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Deals decoded

Taxation of M&A transactions

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Foreword

Foreword

A notable structural shift in Middle East deal-making over the last decade is not the emergence of new capital or new investors. It is the rapidly evolving tax landscape.

Where M&A transactions were once structured almost entirely around commercial and legal considerations, with tax considered as an afterthought, the introduction of VAT, corporate tax, transfer pricing regime and Pillar Two in the UAE have repositioned tax as an important driver of how deals are conceived, priced and executed. A well-considered tax position creates opportunity; an overlooked one can erode value, complicate integration, or constrain a future exit.

To help navigate this changing environment, we are launching a series on M&A tax that aims to provide dealmakers, investors and business leaders with a practical and commercial perspective on the tax considerations that matter most across the transaction lifecycle. The objective is to help you make better-informed decisions, protect value, and transact with confidence.

This publication is the first in a series examining the intersection of tax and M&A in the UAE. This first issue focuses on the tax implications of various transaction types, from share acquisitions and asset deals to intra-group restructurings and legal mergers, and how the current UAE tax framework shapes structuring choices across each.

Our M&A tax team brings together decades of experience advising on some of the most complex and high-profile transactions. From pre-deal structuring and tax due diligence through to post-acquisition integration and exit planning, the team has worked alongside sovereigns, marquee investors and conglomerates to navigate the full transaction lifecycle.

As a leading tax firm, our advice is based on tax thinking that is commercially sharp, transaction-tested and helps deliver successful outcomes.



Nimish Goel

Leader, Middle East
Dhruva Consultants



Preface: The question every dealmaker should be asking about tax?

The UAE deal landscape: Capital, confidence and momentum

Over the last five years, the Middle East, particularly the UAE, has emerged as one of the most active and resilient M&A markets globally. While many mature markets have grappled with economic uncertainty, elevated financing costs and geopolitical disruption, the region has continued to attract capital and sustained deal activity at a remarkable pace.

This resilience reflects a convergence of factors: the weight of sovereign capital, the momentum of economic diversification agendas, far-reaching regulatory reform and a growing private sector presence. Historically, sovereign wealth funds and state-owned enterprises have been the primary engines of regional deal activity. While they continue to play a central and defining role, the capital base is broadening materially, i.e., private equity funds, family offices, multinational groups and strategic investors are each playing an increasingly prominent part in shaping regional deal flow.

The continued development of financial centres such as Abu Dhabi Global Markets (**ADGM**) and Dubai International Financial Centre (**DIFC**) has further accelerated this evolution, reinforcing the UAE's position as the region's pre-eminent hub for capital deployment globally.

A legitimate question arises as to whether these structural tailwinds have been tempered by the regional conflict and broader geopolitical uncertainty of recent months. The short answer is: less than many anticipated. While the conflict has inevitably shaped investor sentiment, financing conditions and transaction execution, deal activity is expected to be notably resilient. Capital continues to be deployed across the region, albeit with greater selectivity and discipline; reflecting sustained confidence in the region's long-term fundamentals and growth trajectory.

M&A in the UAE and wider Gulf Cooperation Council (**GCC**) is no longer cyclical. Underpinned by economic diversification mandates and the continued emergence of new economy businesses point to a market with genuine long-term depth.

The evolving tax landscape

Historically, tax was rarely a determining factor in acquisitions, disposals and group reorganisations across much of the GCC. Commercial, legal and regulatory considerations typically dictated transaction structures, with tax often assessed later in the process.

That position has changed fundamentally.

Over the last decade, governments across the region have introduced new tax regimes and modernised existing frameworks at a pace that has materially altered the deal-making environment. In the UAE, the introduction of Value Added Tax (**VAT**), Corporate Tax (**CT**), Transfer Pricing (**TP**) regime and, more recently, Pillar Two has changed the way M&A transactions are evaluated and structured.

Today, tax is no longer simply a compliance consideration. It is a key driver of value, risk and transaction outcomes.



Where deals meet tax: Structure, value and risk

As M&A activity continues to mature and tax regimes continue to evolve, the interaction between tax and commercial decision-making has become one of the defining features of sophisticated deal execution in the region.

Tax considerations arise throughout the transaction lifecycle and often influence outcomes in ways that extend well beyond the immediate deal. Questions around the choice of transaction structures, the identification and pricing of tax risks, the availability of tax attributes, financing arrangements, post-deal integration and future exit flexibility are now integral to how transactions are conceived and executed.

For investors, businesses and dealmakers operating in this region, understanding how tax interacts with commercial intent, influences deal structure and ultimately shapes transaction outcomes has never been more consequential.





Types of M&A transactions

How deals are done: Typical types of M&A transactions

The tax and regulatory framework in the UAE allows for several modes of executing M&A transactions, each carrying its own tax profile, commercial implications and regulatory considerations. The choice of transaction mode is rarely straightforward; it is shaped by the commercial objectives, the nature of the target business, the applicable regulatory environment and, increasingly, the tax consequences that flow from each approach.

At a high level, an M&A transaction in the UAE may be structured in any of the following ways (subject to commercial, legal and regulatory considerations), each of which is discussed in the sections that follow:



In our experience, the interdependency of the type of M&A transaction with the tax involvement in the deal is frequently underestimated.

The scope and depth of Tax Due Diligence (**TDD**) will vary significantly depending on the mode of transaction selected, given that each deal type carries a distinct risk profile, asset perimeter and set of tax exposures. Moreover, it is the choice of transaction mode that most directly determines what warranties and indemnities are sought, what adjustments are built into the financial model, and what integration steps are required post-closing.



Share acquisition / transfer

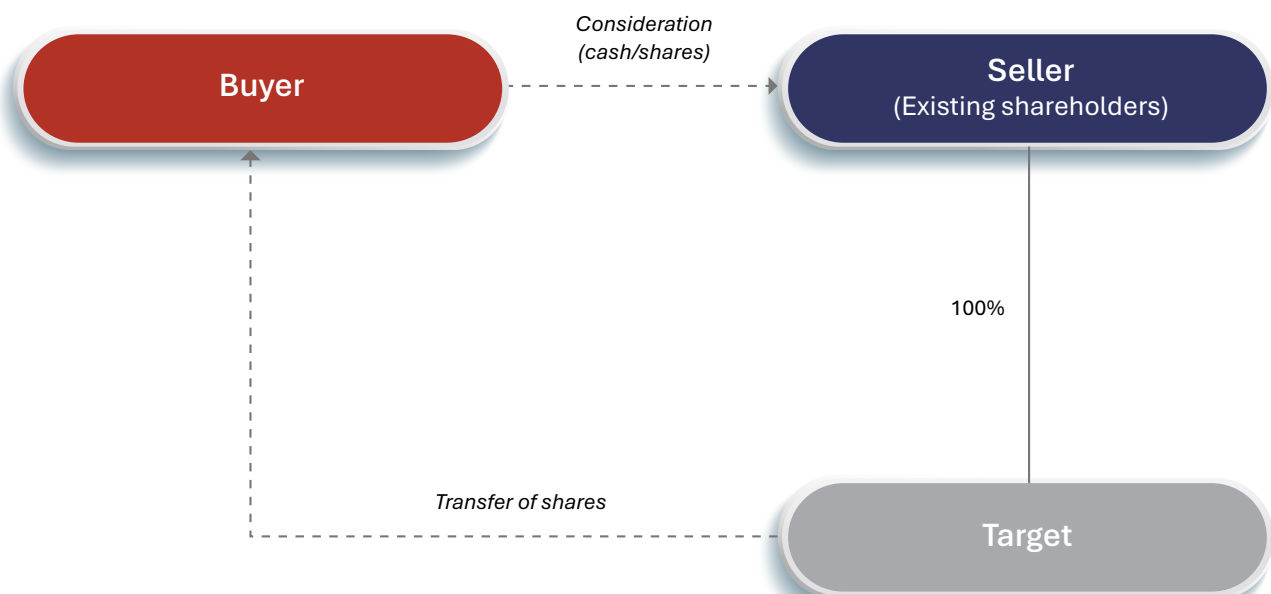
Share acquisition / transfer

One of the most common modes of M&A is the acquisition of shares. When shares change hands, the entire enterprise transfers with them, i.e., operations, assets, employees, contracts, licenses and liabilities.

Compared to asset acquisitions, share deals avoid the complexity of piecemeal transfers and enable cleaner, more certain closing mechanics. This matters most where licenses may be difficult to transfer, contracts may not be easily assignable, and regulatory approvals would otherwise introduce material delay.

The structural simplicity of a share deal, however, comes with a fundamental trade-off: the buyer gains continuity but inherits risks. Unlike an asset acquisition, there is no ability to cherry-pick assets or selectively exclude liabilities. Protection must instead come from rigorous due diligence and carefully negotiated contractual safeguards; warranties, indemnities and price adjustment mechanisms.

Consideration for a share acquisition is most commonly in the form of cash. Share-for-share exchanges, however, are an increasingly utilized alternative, particularly where the selling shareholder wishes to retain an economic interest in the combined business and participate in its future growth.



Tax implications of share acquisition / transfer

CT on gains

Where a share transfer gives rise to a gain, the applicable CT treatment will depend on the tax status of the seller and the availability of any exemption or relief under the UAE Corporate Tax Law (**UAE CT Law**). The principal scenarios are as follows:




- **Resident taxpayer (juridical person):** Gains are generally subject to CT at 9% unless the participation exemption conditions are satisfied, in which case the gain is fully exempt from CT.
- **Resident taxpayer (individual or natural person):** Gains realized by an individual are not subject to CT if they are treated as personal investment income. Where, however, the disposal of shares constitutes a business activity, gains may be subject to CT at 9% if the individual's aggregate turnover within the relevant Gregorian calendar year (January to December) exceeds AED 1 million.
- **Qualifying Free Zone Person (QFZP):** Gains derived from the disposal of shares that constitute a "qualifying activity" are subject to CT at 0%, provided the QFZP conditions are satisfied. The interaction of QFZP regime with participation exemption (where applicable) should be assessed on a transaction-specific basis.
- **Non-residents:** Gains realized by a non-resident on the disposal of shares in a UAE company are treated as UAE-sourced income and are currently subject to Withholding Tax (**WHT**) at 0%. The UAE CT Law reserves the right to increase this rate by a Cabinet Decision. In the absence of any such increase or the introduction of more specific WHT provisions, no WHT implications arise for the non-resident seller at present.

Where a share acquisition or transfer is undertaken between related parties, the transaction must comply with the Arm's Length Principle (**ALP**) and be supported by robust TP documentation. This is particularly critical where the taxpayer is seeking to rely on the QFZP regime, given that non-arm's length pricing in qualifying transactions can jeopardize free zone status.

The gain or loss arising on a share disposal is determined by the accounting treatment under the applicable financial reporting standards, typically International Financial Reporting Standards (**IFRS**) for UAE entities. The gain or loss is generally computed as the sales consideration less the book value of the shares at the time of disposal and any costs of disposal.

However, computing the capital gain or loss on a share disposal is rarely as mechanical as the standard formula suggests. Deferred or contingent consideration, common in earn-out structures, can complicate the timing and quantum of the taxable gain. The seller's election between the realisation basis and fair value basis for CT purposes can also materially affect recognition. Not all deal costs are automatically deductible either; each should be tested individually rather than assumed to qualify.

Key consideration:

-  The UAE CT Law provides transitional relief allowing taxpayers to grandfather gains accrued prior to the commencement of the CT regime, preventing taxation on value appreciation earned before CT became applicable. This relief is particularly significant for long-held investments that have appreciated materially. Taxpayers who did not make the requisite election in their first CT return should take urgent advice, as this relief may have been permanently foregone.
-  A non-resident investor with no Permanent Establishment (**PE**) or a nexus in the UAE should not be subject to UAE CT registration or return filing obligations upon transfer of shares in a UAE company.
-  In related party share transactions, particularly common control transfers where IFRS requires the transaction to be recorded at book value, a TP assessment is essential to establish that the pricing is consistent with the arm's length standard. This alignment is especially critical where the taxpayer intends to rely on the QFZP regime, where arm's length pricing is a prerequisite for the benefit eligibility.



Tax loss carry-forward

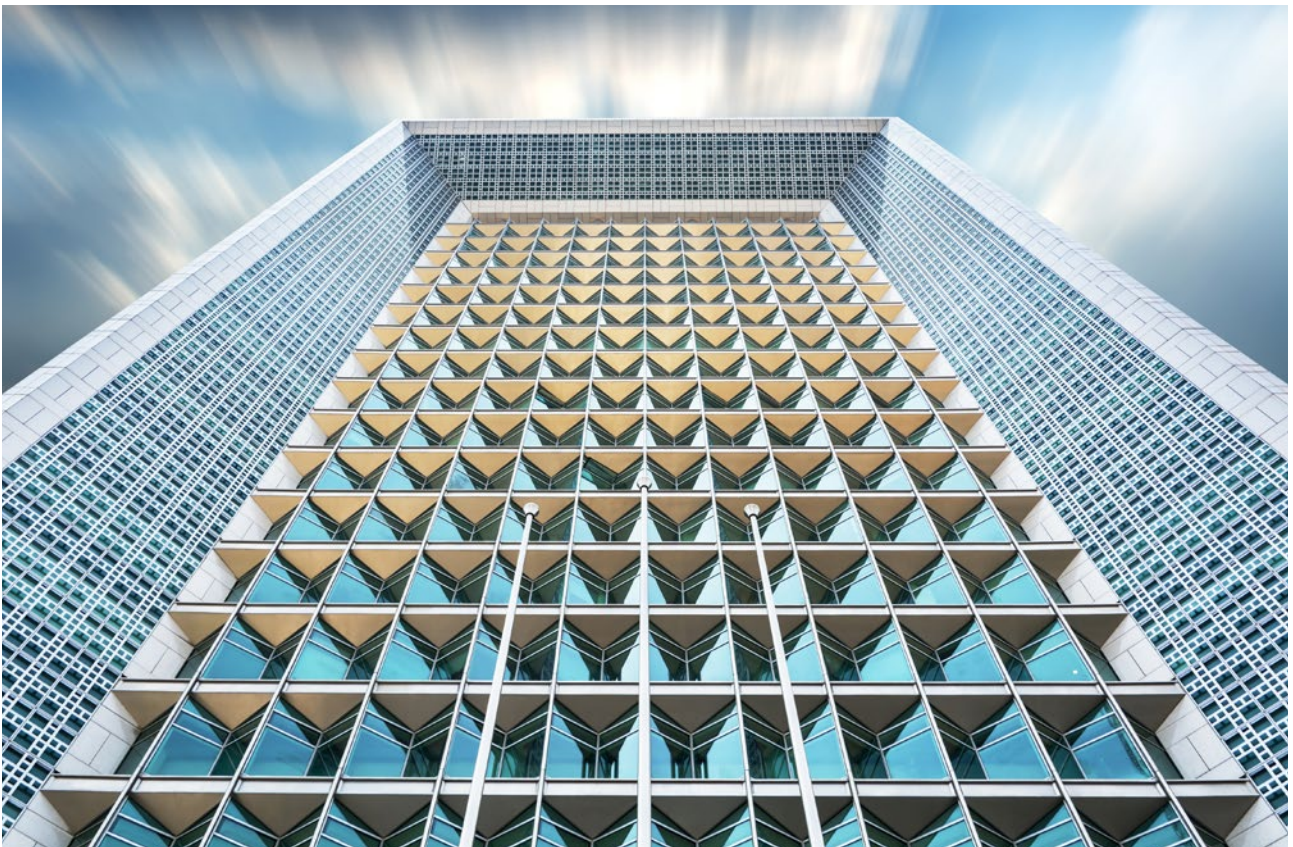
Where shares in an unlisted company are transferred resulting in a change of ownership exceeding 50%, the target's accumulated tax losses are preserved only if the company continues the same or similar business activity post-acquisition.

In assessing whether the same or similar business activity continues, relevant factors include:
(i) the extent to which the same assets are utilized before and after the change in ownership; and
(ii) whether the core identity and operations of the business remain substantively unchanged.

Key consideration:



Where the incoming investor intends to pivot or materially restructure the business post-acquisition, overstatement of tax loss value arising from an inadequate assessment of the “same or similar business” condition could be one of the most common errors in financial modelling and can lead to material mispricing of the transaction.



VAT

Under the UAE VAT framework, the transfer of shares is not subject to VAT in either local transfer or cross border transfers (scenarios outlined below) but the VAT treatment and its practical consequences differ materially depending on the identity of the recipient. Where the transfer is made to a UAE-based recipient, it is treated as an exempt financial service: no VAT is charged, but input VAT incurred on directly related costs such as adviser fees, valuation fees and broker commissions is not recoverable, representing a real economic cost to the seller. Where the transfer is made to a non-resident recipient located outside the UAE, it may qualify for zero-rating: again, no VAT is charged on the transfer itself, but input VAT on related costs is recoverable in full.

Particulars	Local transfer	Cross-border transfer
Recipient	UAE-based	Non-resident, outside UAE
VAT treatment	Exempt	Zero-rated
VAT charged on transfer	None	None
Input tax recovery on related costs	Not recoverable	Recoverable
Real cost to seller	Yes	No

Zero-rating, however, is not as straightforward as a simple address check. The UAE VAT framework sets a demanding evidential bar for establishing that the recipient is genuinely non-resident and located outside the UAE. The presence of agents in the UAE, or even periodic visits by the representatives/ directors of the recipient, may be sufficient to establish a UAE presence that disqualifies the zero-rating.

And even where the conditions are satisfied, the evidentiary burden of proving the same adds another layer of complexity that is easily underestimated and should be addressed proactively rather than as an afterthought.



Potential zero-rating disqualifiers

Agents in the UAE

Physical presence in the UAE

Other potential factors linking recipient to the UAE

Stamp duty / transfer taxes

The UAE does not impose stamp duty or any type of transfer tax on the transfer of shares. Therefore, generally, share transfers do not trigger any type of transfer taxes or fees.

An important exception arises where the target holds real estate or a long-term lease in the UAE. In such cases, a real estate transfer fee could be levied notwithstanding that it is shares (and not the property itself) that are changing hands.

The applicable rates vary depending upon the location of the real estate (e.g., 4% in Dubai, 2% in Abu Dhabi etc.). Market practice generally places this cost with the buyer, though the allocation is commercially negotiable and is frequently addressed in the sale and purchase agreement.

Key consideration:



Real estate and long-term lease interests should be identified and quantified during due diligence without exception. In property-heavy transactions, the transfer fee can be material and, if unaccounted for, can measurably erode Internal Rate of Return (IRR). This is a cost that should be factored into the financial model.



Other tax considerations

CT group implications

Where a target company is part of a CT group at the time of its acquisition, the following consequences arise:

- a. The target is treated as having left the seller's CT group from the beginning of the tax period in which the ownership condition ceased to be satisfied;
- b. The buyer is not permitted to form a CT group with the target in respect of that same tax period; and
- c. CT group formation between the buyer and the target is only possible with effect from the immediately following tax period.

Key consideration:



CT liability in case of a mid-year acquisition of a target that has historically benefited from CT group loss relief but is profitable on a standalone basis should be evaluated carefully.

Updating tax registration details

Following a change in ownership, the target company is required to update its ownership details on the Federal Tax Authority (**FTA**) portal within 20 business days. Failure to do so may attract administrative penalties. The amendment must be submitted through the EmaraTax portal.

Transaction checklist

The key tax issues relevant to a share acquisition should be identified and addressed prior to execution of the Share Purchase Agreement (**SPA**). The following provides an illustrative framework for both parties:

Seller checklist	Buyer checklist
Confirm participation exemption eligibility (ownership threshold, holding period, subsidiary tax status)	Conduct TDD on the target (e.g., review historical tax filings, tax positions, and FTA correspondence)
Confirm QFZP benefit eligibility to avail 0% CT benefit (relevant for free zone entity)	Assess the value and recoverability of tax loss carry-forwards
Compute gains under IFRS and identify all eligible disposal costs for deduction	Identify real estate / long-term lease interests to quantify transfer fee exposure
Review CT implications on the tax group(s)	Plan tax group formation for next tax period (post-closing)
Prepare CT disclosure and provision in financial statements	Assess implications where the transitional relief election was not made by the target





Primary infusion of capital (i.e.,
subscription to new shares)

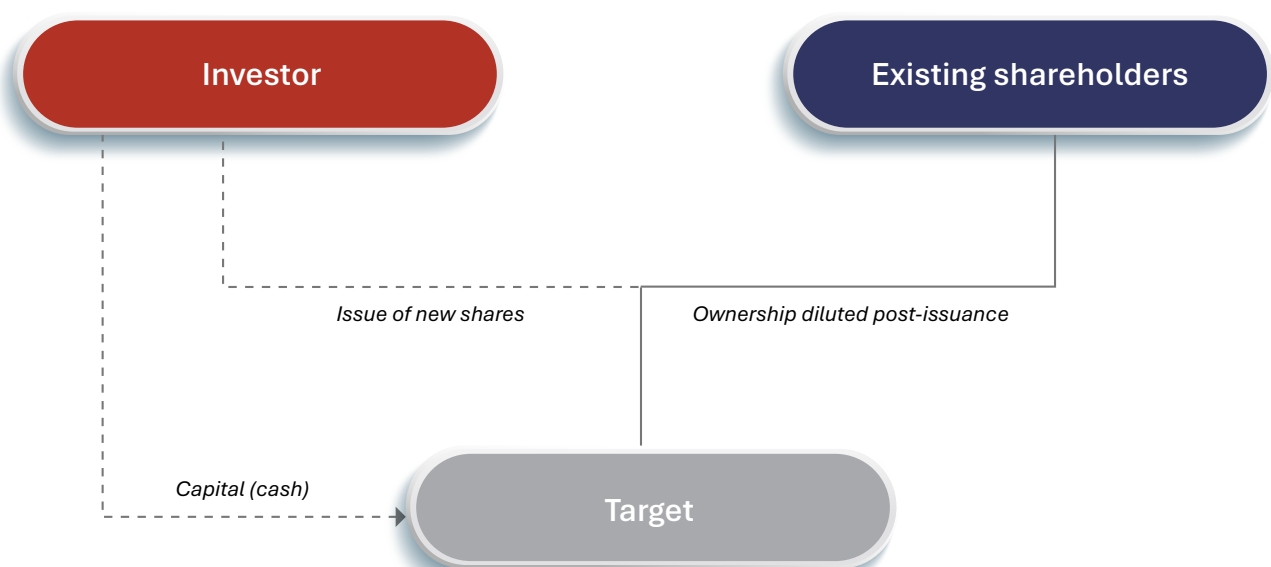
Primary infusion of capital (i.e., subscription to new shares)

A primary capital infusion is fundamentally different from a conventional share acquisition. Rather than purchasing an existing stake from a selling shareholder, the investor injects fresh capital directly into the business in exchange for newly issued shares. This may be effected by way of preferential allotment, a rights issue, an institutional placement or other equivalent mechanism.

A primary infusion places capital onto the balance sheet of the business itself, funding expansion and strengthening its financial position. A secondary share transfer, by contrast, moves consideration between shareholders only

One of the practical advantages of a primary investment is the structural flexibility. Multiple share classes can be issued, preferred rights can be built in and governance arrangements can be tailored to reflect the specific dynamics of the deal.

For private equity sponsors, venture capital investors and strategic minority investors, this matters. A primary structure gives them the room to negotiate the terms on which they deploy capital.



Tax implications on issue of new shares

CT implications

The subscription for newly issued shares does not trigger any CT implications; either for the company on receipt of the capital and issuance of the shares, or for the investor on acquiring them.

Tax loss carry-forward

The same considerations apply as discussed under the [Share acquisition / transfer](#) section above.

Using an acquisition vehicle

Where the incoming investor proposes to invest through a newly established or existing UAE acquisition vehicle such as a Holding Company (**HoldCo**) or Special Purpose Vehicle (**SPV**), the following considerations warrant careful attention:

Areas	Key considerations
Substance requirements	Where the HoldCo or SPV is established in a free zone such as ADGM or DIFC, it must maintain adequate substance commensurate with its activities. For a holding entity, this is typically demonstrated through board-level decision-making conducted in the UAE evidenced, for example, by board minutes maintained at the entity's registered office in the free zone, substantiating that core income-generating activities take place there.
Debt funding	Where the acquisition is funded through related-party debt, interest deductibility may be restricted under the specific interest deduction limitation rules (SIDLR), unless it can be demonstrated that the arrangement is not primarily tax-motivated. The general interest deduction limitation rules (GIDLR) and TP requirements should also be assessed.
Commercial considerations	The use of an acquisition vehicle should be aligned with the investor's broader strategy. It may be well-suited to platform investments and consolidation plays; for one-off transactions, however, the benefits should be weighed carefully against the associated costs including set-up and ongoing maintenance, potential tax leakage on repatriation and exit, and administrative complexity.

Tax implications during the holding period

WHT on dividend repatriation

The UAE does not impose WHT on domestic payments. Accordingly, no WHT implications arise on dividends paid to resident shareholders.

Dividends paid to a non-resident shareholder are treated as UAE-sourced income and are currently subject to WHT at 0%. In practice, therefore, no WHT cost arises on distributions to non-resident investors though this position remains subject to any future increase in the applicable rate.

Payment of interest / management fee / royalty / service income

The UAE does not impose WHT on any payments made to resident recipients. No WHT implications therefore arise on such payments between UAE-resident entities.

In respect of payments made to non-residents, WHT at 0% may apply to certain categories of UAE-sourced income as specified by Cabinet Decision. No WHT-related filing obligations arise for the UAE payer or the foreign recipient unless the rate is increased or more specific WHT rules are introduced in the future.

Where payments of interest, management fees, royalties or service fees are made to related parties, the transactions must comply with the ALP and be supported by robust TP documentation, including a need-benefit analysis.

Taxability of dividend income for HoldCo or SPV

Dividends received from UAE-resident entities are exempt from CT without conditions. Dividends received from foreign entities are exempt subject to the participation exemption conditions being met. Alternatively, such income may be subject to CT at 0% where the HoldCo or SPV qualifies as a QFZP.

Taxability of interest income / management fees for HoldCo or SPV

Interest income and management fees earned by a HoldCo or SPV are subject to CT at 0% where (i) the entity qualifies as a QFZP and (ii) the relevant income arises from qualifying activities being “treasury and financing services to related parties” and “headquarter services to related parties” respectively.

Where QFZP conditions are not satisfied, or the entity is established in the mainland, such income is subject to CT at 9%. In all cases, compliance with the ALP and maintenance of robust TP documentation in respect of controlled transactions is essential.

Debt-financing: Related party and third-party borrowings

Where the company borrows funds for its business operations, whether for capital expenditure, working capital, bridge financing or otherwise, the GIDLR and, in the case of related-party borrowings, the TP provisions under the UAE CT Law must be considered.

Under the GIDLR, the deductibility of Net Interest Expenditure (**NIE**) is capped at the higher of: (i) 30% of tax-adjusted Earnings Before Interest, Tax, Depreciation, and Amortization (**EBITDA**); or (ii) a de minimis threshold of AED 12 million, adjusted proportionately to the length of the tax period.

The GIDLR does not apply to banks, insurance providers, natural persons carrying on business in the UAE, interest expenditure on certain grandfathered financial liabilities, or qualifying infrastructure projects, subject in each case to the satisfaction of prescribed conditions.

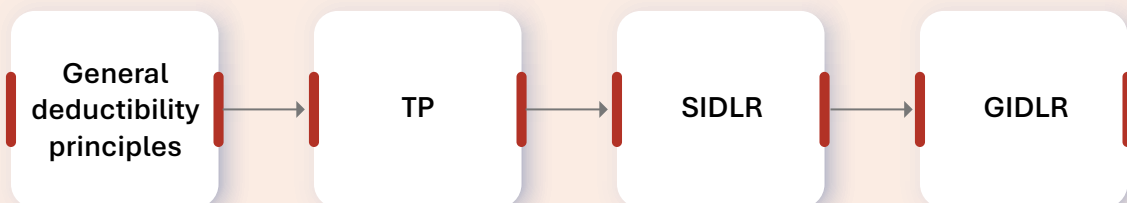
The UAE CT Law prescribes specific rules for the calculation of NIE and tax-adjusted EBITDA for the purposes of the GIDLR. These rules must be followed precisely to determine the applicable deduction limit.

Any NIE disallowed under the GIDLR may be carried forward and utilised in the ten subsequent tax periods, applied on a first-in, first-out basis.

Where borrowings are sourced from a related party (including shareholder loans), TP compliance is required, and robust documentation must be maintained to demonstrate that the applicable interest rate is consistent with the ALP.

Key consideration:

- ⚠ The definition of interest is materially wider than the accounting definition under IFRS and requires careful assessment in practice. Additionally, hybrid instruments including convertible notes and preference shares with redemption features require careful characterization analysis under the UAE CT Law.
- ⚠ It is important to note that even where NIE falls within the GIDLR limit, it could potentially be disallowed to the extent it is not priced on arm's length terms. The interest deduction analysis should therefore be applied sequentially (as outlined below).



Tax implications on exit

Exit by way of transfer of shares

Where exit is effected by way of a transfer of shares, the tax implications are as discussed under the [Share acquisition / transfer](#) section above.

Exit by way of buy-back of shares or capital reduction

Proceeds received by a shareholder in connection with a share buy-back or capital reduction are treated as follows:

- a. Proceeds up to the paid-up value of the shares are treated as a return of capital and not subject to tax;
- b. Excess over the paid-up value, to the extent of distributable profits is treated as a dividend; and
- c. Any further excess is treated as a capital gain, in respect of which the participation exemption or QFZP tax regime may be available subject to the relevant conditions being satisfied.

VAT

The VAT treatment of the issuance of new shares mirrors that described under the [Share acquisition / transfer](#) section. The same analysis applies with respect to exempt and zero-rated treatment, input tax recoverability and the evidential requirements for zero-rating.

Stamp duty / transfer taxes

No stamp duty or transfer taxes are triggered on the issuance of new shares. The position mirrors that described under the [Share acquisition / transfer](#) section.

Other tax considerations

Impact on an existing CT group

A consideration specific to primary capital infusions is the potential impact on an existing CT group of which the target company is already a member.

A CT group enables consolidated filing, the offsetting of profits against losses across group members, and the disregarding of intra-group transactions for CT purposes. The conditions for forming and maintaining a CT group are as follows:

- a. **Juridical and taxable persons:** Both the parent company and each subsidiary must be UAE tax resident juridical persons;
- b. **Ownership threshold:** The parent must hold at least 95% of the share capital and voting rights of each subsidiary, directly or indirectly, and be entitled to at least 95% of the profits and net assets of each subsidiary;
- c. **No exempt or QFZP status:** Neither the parent nor any subsidiary must be an exempt person or a QFZP; and
- d. **Common financial reporting:** All members must share the same financial year and prepare financial statements under the same accounting standards.



Where the target is already a member of a CT group, a primary infusion by a new investor will dilute the existing parent's ownership. If that dilution causes the parent's ownership to fall below the 95% threshold, whether measured by reference to share capital, voting rights, or profit and net asset entitlement, the target will no longer satisfy the conditions for group membership and will be treated as having left the CT group.

The consequences of a CT group exit may include restrictions on the utilisation of accumulated tax losses, claw-back exposure in respect of relief previously claimed under the Qualifying Group Relief (**QGR**) provisions, and TP risk arising from historic non-arm's length transactions between group members.

Key consideration:



Where the target is a member of a CT group, any primary infusion that would dilute the parent's ownership below the 95% threshold must be modelled to quantify the CT group exit cost. This is a recurring issue that typically surfaces late in due diligence, by which point it can be difficult to address without re-negotiating the commercial terms.

Updating tax registration details

As noted under the [Share acquisition / transfer](#) section, any change in ownership requires the target company to update its ownership details on the FTA portal via the Emaratax portal within 20 business days. Failure to do so may attract administrative penalties.





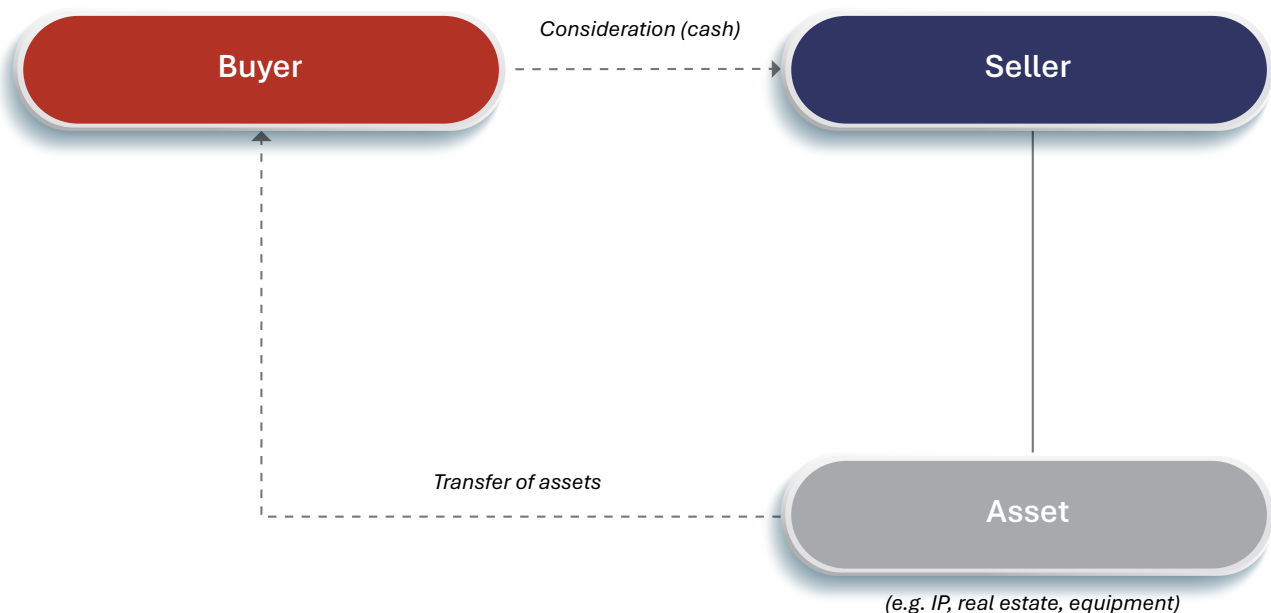
Acquisition of an asset

Acquisition of an asset

At its core, an asset acquisition involves the purchase of a specific asset or defined pool of assets without assuming the broader business, its history or its operational complexity. Assets commonly acquired in this manner include real estate, intellectual property, plant, machinery and equipment.

Unlike a share acquisition, an asset deal affords the buyer the flexibility to leave behind uncertain tax, legal and operational risks and acquire only what is strategically relevant. This structure is particularly well-suited to buyers seeking a targeted, plug-and-play integration.

Rather than acquiring an entire company and paying for non-core elements, capital can be deployed precisely into the assets that matter. It is especially valuable in founder-led or operationally unstructured businesses where historical visibility is limited and the risk profile of the entity as a whole is difficult to assess.



Tax implications on acquisition of asset

CT implications

Under the UAE CT Law, taxable income is computed starting from accounting income as determined under the applicable financial reporting standards (typically IFRS). Gains recognised in the financial statements are generally subject to CT unless a specific relief or exemption applies.




The primary relief available in the context of asset transfers is Article 26 of the UAE CT Law, which provides for tax-neutral transfers of assets and liabilities within a qualifying ownership chain, discussed further in the sections that follow.

In the case of a sale to a third-party buyer, the transaction is ordinarily treated as a taxable asset sale. The seller is subject to CT on the gain recognised on disposal, calculated by reference to the accounting outcome and adjusted as required by the UAE CT Law.

The CT treatment of gains on the disposal of key asset classes to a third-party buyer is summarised as follows:

Select list of assets	Principle UAE CT treatment
Immovable property	<ul style="list-style-type: none"> Gains on disposal are generally subject to CT unless specific relief applies. In case of disposal of commercial property located in a free zone to a free zone person, 0% CT may apply subject to meeting QFZP conditions. Pre-CT regime gains can be excluded under the transitional rules subject to prescribed conditions.
Plant, machinery and other fixed assets	<ul style="list-style-type: none"> Generally, sale proceeds in excess of carrying value of the assets would generate taxable gains subject to CT.
Commercial considerations	<ul style="list-style-type: none"> Generally, sale proceeds in excess of carrying value of the assets would generate taxable gains subject to CT. Gains on disposal of qualifying intellectual property may be subject to 0% CT subject to meeting QFZP conditions. Pre-CT regime gains can be excluded under the transitional rules subject to meeting the prescribed conditions.

Key consideration:

-  Transfers of assets within an existing CT group are generally disregarded as the group would be treated as a single taxable person. However, this does not mitigate future exposure where assets subsequently leave the group perimeter or where the group is restructured within the two-year lock-in period. In our experience, sellers should identify at the outset whether the relevant asset sits inside a CT group, as de-grouping events or future carve-outs can give rise to hidden tax costs that are often overlooked.
-  Rather than acquiring assets directly, we have seen several instances where buyers have considered acquiring them through a newly incorporated UAE entity. This approach could ring-fence the acquired assets from existing operations. Moreover, it facilitates a cleaner future exit by way of share sale, potentially benefiting from the participation exemption; and it enables consolidated reporting under a new CT group where the holding structure qualifies.
-  The transfer of assets at book value or nominal value to a related party may be challenged where neither the QGR nor the Business Restructuring Relief (**BRR**) provisions under Article 27 of the UAE CT Law apply. In such a scenario, FTA may substitute arm's length values for CT purposes. This is a particularly sensitive issue for hard-to-value assets such as internally developed Intellectual Property (**IP**) and customer relationships. As best practice, the buyer should obtain an independent valuation consistent with the accounting purchase price allocation and maintain TP documentation.



VAT

The acquisition of individual assets is generally subject to VAT at the standard rate of 5% where the seller is a registered taxable person, unless a specific zero-rating provision or exemption applies.

Examples of exempt and zero-rated categories under the UAE VAT framework are as follows:

Exempt supplies	Zero-rated supplies
Bare land	Healthcare
Residential property – second supply onwards	Medicine & Equipment
	Qualifying means of transport
	First supply of residential property
	Investment in precious metals
	Exports
	Crude oil & natural gas

Note: The above is a high-level summary. Specific conditions and exceptions apply to each category under UAE VAT legislation.

Given that the VAT treatment is asset-specific, each asset within the acquisition must be assessed individually to determine the correct VAT treatment and other potential compliance requirements applicable thereto.

Where special VAT treatments apply such as zero-rating or exemption, the specific conditions relating to such treatments must be rigorously assessed to ensure they are correctly applied. This is particularly critical in the context of high-value asset acquisitions, where an incorrect VAT treatment, whether resulting in VAT incorrectly charged, under-declared, or over-recovered, can give rise to significant financial exposure for either or both parties to the transaction.

Other considerations

Capital Asset Scheme

The UAE VAT framework includes a Capital Asset Scheme, which requires the input tax recovery position on high-value capital assets (exceeding AED 5mn including staged payments) to be monitored and adjusted annually, as needed, over a prescribed period to reflect any changes based on the usage of the asset. The scheme aims to ensure that input VAT on these assets is only recovered to the extent to which the asset is used for making taxable supplies. Certain VAT rules may apply on the disposal of a Capital Assets which would have to be considered and assessed.

Stamp duty / transfer taxes

Where the assets being acquired include immovable property, real estate transfer fees may apply depending on the emirate in which the property is located (as discussed under the [Share acquisition / transfer](#) section above).

In respect of all other asset classes, the UAE does not impose stamp duty or transfer taxes.



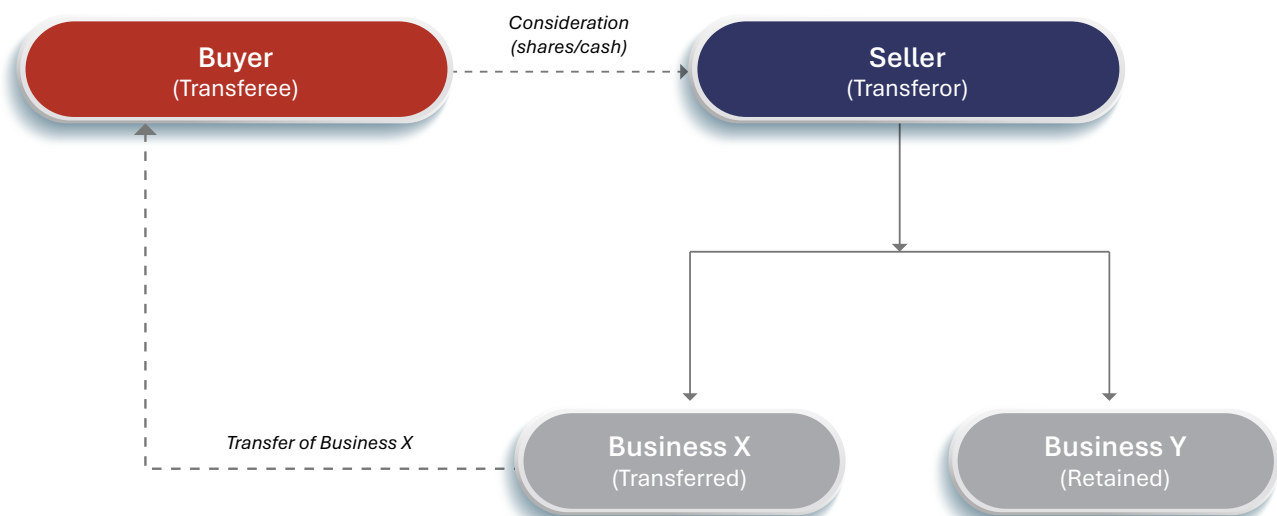


Business transfer

Business transfer

A business transfer involves the acquisition of an operating business as a going concern. The buyer takes over the entire business, or an identifiable and independent part of it, including its assets, liabilities, contracts and employees. Unlike a share acquisition, the legal entity itself does not transfer; instead, operational continuity is achieved without the buyer inheriting the entity's historical risks and liabilities.

This structure is most commonly encountered in carve-out transactions and the divestment of non-core business verticals. From a buyer's perspective, it is typically preferred where the target carries material tax or legal risk that the buyer is not willing to assume. From a seller's perspective, it is the natural choice where only a part of the business is being divested.



Tax implications on transfer of business

CT on gains



The CT treatment of a seller's gain on a business transfer depends fundamentally on whether the BRR under Article 27 of the UAE CT Law is available and elected.

Scenario 1 – Business transfer is in exchange of shares

Where the consideration for the business transfer takes the form of shares or other ownership interests, the transferor may elect to apply BRR, provided the following conditions are satisfied:

- a. Legal compliance:** The transfer must comply with applicable UAE federal and emirate-level laws and regulations.
- b. Juridical and taxable persons:** Both the transferor and transferee must be juridical taxable persons i.e., UAE residents or non-residents with a UAE PE.
- c. No exempt or QFZP status:** Neither party must be an exempt person or a QFZP, though non-QFZP free zone entities may qualify.
- d. Common financial reporting:** Both entities must share the same financial year-end and prepare financial statements under the same accounting standards.
- e. Commercial rationale:** The transfer must be underpinned by valid commercial reasons and reflect economic reality it cannot be driven primarily by a desire to obtain a CT advantage.

Key consideration:

-  BRR is available for business transfers between both third parties and related parties. The election is made by the transferor in the tax period in which the transfer occurs and is exercised on a transaction-by-transaction basis.
-  BRR is not available where the transferee does not or cannot issue equity or ownership interests (e.g., a business transfer to a parent company without any share issuance, or a transfer in the context of a liquidation).

Illustrative transactions eligible for BRR, subject to the other conditions being met, include:

- a. The conversion of a sole proprietorship into an incorporated entity, where the natural person receives shares in the newly incorporated company.
- b. An unincorporated partnership electing to be treated as a taxable person would deem to constitute a transfer of the business to a separate legal entity.
- c. A legal de-merger where part of a business is transferred under universal title to another taxable person, with the transferor continuing to exist and its shareholders also holding shares in the transferee.

Non-equity consideration such as cash is permitted, provided its market value does not exceed the lower of: (i) the Net Book Value (**NBV**) of the assets and liabilities transferred; or (ii) 10% of the nominal value of the ownership interests issued. This ensures that any non-equity element remains genuinely incidental to the transaction.

Consideration may also be paid or received by a related party holding at least 50% (directly or indirectly) in the transferee or transferor. An example would be where equity shares are issued by a parent company as consideration for a business transferred to its wholly owned subsidiary.

Where only a part of the business is transferred, that part must constitute an independent part of a business i.e., it must be capable of operating on a standalone basis, assessed by reference to the relevant facts and circumstances. Both parties must retain documentation evidencing the transfer agreement as a condition for claiming BRR.

Tax implications in case BRR is elected

Transferor: The transfer of assets and liabilities is treated as occurring at NBV, resulting in no taxable gain or loss. The cost base of any shares or ownership interests received equals the NBV of the business transferred (rather than its market value) for the purposes of any future disposal.

Transferee: While assets and liabilities may be recorded at market value for accounting purposes, the tax basis carries over at NBV. This means no step-up in tax basis is available. Tax depreciation and amortization continue on the basis of NBV, with adjustments required depending on the applicable tax basis election.

Claw back provisions

BRR is subject to claw-back if, within two years of the transfer:

- a. Ownership interests in the transferor or transferee are disposed of outside the qualifying group; or
- b. The business, or any part of it, is subsequently transferred.

Where a claw-back event occurs, the original transfer is deemed to have taken place at market value. The resulting gain (being the difference between market value and NBV at the time of transfer) becomes taxable at the level of the transferor in the year the claw-back is triggered.

Key consideration:



The claw-back applies only to the shares or ownership interests issued as part of the restructuring and may be triggered by a full or partial disposal. This two-year restriction should be factored into post-deal planning from the outset.

Scenario 2 – Business transfer without BRR (i.e., cash consideration)

Where the transaction does not qualify for BRR, the transfer is treated as a fully taxable event generally subject to CT at 9%.

Where the transfer is between related parties, compliance with the ALP is essential, and an independent valuation report should be obtained to substantiate the market value of the transaction.

Key consideration:



In a taxable business transfer, generally the buyer obtains a step-up in the tax basis of the acquired assets to the consideration paid, recognized in accordance with the applicable accounting standards. This stepped-up value forms the basis for future depreciation and amortization claims, subject to the applicable rules under the UAE CT Law. This is a meaningful long-term tax benefit that should be factored into the deal economics.

Tax loss carry-forward

Where BRR is applied, unutilized tax losses of the transferor that are attributable to the transferred business may be carried forward and utilized by the transferee, provided the transferee continues to carry on the same or a similar business activity.

Key consideration:



Determining the portion of tax losses attributable to the transferred business could be technically complex and is likely to attract FTA scrutiny. A robust, well-documented and defensible allocation methodology is essential.

VAT

A business transfer is structurally a form of asset sale. However, unlike a conventional asset acquisition where VAT is assessed on each individual asset, a Transfer of a Business as a Going Concern (**TOGC**) falls entirely outside the scope of UAE VAT, provided the relevant conditions are satisfied. No VAT is chargeable on the transaction, irrespective of the VAT treatment that would otherwise apply to any of the underlying assets.

TOGC treatment is not automatic. It must be carefully assessed against all the conditions prescribed under UAE VAT legislation.

A transfer of a business will qualify as a TOGC if all the following conditions are met



Transfer of the whole or independent part of a business



The recipient must be a taxable person



The recipient intends to continue the same business

While these conditions may appear straightforward, their practical application is rarely simple and requires expert judgment. The consequences of incorrectly characterising / failing to characterise a transaction as a TOGC can be significant, and a thorough assessment is strongly advisable in every case.^z

For example, the scope of assets included in the transfer need not encompass every asset and liability of the transferred business. A selective transfer may still qualify as a TOGC, provided the transferred assets together constitute a business, or an independent part of one, that is capable of operating as a going concern. Conversely, the mere transfer of a collection of assets (even those representing the net assets of a business on a balance sheet) will not automatically satisfy the TOGC conditions if those assets do not together form a functioning, operable and independent business.

Where the transaction involves multiple components (e.g., share acquisition along with certain additional assets or multiple asset acquisitions) with separate consideration attributed to each component, careful analysis is required to determine whether the transaction as a whole, or any component of it, meets the TOGC conditions.

An often-overlooked aspect of the TOGC conditions concerns the VAT registration status of the recipient. The recipient need not be VAT-registered at the time of transfer; note that it is sufficient that they are required to be registered and has applied for registration to the FTA (per the Public Clarification VATP015). This condition is frequently treated as the most straightforward of the three and, for that reason, may receive the least attention in practice. However, an incorrect assessment of the registration status of the recipient could prove a costly oversight.

Other factors to consider

In a business transfer, the buyer steps into the operational and compliance history of the transferred business and any unresolved VAT liabilities or historic non-compliance do not disappear on completion. Therefore, a thorough review of the target's VAT position prior to closing is essential.

In our experience, this is particularly important in a business transfer context, where any VAT non-compliance is identified post-closing making it more difficult and costly to resolve. The absence of direct access to the previous owner's records, personnel and institutional knowledge of the business's historical VAT treatment compounds this risk materially. Appropriate VAT representations, warranties and indemnities in the transaction documents are therefore essential protections for the buyer.

Stamp duty / transfer taxes

The UAE does not impose stamp duty or transfer taxes on business transfers. Where immovable property is included within the transferred assets, however, a real estate transfer fee may apply depending on the emirate in which the property is located, as discussed under the [Share acquisition / transfer](#) section above.



Other tax considerations

Structuring options

Cost step-up trade-off

BRR is not always the optimal outcome for the group as a whole. Where the asset base is substantial and the buyer has a long-term investment plan, the depreciation and amortization shield generated by a stepped-up tax basis may economically outweigh the 9% CT cost on the gain at the time of transfer.

Key consideration:



A cost-benefit analysis should be prepared comparing the present value of incremental depreciation and amortization deductions over the holding period against the immediate CT outflow in a taxable transfer. This analysis can meaningfully influence the structuring decision and should be carried out before the transaction structure is finalized.

Direct vs HoldCo structure

Where the acquired business is held directly as part of the buyer's existing operations, any future disposal will generally be treated as a taxable asset transfer, with gains subject to CT at 9% unless BRR or another relief applies at that point.

Where the business is instead held through a separate legal entity, a future exit may be structured as a share sale. In that scenario, the gain may qualify for participation exemption or QFZP regime, subject to the relevant conditions being met (including the 12-month minimum holding period).

Key consideration:



The choice between direct ownership and a HoldCo structure should be driven by commercial considerations, integration requirements, operational practicality and the intended exit strategy. That said, the long-term tax consequences of this structural choice can be material and warrant careful tax analysis at the point of acquisition.



Legal merger

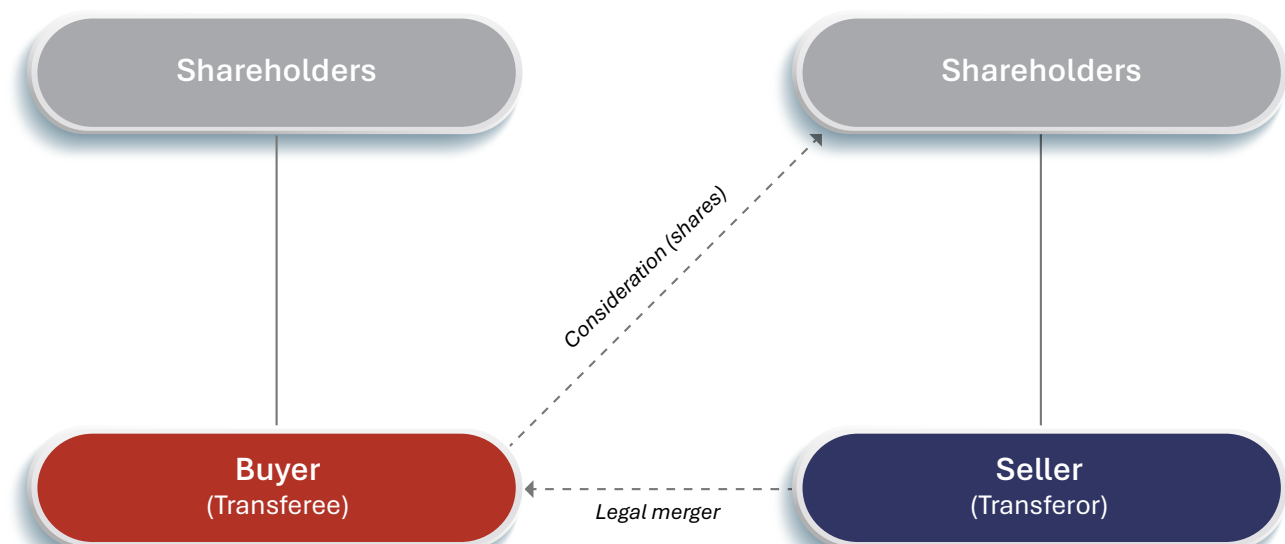
Financing of
Receipts under MSS (net)
PHD Research Bureau compiled from Budget
stands for National Calamity Contingency Fund

Legal merger

A legal merger combines two or more entities into a single legal person. Either one entity survives and the others cease to exist, or all merging entities dissolve and a new entity emerges in their place. In both cases, assets, liabilities, contracts, licenses, and employees transfer automatically by operation of law without any individual assignment or novation. The transferor is dissolved upon completion without a separate liquidation process.

This is what separates a legal merger from a business transfer. A business transfer is a contractual arrangement. The parties negotiate what moves across and on what terms, documented in a business transfer agreement. Whereas a legal merger is sanctioned by court order or the relevant regulatory authority.

The primary legislation governing mergers is the UAE Commercial Companies Law, supplemented by the rules of the relevant free zone where the entities involved in the merger are registered. Listed entities will also need the Securities and Commodities Authority (**SCA**) approval. For banking, insurance and telecoms, prior regulatory consent is typically a condition precedent to completion.



Tax implications of merger

CT implications

The UAE CT Law provides a tax-neutral regime for legal mergers that qualify for BRR under Article 27, on the same basis as a business transfer, i.e., no gain or loss. The conditions are the same as those discussed under the [Business transfer](#) section above.

Fundamentally, BRR is available where the merger is undertaken for bona fide commercial purposes and the consideration is wholly or substantially in the form of shares or ownership interests, with any non-equity element being de minimis and incidental in nature.

Tax implications where BRR is elected

- **Transferor:** Assets and liabilities are transferred at NBV, i.e., no taxable gain or loss arising on the merger.
- **Transferee:** While assets and liabilities may be recorded at market value for accounting purposes, the tax basis carries over at NBV with no step-up. Tax depreciation and amortization continue on the basis of NBV, with adjustments required depending on the applicable tax basis election.
- **Shareholders of the transferor:** The cost base of shares received in the surviving or newly formed entity is capped at the NBV of the shares surrendered, net of any other consideration received. The holding period of the original shares continue, although the benefit of participation exemption can only apply after the minimum period of two years.

Key consideration:



A merger of a wholly owned subsidiary into its holding company is unlikely to qualify for BRR, given the absence of a share-for-share exchange. Accordingly, any gains arising on the transfer of assets and liabilities should be evaluated and, where appropriate, mitigated through a tax-efficient restructuring.



A cross-border merger is unlikely to qualify for BRR, as a non-resident entity participating in the merger may not satisfy the 'taxable person' requirement. This is a fundamental eligibility condition for relief and this limitation should be identified early in structuring to evaluate alternative reorganization options.

VAT

The UAE VAT legislation does not contain specific provisions addressing legal mergers as a distinct transaction type. Accordingly, a legal merger is not treated differently from any other form of business transfer for UAE VAT purposes and is instead analysed under the general asset transfer framework.

The VAT consequences of a merger depend on whether the transaction satisfies the conditions for TOGC treatment, as discussed under the [Business transfer](#) section above. Where those conditions are met, the merger falls outside the scope of UAE VAT and no VAT is chargeable on the business transferred as part of the merger. Where the conditions are not satisfied, each underlying asset transfer may be subject to VAT at the relevant applicable rate.

Stamp duty / transfer taxes

The UAE does not impose stamp duty or transfer taxes on a legal merger. Where immovable property is included within the transferred assets, however, a real estate transfer fee may apply depending on the emirate in which the property is located, as discussed under the [Share acquisition / transfer](#) section above.



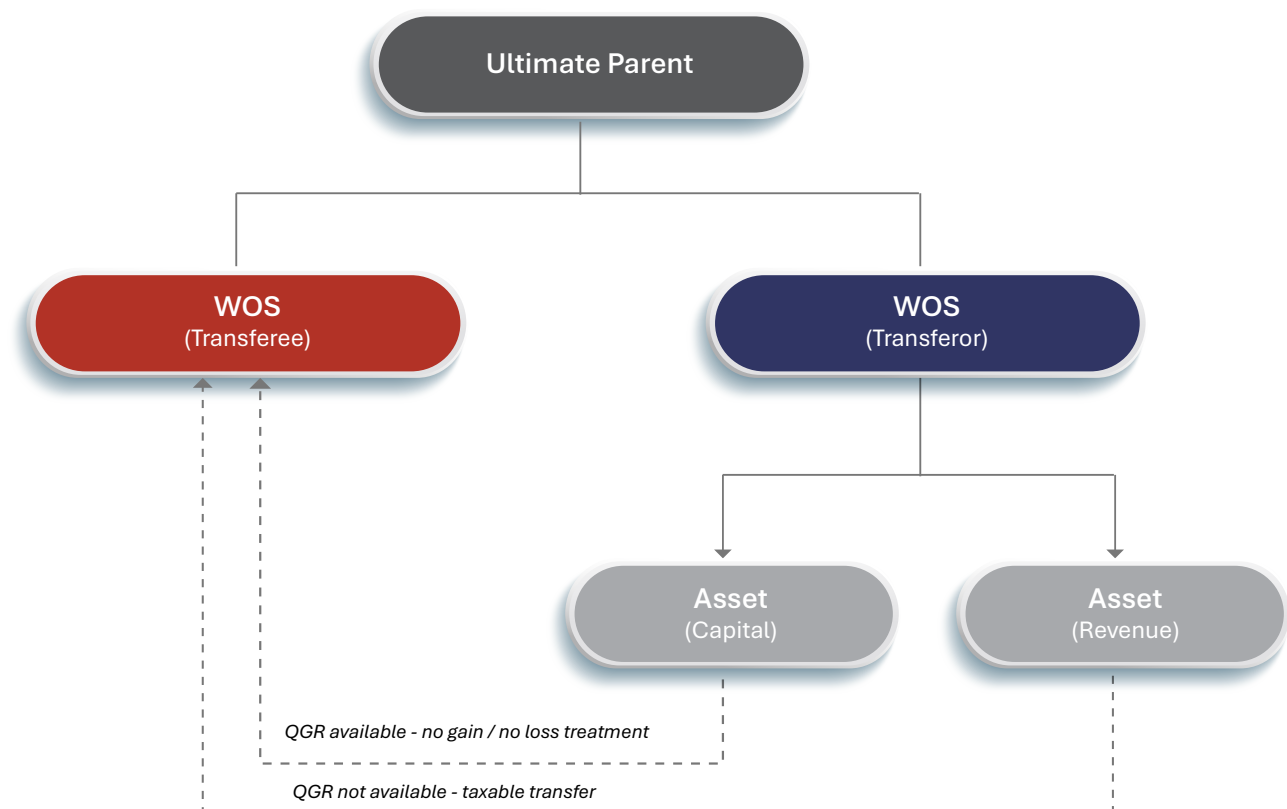


Group restructuring

Group restructuring

Group restructuring is the internal reorganization of a corporate group. It covers changes to legal structure, operational setup or ownership arrangements, carried out without an external buyer or seller. A group restructuring does not introduce new ownership into the organisational structure.

These transactions generally aim at simplifying an organizational structure that has grown over time or to consolidate operations from a strategic perspective. In our experience, group restructuring is also undertaken before an investment round or exit.



Tax implications of group restructuring

CT implications

Under Article 26 of the UAE CT Law, the transfer of assets and liabilities between members of the same qualifying group may be undertaken in a tax-neutral manner subject to the prescribed conditions being met.

Scenario 1 – QGR is applicable

The availability of QGR is subject to the following key conditions:

- **Juridical and taxable persons:** Both transferor and transferee must be juridical taxable persons (i.e., UAE residents or non-residents with a UAE PE).
- **Ownership threshold:** Direct or indirect ownership interest of at least 75% must exist between the parties, or both must be at least 75% owned (directly or indirectly) by a common parent, which need not itself be a taxable person.
- **No exempt or QFZP status:** Neither the transferor nor the transferee must be an exempt person or a QFZP.
- **Common financial reporting:** Both entities must share the same financial year-end and prepare financial statements under the same accounting standards.

Key consideration:



The QGR election is made by the transferor in its tax return and is generally irrevocable without FTA approval. Once made, it applies to all qualifying transfers within that tax period and in subsequent periods.

Certain additional points to note in respect of QGR:

- QGR applies only to capital assets and liabilities recorded on the balance sheet. Items such as inventory and unrecognised intangibles fall outside its scope.
- No consideration is required for a QGR transfer. In case consideration is provided, it may take any form. In exchange transactions, each leg is treated as a separate transfer for QGR purposes.

- Indirect ownership is measured proportionately, and ownership held through members of a CT group is aggregated for this purpose.
- TP rules do not apply to transfers that qualify for QGR.
- Both parties must retain documentation evidencing the transfer agreement as a condition of the relief.

Tax consequences of QGR

- **Transferor:** Assets and liabilities are transferred at NBV, i.e., no taxable gain or loss. NBV is determined in accordance with the applicable accounting standards after accumulated depreciation, amortisation and any other adjustments.
- **Transferee:** The tax basis carries over at NBV without a step-up. Depreciation and amortisation continue on the basis of historical NBV, with adjustments required depending on the applicable tax basis election.

Claw-back provisions

QGR is subject to claw-back if, within two years of the transfer:

- a. The asset or liability is transferred outside the qualifying group; or
- b. The transferor or transferee ceases to be a member of the same qualifying group.

Where a claw-back event is triggered, any deferred gain or loss becomes taxable in the period of the triggering event or in the hands of the transferee where the transferor has ceased to exist. The transferee must reverse any prior tax depreciation, amortisation or value adjustments relating to the transferred assets and liabilities.

Scenario 2 – QGR is not applicable

Where the conditions for QGR are not met, the transfer is treated as a taxable event. Gains or losses are computed by reference to the market value of the assets or liabilities transferred and are generally subject to CT at 9%.

Key consideration:



Considering the transfers are between related parties, compliance with the ALP is essential for tax purposes. An independent valuation report should be obtained to substantiate the market value of the transaction and support the TP position.

Tax loss carry-forward

QGR does not permit the transfer of tax losses as part of an intra-group restructuring involving the transfer of assets and liabilities. Tax losses may, however, be transferred separately subject to the conditions prescribed under Article 38 of the UAE CT Law.

VAT

Group restructurings may take a variety of forms, including share transfers, asset acquisitions and transfers of a business as a going concern. The VAT principles discussed in the preceding sections apply to each of those transaction types as they arise in a group context.

One consideration worth flagging specifically for intra-group transactions is VAT grouping. It can materially change how the transaction is treated for VAT purposes and what compliance obligations follow.

A VAT group is separate and distinct from a CT group and is governed by its own registration and eligibility criteria under the UAE VAT legislation. Where the parties to a restructuring are members of the same VAT group, transactions between them are disregarded for VAT purposes and treated as falling outside the scope of VAT entirely.

Where the parties do not belong to the same VAT group, normal VAT rules apply to transactions between them. In this context, forming or expanding a VAT group prior to or as part of a planned restructuring may represent a VAT planning opportunity and is worth evaluating at the structuring stage.

Stamp duty / transfer taxes

The UAE does not impose stamp duty or transfer taxes on intra-group transfers of assets, liabilities or shares. Group restructurings therefore do not generally give rise to any transfer tax cost at the time of execution.

Where real estate or long-term leasehold interests are transferred as part of the restructuring, real estate transfer fees may apply depending on the nature of the asset and the emirate in which it is located.



Closing remarks

Closing remarks

Every M&A transaction, whether a share acquisition, asset deal, business transfer, legal merger, or intra-group restructuring, carries its own distinct tax considerations. The consequences of overlooking them can be significant, affecting value, execution and long-term returns.

The deal team that prices tax risk after heads of terms are signed is already behind. Tax needs to be considered at the every stage, shaping how a transaction is structured, how risks are identified, allocated, and managed.

This publication marks the first in our Deals Decoded series, exploring the tax implications of M&A transactions in the UAE. Subsequent editions will examine the key pillars of the transaction lifecycle in greater depth.

Our objective remains consistent throughout: to equip investors, dealmakers and business leaders with practical, commercially grounded insights that help them navigate an increasingly complex tax landscape and execute transactions with clarity and confidence.

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