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Foreword

As we close 2025 and look ahead to 2026, it gives me great pleasure to present this year-end publication from Dhruva Consultants, a comprehensive reflection of the evolving tax landscape across the UAE and the wider GCC region.

The past year has been transformative. The UAE's introduction of Corporate Tax, the implementation of Pillar Two measures, and continued refinements to VAT and transfer pricing frameworks have fundamentally reshaped how businesses approach tax planning and compliance in the region. These changes represent not merely technical adjustments but a strategic recalibration of the region's economic architecture, positioning it firmly within the global tax governance framework while maintaining its competitive edge.

This publication brings together the collective expertise of our teams across multiple practice areas, from Corporate Tax and Transfer Pricing to VAT, Excise, Customs, and E-invoicing. Each article reflects real insights drawn from our firsthand experience navigating the inaugural Corporate Tax filing season, advising on complex Free Zone qualifications, structuring family wealth foundations, and addressing the intricate compliance challenges our clients have faced.

What distinguishes this publication is its practical orientation. Our authors have distilled technical complexity into actionable guidance, sharing lessons learned from actual implementations, highlighting emerging trends, and providing forward-looking perspectives that will help businesses prepare for 2026 and beyond. From understanding the nuances of the Domestic Minimum Top-up Tax to mastering transfer pricing compliance, from navigating real estate transitional relief to optimizing fund structure, this collection addresses the questions that matter most to decision-makers.

I would like to extend my sincere appreciation to all our team members who have contributed their time, expertise, and insights to this publication. Their dedication to delivering excellence, whether in client service or thought leadership, continues to define Dhruvas' position as a trusted advisor in the region.

As we look toward 2026, the message is clear: the era of "fixing and filing" is over. The era of governance, digitization, and transparency has begun.

Warm regards,

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Building on the UAE Corporate Tax's First Filing Season: Preparing for 2025 Return Filing

Introduction – A Landmark Compliance Year

The inaugural UAE Corporate Tax ("CT") filing season was a significant test of taxpayer preparedness, coordination, and technical interpretation. As the UAE moved from legislative rollout to real-world compliance, the first year revealed key strengths, gaps, and priorities for future filing cycles.

The season carried strategic significance, with several irrevocable elections to be made influencing future tax positions. The insights gained from this first cycle provide a strong foundation to enhance governance, streamline processes, and improve filing accuracy going forward. This article consolidates the key learnings, challenges and best practices from the first year and provides a practical roadmap for navigating the next phase of UAE tax compliance.

Legislative Overview

Under the CT Law, taxpayers are required to file a CT return within nine months from the end of their taxable period. A defining feature of the regime is the alignment of the taxable period with the entity's financial year, as no uniform tax year has been prescribed.

Although CT became effective for financial years starting on or after 1 June 2023, most UAE businesses follow a January–December year-end, resulting in a common filing deadline of 30 September 2025. This convergence resulted in the UAE's first major filing season – testing systems, processes and cross-functional readiness on a national scale.

What Worked Well

Despite being the first compliance cycle, several factors contributed to a largely successful filing season:

1. **Proactive Awareness by the FTA –** Regular FTA awareness sessions (specially on filing of CT return and navigating EmaraTax portal), guides and clarifications improved taxpayers understanding and reduced ambiguity.
2. **Timely planning –** Businesses that started early and aligned internal teams in advance faced significantly fewer last-minute challenges.
3. **Periodic Tax Provisioning –** Entities that carried out periodic tax provisioning were better equipped to reconcile accounting–tax differences, evaluate elections and validate financial data ahead of filing.
4. **Use of Standard Templates and Checklists –** Groups with multiple entities benefited from structured templates for data collation, reconciliations and disclosures, enabling accuracy and reduced rework.
5. **Defined responsibility matrix –** Organizations that established defined roles, responsibilities and dedicated SPOCs witnessed stronger coordination, consistent data flow and efficient collaboration across their internal teams.

Learning On The Go

Despite strong preparation, several challenges affected timelines and accuracy across different businesses and industries. Key focus areas included:

1. **Availability of financial statement:** The CT Return must be filed with the financial statements (audited where revenue exceeds AED 50 million). This resulted in one of the most common bottlenecks:
   - Delayed audit finalization, leaving limited time for return preparation and reviews.
   - Uncertainty around tax group financial statements until the FTA's guidance in August 2025, resulting in tight timelines for consolidated or combined FS preparation.
   - Incomplete formalities, such as unsigned / unstamped FS / management accounts by auditors and / or management—created compliance gaps and last-minute rectifications.
2. **Technical constraints:** Few challenges arose due to limitations within the EmaraTax portal, particularly during peak filing periods, such as:
   - Auto-population of outdated taxpayer information, with amendments taking up to 20 working days, leaving no time for corrections.
   - Delayed reflection of tax payments on the portal created unnecessary concern.
3. **Transfer Pricing ("TP") -** An Awakening for

Taxpayers: TP emerged as one of the most critical areas requiring attention. Taxpayers were required to identify related-party transactions, evaluate arm's-length compliance, and undertake TP documentation where applicable. Return preparation processes surfaced multiple issues:

- Incomplete identification of related-party transactions due to oversight or misclassification. Detailed scrutiny of trial balances and financial statements during return preparation revealed additional transactions requiring TP evaluation, often affecting timelines.
- Counterparty mismatches between receivable and payable balances across group entities created inconsistencies, necessitating detailed reconciliations to identify timing differences, classification errors or missing entries.
- Overlooked balance-sheet transactions such as loans, advances, reimbursements and settlements that fall within the scope of TP review and disclosure.
- Legacy balances and provision of centralized services without formal charging mechanisms. The introduction of CT/TP brought these arrangements under scrutiny, requiring granular analysis to ensure compliance with the arm's-length principle.

Overall, the first filing season served as a wake-up call, reinforcing that TP is no longer a secondary; it is a core compliance pillar demanding year-round attention, accurate documentation and early preparation.

4. **Administrative bottlenecks:** While taxpayers largely focused on tax calculations and payments, the return preparation process itself proved highly time-intensive for certain sectors, primarily due to:
   - Absent standardized excel templates for reporting disposals under transitional relief or participation exemption, information had to be manually inserted at each asset-level. This process was very time-consuming and vulnerable to errors requiring a detailed review. This was specifically challenging in case of return for tax group or real estate entities having multiple transitional relief transactions.
   - Limited field-level granularity in the return form, with many adjustments being grouped under "Other adjustments." Character limits for describing such adjustments restricted detailed explanations and required excessive summarization.

5. **Lack of co-ordination and preparedness:**

The CT return filing process requires coordinated input from multiple teams, and this complexity increases for Tax Groups where a single consolidated return covers several entities, each managed by client's different teams. Data accuracy is essential – particularly because the UAE CT regime does not offer a revised return facility after the due date (while an option to file voluntary disclosure is available subject to certain conditions).

During the filing cycle, significant gaps in coordination, standardization and taxpayer preparedness were observed. In many cases, the CT return process was perceived as a recurring compliance task, underestimating its complexity and significance. This lower prioritization contributed materially to delays, inefficiencies, and inaccuracies in data sharing.

Preparing For Compliance Season Of 2025 And Way Forward

While some challenges were beyond taxpayers' control, building on their learnings, organisations can take proactive measures to ensure a more efficient, accurate, and well-coordinated CT compliance process in the years ahead. Key priorities include:

1. **Early Planning and Preparation** – Initiate preparations well in advance, allowing sufficient time for data gathering, reconciliations, and stakeholder engagement. Clearly define responsibilities across client's internal teams.

2. **Strengthening FS Readiness –** Ensure that FS are finalised, signed, stamped, and audited in a timely manner.

3. **Enhancing EmaraTax Portal Preparedness –** Verify and update entity information, configure access

appropriately to mitigate last-minute challenges.

4. **Implementing a Comprehensive TP Framework** Review of related-party transactions, reconcile inter-company balances, assess legacy balances for arm's-length compliance, and evaluate free-of-cost intra-group services.

5. **Standardising Templates and Checklists –** Develop structured templates for data collation, reconciliations and asset-level reporting to ensure consistency and efficiency. Until standardised templates are available in EmaraTax, maintain data in formats aligned with system input to minimise errors.

5. **Obtain certainty –** In areas involving uncertainties, proactively seek FTA private clarification to obtain certainty.

6. **Timely Appointment of Tax Consultants –** Engaging consultants early enables structured planning, issue resolution and comprehensive guidance throughout the season.

Conclusion

The first UAE CT filing season provided invaluable insights into the country's evolving tax ecosystem. It underscored the importance of data discipline, inter-team collaboration, audit readiness, transfer pricing governance and system preparedness.

As the UAE enters Year 2 of compliance, businesses must elevate tax to a strategic priority. Organisations that act early, strengthen governance and learn from first-year challenges will be well positioned for a smoother, more confident, and more compliant filing experience in 2025 and beyond.

Article By

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UAE Transfer Pricing in a new era

Introduction

The UAE's corporate tax regime has now completed its first full year, and businesses are operating in an environment where transfer pricing (TP) expectations are rapidly maturing. Large business groups, family-owned conglomerates, sovereign-linked portfolios, free-zone corporates, and cross-border structures have all entered the FTA's review perimeter, making robust, defensible intercompany pricing essential.

Three areas have emerged as particularly complex during this inaugural year: common-control transactions, benchmarking and disclosure of Key Management Personnel (KMP), and reconciliation of tax versus book adjustments. These topics sit at the intersection of financial reporting, governance, and tax compliance, and are now shaping audit conversations across the UAE.

Common-control transactions: The invisible backbone of UAE Groups

Why common-control transactions matter now?

The UAE economy is dominated by multilayered holding structures, sovereign investment platforms, and diversified conglomerates. TP rules apply not only to direct related parties but also to entities under common control, even where the ownership chain is indirect.

Practically, this means:

- Entities with the same ultimate shareholder or controlling decision-maker fall within TP scope.
- Internal restructurings, cost allocations, shared services, asset transfers, and balance-sheet support must meet arm's-length standards.
- Even interest-free loans and historical informal arrangements now require documentation and defensible pricing.

Because these transactions occur frequently and often lack commercial formalities, they are becoming a focal point of FTA audits.

Challenges in determining arm's length conditions

Common-control transactions rarely resemble open-market behaviour. UAE groups often allocate resources based on strategic priorities rather than commercial bargaining. Key challenges include:

- Non-commercial motivations influencing capital flows or restructurings.
- Limited comparable market data for asset transfers or centralised services.
- Difficulty valuing synergies, central decision-making, or intangibles during business transfers.
- Complex valuation requirements for brands, customer lists, or internally developed intangibles.

These complexities demand functional and economic analyses that reflect UAE business realities rather than relying solely on foreign databases.

The Dhruva perspective: Best practices for 2025 compliances

To navigate TP expectations, businesses should:

1. Map all common-control relationships, not just direct shareholding links.
2. Document the business rationale behind transactions, not just pricing.
3. Assess realistic alternatives available to each entity.
4. Use independent valuations for restructurings and intangible transfers.
5. Implement groupwide pricing policies for loans, guarantees, and shared services.
6. Establish TP governance frameworks to formalise approvals and documentation timelines.

With the FTA increasing scrutiny on financial arrangements, free-zone–mainland interactions, and mismatch structures, a structured governance approach is no longer optional.

KMP benchmarking and disclosures

With corporate tax in force, the role of KMP has become central to TP, economic substance, and governance. KMP often influence strategic decisions across multiple entities within a group, and their compensation and functional allocation have direct implications for profit attribution.

Why KMP benchmarking is critical

The OECD Guidelines emphasise that control over risk and decision-making authority dictate where profits should be allocated. In practice:

- If KMP sit in one entity but perform strategic functions for several, that entity must be appropriately compensated, or
- Costs must be allocated fairly to beneficiary entities.

The FTA will assess whether:

- KMP are actually performing the functions claimed in TP documentation.
- Compensation aligns with market benchmarks.
- Allocations reflect economic reality rather than tax planning.
- Entities claiming low-risk characterisation genuinely lack strategic or risk-control functions.

Poorly documented KMP arrangements can result in recharacterisation risks, disallowed deductions, and TP adjustments.

Disclosure trends

FTA requirements now emphasise:

- Naming of KMP in TP disclosure forms.
- Clear articulation of roles and responsibilities in the Local File.
- Evidence of decision-making authority (minutes, delegations, reporting lines).
- Alignment with economic substance requirements, especially for free-zone entities.

Consistency across HR contracts, organisational charts, TP documentation, board minutes, and financial statements is increasingly viewed as a proxy for credibility.

Tax vs Book adjustments: Bridging the two worlds

Historically, UAE entities relied on IFRS financials without the need for detailed tax reconciliations. Under the new regime, businesses must distinguish between:

- IFRS book entries; and
- Tax adjustments required under UAE CT law and TP rules.

This distinction is crucial because intercompany charges may exist in the books but lack TP justification, while TP adjustments may be required even where no book entry exists.

Common mismatch areas

1. Interest on loans:

- Book: interest-free shareholder loans are common.
- Tax: arm's-length interest may need to be computed and disclosed.

2. Management fees and allocations:

- Book: cost distributions based on budgets or headcount.
- Tax: requires evidence of benefit, cost pools, allocation keys, and benchmarking.

3. Intangible transfers:

- Book: internally generated intangibles often not recognised.
- Tax: valuation and reporting required.

4. Unrealised gains/losses:

- Fair value adjustments may not align with tax treatment.

As FTA audits progress, we expect deeper linkage between TP documentation, financial statements, tax returns, and support evidence. Integrated tax-finance workflows are now essential.

The future of transfer pricing in the UAE: What businesses must prepare for?

A shift toward substance-based and behaviour-based audits

The UAE is moving beyond form-based compliance. We expect the FTA to focus on:

- Actual conduct versus written agreements
- Decision-making evidence
- Day-to-day operational control
- Roles played by group headquarters
- Alignment of risks, assets, and people across the group

Audits will rely heavily on data analytics, bank statements, ERP trails, and transaction-level evidence.

Increased scrutiny of free zone structures

Free-zone companies claiming 0% preferential rates must demonstrate:

- Adequate substance
- Genuine decision-making
- Arm's length pricing with mainland affiliates
- Real economic activities, not paper functions

It is expected that targeted audits would be conducted where free-zone–mainland transactions shift profits artificially.

More focus on intragroup financing and treasury functions

Globally the most litigated TP area, financing will become a UAE hotspot. Key areas:

- Interest-free loans
- Cash pooling and sweeping mechanisms
- Guarantees and implicit support
- Thin capitalisation and debt capacity
- Cost of capital analyses

Integrated corporate governance and TP governance

Boards will increasingly be expected to oversee TP policies, KMP allocations, and intercompany pricing frameworks.

What UAE businesses must do now: A Dhruva Roadmap

To stay ahead of regulatory expectations, companies should prioritise the following actions:

1. Conduct a TP risk diagnostic across common-control transactions, financing, free-zone structures, and intangibles.
2. Implement arm's-length policies and standardised pricing frameworks.
3. Strengthen documentation, including Local Files, benchmarking sets, valuation reports, and KMP role mapping.
4. Align tax, finance, and legal positions across IFRS, TP, corporate tax, contracts, and board minutes.
5. Enhance economic substance, especially for 0% free-zone entities.
6. Review treasury arrangements, loans, guarantees, and liquidity support mechanisms.
7. Revisit legacy practices, such as interest-free loans, informal support services, or undocumented allocations.

Conclusion

UAE transfer pricing is entering a period of rapid evolution. Common-control transactions, KMP disclosures, and tax-book reconciliations are already shaping FTA audits and will define compliance expectations in 2025 and beyond. The shift from documentation-only to behaviour-driven audits means businesses must strengthen governance, transparency, and economic substance.

For forward-looking UAE groups, TP is no longer a compliance obligation but a strategic enabler. Those that invest early in policies, documentation, and substance will be better positioned to demonstrate tax integrity, attract investors, and operate with long-term confidence.

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UAE Domestic Minimum Top-up Tax:
From Framework to Forward-Looking Tax Strategy

While the introduction of the standard Corporate Tax (CT) regime established a baseline tax framework, the implementation of the UAE Domestic Minimum Top-up Tax (DMTT) from 2025 firmly positions the UAE within the OECD's Pillar Two architecture.

For multinational enterprise (MNE) groups within scope i.e., those with consolidated revenues exceeding EUR 750 million, DMTT is not a marginal "top-up" to the existing 9% CT regime. Instead, it is a parallel, self-contained tax system with its own tax base, computational logic, independent compliance obligations, and strategic consequences.

Drawing from our recent experiences, this article highlights the key practical, structural and strategic considerations relevant to business groups in the UAE.

Scope of DMTT: Looking beyond the consolidation boundary

A frequent starting assumption is that DMTT applies only to entities consolidated on a line-by-line basis. In practice, the scope is broader, particularly when it comes to Joint Ventures (JVs), which are quite prevalent in in sectors such as real estate, infrastructure, energy, and logistics. Under the UAE DMTT regulations, entities in which the Ultimate Parent Entity (UPE) holds at least 50% ownership interest and accounts for the investment using the equity method may fall within scope. Importantly, the UAE has adopted an approach whereby 100% of the UAE profits of such JVs may be brought into the DMTT computation, irrespective of whether minority partners are themselves within the Pillar Two framework. Therefore, shareholder and JV agreements may need to be revisited to ensure that tax-sharing, indemnity, and governance mechanisms address potential DMTT impact.

GloBE Income and UAE CT Income: Different paths from the same starting point

While both UAE CT and DMTT begin with financial accounting net income, the adjustments that follow diverge significantly. The UAE CT regime permits a range of domestic adjustments, including transitional relief, interest limitations and specific deductions. The DMTT framework, by contrast, recalculates income under the GloBE rules by disregarding many of these domestic adjustments to arrive at "GloBE Income". As a result, businesses (for example in real estate sector, debt-heavy industries and investments to name a few) may observe materially different tax outcomes under the two regimes. In addition, for diverse business groups, DMTT demands investments in processes and systems to capture adjustments (such as those relating to elections, substance-based exclusions, etc.) throughout their life cycle to consistency in computations and enable audit readiness.

DMTT impact on free zone entities

While Qualifying Free Zone Persons (QFZPs) may continue to benefit from a 0% CT rate under domestic law, that outcome directly reduces the UAE jurisdictional Effective Tax Rate (ETR) for Pillar Two purposes. This can result in the intended benefit of the Free Zone regime being majorly neutralised through DMTT. Therefore, we have observed businesses reassess whether maintaining QFZP status continues to deliver meaningful value in a Pillar Two environment, or whether alternative structuring approaches are more efficient.

Deferred Taxes: Central to ETR outcomes

Deferred tax is a central component of the DMTT ETR calculation. The rules require Deferred Tax Assets (DTAs) and Deferred Tax Liabilities (DTLs) to be recast at the minimum 15% rate (subject to caps), rather than the domestic UAE CT rate of 9%. This requires careful alignment between accounting, tax, and GloBE carrying values. Attention is needed in scenarios involving tax losses, where DTAs may be recognised at 9%, recognised at a lower amount, or not recognised at all for accounting purposes. Each of these outcomes can materially influence adjusted covered taxes and consequently, the jurisdictional ETR. As such, deferred tax recasting represents a core workstream to assess DMTT impact rather than a routine adjustment.

Substance-Based Income Exclusion (SBIE): Translating substance into relief

The SBIE provides an opportunity to reduce GloBE income based on eligible payroll costs and tangible assets located in the UAE. Asset-intensive and manpower-intensive businesses, such as manufacturing, infrastructure, logistics, and operational real estate are particularly well placed to benefit from SBIE. In practice, eligibility hinges on precise definitions. Payroll costs must relate to employees (or in some cases supervised contractors) performing activities in the UAE, while tangible assets must be physically located in the country. Groups with mobile assets or centralised employment models may need a specific assessment to optimise the SBIE outcome.

Tax Sharing Arrangements: Managing group exposure

Under the UAE DMTT framework, Constituent Entities within the UAE are jointly and severally liable for the Top-up Tax. The aggregated computation framework of the DMTT provides a tax allocation challenge for entities with different tax profiles such as those which are profitable, have a significant SBIE or losses, and so on.

Tax Sharing Agreements (TSAs) may help allocate DMTT liabilities in a transparent and commercially aligned manner. However, accounting of such tax sharing should be carefully reviewed to reduce complexities of taxing the tax recovery received from the group entities.

Holding structures and the DMTT lens

Under the GloBE rules, subsidiaries, joint ventures, and associates are treated differently for DMTT purposes, which can materially influence whether an entity's profits are pulled into the DMTT net. As a result, groups may evaluate whether certain investments can be rationalised or restructured so that only entities genuinely intended to be within scope contribute to the group's DMTT exposure, subject to commercial rationale, regulatory constraints, and anti-avoidance safeguards.

Emerging incentives: Signals from Public Consultation

In 2024, the Ministry of Finance issued a public consultation document outlining potential future incentives including R&D Tax Incentive. While specific details are awaited, they signal the UAE's intention to promote innovation and high-value activities in the country. Groups should continue to monitor legislative developments and evaluate how they could benefit from such incentives.

Way Forward

The implementation of DMTT marks a structural shift in how tax outcomes are determined for large groups operating in the UAE. It places a premium on data quality, governance and alignment between tax, finance, and business teams.

The immediate focus for CFOs and Tax Directors should be on embedding DMTT into core reporting processes, reviewing joint venture exposures, strengthening deferred tax tracking, formalising tax-sharing mechanisms, reassessing the relevance of QFZP status, and staying alert to evolving incentive frameworks.

Groups that approach DMTT proactively as an opportunity to upgrade systems, enhance transparency, and future-proof their tax operating model will be best positioned to navigate the next phase of the UAE's evolving tax landscape with confidence.

Article By

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UAE Free Zones:
Key Corporate Tax Developments

As the United Arab Emirates (UAE) Corporate Tax (CT) regime continues to evolve, Free Zones (FZs) remain a focal point of both opportunity and increasing regulatory sophistication. While they continue to offer a 0% CT rate for Qualifying Free Zone Persons (QFZPs), the regime now requires clearer substance, compliance, and reporting alignment.

In 2025, the Ministry of Finance released Ministerial Decision 229 (MD 229) and Ministerial Decision 230 (MD 230), both of which refined and expanded the scope of Qualifying Activities. The objective is to address ambiguity, ensure commercial practicality, and broaden the types of activities that legitimately fall within the QFZP regime. These decisions apply retrospectively from 1 June 2023, making them relevant for both historical and future tax positions.

In the paragraphs below, we have discussed the key changes introduced by the ministerial decisions and their potential impact on FZ businesses.

Expanding the Scope of 'Trading of Qualifying Commodities'

MD 229 has introduced an important update to the treatment of commodity trading. The earlier MD 265 requirement that commodities be traded in raw form created challenges for traders handling refined or processed goods. MD 229 adopts a broader and more commercial definition, now including metals, minerals, industrial chemicals, energy and agricultural commodities, associated by-products, and environmental commodities - provided they have a quoted price from a Recognised Commodity Exchange or Recognised Price Reporting Agency. This substantially expands the scope of eligible products.

For example, a Free Zone trader dealing in refined copper cathodes previously faced uncertainty since these are not raw materials. Under MD 229, the presence of a reliable quoted price – such as an exchange reference – ensures that refined metals now qualify. Similarly, traders dealing in industrial chemicals can rely on price reporting agencies under MD 230, resolving earlier uncertainty for products not typically traded on formal exchanges.

Another significant refinement is the explicit inclusion of structured commodity financing – such as prepayment arrangements, receivable financing, and warehouse receipt financing – when these are linked to qualifying commodity trading operations. This aligns tax treatment with real-world business models, where trade finance is integral to commodity transactions.

For instance, a Free Zone trader supplying crude products and offering prepayment financing to buyers (to secure cargo) may previously have been unsure whether such income qualified to be taxed at 0%. MD 229 has clarified that structured financing connected to trading is indeed part of the Qualifying Activity, ensuring both trading and financing income remain eligible for the 0% rate.

To safeguard the integrity of the regime, MD 229 introduces a 51% revenue-mix threshold. Where more than 51% of an entity's revenue is derived from distribution, warehousing, logistics, or inventory-management activities, the entity will not be regarded as undertaking the 'Trading of Qualifying Commodities' activity. This measure appears intended to prevent distributors operating in non-designated Free Zones from recharacterizing themselves as traders in order to access the regime.

For example, if a Free Zone entity earns more than 51% revenue from distribution, warehousing, logistic, or inventory management activities and 49% from price-driven trading activity, it will not meet the 51% test. Its trading income will not be considered as income from 'Trading of Qualifying Commodities'.

Overall, these refinements reflect the growing sophistication of commodity trading, expand commercial alignment, and reinforce the UAE's positioning as a regional trading hub.

Treasury and Financing: Expansion to Own Account Activities

A key improvement under MD 229 is the expansion of qualifying treasury and financing activities to include services performed for the entity's own account, not just for related parties. Under MD 265, only intragroup lending and cash management were explicitly included, which did not reflect the full spectrum of treasury functions typically carried out in Free Zones.

In practice, Free Zone treasury structures frequently undertake proprietary activities such as placing surplus funds in interest-bearing deposits, managing investment portfolios, hedging exposures, or managing liquidity and foreign exchange risk. Although commercially standard, these activities were not clearly covered earlier, creating uncertainty.

MD 229 now expressly recognizes these own-account treasury activities. Functions such as proprietary financing, liquidity management, debt management, and associated risk management may qualify for the 0% rate – provided broader QFZP conditions are satisfied, and no Excluded Activities are undertaken. This refinement also aligns with Federal Tax Authority earlier guidance on Free Zones and provides consistency in interpretation.

Distribution Activity: Clarification for Supplies to Public Benefit Entities

Under MD 265, distribution of goods or materials in or from a Designated Zone was already a Qualifying Activity. However, it was unclear whether supplies to public benefit or non-commercial organizations would be considered qualifying, creating uncertainty for FZ entities operating in humanitarian, charitable, health, and public service supply chains.

The UAE hosts a significant humanitarian logistics ecosystem which serves as a base for numerous NGOs, United Nations agencies, and global logistics firms.

For example, distributors supplying UNICEF warehouses, WFP distribution centres, Red Crescent facilities, or government bodies procuring vaccines or emergency relief materials had no explicit basis to classify this revenue as qualifying. Where such supplies were substantial, this ambiguity risked affecting QFZP status.

MD 229 now expressly includes public benefit entities as eligible customers within distribution activities. This enables Free Zone distributors supporting humanitarian, charitable health sector, and other public interest supply chains to do so without creating adverse tax implications. This refinement supports the UAE's global humanitarian positioning and aligns tax treatment with policy intent.

Implication of Domestic Minimum Top Up Tax for Free Zone Entities

Beyond the ministerial decisions, the Domestic Minimum Top-Up Tax (effective 2025) represents a significant development for multinational groups operating in Free Zones. While QFZPs may continue to benefit from a 0% CT rate on qualifying income, multinational enterprise groups within the scope of Pillar Two must meet a minimum jurisdictional effective tax rate of 15%.

This means that even if a Free Zone entity enjoys a 0% domestic CT rate, its profits still contribute to the UAE's overall effective tax rate calculation under global minimum tax rules. Where the UAE's jurisdictional ETR falls below 15%, a top-up tax may be payable within the UAE. Free Zone incentives therefore remain valid, but they no longer guarantee a low-tax outcome at the global group level.

Concluding thoughts

As the UAE corporate tax framework continues to mature, the recent ministerial decisions and the introduction of the Domestic Minimum Top Up Tax reflect a shift toward greater clarity, transparency, and international alignment. For FZ businesses, these developments reinforce the continued relevance of the 0% regime while demands more nuanced qualification analysis, closer focus on substance, and careful activity - level review. The UAE remains committed to maintaining competitive FZ incentives, however that competitiveness now operates within a more sophisticated global tax landscape. Businesses that proactively assess their qualifying positions, refine their structures, and integrate Pillar Two considerations into their operating models will be best placed to navigate this evolving environment and preserve long term tax efficiency.

Article By

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Corporate Tax and Family Foundations in the UAE: A New Era for Private Wealth Structuring

Foundations have long been recognised as effective vehicles for family wealth preservation, succession, and governance. As non-commercial, non-shareholder structures designed to safeguard family assets, they provide transparency and continuity.

The UAE is increasingly recognised as one of the world's leading destinations for high-net-worth individuals, with significant migration of global wealth into the region. This concentration of private capital has reinforced the UAE's position as a preferred jurisdiction for family governance, succession planning, and foundation-led wealth structuring.

Historically, families relied on offshore companies, particularly offshore entities established under Jebel Ali Free Zone Authority (JAFZA), or domestic Limited liability Companies (LLCs). While adequate for basic ownership, these structures offered limited governance, fiduciary oversight, and succession planning. As family wealth expanded and diversified, the need for more sophisticated long-term structures became clear.

Dubai International Financial Centre (DIFC) introduced a trust regime introducing fiduciary principles, separation between ownership and control, and enhanced succession mechanisms. Building on this, both DIFC and Abu Dhabi Global Market (ADGM) later introduced foundation regimes, combining the clarity of a corporate structure with the continuity and governance features of a trust. Foundations offer perpetual existence, charter-based administration, and structured family involvement, and have become preferred vehicles for asset consolidation, governance formalisation, and multi-generational succession.

Under the UAE's Corporate Tax (CT) framework, the key question was how such entities, incorporated but non-commercial, would be treated. Taxing them like operational companies would conflict with their purpose. In this regard, the regulation has provided a mechanism for qualifying foundations, trusts, and similar entities to be treated as fiscally transparent, i.e. when certain conditions are met and FTA's approval is obtained, such entities are treated as Family Foundation and their income is attributed directly to beneficiaries, preserving tax neutrality essential for private wealth structures.

Understanding the Framework: What Constitutes a Family Foundation?

For UAE CT purposes, a Family Foundation includes a foundation, trust, or a similar entity that meets the prescribed conditions. While these vehicles share a common purpose, their legal form remains critical for tax treatment.

Unincorporated Trusts

Unincorporated trusts are fiscally transparent by default, as they lack separate juridical personality. Their income flows directly to beneficiaries. Where beneficiaries are natural persons holding assets for personal investment or real estate purposes, such income generally falls outside the CT regime. As tax transparency is automatic for such trusts, they are not required to make an application to the FTA.

Incorporated Trusts and Foundations

Incorporated trusts and foundations are treated as taxable persons unless they elect for transparent treatment and satisfy the prescribed conditions. To qualify as a Family Foundation, the entity must:

- Be established for identified or identifiable natural persons or a Public Benefit Entity (PBE), or both
- Must have, as its principal activity, the receipt, holding, investment, disbursement, or management of assets associated with savings or investments
- Not conduct activities that would constitute a business if carried out directly by the natural person beneficiaries
- Have a main purpose that is not tax avoidance
- Meet the distribution condition where a PBE is among its beneficiaries

Crucially, transparency is not automatic for such entities. The foundation must submit a formal application to the FTA, and the look-through treatment applies only upon approval. This emphasises the importance of documented intent, governance clarity, and structural alignment.

Similar Entities

The principle also extends to "similar entities", meaning non-commercial vehicles created for administering family wealth that are not companies in the traditional sense, such entities may also apply for transparent treatment if they satisfy the prescribed conditions. However, they must genuinely resemble foundations or trusts in form and function.

Entities Wholly Owned by a Family Foundation

A Family Foundation may own underlying companies. Even where a subsidiary is not itself a foundation or trust, it may apply for fiscally transparent treatment if:

- It is wholly owned and controlled by a qualifying Family Foundation, and
- It independently meets prescribed conditions.

This is particularly relevant for layered holding structures. For unincorporated trusts or associations of persons, transparency is automatic, but they are treated as Family Foundations only if they meet prescribed conditions. The parent vehicle's status therefore directly affects subsidiary eligibility.

Strategic Insights: A Framework Still Evolving

While the legislation is clear in broad intent, several interpretational issues are emerging as families apply Article 17 to diverse wealth-holding structures. These issues relate to governance design, beneficiary clarity, cross-border structuring, and legacy vehicles.

LLCs as Family Foundations

A recurring question in the UAE relates to whether LLCs can qualify as Family Foundations. Recent Public Clarification CTP008 confirms that LLCs are not considered "similar entities", as the term is reserved for vehicles comparable in legal character to trusts or foundations. Consequently, traditional LLCs cannot be treated as Family Foundations or elect transparency.

JAFZA offshore companies, despite being structured as companies, have historically served as non-operational family holding vehicles used solely for asset protection and succession planning. Their functional profile resembles a family foundation far more closely than an operating company. One could argue that they fall within the spirit of the definition, given that their purpose, governance, and regulatory characteristic differ significantly from commercial companies.

Nonetheless, CTP008 adopts a legal-form-driven interpretation, and until further guidance is issued, the eligibility of JAFZA offshore entities remains uncertain. Families using these structures may need to evaluate whether a transition to a modern foundation regime is advisable.

Foreign Foundations: Extending the Scope Beyond UAE Entities

Where a foreign foundation, trust, or similar entity owns UAE-located assets or is effectively managed from the UAE, it is regarded as a taxable person under UAE CT law. Such entities may also qualify for transparent treatment under Article 17 if they satisfy all statutory conditions.

Upon approval, income is attributed directly to beneficiaries, enabling them to benefit from applicable personal exemptions. A case-by-case review is therefore essential.

Indirect Beneficiaries and Multi-Layered Structures

Where a foundation lists another foundation or trust as a beneficiary, further analysis is required. The intermediary foundation must either:

- Qualify as a Public Benefit Entity, or
- Independently meet Article 17 conditions and obtain FTA approval.

If neither of the conditions is met, the primary foundation fails the beneficiary requirement. This highlights the need for thorough review of multi-layered or cross border structures, particularly those involving foreign foundations unfamiliar with UAE transparency requirements.

Partially Identified Beneficiaries and Mixed Allocations

A practical challenge arises where a Family Foundation allocates benefits across multiple beneficiary categories. For example, a foundation may allocate 70% to identified family members and 30% to charitable purposes supporting education, medical treatment, or similar causes.

Uncertainty arises as to whether individuals benefiting from such allocations qualify as "identified" or "identifiable" natural persons. The FTA distinguishes between the two: an identified person is named, while an identifiable person belongs to a clearly defined class – for example, a child or grandchild of the settlor which may be unborn at the time of foundation is established.

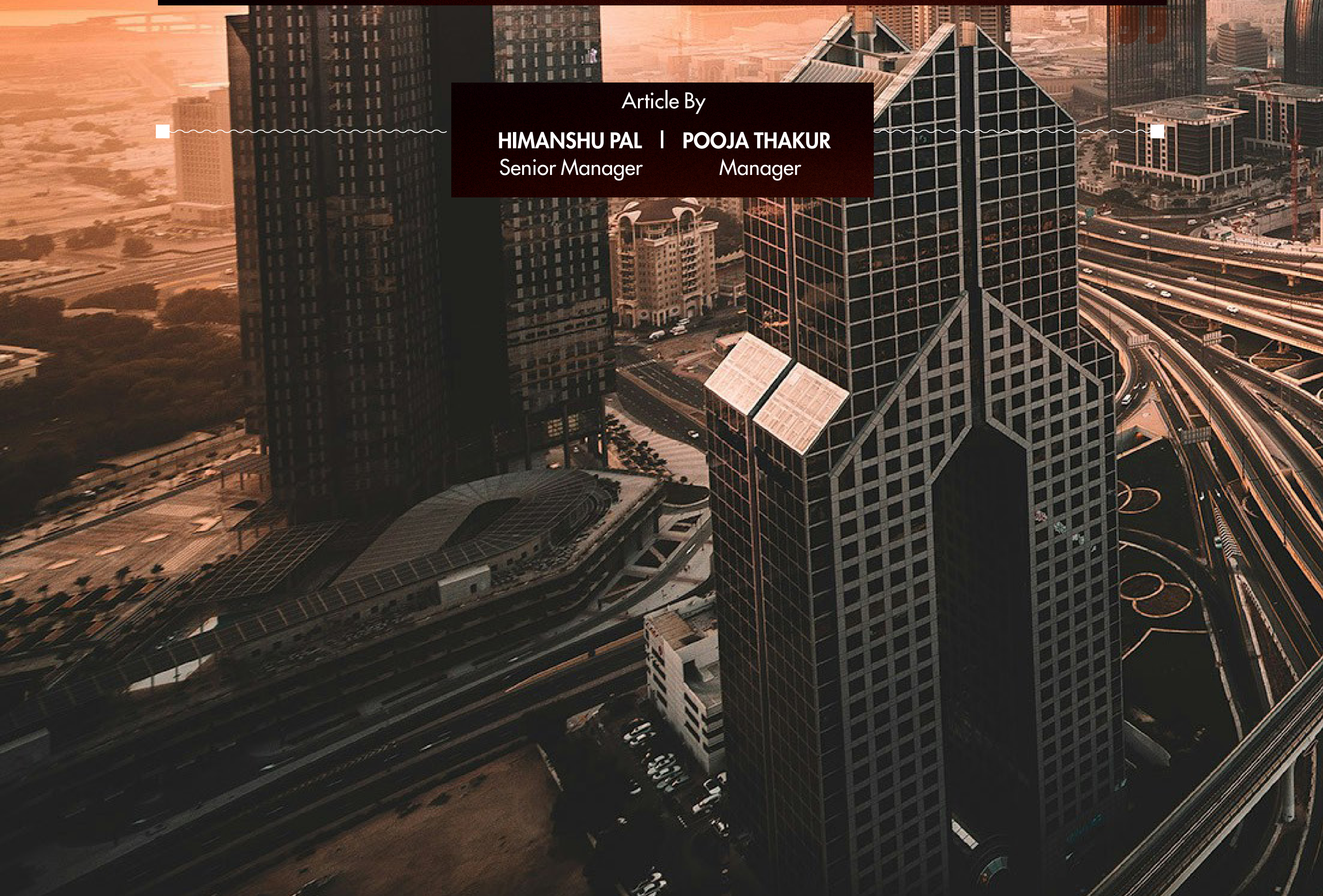
Individuals receiving discretionary charitable support are neither named nor clearly defined as a determinable class, leaving this as a grey area requiring further clarification.

Looking Ahead: A Mature, Balanced Framework for Private Wealth

The introduction of CT has accelerated the UAE's transition toward a mature private-wealth framework, ensuring tax neutrality for Family Foundations aligned with their purpose. The regime emphasises legal form, governance discipline, documented intent, and clear beneficiary definitions.

Legacy structures, including JAFZA offshore entities and layered holdings, may require realignment to avoid unintended tax outcomes. Families that proactively review their structures and governance will be best positioned to achieve long-term certainty.

As guidance continues to evolve, Family Foundations will remain cornerstone vehicles for wealth preservation, succession, and reinforcing the UAE's position as a leading private-wealth hub.



Article By

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Overview of UAE VAT in 2025: Focus on Compliance and Enforcement

Following a relatively quiet start to the year, the latter half of 2025 brought significant changes to the UAE VAT framework. Amendments to existing laws and decisions, along with the introduction of new legislative measures, brought about material updates impacting compliance, enforcement, and administrative processes.

While the legislative changes have naturally drawn the most attention, publications and guidance issued by the FTA throughout the year have also provided welcome clarification on several important topics.

This article summarises the key legislative amendments and FTA publications from 2025 that have an impact on VAT.

Major Legislative Amendments

In December 2025, the UAE issued Federal Decree-Laws No. 16 and 17 of 2025, amending the VAT Law (Federal Decree-Law No. 8 of 2017) and the Tax Procedures Law (Federal Decree-Law No. 28 of 2022). These amendments, effective from 1 January 2026, introduce a range of important changes aimed at:

- Simplifying compliance processes for taxpayers;
- Strengthening anti-fraud and enforcement provisions; and
- Establishing clear statutory time limits for certain tax procedures.

VAT Law Amendments

Removal of Self-Invoicing for Imports (Article 48(1))

The obligation for taxable persons to self-issue invoices for imports subject to the reverse charge mechanism has been removed. This amendment streamlines compliance by easing administrative burdens and reducing record-keeping obligations for businesses.

Denial of Input Tax Recovery Linked to Tax Evasion (Article 54bis)

The FTA may deny input tax recovery where a taxpayer was aware, or should have been aware, that a supply or supply chain involved tax evasion. A deemed awareness standard applies where adequate due diligence is not performed in respect of the supply.

Five-Year Limitation on VAT Refund Claims (Article 74(3))

Excess recoverable VAT must be used or claimed within five years. Amounts not claimed within this period will lapse.

Tax Procedures Law Amendments

Simplified Voluntary Disclosures (Article 10(5))

The FTA may specify cases where voluntary disclosure is required in cases where there is no difference in tax due. Other errors where there is no difference in due tax may be corrected directly in the tax return.

Time Limit for Refunds of Credit Balances (Article 38)

Refund requests must be submitted within five years of the relevant tax period, subject to specific exceptions (such as related to credit arising from a new decision by the FTA). A transitional rule allows claims on older balances until 31 December 2026.

Updated Limitation Rules for Refunds and Voluntary Disclosures (Article 46)

New limitation periods align with the revised refund deadlines, providing the FTA additional time for audits and taxpayers additional time for disclosures.

Administrative Penalty Amendments

Effective 14 January 2026, the penalty framework has been revised across VAT, Excise, and Tax Procedures laws. The key amendments are:

- Late payment penalties: A uniform 14% annual penalty, calculated monthly, replaces the previous monthly penalties for 2% (for the first month) and 4% (for subsequent months).
- Voluntary disclosures penalty: A monthly 1% penalty applies to tax differences disclosed through voluntary disclosures.
- Audit Error Penalties: A fixed 15% penalty plus 1% monthly on the tax difference applies until assessment or submission of a voluntary disclosure.

On the whole, the revised framework softens the impact of most penalties, with the aim of promoting more consistent and timely compliance.

Declining Refunds During Tax Audit

The new Federal Tax Authority Decision No. 9 of 2025, effective from 1 January 2026, defines conditions under which the FTA may decline tax refunds to taxpayers that are under tax audits. Specifically, this may be done in case where there is:

1. Evidence of significant potential tax liabilities
2. Indications of tax evasion
3. Links between refund claims and potentially fraudulent supply chains
4. Outstanding tax returns
5. Failure to provide requested information to the FTA on time
6. Non cooperation with the FTA

These principles formalise practices historically already often applied by the FTA in respect of refund requests.

Expanded application of domestic Reverse Charge: Precious Metals, Precious Stones and Metal Scrap

Several amendments to the domestic reverse charge mechanism (RCM) have expanded its scope to include additional categories of goods. This not only helps businesses manage VAT cash flow more effectively, but also reduces the risk of tax evasion in transactions involving these goods.

Thus, Cabinet Decision No. 127 of 2024 expands and updates the application of the domestic RCM on transactions involving precious metals and precious stones between VAT-registered businesses in the UAE. From 26 February 2025, the RCM applies to precious metals such as gold, silver, palladium, and platinum; precious stones such as diamonds, pearls, rubies, sapphires, and emeralds; as well as jewellery predominantly composed of these materials.

Further, Cabinet Decision No. 153 of 2025, issued in November 2025 and effective from 14 January 2026, introduces the domestic RCM on supplies of scrap metal to VAT-registered persons, where the recipient intends to resell or process the scrap.

Businesses should carefully assess the application of the domestic RCM, as incorrect treatment may jeopardise their ability to recover input VAT on such purchases.

E-Invoicing legislation

After several months of anticipation and uncertainty, the Ministry of Finance has issued Ministerial Decisions related to the implementation of e-invoicing.

Ministerial Decision No. 243 of 2025 sets out the legal foundation for the Electronic Invoicing System, requiring taxable persons to issue, transmit, and report invoices and credit notes in a structured electronic format. The Decision applies broadly to all business transactions, with specific exclusions such as certain government functions, selected airline and financial services. Businesses must appoint an Accredited Service Provider (ASP), comply with reporting timelines, and ensure data storage within the UAE.

To supplement this framework, Ministerial Decision No. 244 of 2025 outlines a phased implementation timeline. A voluntary phase will begin on 1 July 2026. Mandatory compliance will be staggered based on business size and sector:

- large businesses (with annual revenue of AED 50 million or more) must go live by 1 January 2027;
- smaller businesses have until 1 July 2027; and
- government entities have until 1 October 2027.

Businesses are expected to complete onboarding and integration processes with the system ahead of their respective deadlines. Notably, B2C transactions are excluded from the initial scope of mandatory implementation.

To support enforcement, Cabinet Resolution No. 106 of 2025 introduced a penalty regime for non-compliance, including recurring monthly fines for failure to implement the system or to appoint an ASP, as well as per-document fines for delayed or missing e-invoice submissions.

These developments mark one of the most significant VAT compliance reforms since the UAE introduced VAT in 2018, signalling a move toward real-time reporting and enhanced oversight by the Federal Tax Authority. Businesses are strongly encouraged to begin preparations early to ensure a smooth transition into the new digital compliance environment.

Major FTA Guidance and Publications

While 2025 did not see a high volume of new guidance from the Federal Tax Authority (FTA) on VAT topics, a few notable releases provided important clarifications on key topics. These updates addressed areas of practical relevance and helped taxpayers navigate certain aspects of compliance more effectively. Below is a summary of the major FTA guidance issued during the year:

- Several Public Clarifications addressed the requirement for businesses to self-issue tax invoices on the imports of services. While VATP036 and VATP041 initially raised this issue in the context of SWIFT messages, Public Clarification VATP044 broadened the discussion to cover all imported services. Notably, VATP044 introduced a general administrative exception to this requirement, offering some relief to businesses from a compliance perspective.
- As noted earlier, the requirement to self-issue tax invoices on both imported goods and services will be abolished with effect from 1 January 2026.
- Public Clarification VATP039 on Cryptocurrency Mining provided important guidance on the VAT treatment of cryptocurrency mining activities, including the implications for input tax recovery.
- Public Clarification VATP042 on Value of supply - Barter Transactions clarified the principles for determining the value of supplies in cases involving barter arrangements.
- Public Clarification VATP043 on Application of the Reverse Charge Mechanism on Precious Metals and Precious Stones provided useful summary of the expanded application of the RCM rules on domestic supplies.
- The VAT Guide VATGIT1 on Input Tax Apportionment was updated to include a new section on the Specified Recovery Percentage, introduced through amendments to the VAT Executive Regulations that came into effect on 15 November 2024.

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UAE VAT in 2026: Navigating Key Trends and Risks

As the UAE VAT regime moves into its ninth year, 2026 is shaping up to be a year of scrutiny and increasing sophistication. While no dramatic policy shifts are currently announced, the direction of travel is clear: deeper enforcement and higher expectations on governance. Businesses that continue to treat VAT as a compliance afterthought are likely to face increasing risk.

Based on the learnings of 2025, this article outlines the key VAT trends, risk areas, and focus points that UAE businesses should actively prepare for as they head into 2026.

VAT Audits and Dispute Resolution

One of the most consistent trends since 2023 has been the steady increase in VAT audits by the Federal Tax Authority (FTA). Early perceptions that audits would be limited only to high-risk sectors and business profiles have proven inaccurate. While high-risk taxpayers remain a focus, the FTA is now casting a wider net, auditing businesses generally considered low risk as well.

Regardless of business profile, one thing is clear: once an FTA audit is initiated, it will be thorough. These audits are deep, detailed, and increasingly sophisticated. The FTA examines both routine and exceptional transactions, scrutinises invoices, contracts, and other supporting documentation, and challenges a wide range of tax positions. In practice, this can include areas that are often overlooked – such as the absence of valid exit certificates for exports, missing or non-compliant tax invoices, failure to meet key deadlines like the 90-day export window, or not fully adhering to the conditions required for zero-rating services. Even seemingly minor gaps in documentation or interpretation can lead to significant tax and penalty exposures.

In 2026, this trend is expected to continue. Key characteristics of audits going forward include:

- Greater focus on transactional data and commercial substance to validate VAT treatment.
- Increased scrutiny of historically “safe” tax positions.
- Increased expectations around data quality and reconciliation.

Proactively managing audit risk will be essential. Once additional taxes and penalties are imposed, the road to dispute resolution can be rigid and uncertain. Unless the FTA reverses its decision during the Tax Assessment Review or Reconsideration stage, taxpayers must be prepared to escalate matters all the way to the Federal Supreme Court for a chance of a positive decision.

What should taxpayers do? Move away from reactive audit management – conduct regular internal VAT health checks, maintain proper documentation, and remedy errors early.

As discussed below, this becomes even more important and urgent in light of the introduction of e-invoicing from 2027.

E-Invoicing, Data Quality and Compliance

As VAT compliance in the UAE is becoming increasingly data-driven, 2026 represents a key transition year.

With e-invoicing set to go live from 2027, the FTA will have near real-time access to transactional data, which it can analyse to draw conclusions and make decisions, including:

- Whether VAT treatments applied make sense in the context of the transaction codes reported
- Whether inconsistencies or anomalies in the data that require further investigation
- Whether a tax audit be initiated based on the identified patterns

As such, while e-invoicing is often treated as a technology project, it represents significant compliance risk for tax and finance teams. Its ability to expose discrepancies which were previously difficult to detect, means that errors will surface more quickly and more visibly.

Therefore, preparing for e-invoicing must go beyond system integration or solution deployment. It requires:

- Investing in data integrity and completeness
- Ensuring VAT logic is accurately embedded at source
- Alignment between tax, finance, and IT teams around a shared project

While this may require upfront cost and effort, it is likely to be far more cost-effective than dealing with penalties, disputes, or investigations post-implementation.

Sector-Specific Developments and Policies

Over the past few years, VAT legislative developments have reflected a willingness to refine the regime to address specific sector requirements. This has taken the form of both substantive changes – such as the overhaul of VAT treatment of investment management services – and more procedural measures, such as expansion of the domestic reverse charge.

Certain sectors – particularly digital services, online platforms and cross-border supplies – are likely to attract increased attention in 2026. Globally, tax authorities have moved towards introducing specific VAT rules for platform-based business models to address VAT leakage and better align taxation with the digital economy. This approach is adopted regionally in Saudi Arabia, where ZATCA has implemented dedicated VAT provisions for electronic marketplaces, shifting VAT obligations to platform operators in certain cases.

In the UAE, platform operators and digital businesses continue to rely on general VAT principles around agency, commission and place of supply. While workable, this creates uncertainty and increases the risk of inconsistent treatment, particularly for cross-border supplies and non-resident sellers. As such, it would not be surprising if UAE VAT rules in this area are reviewed in the near future, potentially as early as 2026.

From a procedural perspective, the domestic reverse charge appears to be a go-to measure for the FTA. Domestic reverse charge is often used as a mechanism to either prevent missing trader fraud or to mitigate the cash flow impact of VAT. In the UAE, its scope has expanded over time – from initially covering certain supplies of oil and gas to precious metals and stones, electronic devices and scrap metal – each case addressing different underlying policy concerns. This trend suggests that further expansion of the reverse charge into other sectors is likely.

Evolving Interpretation of General VAT Principles

The technical interpretation of fundamental VAT principles – such as place of supply, zero-rating and exemptions – continues to evolve not through legislative amendments, but through the administrative practice and interpretative approach of the FTA. In practice, the FTA's position is often shaped by audit outcomes, private clarifications, objection decisions and direct communications with taxpayers, many of which are not fully visible to the wider market.

As a result, businesses may only become aware of shifts in interpretation when they are already under review. At that stage, taxpayers should not expect much tolerance for historic assumptions or informal practices.

Sectors particularly exposed include financial services and fintech, virtual assets, real estate and construction, logistics and cross-border trade – where VAT treatment often depends on narrowly defined rules and strict factual conditions. Businesses that rely heavily on special VAT rules or exemptions will increasingly need to demonstrate awareness of the FTA's evolving interpretation. Long-standing VAT positions should, therefore, be proactively reassessed – even prior acceptance by the FTA should not automatically be assumed to provide ongoing protection in a maturing VAT environment.

VAT and Corporate Tax Interaction

With UAE Corporate Tax now embedded in business operations, 2026 will be the first full year in which tax authorities can clearly observe and analyse the interaction between VAT, corporate tax and transfer pricing positions. The FTA will increasingly expect consistency across these regimes.

Key overlap areas include revenue recognition and timing differences, intercompany transactions and transfer pricing policies, expense deductibility versus input VAT recovery, and permanent establishments. Misalignment between VAT returns, corporate tax filings and TP documentation is therefore likely to trigger questions, audits or broader reviews.

As such, businesses should ensure that VAT, corporate tax and transfer pricing positions are aligned and mutually defensible. Cross-tax reviews and consistent documentation are becoming essential, as UAE tax authorities adopt a more integrated and sophisticated approach to tax risk management.

Governance, Accountability and Board-Level Awareness

The above developments show the importance of proper governance and controls at both senior management level and at the operational level.

At an internal level, poor governance can have direct and material financial repercussions. Recent VAT developments – such as the tightening of statutory time limits apply to VAT refunds and voluntary disclosures, as well as the new expectation on taxpayers to verify the validity of their acquisitions before recovering input VA – mean that failures in controls and execution can lead to permanent cash loss for a business.

As an external level, as VAT regime continues to mature, senior management is expected to demonstrate active ownership of tax. This includes understanding key VAT exposures, overseeing compliance and review frameworks, and allocating sufficient resources. VAT errors are no longer viewed not as isolated oversights, but as indicators of failures in governance, with potential reputational and broader regulatory consequences for the business.

Final Thoughts

As the UAE VAT regime enters a more mature and sophisticated phase, 2026 will demand stronger governance, deeper integration across tax functions, and proactive risk management. The FTA's evolving audit practices, the upcoming e-invoicing rollout, and increasing cross-tax scrutiny underscore the need for businesses to shift from reactive compliance to strategic VAT oversight. Those that invest in systems, data quality, and internal capability now will be best placed to navigate the growing complexity of the next stage of VAT in the UAE.

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From Consumption to Control: POEM Enters UAE VAT Arena

For years, the UAE VAT framework has adhered closely to a consumption-based tax model, particularly in the context of zero-rating exported services. The determining factor was consistently where the services were actually consumed, with taxability assessed by reference to the recipient's location and the economic use of the services. The mere physical presence of a director in the UAE was not, in itself, regarded as sufficient to constitute a place of establishment, nor was it treated as a proxy for determining the place of consumption of the supply.

That balance has begun to shift.

With the issuance of Public Clarification VATP040, the FTA has introduced a new analytical lens for determining whether export-of-services conditions are being met. While not labelled as such, the approach bears a striking resemblance to the Place of Effective Management (POEM) concept traditionally associated with corporate tax.

In substance, VAT is no longer looking only at what services are supplied and where they are used – but also at who is present in the UAE when those services are being received.

The Traditional Position: Export of Services as a Consumption Test

Under Article 31 of the UAE VAT Executive Regulations, services supplied to a non-resident recipient qualify for zero-rating provided certain conditions are met. Central among these is the requirement that the recipient is "outside the UAE" at the time the services are performed.

To operationalise this, the law allowed limited presence in the UAE – specifically, less than 30 days, provided such presence was not effectively connected with the supply.

In practice, this test was interpreted sensibly. Businesses focused on:

- where the customer was established;
- whether the services were contractually and commercially consumed outside the UAE; and
- whether any onshore presence was incidental or unrelated.

Governance structures, board composition, and director travel were rarely part of the VAT conversation.

That has now changed.

VATP040 and the Emergence of a "Director Presence Test"

VATP040 introduces an example that significantly expands the interpretation of the 30-day rule.

The clarification states that where services are supplied over a period of time, and a director of the non-resident recipient is present in the UAE for more than 30 days during the relevant 12-month period, the recipient may be regarded as being "in the UAE".

The consequence is stark: zero-rating is denied, even if:

- the services are contractually supplied to a foreign entity;
- the operational and commercial benefit accrues outside the UAE; and
- the director's presence has no demonstrable link to the service itself.

This is a fundamental shift from a use-and-enjoyment test to a control-and-presence proxy.

Why This Looks Like POEM – Even in a VAT Context

POEM, in corporate tax, focuses on where key management and commercial decisions are made. While a comparable notion existed in VAT through the definition of "place of establishment", it was inherently linked to the place where the entity is legally established and where significant management decisions are taken. In contrast, VATP040 appears to extend the conditions for zero rating by attributing the physical presence of a director to the recipient entity, thereby introducing a significantly stricter, management-based nexus into the VAT zero-rating framework.

In other words, the FTA appears to be asking: "If senior decision-makers of the customer are in the UAE, can we truly say the services are being received outside the UAE?"

This is a profound conceptual development. VAT, historically indifferent to governance mechanics, is now sensitive to who controls the recipient entity and where that control is exercised.

Practical Friction: Theory vs Commercial Reality

From a practitioner's standpoint, this interpretation raises serious operational challenges.

First, director travel is rarely within the visibility or control of the supplier. Expecting UAE service providers to track the movements of overseas directors of the customer – often unrelated to the service – is neither practical nor commercially viable.

Second, in multinational groups, common directorships are the norm, not the exception. Directors may sit on multiple boards for regulatory, oversight, or shareholder-representation purposes, without participating in day-to-day operations.

Third, customer declarations – long relied upon to support zero-rating – were never designed to cover director-level mobility data. This introduces a compliance gap that did not previously exist.

The net effect is that genuine export-of-service arrangements now carry an unintended VAT risk, despite no change in underlying commercial substance.

GCC VAT Position on Service Export

Interestingly, this approach places the UAE ahead of (or apart from) other VAT jurisdictions in the region.

Across the GCC, the emphasis remains on:

- whether the presence is connected to the supply; and
- whether services are effectively consumed outside the country.

International VAT principles, including OECD guidance, similarly prioritise economic use and enjoyment, not boardroom geography.

Until further clarification is issued, businesses exporting services from the UAE should reassess how defensible their zero-rating positions are – particularly for intercompany and group services.

At a minimum, businesses should consider:

- obtaining customer declarations to address director presence;
- researching and documenting where management and operational control of foreign entities genuinely resides;
- reassessing long-term or continuous service contracts; and
- aligning internal tax and legal teams on VAT exposure created by director travel.

This is not about abandoning zero-rating, but about strengthening its evidentiary foundation in a changing interpretative environment.

Conclusion

VATP040 signals more than a technical clarification. It reflects an evolving philosophy – one where VAT zero-rating is no longer assessed purely through the lens of consumption, but also through control and presence.

In that sense, POEM has quietly entered the VAT arena.

Whether this approach will be refined, softened, or more clearly circumscribed remains to be seen. Until then, exporters of services must navigate a landscape where VAT risk may arise not from what they do, but from where their customer's directors happen to be.

In our view, this is a moment where further guidance from FTA is not just desirable, but necessary to preserve certainty and competitiveness in the UAE.

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VAT and Government Entities in the UAE

Key Learnings, Policy Signals, and Emerging Risk Areas

The introduction of VAT in the UAE marked a fundamental shift in how economic activity is viewed across both the private and public sectors. For Government Entities, the VAT framework does more than impose a tax. It also articulates a clear policy position on the boundaries of government authority, market participation, and fiscal neutrality. The distinction between sovereign and non-sovereign activities is not merely technical; it is a deliberate governance tool designed to balance public mandate with competitive fairness.

A Clear Policy Message: Sovereignty Is the Exception, Not the Default

One of the most significant learnings from the UAE VAT regime is that sovereign status is narrowly defined and centrally controlled. The law does not allow Government Entities to self-classify activities as sovereign based on internal mandates or public interest arguments. Only the Cabinet, acting on the recommendation of the Minister of Finance, has the authority to designate activities as sovereign.

This sends a strong policy signal: government involvement alone does not justify VAT exclusion where a Government Entity operates in a manner that resembles commercial activity especially where private sector alternatives exist the VAT system treats it as an economic actor, not a regulator. This reinforces VAT neutrality and prevents the erosion of the tax base through administrative reclassification.

Competition Risk: When Public Mandate Meets Market Reality

A recurring risk area lies in activities that begin as public services but gradually expand into commercial offerings. Subsidised pricing, access to public infrastructure, and government-backed resources can unintentionally create competitive distortions. The VAT framework implicitly acts as a checkpoint, forcing Government Entities to reassess whether an activity still aligns with its original mandate or has crossed into market competition.

Failure to recognize this shift can expose entities to:

- Incorrect VAT treatment and assessments
- Retrospective liabilities and penalties
- Reputational risk arising from perceived unfair competition

VAT, in this sense, becomes an early warning mechanism highlighting mandate creep and governance gaps.

Government-to-Government Transfers: Relief with Hidden Complexity

The exclusion of government-to-government transfers of buildings and assets from the scope of VAT reflects an administrative efficiency objective. However, this carries input VAT recovery risks that are often underestimated. Because these transfers are out of scope rather than zero-rated, input VAT recovery is not automatic and depends heavily on intended use.

The key learning here is that VAT cost can crystallize silently during asset development or transfer if future taxable use is not clearly documented. Capital projects, in particular, require early-stage VAT planning to avoid irrecoverable tax becoming embedded in public expenditure.

Deemed Supplies and Internal Consumption: A Compliance Blind Spot

Deemed supplies are one of the most easily overlooked VAT risk areas for Government Entities because they arise not from revenue-generating transactions, but from the free provision or internal use of goods and services. The UAE VAT framework deliberately mitigates over-taxation by introducing exclusions and thresholds, particularly for samples and commercial gifts. Supplies with a value not exceeding AED 500 per recipient within a 12-month period may fall outside the deemed supply rules, subject to cumulative output tax thresholds of AED 250,000 for Government Entities or Designated Charities and AED 2,000 for all other recipients. Crucially, exceeding these thresholds does not render the entire supply taxable; only the portion of output tax exceeding the threshold becomes subject to VAT. This nuanced treatment is frequently misunderstood, leading either to unnecessary VAT costs or underreported liabilities.

From a policy perspective, these thresholds are designed to strike a balance between preventing abuse of input VAT recovery and recognising that limited free distributions are inherent to normal government operations. The principal risk for Government Entities lies not in isolated transactions, but in scale, frequency, and lack of centralised tracking, particularly where multiple departments distribute goods or services without coordinated oversight. Because deemed supplies do not generate invoices or cash flows, they often fall outside routine VAT controls, making documentation, cumulative monitoring, and periodic review essential. Properly managed, deemed supply thresholds function as a governance safeguard rather than a tax burden, supporting both compliance and the broader VAT neutrality objectives of the UAE system.

Input VAT Recovery: Entitlements Are Purpose-Driven, Not Status-Driven

A common misconception is that Government Entity status alone confers broader recovery rights. In reality, input VAT recoverability is tightly linked to activity purpose, not institutional identity. While specific concessions exist such as entertainment provided to non-employees or emergency vehicles the default position remains restrictive.

Employee benefits, motor vehicle usage, and entertainment costs require robust documentation and policy alignment. Without this, recoverability can be denied even where expenditure appears operationally necessary.

Governance, Documentation, and Audit Readiness

Perhaps the most important overarching lesson is that VAT compliance for Government Entities is fundamentally a governance exercise. What steps should the Government take?

- Create a clear activity mapping between sovereign, taxable, exempt, and out-of-scope functions;
- Ensure documentation is consistent and supports VAT positions; and
- Ensure that periodic reassessment is mandated.

As Government Entities increasingly engage in partnerships, commercial ventures, and asset development, VAT risk becomes less about isolated transactions and more about structural design and operational discipline.

Looking Ahead: VAT as a Policy Alignment Tool

The UAE VAT framework positions VAT not just as a revenue mechanism, but as a discipline that reinforces accountability, transparency and competitive balance. For Government Entities, compliance is no longer a back-office function instead it is a strategic consideration that intersects with mandate definition, service delivery models and public sector reform.

Those entities that proactively embed VAT governance into decision-making will not only mitigate tax risk but also strengthen alignment with the broader economic and regulatory objectives of the UAE. Conversely, treating VAT as a purely technical afterthought risks financial leakage, regulatory challenge, and erosion of public trust.

In this sense, VAT compliance is no longer just about getting the tax right, it is about getting the role of government in the market right.

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VAT in the UAE:
What's Still Going Wrong?

The introduction of Value Added Tax (VAT) in the UAE on 1 January 2018 marked a significant shift in the country's tax landscape. Over the past seven years, businesses have been required to adapt to the complexities of VAT compliance. However, many companies continue to face challenges in understanding the intricacies of the law.

VAT is a transaction-based tax, and often the errors are identified after a period of time. By then, the consequences can be significant: irrecoverable VAT costs, penalties, operational inefficiencies, and reputational damage. Below, we delve into a few common VAT mistakes.

Failure to register for VAT or deregister from VAT

Businesses often delay VAT registration despite meeting the mandatory threshold of AED 375,000 in taxable supplies. This is often due to a misunderstanding of the legislation, such as the applicability of mandatory and voluntary registration requirements. In a few cases, businesses fail to accurately track their taxable supplies, leading to delays in applying for VAT registration. Delayed VAT registration may result in penalties of up to AED 10,000.

It is crucial for businesses to fully understand VAT obligations, including those for voluntary registration, and regularly monitor their revenue for timely compliance. As an example:

- A group leases a commercial property in the name of a dormant entity. The landlord charges VAT on the rent, which could become an irrecoverable cost as the contracting entity is not VAT-registered. Meanwhile, the premise is used by another operational group entity that is VAT-registered. Owing to the lack of VAT registration of the dormant entity (or contract alignment), there will be a VAT leakage.
- A real estate entity receives booking amounts from customers during the soft launch of a residential real estate project, but does not treat these receipts as taxable supplies for VAT purposes. Consequently, the company fails to obtain VAT registration in a timely manner, leading to delayed reporting of supplies.

Similarly, VAT de-registration is a critical and often overlooked step. Businesses are required to deregister for VAT upon ceasing to make taxable supplies. This could be due to many reasons, including a part of business restructuring or divestment.

It is important to note that the deregistration process is not automatic. Applications are subject to approval by the FTA, which conducts a review of multiple aspects, including the facts presented, supporting documentation, historical VAT returns, and outstanding obligations. Post review, the FTA issues a pre-approval, after which the taxpayer must file a final VAT return and settle all remaining liabilities. If the deregistration requirement is not properly assessed, it may result in the application being rejected (in cases of premature submission) or/ and attracting penalties (for delayed deregistration).

Failure to deregister in time can result in continued compliance obligations, resulting in excess VAT recovery, unnecessary administrative burden, and potential penalties. Deregistration should be proactively planned and aligned with operational changes. Engaging tax professionals can help ensure proper assessment, accurate final returns, and timely approval from the authority.

Amendments to the registration details

After registering for VAT, businesses are required to constantly monitor and update their details on the Federal Tax Authority (FTA)'s portal. These details include the trade licence, authorised signatory's Emirates ID, address of the business, and similar. Failure to amend the details on a timely basis not only results in penalties but may also have operational impact. This is particularly critical where there is a change in the name of an entity, as a delay in the amendment will result in incorrect tax invoices issued to customers and received from suppliers.

Apart from the above, an amendment application is also required for a tax group in many instances – including during closure of an existing business and acquisition of a new business.

For example, a VAT group proposes to divest a business segment comprising multiple entities. The relevant entities must be de-grouped from the existing VAT group and transferred to the new owners. The de-grouping process requires updating entity-level details on the FTA portal, not only for the entities being sold, but often for other members of the VAT group as well. In large VAT groups, this exercise can be administratively complex and time-consuming. Any delay in completing the de-grouping and transferring the respective TRNs can impact the VAT reporting of supplies made by the entities under divestment, especially for the transitional period.

Misclassification of supplies

Misclassification between standard-rated, zero-rated, and exempt supplies remains one of the most technically challenging aspects of VAT compliance. This issue is particularly prevalent in regulated or mixed-supply sectors – such as real estate, healthcare, education, logistics, and financial sectors, where VAT treatment depends heavily on facts and documentation.

Incorrect classification of supplies can result in either an underpayment or over-recovery of VAT. In cases of underpayment, businesses may be required to retroactively fund the VAT liability, often without the ability to recover the tax from customers. Conversely, overcharging VAT can increase the cost of supplies to customers and may necessitate refunds and corrective filings. In both scenarios, rectifications typically attract administrative penalties and additional compliance burden.

As an example:

- In the healthcare sector, preventive healthcare services are generally zero-rated, while elective procedures are subject to VAT at 5%. Certain treatments, such as cosmetic or plastic surgery, may fall into either category depending on medical necessity, leading to frequent misclassification.
- In the real estate sector, confusion often arises between the VAT treatment of commercial land vs bare land, residential vs serviced apartments.
- While standard tuition fees at qualifying educational institutions are zero-rated, additional services provided to students, such as extra-curricular activities, after-school clubs or camps, may be standard-rated unless specifically integrated into the core educational curriculum.
- For financial services, in case of cross-border transactions, it is critical to determine in which scenarios the sale should be exempt or zero-rated, as an identifiable customer outside the UAE is an integral part of the concessional rate of tax.

VAT classification should be supported by contracts, internal policies, and operational documentation, not assumptions. Periodic technical reviews are essential as services evolve.

Undetected transactions

Certain transactions often escape internal VAT scrutiny either due to falling outside standard invoicing or accounting processes, system limitations, or a lack of awareness. Certain transactions are not recorded in the revenue registers and thus may easily avoid detection in review.

Common risk areas include:

- Transactions recorded through journal vouchers – Certain transactions, especially recharges, may be recorded as receivable from an associate entity by way of a joint venture instead of an invoice. Considering the transaction is not routed through a sales invoice, the transaction may not be captured in the tax register and missed while filing VAT returns.
- Joint venture and cost-sharing arrangements – In a joint venture arrangement, one shareholder may infuse assets as part of its capital contribution. Businesses generally fail to identify such transactions as a supply from a VAT perspective and analyse the VAT impact.
- Related party transactions – It is common for entities within the group to incur expenses on behalf of others. Differentiating between disbursements (payments made on behalf of another entity) and reimbursements (repayments for expenses incurred) is critical to apply the correct VAT treatment.
- Netting off income against expenses – There are cases where, based on the arrangement with the supplier, the recipient incurs expenses on behalf of the supplier that are subsequently adjusted against future payments. Such practice is common,

especially in the construction sector. It is important to identify the nature of such a transaction and apply appropriate VAT treatment. Another example of this error would be in the form of rebates, where the customer would be providing any marketing support services to the supplier.

- Deductions from employee salaries, such as for personal expenses or benefits – It is a general practice to deduct expenses such as courier charges, incurred on behalf of the employees, from salaries. Nature of the deductions to be analysed to determine taxability.
- Unidentified receipts – There may be cases where businesses have received an amount in the bank but are unable to identify the source of the funds. The correlation of the funds with existing transactions may take a considerable amount of time, which could lead to a tax exposure.

These transactions may result in VAT obligations that could remain unreported. During an audit proceeding, such an error would result in VAT with a penalty.

Businesses should periodically review non-routine and balance-sheet transactions to businesses to identify such transactions and ensure VAT implications are appropriately assessed.

Errors in input tax recovery

Errors in input VAT recovery continue to be a significant area of exposure for businesses, which could be identified during an audit. These errors typically arise due to a combination of technical misinterpretation, documentation gaps, and process weaknesses.

- Claiming input VAT on ineligible expenses, such as personal or non-business-related costs. This often occurs when businesses fail to recognise that certain expenses, although related to the business, are blocked under VAT regulations.
- Inadequate documentation, including the absence of valid tax invoices, incomplete supplier details, or missing contractual support.
- Incorrect recording of transactions (e.g., duplicates).
- Manual adjustments and process-driven errors, including manual tracking of unpaid suppliers and ad-hoc adjustments made during VAT return preparation.
- Incorrect reporting or non-maintenance of appropriate records of RCM transactions.
- Failure to apportion input VAT correctly for common expenses, arising on account of improper cost allocation or incorrect application of the relevant method.

Incorrect input VAT recovery can lead to additional tax liabilities and penalties. It is essential to ensure all claims are supported by valid tax invoices and regularly review VAT recovery rules to maintain compliance.

Overlooking Voluntary Disclosures (VD)

While filing a VAT return, businesses may identify errors from previous periods. These errors can arise due to various reasons, such as changes in tax positions, system issues, or documentation problems. In such cases, businesses need to analyse the requirement for voluntary disclosures to correct these errors and take appropriate actions.

Where it is identified that errors must be rectified through the VD mechanism, businesses should adopt a proactive approach to correct the mistakes, rather than be deterred by the fear of penalties. The penalties for voluntary disclosure are less if the same errors are identified during the audit. Moreover, such aspects are accompanied by reputational risks as well.

It is observed that businesses tend to rectify the mistake by discharging the VAT liability in the subsequent VAT return rather than filing the VD. The rationale behind this approach is the fear of getting an audit notice issued. However, it is an incorrect approach as it later results in two VDs instead of one.

Documentation and record keeping

VAT compliance is evidence-driven. Any VAT treatment may be challenged if the supporting documentation is weak or incomplete.

Proper record-keeping is therefore a critical component of a robust VAT compliance framework. Key requirements include maintaining supporting documentation (such as supplier invoices, customer invoices, contracts), financial statements, maintaining an FTA Audit File, etc.

Taking a proactive approach to documentation ensures all records are maintained contemporaneously, accurately, and systematically. This not only facilitates the correct preparation and filing of VAT returns but also reduces the risk of errors, audits, and penalties. Well-maintained records also make a business audit-ready, enabling prompt and efficient responses in the event of an FTA review, while demonstrating good-faith compliance.

Insufficient compliance checks

Many businesses treat VAT return filing as a basic compliance task (check-in-box compliance), often filing returns simply by calculating the net tax (that is, the difference between output VAT and input VAT) and without conducting a thorough review. In some cases, returns are filed at the last minute, with few compliance checks. Consequently, several critical aspects are overlooked during the VAT return filing process.

Common gaps include:

- Absence of reconciliations between VAT returns and the underlying financial statements, including revenue, VAT, advances, etc.
- Failure to reconcile VAT returns with customs and import/ export documentation
- Lack of review of unusual or one-off transactions
- Limited review of manual adjustments, journals, and system overrides made during VAT return preparation

A proactive compliance framework, supported by internal controls and periodic health checks, helps minimize the risk of penalties, as businesses will be better prepared to demonstrate compliance and rectify any issues that arise promptly.

Conclusion

Many businesses continue to face the above challenges due to a lack of awareness, oversight, or inadequate systems. By understanding these pitfalls and adopting proactive measures, taxpayers can ensure smoother compliance and minimize the risk of penalties.

For businesses struggling with VAT compliance, consulting with tax professionals or attending FTA workshops can provide valuable guidance and ensure smooth adherence to the UAE's VAT regulations.

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UAE VAT in the Virtual Asset Ecosystem: Year in Review

Introduction

Globally, virtual assets continued their march into mainstream finance, driven by the rapid rise of real-world asset tokenization and growing use of stablecoins for payments and liquidity. At the same time, many jurisdictions accelerated Central Bank Digital Currency (CBDC) initiatives.

Against this backdrop, the UAE emerged as one of the most proactive jurisdictions translating digital asset innovation into market-ready initiatives. In 2025, the UAE's virtual asset landscape became far more operational and investment focused. Major tokenization projects and key infrastructure assets were launched, such as the DMCC Crypto Tower.

These advancements have increased the need for clearer VAT treatment of transactions involving virtual assets, ensuring that regulatory progress is matched with consistent compliance and reporting frameworks.

UAE VAT Update on Cryptocurrencies

VAT regulations specific to virtual assets were introduced in 2024 through amendments to the VAT Executive Regulations, which classified virtual assets as financial services. As a result, their VAT treatment generally falls under the exempt category – unless specific zero-rating conditions for exported services are satisfied.

In 2025, the Federal Tax Authority ('FTA' or the Authority') issued a significant update concerning cryptocurrency mining. The Authority released a public clarification outlining the VAT treatment of crypto-mining and the recoverability of input VAT on associated costs.

While the clarification provided welcome guidance, it also raised new questions.

Mining on own account

When a person mines cryptocurrency for their own account, they provide computational power to the network without supplying that power to an identifiable recipient. Any block reward received is not guaranteed and does not arise because a customer has paid for a service, it arises solely from the protocol rules.

The FTA clarified that, as there are no identifiable recipients and no direct link between the mining activity and the reward received, the activity does not amount to a taxable supply and falls outside the scope of VAT.

Mining performed for another person

Conversely, mining performed on behalf of another person for an agreed fee does constitute a taxable supply of services, as there is an identifiable recipient, and consideration is paid for the mining activity. VAT applies at the standard rate, unless the service qualifies for zero-rating.

Input VAT recovery

Mining operations often involve substantial VAT costs on inputs such as hardware purchases, rental of premises, internet connection, cooling systems, software, and maintenance services.

The clarification explains that when mining is carried out on own account, these costs do not relate to taxable supplies. As a consequence, the associated input VAT is not recoverable, creating a material irrecoverable cost in the hands of the miners.

On the other hand, where the person mines on behalf of another party and supplies taxable services, input tax incurred for the purpose of making those taxable supplies may be recovered subject to meeting other recovery conditions.

Unfortunately, the clarification does not address scenarios where mined cryptocurrency is subsequently sold by the miner. While mining on own account may fall outside the VAT scope, it is rarely the end goal. Most miners ultimately aim to sell the tokens – via crypto exchanges or directly – raising further questions on whether input tax incurred should be recoverable in light of these downstream taxable activities.

The situation is similar to natural resource extraction. The mining activity itself may not be a separate supply when done on own account, but if the output is later sold, input VAT on costs may become recoverable.

Accordingly, businesses engaged in mining should closely examine their operational and supply structures to assess potential VAT recovery. Given the often high cost base in the sector, this analysis could yield substantial VAT savings.

Other Key Considerations

Despite the progress made in the VAT framework for virtual assets, given the evolving nature of the virtual assets landscape several areas remain open to interpretation. Below are selected issues that give rise to interesting VAT considerations and that merit closer scrutiny.

Tokenization of investments

A number of business models introduced in the UAE in 2025 used digital tokens to represent ownership interests in investments – such as real estate.

This innovation presents novel VAT challenges. While tokens may represent ownership in an underlying asset, they may also qualify as virtual assets for VAT purposes. Although virtual assets are treated as financial services – which are generally exempt or zero-rated – direct interests in UAE-based assets are often subject to VAT at 5%.

Accurately classifying the components of tokenized investment arrangements is therefore essential in determining the correct VAT treatment.

Payments Made in Cryptocurrency

The 2024 VAT amendments, which clarified the supply of cryptocurrency as financial services, have implications for transactions where cryptocurrency is used as payment.

From a VAT perspective, such transactions constitute barter: the payer is not merely buying goods or services but is also supplying financial services in exchange.

As a consequence, both parties to the transaction must evaluate the VAT treatment of their respective supplies, including how to determine the appropriate value. Depending on the status of the payer, it may be required to report its 'supply' of the cryptocurrency in its VAT return.

Stablecoins, CBDCs and other digital tokens

Stablecoins, CBDCs, and other digital tokens are emerging in the UAE, creating compliance considerations. A key question is whether these instruments qualify as virtual assets.

CBDCs, as digital forms of fiat currency, should fall outside the virtual asset definition, though no guidance has been issued by the FTA yet. Stablecoins, on the other hand, are not direct digital representations of fiat and are therefore likely to be treated as virtual assets for VAT purposes.

Utility tokens must also be assessed on a case-by-case basis. Depending on their nature they may either qualify as virtual assets when used for investment or as taxable supplies of services when they provide access to a platform or services.

Exchanges and online platforms

When trading occurs via an exchange, the seller may not know the buyer's identity or location. This raises the possibility that the exchange platform could be viewed as acting as an undisclosed agent, potentially resulting in a back-to-back supply arrangement.

Separately, the platform's operational layer, wallet infrastructure, processing environment, and similar functions constitute a distinct service for VAT purposes and should be assessed appropriately for VAT treatment.

Conclusion

By the end of 2025, the VAT treatment of virtual assets had moved from conceptual guidance to practical compliance. While the foundations are now largely in place, emerging areas such as tokenized structures, stablecoins, and mixed-activity platforms continue to pose challenges in determining the correct VAT treatment.

Looking ahead to 2026, businesses need to stay ahead of regulatory developments and proactively manage VAT obligations across an increasingly sophisticated digital asset environment.

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Strengthening Tax Certainty for Real Estate Developers

While the introduction of UAE Corporate Tax (CT) Law brings tax obligations, the Federal Tax Authority (FTA) has been proactive in introducing relief measures that acknowledge the unique, long-term nature of real estate developments.

Two significant developments stand out as particularly beneficial for the real estate sector: (i) the Transitional Relief (TR) mechanism, which protects pre-implementation gains from taxation; and (ii) depreciation benefits for investment properties held at fair value. Drawing from our practical experience, this article explores the intricacies of these provisions and offers strategic insights for real estate developers.

Transitional Relief: A Shield for Historical Gains

Fundamentally, TR ensures that any gains accrued on immovable properties prior to the commencement of the CT Law are not subject to tax upon disposal. This requires the taxpayers to make an election in their first tax return.

There was uncertainty regarding the scope of immovable property for TR purposes, particularly in the context of off-plan developments and the method for computing TR on such projects. The FTA's Public Clarification confirms that off-plan projects fall within the ambit of immovable property for TR and provided examples to compute TR on such projects using the valuation method. Its application involves certain intricacies that require careful, case-by-case analysis to determine the relief.

Valuation Complexities: Getting the Fair Value Right

The valuation of immovable property for TR purposes must be undertaken by a competent government authority or an accredited valuer in the UAE.

A recurring practical challenge arises in scenarios where the valuation report provides a single fair value for an entire project, while certain units or portions of land remain unsold. Allocating the aggregate fair value between qualifying immovable property and non-qualifying components can be complex. Similarly, when a valuation covers a large parcel of land and only a portion is sold, a simple area-based allocation may not be appropriate as premium locations like road-facing or sea-facing sections may command a premium. Taxpayers should adopt a fair, reasonable and technically supported allocation methodology to ensure accurate segregation and to avoid overstating relief on ineligible components.

Accounting reclassifications and deemed disposals

The concept of "disposal" under the CT Law aligns with revenue recognition under IFRS (e.g., percentage of completion). However, unique scenarios exist, such as conversion of immovable property from inventory to Investment Property. In this context, the scenario of developers transferring units from inventory to investment property (to be held for rental yields) creates a tax intricacy. While this transfer itself might not trigger an immediate tax payment if option to pay tax on "realisation basis" is elected, it raises the question of eligibility and timing to claim TR benefit and tracking the same until the ultimate sale of that investment asset years later.

Interplay between Transitional Relief and Tax Group Provisions

Situations may arise where an entity (Entity A) holds qualifying immovable property measured at historical cost and has elected to claim TR. If Entity A subsequently joins an existing Tax Group (Tax Group X) that applies fair value measurement for immovable property, Entity A would be required to align its accounting policy with that of the Tax Group. Such a change could give rise to an accounting gain or loss. Whether this gain or loss is taxable / deductible remains uncertain.

In addition, it is unclear whether Entity A may continue to claim TR after joining the Tax Group when the underlying property is remeasured at fair value. The TR rules require the qualifying immovable property to be recorded at historical cost, but the legislation does not specify whether this condition must be satisfied only at the beginning of the first Tax Period, at the time of disposal, or consistently throughout all Tax Periods during which the asset is held. Such a situation may warrant a specific review along with potential of seeking a clarification.

Pillar Two impact on Transitional Relief

While TR is a valid adjustment under UAE CT Law, it is ignored when computing Domestic Minimum Top-up Tax (DMTT), which relies on financial accounting net income. Therefore, an MNE might reduce its UAE CT liability by using TR, but this could lower its UAE Effective Tax Rate (ETR) potentially triggering an increase in the Top-up Tax liability under UAE DMTT regulations.

Addressing Cash Flow: The Escrow Account Dilemma

Developers selling off-plan units are mandated to maintain project-specific escrow accounts. While these accounts secure investor funds, regulations restrict withdrawals to specific project costs. Currently, CT payments are not explicitly listed as permissible withdrawals.

This creates a cash-flow mismatch where tax liabilities arise on recognized revenue, but the cash remains locked in escrow. There is an opportunity here for discussions with relevant stakeholders to seek a cash flow relief.

Investment Properties: A Boost for Fair Value Models

Companies using the Fair Value model could not claim tax depreciation, as accounting standards do not depreciate fair-valued assets. This created a disadvantage compared to the Cost Model. A new decision levels the playing field:

- **The Benefit:** Taxpayers electing the Realisation Basis of taxation can now claim deemed depreciation (up to 4% of original cost or Tax Written Down Value) on their Fair Value Investment Properties.
- **The Impact:** This reduces the annual taxable income for property investors, improving cash flows during the holding period.

The election is irrevocable and might unintentionally capture other assets (like unrealized gains on financial assets) if not carefully managed. Furthermore, calculating the "Tax Written Down Value" for assets held for many years requires reconstructing a notional depreciation schedule from the original acquisition date.

Way Forward

The UAE CT framework provides the real estate sector with meaningful opportunities that require strengthening technical positions, enhancing documentation, and alignment with how projects progress operationally.

Practical considerations such as whether the relief should be assessed at the project or Qualifying Investment Property level, how to approach valuation when reports provide a single project-level fair value, how to allocate relief across multiple tax periods under percentage of completion method (POCM), etc. require a structured methodology. Equally, projects with units sold prior to the first tax period but recognised under POCM call for careful tracing for technically defensible treatment.

The same disciplined approach applies to investment properties held at fair value. The new deemed-depreciation mechanism provides a valuable relief, but elections must be evaluated carefully given their long-term impact on other transactions and alignment with financial reporting policies.

More broadly, now is an opportune time for developers to revisit previously filed positions, evaluate whether recent guidance materially enhances available reliefs, and consider course-correction where appropriate to achieve tax certainty and optimise their overall effective tax rate.

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Fund Structuring: Tax Outcomes Under the UAE Corporate Tax Regime

The UAE's Corporate Tax (CT) Regime for the fund ecosystem has moved to a design-drive neutrality. In specific, Cabinet Decision No. 34 of 2025 (CD 34) establishes a reliable exemption route for qualifying vehicles; and, where the conditions are met, that exemption can extend to investors as well. That clarity matters since UAE has consistently seen exponential growth in recent years within the fund management industry, with ADGM and DIFC continuing to drive industry-scale growth. This article focuses on the decisions for investor tax neutrality, trade-offs between different pathways, and the key considerations that fund managers and sponsors should know about.

Overview of CD 34

Before we proceed with further analysis, here is brief snapshot of key tax provisions:

- Qualifying Investment Fund (QIF) retain a formal exemption route; investor-level tax can arise mainly where immovable-property exposure or diversity-of-ownership thresholds are breached.
- Diversity-of-ownership no longer defeats QIF status, but it determines investor tax outcomes; the test now includes rights, governance and control.
- The investment-manager qualification requirement has been removed – giving structural flexibility.
- Nexus rules now capture foreign juridical investors on their share of a QIF's taxable income, where diversity-of-ownership is not met.
- Natural persons investing in QIFs remain outside UAE CT for fund income.

Overview of alternative fund vehicles

Qualifying Investment Fund (QIF): A formal, regulation-anchored exemption path under CD 34. Well suited to widely marketed pooled funds with diversified, passive investor bases and limited UAE real estate exposure. The core considerations include ownership diversity and immovable-property thresholds, which, if breached, could make investors liable to tax on their share, although fund-level exemption continues.

Unincorporated Partnership (UP): Flexible and tax-transparent by default. Attractive for closely held family vehicles or joint ventures (JV) where investor participation is active or for funds seeking to remain fiscally transparent for commercial purposes. A UP has flexibility to choose from default tax transparency (where investors are taxable based on their tax status) or avail tax exemption available to a QIF (by electing to be treated as taxable and applying as a QIF, if it meets CD 34 tests).

Qualifying Free-Zone Person (QFZP): If the fund or a connected manager qualifies as a QFZP by meeting substance, activity and other tests, the free-zone 0% UAE CT treatment help bring tax efficiency.

Real Estate Investment Trust (REIT): CD 34 provides a tailored route for REITs that meet size and asset-mix tests (including the AED 100m threshold and at least 70% minimum rental-asset composition). Distribution timing (the 9-month rule) influences when immovable property income crystallizes in investor hands.

Comparative perspectives

In our experience, when comparing a QIF, UP, and a QFZP, the following key distinctions matter in practice:

1. **Investor-level tax neutrality:** A QIF offers investor-level exemption unless a single investor breaches the prescribed ownership threshold. Investment in a QFZP, if structured carefully, can also deliver effective tax neutrality at the investor level. By contrast, a UP remains fully transparent by default, meaning taxability always flows through to investors based on the character of the underlying income.
2. **Investment flexibility and holding period constraints:** A QIF has no minimum holding period requirement, giving investment committees commercial flexibility on entry/exit decisions. A QFZP must satisfy the 12-month holding/intention test for exemption to apply, which may influence portfolio strategy. A UP, although flexible, exposes investors to taxability on their share of each income stream.
3. **Compliance:** A QIF requires a formal application and approval to access exemption and transparency. A UP is automatically transparent but may elect to

become a taxable person and then apply for QIF status if advantageous. QFZP must self-assess its status with reference to mandatory conditions and support this through detailed disclosure in its CT return.

These distinctions shape how a fund is structured, manages investor expectations and investment strategy. The right structure ultimately depends on the investor mix, asset strategy, and where the fund wants tax certainty to sit: at the vehicle level, the investor level, or both.

Fund Manager Taxation and Carry

Management fees and performance economics typically flow through a dedicated manager SPV which, if established as a QFZP with substance, can benefit from a 0% tax rate as 'regulated fund management services'. Non-qualifying income or weak substance can jeopardize this treatment, making segregation of qualifying and non-qualifying income streams and ongoing monitoring essential.

Taxation of carried interest is complex. Its characterization for UAE CT purposes depends on the commercial and legal design and whether the entitlement aligns with investor returns or resembles compensation for services. To strengthen the position, sponsors increasingly use a substance-backed manager SPV, document risk allocation clearly, and maintain position papers ahead of fundraising. If properly structured and duly backed by legal documentation with economic substance, carry income can support investor alignment without inadvertently creating unintended tax exposure.

Conclusion

As fund managers reposition going forward, the focus is shifting from obtaining exemptions to embedding tax governance, ensuring investor-level neutrality, and aligning regulatory structuring with substance feasibility. Choosing the right fund vehicle now requires a balanced view of commercial needs, investor profiles, and tax sustainability.

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UAE's First Transfer Pricing Compliance: Key Challenges, Insights and Road Ahead

With most businesses completing the UAE's first Transfer Pricing ('TP') compliance on 30 September 2025, the country marks a pivotal milestone in its transition to a comprehensive Corporate Tax framework. Following the introduction of the Corporate Tax Law[1], businesses shifted from awareness to the practical realities, wherein taxpayers formalised intercompany pricing policies, improved data readiness, and strengthened documentation.

Despite several months of lead time, compiling and defending TP positions, particularly within complex UAE group structures, revealed a number of operational and technical challenges – while also offering valuable insights for future compliance cycles and development of an audit-ready TP framework.

Key Challenges Observed

Fragmented Data

Data fragmentation and inconsistencies emerged as one of the most significant challenges. During compliance process, it was discovered that the financial ledgers, intercompany schedules, and legal agreements were not fully aligned, making it difficult to support TP positions. This also led to delayed completion of statutory and special purpose audits, turning compliance into a last-minute exercise.

Challenges also surfaced at the intersection of IFRS and TP disclosures, particularly while reconciling TP schedules with ledgers. Unstructured intercompany accounting further hindered data extraction, especially for tax group filings, where eliminations were not accurately captured

Lack of Formal TP Policies and Localisation

Several groups lacked formal TP policies or documented price-setting mechanisms. In some cases, global TP policies existed but were not adapted to reflect UAE-specific operations, leading to gaps and inconsistencies.

Misalignment and Legacy Structures

TP requires multidisciplinary coordination and heavy reliance on the commercial rationale. Many organisations faced misalignment between finance, tax, and business teams regarding the nature and basis of intercompany pricing. Combined with legacy structures that evolved organically and were not designed to meet TP requirements, this led to inconsistencies in tax filings, audited financials, and TP documentation.

Emerging Technical Positions

During the first TP compliance cycle, several technical positions remained in early stages of development, with further guidance awaited from the Federal Tax Authority ('FTA'). Key areas requiring clarity included approval mechanism for downward adjustments, treatment of loan principals, balance sheet and equity transactions, tax-neutral arrangements, and benchmarking for remuneration to connected persons. These gaps added complexity to both compliance and documentation efforts.

Securing Qualifying Free Zone Person ('QFZP') Status

Adherence to TP is a critical prerequisite for claiming QFZP relief. Several groups were unable to benefit due to gaps in internal processes and non-compliance with arm's length principles.

Local Comparability Constraints

Although the UAE has a rapidly maturing TP environment, local comparables remain limited. Taxpayers often had to rely on regional or global data, requiring adjustments and detailed explanations.

Key Learnings and Preparing for the Next TP Compliance

Embed TP in Business Processes – Operational TP and Automation

High-quality and consistent data is critical, as misaligned intercompany balances or incomplete records increase TP risk. Consider operational TP to integrate TP adjustments and policies directly within accounting systems. Additionally, leveraging various TP technology tools and workflow platforms helps automate TP implementation with improved accuracy. Organisations that embed TP governance into regular reporting cycles tend to experience significantly fewer compliance challenges.

TP as a Strategic Tool – Value Chain Analysis

TP should be viewed not merely as a compliance requirement but as a strategic tool to create an efficient supply chain and optimise tax outcomes in line with value creation. Structured intercompany pricing and robust documentation provide opportunities to rationalise group structures and strengthen board-level decision making.

1. Federal Decree Law No. 47 of 2022, effective for financial years commencing on or after 1 June 2023

This shift, from reactive compliance to strategic value creation, emerged as one of the most important learnings from the inaugural TP compliance.

Start Early with a TP Diagnostic Review

A pre-compliance diagnostic review identifies high-risk transactions, documentation gaps, benchmarking needs, and TP adjustments for year-end financial closure.

Formalise TP Policies and Standard Operating Procedures ('SOPs')

Documented TP policies provide a foundation for consistent, year-round compliance. SOPs guide internal teams on how to price transactions, when to seek approvals, and what evidence must be maintained. Such frameworks transform TP into a structured process that enhances both compliance and operational efficiency.

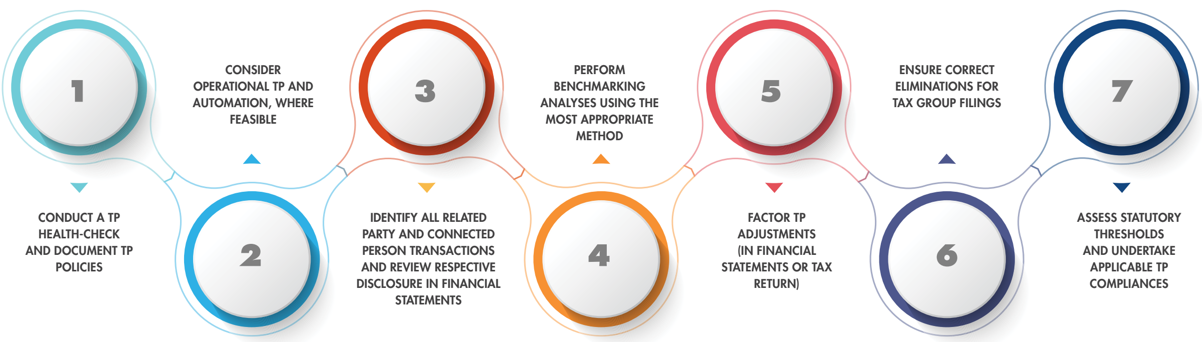
Intercompany Agreements must Reflect Actual Substance

Inter-company contracts should accurately mirror business realities, be consistently implemented, and supported by benchmarking analyses for FTA audit defensibility.

Continuous Awareness and Cross-Functional Collaboration

Effective TP governance requires both ongoing awareness and strong collaboration across functions. Keeping internal teams updated on OECD guidelines, UAE TP regulations, and anticipated FTA audit focus areas ensures organisational alignment.

TP COMPLIANCE: PRACTICAL CHECKLIST FOR TAXPAYERS



Looking Ahead: Towards A More Mature TP Environment

The first round of TP compliance has set the foundation for a more structured and strategic approach in the UAE. The FTA is expected to intensify scrutiny on TP matters, with particular focus on pricing mechanism, substance over form and accurate disclosures.

To navigate this evolving environment, taxpayers should consider TP as a strategic, year-round discipline rather than a year-end compliance exercise. Maintaining audit-ready records, robust documentation, and proactively leveraging FTA supported mechanisms such as Advance Pricing Agreements ('APAs') or Mutual Agreement Procedures ('MAPs') for complex transactions can materially mitigate risk.

Conclusion

The inaugural UAE TP filing season marked a significant milestone, offering both challenges and valuable insights. It underscored the importance of structured data management, documented intercompany policies, strong cross-functional coordination, and proactive planning. Organisations that invest in robust, audit-ready TP frameworks and embed TP into strategic decision-making will be better positioned for future compliance cycles, turning regulatory obligations into a driver of long-term value creation.

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e-invoicing: More Than Compliance, More Than Technology

For the past decade, the UAE's fiscal landscape has evolved at a breakneck pace. From the introduction of VAT in 2018 to Corporate Tax in 2024, businesses have navigated a sea of regulatory change. Yet, for many, the strategy has been one of survival rather than adaptation; a "fix and file" mentality that treats tax as a periodic reporting nuisance rather than an operational reality. That mindset did not just delay transformation. It normalised fragmented systems, manual workarounds, and data silos that businesses now quietly depend on.

Now, as we stand on the brink of the e-invoicing mandate, that strategy is about to hit a wall.

Too many organisations are viewing the upcoming e-invoicing regulations through the same compliance lens they applied to VAT and Corporate Tax. They see it as a technical hurdle: a mandate to format data correctly and send it to the Federal Tax Authority (FTA). This view is not only dangerously narrow; it is a strategic error that ignores the "modernisation debt" businesses have accrued over years of doing "just enough".

This mandate is not just about tax. It is about the fundamental way businesses transact. And while compliance is the floor, the ceiling is a fundamentally different operating model for finance, procurement and revenue.

The ghost of compliance past

To understand the risk, we should examine past missed opportunities. When VAT was introduced in 2018, the prevailing reaction we saw was reactive. Businesses handed messy data and unstructured processes to external advisors and said, "Figure it out." The result was a tax function built on stilts: hollow internal teams that relied on outsourcing to keep their heads above the regulatory waterline.

This worked for VAT and Corporate Tax because those are post-facto regimes. Reporting happens periodically: monthly or quarterly. If errors are found, they are reversible – you fix the ledger before the filing deadline. You could afford to be inefficient because you had time.

e-Invoicing destroys that luxury. It shifts the paradigm from periodic reporting to always-on compliance. Validation happens instantly at the moment of exchange. Errors cannot be corrected without issuing credit notes. You cannot outsource the real-time generation of a valid invoice – it must be embedded in your ERP.

The three tiers of risk

By viewing e-invoicing merely as a compliance tick-box, businesses expose themselves to three distinct layers of risk, ordered from manageable to existential.

IT

This is what most IT directors are currently worried about: API connectivity, schema mapping, and system integration. While technical, this is actually the lowest form of risk. It is a solvable engineering problem. With the right middleware or ERP upgrade, the "pipes" can be connected.

Reporting

This is where the danger escalates. The FTA is no longer just looking at your tax return; they are looking at the granular substance of your business in real-time. The new system requires over 50 mandatory data fields and another 100 or so conditionally mandatory. This level of transparency exposes "maverick spend" (departments buying off-contract), pricing inconsistencies, and supply chain anomalies that were previously buried in PDFs. If your data is messy – for example, using "Alpha Trading" and "Alpha Ltd" for the same vendor – the FTA will see it immediately. For the first time, data hygiene becomes a regulatory exposure, not just an internal inconvenience.

Exchange

This is the hidden iceberg. e-Invoicing is not just about reporting to the government; it is the mechanism by which you get paid. Under the new model, an invoice that fails validation is not an invoice; it is a rejected dataset. It cannot be sent to the customer, which means the payment clock never starts. If your systems fail to validate a transaction, your cash flow stops. This is not a compliance fine, but a business continuity event. For many businesses, the first signal of failure will not be a notice from the authority, but unpaid invoices. The "exchange risk" is the risk that your operations grind to a halt because your data is not compliant with the Peppol network's requirements.

The opportunity: beyond compliance

Conversely, businesses that look past the risk and embrace the opportunity stand to gain significant efficiency gains. In particular, e-invoicing allows for a radical reimagining of AP and AR.

- Accounts Payable: We are moving toward "touchless" processing. By mandating fields such as OrderReference (PO Number), systems can automatically perform 3-way matching among the eInvoice, the PO, and the Goods Receipt. This eliminates the "stare and compare" drudgery that plagues finance teams, allowing them to focus only on exceptions.
- Accounts Receivable: Structured data means fewer disputes. Validation at the source prevents the "reject ➛ correct ➛ resend ➛ wait 30 days" cycle that kills working capital. In addition, validated, e-invoices enable immediate, smarter invoice financing, as lenders trust data verified by the network.
- Business Intelligence: When invoices stop behaving like static documents and start behaving like data streams, finance becomes predictive. You can instantly spot price creep from suppliers or consolidate vendor spend to negotiate better volume discounts.

The timeline paradox: the Wave 2 Tsunami

As we look toward the rollout, the timeline has shifted, creating a deceptive dynamic. The widely discussed delay in the first wave (likely targeting revenues ≥ AED 50m for go-live on 01 Jan 2027) is being hailed as "good news". And for the largest enterprises, it is: it provides breathing room to get their complex ERPs in order. For many mid-market businesses, this has created a false sense of distance from the problem.

However, this delay masks a massive bottleneck looming for the rest of the market. Estimates suggest there are roughly 650,000 businesses in the UAE. If we assume the top-tier accounts account for 15%, that leaves nearly 500,000 businesses entering Wave 2 and Wave 3.

Let's do the maths on the ecosystem capacity. There are perhaps 300 qualified tax advisors, and we can expect maybe around 50 accredited Access Service Providers (ASPs) by middle of next year. When half a million businesses simultaneously wake up to the mandate, resource scarcity will be acute. The "breathing room" of Wave 1 is essentially a trap for the mid-market in Wave 2. Waiting is not a strategy, but a gamble on resource availability that you are statistically likely to lose.

Esal Tech: our response

This landscape of high stakes and technical complexity is exactly why we established Esal Tech.

We are incredibly proud to announce that our joint venture was among the initial five pre-approved Service Providers in the UAE. This was not a tick-box exercise. The accreditation requirements were stringent, and we exceeded them across a range of criteria, including our infrastructure: not just UAE-resident, UAE-sovereign, DESC CSP-certified, and uniquely secure through patented blockchain technology.

Esal Tech was born from a simple realisation: e-invoicing is not just an IT problem, nor is it solely a tax problem. It is both.

By combining world-class, Peppol-certified technology with deep finance and tax advisory capability, we offer more than just a connection to the FTA. We offer a "Modernisation Bridge". We don't just transmit your data; we help you clean, validate, and leverage it. We ensure that your data resides on sovereign IHC cloud infrastructure, mitigating extraterritorial risks while providing the "beyond compliance" analytics that turn a regulatory burden into a competitive advantage.

The e-invoicing mandate is a narrow window of opportunity to address infrastructure and process past debts. You can choose to simply comply and absorb the risks, or you can partner with Esal Tech to transform and thrive. The water is rising – make sure you have built a vessel, not just a raft.

Article By
BILAL MANSOOR
Director

Transfer Pricing Developments
A Regional Overview of Gulf Cooperation Council

2025 marked a decisive shift in the Gulf's Transfer Pricing ('TP') landscape. What was once a gradual alignment with international tax standards has now evolved into a robust and fast-maturing framework, elevating TP from a periodic compliance requirement to a strategic component of tax governance. The evolving regulations and updates from Gulf Cooperation Council ('GCC') tax authorities have made it evident that demonstrable substance and defensible commercial rationale form the foundation of any sustainable tax position in the region.

In the sections below, we have outlined the key TP developments across GCC during the year and explore how businesses can position themselves effectively for 2026 and beyond.

OECD Influence

The Organisation for Economic Co-operation and Development ('OECD') continues to shape the global TP framework, including in the GCC. The OECD works with non member economies around the world through regional initiatives designed to promote global best practices. In the Middle East and North Africa ('MENA') region, which includes the GCC countries, the OECD's engagement underlines a broader push toward regulatory alignment and transparency[2].

In May and October 2025, the OECD added an updated TP profile for the Kingdom of Saudi Arabia ('KSA')[3] and United Arab Emirates' ('UAE')[4] respectively, as part of a broader effort to expand coverage to non-OECD member jurisdictions. This expansion goes beyond a routine update and underscores the OECD's objective of promoting wider international alignment and enhancing transparency in TP practices worldwide.

The UAE also maintains active representation in OECD committees and working groups, reflecting its engagement with international tax and policy standard setting initiatives. Additionally, in 2025, the UAE was removed from Brazil's list of favourable-tax jurisdictions, highlighting the country's adherence to international tax standards.

These developments highlight the GCC's growing alignment with international standards, signalling to businesses that demonstrating economic substance and maintaining robust documentation are now central to achieving compliance in the region.

Pillar Two and the GCC

The most significant development in the year 2025 was the adoption of global-minimum tax frameworks across the GCC. Effective 2025, majority of GCC jurisdictions including UAE, Qatar, and Bahrain either implemented or are in the final stages to implement Domestic Minimum Top-up Taxes ('DMTT'). Under these rules, the in-scope Multi-National Enterprises ('MNEs') may be subject to a minimum effective corporate tax rate on their profits.

This shift fundamentally alters the TP landscape. Intercompany pricing can no longer be treated purely as a compliance exercise since TP policies will have a direct impact on effective global tax rates and potential top up liabilities. Additionally, with Pillar Two, the reliance on 'qualified' Country-by-Country Reports ('CbCR') for safe-harbour calculations makes TP more critical than ever. Consequently, many multinationals are reassessing their TP frameworks, evaluating whether current profit allocations are in line with value creation by each group entity.

Dispute Resolution Mechanisms

With TP audits expected to rise across the GCC, especially following the UAE's first major TP compliance cycle in September 2025, taxpayers are increasingly seeking certainty on complex TP arrangements. Tax authorities across the region were also seen taking deliberate steps to support a more predictable and internationally aligned tax environment. This year marked a shift toward more forward-looking dispute-prevention mechanisms as companies prepared for deeper TP scrutiny.

In February 2025, the UAE Federal Tax Authority ('FTA') issued Decision No. 2 of 2025 (effective 1 March 2025), establishing a formal policy framework for issuing clarifications and directives including Advance Pricing Agreements ('APAs') under the UAE's Corporate Tax Law. The decision confirmed that unilateral APA applications will be accepted from the fourth quarter of 2025. This

2. Members and partners | OECD
3. Transfer Pricing Country Profile - Saudi Arabia
4. Transfer Pricing Country Profile - United Arab Emirates

was followed by a schedule of fees for APA applications under Cabinet Decision No. 174 of 2025 which will be effective from 1 January 2026. Additionally, in July 2025, the UAE Ministry of Finance released Mutual Agreement Procedure ('MAP') Guidance outlining the process for resolving international tax disputes under the UAE's network of over 100 Double Tax Agreements ('DTAs').

In KSA, ZATCA's APA program matured in relevance since its introduction in 2024 followed by release of the first official APA Guidelines in February 2025, as multinationals sought comfort amid evolving global tax norms and regional volatility. In brief, an APA allows a taxpayer to lock in a TP method (or policy) for a fixed period (typically 3 years). For groups with large intra-group transactions an APA provides predictability, reduces audit risk, and helps manage compliance burden.

Together, these developments signal that the region is transitioning from corporate-tax introduction to a mature TP region offering multinationals a concrete path to reduce TP-related risk and secure inter-company pricing.

GCC Compliance Strengthening

Across the GCC, tax authorities are making a clear shift toward a stronger enforcement and deeper scrutiny for TP related matters.

In Saudi Arabia, the Zakat, Tax and Customs Authority ('ZATCA') extended TP rules to include Zakat-payers from 1 January 2024. For 2025, compliance efforts have intensified: Failure to comply carries risks. While there may not always be TP-specific penalties, ZATCA may re-order or adjust results if they deem the arm's-length principle not properly applied.

In the UAE, since the introduction of Corporate Tax in 2022, the authorities have issued statutory thresholds and detailed TP documentation requirements, including stricter arm's-length obligations for Qualifying Free Zone Persons. In parallel, the abolition of the ESR filing regime reflects a consolidation of substance requirements under the Corporate Tax Law, with TP becoming the primary mechanism for demonstrating substance in the UAE. The completion of the first TP compliance cycle for majority of businesses on 30 September 2025 marked a key milestone, laying the foundation for a more structured, strategic approach, with the FTA expected to intensify scrutiny on pricing, substance, and accurate disclosures.

Overview of GCC TP compliance requirements[5]

Jurisdiction	Local File[6]	Master File	Country-by-Country Report	TP disclosure (as part of CT return or otherwise)
Bahrain	✓	✓	✓	✗
Kuwait	✗	✗	✗	✓
Oman	✗	✗	✓	✓
Qatar	✓	✓	✓	✓
KSA	✓	✓	✓	✓
UAE	✓	✓	✓	✓

With such evolving landscape, taxpayers should approach TP as an ongoing, strategic discipline rather than a year-end obligation. By keeping audit-ready records, maintaining strong documentation, and proactively using dispute resolution tools such as APAs or MAPs for complex transactions, organisations can significantly reduce compliance and audit risk.

5. As at December 2025 and applicability subject to statutory regional thresholds or scoping rules, if any.
6. Maintaining an arm's-length basis is recommended, even where documentation is not mandatory.

Conclusion

In 2025, TP in the GCC matured from a compliance obligation into a strategic cornerstone of regional tax governance, driven by global tax reforms (Pillar Two), digitalization, and increasing regulatory expectations. Looking ahead, TP regimes are likely to expand or tighten across the GCC, with increased audits, enforcement, and alignment with global initiatives.

Companies that embed TP into strategic decision-making, maintain robust and defensible policies, integrate TP with business operations, and proactively leverage mechanisms such as APAs and MAPs will secure predictable tax outcomes and build a resilient foundation for future. In the Gulf, the focus is now on adopting a proactive, strategic approach to TP that aligns with business objectives and long-term value creation.

Article By

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Director

Excise Tax in 2025: A Year of Structural Change

2025 marks a decisive shift in the UAE Excise Tax regime. Unlike prior years, where changes were largely incremental, the 2025 amendments reflect a more structured, policy-driven, and administratively mature framework.

The reforms extend beyond rate changes and product clarifications and introduce substantive updates to classification, valuation, shortages, exclusions, and tax calculation methodology. These changes bring Excise Tax closer to the level of structure and maturity already seen under the VAT regime.

Key Developments in 2025

Ministerial Decision No. 1 of 2025 (Effective 3 January 2025)

This Decision replaces Ministerial Decision No. 236 of 2019 and introduces important classification and valuation clarifications:

1. Liquids used in electronic smoking devices (with or without nicotine) are reclassified under Chapter 24 of the GCC Customs Tariff, removing prior ambiguity arising under the previous classification framework.
2. Electronic smoking devices and tools are now classified under detailed Chapter 85 HS codes, covering e-cigarettes, electronic shisha, heated tobacco devices, and reusable components (excluding batteries).
3. A clarified Excise Price mechanism for concentrates, powders, gels, and extracts used to produce sweetened, energy, or carbonated drinks, based on the higher of the FTA-published standard price or the declared retail selling price (net of Excise Tax).

Decision No. 6 of 2025 and EXTP011 on Natural Shortages in Designated Zones (Effective 1 July 2025)

This update marks a significant development in the UAE Excise Tax framework by formalising the treatment of natural shortages of excise goods in Designated Zones. It provides clarity and certainty in an area that had historically evolved through administrative practice and public clarifications. The timeline below summarises the key developments leading to this update.

2017

During the initial phase of the Excise Tax regime, natural shortages of excise goods in DZ were addressed through direct communication (via email) with the FTA.

2022

The FTA issues Public Clarification EXTP007, outlining the process for notifying shortages or destruction of excisable goods and requesting Excise Tax relief. While EXTP007 recognises legitimate causes such as natural wastage (including evaporation and moisture loss), relief remains discretionary, with no prescribed tolerance levels or standard loss ratios, and ambiguity continues in practice.

2025
effective 1 July 2025

Decision No. 6 of 2025, supported by the principles set out in EXTP011, introduces a formal, structured, and standardised framework specifically for natural shortages of excise goods in Designated Zones. The Decision replaces the discretionary approach under EXTP007 for natural shortages with:.

- mandatory prior approval from the FTA;
- third-party validation through an FTA-approved Independent Competent Entity (ICE);
- defined permissible shortage percentages; and
- ongoing compliance and reconciliation obligations.

While the Decision significantly reduces reliance on discretionary relief under EXTP007 for natural shortages, it does not remove uncertainty in respect of non-natural losses. Losses arising from fire, theft, accidents, or operational errors remain outside the scope of Decision No. 6 of 2025 and continue to be governed by EXTP007

Ministerial Decision No. 249 of 2025 (Effective 1 October 2025)

This Decision provides long-awaited clarity on nicotine-based smoking cessation products by expressly excluding them from the definition of "tobacco and tobacco products" under Cabinet Decision No. 52 of 2019.

- Therapeutic nicotine products (e.g., gum, patches, sprays, tablets, injections) classified under specific HS codes are excluded from Excise Tax.
- Accordingly, these products will not be subject to Excise Tax with effect from 1 October 2025.

The change aligns the Excise framework with public health objectives and significantly reduces dispute and compliance risk for pharmaceutical businesses.

Federal Decree-Law No. 7 of 2025 on Excise Tax (Effective 1 October 2025)

The Decree-Law introduces targeted amendments aimed at strengthening compliance, improving administrative efficiency, and providing greater procedural flexibility for both taxpayers and the FTA. While largely operational in nature, the changes reinforce enforcement, reporting, and administration across the Excise regime.

CHANGES TO THE EXCISE TAX CALCULATION FRAMEWORK

- Excise Tax may be imposed either as:
  - an ad valorem rate capped at 200 percent of the Excise Price, or
  - a specific rate capped at AED 100 per unit of measurement.
- The Cabinet is empowered to prescribe the unit of measurement, the basis for applying specific rates, and the method for calculating the Excise Price.

REINFORCED TAX REGISTRATION OBLIGATIONS

Under the amended framework, the following persons are liable to register:

- persons who directly carry out excisable activities
- persons who become liable because another party fails to pay the Due Tax
- Warehouse Keepers releasing untaxed Excise Goods from Designated Zones.

EXPANDED INPUT DEDUCTIBILITY RULES

Expansion of the scope of deductible tax to include unsold goods:

- Excise Tax paid on excise goods that have not been sold is now deductible where the applicable tax rate or amount has decreased, limited to the extent of such decrease.

REFINED TAX LIABILITY AND PAYMENT RULES

- Payment timelines are now governed by the Executive Regulation, rather than being expressly linked to the tax return filing date.
- Persons exempt from registration must continue to pay Due Tax upon importation of Excise Goods.
- Any Tax collected or invoiced must be remitted to the Authority and is treated as Due Tax.

Transition to a tiered-volumetric model of Excise Tax for Sweetened Drinks (Effective 1 January 2026)

In a major year-end announcement, the FTA confirmed a fundamental redesign of the Excise Tax model for sweetened drinks, moving away from a price-based ad valorem system to a sugar-content-based volumetric model. This shift reflects:

- A substance-based taxation approach aligned with public health objectives,
- Greater differentiation based on actual sugar content, and
- A more policy-driven and internationally aligned tax design.

Executive Regulations and other administrative alignment

To support the above reforms:

- The Executive Regulations have been amended to reflect the volumetric Excise Tax model.
- Penalty provisions and administrative mechanisms have been updated
- Processes such as administrative exceptions and private clarifications have been harmonised, reflecting a broader move towards consistency across UAE indirect tax regimes.

Taken together, the Excise Tax developments introduced throughout 2025 represent a series of constructive and long-awaited amendments rather than isolated technical changes. The regime has evolved from a relatively narrow, product-focused tax into a more mature, structured, and policy-aligned framework.

Article By

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Director | Manager

From the Border to the Boardroom: Customs Duty's Return in Year 2025

For much of the last decade, customs duties, or, as they are commonly known, tariffs, quietly receded into the background of global tax conversations – overshadowed by VAT, corporate tax, BEPS, and digital taxation.

This position changed decisively in 2025. Tariffs returned to the centre of economic and political discussions thanks to US President Trump's announcement of tariff measures for imports from across the world.

With the tariff measures in the USA, businesses started redesigning their supply chains not just around cost and efficiency but, particularly, around tariff exposure.

Businesses are being forced to ask difficult questions:

- where should goods be manufactured;
- where should value be added; and
- which jurisdictions offer the greatest certainty in an increasingly fragmented trade landscape.

Against this backdrop, the UAE is becoming a sweet spot for businesses to establish their base not just to cater to the Gulf and Africa but also to Western countries, particularly the United States.

Key Updates on UAE Customs

Over the past year, the UAE Federal Customs and, in particular, Dubai Customs have introduced a series of initiatives, structural reforms, and enforcement enhancements.

Below are some of the key developments that businesses, tax, and trade professionals should be aware of:

Transition to the 12-Digit Integrated Customs Tariff

The most consequential customs development in recent years is the UAE's transition from the traditional 8-digit HS code structure to a 12-digit Integrated Customs Tariff, aligned with the GCC and HS 2022 nomenclature.

This change is not merely a technical re-coding exercise. By expanding the number of tariff lines from approximately 7,800 to over 13,400, the UAE is enabling:

- finer product differentiation;
- more accurate duty and trade-remedy application;
- enhanced data analytics and risk profiling; and
- harmonisation across GCC customs administrations.

The reform is conducted with phased rollout – beginning with optional use, followed by mandatory adoption for GCC trade, free zone movements, and eventually all imports.

Pre-Loading Advance Cargo Information (PLACI)

From April 2025, the UAE has implemented enhanced Pre-Loading Advance Cargo Information (PLACI) requirements for air freight.

For businesses involved in air cargo, express shipments, or e-commerce, this means:

- incomplete or inaccurate HS codes, consignee details, or shipment descriptions can result in "Do Not Load" instructions;
- compliance failures surface earlier and more visibly; and
- customs risk is increasingly a front-end data problem, not a back-end clearance issue.

Extension of Anti-Dumping Duty on Steel and Steel Coils

The extension of the 10% customs duty on reinforcing steel and steel coils until 2026, along with targeted anti-dumping measures on specific product categories, reflects a subtle but important shift in trade policy.

Historically, the GCC – and the UAE in particular – has been characterised by:

- low uniform customs duties; and
- minimal use of trade-defence instruments.

Recent developments suggest a more measured deployment of tariffs, particularly where domestic industry protection, market distortion, or unfair pricing is identified.

Updated Traveller Rules

Travellers aged 18 and above are now required to declare cash, bearer negotiable instruments, precious metals, and valuable stones exceeding AED 60,000 (or equivalent) when entering or exiting the UAE.

Declarations must be made through official channels, including the Afseh digital declaration platform, with failure to declare exposing travellers to penalties and potential confiscation.

In parallel, UAE Customs has reiterated strict thresholds for personal imports, including a duty-free allowance for gifts not exceeding AED 3,000, and defined quantitative limits for alcohol, tobacco, and other controlled items.

Goods exceeding personal-use thresholds are increasingly being assessed as commercial in nature, triggering customs duty and scrutiny.

Continued Investments in Digitisation

Dubai Customs has continued to make investments in digitising its systems and processes.

Core customs processes are now routed through Mirsal 2, which automates declaration filing, duty calculation, risk assessment, and release decisions.

The system is directly integrated with Dubai Trade, shipping lines, airlines, ports, free zones, and logistics operators, enabling near real-time data exchange across the supply chain.

Declarations are screened using advanced risk engines that analyse HS codes, valuation patterns, country of origin, importer history, and data consistency across prior filings.

Low-risk shipments are increasingly channelled through green lanes with minimal intervention, while inconsistencies or anomalies automatically trigger document checks, physical inspection, or post-clearance audit flags.

In parallel, Dubai Customs has expanded digital facilitation for e-commerce and express cargo, allowing bulk low-value consignments to be cleared through simplified digital processes, provided data integrity standards are met.

“

Conclusion

The resurgence of tariffs as a central feature of global trade policy has fundamentally altered how businesses view customs – not as a transactional obligation at the border, but as a strategic variable shaping supply chain design, market access, and investment decisions.

In this environment, the UAE's recent customs developments are both timely and deliberate. The transition to a 12-digit tariff structure, enhanced pre-loading data requirements, targeted use of trade-defence measures, tighter traveller controls, and continued investment in digital customs infrastructure collectively reflect a maturing customs regime – one that balances facilitation with enforcement and predictability with control.

For businesses reassessing their global footprints in response to tariff volatility, the UAE increasingly offers more than geographic advantage. It provides regulatory clarity, advanced customs systems, and a trade environment aligned with global best practices – positioning customs compliance as an enabler rather than a constraint.

”

Article By

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Amendments to VAT Grouping under the KSA VAT legislation: A Technical Perspective

On 18 April 2025, the Zakat, Tax and Customs Authority (ZATCA) announced significant amendments to the VAT Implementing Regulations, marking a pivotal shift in how VAT groups are structured and managed in the Kingdom of Saudi Arabia (KSA). While most changes took immediate effect, ZATCA granted a 180-day transition period until 15 October 2025, to enable businesses to align with the revised VAT grouping provisions. Businesses that adapted within the timeline remain compliant; however, non-aligned entities may potentially be subject to penalties. It remains to be seen whether ZATCA will provide any extension or amnesty for businesses that were unable to align within the prescribed timeframe.

In this article, we explore the key changes, the implications for taxpayers, and how these reforms compare with the best practices globally.

Key Amendments to VAT Grouping Provisions

Under the previous regime, only one entity in a group needed to qualify for VAT registration. The new rules require every member to independently meet VAT registration criteria, ensuring that all entities are actively engaged in taxable economic activities.

All group members must be resident in KSA and under common control, defined as at least 50% ownership or voting rights, or effective control by one member over others.

Entities operating in special economic zones or those eligible for refunds under Article 70 of the KSA VAT Regulations, i.e., designated persons not carrying any economic activity and authorized persons (including foreign governments and diplomatic or international bodies) not entitled to input VAT recovery, except for the following:

- Licensed real estate developers supplying property to employees.
- Donors to public benefit projects.

Applications must include a formal agreement appointing a representative member and outlining compliance responsibilities, reinforcing governance and accountability.

Eligibility conditions must be maintained throughout the group's existence, with ZATCA empowered to revoke grouping status if criteria are breached – VAT group no longer a "Set and Forget" decision.

Implications for Taxpayers

Businesses were required to reassess group composition, identify ineligible entities, and restructure where necessary. Groups that were unable to complete this by 15 October 2025 should now prioritize a compliance review, given the potential exposure to penalties.

The amendment introduces a requirement for formal agreement between the members. This introduces a formal governance layer, necessitating clear documentation of roles, responsibilities, and liability provisions.

Entities excluded from groups may face VAT on internal recharges, increasing costs for shared services such as IT, HR, and procurement.

ERP systems and e-invoicing platforms must be updated to reflect new group structures and ensure correct VAT treatment for intra-group transactions.

Regional Comparison: Bahrain, UAE, and Oman

Broadly speaking, the VAT grouping provisions are similar across the GCC in as much as the 50% common ownership criteria, disregarding the intra-group supplies and joint liability of the group members are concerned.

Post the amendment as discussed above, one of key areas of difference that stands out in the KSA regime is the governance architecture. KSA now requires a formal VAT group agreement that clearly allocates obligations and designates a representative member, signaling an emphasis on predefined accountability. By comparison, Bahrain, the UAE, and Oman adopt a more application-driven model, relying on evidentiary documentation such as proof of control, powers of attorney, regulatory filings, or representative nominations without the same degree of prescriptive role definition.

Strategic Considerations for Businesses

With the deadline of 15 October 25 now elapsed, businesses should immediately reassess their VAT groups and identify any entities that have become ineligible to mitigate exposure to penalties.

Holding companies deriving only dividend income require particular attention, as many will no longer qualify as taxable persons and therefore cannot remain within the VAT group.

Representative member's roles, responsibilities and more importantly liabilities should be clearly formalized.

ERP and invoicing systems must be updated to correctly reflect supplies within and outside the redefined VAT group.

Internal charging models must be recalibrated as transactions with newly excluded entities now fall within the scope of VAT. This requires adjustments to pricing, cost allocation, and invoicing, along with a review of VAT cash-flow and recoverability.

Transfers previously disregarded for VAT by virtue of VAT group treatment will, upon de-grouping, require an independent TOGC assessment. Where TOGC conditions are not met, such transfers may trigger VAT exposure, making early evaluation critical for M&A and restructuring activities.

Conclusion

ZATCA's amendments to VAT grouping provisions represent a significant evolution in Saudi Arabia's VAT framework. By tightening eligibility, introducing governance requirements, and excluding certain entities, the rules aim to enhance compliance and reduce opportunities for misuse.

For taxpayers, the impact will vary: some groups may experience higher administrative and documentation burdens, while others could face additional VAT costs if entities are excluded from grouping. At the same time, clearer rules can provide greater certainty for long-term planning.

Ultimately, businesses should view these changes as an opportunity to reassess structures, strengthen governance, and ensure systems are ready—not only to meet the October 2025 deadline, but to position themselves for sustainable compliance in a more robust VAT environment. Specifically, the entities who have not yet complied with the amendments should rectify their status at the earliest.

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