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DIGITAL ASSETS, REAL TAXES: UAE CORPORATE TAX PERSPECTIVE

Part 1 – Crypto Mining

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BACKGROUND

Crypto mining is the process of validating blockchain transactions using high-powered computing infrastructure. In return, miners are rewarded with newly minted cryptocurrency or transaction fees.

While technically complex, mining also raises important questions under UAE Corporate Tax (CT) law, more specifically particularly around revenue recognition, timing of taxation, and free zone relief eligibility.

> *Part 1 of our digital asset tax series explores how UAE CT applies to crypto mining—the foundational activity in digital asset creation.*

REVENUE RECOGNITION

Timing & Valuation

Mined crypto assets are typically recognized as **revenue at fair market value on the date of creation.** If unsold at year-end, **any change in value is recorded as an unrealized gain or loss** to reflect fair value as of the financial year-end.

This treatment aligns with general accounting principles, though specific guidance under IFRS for crypto remains limited.

Taxpayers should ensure that their accounting treatment, especially around initial recognition and subsequent fair value changes, is consistently reflected in their tax positions to avoid mismatches or scrutiny.

ACCOUNTING

Investments or Inventory?

The accounting treatment of mined crypto assets depends on their intended use:

- **Intangible assets (commonly classified under IFRS 38):** If held for long-term investment.
- **Inventory (IAS 2):** If held for trading or resale.

Disposal is treated as either the sale of inventory or the disposal of an intangible asset, with gains or losses recognized in the income statement.

Mining equipment is depreciated over 3–5 years in line with the standard accounting principles.

CORPORATE TAX

General Applicability

Under UAE CT, juridical persons (excluding qualifying free zone persons) are taxed as follows:

Income Threshold	Rate
Up to AED 375,000	0%
More than AED 375,000	9%

Individuals are generally not subject to UAE CT on wages, personal investments, or real estate income. However, if an individual conducts a business activity, particularly one that requires a license and earns more than AED 1 million annually, they are within the purview of CT. Hence, crypto mining, **if carried out in a structured or commercial manner under a licensing requirement, may fall within this scope and trigger CT obligations.**

Small Business Relief is available to **taxpayer with turnover up to AED 3 million,** allowing them to be treated as having no taxable income until end-2026.

CORPORATE TAX (CONT.)

Tax Treatment of Mining Revenue

Primary scenario: Tax at Recognition

- UAE CT determines taxable income based on IFRS-compliant financial statements. **Mining revenue is taxed at fair value when created, with related costs deductible in the same year.**
- Later **gains/losses may be taxed on accrual or disposal,** depending on classification of mined asset in accounts and **corresponding tax election** (regarding realization) preferred by taxpayer.

Alternative scenario: Tax at Disposal

- Sales proceeds taxed at 9%, based on view that **mining creates an unrealized gain until asset is sold.**
- Costs remain deductible when incurred, creating tax losses for future offset.

Arguably, in absence of specific guidance, **a private clarification may be explored to support disposal-based taxation,** thereby aligning tax outflow with actual cash inflow, which is often critical for managing liquidity.

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CORPORATE TAX (CONT.)

Free Zone Eligibility

A Qualifying Free Zone Person (QFZP) benefits from 0% Corporate Tax on qualifying income, subject to satisfaction of other specified conditions. In context of digital assets, the **FTA's Free Zone Guide confirms that holding crypto assets qualifies as holding ‘shares and securities’,** which is eligible for 0% CT if held for at least 12 months.

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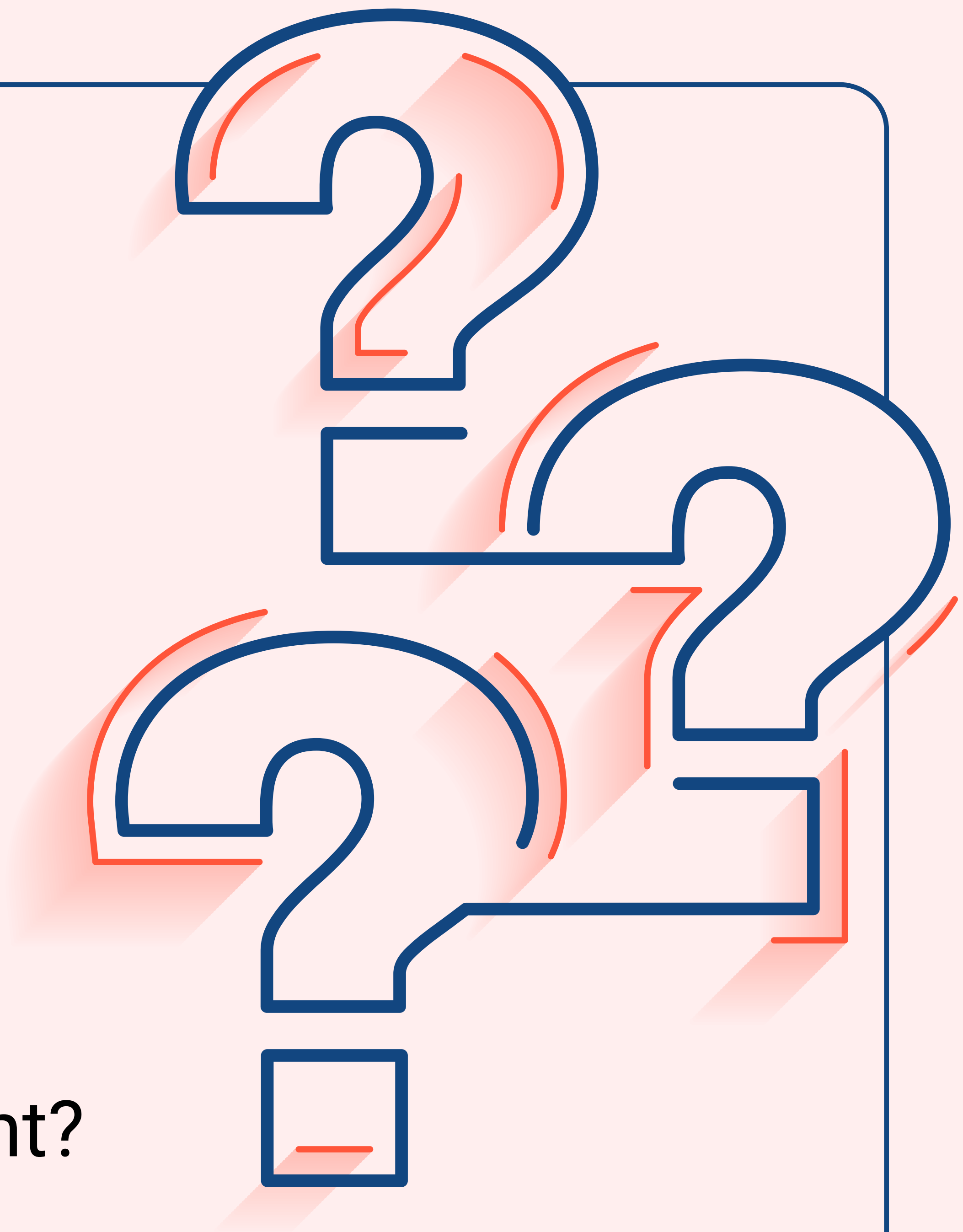
CORPORATE TAX (CONT.)

Whether mining income also qualifies is less clear.
Key considerations include:



- Can mining be viewed as an ancillary activity to the qualifying activity of holding crypto assets, since it
  results in self-generated assets intended for long-term investment?
- Or should mining be treated as a separate business activity, given its operational nature and distinct accounting treatment?

Given the evolution of tax principles and lack of a clear guidance, a **private clarification may help determine eligibility.** In addition, **exploring a separation of mining and holding functions** may support Free Zone optimization and reduce tax uncertainty.

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KEY TAKEAWAYS

- Assess whether mining revenue should be taxed on recognition or disposal, based on accounting treatment, business model, and associated tax rules.

- For QFZPs, evaluate if mining can be treated as ancillary to holding activity and qualify for 0% UAE CT, presuming other conditions are fulfilled.

- Consider separating mining, investment, trading and other activities into distinct entities to optimize tax outcomes as much possible and manage appropriate compliance.

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