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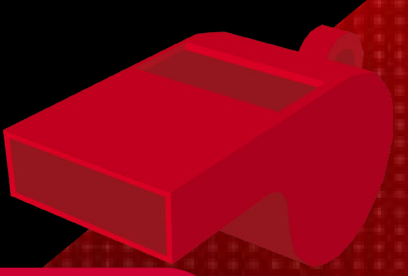
CORPORATE TAX ALERT

July 13, 2026

Federal Tax Authority releases a summary of Corporate Tax Private Clarifications



BACKGROUND

On 9 July 2026, the Federal Tax Authority ('FTA') released a **compilation of UAE Corporate Tax ('CT') Private Clarifications**[1] issued up to May 2026, spanning a broad range of topics from exempt persons, permanent establishments and unincorporated partnerships, to Free Zone qualifying activities, participation exemption, tax groups, registration, financial statements and transitional relief.

Private Clarifications are rulings issued by FTA in response to specific requests made by taxpayers, providing certainty on the application of the UAE CT Law to their particular facts and circumstances. Unlike Public Clarifications, Private Clarifications are binding only in relation to the taxpayer that sought them. Having said that, the release of this compilation will serve as a valuable reference point to fill interpretive gaps and will aid taxpayers.

This alert provides an overview of the CT clarifications included in the FTA's compilation.

TAX POSITIONS DISCUSSED IN THE COMPILATION

1. Certain Exempt Persons

- An investor's Taxable Income in Real Estate Investment Trust ('REIT') that is a Qualifying Investment Fund ('QIF') is its share of distributable net income; unrealised fund gains are excluded.
- For REIT to qualify as QIF, the 20% free-float and no-subscription conditions apply only to the shares required to be floated on Recognised Stock Exchange, and not all the floated shares.
- A non-resident investor in a UAE Qualifying Limited Partnership ('QLP') has no UAE CT registration/filing obligation where it earns only UAE State Sourced Income and is not otherwise treated as a Non-Resident Person required to register.
- A QLP retains its exemption even where it invests in companies holding immovable property, as this is treated as an investment in shares.

2. Permanent Establishment

- PE determination is fact-specific; and mere absence of a trade licence does not preclude a PE. Generally, an aggregate UAE presence exceeding six months in a 12-month period generally indicates permanence; place must be at disposal, and activities must be core income-generating (not preparatory/auxiliary) to constitute a PE.

3. Unincorporated Partnerships ('UIP')

- A landowner-developer profit-share contract (written or oral) may constitute a UIP triggering normal CT registration/filing.
- A UAE branch of a foreign LLP legally (but not beneficially) owned by a nominee company can still be a UIP, provided the LLP is tax-transparent in its home jurisdiction and each partner is taxable on their share of partnership income.

[1] https://tax.gov.ae//Datafolder/Files/Pdf/2026/public-clarifications-faqs/Summary%20of%20FTA%20Private%20Clarifications%202.pdf

- A UAE taxable partner must submit an annual declaration on behalf of a Foreign Partnership when filing its Tax Return; failing to do so causes the partnership to lose its tax-transparent status.
- A UAE branch of an unincorporated foreign partnership cannot be treated as a Foreign Partnership under Article 16(7), which applies only to foreign partnerships that are juridical persons. An unincorporated foreign partnership that is not a juridical person is already tax-transparent by definition, with no application to the FTA required for this treatment

4. Family Foundations

- A limited liability company or a private company cannot be a Family Foundation, while an incorporated trust can.
- A Family Foundation with natural-person beneficiaries can remain tax-transparent even while holding real estate, provided the activity is not conducted through a licence and is not required to be licensed (i.e., it would not be a taxable business if carried on directly by a natural-person beneficiary).
- A juridical person owned by more than one Family Foundation can be considered for Unincorporated Partnership election purposes, provided all owning Foundations are themselves transparent.

5. Free Zones – Qualifying Free Zone Person Status

- QFZP status requires a juridical person (a separate legal identity, which includes branches); a natural person, discretionary trust, or Unincorporated Partnership cannot qualify.
- Multiple Free Zone branches of one Taxable Person are assessed collectively for QFZP status, though Qualifying Activity and substance are tested separately per activity.
- A non-Free Zone branch is a separate deemed PE and Related Party; its income is not Qualifying Income and its activities are excluded from the QFZP assessment.
- A transfer pricing adjustment made through the CT Return (rather than the financial statements) does not disqualify QFZP status.

6. Free Zones – Adequate Substance

- The substance test is applied case-by-case. There is no automatic carve-out for asset-based/passive activities (e.g., property leasing without employees may fail the test).
- Employees holding visas from other Related Parties and working in the free zone, still count as qualified employees if the Free Zone Person bears their economic cost and controls the employment relationship.
- A shared workspace can satisfy substance where it is sufficient for the company's core income-generating activities and commensurate with the scale of its Qualifying Activity.
- High-seas sales/third-port trading via overseas warehouses does not automatically fail substance, provided core activities, assets, employees and expenditure remain in the Designated Zone.

7. Free Zones – Qualifying Income

- For a Free Zone Person (outside a Designated Zone) selling to another Free Zone Person, the customer is the Beneficial Recipient, and the income is therefore Qualifying Income, where legal ownership passes and the goods are at the customer's free disposal and discretion, including an unrestricted right to resell without any contractual obligation to do so.
- Sales of Qualifying Commodities between Free Zone Persons under a Qualifying Activity do not require a Beneficial Recipient determination (relevant only where the seller's own activity is neither a Qualifying Activity nor an Excluded Activity).
- Income from sales to a Free Zone Beneficial Recipient is Qualifying even where the underlying goods were sourced from non-Free Zone Persons.
- Company formation consultancy income is Qualifying only where the Beneficial Recipient is a Free Zone Person (not a natural person, which makes it an Excluded Activity).
- Qualifying IP need not be registered with a UAE authority provided it is automatically legally protected on creation.

8. Free Zones – Qualifying Activities

- Processing of goods/materials is broader than manufacturing, covering any process where the item essentially remains the same thing and no new product is created (e.g., packaging or re-packaging for sale)
- Trading of Qualifying Commodities covers physical trading plus derivatives used to hedge related risk (with a demonstrable link) and structured commodity financing; purely speculative derivatives are excluded. Cash-settled derivative prices from a Recognised Exchange or price agency can evidence the required Quoted Price.
- Shares held under 12 months can still qualify with demonstrated investment intent (not short-term/speculative); for discretionary asset-management mandates, intent is assessed at the overall portfolio level, provided the QFZP exercises ongoing oversight of the manager's mandate. Dealing as an option writer (not holder) does not qualify.
- Ship ownership/management/operation each qualify independently provided substantively carried out by the Free Zone Person; port/cargo handling services fall within scope even for third-party-owned ships, though sale/purchase of ships is not itself qualifying (only ancillary where the FZP also conducts this Qualifying Activity)
- Reinsurance qualifies only where the Free Zone Person assumes all or part of the risk undertaken by another insurer or reinsurer.
- Wealth/investment management must be holistic advisory/financial-management in nature, not executionary; qualifying revenue can come from third-party institutions (not just clients directly). Pure execution/brokerage, including matched-principal trading, does not qualify standalone but may be ancillary where the FZP also conducts the wealth-management activity itself.
- Headquarter services means administering, overseeing and managing Related Parties' business activities – e.g., senior/general management, captive insurance, admin and procurement services, business planning, risk management and coordination of group activities. Any one category alone can qualify. Such services may be provided to a single Related Party (including by a branch to its own HQ).
- Treasury/financing to Related Parties covers loans, payment processing, guarantees, and investing surplus funds in deposits/treasuries/bonds.
- Aircraft financing/leasing qualifies regardless of whether the lessee is a company or natural person.
- Distribution from a Designated Zone is unaffected by sourcing (no need to buy from the manufacturer) or pricing mechanism, and can include goods incorporated into a customer's own products regardless of processing extent, provided those products are sold on to third parties (if the customer instead retains and uses them to provide services, the customer is an 'end-user' and the activity does not qualify). Customers must be resellers, not end-users, evidenced via KYC; wholly-overseas manufacturing is excluded.
- Logistics does not require every sub-activity to be performed; first/last-mile delivery outside the Free Zone still qualifies, and using third-party vendors for transportation/storage does not prevent qualification, provided those aren't the Taxable Person's own core income-generating activities.
- An ancillary activity must be closely related to a main Qualifying Activity, and either necessary for its performance (i.e., its absence would disrupt the main operation) or a minor contribution to it (assessed against total business revenue).

9. Taxable Income

- Disposal/liquidation of nominal legal-only shareholdings without economic rights may not generate Taxable Income since its value may be nominal or aligned to book value; liquidation proceeds are taxable only to the extent of actual entitlement.
- Reversal of pre-CT-period provisions and compensation for pre-CT-period events are Taxable Income if recognised as income under IFRS in the relevant Tax Period.

- Taxability of Government grants follow their IFRS accounting treatment; if recognised as income under IFRS, it is Taxable Income (subject to any CT Law exemptions).

10. Participation Exemption

- Saudi Zakat satisfies the subject to tax condition, as KSA CT is considered similarly applied at 20%.
- A foreign holding company taxed below 9% can qualify as a Participation via look-through where management, filing, substance, activity-restriction and 50% qualifying-income conditions are met.
- For Taxable Person electing accrual basis, fair value gains/losses are not covered under the Participation Exemption; impairment gains/losses are covered.
- The AED 4 million minimum-ownership threshold overrides the 5% ownership and 5% entitlement (profit/liquidation) tests – with retrospective effect for all Tax Periods from 1 June 2023.
- The Related-Party limitation on the asset test applies only from Tax Periods starting on/after 1 January 2025.
- Aggregation of Qualifying Group members' ownership interests for the 5% test is compulsory, not optional.
- Dividends from pre-acquisition retained earnings can qualify for exemption, provided all other Participation Exemption conditions are met..
- 5% beneficial (economic) ownership without strict legal title can qualify as a Participating Interest.

11. Allowable Deductions

- Interest paid to a natural person (including a connected person) is deductible on the same basis as interest paid to a company, subject to the interest limitation rules and arm's length terms.

12. Losses

- For 75% common ownership test for loss transfers, beneficial (as opposed to legal) ownership is sufficient.
- Transferor/transferee Tax Periods must end on the same date (start dates may differ); the 75% continuity condition must hold throughout the relevant period.

13. Tax Group

- A Tax Group can be formed by subsidiaries of a Government/Government Controlled Entity meeting the 95% ownership/entitlement threshold, with any subsidiary appointed as representative Parent.
- A newly incorporated subsidiary can join an existing Tax Group from incorporation if conditions are met from that date and its financial year-end aligns with the Group.

14. Registration

- Juridical persons without a trade licence (unless Exempt Persons), incorporated partnerships, and non-resident companies with a UAE PE must all register for CT and file returns, even where their PE income is Exempt Income under an international agreement, though that exempt income itself remains outside CT.
- Sole establishments converting to an LLC must de-register and separately register the LLC as a new Taxable Person.
- On death of a sole establishment owner, the Business must de-register; continuation by heirs as an Unincorporated Partnership requires fresh registration.
- Jointly Owned Properties need not register, but their juridical management entities must register and file based on IFRS financial statements.
- A juridical Owners' Association (e.g., a non-profit set up as a sole proprietorship LLC with separate legal personality) must register for CT despite its non-profit, building-management role.
- Natural persons operating a licensed Business must register for CT once its revenue exceeds AED 1 million in a calendar year (to 31 December)

15. Financial Statements

- Taxable Income must be based on IFRS (or IFRS for SMEs if revenue ≤AED 50 million, or cash basis if revenue ≤AED 3 million); foreign accounting standards are not acceptable.
- Where audit is mandated, the auditor must be a UAE-based Chartered Accountant or accounting firm registered with the Ministry

of Economy; overseas auditors do not satisfy this requirement.

- The AED 50 million audit threshold for investment businesses is based on gross trading gains under IFRS 9, disregarding losses.

16. Tax Period

- A natural person's Tax Period is always the Gregorian calendar year to 31 December, irrespective of the accounting year-end used.

17. Transitional Relief

- Qualifying Immovable Property classified as inventory under IFRS does not its affect eligibility for transitional relief, provided applicable conditions are met.
- Relief may be elected for an entire development project or by property type, tracking recognition of accounting profit.
- Relief cannot create or increase a tax loss; it only reduces accounting profit by the pre-CT gain.
- For developments, “disposal” follows IFRS 15 revenue recognition (percentage of completion).
- The market-value method methodology is set out in FTA Public Clarification CTP009/2025.

DHRUVA COMMENTS

This is an important compilation that will serve as a key reference through the upcoming tax filing season. Beyond re-emphasising certain known and previously clarified positions, it discusses several matters involving complex interpretation of law and facts. Importantly, some of these views may call for a fresh look at positions already assessed or filed, and corrective action where warranted. Before using these principles, a thorough review of the specific facts and the applicable law, guides and clarifications is recommended, and, where necessary, a specific Private Clarification should be explored to secure certainty.

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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