

## DIRECT TAX ALERT

March 24, 2026



### Research & Development Expenditure Tax Credit Framework

Cabinet Decision 215 of 2025 read with Ministerial Decision 24 of 2026

#### EXECUTIVE SUMMARY

The UAE has introduced a **Research & Development ('R&D') tax credit regime under its Corporate Tax (CT) framework**, advancing its knowledge-based economy objectives. Following a public consultation in April 2024 and a policy announcement in December 2024, the initiative was given statutory effect through Federal Decree-Law No. (28) of 2025, amending the UAE CT Law which, amongst other amendments, modified the provisions relating to settlement of tax to include tax credit arising from incentives along with permissibility of corresponding refunds for excess tax credit.

Cabinet Decision No. (215) of 2025 (the 'CD 215') introduced the overarching framework, covering eligibility, qualifying expenditure, and utilization principles. Ministerial Decision No. (24) of 2026 (the 'MD 24') sets out the detailed implementing rules. **These decisions apply to Tax Periods or Fiscal Years commencing on or after 1 January 2026.**

In its public announcement, the Ministry of Finance has described the current design as 'Phase 1', under which a non-refundable R&D tax credit of **up to 50%** is available on qualifying R&D expenditure **capped at AED 5 million**, with potential enhancements (including refundability and/or expansion of qualifying R&D expenditure) to be considered in later phases. The regime prescribes **tiered rates (15% / 35% / 50%)** linked to qualifying spend and average R&D staff headcount, requires mandatory project pre-approval by the Emirates R&D Council, and limits qualifying costs to specified categories (*including staff costs with a 30% uplift, consumables, subcontracting fees and arm's length cost contribution agreement contributions*). The credit may be utilized against CT and subject to ordering rules, against Top-up Tax.

This alert provides a summary of the Decisions and highlights key practical implications for businesses undertaking qualifying R&D activities in the UAE.

#### KEY FEATURES OF THE R&D TAX CREDIT REGIME

##### 1. Qualifying Entities

- R&D tax credit is available to a Qualifying Entity being a **UAE juridical person** (including a Free Zone Person) or a **foreign juridical person acting through a UAE permanent establishment**, that undertakes Qualifying R&D activities and is subject to CT and/or Top-up Tax.
- Qualifying Free Zone Person is eligible only where it is subject to 9% CT on income from those activities or is subject to Top-up Tax.

- CT/Top-up Tax, entities electing Small Business Relief (Article 21), and any other entities specified by the Minister are Excluded Entities

## 2. Credit Rates and Dual-Threshold Structure

The R&D tax credit operate on a tiered, progressive basis. A Qualifying Entity or Tax Group must satisfy both a Qualifying Expenditure threshold and a minimum average R&D staff headcount to access each credit tier.

Maximum Qualifying R&D Expenditure (AED)	Minimum Average R&D Staff	Credit Rate
First AED 1 million	At least 2	15%
> AED 1 million up to AED 2 million	At least 6	35%
> AED 2 million up to AED 5 million	At least 14	50%

Where a taxpayer meets the expenditure threshold for a particular tier but not the corresponding staff threshold, the credit rate is adjusted downward to the highest rate for which both conditions are met, per Article 2(7) of the Decision.

### Key features:

- The credit is non-refundable. It may only be utilized against CT and/or Top-up Tax liability.
- Total qualifying R&D expenditure is **capped at AED 5 million** per Qualifying Entity or Tax Group per Tax Period, yielding a maximum credit of AED 2 million.
- For Tax Groups, qualifying R&D expenditure and average R&D staff are aggregated at group level. Also, the benefit is available at the group level and not for each member of the tax group.

## Illustrative Calculations

### Scenario A – AED 3.5 qualifying R&D million expenditure, 14 or more average R&D staff

Expenditure Tier	Qualifying Spend (AED)	Credit Rate	Credit Amount (AED)
First AED 1 million	1,000,000	15%	150,000
AED 1 million to AED 2 million	1,000,000	35%	350,000
AED 2 million to AED 5 million	1,500,000	50%	750,000
<b>Total</b>	<b>3,500,000</b>		<b>1,250,000</b>

The credit is calculated progressively across all three tiers, yielding a total credit of AED 1.25 million at an effective blended rate of ~ 35.7%.

### Scenario B – AED 6.5 million qualifying R&D expenditure, 14 or more average R&D staff:

Expenditure beyond AED 5 million does not attract additional credit, effectively capping the maximum credit at AED 2 million. This results in a declining effective credit rate (~30.8%) as expenditure increases beyond the upper threshold.

### Scenario C – AED 3.5 million qualifying R&D expenditure, only 5 average R&D staff

With only 5 average R&D staff, the entity cannot access the second or third tiers. Per Article 2(7) of MD 24, the credit rate is adjusted downward to 15%, being the highest rate for which both thresholds are satisfied.

### 3. Qualifying R&D activities

R&D credit is available on Qualifying R&D activities undertaken by Qualifying Entity. A Qualifying R&D Activity is an activity conducted in the UAE as part of an R&D Project where it meets all five conditions (*to be assessed with reference to criteria laid down in the Frascati Manual published by OECD*):

- **Novel** – aims to produce new findings
- **Creative** – involves original concepts or hypotheses
- **Uncertain** – the outcome or means of achieving it are not known in advance
- **Systematic** – follows a plan and budget
- **Transferable/Reproducible** – results can be applied or replicated in other contexts

**Important exclusions:** qualifying R&D activities in the fields of social sciences, humanities, and the arts do not qualify. Where qualifying R&D activities are conducted partly outside the UAE, only the in-State portion may constitute Qualifying R&D Activity.

Consistent with the **OECD Frascati Manual (2015)**, qualifying R&D generally covers applied research and experimental development involving scientific or technological uncertainty (e.g., prototypes/pilots, new algorithms/software architectures, and non-routine engineering). Routine configuration, incremental upgrades, market research and standard testing typically do not qualify on a standalone basis, and mixed projects require clear apportionment and documentation against the Frascati criteria.

### 4. Qualifying R&D Expenditure

The categories of expenditure considered as Qualifying R&D Expenditure along with the related conditions are summarized below:

Category	Inclusions	Key Conditions and Exclusions
Staff Costs	Salaries, wages, allowances, medical insurance, pension, gratuity, bonuses, benefits in kind, and training costs for R&D Staff - being full-time or full-time equivalent employees or full-time or full-time equivalent externally provided workers who are directly and actively engaged in Qualifying R&D activities. Seconded employees whose costs are borne by the Qualifying Entity are included.	<ul style="list-style-type: none"> <li>• <b>A 30% uplift applies</b> in computing qualifying Staff Costs (to account for overheads)</li> <li>• Staff must be located in the UAE when performing qualifying R&amp;D activities and under the supervision, direction, and direct control of the Qualifying Entity</li> <li>• Employee stock option plans and intra-Tax Group recharges excluded.</li> <li>• For non-full-time R&amp;D employees, reasonably attributable Staff Costs qualify</li> </ul>
Consumable Costs	Materials directly used in and no longer usable following Qualifying R&D activities, including water, fuel, power, non-capital license fees, and clinical trial payments to patients or subjects.	<ul style="list-style-type: none"> <li>• Must be directly used in Qualifying R&amp;D activities.</li> <li>• Where partially used, reasonably attributable proportion qualifies.</li> <li>• Items disposed of in the ordinary course of business excluded.</li> </ul>
Subcontracting Fees	Fees paid to UAE-based subcontractors for Qualifying R&D activities performed within the UAE.	<ul style="list-style-type: none"> <li>• No sub-subcontracting permitted.</li> <li>• Related party subcontractors must maintain audited financial statements.</li> </ul>

Category	Inclusions	Key Conditions and Exclusions
Cost Contribution Arrangements (CCAs)	The Qualifying Entity's arm's length share of contributions under a CCA for joint R&D, corresponding to its expected share of anticipated benefits	<ul style="list-style-type: none"> <li>• Only the portion attributable to R&amp;D carried out within the UAE qualifies.</li> <li>• These provisions apply to subcontracting arrangements entered into as a part of CCA</li> </ul>

#### Key conditions for all expenses:

- **At least AED 500,000 of Qualifying R&D Expenditure (excluding any uplift)** per project is required for eligibility of the R&D tax credits.
- Costs capitalized in respect of internally generated intangibles resulting from Qualifying R&D activities are also considered Qualifying R&D Expenditure
- Expenditure must be incurred wholly and exclusively for Qualifying R&D activities; where incurred for multiple purposes, only the attributable portion qualifies
- Expenditure must constitute deductible expenditure under the CT Law
- Grant-funded expenditure does not qualify, to the extent recorded in the financial statements
- Expenditure already benefiting from any other incentive, credit, exemption, or relief under UAE legislation does not qualify
- Staff, subcontracting, and consumable costs incurred via intra-group recharges are not treated as Qualifying R&D Expenditure

## 5. Mandatory Pre-Approval

**Pre-approval from the Emirates Research and Development Council is mandatory** for each R&D Project for which the credit is claimed. Additionally, the Council may require ongoing progress updates with technical documentation to evidence that activities remain consistent with the approved scope. The form, manner, and timeline is yet to be prescribed by the Council.

## 6. Utilization and Carry-Forward of Unutilized R&D tax credits

The framework provides for carry-forward of unutilized R&D tax credits to subsequent Tax Periods or Fiscal Years.

#### Key Conditions:

- **No time limit** prescribed for carry-forward
- A valid claim must be submitted to the Authority and current Tax Period credit must be utilized before any surplus is carried forward
- Credits from multiple Tax Periods to be utilized on a first-in-first-out basis
- Carry-forward is **subject to 50% ownership continuity** from the Tax Period the credit arose to utilization except in cases where (i) the same or similar business activity continues, or (ii) where the Qualifying Entity is listed on a Recognized Stock Exchange

## 7. Transfer of R&D tax credits

A Qualifying Entity ('transferor') may transfer unutilized R&D tax credits to another juridical person subject to CT and/or Top-up Tax ('transferee').

#### Key Conditions:

- Both entities are **at least 75% commonly owned** (directly or indirectly), or one owns the other by that percentage from the Tax Period the credits arose to the Tax Period they are utilized

- The transferred credits cannot exceed the transferee's remaining CT and/or Top-up Tax liability after utilizing its own credits
- The transferred credits cannot be further carried forward or transferred by the transferee.
- The transferor must reduce its available R&D tax credits by the amount transferred

## 8. Business Restructuring

Where a Qualifying Entity transfers its entire business or an independent part thereof, transferee may claim, utilize, carry forward, or transfer the unutilized R&D tax credits of the transferor.

### Key Conditions:

- The transferee to **continue the qualifying R&D activities for at least two years** from the date of transfer
- The transfer must satisfy the conditions of Business Restructuring Relied under Article 27(2) of the CT Law
- The R&D tax credits must have been validly claimed by the transferor prior to the date of transfer
- If qualifying R&D activities are discontinued within two years, a full claw-back applies i.e. utilized tax credits must be repaid, unutilized credits are forfeited, and no offsets are permitted against such resulting liability.

## 9. Application of the R&D tax credits to Tax Groups

Credits arising to a member entity are utilized against the Tax Group's CT liability. The Parent Company is responsible for applying for pre-approval, submitting the credit claim as part of the Tax Return, and complying with all related obligations.

### Key Conditions:

- **Pre-grouping credits** of joining entities are applied **against Group tax liability** before the Tax Group's own credits (*this is unlike pre-grouping Tax Loss of a entity which is restricted to be set off against the concerned member entity's attributable income*)
- Credits must be utilized against CT liability before being applied against Top-up Tax, carried forward, or transferred
- On departure of a member entity, pre-grouping credits travel with the entity; all other credits remain with the Tax Group
- On cessation of Tax Group, credits remain with the Parent Company (or are forfeited if the Parent ceases to be taxable), except pre-grouping credits which remain with the relevant entity
- Tax Group members are jointly and severally liable for any claw-back utilized during their membership period

## 10. Domestic Groups / Pillar Two

R&D tax credits arising to a Constituent Entity, Joint Venture, or JV Subsidiary of a Domestic Group are utilized against the Domestic Group's Top-up Tax liability.

**Ordering rule:** R&D tax credits must first be applied against CT liability (entity or Tax Group level) before any surplus flows to offset Top-up Tax. Joint and several liability applies across all constituent entities, JVs, and JV subsidiaries for claw-backs. The interplay of non-refundable R&D tax credits for effective tax rate computation under Pillar Two rules needs to be considered separately.

## 11. Anti-Abuse and Artificial Separation

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The Decision contains robust anti-avoidance provisions:

- **Artificial separation:** Where the FTA establishes that a business has been artificially split to remain within lower expenditure thresholds, this is treated as an arrangement to obtain a CT advantage under Article 50 of the CT Law. In such cases, R&D tax credits are clawed back and unutilized credits are forfeited.
- **General anti-abuse:** Any arrangement adopted mainly to obtain or increase credits inconsistently with economic substance or the genuine nature of the qualifying R&D activities may be counteracted with claw back of credits and forfeiture of unutilized credits.
- **Five-year exit claw-back:** If within five years of the last credit claim, the entity ceases being taxable, becomes a Qualifying Free Zone Person, applies Small Business Relief, enters liquidation, or redomiciles outside the UAE, all utilized credits are clawed back and unutilized credits forfeited. The only carve-out is for qualifying business restructurings discussed above.

## 12. Record-Keeping

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Qualifying Entities must maintain comprehensive technical documentation **for seven years** following the end of the relevant Tax Period or Fiscal Year. This includes written, visual, and electronic records covering objectives, processes, methodologies, experiments, and findings associated with the qualifying R&D activities.

## 13. Application Requirements and Due Date:

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Claims must **be submitted as part of the Tax Return or Top-up Tax Return** for the Tax Period or Fiscal Year in which the Qualifying R&D Expenditure is incurred.

### Key conditions

- Proof of Council pre-approval, a senior management declaration, a breakdown of Qualifying R&D Expenditure, and audited financial statements to be submitted along with claim.
- Claims submitted after the due date for filing the Tax Return or Top-up Tax Return will not be considered unless accepted by the Authority in exceptional circumstances.

## DHRUVA PERSPECTIVE

The UAE's R&D tax credit mechanism is a significant addition to the CT regime, introduced against increased focus on minimum-tax outcomes. It aligns with the UAE's broader policy direction (including Free Zone and IP rules) and OECD standards, supporting long-term competitiveness.

Taxpayers need to take a systematic approach to claim this benefit. This includes identify qualifying R&D projects, secure Emirates R&D Council pre-approval, and implement time-and-cost tracking. While Phase 1 is non-refundable, since credits carry forward indefinitely, early project work may still be useful for entities where future UAE CT and/or Top-up Tax liabilities are expected.

Given the technical nature of the regime, interpretive positions are expected to develop as administrative guidance and market practices mature. Therefore, claims should be prepared to an audit standard, with contemporaneous technical evidence and robust allocations. Taxpayers should also evaluate transfer pricing modelling opportunities (including for CCAs and subcontracting) and assess the Pillar Two/Domestic Top-up Tax interaction.



Ranking 2026:

- Tier 1 – Indirect Tax
- Tier 2 – General Corporate Tax, Transfer Pricing, Transactional Tax
- Other Notable: Tax Controversy



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