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DIRECT TAX ALERT

June 12, 2026

Key Updates to the Federal Tax Authority Guide on Family Foundations

BACKGROUND

A 'Family Foundation' is a well-known structure to hold and manage personal and family wealth, including investments, real estate and shareholdings. It is typically constituted in the form of a trust, foundation or similar entity, with the principal purpose of receiving, holding, investing, disbursing or otherwise managing assets for the benefit of identified beneficiaries.

Article 17 of the UAE Corporate Tax ('CT') Law and Ministerial Decision No. 261 of 2024 ('MD 261') provide a specific tax regime for Family Foundations. Under this regime, a non-juridical Family Foundation is treated as an Unincorporated Partnership by default, while a juridical Family Foundation may apply to Federal Tax Authority ('FTA') for the same treatment, subject to meeting the prescribed conditions. As an Unincorporated Partnership, the Family Foundation is fiscally transparent for CT purposes, with income taxed in the hands of its founders, beneficiaries, or other partners rather than at the foundation level.

The FTA previously issued the first version of the CT Guide on the Taxation of Family Foundations - CTGFF1 ('Guide') on 6 May 2025. Subsequently, in September 2025, the FTA issued Public Clarification - CTP008, which addresses the CT treatment of family wealth and management arrangements.

EXECUTIVE SUMMARY

On 10 June 2026, the FTA released an updated version of the Guide ('Updated Guide'), replacing the previous edition. The Updated Guide incorporates earlier clarifications provided in CTP008 on LLC classification and Family Offices. It also introduces additional guidance on beneficiary conditions in multi-tier structures, entities jointly owned by multiple Family Foundations, transfers of assets to Family Foundations, and the tax consequences of entities entering or exiting a transparent structure.

This alert provides a summary of the key updates in the Updated Guide and highlights the practical implications for family structures in the UAE.

KEY UPDATES IN THE UPDATED GUIDE

1. LLC is not a 'similar entity' – Section 3.4

Context: Article 17 requires a Family Foundation to be in the form of a trust, foundation or 'similar entity'. The treatment of an LLC under this expression has been a recurring question in practice.

Update: The Updated Guide explains that an LLC does not constitute a 'similar entity' for the purposes of Article 17 and therefore cannot independently elect to be treated as an Unincorporated Partnership. However, the guidance indicates that an LLC may qualify for fiscally transparent treatment where it is wholly owned and controlled by an eligible Family Foundation that is treated as an Unincorporated Partnership.

Dhruva Note: This guidance was previously addressed by the FTA in CTP008, and its inclusion in the Updated Guide provides a consolidated reference point.

2. Multi-tier structures – Section 6

Context: A multi-tier structure refers to a Family Foundation that holds investments and assets through one or more intermediate juridical persons, such as Special Purpose Vehicles ('SPVs') or Wholly Owned Subsidiary ('WOS'). Such SPVs or WOS can make an application to be treated as fiscally transparent provided they are wholly owned and controlled by Family Foundation and meet other conditions under Article 17(1) and MD 261.

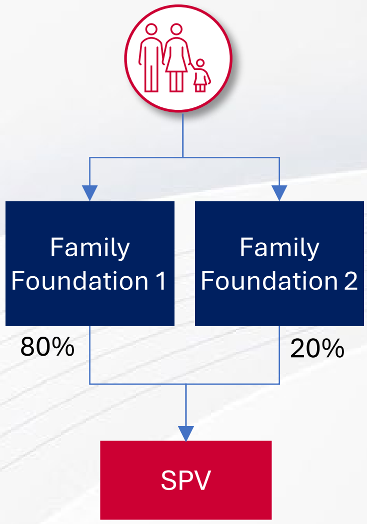
Update 1: The Updated Guide provides that, in multi-tier structures, an SPV or subsidiary must be wholly owned and controlled by a Family Foundation that has itself elected and qualified to be treated as an Unincorporated Partnership, **thereby aligning the explanation to MD 261.**

Update 2: The Updated Guide also explains that for SPVs or WOS, the beneficiary condition under Article 17(1)(a), requiring that the Family Foundation be established for the benefit of identified or identifiable natural persons, a public benefit entity, or both, is considered satisfied where the parent Family Foundation satisfies the condition, as the subsidiary serves the same holistic purpose.

3. Entity owned by more than one Family Foundation – Section 6, Example 9

Context: For SPVs or WOS to be treated as fiscally transparent, they must be wholly owned and controlled by a Family Foundation. Where an SPV or WOS is jointly held by two or more Family Foundations of the same family (as illustrated), a question arose whether the 'wholly owned and controlled' requirement could still be satisfied.

Update: The revised Example 9 in the Updated Guide provides that the requirement for an entity to be 'wholly owned and controlled' may be satisfied collectively by two or more Family Foundations. Consequently, a jointly held SPV may qualify to be treated as an Unincorporated Partnership where the relevant conditions are met.



4. Transfers of assets to a Family Foundation - Section 7.8 (new)

Context: Families often transfer assets to a Family Foundation upon its establishment or thereafter.

Update: The Updated Guide explains that transfers of assets to a Family Foundation between Related Parties must be undertaken at arm's length. Gains or losses arising on such transfers may be subject to CT depending on the status of the transferor. Where the transferor is a natural person transferring Personal Investment or Real Estate Investment assets, no CT liability should arise.

5. Juridical persons acquired or sold by a Family Foundation - Section 7.9 (new)

Context: Where a fiscally transparent Family Foundation acquires a juridical person (SPVs or WOS) and the prescribed conditions are met, such SPVs or WOS cease to be a separate Taxable Person and become fiscally transparent. On disposal, the tax status of the SPVs or WOS changes to fiscally opaque.

Update: The Updated Guide explains that the transition of a juridical person into or out of a fiscally transparent Family Foundation structure does not alter the tax basis of its underlying assets. Consequently, the historical tax cost of the assets remains unchanged, and no automatic step-up or step-down in tax basis arises solely as a result of the transition.

6. Section 7.10 – Family Offices (new)

Context: Family Offices ('SFO') and Multi Family Offices ('MFO') are typically set-up as SPVs to provide governance, investment management and administrative support. To qualify for fiscal transparency under Article 17, an entity must not conduct a business or business activity.

Update: The Updated Guide explains that an SFO or MFO would generally not qualify within a transparent Family Foundation structure, as it would ordinarily be regarded as carrying on a Business Activity. Such entities would therefore generally be subject to CT on their taxable income. A Free Zone SFO or MFO may access the 0% rate on Qualifying Income where the relevant regulatory requirements are satisfied.

Dhruva Note: Similar to guidance on LLC, this guidance was previously addressed by the FTA in CTP008, and its inclusion in the Updated Guide provides a consolidated reference point.

DHRUVA COMMENTS

Family Foundations play a key role in consolidating family wealth and facilitating long-term succession planning.

The release of the Updated Guide is a welcome development, providing further clarity on the CT treatment of these structures. Existing structures should be reviewed in light of the new guidance, particularly to assess the eligibility of jointly owned SPVs and the CT implications of tax-neutral reorganizations involving entities entering or exiting the look-through regime.

Dhruva Consultants achieved ITR World Tax
Ranking 2026:

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

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