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DIGITAL ASSETS, REAL TAXES: UAE CORPORATE TAX PERSPECTIVE

Part 2 – Investment & Holding

Swipe

BACKGROUND

Digital assets have emerged as a prominent asset class, giving rise to holding and investment companies dedicated exclusively to these instruments. As highlighted in Part 1 (crypto mining), digital assets are forming distinct business models. Building on that, this edition focuses on holding and investment companies that engage with digital assets as a core asset class:

A **holding entity** typically acquires and retains digital assets as a long-term investment, whether for profitability, diversification, or as a hedge against inflation

An **investment entity** pools capital from investors to deploy into digital assets, adopting strategies that may range from long-term holding to active, short-term trading for quick gains.

Part 2 of our digital asset tax series explores how UAE CT (excluding Pillar 2/ DMTT considerations) applies to holding and investment of digital assets as to what amounts to transfer, categorization for tax purposes

HOLDING DIGITAL ASSETS

Categorization

Digital Asset or Physical Asset

Globally, the laws around digital assets are evolving. For example, in case of tokenized real estate, which facilitiates fractional ownership of real estate through digital tokens, a question arises whether these tokens are digital assets or real estate assets. Such **transactions must be assessed based on their specific facts and the accounting treatment followed by the investor.**

Intangible Asset or Inventory

From an accounting perspective, based on guidance from IFRS 9 and IAS 38, a **digital asset intended for trading is treated as inventory,** whereas **long-term holdings are recognized as intangible assets**. Categorization of digital assets determines its accounting treatment and taxation.

Under the UAE CT Law, **taxation on holding digital assets can be deferred upto their point of disposal** i.e. by means of election on realised based taxation (either for capital or all assets).

TRANSFER OF DIGITAL ASSETS

The Essence of Transfer

A transfer occurs when ownership or rights in a digital asset change hands in exchange for consideration, either in form of cash, other assets, or equity. Taxability arises upon such transfers, while mere holding or lending of assets may not not trigger corporate tax if realised basis of taxation is adopted.

Alternatively, selling ownership interest in an entity, holding digital assets, will trigger different tax implications (such as possibility to claim participation exemption).

Case Study

A holding company in a Free Zone provides digital tokens as collateral to support a subsidiary's operations in digital asset insurance. The transfer does not trigger tax as it is not a sale, but any arm's length fee or interest must be considered for transfer pricing purposes. The subsidiary's income remains subject to standard CT rules, while the holding entity preserves Free Zone benefits, provided substance (qua the activity of holding as well as for *treasury and financing services to related parties)* and are other FZ conditions are met.

In the same example, if the holding company sold tokens to a third party or distributed them to employees or shareholders, it would be a taxable transfer, subject to exemptions, if any.

FREE ZONE ENTITIES

Qualifying Activities

Qualifying Free Zone Persons (QFZPs) enjoy a 0% CT rate on income from "Qualifying Activities," traditionally including holding of shares and securities for investment purposes. While digital assets were not explicitly mentioned in the law, **Free Zone Guide** confirms that cryptocurrencies can qualify when held for investment.

FREE ZONE ENTITIES (CONT.)

Investment condition (12 month holding rule)

As per the legislative guidance from FTA, assets held for at least 12 months are deemed to meet the “investment purpose” test. In practice, commercial needs may lead to earlier sales, raising challenges about compliance with investment condition. The **Dubai Economy and Tourism (May 2025)** guidance states that a taxpayer’s documented intent to hold can suffice investment condition, even if sold sooner. Factors to consider include:

- **Circumstances of acquisition:** Reason and how the shares or securities were acquired
- **Duration of ownership:** The length of time the shares or securities were held
- **Circumstances of disposal:** Reason and how the shares or securities were disposed
- **Frequency of transactions:** The number of similar transactions involving shares or securities

FREE ZONE ENTITIES (CONT.)

The guide also provides **other indicative but non-exhaustive factors** including: **Manner of accounting** (E.g. current asset or investment); **Percentage of ownership** (Minority or majority investment); **Financing of acquisition** (E.g. through borrowings – short-term financing suggests a quick profit-oriented sale, whereas long-term financing indicates different intention or own capital);

While this guidance provides a practical framework, some subjectivity remains given that the interpretation has and continues to evolve on this matter. Businesses should carefully assess facts and circumstances if they intend to explore any defensible position relying on the above principles.

FREE ZONE ENTITIES (CONT.)

Transfer between Free Zone entities

For commercial and strategic considerations, many groups operate multiple Free Zone entities for investment, trading, or joint ventures. Income from transactions between Free Zone entities can generally qualify for 0% CT. While long-term holding rule (discussed above) apply for transactions with non-Free Zone entities, **intra-Free Zone transfers benefit from the regime, without any minimum holding criteria,** offering practical flexibility for multi-entity structures. Key considerations include:

- Counterparty must be a **beneficial recipient**
- Compliance with **transfer pricing, substance, and other requirements**

FREE ZONE ENTITIES (CONT.)

De Minimis Rule

To maintain 0% CT status, non-qualifying income must not exceed 5% of total revenue or AED 5 million, whichever is lower. For digital assets, **trading or short-term transfers may breach this limit.** Businesses should monitor income, maintain reporting, and consider segregating trading and investment activities to preserve Free Zone eligibility.

KEY TAKEAWAYS

For complex transactions, assess whether a taxable transfer has occurred.

Maintain systems to distinguish digital assets held for investment from those held for trading.

Monitor non-qualifying income to ensure it stays within de-minimis thresholds.

Consider entity-level or segregated structures to preserve Free Zone benefits.

For QFZPs, keep documentation and comply with transfer pricing, beneficial ownership, and substance requirements.

AUTHORS

Rakesh Jain
Partner
rakesh.jain@dhruvaadvisors.com

Divyanshu Agarwal
Senior Manager
divyanshu.agarwal@dhruvaadvisors.com

UAE CONTACTS

NIMISH GOEL
Leader, Middle East
nimish.goel@dhruvaadvisors.com
Tel (UAE): +971 50 106 6531
Tel (KSA): +966 54 760 1600

KAPIL BHATNAGAR
Partner
kapil.bhatnagar@dhruvaadvisors.com
Tel: + 971 5 868 36207

RAKESH JAIN
Partner
rakesh.jain@dhruvaadvisors.com
Tel: +971 50 135 2319

SANDEEP KUMAR
Partner
sandeep.kumar@dhruvaadvisors.com
Tel: +971 50 504 8787

VLAD SKIBUNOV
Partner
vlad.skibunov@dhruvaadvisors.com
Tel: + 971 54 404 0510

GEET SHAH
Partner
geet.shah@dhruvaadvisors.com
Tel: +971 50106 9034

UJJWAL KUMAR PAWRA
Partner
ujjwal.pawra@dhruvaadvisors.com
Tel: +971 50199 3363

SHIRAZ SALEEMI
Associate Partner
shiraz.saleemi@dhruvaadvisors.com
Tel: +971 506602520

KSA CONTACTS

HANY ELNAGGAR
Associate Partner
hany.elnaggar@dhruvaadvisors.com
Tel: +966 53 621 4856

MANISH BANSAL
Associate Partner
manish.bansal@dhruvaadvisors.com
Tel: +966 54 645 0681

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DHRUVA CONSULTANTS

Dubai
207, Emaar Square, Building 4,
PO Box 127165, Dubai, UAE
Tel: + 971-4240-8477

Abu Dhabi
1905, Addax Tower City of Lights,
Al Reem Island, Abu Dhabi, UAE
Tel : +971-2678-0054

Saudi Arabia
308, 7775 King Fahd Road,
Al Olaya, 2970, Riyadh 12212,
Saudi Arabia

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Mumbai | Ahmedabad | Bengaluru | Delhi/NCR | Gift City | Kolkata | Pune

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