



# Taxation of Natural Persons under the Corporate Tax Law

## Corporate Tax Guide | CTGTNP1

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## 1. Glossary

**Accounting Income:** The accounting net profit or loss for the relevant Tax Period as per the Financial Statements prepared in accordance with the provisions of Article 20 of the Corporate Tax Law.

**Accounting Standards:** The accounting standards specified in Ministerial Decision No. 114 of 2023.

**Administrative Penalties:** Amounts imposed and collected under the Corporate Tax Law or the Tax Procedures Law.

**AED:** The United Arab Emirates dirham.

**Authority:** Federal Tax Authority.

**Business:** Any activity conducted regularly, on an ongoing and independent basis by any Person and in any location, such as industrial, commercial, agricultural, vocational, professional, service or excavation activities or any other activity related to the use of tangible or intangible properties.

**Business Activity:** Any transaction or activity, or series of transactions or series of activities conducted by a Person in the course of its Business.

**Cash Basis of Accounting:** An accounting method under which the Taxable Person recognises income and expenditure when cash payments are received and paid.

**Connected Person:** Any Person affiliated with a Taxable Person as determined in Article 36(2) of the Corporate Tax Law.

**Control:** The direction and influence over one Person by another Person in accordance with the conditions of Article 35(2) of the Corporate Tax Law.

**Corporate Tax:** The tax imposed by the Corporate Tax Law on juridical persons and Business income.

**Corporate Tax Law:** Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses.

**Corporate Tax Payable:** Corporate Tax that has or will become due for payment to the FTA in respect of one or more Tax Periods.



**Dividend:** Any payments or distributions that are declared or paid on or in respect of shares or other rights participating in the profits of the issuer of such shares or rights which do not constitute a return on capital or a return on debt claims, whether such payments or distributions are in cash, securities, or other properties, and whether payable out of profits or retained earnings or from any account or legal reserve or from capital reserve or revenue. This will include any payment or benefit which in substance or effect constitutes a distribution of profits made in connection with the acquisition or redemption or cancellation of shares or termination of other ownership interests or rights or any transaction or arrangement with a Related Party or Connected Person which does not comply with Article 34 of the Corporate Tax Law.

**Double Taxation Agreement:** An international agreement signed by two or more countries for the avoidance of double taxation and the prevention of fiscal evasion on income and capital.

**Exempt Income:** Any income exempt from Corporate Tax under the Corporate Tax Law.

**Family Foundation:** Any foundation, trust or similar entity that meets the conditions of Article 17 of the Corporate Tax Law.

**Financial Statements:** A complete set of statements as specified under the Accounting Standards applied by the Taxable Person, which includes, but is not limited to, statement of income, statement of other comprehensive income, balance sheet, statement of changes in equity and cash flow statement.

**FTA:** Federal Tax Authority, being the Authority in charge of administration, collection and enforcement of federal taxes in the UAE.

**General Interest Deduction Limitation Rule:** The limitation provided under Article 30 of the Corporate Tax Law.

**Government Entity:** The federal government, local governments, ministries, government departments, government agencies, authorities and public institutions of the Federal Government or Local Governments.

**IFRS:** International Financial Reporting Standards.

**IFRS for SMEs:** International Financial Reporting Standard for small and medium-sized entities.



**Interest:** Any amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic financial instrument and other payments economically equivalent to Interest, and any other amounts incurred in connection with the raising of finance, excluding payments of the principal amount.

**Legal Representative:** The guardian or custodian of an incapacitated person or minor, or the bankruptcy trustee appointed by the court for a company that is in bankruptcy, or any other Person legally appointed to represent another Person.

**Licence:** A document issued by a Licensing Authority under which a Business or Business Activity is conducted in the UAE.

**Licensing Authority:** The competent authority concerned with licensing or authorising a Business or Business Activity in the UAE.

**Local Government:** Any of the governments of the Member Emirates of the Federation.

**Market Value:** The price which could be agreed in an arm's-length free market transaction between Persons who are not Related Parties or Connected Persons in similar circumstances.

**Non-Resident Person:** The Taxable Person specified in Article 11(4) of the Corporate Tax Law.

**Permanent Establishment:** A place of Business or other form of presence in the UAE of a Non-Resident Person in accordance with Article 14 of the Corporate Tax Law.

**Person:** Any natural person or juridical person.

**Personal Investment:** Investment activity that a natural person conducts for their personal account that is neither conducted through a Licence or requiring a Licence from a Licensing Authority in the UAE, nor considered as a commercial business in accordance with the Federal Decree-Law No. 50 of 2022 issuing the Commercial Transactions Law.

**Preferred Shares:** The category of capital stock or equity interest which gives its owner priority entitlement to profits and liquidation proceeds ahead of owners of Ordinary Shares.

**Real Estate Investment:** Any investment activity conducted by a natural person related to, directly or indirectly, the sale, leasing, sub-leasing, and renting of land or



real estate property in the UAE that is not conducted, or does not require to be conducted through a Licence from a Licensing Authority.

**Related Party:** Any Person associated with a Taxable Person as determined in Article 35(1) of the Corporate Tax Law.

**Resident Person:** The Taxable Person specified in Article 11(3) of the Corporate Tax Law.

**Revenue:** The gross amount of income derived during a Tax Period.

**Small Business Relief:** A Corporate Tax relief that allows eligible Taxable Persons to be treated as having no Taxable Income for the relevant Tax Period in accordance with Article 21 of the Corporate Tax Law and Ministerial Decision No. 73 of 2023.

**State:** United Arab Emirates.

**State Sourced Income:** Income accruing in, or derived from, the UAE as specified in Article 13 of the Corporate Tax Law.

**Tax Deregistration:** A procedure under which a Person is deregistered for Corporate Tax purposes with the FTA.

**Tax Period:** The period for which a Tax Return is required to be filed.

**Tax Registration:** A procedure under which a Person registers for Corporate Tax purposes with the FTA.

**Tax Registration Number:** A unique number issued by the FTA to each Person who is registered for Corporate Tax purposes in the UAE.

**Tax Return:** Information filed with the FTA for Corporate Tax purposes in the form and manner as prescribed by the FTA, including any schedule or attachment thereto, and any amendment thereof.

**Taxable Income:** The income that is subject to Corporate Tax under the Corporate Tax Law.

**Taxable Person:** A Person subject to Corporate Tax in the UAE under the Corporate Tax Law.

**Turnover:** The gross amount of income derived during a Gregorian calendar year.



**UAE:** United Arab Emirates.

**Unincorporated Partnership:** A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the applicable legislation of the UAE.

**Wage:** The wage that is given to the employee in consideration of their services under the employment contract, whether in cash or in kind, payable annually, monthly, weekly, daily, hourly, or by piece-meal, and includes all allowances, and bonuses in addition to any other benefits provided for, in the employment contract or in accordance with the applicable legislation in the UAE.

**Withholding Tax:** Corporate Tax to be withheld from State Sourced Income in accordance with Article 45 of the Corporate Tax Law.





## 2. Introduction

### 2.1. Overview

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (“Corporate Tax Law”) was issued on 3 October 2022 and was published in Issue #737 of the Official Gazette of the United Arab Emirates (“UAE”) on 10 October 2022.

The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits (“Corporate Tax”) in the UAE.

The provisions of the Corporate Tax Law shall apply to Tax Periods commencing on or after 1 June 2023.

### 2.2. Purpose of this guide

This guide is designed to provide general guidance on the taxation of natural persons under the Corporate Tax Law. It provides readers with an overview of:

- When does the Corporate Tax Law apply to natural persons?
- Calculation of Corporate Tax for natural persons.
- Interactions with other Businesses.
- Corporate Tax compliance for natural persons.

### 2.3. Who should read this guide?

The guide should be read by any natural person, to help them understand how the provisions of the Corporate Tax Law apply to a natural person. It is intended to be read in conjunction with the Corporate Tax Law, the implementing decisions and other relevant guidance published by the FTA.

### 2.4. How to use this guide

The relevant articles of the Corporate Tax Law and the implementing decisions are indicated in each section of the guide.

It is recommended that the guide is read in its entirety to provide a complete understanding of the definitions and interactions of the different rules. Further guidance on some of the areas covered in this guide can be found in other topic specific guides.

In some instances, simple examples are used to illustrate how key elements of the Corporate Tax Law apply to natural persons. The examples in the guide:



- show how these elements operate in isolation and do not show the interactions with other provisions of the Corporate Tax Law that may occur. They do not, and are not intended to, cover the full facts of the hypothetical scenarios used nor all aspects of the Corporate Tax regime, and should not be relied upon for legal or tax advice purposes; and
- are only meant for providing the readers with general information on the subject matter of this guide. They are exclusively intended to explain the rules related to the subject matter of this guide and do not relate at all to the tax or legal position of any specific juridical or natural persons.

## 2.5. Legislative references

In this guide, the following legislation will be referred to as follows:

- Federal Law No. 5 of 1985 on the Issuance of Civil Transactions Law, and its amendments is referred to as “Civil Transactions Law”;
- Federal Decree-Law No. 19 of 2020 on Trust is referred to as “Trust Law”;
- Federal Decree-Law No. 28 of 2022 on Tax Procedures is referred to as “Tax Procedures Law”;
- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Corporate Tax Law”;
- Federal Decree-Law No. 50 of 2022 issuing the Commercial Transactions Law is referred to as “Commercial Transactions Law”;
- Cabinet Decision No. 49 of 2023 on Specifying the Categories of Businesses or Business Activities Conducted by a Resident or Non-Resident Natural Person that are Subject to Corporate Tax is referred to as “Cabinet Decision No. 49 of 2023”;
- Cabinet Decision No. 74 of 2023 on the Executive Regulation of Federal Decree-Law No. 28 of 2022 on Tax Procedures is referred to as “Cabinet Decision No. 74 of 2023”;
- Cabinet Decision No. 85 of 2022 on Determination of Tax Residency is referred to as “Cabinet Decision No. 85 of 2022”;
- Cabinet Decision No. 116 of 2022 on Determination of the Amount of Annual Income Subject to Corporate Tax is referred to as “Cabinet Decision No. 116 of 2022”;
- Ministerial Decision No. 27 of 2023 on Implementation of Certain Provisions of Cabinet Decision No. 85 of 2022 on Determination of Tax Residency is referred to as “Ministerial Decision No. 27 of 2023”;
- Ministerial Decision No. 73 of 2023 on Small Business Relief for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 73 of 2023”;
- Ministerial Decision No. 82 of 2023 on the Determination of Categories of Taxable Persons Required to Prepare and Maintain Audited Financial Statements for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 82 of 2023”;



- Ministerial Decision No. 114 of 2023 on the Accounting Standards and Methods for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 114 of 2023”;
- Ministerial Decision No.134 of 2023 on the General Rules for Determining Taxable Income for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 134 of 2023”; and
- Federal Tax Authority Decision No. 6 of 2023 on Tax Deregistration Timeline for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 6 of 2023”.

## 2.6. Status of this guide

This guidance is not a legally binding statement, but is intended to provide assistance in understanding the implications for a natural person of the Corporate Tax regime in the UAE. The information provided in this guide should not be interpreted as legal or tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every case. It is based on the legislation as it stood when the guide was published. Each Person’s own specific circumstances should be considered.

The Corporate Tax Law, the implementing decisions and the guidance materials referred to in this document will set out the principles and rules that govern the application of Corporate Tax. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.



## 3. When does the Corporate Tax Law apply to natural persons?

### 3.1. Who is a natural person?

The term natural person takes its ordinary meaning, and refers to a living human person of any age, whether resident in the UAE or elsewhere. For minors or incapacitated individuals, the Corporate Tax obligations shall be fulfilled by their Legal Representative.<sup>1</sup>

### 3.2. Corporate Tax Law and natural persons

In order to level the playing field between incorporated businesses and unincorporated businesses conducted by individuals, the Corporate Tax Law applies to natural persons to the extent they are conducting a Business or Business Activity in the UAE, have a Permanent Establishment in the UAE, or derive State Sourced Income (i.e. income that is accrued in, or derived from, the UAE).

However, certain types of income are always exempt from Corporate Tax for natural persons. For a natural person, the Corporate Tax Law does not apply to their employment income, Personal Investment income, or Real Estate Investment income. These types of income are discussed in more detail below in the relevant sections.

Furthermore, international agreements, including Double Taxation Agreements, prevail where there is inconsistency between the provisions of the Corporate Tax Law and the agreement.<sup>2</sup> Therefore, the position under applicable Double Taxation Agreements between the UAE and other jurisdictions should be considered in determining the residence and extent of UAE Corporate Tax for a natural person.

### 3.3. Key considerations

The following considerations are key when determining whether a natural person will be subject to Corporate Tax:

1. A natural person who conducts a Business or Business Activity in the UAE is considered to be a Taxable Person, and a Resident Person as defined in the Corporate Tax Law.<sup>3</sup>

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<sup>1</sup> Article 7 of the Tax Procedures Law and Cabinet Decision No. 74 of 2023.

<sup>2</sup> Article 66 of the Corporate Tax Law.

<sup>3</sup> Article 11(3) of the Corporate Tax Law.



2. A natural person is subject to Corporate Tax on their Business or Business Activity only where the total Turnover derived from Business or Business Activities conducted in the UAE exceeds AED 1 million within a Gregorian calendar year.<sup>4</sup>
3. For a natural person, income from the following categories is not considered as arising from a Business or Business Activity, and is disregarded when determining Turnover and not subject to Corporate Tax, regardless of the amount:<sup>5</sup>
  - Wage,
  - Personal Investment income, and
  - Real Estate Investment income.

Where the Turnover from Business or Business Activities conducted in the UAE exceeds AED 1 million within a Gregorian calendar year, the natural person (whether resident or non-resident) is required to comply with the obligations of the Corporate Tax Law, including registration for Corporate Tax purposes with the FTA, submitting Corporate Tax Returns and paying Corporate Tax (see Section 6).

### 3.4. Natural persons: resident and non-resident

For natural persons, physical residence in the UAE, whether by virtue of citizenship or a residency visa, is not the criterion that determines whether they are Resident Persons for Corporate Tax purposes, or whether their income is taxable. Instead, the approach is as follows:

1. When a natural person resides in the UAE and they conduct Business or Business Activities in the UAE, they are considered to be a Resident Person and, therefore, a Taxable Person for Corporate Tax purposes, subject to the key considerations covered above (in Section 3.3).
2. When a natural person resides outside the UAE – for instance, having their home in another country – they become a Resident Person for Corporate Tax purposes if they conduct Business or Business Activity in the UAE, subject to the key considerations covered above (in Section 3.3). Accordingly, under the UAE Corporate Tax Law, and if the natural person has not invoked the application of an applicable Double Taxation Agreement, any natural person conducting Business or Business Activity in the UAE will be a Resident Person for purposes of the Corporate Tax Law.

Note that, where a natural person resides in a country that has an applicable Double Taxation Agreement with the UAE, and as a result of the application of that Double Taxation Agreement the natural person is not resident in the UAE but has a Permanent Establishment in the UAE (and the Turnover attributable to the Permanent Establishment exceeds AED 1 million within a Gregorian calendar year), they would

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<sup>4</sup> Article 2(1) of Cabinet Decision No. 49 of 2023.

<sup>5</sup> Article 2(2) of Cabinet Decision No. 49 of 2023.



be a Non-Resident Person and Taxable in the UAE as defined in Article 11(4) of the Corporate Tax Law.

This guide only addresses the tax implications for natural persons under the UAE Corporate Tax Law, i.e. without consideration of the potential implications of a Double Taxation Agreement.

A natural person residing outside the UAE may also become a Non-Resident Taxable Person if they derive State Sourced Income, which is income that accrues in, or is derived from, the UAE, but is not derived through a Business or Business Activity conducted by the natural person in the UAE (see Section 3.9).

Natural persons who are Non-Resident Persons should assess the potential implications of a Double Taxation Agreement, taking into account relevant facts and circumstances and read with Cabinet Decision No. 85 of 2022 and Ministerial Decision No. 27 of 2023, where relevant.

#### **Example 1: A natural person present in the UAE for client meeting**

A natural person, Mrs. Z, employed by a foreign company based outside the UAE, visits the UAE for 5 days to meet with clients, present new products, and visit production facilities.

Mrs. Z is present in the UAE in their capacity as an employee. She is not conducting a Business or Business Activity in the UAE on her own account, and, therefore, Mrs. Z is not considered a Resident Person under the Corporate Tax Law.

#### **Example 2: A natural person working from the UAE**

A natural person, Mr. X on a visit visa to the UAE, sets up a small workshop to restore antique jewellery. Working for himself, he generates a Turnover of AED 1,700,000 through selling items over several months in a Gregorian calendar year.

Mr. X is considered to be a Resident Person, as he is conducting a Business or Business Activity in the UAE on his own account. His Turnover for the year is in excess of AED 1 million, so the Business or Business Activity would be subject to Corporate Tax.

Mr. X will be a Resident Person for Corporate Tax purposes.

Note that whether a natural person is resident for Corporate Tax purposes is not affected by whether immigration, work permit and Business licensing requirements



have been correctly dealt with or not.

### 3.5. What income is considered taxable for natural persons?

Only income derived from a Business or Business Activity conducted in the UAE by a natural person is subject to Corporate Tax.

However, if a natural person's total Turnover from Business or Business Activities conducted in the UAE does not exceed AED 1 million within a Gregorian calendar year, they do not have to register for or pay Corporate Tax on their income from the Business or Business Activities. The Turnover may include "in-kind" payments which are valued at Market Value.

For Corporate Tax purposes, Wage (employment income), Personal Investment income, and Real Estate Investment income derived by a natural person are out of scope of Corporate Tax and not taken into account for the purpose of determining the AED 1 million threshold.

#### **Example 3: A natural person providing consultancy services (self-employed)**

A natural person, Mrs. A, based in the UAE, provides consultancy services to a third-party company based outside the UAE and gets paid AED 1,200,000 for these services within a Gregorian calendar year. After setting off their deductible costs, her net profit is AED 900,000.

Mrs. A works for herself, and is not employed by the foreign company, so the income derived is not in the nature of a Wage. The income also does not have the nature of Personal Investment income or Real Estate Investment income.

In this case, the income from the consultancy services is that of a Business or Business Activity. As the Turnover exceeds AED 1 million, Mrs. A's income from the consultancy services is subject to Corporate Tax.

Assuming that all costs are deductible for Corporate Tax purposes, Mrs. A's Taxable Income is AED 900,000. Note there is no exemption for the profit relating to the first AED 1 million of Turnover. However, the Mrs. A will be able to benefit from the 0% rate on the first AED 375,000 of Taxable Income.

In addition, as the Revenue (AED 1,200,000) of the Mrs. A does not exceed AED 3 million and assuming that the Revenue for previous Tax Periods also does not exceed AED 3 million, she can elect for Small Business Relief. This would mean she is treated as not having derived any Taxable Income for the relevant Tax Period



(see Section 3.12).

#### **Example 4: A natural person earning money as an influencer**

A natural person, Mr. B, based in the UAE, creates content on various social media platforms. They earn money from and through these platforms. One source of income comes from collaboration with brand owners to create sponsored content and from participating in brand campaigns. In such collaborations, they negotiate payment terms with the brand, which involve a commission and “in-kind” consideration, such as receiving products from the brand owners.

During the 2024 Gregorian calendar year, Mr. B derives Turnover of AED 3,400,000 including the Market Value of “in-kind” payments.

Mr. B is considered to be a Resident Person, as he is conducting a Business or Business Activity in the UAE on their own account. His Turnover for the year is in excess of AED 1 million, so the Business or Business Activity would be subject to Corporate Tax.

#### **Example 5: A natural person providing consultancy services (employed)**

A natural person, Miss C, is employed by Company A, a company incorporated and effectively managed and controlled outside the UAE. Miss C provides consultancy services to an unrelated company also based outside the UAE. Miss C does this while being physically present in offices rented by Company A in the UAE. Company A gets paid AED 2 million for the consultancy services rendered by the natural person.

In this case, Miss C is not considered to be a Taxable Person as they are an employee of Company A and not conducting Business Activity on their own account. However, Company A may be subject to Corporate Tax as a Non-Resident Person, if it is considered to have a Permanent Establishment in the UAE.

#### **Example 6: A natural person receiving investment income**

A retired natural person, Mr. D, in the UAE earns portfolio income from money invested through a UAE based asset management company. This is Mr. D’s only source of income. Mr. D does not require a Licence from a Licensing Authority to make their investments.





Mr. D's income is exempt as it is Personal Investment income. Mr. D is not a Taxable Person and the portfolio income is not subject to Corporate Tax.

### 3.6. What is a Business and a Business Activity

The Corporate Tax Law provides the definitions of Business and Business Activity (see Glossary above) that fall under the scope of Corporate Tax in the UAE.<sup>6</sup>

Business Activity has a very comprehensive definition and includes any transaction or activity, or series of transactions or activities, conducted by a Person in the course of its Business.

Business is defined as any activity conducted regularly, on an ongoing and independent basis. The definition provides the following examples for activities constituting a Business: *“industrial, commercial, agricultural, vocational, professional, service or excavation activities”*. The definition also mentions that any other activity related to the use of tangible or intangible properties constitutes a Business.

Nevertheless, “ongoing” should not be interpreted in such a way so as to exclude short-term activities. As such, short-term activities can be within the scope of Corporate Tax on the basis that they constitute a *“transaction or activity, or series of transactions or series of activities”* as prescribed in the definition. The definition allows for a short-term commercial activity to be considered a Business for Corporate Tax purposes. This is why the Corporate Tax Law refers to the “conduct” of a Business rather than the “carrying on” of a Business.

Examples of activities conducted by a natural person that are not typically considered a Business or a Business Activity would include lottery winnings or game show prizes.

However, whether or not a Business is conducted on an ongoing basis will be evaluated on a case-by-case basis.

### 3.7. Business or Business Activities that are subject to Corporate Tax

Business or Business Activities conducted by a natural person in the UAE are subject to Corporate Tax if the total Turnover exceeds AED 1 million within a Gregorian calendar year.<sup>7</sup> Turnover does not include gross income derived from the sources previously noted and further described in Section 3.8 below.

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<sup>6</sup> Article 1 of the Corporate Tax Law.

<sup>7</sup> Article 2(1) of Cabinet Decision No. 49 of 2023.



The term Turnover is defined as the gross amount of income derived during a Gregorian calendar year.<sup>8</sup> This means that the Turnover is the sum of all the income before any costs are deducted.<sup>9</sup>

Where a natural person is considered a Resident Person and the total Turnover derived from Business or Business Activities conducted in the UAE exceeds AED 1 million, their Taxable Income will include income derived from the UAE and from outside the UAE but only insofar as it relates to the Business or Business Activities conducted by the natural person in the UAE.<sup>10</sup>

In other words, if a natural person conducts a Business or Business Activity while being present in the UAE, their Taxable Income (if any) will include income derived from sources (for example, clients) located in the UAE and outside of the UAE, as long as the income relates to the Business or Business Activities they are conducting in the UAE.

For the purpose of determining whether the income is related to the Business or Business Activity conducted in the UAE, it would be relevant to consider (among others), the following elements:

- whether persons who contributed to producing or selling the goods or services are managed, working from or residents of the UAE,
- whether contracting or Business development related to selling the goods or providing the services was conducted from the UAE, or
- whether the assets that contributed to the production of the goods or rendering of the services are located in the UAE.

On the other hand, in general terms, where a natural person is considered a Non-Resident Person and the total Turnover derived from Business or Business Activities conducted in the UAE exceeds AED 1 million, such natural person's Taxable Income would be limited to income derived from the UAE.

**Example 7: A natural person conducting Business overseas with Business Activity in the UAE**

A natural person, Mr. E, conducts a Business in Country A as an architect and generates the equivalent of AED 950,000 in providing architectural services. Mr. E travels to the UAE on a regular basis with a view to establishing himself as an architect in the UAE, and whilst in the UAE, he provides architectural services to the value of AED 100,000.

<sup>8</sup> Article 1 of Cabinet Decision No. 49 of 2023.

<sup>9</sup> Further guidance on Turnover is provided later in this Section.

<sup>10</sup> Article 12(2) of the Corporate Tax Law.



Mr. E is considered to be a Resident Person in the UAE, as he is conducting a Business or Business Activity in the UAE. His worldwide Turnover for the year is in excess of AED 1 million, however, he is not subject to Corporate Tax as the Turnover derived from Business or Business Activity in the UAE does not exceed AED 1 million. The income derived from activities conducted in Country A does not result from the use of assets or other resources located in the UAE. Accordingly, that income is not related to the Business or Business Activity conducted in the UAE.

When calculating the Turnover, Mr. E should only include income derived from the UAE or related to the Business or Business Activity in the UAE.

Accordingly, wholly separate Business and Business Activity which are not related or connected to the Business conducted in the UAE will not be taxable in the UAE and, therefore, will not be considered for the AED 1 million threshold. Thus, Mr. E will not have to register for Corporate Tax purposes.

If the income of AED 950,000 was related to the Business or Business Activity conducted in the UAE, then Mr. E would be required to register for Corporate Tax purposes as the AED 1 million threshold would be exceeded.

#### **Example 8: Natural person deriving income from consultancy services**

A natural person, Mrs. F, provides consultancy services in the UAE, and is, therefore, considered a Resident Person for Corporate Tax purposes.

While based in the UAE, Mrs. F visits another jurisdiction to provide consultancy services for a foreign company based in that other jurisdiction. The consultancy services do not form part of a separate Business.

The income earned from the foreign company shall be included in Mrs. F's Taxable Income as it is not derived from a separate Business that she conducts outside the UAE.

#### **Example 9: A natural person practising as a physiotherapist in the UAE**

A natural person, Mr. G, works as a physiotherapist in Country A, where he has established his own clinic and has employed a secretary and a clinic assistant.

Mr. G comes to the UAE and establishes a physiotherapy clinic after receiving the



necessary Licence from the relevant UAE Licensing Authority. Mr. G also continues to provide therapy sessions to his regular patients in his clinic in Country A while he is back home.

Mr. G is considered to be a Resident Person in the UAE, as he is conducting Business or Business Activity in the UAE.

Due to his work in the UAE and reputation for providing high-quality services, Mr. G receives requests to provide treatment sessions from therapy centres in various Gulf countries.

In this scenario, when calculating the Mr. G's Turnover, both the income derived from the UAE and from other Gulf countries (not being considered as Wage) should be included as they relate to Business or Business Activities conducted in the UAE.

The income derived from the Gulf countries relates to the Business or Business Activity in the UAE because those services are attributable to the UAE practice.

As for the income derived in Country A, it is not related to Mr. G's Business in the UAE since it was solely earned from regular patients of the separate Business in that Country.

### **3.8. Exclusions from Corporate Tax**

For a natural person, the income from specific activities (Wage, Personal Investment income and Real Estate Investment income) is not subject to Corporate Tax as these sources are not considered as Business or Business Activities under the Corporate Tax Law. This income is also not taken into account in determining if a natural person has derived Turnover in excess of AED 1 million in a Gregorian calendar year from Business or Business Activities conducted in the UAE.

#### **3.8.1. Wage**

Wage, including any compensation or benefit received, whether in cash or in-kind, by any employee from their employer is not subject to Corporate Tax. Thus, a salary or other form of remuneration received by a natural person as an employee from their employer would not fall within the scope of Corporate Tax. The question of whether a natural person is an employee and earns a salary or other form of remuneration as such, is a question of fact to be determined on a case-by-case basis.

A natural person appointed as a director, for example as a member of the board of directors of a Public Joint Stock Company, may receive fees and other similar payments for carrying out this role, either in the course of their employment or as an



independent party appointed to a board of directors. Generally, director fees will not be considered as a Business or Business Activity, and therefore would not be subject to Corporate Tax.

**Example 10: A natural person who is an employee and member of a board of directors**

A natural person, Mr. H, works for a company based in the UAE.

Mr. H holds a senior management position in the company and plays a crucial role in its day-to-day operations. In addition to his employment responsibilities, he is a member of the board of directors.

As an employee, Mr. H receives a market rate salary for his executive role, which is determined by his employment contract and is subject to applicable employment laws.

As a board member of the company, Mr. H also receives fees from the company for attending board meetings.

The salary received by Mr. H is in the nature of a Wage and accordingly is not subject to Corporate Tax.

In addition, the remuneration received by Mr. H in their capacity as a member of the board of directors in the circumstances as set out above, would typically be considered a Wage in the same way as an employee's salary and accordingly is not subject to Corporate Tax.

### 3.8.2. Personal Investment income

Personal Investment income is not subject to Corporate Tax when derived by natural persons from investment activity conducted in their personal capacity that is neither conducted through a Licence or requiring a Licence from a Licensing Authority, nor considered as a commercial business in accordance with the Commercial Transactions Law.

To conduct Business in the UAE, a Licence may be required. The nature of the economic activity defines the type of Licence required. In general, there are different types of Licences, including industrial, commercial, crafts, tourism, agricultural, and professional. However, in addition to these Licences, other types of Licences may be issued by Local Governments, for example, a freelance Licence.



As mentioned above, Personal Investment is an investment activity that a natural person conducts for their personal account and should not be an activity that is “considered as a commercial business” in accordance with the Commercial Transactions Law.<sup>11</sup> This law establishes various criteria for identifying a commercial business.<sup>12</sup> Broadly, a commercial business is defined as work practiced by a trader in relation to their trade, or speculation works practiced by a person, whether or not a trader, for the purpose of realising a profit, work considered by the Commercial Transactions Law as commercial business (by virtue of its nature, if carried out as an occupation, or equivalent), or work associated with or facilitating a commercial business.<sup>13</sup>

However, where an activity is not considered a commercial business as per the Commercial Transactions Law, it will not automatically be considered a Personal Investment activity, unless it is conducted on the person's personal account and is neither conducted through a Licence or required to be conducted through a Licence.

For details of the list of the categories mentioned above, please refer to Annexure 1 and to the Commercial Transactions Law.

#### **Example 11: A natural person investing in listed securities**

A natural person, Mrs. J, based in the UAE, invests (using personal savings) in listed securities on a stock exchange where she earns income from her investment. She does not require a Licence to make such an investment.

The income derived by Mrs. J is Personal Investment income and accordingly is not subject to Corporate Tax.

#### **Example 12: A natural person selling his personal car**

A natural person, Miss K, based in the UAE, sells her personal luxury car for AED 1,500,000. The car is rare, and she makes a profit of AED 200,000.

The income derived by Miss K due to the sale of the car is not subject to Corporate Tax as the sale of the car is on the personal account of the natural person and does not require a Licence.

<sup>11</sup> Article 1 of Cabinet Decision No. 49 of 2023.

<sup>12</sup> Article 4 of the Commercial Transactions Law.

<sup>13</sup> Articles 5, 6 and 7 of the Commercial Transactions Law.



### **Example 13: A natural person selling artwork**

A natural person, Mr. L, based in the UAE, observes that the prices of the artwork of a specific UAE artist have been increasing for more than a decade. Mr. L sets up a small office at home and starts buying the artworks from the UAE in order to sell them to clients located outside of the UAE through a network of partners located in different countries. The total Turnover from this activity amounts to AED 5 million within a Gregorian calendar year.

The income derived by Mr. L due to the sale of the artwork will be subject to Corporate Tax as it is considered to be the conduct of a Business or Business Activity.

### **3.8.3. Real Estate Investment income**

Real Estate Investment income is not subject to Corporate Tax when derived by natural persons if it is related, directly or indirectly, to the selling, leasing, sub-leasing, and renting of land or real estate property in the UAE that is not through a Licence nor requiring a Licence from a Licensing Authority.

### **Example 14: A natural person selling a residential apartment**

A natural person, Mr. M, based in the UAE, sells his residential apartment for AED 2,500,000. As the value of the apartment had increased since he bought it, Mr. M makes a profit of AED 500,000.

The income derived by the Mr. M due to the sale of their apartment is not subject to Corporate Tax as he was not required to obtain a Licence to execute the sale.

### **Example 15: A natural person earning rental income**

A natural person, Mrs. N, based in the UAE, owns several properties located in the UAE and rents them out for AED 1,200,000 per calendar year.

As long as such activity is not required to be conducted through a Licence from a Licensing Authority, the income derived by Mrs. N is not subject to Corporate Tax as the activity is Real Estate Investment.



### 3.9. Natural persons deriving State Sourced Income

State Sourced Income is defined as income which is:<sup>14</sup>

- derived from a UAE Resident Person,
- derived from a UAE Permanent Establishment of a Non-Resident Person, or
- accrued in or derived from activities performed, assets located, capital invested, rights used, or services performed or benefitted from in the UAE.

State Sourced Income includes, but is not limited to, Dividends from UAE companies, payments from UAE Businesses, royalties paid from the UAE and Interest from a UAE bank account. The following are all examples of State Sourced Income:<sup>15</sup>

- Income from the sale of goods in the UAE,
- Income from the provision of services that are rendered or utilised or benefitted from in the UAE,
- Income from a contract insofar as it has been wholly or partly performed or benefitted from in the UAE,
- Income from movable or immovable property in the UAE,
- Income from the disposal of shares or capital of a Resident Person,
- Income from the use or right to use in the UAE, or the grant of permission to use in the UAE, any intellectual or intangible property,
- Interest that meets any of the following conditions:
  - The loan is secured by movable or immovable property located in the UAE,
  - The borrower is a Resident Person, or
  - The borrower is a Government Entity.
- Insurance or reinsurance premiums in any of the following instances:
  - The insured asset is located in the UAE,
  - The insured Person is a Resident Person, or
  - The insured activity is conducted in the UAE.

Certain State Sourced Income, derived by a Non-Resident Person including a natural person, that is not attributable to a Permanent Establishment, may be subject to Withholding Tax. The current Withholding Tax rate is 0%.<sup>16</sup>

The Withholding Tax rate on State Source Income is currently 0%.

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<sup>14</sup> Article 13(1) of the Corporate Tax Law.

<sup>15</sup> Article 13(2) of the Corporate Tax Law.

<sup>16</sup> Article 45 of the Corporate Tax Law.





However, if the natural person is a Resident Person (or is a Non-Resident Person having a Permanent Establishment in the UAE), their related income would be subject to Corporate Tax at the applicable rate (rather than Withholding Tax). This would require them to register with the FTA for Corporate Tax purposes, subject to the key considerations covered in Section 3.3.

### 3.10. Computation of Turnover

For the purposes of calculating the Turnover of natural persons, gross income derived during a Gregorian calendar year from all the categories of Businesses or Business Activities that they conduct should be taken into consideration. For example, income derived from a sole proprietorship or their share of income from a fiscally transparent Unincorporated Partnership would need to be combined.

Income derived from Wage, Personal Investments, or Real Estate Investments is excluded when determining the Turnover.

For the purpose of determining whether the natural person's Turnover exceeds the threshold of AED 1 million, the Turnover is that of the Gregorian calendar year in question.<sup>17</sup> Turnover should be measured on an accrual basis of accounting except where the natural person applies the Cash Basis of Accounting.<sup>18</sup>

#### **Example 16: Natural person deriving income from sales of goods and receiving a Wage**

A natural person, Mr. O, based in the UAE, earns the following income during a Gregorian calendar year:

- Annual salary from an employment contract: AED 300,000
- Bonuses in accordance with the employment contract: AED 150,000
- Turnover from baking and selling cupcakes: AED 900,000

Only the income derived from the sale of the cupcakes should be taken into consideration when calculating the total Turnover as the rest of the income is Wage and should not be taken into account.

The Turnover is AED 900,000 and does not exceed the threshold of AED 1 million. Therefore, Mr. O is not subject to Corporate Tax in the calendar year.

<sup>17</sup> Article 2(1) of Cabinet Decision No. 49 of 2023.

<sup>18</sup> Article 2 of Ministerial Decision No. 114 of 2023.



### 3.11. Corporate Tax rate for natural persons

The below rates apply to the total Taxable Income of a natural person, i.e. the Taxable Income derived from all Businesses or Business Activities conducted in the UAE by such natural person and not the Taxable Income of each Business or Business Activity separately.

When the Turnover derived by the natural person in a Gregorian calendar year exceeds the AED 1 million, the Taxable Income of a natural person will be subject to Corporate Tax at the following rates:<sup>19</sup>

- 0% on the portion of the Taxable Income not exceeding AED 375,000.
- 9% on the portion of the Taxable Income that exceeds AED 375,000.

#### **Example 17: Natural person receives a Wage and conducts Business in the UAE**

A natural person, Miss P, based in the UAE, conducted the following activities during a Gregorian calendar year:

- Worked for 3 months under an employment contract and earned AED 200,000.
- Worked as a freelance graphic designer in the UAE generating AED 1,600,000 Turnover (assume AED 400,000 of deductible expenses).
- Ran a sole proprietorship that sold mobile phones and accessories in the UAE and overseas. The gross income from domestic sales amounted to AED 1,200,000, and AED 800,000 from overseas sales (assuming AED 1,400,000 of deductible expenses).

#### Step 1 – Calculation of the Turnover

The income derived from freelance activity, and from the sole proprietorship (both domestic and overseas sales, as the latter is related to the activity conducted in the UAE) are taken into consideration in computing the Turnover. Wage income is not considered. Therefore:

Turnover = 1,600,000 + 1,200,000 + 800,000 = AED 3,600,000. As such, the natural person is considered to conduct Business or Business Activities that are subject to Corporate Tax, and the Corporate Tax is computed on the Taxable Income, which is the Accounting Income after the relevant required adjustments as per the Corporate Tax Law.

<sup>19</sup> Article 3 of the Corporate Tax Law and Articles 2(1) and 3 of Cabinet Decision No. 116 of 2022.



### Step 2 – Calculation of Taxable Income

Accounting Income = Turnover – expenses = 3,600,000 – (400,000 + 1,400,000) = AED 1,800,000.

Adjustments = 0. In this case it is assumed no adjustments are required.

Taxable Income = Accounting Income +/- adjustments = 1,800,000 +/- 0 = AED 1,800,000.

### Step 3 – Calculation of the Corporate Tax

AED 375,000 x 0% = 0.

(Taxable Income over AED 375,000): 1,425,000 x 9% = AED 128,250.

Corporate Tax Payable = AED 128,250.

## 3.12. Interaction with Small Business Relief

It is possible for a natural person to elect for Small Business Relief under Article 21 of the Corporate Tax Law. The relevant conditions need to be satisfied, including the fact that the Revenue from the taxable Business or Business Activity of the natural person in the relevant Tax Period and previous Tax Periods does not exceed AED 3 million for each Tax Period.<sup>20</sup>

Note that the Small Business Relief is based on Revenue, where Revenue is defined as the gross amount of income derived during a Tax period. A natural person's Tax Period is the Gregorian calendar year (see Section 6.3). Thus, a natural person's Revenue will be the same as Turnover, being the gross amount of income derived during a Gregorian calendar year.

### Example 18: Natural person electing for Small Business Relief

A natural person, Mr. Q, based in the UAE, is self-employed and earns the following income during a calendar year:

- Real Estate Investment income: AED 2,300,000
- Income derived from providing consulting services: AED 1,900,000

Only the income derived from providing consulting services should be taken into consideration when calculating Turnover. The Real Estate Investment income is

<sup>20</sup> Article 2(1) of Ministerial Decision No. 73 of 2023.



not derived through a Licence and, thus, is not considered to be a Business or Business Activity for Mr. Q and, therefore, is not included in the Turnover.

The Turnover is AED 1,900,000. This exceeds the AED 1 million threshold but is below the AED 3 million threshold for Small Business Relief.

In this case, Mr. Q will have to register with the FTA for Corporate Tax purposes; and he may elect for Small Business Relief as his Turnover does not exceed AED 3 million assuming that the Turnover from previous Tax Periods does not exceed AED 3 million and all other requirements for this relief are met.



## 4. Corporate Tax calculations for natural persons

### 4.1. Interest deduction

Where a natural person is subject to Corporate Tax, the General Interest Deduction Limitation Rule does not apply.<sup>21</sup> This rule would otherwise cap Interest deductions at the higher of AED 12,000,000 or 30% of their taxable earnings before the deduction of Interest, tax, depreciation and amortisation (EBITDA).<sup>22</sup>

Instead, for a natural person, provided that the Interest expenditure is incurred wholly and exclusively for the purposes of the natural person's Business, and meets the arm's length principle, the Interest expenditure will be fully deductible.<sup>23</sup>

#### **Example 19: A natural person taking a loan not wholly and exclusively for business purposes**

A natural person, Mrs. R, based in the UAE, provides advisory services to various UAE based companies and earns AED 4 million for these services in a Gregorian calendar year.

Mrs. R takes a loan to purchase the apartment she lives in, as well as to purchase a new office premises to work from.

In this case, Mrs. R will not be entitled to deduct the Interest expense relating to the portion of the loan applied to fund the purchase of the apartment. However, she should apportion the Interest expense as she would be entitled to deduct the Interest expense relating to the portion of the loan applied to the purchase of the office.

This is on the basis that the latter cost is incurred wholly and exclusively for the purposes of Mrs. R's Business, but the former is not.

#### **Example 20: General Interest Deduction Limitation Rule not applicable to natural persons**

A natural person, Mr. S, based in the UAE, conducts a licensed real estate activity, buying and selling UAE real estate properties, and earns gross income of AED 104 million from sales in the calendar year.

<sup>21</sup> Article 30(6)(c) of the Corporate Tax Law.

<sup>22</sup> Article 30(1) and 30(3) of the Corporate Tax Law and Article 8 of Ministerial Decision no. 126 of 2023.

<sup>23</sup> Article 28(1) of the Corporate Tax Law.



Assuming the EBITDA (earnings before the deduction of Interest, tax, depreciation and amortisation) of Mr. S is AED 30 million and the incurred Interest expenses related to this activity for the same calendar year amount to AED 15 million.

The Interest expense is more than 30% of EBITDA (AED 30 million x 30% = AED 9 million) as well as the de minimis of AED 12 million. However, the Interest expense is fully deductible as the General Interest Deduction Limitation Rule does not apply to natural persons.

#### 4.2. General deduction rules relating to Business expenditure

Expenditure incurred by a natural person wholly and exclusively for the purposes of his or her Business that is not capital in nature shall be deductible in the Tax Period in which it is incurred. This general rule is subject to certain limitations. Accordingly, no deduction is allowed in relation to the following:<sup>24</sup>

- a. Expenditure not incurred for the purposes of the natural person's Business.
- b. Expenditure incurred in deriving Exempt Income (other than Interest expenditure).
- c. Losses not connected with or arising out of the natural person's Business.

If expenditure is incurred for more than one purpose, a deduction would be allowed for any identifiable part or proportion of the expenditure incurred wholly and exclusively for the purposes of deriving Taxable Income, or if not incurred wholly and exclusively for the purposes of Business, an appropriate proportion of any unidentifiable part or proportion of the expenditure incurred for the purposes of deriving Taxable Income that has been determined on a fair and reasonable basis, having regard to the relevant facts and circumstances of the natural person's Business.

#### 4.3. Non-deductible expenditure rules and natural persons

Article 33 of the Corporate Tax Law disallows deductions for certain types of expenditure. This includes a specific disallowance for amounts withdrawn from a Business by a natural person.<sup>25</sup> For example, amounts withdrawn by a natural person from their sole proprietorship Business – even if described as Wage or salary – cannot be deducted in calculating the Taxable Income arising from that Business.

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<sup>24</sup> Article 28 of the Corporate Tax Law.

<sup>25</sup> Article 33(5) of the Corporate Tax Law.



### **Example 21: Taxable Income of a sole proprietorship**

A natural person, Mr. T conducts a Business through a sole proprietorship in the UAE. Mr. T has registered for Corporate Tax with the FTA after meeting the required conditions.

For the Tax Period ended 31 December 2025, Mr. T withdrew AED 200,000 from the business and recorded this in his Business accounts as an annual salary cost on the basis that Mr. T is operating the Business.

Since Mr. T is running a sole proprietorship Business, no deduction is allowed for the AED 200,000, as Mr. T and the Business are one and the same Taxable Person even if the salary would have been an arm's length salary.

#### **4.4. Related Parties for natural persons**

The transactions of a natural person with Related Parties are required to follow the arm's length principle for the purposes of Corporate Tax.<sup>26</sup> The arm's length principle requires the results of transactions or arrangements between Related Parties to be consistent with the results that would have been realised if Persons who were not Related Parties had engaged in a similar transaction or arrangement under similar circumstances.

A natural person can be a Related Party of one or more natural or juridical persons. This is discussed below.

##### **4.4.1. Other natural persons**

Two or more natural persons are considered to be Related Parties if their relationship is within the fourth degree of kinship or affiliation, including by way of adoption or guardianship.<sup>27</sup>

In calculating the degree of kinship:

- a. A relative of one of the spouses is considered of the same degree of kinship in relation to the other spouse.<sup>28</sup>

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<sup>26</sup> Article 34 of the Corporate Tax Law.

<sup>27</sup> Article 35(1)(a) of the Corporate Tax Law.

<sup>28</sup> Article 79 of the Civil Transactions Law.



- b. In the case of direct kinship, the degree is calculated by considering each descendant (a son or daughter) a degree upward to the ascendant (the father or mother).<sup>29</sup>
- c. In the case of indirect kinship, degrees are counted upwards from the descendant to the common ancestor and then downwards from the latter to the other descendant. Each descendant, excluding the common ancestor, is counted as a degree.<sup>30</sup>

A husband and wife are considered to be in a relationship of the first degree of affiliation.

#### **Example 22: Examples of kinship and affiliation**

First-degree: husband and wife, parents and children as well as parents and children of the spouse.

Second-degree: Grandparents, grandchildren and siblings as well as grandparents, grandchildren and siblings of the spouse.

Third-degree: Great-grandparents, great grandchildren, uncles, aunts, nieces and nephews as well as great-grandparents, great grandchildren, uncles, aunts, nieces and nephews of the spouse.

Fourth-degree: Great-great-grandparents, great-great-grandchildren, grand uncle, grand aunt, grandniece, grandnephew and first cousins as well as great-great-grandparents, great-great-grandchildren, grand uncle, grand aunt, grandniece, grandnephew and first cousins of the spouse.

#### **4.4.2. Juridical persons**

A natural person's Related Party relationships with juridical persons are identified based on ownership and Control.<sup>31</sup>

##### **4.4.2.1. Relationship based on ownership**

A juridical person is considered to be a Related Party of a natural person if the natural person or one or more Related Parties of the natural person are shareholders in the

<sup>29</sup> Article 78 of the Civil Transactions Law.

<sup>30</sup> Article 78 of the Civil Transactions Law.

<sup>31</sup> Article 35(1)(b) of the Corporate Tax Law.





juridical person, and the natural person, alone or together with its Related Parties, directly or indirectly owns a 50% or more interest in the juridical person.<sup>32</sup>

### **Example 23: Related Parties based on ownership**

Case 1: A natural person owns 50% of a UAE limited liability company, Company A: The natural person and Company A are Related Parties.

Case 2: A natural person's spouse owns 50% of Company A: The natural person, the spouse and Company A are considered Related Parties.

Case 3: A natural person owns 40% of Company A and the uncle of the individual's spouse owns 15% of the same company: The natural person, the spouse, the spouse's uncle and Company A are considered Related Parties.

Case 4: A natural person owns 80% of Company A, and Company A owns 70% of another UAE limited liability company, Company B:

- The natural person owns indirectly 56% ( $80\% \times 70\% = 56\%$ ) of Company B.
- The natural person and Company A are Related Parties – direct ownership.
- The natural person and Company B are Related Parties – indirect ownership.

#### **4.4.2.2. Relationship based on Control**

A juridical person is considered to be a Related Party for a natural person if the natural person, alone or together with its Related Parties, directly or indirectly Controls the juridical person.<sup>33</sup>

For a natural person, Control means the ability of the natural person to influence another Person. Control may be exerted in different ways:<sup>34</sup>

- the ability to exercise 50% or more of the voting rights; or
- the ability to determine the composition of 50% or more of the board of directors; or
- the ability to receive 50% or more of the profits; or
- the ability to determine, or exercise significant influence over, the conduct of the Business and affairs.

<sup>32</sup> Article 35(1)(b)(1) of the Corporate Tax Law.

<sup>33</sup> Article 35(1)(b)(2) of the Corporate Tax Law.

<sup>34</sup> Article 35(2) of the Corporate Tax Law.



#### 4.4.3. Partners in the same Unincorporated Partnership

Partners in an Unincorporated Partnership, whether the Unincorporated Partnership has applied to be treated as a Taxable Person or not, are Related Parties.<sup>35</sup> This is because of the partners' shared Control over the Business of the partnership.

#### 4.4.4. Trusts and foundations

A Person who is the trustee, founder, settlor or beneficiary of a trust or foundation will be considered Related Parties of the trust or foundation and its Related Parties.<sup>36</sup>

#### 4.5. Connected Persons

Similar to the requirement that transactions conducted between Related Parties should meet the arm's length principle for Corporate Tax purposes, a payment or benefit provided by a Taxable Person to its Connected Person in exchange for services (or whatever is otherwise provided), is deductible for Corporate Tax purposes only to the extent that it follows the arm's length principle.

A payment or benefit made by a Taxable Person to a Connected Person in excess of the Market Value in relation to such transactions is not deductible for such Taxable Person. This is also subject to the expenditure meeting the general requirements to be deductible under Article 28 of the Corporate Tax Law.

Unlike the Related Party rules, the Connected Persons provisions only apply to the Taxable Person making the payment, not the recipient. Article 36 defines a Connected Person as an owner, director or officer of the Taxable Person, or a Related Party of any owner, director or officer.

A Taxable Person that is a natural person will not have an owner, director or officer, as these concepts relate to juridical persons. The only aspect of the definition of Connected Person which may apply to a natural person is that partners in an Unincorporated Partnership are Connected Persons with each other (and also the other partners' Related Parties, such as relevant family members).

#### **Example 24: Related Parties, Control and Connected Persons**

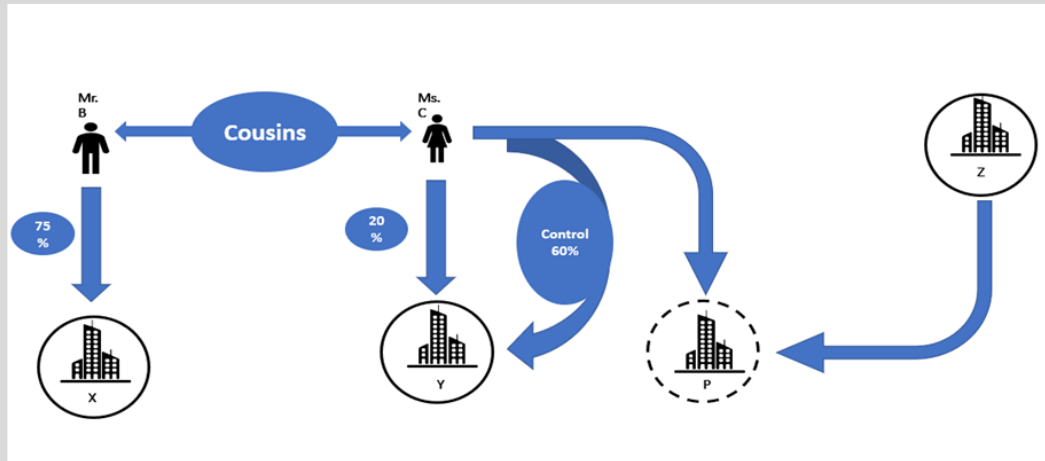
Mr. B is a first cousin of Ms. C. Mr. B owns 75% of Company X (a UAE company). Ms. C owns 20% of Company Y (a UAE company). She owns Preferred Shares

<sup>35</sup> Article 35(1)(e) of the Corporate Tax Law.

<sup>36</sup> Article 35(1)(f) of the Corporate Tax Law.



which entitle her to 60% of the voting rights in Company Y. She is also a partner in a UAE Unincorporated Partnership, P Partners. The other partner in the partnership is a UAE company, Company Z.



- Mr. B and Ms. C are Related Parties as they are first cousins, and related to the fourth degree of kinship.
- Mr. B and Company X are Related Parties - Mr B is a natural person who directly owns more than 50% of the juridical person Company X. Mr. B is a Connected Person of Company X because he is an owner of Company X.
- Mr B and Company Y are Related Parties - Mr B is an individual who, together with his Related Party, Ms C, Controls Company Y. Both Mr B and Ms C are Connected Persons of Company Y because Ms. C is an owner of Company Y and Mr. B is a Related Party of Ms C.
- Mr. B is a Connected Person of Company Z – Mr. B is a Related Party of Ms C, who is a partner in the same Unincorporated Partnership as Company Z.
- Ms. C and Company X are Related Parties - Ms C is an individual who, together with her Related Party, Mr. B, Controls Company X. Ms. C is a Connected Person of Company X because she is a Related Party of Mr. B who owns Company X.
- Ms. C and Company Y are Related Parties – Ms. C is an individual who directly Controls a juridical person, Company Y, as, albeit she owns 20% of Company Y, she holds more than 50% of the voting rights. Ms. C is a Connected Person of Company Y.
- Ms. C and Company Z are Related Parties - they are partners in the same Unincorporated Partnership P. Ms. C is a Connected Person of Company Z. because she is a partner with Company Z in the same Unincorporated Partnership P.



## 5. Interaction with other Business forms and entities

### 5.1. Juridical person

A juridical person is a legal entity with a separate personality. Ownership of a juridical person by a natural person does not in itself make the natural person a Taxable Person.

Subject to the conditions explained above, natural persons and juridical persons can be considered Related Parties or Connected Persons. If a natural person conducts Businesses or Business Activities in their own right, any transaction or arrangement they conduct with a juridical person that is a Related Party should meet the arm's length principle for the purposes of Corporate Tax.

### 5.2. Sole proprietorship

A sole proprietorship is a type of Businesses owned and conducted by a natural person on his/her own account and in their own name, as the case may be.

For Corporate Tax purposes, the sole proprietorship and the natural person are one and the same because of their direct relationship and Control over the Business and their unlimited liability for the debts and other obligations of the Business. The natural person conducting the Business will be the Taxable Person, not the sole proprietorship itself.

### 5.3. Unincorporated Partnerships

An Unincorporated Partnership is a relationship established by contract between two Persons or more. Generally, each partner in an Unincorporated Partnership is treated as an individual Taxable Person for the purposes of the Corporate Tax Law.<sup>37</sup> Subject to the Turnover threshold conditions (see Section 3.7), a natural person partner is subject to Corporate Tax directly on their distributive share and their Taxable Income is determined according to the standard rules.

The partners in the Unincorporated Partnership may apply to the FTA for the Unincorporated Partnership to be treated as a Taxable Person.<sup>38</sup> Where such an application is approved, the income of the Unincorporated Partnership is taxed at the level of the Unincorporated Partnership instead of at the level of the partners.

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<sup>37</sup> Article 16(1) of the Corporate Tax Law.

<sup>38</sup> Article 16(8) of the Corporate Tax Law.



In this situation, the partner would need to assess if they had any other Business (other than the partnership) which may be subject to Corporate Tax based on the principles explained in the previous sections. If not, such partner would not be subject to Corporate Tax (other than through the partnership).

#### 5.4. Family Foundation

Natural persons can set up a Family Foundation using different structures such as a contractual trust, a private trust company, a foundation or any other similar entity to hold and manage personal assets and investments for asset protection, succession, etc.

Some of these structures (such as a trust or foundation) may be considered to have a separate legal personality i.e. a juridical person as per the applicable legislation in the UAE, for example the Federal Trust Law.<sup>39</sup> A juridical person is treated as a Taxable Person and not a fiscally transparent entity for Corporate Tax purposes.

Where a Family Foundation is a juridical person, it would be subject to Corporate Tax. In particular, any investment income of its founder, settlor or any of its beneficiaries would be subject to Corporate Tax at the Family Foundation level. Any income received by natural persons, as beneficiaries, from a Family Foundation that is a Taxable Person would not be Taxable Income in the hands of the beneficiary as it would be investment income already subject to Corporate Tax at the Family Foundation level.

However, a Family Foundation can make an application to the FTA to be treated as an Unincorporated Partnership (and, therefore, transparent from a Corporate Tax perspective) where certain conditions are met.<sup>40</sup> One of these conditions is that the Family Foundation does not conduct any activity that would have constituted a Business or Business Activity as per Article 11(6) of the Corporate Tax Law had the activity been undertaken, or its assets been held, directly by its founder, settlor, or any of its beneficiaries. Therefore, if the Family Foundation is eligible to be treated as an Unincorporated Partnership and is treated as such where an application is submitted and approved by the FTA, the share of income of the natural persons as beneficiaries would not constitute Taxable Income for the natural persons. This reflects the requirement that the Family Foundation does not conduct any activity that would have constituted a Business or Business Activity had the activity been undertaken, or its assets been held, directly by the natural persons.

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<sup>39</sup> Article 3 of the Trust Law.

<sup>40</sup> Article 17(1) of the Corporate Tax Law.



## 6. Corporate Tax compliance for natural persons

### 6.1. Tax Registration

Natural persons conducting Businesses or Business Activities in the UAE that are subject to Corporate Tax are only required to register for Corporate Tax purposes once the total Turnover derived from such Businesses or Business Activities exceeds AED 1 million within a Gregorian calendar year.<sup>41</sup>

In case a natural person is a partner in an Unincorporated Partnership that is not treated as a Taxable Person in its own right, they are treated as conducting the Business of the Unincorporated Partnership. Therefore, they would need to assess whether they are Taxable Persons in their individual capacity and whether they need to register for Corporate Tax purposes by allocating the income of the partnership based on their distributive share in the partnership during the Gregorian calendar year and adding this to their Turnover from any other Business which they carry on (if any).

If following their initial Tax Registration, a natural person conducts new Business or Business Activities, the same Tax Registration Number will be utilised for such Business or Business Activities, and the natural person is not required to register again with the FTA for Corporate Tax purposes. In this case, the natural person is required to include the Taxable Income and the relevant information of the new Business or Business Activities in their Tax Return under the same Tax Registration Number (see Section [6.5](#) below).

When a natural person who has registered for Corporate Tax with the FTA finds their Turnover not exceeding the AED 1 million threshold during any subsequent Gregorian calendar year, they will retain their Tax Registration status. They are not permitted to deregister for Corporate Tax unless they have ceased conducting Business or Business Activities as explained in Section 6.2 below.

#### **Example 25: Corporate Tax Registration for natural persons**

Case 1: A natural person is a shareholder in a joint stock company and does not conduct Business independently from the company. In such case, the natural person is not required to register.

Case 2: A natural person develops accounting software in the UAE and starts selling licenses to companies and the total sales in a Gregorian calendar year are AED 1,200,000. In such case, the natural person is required to register.

<sup>41</sup> Article 2(1) of Cabinet Decision No. 49 of 2023



Case 3: A natural person is a shareholder of a joint stock company and opens an independent car rental agency operated from his home in the UAE that generates a monthly income of AED 500,000. In such case, the natural person is required to register as his total income in the Gregorian calendar year in the UAE exceeds AED 1 million.

Case 4: A natural person employed by a UAE limited liability company sells his 2 personal cars for more than AED 550,000 each. In such case, the natural person is not required to register on the basis that this is not a Business Activity.

Case 5: A natural person derives rental income from 3 apartments they own in the UAE that they bought as a Real Estate Investment. They do not hold a Licence or require a Licence to rent the apartments. In such case, the natural person is not required to register.

## 6.2. Tax Deregistration

### 6.2.1. Cessation of Business or Business Activity

A natural person registered for Corporate Tax purposes, or in certain cases, their Legal Representative, shall file a Tax Deregistration application with the FTA in case of cessation of Business or Business Activity whether by dissolution, liquidation, or otherwise.<sup>42</sup> The application shall be filed within 3 months of the date of cessation of the Business or Business Activity.<sup>43</sup>

The application shall not be filed if any of the natural person's Businesses or Business Activities are still active or being conducted, even if the natural person's Turnover falls under the AED 1 million threshold within a Gregorian calendar year.

Since the Tax Period of a natural person is the Gregorian calendar year (see Section 6.3) and their Taxable Income includes all Businesses or Business Activities conducted during that year (see Section 3.10), a natural person has only one Tax Registration Number for all their Businesses or Business Activities (see Section 6.1). If the natural person has more than one Business or Business Activity, then the natural person should deregister only when all Business or Business Activity has ceased.

Where a natural person has ceased Business or Business Activities part-way through a Tax Period, the Tax Period will come to an end (see Section 6.3). The Tax Deregistration application must be submitted within 3 months of the cessation and the

<sup>42</sup> Article 52(1) of the Corporate Tax Law, and Article 42(2) of the Tax Procedures Law.

<sup>43</sup> Article 2(1) of FTA Decision No. 6 of 2023.



Tax Return will be due in line with ordinary time limits (9 months from the end of the Tax Period) (see Section 6.5). The Tax Deregistration will not be approved where the natural person has not filed all the required Tax Returns, including the Tax Return for the Tax Period up to and including the date of cessation, and paid all due Corporate Tax and Administrative Penalties.<sup>44</sup>

In the event that a natural person submits an application for deregistration and then in the same year commenced a new Business or Business Activity following deregistration, the suspended Tax Registration Number is reactivated.<sup>45</sup>

### 6.2.2. Death of the Taxable Person

In instances where a natural person conducting Business or Business Activities dies, the natural person ceases to be a Taxable Person. The settlement of any outstanding Corporate Tax liabilities due from the natural person prior to the date of death, shall be made in accordance with the provisions of Article 42(1) of the Tax Procedures Law. These apply as follows:

- For Corporate Tax Payable due prior to the date of death, settlement shall be made from the value of the elements of the estate or income arising thereof prior to distribution among the heirs or legatees.
- If it transpires after the distribution of the estate that there is Corporate Tax Payable still outstanding, recourse shall be had against the heirs and legatees for settlement of such outstanding tax each to the extent of their share in the estate, unless a clearance certificate has been obtained from the FTA for the estate representative or any of the heirs.

### 6.3. Tax Period

The Tax Period for a natural person who conducts Business or Business Activity that is subject to Corporate Tax, shall be the Gregorian calendar year. The Gregorian calendar year runs from 1 January until 31 December. The first potential Tax Period for a natural person is the 2024 Gregorian calendar year. A natural person starting their Business or Business Activity on 1 October 2024 would need to assess whether they exceed the AED 1 million threshold on 31 December 2024. If this is the case, they would need to register for Corporate Tax purposes and their first Tax Period would be the Gregorian calendar year commencing on 1 January 2024 and ending on 31 December 2024. They would need to file their Corporate Tax return before the end of September 2025.

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<sup>44</sup> Article 52(2) of the Corporate Tax Law.

<sup>45</sup> Article 6(3) of Cabinet Decision No. 74 of 2023.





#### 6.4. Accounting Standards and Financial Statements

A natural person that is a Taxable Person shall prepare standalone Financial Statements in accordance with International Financial Reporting Standards (“IFRS”). However, where their Turnover does not exceed AED 50 million, they may apply the International Financial Reporting Standard for small and medium-sized entities (“IFRS for SMEs”).<sup>46</sup>

When it comes to the method of accounting, they may prepare Financial Statements using the Cash Basis of Accounting if their Turnover does not exceed AED 3 million, or in exceptional circumstances pursuant to an application submitted to and approved by the FTA.<sup>47</sup>

The Financial Statements should be prepared based on the aggregation of all the Business and Business Activities subject to Corporate Tax that are conducted by the natural person.

Where natural persons derive Turnover exceeding AED 50 million, they must prepare and maintain audited Financial Statements for the relevant Tax Period.<sup>48</sup>

#### 6.5. Tax Return

A natural person that is a Taxable Person must file a Corporate Tax Return to the FTA no later than 9 months from the end of the relevant Tax Period.<sup>49</sup>

Natural persons should submit a single Tax Return for all their Businesses and Business Activities subject to Corporate Tax.

Natural persons who have registered with the FTA for Corporate Tax after meeting the relevant conditions, will be required to file a ‘nil’ Tax Return within 9 months following the end of subsequent Tax Period in which their total Turnover derived from the Business or Business Activities conducted in the UAE does not exceed AED 1 million. As for the Tax Periods where their Turnover exceeds AED 1 million, they should file the Tax Return as indicated above.

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<sup>46</sup> Article 4 of Ministerial Decision No. 114 of 2023.

<sup>47</sup> Article 2 of Ministerial Decision No. 114 of 2023.

<sup>48</sup> Article 2 of Ministerial Decision No. 82 of 2023.

<sup>49</sup> Article 53 of the Corporate Tax Law.



## 7. Annexures

### 7.1. Annexure 1: Commercial business

A commercial business, as per the Commercial Transaction Law, includes:<sup>50</sup>

1. the work practiced by the trader in relation to his trade, and each work practiced by the trader considered related to his trade, unless otherwise is evident;
2. speculation works practiced by a person, whether or not a trader, for purpose of realising profit;
3. the works considered by the Law as commercial business; and
4. the works associated with or facilitating a commercial business.

The following works shall be considered commercial business, by virtue of their nature:<sup>51</sup>

1. Purchase of tangible and intangible chattel for purpose of sale with profit whether sold as is, or after transformation or manufacture.
2. Purchase or hire of tangible and intangible chattel for purpose of lease.
3. Sale or hire of purchased or hired chattel as aforementioned.
4. Operations of banks, exchanges, stock market, operations of mutual funds, trust funds and financial institutions and all other operations of financial brokerage.
5. All commercial papers' operations, whatever the capacity of the interested parties therein, and whatever the nature of the operations for which the same is created.
6. All works of marine and air navigation, including:
  - a. Building, selling, purchasing, leasing, chartering, repairing or maintaining ships and aircrafts, and marine and air consignments, including the marine and air transport.
  - b. Selling or purchasing equipment, tools or materials of ships or aircrafts or their catering.
  - c. Loading and discharge works.
  - d. Marine and aircraft loans.
7. Works of incorporation of commercial companies.
8. Current account.
9. Different kinds of insurance.
10. Sale at public auction except those conducted by the judiciary.
11. Works of hotels, restaurants, cinemas, theatres, playgrounds and theme parks.
12. Works of production, sale, transport and distribution of water, electricity and gas.
13. Issue of newspapers and magazines, if the purpose of the issue is realizing profit through publication of advertisements, news and articles.
14. Post and communications' works.
15. Works of radio and TV broadcast and studios of recording and photography.

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<sup>50</sup> Article 4 of the Commercial Transactions Law.

<sup>51</sup> Article 5 of the Commercial Transactions Law.



16. Works of public warehouses and mortgages created on the properties lodged therein.
17. Virtual asset works.

The following works shall be considered commercial business, if carried out as occupation:<sup>52</sup>

1. Brokerage.
2. Commercial agency.
3. Commission agency.
4. Commercial representation.
5. Supply contracts.
6. Purchase and sale of plots or real estates for purpose of realizing profit from their sale, in their original condition, or after transformation or division.
7. Land transport.
8. Real estate works, whenever the contractor undertakes to provide materials or workers.
9. Extractive industries of natural resources.
10. Works of tourism, travel, export, import, customs clearance, and service and recruitment bureaus.
11. Works of printing, publication, photography, recording and advertisement.
12. Industry.
13. Works of animal and fishery resources.
14. Hire and lease of others' labour for purpose of hire.
15. Lease or hire of homes or flats and rooms, whether or not furnished, for purpose of re-lease.
16. Creation, sale, lease and management of electronic platforms, websites, smart applications, data, artificial intelligence and other digital transformation works.

The works that can be considered equivalent to the considered commercial business described above for the similarity of their characters and purposes shall be considered commercial business.<sup>53</sup>

The Commercial Transaction Law indicates the following to not be considered commercial business:<sup>54</sup>

1. Sale of farms and produce cultivated in the owned or cultivated land, even after the transformation by the means normally used, unless this is practiced as an occupation. If the farmer permanently establishes a store or a factory to sell the produce as is, or after processing, the sale in such case shall be deemed commercial business.

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<sup>52</sup> Article 6 of the Commercial Transactions Law.

<sup>53</sup> Article 7 of the Commercial Transactions Law.

<sup>54</sup> Article 8 of the Commercial Transactions Law.



2. Practice of any agritourism activity, with or without consideration, including allowing third party's access to the farm, purchase and hire from the farm, or visit or stay for a short period for purpose of access or enjoyment of farming activities, watching or buying animals or their products, learning, training or other activities practiced in the farm.
3. The work in which the individuals rely on their physical or mental effort to realize profit or a sum of money rather than relying on monetary capital.
4. Making and selling a work of art made by the artist himself or by using workers, and printing and selling by the author of his work.



## 8. Updates and Amendments

Date of amendment	Amendments made
November 2023	<ul style="list-style-type: none"><li>• First version</li></ul>