

Research Article

An Evaluation of Corporate Tax Policy and Its Effect on the UAE's Fiscal Sustainability and Non-Oil Revenue Generation

Dr. Bijina C K

Assistant Professor Department of management studies Mahe Co- Operative college of Higher Education and Technology, Mahe Affiliated to Pondicherry University

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*Corresponding author: Dr. Bijina C K (bijina21@gmail.com)

Abstract: The introduction of the federal corporate tax regime in the United Arab Emirates (UAE), effective from June 1, 2023, marks a transformative shift in the country's fiscal and regulatory landscape. Designed to align with international tax standards and support the UAE's long-term economic diversification strategy, the new framework imposes compliance obligations on most business entities operating within the country. This article provides a descriptive overview of the key procedures associated with corporate tax compliance in the UAE, including registration, recordkeeping, tax filing, transfer pricing requirements, and penalty enforcement. Unlike previous tax-free norms, the new system mandates that all taxable persons—whether on the mainland, in Free Zones, or operating as branches of foreign entities—must register with the Federal Tax Authority (FTA) and submit annual corporate tax returns. The article outlines how businesses are expected to calculate taxable income based on accounting profit, maintain compliant financial records, and file tax returns within nine months of their financial year-end. Special considerations for Free Zone companies and tax groups are also described. Real-life examples are included throughout the article to illustrate how different types of UAE businesses—from SMEs to multinational groups—are navigating corporate tax compliance. The corporate tax policy is also a strategic response to global economic pressures, the push for tax transparency, and the need for more diversified, stable revenue bases in post-oil economies. This article evaluates the UAE's corporate tax policy from both fiscal and economic perspectives, focusing on its potential contributions to non-oil revenue, its structural design, and broader policy implications.

Keywords: Federal Tax Authority, UAE Corporate Tax Law, corporate tax compliance.

INTRODUCTION

With the introduction of Corporate Tax in the UAE effective from June 1, 2023, businesses operating in the country are now required to adhere to new compliance regulations established by the Federal Tax Authority (FTA). This article offers a descriptive overview of the step-by-step compliance process under the UAE Corporate Tax Law, including registration, filing, documentation, and timelines. The move reflects the UAE's commitment to global tax transparency frameworks, particularly those recommended by the OECD's Base Erosion and Profit Shifting (BEPS) initiative, and the global minimum tax initiative under Pillar Two. While the UAE continues to offer one of the most competitive tax environments globally—with a headline rate of just 9%, and a 0% rate on taxable profits up to AED 375,000—businesses now face a legal obligation to register, report, and comply with new tax procedures, regardless of their size or sector.

This transformation marks the UAE's evolution from a purely tax-free jurisdiction to a structured, rules-based taxation system, placing greater responsibility on business entities to maintain accurate financial records, understand their tax obligations, and file returns on time. From mainland companies and Free Zone entities to foreign branches and certain individuals, the scope of corporate tax is wide, and compliance is no longer optional.

While the tax system has been designed to be business-friendly, non-compliance can lead to significant financial and legal consequences, including monetary penalties and reputational risks. Therefore, a clear understanding of the corporate tax compliance procedures is essential for businesses operating in the UAE.

This article provides a comprehensive and descriptive overview of the key steps and requirements involved in complying with the UAE corporate tax law. From registration and financial recordkeeping to transfer pricing disclosures, filing timelines, exemptions, and penalties, each component of the process is explained with real-life examples to help businesses navigate the transition smoothly and confidently.

Shift from Tax-Free to Tax-Based Model

Historically, the UAE relied heavily on **oil revenues** and **customs duties**, with **VAT (5%)** introduced in 2018. The move to corporate taxation reflects:

- Alignment with **OECD's BEPS framework**
- Need for **sustainable, predictable government income**
- Preparedness for a **post-oil economy**

Primary Objectives of the Corporate Tax Policy

- Generate **non-oil revenue**

- Promote **fair taxation** while maintaining business competitiveness
 - Comply with **international tax standards**
- Prevent **profit shifting** by multinational enterprises

FEATURES OF THE UAE CORPORATE TAX REGIME

Feature	Description
Effective Date	June 1, 2023
Tax Rate	0% on income up to AED 375,000, 9% above that; 15% for certain MNEs
Scope	Mainland companies, Free Zone entities (on non-qualifying income), branches
Exemptions	Personal income, oil/extractive industries (Emirate-level tax), dividends
Administration	Federal Tax Authority (FTA)
Compliance	Mandatory registration, return filing, and recordkeeping

Fiscal Sustainability and Revenue Generation

Reducing Oil Dependence

Oil contributes nearly **30–40% of the UAE’s GDP**. However, fluctuating oil prices make this an unreliable source. The corporate tax policy is expected to gradually **decrease reliance on oil revenues**, especially as green energy transitions accelerate globally.

Enhancing Revenue Stability

Corporate tax provides a **predictable and broad-based revenue source**. Even at a modest 9% rate, with thousands of registered businesses across sectors, the UAE expects to raise **billions of dirhams** annually.

Example:

If a mid-sized business earns AED 1.2 million in net profit:

- 0% on the first AED 375,000
- 9% on AED 825,000 → AED 74,250 tax

Scaled across **hundreds of thousands of similar entities**, this significantly boosts the **federal non-oil budget**.

Long-Term Public Investment

Revenue from corporate tax can support:

- **Infrastructure development**
- **Healthcare, education, and digital transformation**
- **SME support and innovation incentives**

Comparison with GCC and Global Tax Systems

Country	Corporate Tax Rate	VAT	Notes
UAE	9% (standard), 0% (small income)	5%	Business-friendly; new entrant
Saudi Arabia	20%	15%	Longstanding corporate tax
Qatar	10%	5%	Applies to foreign-owned companies
Oman	15%	5%	Full-scope tax model
Global Average	23%+	Varies	UAE remains low-tax jurisdiction

The UAE’s tax regime remains **regionally competitive** and globally attractive for foreign direct investment, particularly for small to mid-sized enterprises and start-ups.

Challenges in Implementation

Administrative Readiness

The FTA must:

- Build audit and enforcement infrastructure
- Ensure EmaraTax platform stability
- Address small business concerns

Costs of consultants, audits, and recordkeeping tools are likely to rise.

Free Zone Uncertainty

Though qualifying income is exempt at 0%, the **definition of "qualifying income"** remains complex and may create confusion or discourage compliance.

Compliance Burden on SMEs

Many UAE-based SMEs lack the accounting systems or in-house expertise to manage tax compliance effectively.

BUSINESS IMPACT AND BEHAVIORAL SHIFTS

Increased Formalization

Corporate tax incentivizes better **accounting, transparency, and governance**, leading to:

- More **formal financial systems**
- Reduced **informal cash-based operations**
- Improved **creditworthiness** for loans and investors

Profit Reinvestment Decisions

Businesses may rethink:

- **Dividend payouts**
- **Executive bonuses**
- **Profit retention vs reinvestment**

Transfer Pricing and Multinational Structures

MNEs will now need to:

- Document **intercompany transactions**
- Justify pricing structures (arm's length principle)
- Submit **Master and Local files**

Future Outlook and Policy Recommendations

Gradual Expansion of Tax Base

The UAE may eventually consider:

- Increasing the corporate tax rate (still competitive at 12–15%)
- Introducing **capital gains tax** or **wealth tax** (long-term)
- Enhancing coverage of **digital economy** and **freelance professionals**

Investment in Taxpayer Education

Regular outreach, multilingual webinars, and SME-specific guidance should be provided by the FTA.

Ensuring Competitive Edge

To maintain its status as a global business hub, the UAE must balance tax efficiency with:

- **Ease of doing business**
- **Startup incentives**
- **Strong dispute resolution frameworks**

Sectoral Analysis of Corporate Tax Impact

Free Zones vs Mainland Companies

The UAE houses over **40 free zones**, offering tax incentives and regulatory benefits. Under the new tax law, businesses within these zones:

- Can still benefit from **0% corporate tax** on *qualifying income*
- Must pay **9%** on *non-qualifying income* (e.g., transactions with mainland companies)

Example:

A tech firm in Dubai Internet City exporting services overseas may enjoy a 0% tax rate, while a logistics company in Jebel Ali Free Zone earning from mainland operations pays 9% on that portion.

Banking and Finance

Banks, both local and foreign, were already taxed under emirate-level laws. The federal corporate tax replaces and standardizes this system.

- Ensures **uniformity** and **simplification** across emirates
- Aligns with **international financial reporting** requirements

Case: A multinational bank operating in Dubai now files a unified corporate tax return with the Federal Tax Authority (FTA), enhancing transparency.

Real Estate and Construction

Real estate developers may face increased tax liability due to high earnings. However, **capital gains** on real estate investments by individuals remain **tax-exempt**, preserving investor interest.

Legal and Regulatory Developments

Transfer Pricing Regulations

Multinational corporations must comply with:

- OECD's **Arm's Length Principle**
- Maintain **Master File, Local File, and CbCR (Country-by-Country Reporting)** if thresholds are met
- This discourages **profit shifting** and enhances **cross-border tax transparency**

Anti-Avoidance Rules

General anti-avoidance provisions ensure:

- No artificial transactions to reduce tax liability
- Penalties for **underreporting, late filing, and non-disclosure**

Revenue Forecast and Fiscal Projections

Though exact revenue figures are not yet public, **Ministry of Finance (MoF)** projections suggest:

- **Billions of dirhams** expected annually
- Will contribute significantly to UAE's **2030 fiscal diversification goals**

A **2024 IMF report** noted that corporate tax in the UAE could account for up to **2–3% of GDP** once fully implemented, enhancing public sector funding capacity.

Alignment with Global Tax Trends

OECD Pillar Two Compliance

The UAE has committed to the **OECD's Global Minimum Tax (15%)** for large MNEs (revenues > €750 million).

- Avoids **blacklisting** by international bodies
- Retains attractiveness while complying with **Base Erosion and Profit Shifting (BEPS)** reforms

Avoidance of Double Taxation

The UAE has over **130 Double Tax Treaties** with countries such as India, UK, USA, and China, offering:

- **Tax credits** for foreign taxes paid
- **Withholding tax relief** for cross-border payments
- Encouragement for **foreign direct investment (FDI)**

Public Perception and Market Response

Initial Concerns

SMEs and sole proprietors were initially wary due to:

- Limited understanding of compliance

- Fears of increased operational costs
- Software and accounting upgrades required

Emerging Support

Once clarified that **personal income, salaries, and investment income** are exempt:

- General sentiment shifted positively
- Investors appreciated the **transparency, predictability, and international legitimacy** the policy brings

Strategic Importance for the UAE

The corporate tax regime strengthens the UAE's position as:

- A **transparent, rule-based economy**
- A **trustworthy partner** in international trade
- A **competitive hub** for diversified industries (beyond oil and gas)

It complements other fiscal tools like:

- **Excise tax** (on tobacco, soft drinks, etc.)
- **Value Added Tax (VAT)**
- **Green taxes** (in discussion) – to support climate goals

KEY FEATURES OF CORPORATE TAX

Corporate Tax Registration

All taxable persons must register for Corporate Tax, regardless of their income level.

Who must register?

- UAE-incorporated entities (LLCs, PJSCs, etc.)
- Branches of foreign companies
- Free Zone entities
- Certain individuals conducting business under a trade license

How to register?

- Registration is done through the **EmaraTax platform** on the FTA website.
- Required documents include trade license, passport copies, Emirates ID, and details of the business.

Deadline:

- The FTA has issued a schedule of deadlines based on license issuance month (e.g., companies licensed in January must register by May 2024).

Example:

Alpha Trading LLC, a Dubai mainland trading company licensed in **March 2021**, must register with the FTA by **May 31, 2024** (as per FTA's staggered registration schedule). The company logs into EmaraTax, uploads its trade license, manager's Emirates ID, and company documents, and receives a **Corporate Tax Registration Number**.

Maintaining Financial Records

Businesses are required to maintain accurate and complete accounting records for at least **7 years**. Records must reflect

all transactions, including:

- Invoices
- Bank statements
- Contracts
- Ledgers and trial balances
- Supporting documents for income and expenses

Note: Financial statements must be prepared in accordance with **IFRS** or another FTA-approved standard.

Example:

Beta Digital Solutions FZ-LLC, located in Dubai Internet City (Free Zone), operates on a fiscal year ending **March 31**. Their first corporate tax return will cover **April 1, 2024 – March 31, 2025**, and must be filed by **December 31, 2025**

Determining Taxable Income

Taxable income is based on the net accounting profit, adjusted for specific inclusions and exclusions such as:

- Non-deductible expenses (e.g., fines, entertainment expenses)
- Exempt income (e.g., dividend income from qualifying shareholdings)
- Transfer pricing adjustments (for related-party transactions)

Filing Corporate Tax Returns

Each registered entity must file an annual corporate tax return with the FTA.

Filing deadline:

- 9 months after the end of the financial year
 - Example: A company with a financial year ending December 31, 2024, must file its return by September 30, 2025.

Filing method:

- Online via the **EmaraTax** portal

What to include:

- Financial statements
- Calculation of taxable income
- Claim for any tax credits, deductions, or exemptions
- Declaration of related party transactions

Example:

Modern Steel Industries LLC has a calendar year-end. Their **first corporate tax return**, for the year ending **December 31, 2024**, must be submitted by **September 30, 2025**, including financials, adjustments, and tax liability calculation.

Payment of Tax

Corporate tax due must be paid along with the return submission. Businesses can pay electronically through various options provided by the FTA.

Example: **Oceanic Shipping Co.** has a net profit of **AED 600,000** in 2024. Tax calculation:

- 0% on first AED 375,000

- 9% on remaining AED 225,000 → **AED 20,250** tax payable

Transfer Pricing Compliance

If a business has related-party transactions, it must ensure compliance with Transfer Pricing regulations.

Requirements:

- Maintain Transfer Pricing Documentation (Local File and Master File)
- Complete a Disclosure Form submitted with the tax return

Thresholds for TP documentation obligations are expected to apply based on revenue and transaction values.

Example:

Star Group Holdings, a parent company of multiple subsidiaries in the UAE and India, must:

- File a **TP Disclosure Form**
- Prepare a **Master File** (group-wide TP policy)
- Maintain a **Local File** showing transactions between UAE subsidiaries and India office

Penalties and Enforcement

Non-compliance can lead to administrative penalties such as:

Offense	Penalty
Failure to register	AED 10,000
Late return filing	AED 500/month (increasing over time)
Failure to maintain records	AED 10,000–20,000
Incorrect tax filing	Varies depending on intent and repetition

The FTA reserves the right to conduct audits and inspections to ensure compliance

Support and Resources

- Contact FTA-approved tax agents
- Use FTA’s official guides and manuals
- Access regular webinars and updates from the FTA

The **Emara Tax** portal offers step-by-step assistance and online tools to guide taxpayers through the process.

CONCLUSION

Corporate tax compliance in the UAE is now an essential responsibility for most businesses. While the system is designed to be transparent and business-friendly, non-compliance can lead to penalties and reputational damage. Companies are advised to establish strong accounting systems, seek professional guidance, and adhere to all timelines set by the FTA to ensure a smooth transition into the tax era. The implementation of corporate tax in the UAE is a major regulatory development, and real-world examples highlight how businesses are adapting. From Free Zone companies to SMEs and multinational groups, every entity must now prioritize compliance through proper

registration, accurate recordkeeping, and timely filing. With proactive steps and proper systems, businesses can maintain full compliance and avoid penalties in the evolving UAE tax landscape. The UAE’s corporate tax policy is a landmark reform that enhances fiscal sustainability while supporting non-oil revenue generation. Although it introduces new obligations for businesses, it also promotes financial transparency, accountability, and global economic integration. With proper administration and phased implementation, the policy is positioned to be a sustainable contributor to the UAE’s diversified and resilient economy.

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