks –**

- The expanded scope of the nexus rule now includes all the taxable income earned by QIF (not only immovable property income) in case of exceeding "diversity of ownership threshold" and such income becomes taxable in the hands of foreign juridical person, even if such foreign juridical person does not have a permanent establishment in UAE. Whereas, in the earlier CD, such foreign juridical person (not having a permanent establishment in UAE) were subject to tax only to the extent of income from immovable property earned by such QIFs.
- Under the UAE Corporate Tax Law, a foreign juridical person with a nexus in the UAE is required to register for tax within three months from the date the nexus is established. Where the nexus is triggered by acquisition of an interest in immovable property, but the taxpayer delays registration assuming 80% distribution will occur (within the nine-month period), failure to distribute may result in penalty exposure for late registration.
- Additionally, the decision does not specify the date of triggering of nexus under Scenario 1.

Conclusion

Cabinet Decision No. 34 of 2025 introduces significant changes to the tax treatment of QIFs, reinforcing the UAE's position as a preferred investment hub. In principle, QIF income remains exempt at all levels, with tax exposure arising only in limited, well-defined scenarios. Even in such cases, the tax liability shifts to the juridical investors, rather than the fund itself.

To support this approach, Cabinet Decision No. 35 of 2025 expands the scope of nexus, ensuring that foreign juridical persons with relevant interests are brought within the UAE tax net wherever applicable.

In light of these developments, QIFs and their juridical investors must maintain close oversight of shareholding structures and revenue composition. Such proactive monitoring is essential to ensure ongoing compliance with the UAE Corporate Tax Law and to avoid unintended tax exposure or penalties.

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