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The UAE R&D Tax Credit

A practical guide to claiming

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Cabinet Decision No. 215 of 2025 | Ministerial Decision No. 24 of 2026
For tax periods and financial years beginning on or after 1 January 2026

Fran Wilhelm Associate Partner, R&D Advisory Practice Lead
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Contents

What is inside

Foreword

Foreword

The UAE's tax system has changed at a remarkable pace. In less than a decade, we have gone from having no tax to VAT, Corporate Tax, Pillar Two, and now an R&D Tax Credit.

That journey has asked businesses to build new capabilities quickly. And, in my experience, the businesses that have done well through each change have had one thing in common: they have started early and looked beyond compliance. They have treated each change as an opportunity to improve how they operate and, where possible, create value.

The R&D Tax Credit is particularly interesting because it is different from what came before.

Nimish Goel
Leader, Middle East
Dhruva Consultants

VAT and Corporate Tax were largely about getting the fundamentals right. This incentive is about something else. It rewards businesses for taking a decision to invest in innovation and develop something new in the UAE.

For CFOs and finance leaders, that changes the conversation. It is no longer just about asking, "Are we compliant?" The bigger question is, "Are we capturing the value of the innovation we are already investing in?"

And that is where things get interesting.

Identifying R&D is not always as straightforward as it sounds. You need people who understand the tax rules, but also people who can sit with an engineering, technology or product team and understand what they are trying to achieve. You also need a robust approach to documenting and supporting the claim. This is where I believe Dhruva's experience gives us an advantage. We have built this capability on the ground in the UAE, while our global platform through Ryan gives us access to experience from markets that have been operating R&D tax credit regimes for many years.

This guide covers Phase 1 of the UAE programme. I expect the rules will continue to evolve as the Ministry of Finance and the Emirates Research and Development Council see how the first wave of claims develops. Areas such as refundability, qualifying expenditure and the rates themselves may well see further changes.

We will keep updating this guide as the framework develops.

For businesses, my advice is simple: do not wait until 2027 to start looking at this. Start the conversation now. Understand whether your activities qualify, identify the relevant expenditure and, most importantly, start putting the right documentation and processes in place. The UAE wants to become a genuine innovation economy, not simply a tax-efficient one. This credit is one of the clearest signals yet of that ambition.

Our team led by Fran Wilhelm has put a lot of thought into this guide to make the rules easier to understand and, more importantly, easier to apply in practice. I hope you find it useful.

And if you would like to discuss what this could mean for your business, Fran, his team and I would be very happy to have that conversation.

The credit - at a glance

The credit - at a glance

What it is

The UAE Research & Development (R&D) Tax Credit is a government incentive that rewards companies undertaking qualifying R&D activities by providing a tax credit based on eligible R&D expenditure. The credit reduces the Corporate Tax you owe, or Top-up Tax if your group is within Pillar Two.

It is an expenditure-based incentive which, unlike a deduction from taxable income, operates as a direct credit against your tax liability.

In order to qualify for a specific R&D tax credit rate, a two-fold test will apply. A qualifying entity will need to meet both the qualifying expenditure threshold AND the minimum R&D headcount requirement.

The maximum credit is AED 2 million a year.

The credit is non-refundable, which means that it reduces a tax liability rather than producing a cash payment. Any amount that cannot be used in the period can be carried forward.

50%	AED 2m	AED 500k	2026
top credit rate	annual cap	minimum per project	first tax period

IN PRACTICE

The credit follows what was actually spent and who was actually involved, not what was budgeted. Both are settled long before the return is prepared. The time to influence a claim is during the year, not at filing.

Where the rules come from

The regime followed a public consultation in April 2024 and a policy announcement in December 2024.

Cabinet Decision No. 215 of 2025 introduced the framework, covering eligibility, qualifying expenditure and utilisation. Ministerial Decision No. 24 of 2026 sets out the detailed implementing rules. Both apply to tax periods or financial years beginning on or after 1 January 2026.

The Ministry of Finance has described this design as Phase 1. Later phases may consider refundability, an expansion of qualifying expenditure and increases to the available rates.

Why these incentives exist

R&D tax incentives are one of the most widely used innovation policies in the world. 33 of the 38 OECD countries offer them, including Canada, Australia, France, the United Kingdom and the United States, and so do many others, including Singapore and now the UAE.

Governments use them to increase private sector investment in innovation, to encourage the development of new products, processes and technologies, to attract foreign investment and skilled jobs, to retain talent and knowledge, and to support economic diversification and long-term growth.

The key numbers

- Credit rates - 15%, 35% and 50%, applied in bands to qualifying expenditure and headcount.
- Qualifying expenditure - Up to AED 5 million per year, with the credit capped at AED 2 million.
- Minimum spend per project - AED 500,000, measured before the 30% staff uplift.
- R&D Staff thresholds - Averages of 2, 6 and 14, one for each rate band.
- Refundable - No. It reduces the tax owed and carries forward.
- Applies from - Tax periods beginning on or after 1 January 2026, with first claim submissions due in 2027.
- Pre-approval - Required from the Emirates Research and Development Council (ERDC), project by project, in the year in which the expenditure was incurred.
- Where the R&D must happen - In the UAE.

> WATCH-OUT
> R&D carried out overseas. Only activities physically performed in the UAE qualify. It is not enough for the costs to sit in a UAE entity. Where a project is split between the UAE and elsewhere, only the in-State portion counts.

Three things that catch businesses out

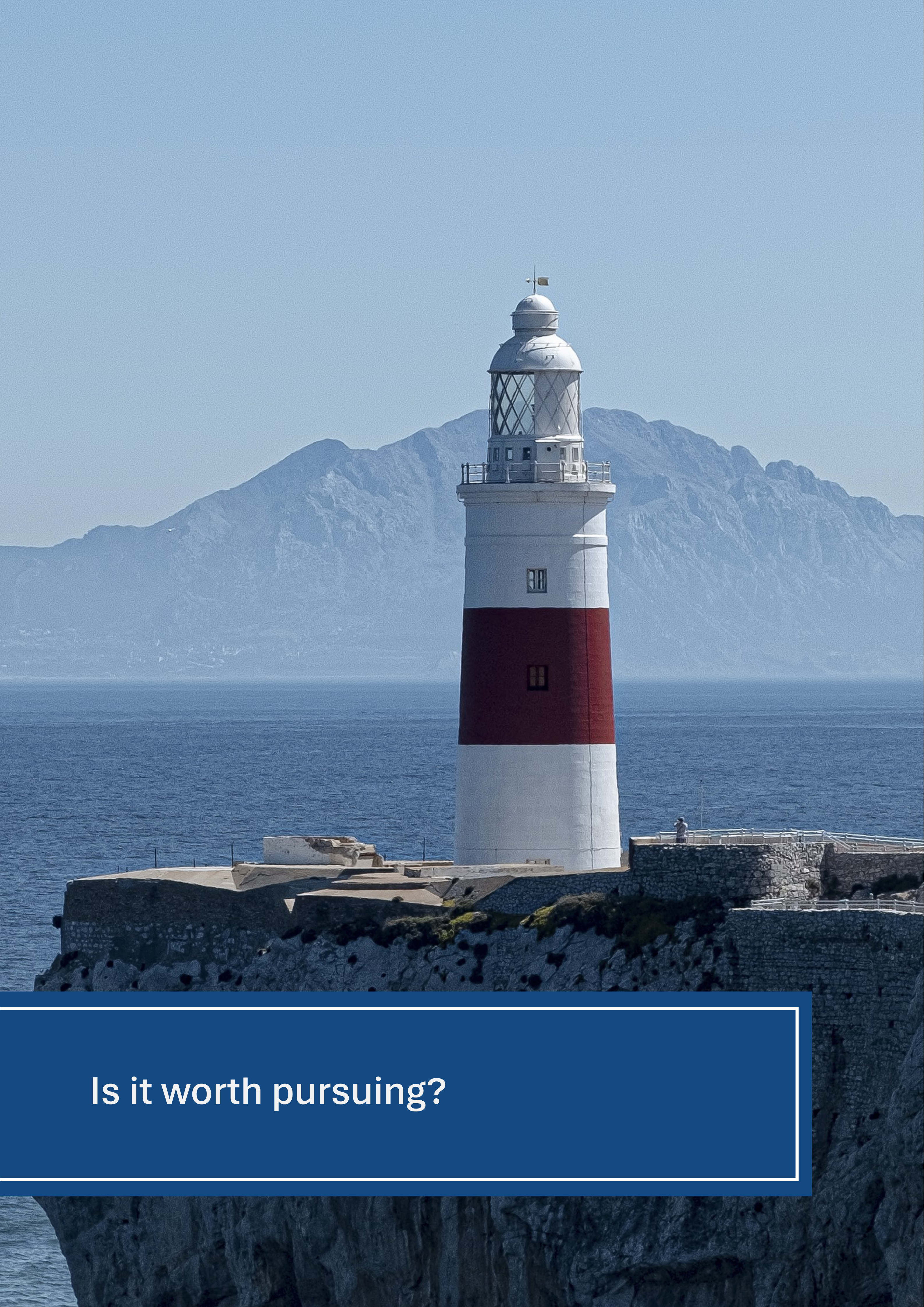
The first is that the headcount thresholds determine the rate a business receives. Where the staff threshold for a particular tier is not met, the credit rate is adjusted downward to the highest tier at which both conditions are satisfied. Chapter 7 illustrates the effect of this on identical expenditure.

The second is that no credit is available without pre-approval. The ERDC must approve each project before a claim can be made, which places pre-approval on the critical path. Businesses should therefore plan for it within the project timetable, rather than treating it as a filing formality.

The third is that the regime does not accommodate retrospective claims. It applies to tax periods beginning on or after 1 January 2026, and a project must gain pre-approval in the year in which the expenditure was incurred.

IN PRACTICE

The test is about when the expenditure is incurred, not when the project started. A project that began in 2024 or 2025 can still support a claim on the expenditure it incurs from 2026 onwards, and a long project can run across several tax periods. Two things matter. Pre-approval has to be in place for the year in which the expenditure falls, and the work itself has to still qualify as R&D in that year. Chapter 4 sets out the five tests that decide that. Expenditure on a project whose technical uncertainty has already been resolved does not qualify simply because the project carries on.



Is it worth pursuing?

Is it worth pursuing?

What it is worth in practice

The credit may materially change the economics of innovation investment. An entity spending AED 3.5 million on qualifying R&D with sufficient headcount can reach AED 1.25 million of credit, which represents a material benefit to any business.

Because qualifying expenditure is capped at AED 5 million, the benefit scales with R&D investment only up to that point. That cap has a practical advantage, however, in that it allows for more accurate forecasting and budgeting.

When the benefit actually arrives

This is the question finance teams ask first, and the timing is important. The credit reduces a Corporate Tax liability rather than generating a payment, so the benefit is realised when that liability falls due.

Stage	Timing for a calendar-year 2026 claimant
Qualifying expenditure incurred	Throughout 2026
ERDC pre-approval obtained	In the year in which the cost was incurred
Tax period ends	31 December 2026
Corporate Tax return filed, with the claim	By 30 September 2027
Benefit realised	Against the liability settled on filing

WATCH-OUT
A business spending in early 2026 may wait around 18 months before the benefit is felt, because the credit reduces a liability that is not settled until the return is filed. Any investment case that relies on the credit should carry that lag.

What it costs to claim

The regime is compliance-heavy by design, and preparation does carry an investment of time. A first claim typically requires technical input from the people who did the work, a cost analysis that separates qualifying expenditure from general spend, a pre-approval application, and a documentation framework capable of surviving seven years of retention.

For a business at or near the AED 2 million cap, that effort is straightforward to justify. For a business with a single project marginally above the AED 500,000 floor, the calculation is closer, particularly in the first year when the processes are being built for the first time.

The decision may not simply be whether a business qualifies, but whether the balance between effort, certainty and benefit is justified. That balance improves materially in later years, once the documentation processes are established and the incremental cost of each subsequent claim falls.

The wider case for participating

There is a benefit beyond the credit itself which is sometimes overlooked. Businesses claiming in the early years will be among the first cohort whose R&D activities are formally certified by the ERDC.

For companies whose strategy depends on being recognised as innovators in the region, that certification carries value in its own right. It evidences a contribution to the next phase of the UAE's economic development, and it demonstrates alignment with the direction the country is pursuing.

There is a practical dimension too. The headcount thresholds mean the regime rewards building genuine R&D capability in the UAE rather than simply booking expenditure here, which tends to support the case for locating technical talent in the region.

Who can claim

Who can claim

Companies that qualify

A business can claim if it is a UAE company, a Free Zone Person (subject to 9% on R&D activities or Top-up tax), or a foreign company operating through a UAE permanent establishment, and it is within the scope of Corporate Tax or Top-up Tax.

Two further conditions sit beneath that headline test. The claimant must bear the financial risk of the R&D and must be beneficially entitled to the results of it. A company that funds or hosts R&D undertaken by another party, without carrying the associated risk and reward, is not the correct claimant.

The claimant must also meet the minimum R&D staffing levels for the rate band being targeted. Those are set out in Chapter 7.

> WATCH-OUT
> Where a UAE entity performs the development work but the resulting intangibles or economic rights sit elsewhere in the group, its ability to claim may be materially constrained. Check who carries the risk and holds the entitlement before assuming the UAE entity is the claimant.

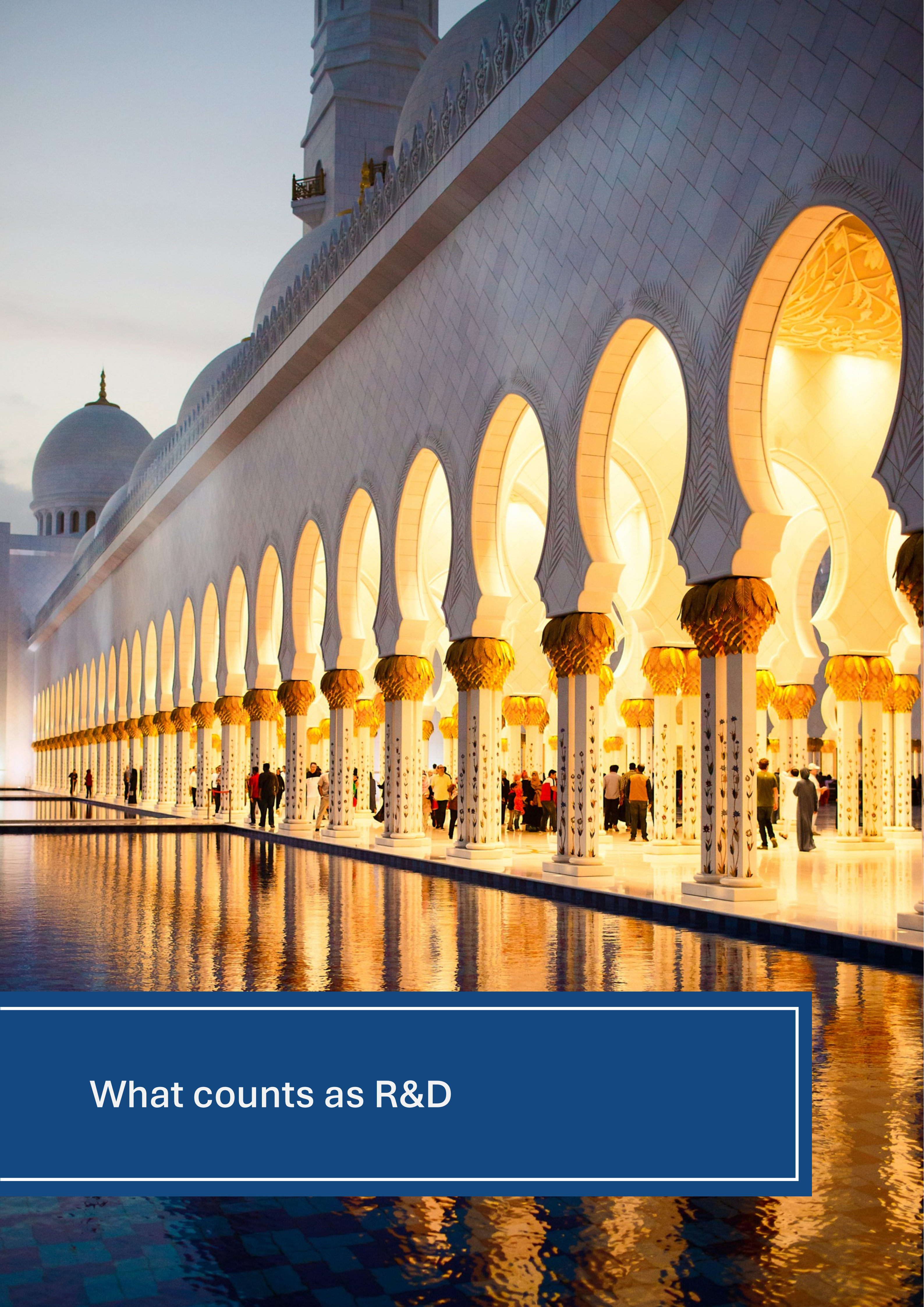
Who is excluded

- **Businesses electing Small Business Relief.** They cannot claim. Where a business is R&D intensive, the two should be modelled against each other before electing.
- **Entities outside Corporate Tax and Top-up Tax.** No liability exists for the credit to reduce, so no claim arises.

If you are barely profitable

The credit is non-refundable, so a pre-profit or loss-making business will not receive cash back and cannot benefit immediately. The value is not lost, however, since an unused credit can be carried forward indefinitely and may be transferred within a group in defined circumstances.

The limits of that should be understood realistically. Carry-forward depends on ownership continuity, and the five-year exit clawback described in Chapter 9 continues to apply. Together these constrain the practical utility of the credit for companies undergoing rapid growth, fundraising or restructuring, which is the position many early-stage businesses occupy.



What counts as R&D

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What counts as R&D

Why the terminology misleads

The phrase research and development tends to suggest laboratories and formal research functions. For tax purposes it carries a meaning that is narrower in some respects and considerably broader in others. A great deal of difficult, valuable and expensive work falls outside the definition, while qualifying activity is routinely found on building sites, in warehouses, on food production lines and within 'ordinary' software teams.

What determines the answer is not the name of the department carrying out the work. It is the objective that a specific piece of work was pursuing, and whether its outcome was genuinely in doubt at the point it began.

> COMMON MISCONCEPTION
> "We do not have an R&D department, so we do not do R&D." Some of the strongest claims come from businesses with no research function at all. The qualifying work happens inside a delivery project, because a technical problem has to be solved to finish the job.

The definition

Research and development is defined as creative and systematic work undertaken in order to increase the stock of knowledge, including knowledge of humankind, culture and society, and to devise new applications of available knowledge.

Assessment is made having regard to the criteria in the OECD Frascati Manual, the international standard the OECD maintains for identifying research and development and the reference point used by most countries that operate these incentives. An activity qualifies only if it meets all five of the following tests.

Test	What it means
Novel	It aims to produce new findings
Creative	It involves original concepts or hypotheses
Uncertain	The outcome, or the means of achieving it, is not known in advance
Systematic	It follows a plan and a budget
Transferable/Reproducible	The results can be applied or replicated in other contexts

An activity that fails any one of the tests does not qualify, however strongly the remaining four may apply.

One point is easy to miss. The statutory definition of R&D expressly includes knowledge of humankind, culture and society, but then removes activities conducted in the fields of social sciences, humanities and the arts.

A quick check before the formal tests

Most businesses can sort candidates from the rest of the project list by asking three simple questions about a specific piece of work.

- Were you trying to make something work that had not worked before, where you could not simply rely on existing knowledge, techniques or something already available to buy?
- Was there a real chance it would fail? Not commercial risk, but technical doubt about whether the approach would work.
- Did you get to the answer by building and testing, rather than by reading or asking a supplier?

Three clear answers of yes and the work is worth examining properly against the formal tests. A clear no to any of them and it is unlikely to be R&D.

> IN PRACTICE
> Have a competent professional record their assessment against the five tests in writing, at the time, and in their own words. A short technical note written by the person who did the work is worth more than a longer one written afterwards by someone who did not.

Where businesses miss their own R&D

Companies that have never claimed tend to apply a far stricter definition than the rules require. The value is normally found in four predictable places.

- Inside commercial projects. Most UAE R&D is not conducted within a research programme. It is done inside a customer delivery or a product launch, where a technical problem had to be resolved to complete the work.
- In the work that failed. An abandoned project is often the clearest available evidence that the uncertainty was real.
- Among people who are not called researchers. Process engineers, data scientists and senior developers may be doing the qualifying work whatever their job titles say.
- In supporting technical activity. Building test environments, running trials and analysing results form part of the project, not overheads outside it.

Does the project have to succeed?

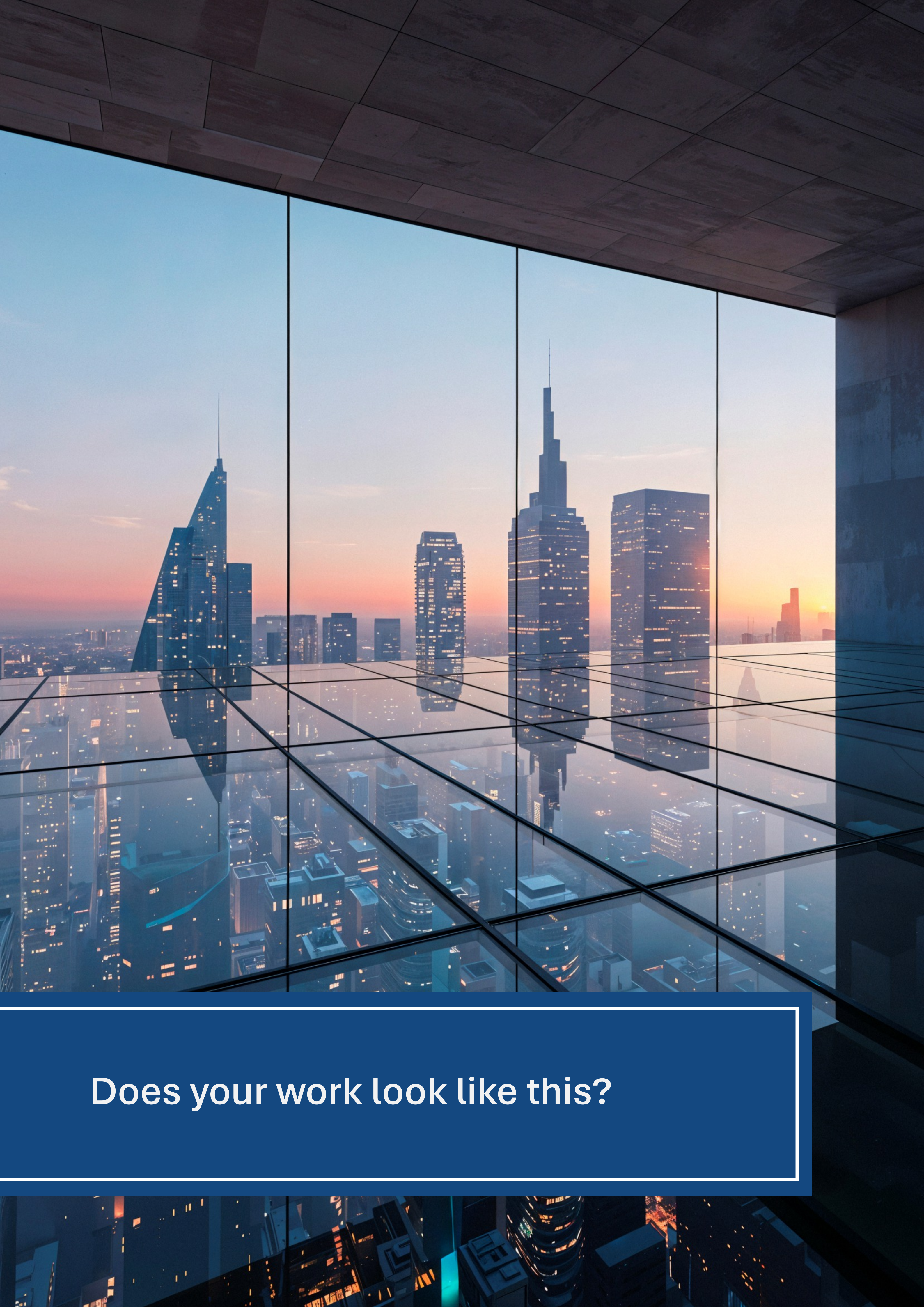
No. What matters is that the business set out to resolve a genuine technical uncertainty through systematic work. A project that fails, or that is abandoned part way, can still qualify for the effort and expenditure that went into the attempt, provided the uncertainty was real and the approach was methodical.

> COMMON MISCONCEPTION
> "The project failed, so there is nothing to claim." Failure is frequently the best evidence available. A project that did not work is difficult to explain in any way other than that the outcome was genuinely uncertain, which is what the rules require.

What does not qualify

The underlying principle is straightforward: if a competent professional could achieve the same outcome without genuine experimentation, the activity does not constitute R&D.

- New to you, not new to the field. Catching up with competitors or adopting an existing technique, where the information is publicly available.
- Configuration and integration. Setting up, connecting and tuning existing platforms.
- Appearance and user experience. Styling and interface work, unless it involved a technical advance.
- Commercial development. Market research, business models, pricing and rebranding.
- Routine testing and maintenance. Quality assurance, bug fixing and trials carrying no real uncertainty.
- Social sciences, humanities and the arts. Excluded outright, whatever the merit of the work.



Does your work look like this?

Does your work look like this?

Where qualifying R&D is commonly found

The regime is sector agnostic. The sectors below are simply those in which qualifying activity arises most often in the UAE.

COMMON MISCONCEPTION

"This is really aimed at technology companies." Nothing in the decisions favours any sector. The rules reward technical uncertainty resolved systematically, which is at least as common in manufacturing, construction, energy and food production as it is in software.

Sector	Where the R&D typically sits
Software and technology	Architecture, algorithms and data systems solving problems existing tools cannot address
Construction and engineering	Structural methods, materials and techniques developed for conditions no established approach covers
Energy and sustainability	Adapting generation, storage and efficiency technology to local operating conditions
Advanced manufacturing	New processes, materials and tolerances that current techniques cannot deliver
Life sciences	Formulation, diagnostics and clinical work where the outcome is genuinely uncertain
Food, beverage and agriculture	Reformulation, shelf life, yield and process work that cannot be predicted from what is known
Financial services	Risk, fraud and settlement systems requiring materially new technical approaches

IN PRACTICE

Ask your technical leads where a project was particularly challenging, rather than whether they did any R&D. The first question produces an honest account of the uncertainty. The second produces a debate about definitions.

The three examples that follow are illustrations rather than rulings and have been intentionally simplified. They show how the five tests apply to ordinary commercial projects.

The definition

The objective. Create a healthier yogurt containing less sugar and more protein, while keeping the taste and shelf life that consumers expect.

Test	How it is met
Novel	The company is trying to develop a product that does not exist within its range and cannot be achieved using its existing recipes or publicly available knowledge.
Creative	The development team tests different ingredient combinations and manufacturing processes to reach the nutritional profile and taste it wants.
Uncertain	At the start it is unclear whether reducing sugar and increasing protein will produce a product that stays stable, tastes good and lasts on shelf.
Systematic	The company produces a series of trial batches, measures the results, analyses what worked, and refines the recipe over several rounds.
Transferable/Reproducible	The knowledge can be used to develop other healthier dairy products.

Software and technology

The objective. Build a system that can securely process and analyse far larger volumes of customer data than the company's existing technology can handle.

Test	How it is met
Novel	The required scale, speed and security cannot be achieved using the company's current systems and architecture or by purchasing an off-the-shelf solution
Creative	Developers design and test new storage, processing and security approaches to improve performance while maintaining data protection.
Uncertain	At the start it is unclear whether the proposed solution will handle the volume efficiently while staying secure and reliable.
Systematic	The team runs performance and security testing, measures results, and refines the solution over several rounds of development.
Transferable/Reproducible	The technology developed can be used across other systems and future data projects.

The same business, work that would not qualify

The boundary matters more than the examples, because it is where claims are most often lost. In the software business above, the following adjacent work would not qualify.

- **Migrating the existing system to a new cloud provider.** This uses established methods and documented vendor processes, so there is no technical uncertainty.
- **Redesigning the customer dashboard.** Appearance and user experience work, unless it forced a genuine technical advance.
- **Configuring a purchased analytics platform.** Configuration of an existing product, utilising existing guidelines or instructions.
- **Fixing defects found after release.** Routine maintenance carrying no real uncertainty.

Which costs qualify

Which costs qualify

Qualifying costs

Cost	Conditions	Included and excluded
Staff costs	R&D Staff must be in the State when performing the activities, and under the supervision, direction and direct control of the entity	Include salaries, wages, allowances, medical insurance, pension contributions, end-of-service gratuity, bonuses, benefits in kind, other contractual employment expenses, and training relating to the activities. A 30% overhead uplift applies automatically. Exclude employee stock option plans and intra-Tax Group recharges
Consumables	Directly used in the R&D, and no longer usable once it is complete	Include materials consumed in the R&D such as water, fuel and power, non-capital licence fees, and clinical trial payments. Exclude items sold in the ordinary course of business, and intra-Tax Group purchases
Subcontracting	Fees to UAE-based subcontractors for R&D performed in the UAE	The activities must not themselves have been subcontracted to you by another party and must not be passed on by your subcontractor. Must not be attributable to a Foreign Permanent Establishment. Intra-Tax Group excluded
Cost contribution arrangements	An arrangement to share the contributions and risks of joint R&D	Your qualifying expenditure is the portion of your contribution determined at arm's length, corresponding to your expected share of benefits. Only the portion attributable to R&D carried out in the UAE qualifies

The capitalised cost of internally generated intangibles arising from qualifying R&D can also be included.

Expenditure must be incurred wholly and exclusively for qualifying R&D. Where a cost serves more than one purpose, only the portion that is genuinely R&D may be claimed. Anything funded by a government grant is stripped out, as is expenditure already benefiting from another incentive, credit, exemption or relief.

Who counts as R&D Staff

This matters twice over, because R&D Staff drive both the staff cost you can claim and the headcount thresholds that set your rate. The decisions define R&D Staff as full-time or full-time equivalent employees, or full-time or full-time equivalent externally provided workers, who are directly and actively engaged in the qualifying activities.

- **Employees.** Individuals with a contract of employment with the entity or seconded to it where the entity bears the cost of the secondment.
- **Externally provided workers.** Individuals who are not directors or employees, who supply their services through a staff provider or as an independent contractor, who are personally obliged to provide those services, and whose services do not amount to subcontracting of the R&D.

Where an employee is not engaged in qualifying activities full time, only the portion of their cost reasonably attributable to time spent on those activities counts. That apportionment is dealt with below.

> COMMON MISCONCEPTION
> "We do not keep timesheets, so we cannot claim." Timesheets are the strongest evidence, but they are not the only acceptable basis. What matters is that the method is reasonable, applied consistently, and supported by evidence showing how it was determined.

The 30% staff uplift

Staff costs carry an automatic 30% uplift to account for overheads. It is a meaningful benefit, and it applies without requiring you to track or substantiate actual overhead allocations separately.

For R&D-intensive businesses where staff costs dominate the expenditure profile, this uplift may materially improve the overall credit. It is added on top of qualifying staff cost, but it is excluded when you test the minimum spend below.

The minimum spend

A project needs at least AED 500,000 of qualifying R&D expenditure to be eligible, measured before the uplift. Projects below that floor are specifically excluded by Article 5(3)(b) of the Cabinet Decision. There is no separate company-wide minimum, but this sets the practical entry point.

Apportioning staff time

Few technical staff work entirely on qualifying activity. The rule is that expenditure must be wholly and exclusively for R&D, so where a person's time is split, only the qualifying proportion of their cost can be claimed. The task is to arrive at that proportion in a way that would survive examination.

- **Timesheets against project codes.** The strongest evidence, being contemporaneous and granular, though it requires the discipline to be in place before the year begins.
- **Project management or ticketing data.** Appropriate where the system already records who worked on what. This is often available in software and engineering teams without any new process.
- **Periodic time studies.** A representative sample period, extrapolated across the year, with technical sign-off.
- **Role-based estimates.** Acceptable where the methodology used to determine the R&D proportion is reasonable and can be supported by evidence.

Whichever approach is used, three things make an apportionment more defensible. It should be prepared as close to the time of the underlying activity as possible, it should be reviewed by someone technical rather than produced by finance alone, and the same basis should be applied consistently across projects.

> WATCH-OUT
> A single flat percentage applied across an entire team is the most common red flag we see. It is quick to prepare and difficult to defend, because it implies a uniformity of work that rarely exists in practice.

What it is worth

What it is worth

How the credit is calculated

The credit operates on a progressive, tiered basis. To access each tier, a qualifying entity or tax group must satisfy both a qualifying expenditure threshold and a minimum average R&D staff headcount.

Qualifying R&D expenditure	Minimum average R&D staff	Rate
First AED 1 million	At least 2	15%
AED 1m to AED 2 million	At least 6	35%
AED 2m to AED 5 million	At least 14	50%

If you meet the expenditure threshold for a tier but not the staff threshold, the credit rate is adjusted downward to the highest tier where both conditions are satisfied.

WATCH-OUT
Add the R&D Staff count for each month, counting anyone who worked any part of it, then divide by the number of months in which qualifying activity took place. The denominator is months of activity, not months in the year.

A worked calculation

An entity spends AED 3.5 million on qualifying R&D and employs an average of 14 or more R&D staff, so it clears every threshold.

Expenditure tier	Qualifying spend	Rate	Credit
First AED 1 million	AED 1,000,000	15%	AED 150,000
AED 1m to AED 2 million	AED 1,000,000	35%	AED 350,000
AED 2m to AED 5 million	AED 1,500,000	50%	AED 750,000
Total	AED 3,500,000		AED 1,250,000

What happens if you miss a headcount threshold

An entity with AED 3.5 million of qualifying expenditure but an average of only 12 R&D staff. It clears the thresholds for the first two tiers, but not the 14 needed for the top tier, so the rate is capped at 35%.

Expenditure tier	Qualifying spend	Rate	Credit
First AED 1 million	AED 1,000,000	15%	AED 150,000
AED 1m to AED 2 million	AED 1,000,000	35%	AED 350,000
AED 2m to AED 5 million	AED 1,500,000	35%, not 50%	AED 525,000
Total AED 3,500,000			AED 1,025,000

A further two R&D staff would have produced an additional AED 225,000 of credit on identical expenditure. The credit is therefore a workforce planning decision as much as a spending one, and the marginal cost of additional R&D hires may in some cases be offset by the incremental benefit gained.

How the credit shows up in your accounts

The credit is designed to reduce the amount of Corporate Tax payable by an eligible business. It is not a cash payment and, under Phase 1 of the regime, cannot be refunded where the business does not have a sufficient tax liability against which to use it.

Credits like this sit outside the explicit scope of both IAS 12 (Income Taxes) and IAS 20 (Government Grants), so this is a policy choice, not an automatic answer and should be documented as one. Given the credit is non-refundable, settled only through the Corporate Tax return, and carried forward like an unused tax credit, IAS 12 may be a stronger fit, and where most groups are expected to land. Under that treatment, the benefit is generally expected to be reflected through the tax charge rather than as operating income. In practical terms, where the credit is utilised, it reduces the current tax expense recognised for the period. It therefore does not increase revenue, operating profit or EBITDA.

An unused credit carried forward is recognised as a deferred tax asset only to the extent that it is probable that future taxable profit (or Top-up Tax) will absorb it. The ownership-continuity and clawback conditions in Chapter 9 feed directly into that judgement, not just into compliance risk.

For comparison, IAS 20 treatment, which is a fit for a more typical cash-refundable grant, would present the credit as other income or net it against R&D expense, so it would hit operating profit and EBITDA rather than sit in the tax line below it. It is the less likely fit here precisely because there is no cash settlement route under Phase 1. That could change if a later phase introduces refundability, which is worth revisiting if and when it does.

There is also a timing point on recognition: the credit should ideally be recognised to match the expenditure it relates to, i.e. credit for expenditure incurred in FY2026 recognised within FY2026, not deferred to when the cash lands eighteen months later on filing. Where ERDC pre-approval is still pending at the reporting date, though, that matching needs a harder look. Recognition may need to wait until approval, or reasonable assurance of it, is in hand.

The precise accounting treatment should be assessed in accordance with the applicable accounting standards and the business's individual circumstances. As always, agree with your auditors before it reaches a board report or forecast.

FD TAKEAWAY

Tell the board early that this credit is reflected in the tax charge, rather than operating profit. It is a tax benefit, not an earnings benefit, and setting that expectation before the claim avoids an awkward conversation afterwards.

Getting pre-approved and filing

Getting pre-approved and filing

The three stages

The first stage is pre-approval. An application is made to the ERDC for each qualifying project, in advance of any claim.

The second stage is the claim itself, submitted as part of the Corporate Tax return or Top-up Tax return. It must be supported by proof of pre-approval from the ERDC, a declaration signed by senior management confirming the accuracy of the information, a breakdown of qualifying R&D expenditure, and audited financial statements.

Claims submitted after the return due date will not be considered, unless the Federal Tax Authority (FTA) accepts them in exceptional circumstances.

The third stage is ongoing compliance. The ERDC may require further information at a later date, including progress reports on the project.

Why pre-approval matters

Many international R&D incentive schemes operate on self-assessment, with review after filing. The UAE has adopted a gatekeeping model instead. Pre-approval is mandatory for every project on which the credit is claimed, and there are no exceptions.

No pre-approval means no credit, regardless of whether the underlying activities and expenditure otherwise qualify. Late or incomplete applications risk disqualification whatever the merits of the R&D.

There is an advantage to this approach. Pre-approval provides a degree of upfront certainty that a self-assessed regime does not, which carries real value where a new incentive attracts a degree of scepticism. There is also a cost, in that pre-approval sits on the critical path rather than at the end of it.

> COMMON MISCONCEPTION
> “Pre-approval is an administrative formality we can deal with at filing.” Incorrect. No pre-approval means no credit, whatever the merits of the underlying work.

What the application should cover

- Detailed project descriptions, articulating each of the five tests clearly.
- Work schedule and milestones.

- R&D staffing plans, with headcount projections, roles and responsibilities.
- Evidence that the activity is based in the UAE and did not rely on other funding sources.

If an application is refused

The Council's procedures for refusal, resubmission and challenge have not been published at the time of writing. The following reflects the position as it stands rather than confirmed guidance.

A grievance route is expressly contemplated. Article 12(2) of the Cabinet Decision empowers the Council to issue decisions establishing the rules, timelines and procedures for submitting, reviewing and determining pre-approval requests, and the procedures for grievance in respect of decisions it issues. What has not been published is the detail of how that grievance process will operate.

The practical implication is that the application itself carries the risk. A refused application may leave no route to the credit for that project in that period, which is a further reason to prepare it with due care rather than treating it as a form-filling exercise.

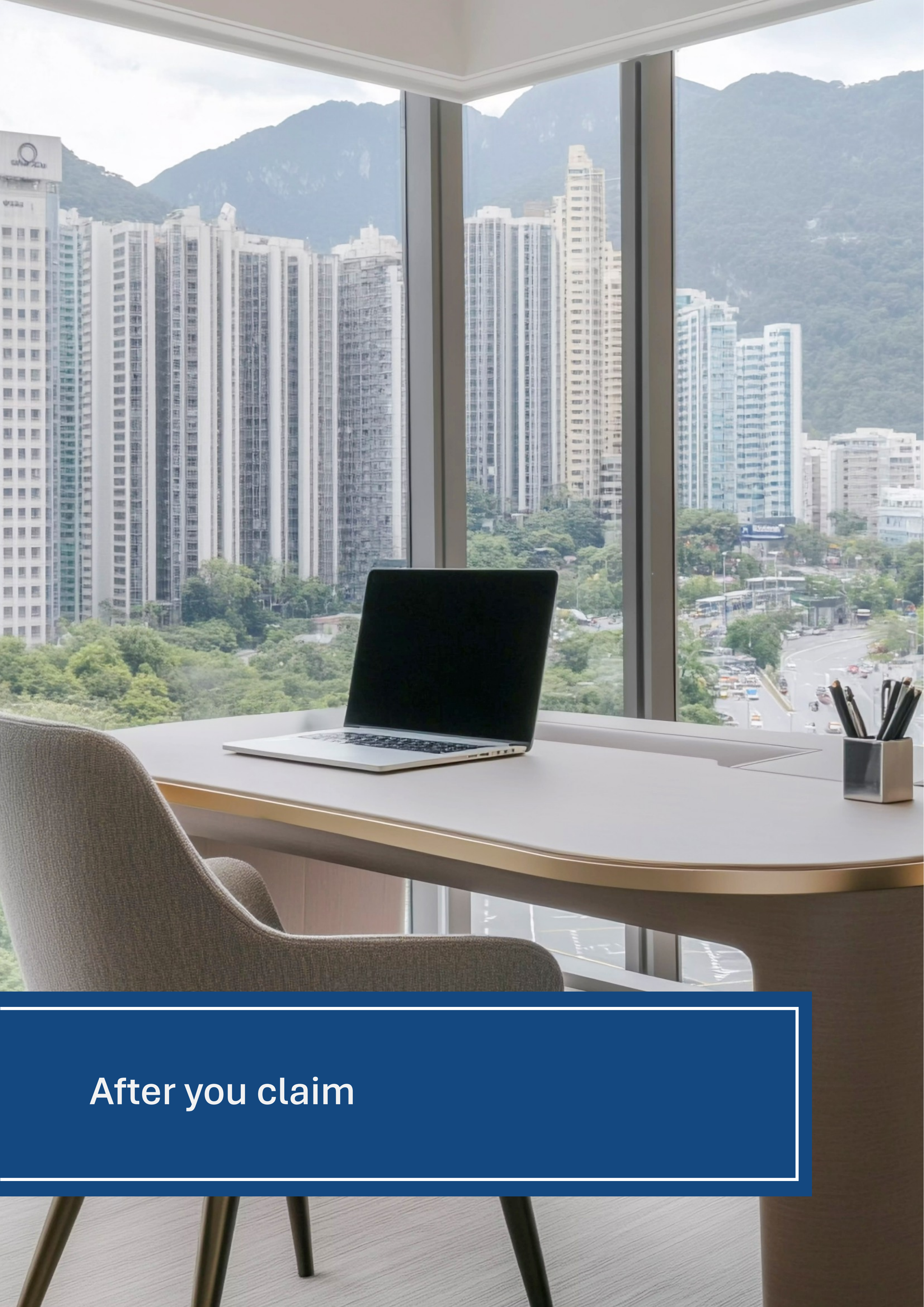
Filing and records

You must keep comprehensive technical documentation for seven years following the end of the relevant tax period. It has to include written, visual and electronic records covering:

- Project objectives and the scientific or technical hypotheses.
- Methodologies, processes and experimental design.
- Experiment records and findings.
- Expenditure tracking, and the attribution of cost to R&D activity.
- Evidence that the activities were conducted in the UAE.

The ERDC may request progress updates and technical documentation at any time, and not only at the point of filing. Documentation should therefore be created contemporaneously and meet the prescribed standards accordingly.

> WATCH-OUT
> The Council's application form, the manner of submission and the pre-approval timelines have still to be published. Until they are, build the technical and financial file now, so that pre-approval guidance is the only thing you are waiting on.



After you claim

After you claim

Unused credit

An unutilised credit can be carried forward against future Corporate Tax and Top-up Tax, subject to a continuity test. Either the same person or persons must have continuously owned at least 50% of the entity from the start of the period in which the credit arose to the end of the period in which it is used, or, where ownership changes by more than 50%, the entity must continue to carry on the same or a similar business.

Entities listed on a Recognised Stock Exchange are outside that test. Earlier credits must be used before later ones, and credit must be used against Corporate Tax before it is carried forward or transferred.

Credit in a group

- Entities filing as a UAE Tax Group. There is nothing to move. Expenditure and R&D Staff are aggregated across the group and the credit is used against the group liability. The Parent Company applies for pre-approval, submits the claim and carries the compliance obligations. Credit brought in by an entity joining the group is used before the group's own.
- Common ownership, separate filings. Unutilised credit can be transferred to another UAE taxable person with at least 75% common ownership, for use against that entity's liability in the same period only. It cannot be carried forward or passed on again.
- A business is transferred. The transferee steps into the transferor's position and can claim, use and carry forward the credit, provided the business and the R&D continue for at least two years and the transfer satisfies conditions of Business Restructuring Relief under Article 27(2) of the CT Law.
- An entity leaves the Tax Group. A credit generated while the entity was inside the group stays with the group. Only its own unutilised pre-Grouping credit leaves with it.
- The Tax Group ceases. Where the Parent Company remains a Taxable Person, the group's credit stays with it. Where the Parent Company ceases to be a Taxable Person, the group's credit is forfeited. In both cases, unutilised pre-Grouping credit returns to the entity it came from.

Clawback

Repayment can be triggered in two separate ways.

The first relates to the project itself. Where the conditions of an R&D project are not continuously met, in whole or in part, credit already used must be repaid and any unused portion is forfeited.

The second has no connection to the project at all. If, within five years of your last claim, the claiming entity stops being subject to Corporate Tax or Top-up Tax, becomes a Qualifying Free Zone Person, elects Small Business Relief, enters liquidation or redomiciles outside the UAE, the same repayment and forfeiture apply. A genuine business restructuring is the exception.

Where the credit was applied against Top-up Tax, constituent entities, joint ventures and JV subsidiaries can be jointly and severally liable for the amount clawed back. In a Tax Group, each member is jointly and severally liable for credit used to reduce the group's liability during the periods it was a member, unless the Authority approves limiting that liability.

One further point carries real weight. No other tax credit, special relief, tax loss or Pillar Two loss may be offset against the liability arising from a clawback. The repayment has to be funded, not sheltered.

Penalties

Where credit is clawed back, penalties apply under Federal Decree-Law No. 28 of 2022 on Tax Procedures. For the purposes of calculating, imposing and collecting them, the clawed-back credit is treated as if it were Due Tax or Payable Tax.

Who bears them depends on the route by which the credit was used. Within a Tax Group it is the Parent Company. Within a Domestic Group it falls on the constituent entities, joint ventures and JV subsidiaries, or on the Domestic Designated Filing Entity where one has been appointed. Following a business transfer it is the transferee, or any person to whom the transferee passed the credit on.

The decisions do not set the penalty amounts themselves. Those sit in the Tax Procedures Law and the decisions issued under it.

> **COMMON MISCONCEPTION**
> "Once the credit has been used, it is ours." It is not. Conditions must be met continuously, and a status change within five years of the last claim can trigger repayment even where the R&D itself was never in question.

Anti-abuse

The decisions target artificial arrangements directly. Separating a business in order to multiply access to the credit, or to clear thresholds that would otherwise be missed, is precisely the behaviour the rules are designed to counteract.

> WATCH-OUT
>
> The five-year trigger is easy to miss, because it has nothing to do with the R&D itself. A Free Zone election, a liquidation or a redomiciliation years after a claim can still cause repayment. Give someone the job of checking entity status changes against every open claim.

Free Zones, groups and Pillar Two

Free Zones, groups and Pillar Two

Free Zone companies

A Free Zone Person is eligible to claim. Whether the credit delivers value, however, depends on whether the entity holds a liability against which it can be applied.

To use the credit you need R&D-related income that is either taxed at the 9% mainland rate or exposed to Top-up Tax, in the period you claim. Where qualifying free zone income is taxed at 0%, there is nothing for the credit to offset that year.

Before you invest on the strength of a headline percentage, map where your entity actually carries a 9% or Top-up Tax exposure.

How the credit meets the top-up tax

If your group is inside the Domestic Minimum Top-up Tax, the interaction is worth working through early, because the headline value of a claim and what the group keeps are not necessarily the same number.

Under the GloBE (Global Anti-Base Erosion) rules, a credit that is paid out in cash within a set period, i.e. a Qualified Refundable Tax Credit, or one that can genuinely be traded in the market, i.e. a Marketable Transferable Tax Credit, is treated favourably, i.e. it is added to GloBE income rather than netted against tax. The UAE credit is not paid out in cash, and its transfer feature is narrow: it can only move to another UAE taxable person under at least 75% common ownership, for use in the same period only, and cannot be carried forward or passed on again once transferred. That falls well short of the market transferability the GloBE rules require, so the credit stays in the default category.

A credit of that kind reduces covered taxes rather than adding to GloBE income. Since the effective tax rate is covered taxes measured against GloBE income, reducing covered taxes lowers the rate, and where the rate falls below 15% the top-up tax applies. That is the mechanism to model.

The Substance-Based Tax Incentive Safe Harbour

The OECD published its Side-by-Side package on 5 January 2026, introducing the Substance-Based Tax Incentive ('SBTI') Safe Harbour. It creates a category of qualified tax incentive ('QTI'), and an incentive that falls inside that category is treated more favourably in the Pillar Two calculation than one that does not, i.e. the credit is added back to covered taxes rather than reducing them. The relief is capped by reference to payroll and tangible assets in the jurisdiction ('Substance Cap').

That framework now sits in the UAE rules. Ministerial Decision No. 96 of 2026 adopted the OECD's 2026 consolidated commentary and administrative guidance for the purposes of the UAE Top-up Tax rules. It applies to fiscal years beginning on or after 1 January 2025, which is ahead of the first year in which the R&D credit can be claimed.

A QTI must be expenditure-based or production-based, generally available under published criteria rather than negotiated case by case and directly linked to the expenditure or output on which it is calculated. The UAE R&D Tax Credit is calculated as a set percentage of Qualifying R&D Expenditure across defined bands, which is a direct, formulaic link to spend. Pre-approval by the R&D Council confirms that published conditions are met. It does not create a discretionary or negotiated benefit, which is what the generally available test is really guarding against. On that basis, the credit fits the expenditure-based QTI category.

The Substance Cap

The cap is the greater of 5.5% of the multinational enterprise (MNE) Group's Eligible Payroll Costs in the UAE, or 5.5% of the depreciation and depletion recorded on its Eligible Tangible Assets located in the UAE, both measured across every Constituent Entity the group has in the country, not just the one making the R&D claim. On a five-year election, a group can instead use 1% of the carrying value of Eligible Tangible Assets in the UAE, excluding land and other non-depreciable assets.

> **COMMON MISCONCEPTION**
> "The cap only looks at the entity claiming the credit, so a small R&D subsidiary will hit it fast." It does not work entity by entity. The cap is set at the level of the MNE Group's whole presence in the jurisdiction, being every Constituent Entity's eligible payroll, or every Constituent Entity's eligible tangible assets, added together. A modest R&D claim measured against a group's full UAE payroll or asset base is rarely the constraint.

Two points matter in practice. The SBTI Safe Harbour is an election rather than something that applies automatically, so a group has to make it. Secondly, how the R&D credit sits within the framework depends on the group's own position, so it is a question to model and take advice on rather than assume either way.

NEXT STEPS

If your group is within the Domestic Minimum Top-up Tax, decide early whether you will make the SBTI Safe Harbour election for the UAE. Without it, the credit still reduces Covered Taxes and can still push your effective tax rate down. The election is what lets you add that value back, up to the substance cap. Model the credit, the cap (using the group's whole UAE payroll and asset base, not just the claiming entity), and the election together, on your own numbers, before relying on the headline value of a claim.

Keep the position under review. Further guidance is expected, and it may change how the interaction is approached.

Order of use

The credit is applied against Corporate Tax first, then against Top-up Tax. For a group within the UAE Domestic Minimum Top-up Tax (DMTT), that second step is where the credit does most of its work. Unutilised credit of an entity joining a Pillar Two domestic group may be used against the group's Top-up Tax.

The ordering matters most for groups whose effective tax rate sits close to the 15% minimum, where a small movement in covered taxes can change the top-up position. Model the credit and the SBTI Safe Harbour election together, inside your Pillar Two computation rather than alongside it.

Groups with centralised R&D

The decisions consistently exclude intra-Tax Group transactions from qualifying expenditure, whether those are staff cost recharges, consumable purchases or subcontracting fees between group members.

Groups running a centralised R&D function that recharges costs to operating entities will therefore need to review their transfer pricing arrangements and satisfy themselves that qualifying expenditure is correctly identified and attributed.

Cost contribution arrangements

Only the arm's length cost attributable to you qualifies. Your transfer pricing position therefore determines how much you can claim, and the FTA can challenge the transfer pricing and the credit together. Review existing arrangements through a transfer pricing lens before relying on them.

Getting ready, and what can go wrong

Getting ready, and what can go wrong

The first year, month by month

The table below assumes a calendar-year tax period beginning 1 January 2026. Council timelines have still to be published, so the pre-approval row should be treated as indicative.

When	What to do
Before the period starts	Identify candidate projects. Confirm the R&D headcount plan against the rate band being targeted. Set up project codes in the ledger
Q1-Q3	Begin contemporaneous technical logs. Establish the staff time apportionment method. Prepare pre-approval applications
Through the year	Capture technical and cost records project by project. Track average R&D headcount monthly against the thresholds
ERDC portal opens	Submit pre-approval applications for each project
Period end, 31 Dec 2026	Close off cost data. Reconcile qualifying expenditure. Confirm the average headcount actually achieved
Before 30 Sep 2027	File the Corporate Tax return with the claim, management declaration, audited financial statements and expenditure breakdown
After filing	Monitor continuing conditions and entity status changes. Retain the full file for seven years

Who needs to be involved

Three functions are normally required. Tax leads on eligibility and the calculation, while finance segregates and evidences the qualifying cost. The technical or R&D leads provide the substantive narrative that no other function is able to write.

Claims most commonly stumble where the finance and technical teams have not worked from the same material or are not aligned in their understanding of the project.

What good documentation looks like

Documentation should be contemporaneous, technical and specific to the project it supports. For each project, record the advance being pursued, the uncertainty that a competent professional could not readily resolve, the systematic approach adopted, and a clear line from each item of cost to that activity.

Documentation prepared retrospectively from memory is acceptable, but records created as the work progresses are considerably more defensible. UAE businesses have not previously been required to evidence R&D, so ledgers rarely tag it and timesheets remain uncommon. Establishing that capture now is likely to be the most valuable single step a business can take.

What can go wrong

- **Missing a headcount threshold.** Track the average R&D Staff count monthly, and model on the average rather than the peak.
- **Free Zone income taxed at 0%.** Confirm you hold a 9% or Top-up Tax liability before relying on the credit.
- **Treating pre-approval as a formality.** Treat ERDC pre-approval as the binding constraint and prepare the file now.
- **No contemporaneous records.** Add project codes to the ledger and keep a short technical log for each project.
- **Flat time apportionment across a team.** Use timesheets or project data, reviewed by someone technical.
- **Claiming work that is new to you only.** Have a competent professional assess each project against the five tests, in writing, at the time.
- **Bundling projects to clear AED 500,000.** Define projects on genuine technical lines, and document why each boundary sits where it does.
- **Leaving excluded cost in.** Ring-fence grant-funded cost, Tax Group recharges and double-incentivised cost.
- **Assuming a filed claim is final.** Give one owner accountability for continuing conditions and entity status changes.

How much scrutiny to expect

This is a new and high-value incentive within a maturing tax administration, and businesses should assume close attention, particularly during the formative years. The ERDC may request progress updates and technical justification, and the clawback rules mean that a claim is not final simply because the credit has been used.

IN PRACTICE

This is where a specialist adviser earns their fee. The technical narrative has to satisfy a reader who understands the science or technology, the cost analysis has to withstand a tax review, and the two have to agree with each other.

An adviser who has run claims through enquiry elsewhere knows what a challenged file looks like before it is challenged, which is difficult to learn from the legislation alone.

Toolkit

Toolkit

Eligibility, step by step

1 **Are you within UAE Corporate Tax or Top-up Tax, and not electing Small Business Relief?**
No → Not eligible

2 **Do you bear the financial risk of the R&D and hold beneficial entitlement to its results?**
No → You are not the correct claimant

3 **Is the activity carried out in the UAE?**
No → Outside the UAE credit. Only the in-State portion counts

4 **Does the project meet all five tests: novel, creative, uncertain, systematic, transferable or reproducible?**
No → Not qualifying R&D

5 **Is it outside the social sciences, humanities and the arts?**
No → Excluded by the decisions

6 **Is qualifying project spend at least AED 500,000, before the 30% uplift?**
No → Below the project floor

7 **Do you hold the average R&D headcount for the band you are targeting?**
No → Rate drops to the highest tier where both tests are met

8 **Can you obtain ERDC pre-approval for the project?**
No → No pre-approval means no credit

ALL EIGHT CLEARED

Prepare the claim: management declaration, audited financial statements and a qualifying expenditure breakdown, filed with the Corporate Tax return.

Checklists

Costs to strip out

- Employee stock option plans
- Costs recharged from another member of the same Tax Group
- Any portion funded by a government grant
- Cost already benefiting from another incentive, credit, exemption or relief
- Staff or subcontractors outside the UAE, or not under your direct supervision, direction and control
- Materials disposed of in the ordinary course of business
- Anything not wholly and exclusively for R&D. Apportion mixed-purpose cost
- Projects below AED 500,000 of qualifying spend, before the uplift

Readiness

Count the statements a business is able to answer positively.

- We have identified our 2026 projects that plausibly meet the five tests.
- Our technical leads have documented the uncertainty and method for each, in their own words.
- We can separate qualifying R&D cost from general spend in the ledger.
- We have a defensible method for apportioning staff time, applied consistently.
- Each target project clears AED 500,000 before the staff uplift.
- We know our average R&D headcount and which rate band it supports.
- We have stripped out grant-funded, recharged and double-incentivised cost.
- We know which entity bears the financial risk, and it matches who is claiming.
- We have assessed the Pillar Two and Free Zone position, if relevant.
- We have a plan to obtain ERDC pre-approval when the portal opens.
- We understand when the benefit will actually be realised in cash terms.
- One owner is accountable for continuing conditions and entity status changes.

How we help

How we help

This regime rewards preparation, and it draws on capabilities that rarely sit within a single team. At Dhruva we combine local tax expertise, technical specialists who understand the underlying engineering and science, and globally tested claim methodology.

- Dedicated UAE practice. Dhruva has a dedicated R&D tax advisory team on the ground in the UAE, focused exclusively on innovation incentives and the delivery of R&D claims.
- Technical specialists. Our local team includes engineers, software developers and scientists who understand the underlying technology, not just the tax framework.
- End-to-end claim delivery. We manage the full lifecycle of the claim, from identification and cost capture through to technical substantiation and final submission.
- Embedded R&D processes. We help establish pragmatic processes that integrate R&D identification into day-to-day business operations.
- Technology. We use technology and data analytics to streamline project identification, cost capture and claim preparation.
- Global innovation expertise. With the global backing of Ryan, the world's largest business tax firm, we draw on internationally tested frameworks and specialist advisers worldwide.

Contact Us

Fran Wilhelm
Associate Partner
fran.wilhelm@dhruvaadvisors.com

Abid Osman
Manager
abid.osman@dhruvaadvisors.com

dhruva
A Ryan LLC Affiliate

OUR TEAM

UAE CONTACTS

NIMISH GOEL
Leader, Middle East
nimish.goel@dhruvaadvisors.com

ASHISH AGRAWAL
Partner
ashish.agrawal@dhruvaadvisors.com

BHAKTI THAKKER
Partner
bhakti.thakker@dhruvaadvisors.com

GEET SHAH
Partner
geet.shah@dhruvaadvisors.com

KAPIL BHATNAGAR
Partner
kapil.bhatnagar@dhruvaadvisors.com

RAKESH JAIN
Partner
rakesh.jain@dhruvaadvisors.com

SANDEEP KUMAR
Partner
sandeep.kumar@dhruvaadvisors.com

UJJWAL KUMAR PAWRA
Partner
ujjwal.pawra@dhruvaadvisors.com

VLAD SKIBUNOV
Partner
vlad.skibunov@dhruvaadvisors.com

FRAN WILHELM
Associate Partner
fran.wilhelm@dhruvaadvisors.com

MONIKA MINDSZENTI
Associate Partner
monika.mindszenti@dhruvaadvisors.com

SHIRAZ SALEEMI
Associate Partner
shiraz.saleemi@dhruvaadvisors.com

KSA CONTACTS

AMR SAMAK
Associate Partner
amr.samak@dhruvaadvisors.com

MANISH BANSAL
Associate Partner
manish.bansal@dhruvaadvisors.com

GOPAL AGARWAL
Director
gopal.agarwal@dhruvaadvisors.com

DUBAI
204, Emaar Square,
Building 4, PO Box 127165,
Dubai, UAE
Tel: + 971-4240-8477

ABU DHABI
1905, Addax Tower City of
Lights, Al Reem Island, Abu
Dhabi, UAE
Tel : +971-2678-0054

SAUDI ARABIA
308, 7775 King Fahd Road,
Al Olaya, 2970, Riyadh 12212,
Saudi Arabia

www.dhruvaconsultants.com