OPINION

CORPORATE TAX IN THE UAE:
LESSONS LEARNED AFTER THE FIRST FILING CYCLE

Bhumika Tyagi
Associate Director
bhumika@raa-auditing.com

Himal Dahal
Internal Audit Manager
himal@raa-auditing.com

The UAE's first corporate tax filing was a wakeup call for many businesses. The Corporate Tax was introduced through **Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law)**; and it was already anticipated that the September 2025 filing would be the first real test of how businesses were prepared for a formal tax regime. Many businesses found gaps in financial reporting, record keeping, tax readiness and overall governance that had accumulated over time.

The lessons from the first filing cycle extend beyond compliance. **They highlight the need for businesses to strengthen their financial controls, improve tax governance, and adopt a more proactive approach to regulatory obligations.** As companies prepare for future filing periods, the focus must shift from meeting deadlines to embedding sustainable compliance practices across the organization.

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DATA RECONCILIATION: THE FOUNDATION OF COMPLIANCE

One of the most common challenges was the reconciliation of financial data. Many businesses found themselves under pressure to finalize accounting records, resolve outstanding items, and collect supporting documentation within the timeline.

Issues such as unreconciled receivables and payables, unsupported balances, incomplete records, and poorly documented transactions have delayed tax filing process.

In many cases, it initially appeared to be an accounting issue which ultimately reflected governance weakness.

The experience reinforced an important lesson: accurate, timely, and IFRS-compliant financial reporting is no longer optional. Businesses that maintain reliable financial records throughout the year are significantly better positioned to meet their tax compliance obligations efficiently and confidently.

GENERAL LEDGER CLASSIFICATION: GETTING THE DETAILS RIGHT

Another key lesson emerged from general ledger and chart of accounts structures. Many businesses discovered that accounting systems designed primarily for management reporting did not readily support corporate tax requirements.

Identifying taxable income, exempt income, deductible expenditure, related party transactions, and specific tax adjustments required substantial manual intervention, which resulted in additional costs and delays.

By appropriately classifying transactions from the outset, with segregation of revenue streams, expense categories, and related party transactions; businesses can improve reporting accuracy and reduce the administrative burden regarding tax calculations.

> ***"The chart of accounts needs to be tax-ready, not just management-reporting ready."***

AUDIT READINESS IS ALWAYS CRITICAL

Delays in completing statutory audits are a recurring challenge. In most cases, the delays were not caused by audit firms but by late submissions of accounting records and incomplete documentation.

Since audited financial statements form the basis of tax computations, delays in finalizing audits have a direct impact on tax compliance timelines.

Businesses should therefore view the annual audit as an integral component of tax readiness. Completing audits well in advance of filing deadlines allows sufficient time to address tax adjustments, resolve issues, and prepare accurate tax returns.

> ***"Audit needs to be completed by June, not the week before the September filing deadline."***

FREE ZONE BUSINESSES: UNDERSTANDING QUALIFYING INCOME

The preferential tax rate available to Qualifying Free Zone Persons, i.e. a 0% on Qualifying Income under Article 3(2)(a) of the Law, remains highly attractive. However, maintaining eligibility requires careful monitoring of revenue streams and strict adherence to the relevant conditions, including the 'de minimis' requirements.

Many businesses underestimated the scope of **Ministerial Decision No. 265 of 2023** or failed to maintain sufficient records to support the classification of income. As a result, some entities faced uncertainty regarding their eligibility for preferential tax treatment.

Going forward, Free Zone companies should ensure that their accounting systems and reporting frameworks clearly distinguish between **qualifying** and **non-qualifying** activities to mitigate compliance risk.

PLACE OF EFFECTIVE MANAGEMENT: AN EMERGING RISK AREA

The introduction of corporate tax has also drawn attention to the concept of Place of Effective Management (**POEM**). Under Article 11(3) of the Law, a juridical person incorporated in the UAE is considered a Resident Person. However, the POEM test extends this concept further: when key strategic and commercial decisions are effectively made in the UAE, an overseas entity may be considered a UAE tax resident.

Offshore structures and foreign holding companies should periodically review governance arrangements, board decision-making processes, and management structures to ensure they understand their potential tax residency exposure.

> ***“If an offshore company's key management and commercial decisions are made in the UAE, it may be considered tax resident in the UAE regardless of where it was headquartered.”***

TRANSFER PRICING: FROM CONCEPT TO COMPLIANCE REQUIREMENT

Transfer pricing emerged as one of the most significant compliance considerations for business groups and family-owned enterprises.

Historically, many related-party transactions were conducted based on commercial understanding without formal benchmarking or documentation. Under UAE Corporate Tax regime, Article 34, requires that transactions between related parties and connected persons must comply with the arm's length principle and be supported by appropriate documentation where required.

The FTA's Advance Pricing Agreements Corporate Tax Guide provides a structured framework to obtain transfer pricing certainty. Businesses that invested early in understanding their transfer pricing obligations experienced smoother filing processes. Others faced challenges in gathering supporting information and evaluating historical arrangements.

SMALL BUSINESS RELIEF: NOT A COMPLIANCE EXEMPTION

Introduced under **Ministerial Decision No. 73 of 2023** on Small Business Relief (**SBR**), the relief allows eligible Taxable Persons with annual revenue of AED 3 million or less to be treated as having no Taxable Income for the relevant Tax Period. However, the first filing cycle demonstrated that relief from tax does not equate to relief from compliance obligations.

Companies electing to apply for SBR still need to maintain proper accounting records and retain sufficient documentation. The FTA retains the right to review records and verify compliance with the applicable requirements, as provided under Article 21 of the Law.

TAX ELECTIONS REQUIRE EARLY PLANNING

A less obvious but equally important lesson from the first filing cycle was the significance of timely tax elections. Certain corporate tax election applications must be completed within prescribed timeframes. Key examples include:

- **Tax Grouping Applications** – Under Article 40 of the Law, two or more Resident Persons may form a Tax Group and be treated as a single Taxable Person. The application to form a Tax Group must be submitted before the end of the financial year.
- **Tax Transparency Election for Foundations** – Under Article 17 of the Law, a Family Foundation may apply to be treated as fiscally transparent, provided prescribed conditions are met. This application must be filed before the end of the financial year.

Those businesses should assess potential elections well in advance to ensure they can benefit from available provisions where appropriate.

“Some elections need timely execution. If you don't apply before year-end, the opportunity is gone for the year.”

PARTICIPATION EXEMPTION: OPPORTUNITIES REQUIRE PREPARATION

The participation exemption offers valuable benefits for businesses holding investments in other entities. Under Article 23 of the Law, income from a Participating Interest, such as dividends and capital gains, is exempt from Corporate Tax. However, eligibility depends on meeting several conditions, including ownership thresholds, holding periods, and other statutory requirements.

Ministerial Decision No. 302 of 2024 on the Participation Exemption and Foreign Permanent Establishment Exemption provides further guidance on these provisions.

The first filing cycle showed that many taxpayers were aware of the exemption but had not evaluated whether they satisfied the qualifying criteria. A proactive review of investment structures can help businesses identify available opportunities.

FOREIGN TAX CREDITS: DOCUMENTATION IS ESSENTIAL

Businesses with international operations also learned that claiming foreign tax credits requires comprehensive supporting evidence.

Tax authorities expect taxpayers to maintain documentation demonstrating the nature of the foreign tax paid, the amounts involved, applicable exchange rates, payment dates, and other relevant supporting information.

Without adequate evidence, obtaining relief for foreign taxes may become difficult.

COST OF LAST-MINUTE COMPLIANCE

The most important lesson from the first filing cycle was the high cost of delayed preparation.

Businesses that began their audit, accounting, and tax readiness processes well before the filing deadline experienced smoother compliance outcomes, lower advisory costs, and fewer operational disruptions. Conversely, organizations that postponed preparation faced increased pressure, additional costs, and even compliance risks.

“Corporate tax compliance is most effective when it is embedded into routine business processes rather than treated as a deadline-driven exercise.”

CONCLUSION: FROM COMPLIANCE TO STRATEGIC GOVERNANCE

The UAE's first corporate tax filing cycle represented more than a regulatory milestone. It provided businesses with an opportunity to assess the strength of their financial reporting, governance frameworks, and tax management practices.

The key message is clear: corporate tax is no longer simply a year-end filing obligation. It is an ongoing business consideration that influences financial reporting, operational processes, corporate structures, and strategic decision-making. Businesses that embed tax considerations into their operating model today will be better positioned to manage risk, optimize opportunities, and meet future compliance expectations as the UAE's tax framework continues to evolve.

Organizations that invest in robust financial systems, strengthen internal controls, and integrate tax governance into their business framework will be best positioned not only to meet future compliance requirements but also to navigate an increasingly sophisticated regulatory environment with confidence.

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Dubai
Office 8, 8th Floor, Al Gurg Tower 3,
Baniyas Road, Rigga Al Buteen
Dubai, UAE

+971 (0)4 294 9203

ADGM
Office 3808-C5.D008, 38th Floor,
Addax Port Office Tower, Tamouh,
Al Reem Island, Abu Dhabi

Dubai
Office 1701 B-012
Fahidi Heights, Al Hamriya
Dubai, UAE

www.raa-auditing.com