



# Accounting Standards and Interaction with Corporate Tax

## Corporate Tax Guide | CTGACS1

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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.

**Accrual Basis of Accounting:** An accounting method under which the Taxable Person recognises income when earned and expenditure when incurred.

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

**Auditor:** An independent Person licensed and registered by the competent authorities of the UAE, that is appointed and remunerated by a private pension fund or a private social security fund to audit its Financial Statements.

**Authority:** Federal Tax Authority.

**Bank:** A Person licensed in the UAE as a bank or finance institution or an equivalent licensed activity that allows the taking of deposits and the granting of credits as defined in the applicable legislation of the UAE.

**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 Restructuring Relief:** A relief from Corporate Tax for business restructuring transactions, available under Article 27 of the Corporate Tax Law and as specified under Ministerial Decision No.133 of 2023.

**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.

**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.

**Cost Method of Accounting:** The cost method of accounting as defined in the International Financial Reporting Standards (“IFRS”), or an equivalent method of accounting under the Accounting Standards applied by the Taxable Person.

**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.

**Equity Method of Accounting:** The equity method of accounting as defined in the International Financial Reporting Standards (“IFRS”), or an equivalent method of accounting under the Accounting Standards applied by the Taxable Person.

**Exempt Person:** A Person exempt from Corporate Tax under Article 4 of the Corporate Tax Law.

**Financial Asset:** Financial asset as defined in the Accounting Standards applied by the Taxable Person.

**Financial Liability:** Financial liability as defined in the Accounting Standards applied by the Taxable Person.

**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.

**Financial Year:** The Gregorian calendar year, or the twelve-month period for which the Taxable Person prepares Financial Statements.

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

**IFRS:** International Financial Reporting Standards.



**IFRS for SMEs:** International Financial Reporting Standards for small and medium-sized enterprises.

**Immovable Property:** Means any of the following:

- a. Any area of land over which rights or interests or services can be created.
- b. Any building, structure or engineering work attached to the land permanently or attached to the seabed.
- c. Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

**Insurance Provider:** A Person licensed in the UAE as an insurance provider that accepts risks by entering into or carrying out contracts of insurance, in both the life and non-life sectors, including contracts of reinsurance and captive insurance, as defined in the applicable legislation of the UAE.

**Intangible Asset:** An intangible asset as defined in the Accounting Standards applied by the Taxable Person.

**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.

**Membership or Partnership Capital:** The capital paid to a juridical person where the paid capital is divided into membership or partnership interests by a Person in order to be a member or partner and have the rights of membership or partnership in that juridical person.

**Parent Company:** A Resident Person that can make an application to the FTA to form a Tax Group with one or more Subsidiaries in accordance with Article 40(1) of the Corporate Tax Law.

**Participation Exemption:** An exemption from Corporate Tax for income from a Participating Interest, available under Article 23 of the Corporate Tax Law and as specified under Ministerial Decision No.116 of 2023.

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

**Qualifying Financial Asset:** Financial Asset that meets the conditions under Article 4(1) of Ministerial Decision No. 120 of 2023.



**Qualifying Financial Liability:** Financial Liability that meets the conditions under Article 4(1) of Ministerial Decision No. 120 of 2023.

**Qualifying Group:** Two or more Taxable Persons that meet the conditions of Article 26(2) of the Corporate Tax Law.

**Qualifying Immovable Property:** Immovable Property that meets the conditions under Article 2(1) of Ministerial Decision No. 120 of 2023.

**Qualifying Intangible Asset:** Intangible Asset that meets the conditions under Article 3(1) of Ministerial Decision No. 120 of 2023.

**Qualifying Public Benefit Entity:** Any entity that meets the conditions set out in Article 9 of the Corporate Tax Law and that is listed in a decision issued by the Cabinet at the suggestion of the Minister.

**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.

**Subsidiary:** A Resident Person in which the share capital or Membership or Partnership Capital, as applicable, is held by a Parent Company, in accordance with Article 40(1) of the Corporate Tax Law.

**Tax Group:** Two or more Taxable Persons treated as a single Taxable Person according to the conditions of Article 40 of the Corporate Tax Law.

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

**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.

**UAE:** United Arab Emirates.



## 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 interaction of Accounting Standards with Corporate Tax. It provides readers with an overview of:

- Preparation of Financial Statements;
- The Cash Basis of Accounting;
- The realisation basis of accounting;
- Other adjustments under Article 20(2)(i) of the Corporate Tax Law; and
- Adjustments under the transitional rules.

For more information related to Accounting Standards that govern how particular types of transactions and events should be reported in Financial Statements, please refer to the official documentation released by the relevant standard setter/Accounting Standards board. For further information on IFRS, visit <https://www.ifrs.org>.

### 2.3. Who should read this guide?

This guide should be read by any Person that is responsible for preparing the Financial Statements of Taxable Persons for Corporate Tax purposes. 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 accounting concepts interact with key elements of the Corporate Tax. 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. 12 of 2014 on the Regulation of the Auditing Profession is referred to as “Federal Law No. 12 of 2014”;
- 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”;
- Ministerial Resolution No. 403 of 2015 Concerning the International Standards of the Auditing Profession is referred to as “Ministerial Resolution No. 403 of 2015”;
- Ministerial Decision No. 73 of 2023 on Small Business Relief for the Purposes of the 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.115 of 2023 on Private Pension Funds and Private Social Security Funds 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.115 of 2023”;

- Ministerial Decision No. 120 of 2023 on the Adjustments Under the Transitional Rules 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. 120 of 2023”;
- Ministerial Decision No. 125 of 2023 on Tax Group 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. 125 of 2023”; and
- 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”.

## 2.6. Status of this guide

This guidance is not a legally binding document, but is intended to provide assistance in understanding the interaction of Accounting Standards with 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. Accepted Accounting and Reporting Standards

The Corporate Tax Law provides that the Taxable Income of each Taxable Person shall be determined separately, on the basis of properly prepared, standalone (unconsolidated) Financial Statements for financial reporting purposes in accordance with the Accounting Standards accepted in the UAE for Corporate Tax purposes.<sup>1</sup>

Ministerial Decision No. 114 of 2023 specifies that the only Accounting Standards accepted in the UAE for Corporate Tax purposes are the International Financial Reporting Standards (“IFRS”) and the International Financial Reporting Standard for small and medium-sized entities (“IFRS for SMEs”).

#### 3.1. IFRS

Taxable Persons shall use IFRS as the Accounting Standards accepted in the UAE for Corporate Tax purposes.<sup>2</sup>

#### 3.2. IFRS for SMEs

For Corporate Tax purposes, Taxable Persons may use IFRS for SMEs if they derive Revenue not exceeding AED 50 million in a Tax Period.<sup>3</sup>

IFRS for SMEs should not be used as the default Accounting Standard. The Taxable Person may use IFRS for SMEs only if they satisfy the Revenue requirement. Where the requirement is not satisfied, IFRS shall be used.

#### 3.3. Accounts not prepared under IFRS or IFRS for SMEs

As mentioned above, Taxable Persons are required under the Corporate Tax Law to use IFRS or IFRS for SMEs (as applicable) to calculate Taxable Income. Failure to do so will be viewed as a violation of the Corporate Tax Law and may result in administrative penalties.<sup>4</sup> Nonetheless, for purposes other than Corporate Tax, Taxable Persons may use different accounting standards as long as all relevant calculations and reporting are performed and provided (where required) using IFRS or IFRS for SMEs for Corporate Tax purposes.

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<sup>1</sup> Article 20(1) of the Corporate Tax Law.

<sup>2</sup> Article 4(1) of Ministerial Decision No. 114 of 2023.

<sup>3</sup> Article 4(2) of Ministerial Decision No. 114 of 2023.

<sup>4</sup> Article 24(1)(a) of Tax Procedures Law.



An Exempt Person under the Corporate Tax Law may use other accounting standards. However, if an Exempt Person, specifically a Government Entity, a Government Controlled Entity, an Extractive Business or a Non-Extractive Natural Resource Business, has Business or Business Activities treated as a separate taxable Business (or Businesses) as per the Corporate Tax Law, the Exempt Person is required to use IFRS or IFRS for SMEs to prepare the Financial Statements for that taxable activity.<sup>5</sup> This would also be the case if it were subsequently determined that the conditions for exemption had not been met.

### **3.4. Determination of amount and timing of Revenue and expenditure**

The Accounting Standards determine the amount of Revenue and expenditure, and the period in which they are recognised, for the purpose of calculating Taxable Income. This is then subject to any specific adjustments required to calculate Taxable Income as prescribed by the Corporate Tax Law. For instance, to disallow non-deductible expenditure.<sup>6</sup>

### **3.5. Financial Statements of a Tax Group**

A Tax Group is required to prepare consolidated Financial Statements (using IFRS or IFRS for SME's) for the purpose of determining the Taxable Income of a Tax Group.<sup>7</sup> This means preparation of stand-alone Financial Statements on the basis of aggregation of the stand-alone Financial Statements of the Parent Company and each Subsidiary that is a member of the Tax Group, as if the Tax Group were a single Taxable Person. In this respect, the financial results, assets and liabilities of all members of the Tax Group must be consolidated, eliminating any transactions between the Parent Company and each Subsidiary.<sup>8</sup>

Transactions between certain members of the Tax Group should be determined consistent with the arm's length principle.<sup>9</sup>

### **3.6. Audit requirement for Financial Statements**

Taxable Persons deriving Revenue exceeding AED 50 million during the relevant Tax Period and all Qualifying Free Zone Persons (irrespective of the level of Revenue) are required to prepare and maintain audited Financial Statements for the purposes of the

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<sup>5</sup> Articles 5(2), 6(3), 7(4)(a) and 8(4)(a) of the Corporate Tax Law read with Article 4 of Ministerial Decision No. 114 of 2023.

<sup>6</sup> Article 20(2) of the Corporate Tax Law.

<sup>7</sup> Article 42(1) and Article 42(11) of the Corporate Tax Law.

<sup>8</sup> Article 42(1) of the Corporate Tax Law and Article 3 of the Ministerial Decision No. 114 of 2023.

<sup>9</sup> Article 34 of the Corporate Tax Law and Article 8(2) of Ministerial Decision No. 125 of 2023.



Corporate Tax Law.<sup>10</sup> The threshold of AED 50 million is not pro-rated if a Tax Period is longer or shorter than 12 months. The audit must be performed by a UAE-registered auditor, pursuant to Federal Law No. 12 of 2014 on the Regulation of the Auditing Profession and its amendments, read together with Ministerial Resolution No. 403 of 2015 Concerning the International Standards of the Auditing Profession, or any other applicable legislation.

If a Tax Group derives Revenue exceeding AED 50 million on a consolidated basis during the relevant Tax Period, the consolidated Financial Statements of the Tax Group (as the Taxable Person) will be required to be audited. However, the Corporate Tax Law does not require separate Financial Statements of the Parent Company and Subsidiary members to be audited, even when a member's Revenue exceeds AED 50 million.<sup>11</sup>

In addition, private pension or social security funds that have made an application to and received an approval from the FTA to be exempt from Corporate Tax must have an Auditor.<sup>12</sup> The Auditor must, on an annual basis, confirm the compliance of the fund with the provisions of Ministerial Decision No. 115 of 2023.<sup>13</sup>

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<sup>10</sup> Article 2 of Ministerial Decision No. 82 of 2023.

<sup>11</sup> Article 2(1) of Ministerial Decision No. 82 of 2023.

<sup>12</sup> Article 2(4) and Article 3(3) of Ministerial Decision No. 115 of 2023.

<sup>13</sup> Article 6(1) of Ministerial Decision No. 115 of 2023.



## 4. Accounting Methods

### 4.1. Accrual Basis of Accounting

#### 4.1.1. Revenue and expenditure recognition

Under the Accrual Basis of Accounting, Revenue and expenditure are recognised when they are earned or incurred, not necessarily when payments are received or made, or invoices received or sent.

Thus, under the Accrual Basis of Accounting, Revenues and expenses are included in Taxable Income in the Tax Period in which they are earned or incurred. Therefore, when a provider delivers a service to a customer (assuming both use the Accrual Basis of Accounting), and the customer pays the provider later (for example, 2 months after the service is provided), Revenue is earned by the provider and is included in its Taxable Income and the expenditure is incurred by the customer and is included in its Taxable Income when the service is performed, i.e. before any payment is made or received, or invoices received or sent.

#### **Example 1: Revenue recognition under the Accrual Basis of Accounting**

Company X has a Financial Year ending on 30 April.

- On 5 April 2025 - Company X delivered consulting services worth AED 12,000 to Customer A.
- On 10 May 2025 - Company X sent Customer A an invoice.
- On 15 June 2025 - Customer A paid for the services.

Company X should recognise the Revenue as soon as the services are provided, as this is when it was earned. Therefore, the Revenue should be recorded on 5 April 2025, which falls in its Financial Statements for the year ending on 30 April 2025. It does not matter when the invoice is issued or the payment is received.

#### **Example 2: Expense recognition under the Accrual Basis of Accounting (continuation of Example 1)**

Customer A also has a Financial Year ending on 30 April.

Customer A should recognise the expense when the service is delivered on 5 April 2025, as this is when the expense was incurred. It does not matter when the invoice was received or the payment was made.





Therefore, for Corporate Tax purposes, Customer A recognises the expense of AED 12,000 in the Tax Period ending 30 April 2025.

## 4.2. Cash Basis of Accounting

### 4.2.1. Eligibility

For the purposes of Corporate Tax, a Person may prepare Financial Statements using the Cash Basis of Accounting if:<sup>14</sup>

- Their Revenue does not exceed AED 3 million within the relevant Tax Period; or
- In exceptional circumstances and pursuant to an application submitted by the Person to the FTA.

If their Revenue does not exceed AED 3 million, the Person can apply the Cash Basis of Accounting without needing to submit an application to the FTA.

Revenue is a defined term in the Corporate Tax Law and means the gross amount of income derived during a Tax Period. Revenue should be determined based on the arm's length principle. When determining the Revenue, the income from all Business Activities undertaken by a particular juridical person must be taken into account, and certain defined Business Activities in the case of a natural person. The Cash Basis of Accounting should be used to determine whether the AED 3 million threshold is exceeded.

Once a Taxable Person's Revenue exceeds AED 3 million in the Tax Period, they must prepare Financial Statements on an accrual basis, except under exceptional circumstances and following the FTA's approval.

### 4.2.2. Revenue and expenditure recognition

Under the Cash Basis of Accounting, Revenue and expenditure are reported, for Corporate Tax purposes, in the Tax Period in which the amounts are received or paid. The Cash Basis of Accounting applies equally to both Revenue and expenditure recognition. There is no balance sheet under the Cash Basis of Accounting.

A credit sale, for example, is not reported as Revenue by the seller at the time of issuing the invoice, delivering the products or rendering the service. This is because the cash is not received at any of these moments. Under the Cash Basis of Accounting the seller records the Revenue only when they receive the payment.

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<sup>14</sup> Article 2 of Ministerial Decision No. 114 of 2023.



### Example 3: Revenue recognition under the Cash Basis of Accounting

Company A, a Taxable Person using the Cash Basis of Accounting with a Financial Year ending on 31 December, concludes the following two transactions in November 2024:

1. A cash sale for AED 10,000;
2. A credit sale for AED 15,000 where a payment of AED 9,000 is received in December and the remaining balance is received in January 2025.

The Revenue is recognised as follows:

| Transaction | 2024 Tax Period | 2025 Tax Period |
|-------------|-----------------|-----------------|
| 1           | 10,000          | -               |
| 2           | 9,000           | 6,000           |

When it comes to expenditure, a credit purchase, for example, is not recognised as an expense by the buyer at the time of receiving the invoice or the products/services. This is because the cash at that moment has not been paid. When the buyer makes the payment, they would report the amount paid as expenditure.

### Example 4: Expense recognition under the Cash Basis of Accounting

Company B, a Taxable Person with a Financial Year ending on 31 December, using the Cash Basis of Accounting, pays its employees' salaries on the 2<sup>nd</sup> day following each month. The salaries for the month of December 2024 amount to AED 80,000 and are paid via bank transfer on 2 January 2025.

As Company B uses the Cash Basis of Accounting, it will not recognise these salaries as an expense in December 2024 (2024 Tax Period). Instead the expense will be recorded in January 2025 (i.e. the 2025 Tax Period) when paid.

The Cash Basis of Accounting does not alter the nature of payments. For example, payment for the purchase of an asset, receipt of a loan or repayment of loan principal are not Revenue or expenditure (though the interest element of any payment would be taxable or deductible subject to normal rules). Nonetheless, under the Cash Basis of Accounting, a deduction may be taken in respect of assets purchased in place of the tax relief which would ordinarily be given for depreciation on the Accrual Basis of Accounting (no depreciation is recorded under the Cash Basis of Accounting).

Revenue and expenditure are recognised under the Cash Basis of Accounting at the date of receipt or payment. For example, where a customer pays cash for the purchase



of a good, the seller should recognise the Revenue on the day of the transaction, and the buyer should recognise the expenditure on the same day, assuming both apply the cash basis.

However, payments can be made other than in cash, for example, credit or debit card payment, cheque payment and in-kind payment. Where the payment is made through one of these methods, the actual cash flow should be considered.

For example, a credit card payment by a buyer will not be considered a cash payment until they settle their credit card bill, while for the seller the receipt of cash, i.e. when their bank account is credited, can be earlier.

A debit card payment would be considered as an immediate payment for the buyer because the cash is directly debited from their bank account.

A cheque payment would be considered a cash payment when the cheque is cashed by the seller and when the cash is blocked or debited from the buyer's bank account.

#### **4.2.3. What are exceptional circumstances?**

An example of an exceptional circumstance and a reason to be permitted to use the Cash Basis of Accounting could be where the Taxable Person expects to exceed the AED 3 million threshold for only one Tax Period.<sup>15</sup> A Taxable Person should maintain evidence that it had a basis to expect this.

#### **4.2.4. Calculation of the threshold for using Cash Basis of Accounting**

In determining whether the Taxable Person's Revenue exceeds the AED 3 million threshold,<sup>16</sup> the Revenue is that of the Tax Period in question. Thus, for any given Tax Period, it will only be known with certainty whether the threshold has been exceeded after the end of the Tax Period.

The Cash Basis of Accounting should be used to determine whether the AED 3 million threshold is exceeded (see Section [4.2.1](#)).

#### **4.2.5. Fluctuations in Revenue: switching to/from Accrual Basis of Accounting**

During its life cycle, a Taxable Person may face Revenue fluctuations. If Revenue derived during a Tax Period exceeds AED 3 million by applying the Cash Basis of Accounting, the Taxable Person should switch to the Accrual Basis of Accounting

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<sup>15</sup> Article 2(2) of Ministerial Decision No. 114 of 2023.

<sup>16</sup> Article 2(1) of Ministerial Decision No. 114 of 2023.



since they no longer meet the conditions prescribed under Article 20(5) of the Corporate Tax Law. However, there is potential for this to qualify as an “exceptional circumstance” for which an application can be made and the FTA may approve or not the continued use of the Cash Basis of Accounting (see Section [4.2.3](#)).

#### 4.2.6. Interaction with Small Business Relief

Businesses that elect for Small Business Relief are able to prepare financial statements based on the Cash Basis of Accounting, if their revenue does not exceed AED 3 million.<sup>17</sup>

One of the conditions of Small Business Relief is that Revenue does not exceed AED 3 million,<sup>18</sup> where Revenue is the gross amount of income derived during a Tax Period calculated according to applicable accounting standards.

According to Ministerial Decision No. 114 of 2023, the applicable accounting standard is International Financial Reporting Standards (“IFRS”) or IFRS for SME’s. However, a Person may prepare Financial Statements using the Cash Basis of Accounting, where the Person derives Revenue that does not exceed AED 3 million, as explained in Section [4.2.1](#).

Accordingly, a Person may apply either IFRS (or IFRS for SMEs) or the Cash Basis of Accounting in order to calculate their Revenue to determine if they are eligible for Small Business Relief. The Cash Basis of Accounting is always used to determine eligibility to prepare Financial Statements on the Cash Basis of Accounting for Corporate Tax purposes. Therefore, if IFRS or IFRS for SMEs is used to determine Revenue for the purpose of Small Business Relief, the cash basis still has to be used with regard to eligibility for the Cash Basis of Accounting.

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<sup>17</sup> Ministerial Decision No. 114 of 2023.

<sup>18</sup> Article 2(1) of Ministerial Decision No.73 of 2023.



## 5. Realisation basis of accounting

### 5.1. Realised versus unrealised

In broad terms, based on the general principles of the Accounting Standards:

- Realised gains are gains that have been converted into consideration received (for example, cash) by the completion of a transaction. The same is equally applicable for losses.
- Unrealised gains are gains that have not been converted into consideration and can arise in respect of, for example, items subject to fair value accounting, such as financial instruments which are liquid and short-term. The same is equally applicable for losses.

#### 5.1.1. Fair value accounting

Fair value accounting uses current market values as the basis for recognising the value of certain assets and liabilities in the Financial Statements. The objective is to estimate the price at which a transaction to sell an asset or to transfer a liability would take place between market participants under the market conditions applicable on the measurement date.<sup>19</sup>

#### 5.1.2. Impairment

Entities recognise and record the value of their assets in their accounts. The value of an asset is determined by the market and can change as time passes. The core principle is that an asset must not be carried in the Financial Statements of the entity at a value higher than the highest amount that can be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the asset is described as “impaired” and the entity must reduce the carrying amount to its recoverable amount and recognise an impairment loss.<sup>20</sup>

### 5.2. Realisation basis for Corporate Tax purposes

Where the Accrual Basis of Accounting is used by a Taxable Person in preparing their Financial Statements, unrealised gains or losses arising from a change in the value of an asset or liability are recorded in the Financial Statements even when no transaction to realise such gains or losses has yet taken place. It is, therefore, possible that profits (or losses) could arise where there has been no actual disposal or settlement (i.e. realisation) of the relevant asset or liability and, therefore, no consideration could be

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<sup>19</sup> IFRS 13 Fair Value Measurement.

<sup>20</sup> IAS 36 Impairment of Assets.



used to pay any Corporate Tax liability that may arise as a result. An example of this would be a change in the exchange rate affecting the value of a foreign currency contract to be settled in a future Tax Period. Another example would be the creation or release of a provision for a doubtful debt.

To prevent a Corporate Tax liability arising where there is no consideration to fund the resulting Corporate Tax payable, Taxable Persons who prepare their Financial Statements on an Accrual Basis of Accounting may elect to take into account gains and losses on a realisation basis.<sup>21</sup> This means that, for the purposes of calculating their Taxable Income for a Tax Period, instead of gains and losses in respect of assets and liabilities being determined on the basis of revaluation or other change in book value, gains or losses are taken into account only when an asset is disposed of or a liability is settled, or a different realisation event occurs.

### 5.2.1. What constitutes realisation?

The realisation of an asset or a liability includes, but is not limited to, the following:<sup>22</sup>

- The sale, disposal, transfer (other than non-taxable transfers described below), settlement and complete worthlessness of an asset as per the Accounting Standards used by the Taxable Person.
- The settlement, assignment, transfer (other than non-taxable transfers described below), and forgiveness of a liability as per the Accounting Standards used by the Taxable Person.

On the other hand, certain transfers are not considered a realisation of assets or liabilities. These include:<sup>23</sup>

- A non-taxable transfer of assets or liabilities between members of a Qualifying Group (that is not a Tax Group) as defined under Article 26 of the Corporate Tax Law.
- A transfer of assets or liabilities which qualifies for Business Restructuring Relief under Article 27 of the Corporate Tax Law.

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<sup>21</sup> Article 20(3) of the Corporate Tax Law.

<sup>22</sup> Article 9(2) of Ministerial Decision No. 134 of 2023.

<sup>23</sup> Article 9(1) of Ministerial Decision No. 134 of 2023.



### **5.2.2. Election to use the realisation basis for Taxable Persons other than Banks or Insurance Providers**

A Taxable Person, other than a Bank or Insurance Provider, that prepares Financial Statements on an Accrual Basis of Accounting, may elect to take into account gains and losses on a realisation basis in relation to either:<sup>24</sup>

- All assets and liabilities that are subject to fair value or impairment accounting under the applicable Accounting Standards; or
- All assets and liabilities held on the capital account at the end of a Tax Period, whilst taking into account any unrealised gain or loss that arises in connection with assets and liabilities held on the revenue account at the end of that period.

### **5.2.3. Election to use realisation basis for Banks and Insurance Providers**

Banks and Insurance Providers that are Taxable Persons and that prepare Financial Statements on an Accrual Basis of Accounting may elect to recognise gains and losses on a realisation basis only in relation to all assets and liabilities held on the capital account at the end of a Tax Period.<sup>25</sup> Accordingly, Banks and Insurance Providers are subject to Corporate Tax when using the Accrual Basis of Accounting in respect of any unrealised gain or loss that arises in connection with assets and liabilities held on the revenue account at the end of the Tax Period.

### **5.2.4. Timeline for making the election to use the realisation basis**

The election for the realisation basis must be made by the Taxable Person during the first Tax Period which practically will be at the time of submitting the first Tax Return.<sup>26</sup>

### **5.2.5. Revocation of election to use realisation basis in exceptional circumstances**

The election to use the realisation basis is irrevocable. However, it may be revoked under exceptional circumstances and pursuant to approval by the FTA.<sup>27</sup> Exceptional circumstances would be assessed by the FTA on a case-by-case basis.

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<sup>24</sup> Article 20(3) of the Corporate Tax Law.

<sup>25</sup> Article 8(2) of Ministerial Decision No. 134 of 2023.

<sup>26</sup> Article 8(3) of Ministerial Decision No. 134 of 2023.

<sup>27</sup> Article 8(3) of Ministerial Decision No. 134 of 2023.



### 5.2.6. Effect of applying realisation basis to Taxable Income

Taking into account gains and losses on a realisation basis means that unrealised gains and losses recorded in the Taxable Person's Financial Statements would be disregarded for Corporate Tax purposes. This means:

- For assets and liabilities subject to fair value or impairment accounting, all unrealised gains would not be taxable, and all unrealised losses would not be deductible, until both (gains and losses) are realised.
- For assets and liabilities held on capital account, unrealised gains and losses, including unrealised foreign exchange gains and losses, would not be taxable or deductible, respectively, until they are realised.<sup>28</sup>
- For assets and liabilities held on revenue account, unrealised gains and losses arising would continue to be taken into account in determining Taxable Income.

A Taxable Person that has elected to use the realisation basis must make certain additional adjustments in respect of the relevant assets and liabilities when calculating the Taxable Income.<sup>29</sup> These adjustments include:<sup>30</sup>

- In cases other than upon realisation, any depreciation, amortisation or other change in the value of an asset (other than a Financial Asset) should be excluded from the Accounting Income when calculating the Taxable Income to the extent that the adjustment amount relates to a change in net book value exceeding the original cost of that asset.
- In cases other than upon realisation, any change in the value of a liability or a Financial Asset, including amortisation, should be excluded from the Accounting Income when calculating the Taxable Income.
- Upon the realisation of an asset or a liability, any amounts that had not been previously recognised for Corporate Tax purposes (for example, unrealised gains or losses) must be included in the Taxable Income. However, any such amount that arose prior to the most recent acquisition where Business Restructuring Relief or the relief for transfers within a Qualifying Group did not apply should not be included in the Taxable Income.

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<sup>28</sup> Article 20(4)(d) of the Corporate Tax Law.

<sup>29</sup> Article 2 of Ministerial Decision No. 134 of 2023.

<sup>30</sup> Articles 2(3) and 2(4) of Ministerial Decision No. 134 of 2023.





### 5.2.7. Definition of capital account

“Assets held on capital account” refers to assets that:<sup>31</sup>

- the Person does not trade;
- are eligible for depreciation; or
- are treated under applicable Accounting Standards as property, plant and equipment, investment property, intangible assets, or other non-current assets.

“Liabilities held on capital account” refers to liabilities incurred which do not give rise to deductible expenditure for Corporate Tax purposes,<sup>32</sup> or liabilities treated under applicable Accounting Standards as non-current liabilities.<sup>33</sup> For example:

- Accrued liabilities or provisions relating to donations, grants or gifts to an entity that is not a Qualifying Public Benefit Entity.
- Long-term debt (for example, long-term notes payable, bonds payable).

“Assets and liabilities held on revenue account” refers to assets and liabilities other than those held on capital account.<sup>34</sup>

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<sup>31</sup> Article 20(4)(a) of the Corporate Tax Law.

<sup>32</sup> Article 28 to 33 of the Corporate Tax Law.

<sup>33</sup> Article 20(4)(b) of the Corporate Tax Law.

<sup>34</sup> Article 20(4)(c) of the Corporate Tax Law.



### **Example 5: Adjustment of Accounting Income other than upon realisation**

This example considers the adjustments required other than upon realisation in the case of an asset where the net book value exceeds the original cost. The asset is not a Financial Asset.

Company B acquires a building from a third party for AED 500,000 around the end of Tax Period 1 and records its net book value as AED 500,000. Company B has elected to take into account gains and losses on a realisation basis in relation to all assets and liabilities held on capital account.

At the beginning of Tax Period 2, Company B re-values the building to AED 600,000. The change in value of AED 100,000 reflected in its Accounting Income represents an unrealised gain. Since Company B has elected for the realisation basis, it should exclude the unrealised gain of AED 100,000 from its Taxable Income in Tax Period 2.

Company B depreciates the building using a straight-line method over 10 years, starting from Tax Period 2. The resulting accounting depreciation is AED 60,000.

Since Company B has elected for the realisation basis, when calculating its Taxable Income in Tax Period 2, the entire AED 60,000 depreciation shall be added back, as it relates to a change in the net book value exceeding the original cost (i.e. from AED 600,000 to AED 540,000).

Company B will continue to adjust for such depreciation until it brings the asset's net book value to an amount that is equal or less than AED 500,000 (the original cost of the asset). Therefore, in Tax Period 3, it will need to add back AED 40,000 depreciation, which is the remaining depreciation relating to the net book value exceeding the original cost (i.e. from AED 540,000 to AED 500,000). This results in AED 20,000 depreciation to be allowed in the determination of its Taxable Income in Tax Period 3.

In Tax Period 4 Company B shall not make any depreciation adjustment (i.e. the full amount of depreciation will be allowed in the determination of its Taxable Income), since the asset's net book value does not exceed the original cost. This also applies to the subsequent Tax Periods.



The following table summarises the adjustments for the 4 Tax Periods:

| Description   | Tax Period 1 | Tax Period 2 | Tax Period 3 | Tax Period 4 |
|---|--------------|--------------|--------------|--------------|
| Building carrying value (opening balance)             | 500,000      | 500,000      | 540,000      | 480,000      |
| Appreciation  | -            | 100,000      | -            | -            |
| Accounting depreciation                               | -            | (60,000)     | (60,000)     | (60,000)     |
| Building net book value (closing balance)             | 500,000      | 540,000      | 480,000      | 420,000      |
| Pre-depreciation Accounting Income                    | 200,000      | 200,000      | 200,000      | 200,000      |
| Accounting Income                                     | 200,000      | 140,000      | 140,000      | 140,000      |
| Taxable Income adjustment – disregard unrealised gain | -            | (100,000)    | -            | -            |
| Taxable Income adjustment – add back depreciation     | -            | 60,000       | 40,000       | -            |
| Taxable Income  | 200,000      | 100,000      | 180,000      | 140,000      |

#### Example 6: Adjustment of Accounting Income other than upon realisation

This example considers the adjustments required other than upon realisation in the case of an asset where the net book value is below the original cost. The asset is not a Financial Asset.

Company B acquires a building from a third party for AED 500,000 at the end of Tax Period 1 and records its net book value as AED 500,000.



Company B has elected to take into account gains and losses on a realisation basis in relation to all assets and liabilities held on capital account.

Company B re-values the building to AED 400,000 in Tax Period 2. The change in value of AED 100,000 reflected in its Accounting Income represents an unrealised loss.

Since Company B has elected for the realisation basis, it should exclude the unrealised loss of AED 100,000 in the determination of its Taxable Income in Tax Period 2.

Company B depreciates the building using a straight-line method over 10 years, starting from Tax Period 2. The resulting accounting depreciation is AED 40,000.

Contrary to Example 5 above, as the net book value is below original cost, no adjustment is required in relation to the depreciation of AED 40,000 in Tax Periods 2, 3 and 4, respectively, because this will not result in tax deduction above the original cost.

#### **Example 7: Adjustment of Accounting Income before and upon realisation**

Company B acquires a building from a third party for AED 500,000 around the end of Tax Period 1 and records its net book value as AED 500,000.

Company B has elected to take into account gains and losses on a realisation basis in relation to all assets and liabilities held on capital account.

Company B re-values the building to AED 600,000 at the beginning of Tax Period 2. The change in value of AED 100,000 reflected in its Accounting Income represents an unrealised gain.

Since Company B has elected for the realisation basis, it should exclude the unrealised gain of AED 100,000 from its Taxable Income of Tax Period 2.

Company B depreciates the building using a straight-line method over 10 years starting from Tax Period 2. The resulting accounting depreciation is AED 60,000.

Since Company B has elected for the realisation basis, when calculating its Taxable Income in Tax Period 2, the entire AED 60,000 depreciation shall be added back



as it relates to a change in the net book value exceeding the original cost (i.e. from AED 600,000 to AED 540,000).

At the beginning of Tax Period 3, Company B decides to sell the building for its net book value of AED 540,000.

For the purposes of determining its Taxable Income, Company B will include the amount of AED 100,000 that has not been recognised previously for Corporate Tax purposes and claim a deduction for the depreciation adjustment of AED 60,000 previously made in Tax Period 2.

| Description   | Tax Period 1 | Tax Period 2 | Tax Period 3 |
|---|--------------|--------------|--------------|
| Building carrying value (opening balance)           | 500,000      | 500,000      | 540,000      |
| Appreciation  | -            | 100,000      | -            |
| Accounting depreciation                             | -            | (60,000)     | -            |
| Building net book value (closing balance)           | 500,000      | 540,000      | -            |
| Pre-Depreciation Accounting Income                  | 200,000      | 200,000      | 200,000      |
| Accounting Income                                   | 200,000      | 140,000      | 200,000      |
| Taxable Income adjustment – deduct unrealised gain  | -            | (100,000)    | -            |
| Taxable Income adjustment – add back depreciation   | -            | 60,000       | -            |
| Taxable Income adjustment – include unrealised gain | -            | -            | 100,000      |
| Taxable Income adjustment – deduct depreciation     | -            | -            | (60,000)     |
| Taxable Income                                      | 200,000      | 100,000      | 240,000      |



**Example 8: Adjustment of Accounting Income when the realisation basis is elected only for capital account items in case of an asset held on revenue account**

Company X sells home appliances. Due to market developments Company X considers that it will have to discount certain products in order to sell them. Accordingly, it records a write-down of AED 100,000 at the end of its Tax Period. At that time Company X still owns the inventory and so the loss recorded in Company X's income statement is unrealised.

Company X has elected to take into account gains and losses on a realisation basis in relation to all assets and liabilities held on capital account. The inventory is an asset item held on revenue account, and as such, is not covered by the election.

Therefore, Company X should not adjust its Accounting Income in computing its Taxable Income in respect of the unrealised inventory impairment of AED 100,000, i.e. the unrealised loss should be included in its Taxable Income.<sup>35</sup>

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<sup>35</sup> Article 2(4) of Ministerial Decision No. 134 of 2023.



## 6. Other Adjustments to Accounting Income

The starting point for calculating Taxable Income is the Accounting Income. This is then adjusted in accordance with Article 20(2) of the Corporate Tax Law.

This guide only covers adjustments to the extent they are related to accounting matters. Please refer to Article 20(2) of the Corporate Tax Law for additional information about determining Taxable Income.

### 6.1. Transactions with Related Parties

Transactions and arrangements between Related Parties must meet the arm's length principle.<sup>36</sup> In case of a transfer of an asset or a liability between Related Parties, if the consideration paid exceeds or is lower than the Market Value, adjustments shall be made by the transferor and the transferee, to achieve the arm's length result.<sup>37</sup>

Where the transferee overpays for an asset or a liability, generally the transferor would not recognise a gain for Corporate Tax purposes for the amount exceeding the Market Value.<sup>38</sup> However, in its Financial Statements, the transferee will record a net book value equal to the purchase price, which exceeds the Market Value. Given that the amount in excess of Market Value has not been taken into account for Corporate Tax, the transferee is not allowed to claim depreciation, amortisation, or other changes in value which relate to the untaxed gain.

Similarly, where the transferee underpays for an asset or a liability, the transferor must recognise the difference between the Market Value and the sale price in calculating its Taxable Income. In its Financial Statements, the transferee will record a net book value equal to the purchase price, which is lower than the Market Value. For Corporate Tax purposes, the transferee should not recognise the gain already taxed in the hands of the transferor. This eliminates any possible double taxation.

The adjustments to be made by the transferee in the event of a non-arm's length transfer between Related Parties are discussed further below.

#### 6.1.1. Consideration in excess of Market Value

Where the amount of consideration paid by the transferee exceeds the Market Value, the transferee shall apply an adjustment to:<sup>39</sup>

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<sup>36</sup> Article 34(1) of the Corporate Tax Law.

<sup>37</sup> Article 3 of Ministerial Decision No. 134 of 2023.

<sup>38</sup> Article 34 of the Corporate Tax Law.

<sup>39</sup> Article 3(1)(a) of Ministerial Decision No. 134 of 2023.



- a. In cases other than upon realisation (for example whilst the asset is held and used by the transferee): exclude any depreciation, amortisation or other change in value of the asset or liability to the extent that it relates to a change in value between the net book value of that asset or liability as recognised by the transferee upon the transfer and the Market Value.

Where the above circumstances apply, the transferee may elect to recognise the excess amount derived from the difference between the net book value and the Market Value as an adjustment in calculating the Taxable Income and the above adjustment shall no longer be required in respect of that asset or liability.<sup>40</sup>

- b. Upon the realisation of an asset or a liability by the transferee: include any amount by which the net book value used by the transferee when calculating the gain or loss, exceeds the Market Value identified under paragraph (a) above.

If the net book value of the asset or liability becomes equal to or less than the Market Value, or an election is made to recognise the excess amount derived from the difference between the net book value and the Market Value in Taxable Income, the adjustments under paragraphs (a) and (b) above will no longer be required.

Please note that the adjustment in this section always applies, regardless of whether the realisation basis election, as per Section [5.2](#), has been made or not.

#### **Example 9: Transactions with Related Parties – consideration in excess of Market Value**

Company A and Company B are Related Parties. Company A (transferor) owns a yacht with a Market Value of AED 10 million. It sells the yacht to Company B (transferee) for AED 15 million, in excess of Market Value by AED 5 million.

For Corporate Tax purposes, the seller, Company A, would not include the amount exceeding the Market Value, being AED 5 million, in its Taxable Income.<sup>41</sup> It would thus include AED 10 million in its Taxable Income.

As the recipient of the yacht, Company B is the transferee, and needs to consider the adjustments required for transactions with Related Parties.<sup>42</sup>

If Company B recognises in the Financial Statements the net book value of the yacht as AED 15 million (the purchase price), while the Market Value is lower at

<sup>40</sup> Articles 3(2) and 3(3) of Ministerial Decision No. 134 of 2023.

<sup>41</sup> Article 34 of the Corporate Tax Law.

<sup>42</sup> Article 3 of Ministerial Decision No. 134 of 2023.





AED 10 million, it will not be able to claim a deduction for depreciation or for any other change in value when calculating its Taxable Income, until the net book value of the yacht reduces to a value that is equal to or less than the Market Value of AED 10 million.<sup>43</sup>

Subsequently, Company B determines that the yacht should be written down to AED 12 million. No deduction is available for the AED 3 million loss for the purposes of calculating the Taxable Income as it relates to a change in value between the net book value of the yacht as recognised upon the transfer and the Market Value (i.e. AED 15 million and AED 10 million).

Later, Company B sells the yacht (a realisation event) when the net book value is still AED 12 million. It will make an adjustment to increase its Taxable Income by AED 2 million, which is the difference between the current net book value of AED 12 million and the Market Value on the original transfer of AED 10 million.<sup>44</sup> The intention in relation to the overall effect of the adjustments is to give a symmetrical result for Corporate Tax purposes and ensure that, in a situation where the consideration paid by the transferee exceeds Market Value, the transferee does not claim deductions for depreciation, amortisation, or other changes in value where the net book value exceeds the Market Value.

### 6.1.2. Consideration lower than Market Value

Where the amount of consideration paid by the transferee is lower than the Market Value, and where the transferor has included the difference between the Market Value and the consideration in its Taxable Income, the following adjustments apply:<sup>45</sup>

- a. In cases other than upon realisation: exclude any change in value of the asset or liability, to the extent that it relates to a change in the value between the Market Value of that asset or liability and its net book value as recognised by the transferee upon transfer.
- b. Upon the realisation of an asset or a liability by the transferee: reduce the amount of gain by the difference in the Market Value and the net book value at the time of transfer, other than any net amount that has not been included in the Taxable Income under paragraph (a) above.

Where the net book value of the asset or liability becomes equal or higher than the Market Value, the adjustments under paragraphs (a) and (b) above will no longer apply to that asset or liability.

<sup>43</sup> Article 3(1)(a)(1) of Ministerial Decision No. 134 of 2023.

<sup>44</sup> Article 3(1)(a)(2) of Ministerial Decision No. 134 of 2023.

<sup>45</sup> Article 3(1)(b) of Ministerial Decision No. 134 of 2023.



### **Example 10: Transactions with Related Parties – consideration lower than Market Value**

This is similar to the previous example, but addresses the situation where consideration paid is lower than Market Value. Company A and Company B are Related Parties. Company B (transferee) acquires a yacht from Company A (transferor) for AED 7 million and the Market Value of the yacht is AED 10 million.

Company A must make an adjustment in the calculation of its Taxable Income to include AED 3 million (being the difference between the Market Value and the consideration paid by Company B).

At the time of the transfer, Company B recognises the net book value of the yacht as AED 7 million (being the consideration paid) in its Financial Statements.

Company B subsequently re-values the yacht to the Market Value of AED 10 million, recognising an unrealised gain of AED 3 million for accounting purposes. When calculating its Taxable Income for the relevant Tax Period, Company B (whether or not it has made an election to use realisation basis) should exclude the unrealised gain of AED 3 million since such amount has already been recognised by Company A and taxed.<sup>46</sup>

If in the future Company B sells the yacht for AED 11 million and makes a gain of AED 1 million then the taxable gain for Company B will, therefore, be AED 1 million.<sup>47</sup>

## **6.2. Transfers within a Qualifying Group**

Where there has been a transfer of assets or liabilities between Taxable Persons that are members of the same Qualifying Group that is not a Tax Group, and where the no gain or loss relief under Article 26(1) of the Corporate Tax Law applies, the following adjustments will apply in the calculation of the Taxable Income of the transferee:<sup>48</sup>

- a. In cases other than upon realisation: to exclude any depreciation, amortisation or other change in the value of an asset or a liability, to the extent that it relates to a gain or loss that arose for the transferor and was not taxed or deducted respectively by the transferor due to the application of the provisions of Article 26(1) of the Corporate Tax Law. This means that if, for example, a gain for the transferor was not taken into account for Corporate Tax purposes under Article

<sup>46</sup> Article 3(1)(b)(1) of Ministerial Decision No. 134 of 2023.

<sup>47</sup> Article 3(1)(b)(2) of Ministerial Decision No. 134 of 2023.

<sup>48</sup> Article 4 of Ministerial Decision No. 134 of 2023.



26(1) of the Corporate Tax Law, the transferee cannot claim depreciation on that gain either.

- b. Upon the realisation of an asset or a liability: to include any amount that has not been recognised for Corporate Tax purposes under paragraph (a) above and Article 26(1) of the Corporate Tax Law. This will not apply to an amount that arose prior to the most recent acquisition where Article 26(1) of the Corporate Tax Law did not apply.

#### **Example 11: Adjustments in relation to transfers within a Qualifying Group**

Company A and Company B are members of a Qualifying Group. Company A acquires a building for AED 10 million. Company A (transferor) subsequently transfers the building to Company B (transferee) for AED 12 million at the end of Tax Period 1.

Company A has made an election to apply the provisions of Article 26(1) of the Corporate Tax Law and, therefore, the gain of AED 2 million will not be recognised for Corporate Tax purposes in the hands of Company A.

Upon transfer, Company B records the building at a net book value of AED 12 million. Company B depreciates the asset using a straight-line method over 10 years. The resulting depreciation in Tax Period 2 is AED 1.2 million. The net book value as at the end of Tax Period 2 is AED 10.8 million.

When calculating its Taxable Income in Tax Period 2, Company B will need to add back the AED 1.2 million depreciation. In this regard, Company B will continue to adjust for depreciation by adding it back to Taxable Income until the building's net book value is equal to or less than AED 10 million (the acquisition cost of the building by Company A).<sup>49</sup>

The depreciation in Tax Period 3 is AED 1.2 million. The net book value as at the end of the Tax Period 3 is AED 9.6 million.

When calculating its Taxable Income in Tax Period 3, Company B will need to add back AED 800,000 of the depreciation. This amount brings the building's net book value to AED 10 million.<sup>50</sup> Thus in Tax Period 3, Company B will be entitled to claim depreciation of AED 400,000.

<sup>49</sup> Article 4(1) of Ministerial Decision No. 134 of 2023.

<sup>50</sup> Article 4(1) of Ministerial Decision No. 134 of 2023.



If Company B retains the building in Tax Period 4, it would be entitled to claim the full depreciation amount of AED 1.2 million for the purposes of determining its Taxable Income and would thus not make any adjustment in relation to depreciation in Tax Period 4.

If, in Tax Period 4, Company B sells the building to a third party. For the purposes of calculating its Taxable Income, Company B will include the gain of AED 2 million that arose for Company A during the transfer to Company B that has not been recognised previously for Corporate Tax purposes and claim a deduction for the depreciation adjustment of AED 1.2 million previously made in Tax Period 2 and AED 800,000 made in Tax Period 3.<sup>51</sup>

Supposing the Accounting Income for Companies A and B were as follows:

|                   | Company A    |              | Company B    |              |
|-------------------|--------------|--------------|--------------|--------------|
| Tax Period        | Tax Period 1 | Tax Period 2 | Tax Period 3 | Tax Period 4 |
| Accounting Income | 2,000,000    | 3,000,000    | 3,000,000    | 5,400,000    |

The below table illustrates the adjustments to be made and the Taxable Income of Companies A and B:

|                   | Company A    |              | Company B    |                                       |
|-------------------|--------------|--------------|--------------|---------------------------------------|
| Tax Period        | Tax Period 1 | Tax Period 2 | Tax Period 3 | Tax Period 4                          |
| Accounting Income | 2,000,000    | 3,000,000    | 3,000,000    | 5,400,000                             |
| Adjustments       | (2,000,000)  | 1,200,000    | 800,000      | 2,000,000<br>(1,200,000)<br>(800,000) |
| Taxable Income    | -            | 4,200,000    | 3,800,000    | 5,400,000                             |

### 6.3. Business Restructuring Relief

Where Business Restructuring Relief under Article 27(1) of the Corporate Tax Law applies, the following adjustments shall apply in the calculation of the Taxable Income of the transferee:

- a. In cases other than upon realisation: to exclude any depreciation, amortisation or other change in the value of an asset or a liability, to the extent that it relates to a

<sup>51</sup> Article 4(2) of Ministerial Decision No. 134 of 2023.



gain or loss that arose to the transferor that has not been recognised by virtue of the Business Restructuring Relief.

- b. Upon realisation of an asset or liability: to include any amount that has not been recognised under paragraph (a) above and Article 27(1) of the Corporate Tax Law. This will not apply to an amount that arose prior to the most recent acquisition where the Business Restructuring Relief did not apply.<sup>52</sup>

The adjustments for Business Restructuring Relief operate in the same way as adjustments for transfers within a Qualifying Group.

#### 6.4. Gains and losses not recognised in the income statement

When calculating Taxable Income, Taxable Persons are required to adjust their Accounting Income to include any realised or unrealised gains and losses that are reported in the Financial Statements insofar as they would not be subsequently recognised in the statement of income.<sup>53</sup>

This may happen in different scenarios. For instance, any gain or loss recorded in the statement of other comprehensive income that will not be subsequently included or reclassified to the statement of income in future periods.

##### **Example 12: Adjustment of Accounting Income for a gain not recognised in the income statement**

Company A acquired land for AED 100,000. It recorded the land on its balance sheet under non-current assets at a net book value of AED 100,000. In the Tax Period after acquisition, Company A re-values the land to AED 120,000 due to a higher market demand in the location of the land. Company A does not intend to sell the land.

As per the Accounting Standards and the business model adopted by the company, the AED 20,000 increase in value of the land is recorded in the statement of other comprehensive income. In accordance with the Accounting Standards, Company A is not required to subsequently include this gain in its income statement.

Company A does not expect to subsequently recognise this amount in its income statement. It has not elected for the realisation basis. Therefore, Company A will adjust its Accounting Income to include the unrealised gain of AED 20,000 when calculating its Taxable Income.

<sup>52</sup> Article 5 of Ministerial Decision No. 134 of 2023.

<sup>53</sup> Article 2(1) of Ministerial Decision No. 134 of 2023.



## 6.5. Cost Method of Accounting to replace Equity Method of Accounting

Under IFRS, the Equity Method of Accounting allows parent companies (not in the context of a Tax Group) to apply special rules to account for investments in associates and joint ventures. The parent company records its proportionate share of the equity accounted investment's financial results in the income statement or statement of other comprehensive income and the profit distributions received reduce the carrying value of the investment.

To avoid double taxation of the equity accounted investment's income (i.e. at the investment and parent level), the parent company should replace the effect of Equity Method of Accounting, if applied, with the effect of Cost Method of Accounting for Corporate Tax purposes. This means that in its Taxable Income calculation, the Parent Company should not include the share of income or loss of the equity accounted investment. Instead, only Dividends and other profit distributions (which may qualify for exemption under Article 22 of the Corporate Tax Law) should be recognised for Corporate Tax purposes.

## 6.6. Other adjustments

### 6.6.1. No deduction for expenditure which does not qualify for relief under general tax deduction rules

Any expenditure that does not meet the conditions described under Articles 28 to 33 (Chapter Nine on Deductions) of the Corporate Tax Law is not deductible regardless of its treatment in the Financial Statements.<sup>54</sup>

### 6.6.2. Capital expenditure

For the purposes of Corporate Tax, the definition of expenditure that is capital in nature is that which is treated as such under the Accounting Standards applied by the Taxable Person.<sup>55</sup> Examples would be costs incurred to acquire and improve an asset, such as acquiring new machinery, improving infrastructure or building facilities, import duties, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs of site preparation, initial delivery and handling costs.

Whilst a tax deduction is not available for expenditure which is capital in nature,<sup>56</sup> the associated depreciation, amortisation or similar changes are deductible for Corporate

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<sup>54</sup> Article 7(1) of Ministerial Decision No. 134 of 2023.

<sup>55</sup> Article 7(4) of Ministerial Decision No. 134 of 2023.

<sup>56</sup> Article 28(1) of the Corporate Tax Law.



Tax purposes. However, if the capitalised expenditure would not have been deductible had it been expenditure that is not capital in nature, the associated depreciation, amortisation or similar changes would not qualify for a tax deduction.<sup>57</sup> For instance, if a Taxable Person incurred interest expenditure that would not otherwise be deductible, for example on a loan obtained from a Related Party to acquire shares in another Related Party,<sup>58</sup> and that interest expenditure was then capitalised to gain a Corporate Tax advantage, any write-off of the capitalised interest would not qualify for a deduction for Corporate Tax purposes.

Expenditure that is capital in nature that has not been deducted for the purpose of calculating Taxable Income (except where it would not have been allowable if it was not treated as capital in nature) is deductible for Corporate Tax purposes in the calculation of gains or losses upon the realisation of the asset or liability.<sup>59</sup>

### **Example 13: Deduction of capitalised expenditure**

In Tax Period 1, Company A, a Taxable Person, purchases a piece of land for AED 3,000,000 and pays AED 90,000 fees to a real estate agent.

If the fees of AED 90,000 should be capitalised according to IFRS, they are not deductible in Tax Period 1, as they are capital in nature. Company A shall add those fees to the acquisition cost so that the land cost becomes AED 3,090,000.

In Tax Period 4, Company A sells the land for AED 3,300,000.

Upon realisation, i.e. at the time of disposal in Tax Period 4, Company A shall deduct those fees when calculating the gain as follows:

Taxable gain = AED 3,300,000 – AED 3,090,000 = AED 210,000.

<sup>57</sup> Article 7(2) of Ministerial Decision No. 134 of 2023.

<sup>58</sup> Article 31(1) of the Corporate Tax Law.

<sup>59</sup> Article 7(3) of Ministerial Decision No. 134 of 2023.



## 7. Adjustments under the transitional rules

### 7.1. Background and purpose of the transitional rules

For Corporate Tax purposes, a Taxable Person's opening balance sheet shall be the closing balance sheet prepared for the period immediately before their first Tax Period.<sup>60</sup> This establishes the starting point for the application of Corporate Tax.

For instance, for assets or liabilities recorded on a historical cost basis, the opening balance sheet will be the net book value as of the last day of the Financial Year immediately preceding the first Tax Period, and not the Market Value at that date or the full original acquisition cost (if it is already partially depreciated or amortised).

During or after their first Tax Period, Taxable Persons that apply the historical Cost Method of Accounting might find themselves, upon disposal of assets or liabilities, realising gains which are partially associated with periods preceding their first Tax Period.

However, if assets or liabilities are recorded on a fair market value basis, the opening balance sheet in their first Tax Period will be the Market Value of the assets or liabilities, and the gain on disposal will not include gains related to periods preceding the first Tax Period.

Thus, where a Taxable Person applies the historical cost basis, the transitional rules aim to limit the taxable gain to the gain which arises after the start of the first Tax Period, in relation to certain categories of assets as specified in Ministerial Decision No. 120 of 2023.

#### **Example 14: Asset acquired prior to the first Tax Period**

A Taxable Person acquired an asset in a period prior to their first Tax Period for AED 1,000 (an arm's length amount).

The asset is recorded on the historical cost basis

Under the historical cost basis, the asset is reported in the opening balance sheet at the start of the first Tax Period for the same original cost of AED 1,000 (assuming no depreciation has previously been recorded on that asset), even though the Market Value of the asset at the start of the first Tax Period is AED 1,700.

<sup>60</sup> Article 61(1) of the Corporate Tax Law.





During that first Tax Period, the asset is disposed of for AED 2,200 realising a taxable gain of AED 1,200 (sale price AED 2,200 less cost AED 1,000), out of which AED 700 relates to periods prior to the first Tax Period (with AED 500 arising subsequently).

The asset is recorded on the fair market value basis

Considering the same facts, if alternatively, the Taxable Person applies the fair market value basis, the asset will be reported in its opening balance sheet for AED 1,700, the Market Value.

The realised taxable gain will be AED 500 (sale price AED 2,200 less cost AED 1,700).

Under the transitional rules, Taxable Persons with Financial Assets or Financial Liabilities, Immovable Property and Intangible Assets owned before the first Tax Period and recorded on historical cost basis may elect to adjust their Taxable Income to exclude gains or losses related to the period(s) preceding the first Tax Period as follows:

- Exclude gains and losses when disposing of Financial Assets and Financial Liabilities.<sup>61</sup>
- Exclude just gains when disposing of Immovable Property and Intangible Assets.<sup>62</sup>

The election can only be made for the relevant assets or liabilities that are measured on the historical cost basis. The election must be made upon the submission of the first Tax Return and is irrevocable except under exceptional circumstances and pursuant to approval by the FTA.<sup>63</sup>

## 7.2. Gains on disposal of Qualifying Immovable Property

A Taxable Person may elect to adjust their Taxable Income for calculating the gains on the disposal of any Qualifying Immovable Property.<sup>64</sup> The election should be made for each Qualifying Immovable Property (i.e. on an asset-by-asset basis) upon submission of the first Tax Return.<sup>65</sup>

<sup>61</sup> Article 4 of Ministerial Decision No. 120 of 2023.

<sup>62</sup> Articles 2 and 3 of Ministerial Decision No. 120 of 2023.

<sup>63</sup> Articles 2(5), 3(4) and 4(3) of Ministerial Decision No. 120 of 2023.

<sup>64</sup> Article 2(1) of Ministerial Decision No. 120 of 2023.

<sup>65</sup> Article 2(5) of Ministerial Decision No. 120 of 2023.



### 7.2.1. What is a Qualifying Immovable Property

A Qualifying Immovable Property is defined as any Immovable Property that meets all of the following conditions:<sup>66</sup>

- it is owned prior to the first Tax Period;
- it is measured in the Financial Statements on a historical cost basis; and
- it is disposed of or deemed to be disposed of during or after the first Tax Period for the purposes of determining the Taxable Income for a value exceeding the net book value.

### 7.2.2. Two methods to compute the excluded amount of the gain

In relation to the Qualifying Immovable Property, there are two methods to compute the excluded amount of the gain and the Taxable Person may elect either method. The methods are as follows:<sup>67</sup>

Method 1: Valuation method

The excluded amount is the amount of the gain that would have arisen had the Qualifying Immovable Property been disposed of at Market Value at the start of the first Tax Period, and considering the cost of the Qualifying Immovable Property as the higher of the original cost and the net book value.<sup>68</sup>

The Market Value at the start of the first Tax Period shall be determined by the relevant government competent authority in the UAE such as the Department of Municipalities and Transport (DMA) in Abu Dhabi, the Dubai Land Department (DLD) in Dubai, or similar authorities for each Emirate. It may also be determined by outsourced third parties authorised by the government competent authority.

The Market Value will, therefore, be determined based on the government competent authority's rules and regulations.

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<sup>66</sup> Article 1 and Article 2(1) of Ministerial Decision No. 120 of 2023.

<sup>67</sup> Article 2(2) of Ministerial Decision No. 120 of 2023.

<sup>68</sup> Article 2(2)(a) of Ministerial Decision No. 120 of 2023.



### Example 15: Valuation method on Qualifying Immovable Property

Company C has a first Tax Period from 1 August 2023 to 31 July 2024.

On 1 August 2023, the opening balance sheet shows the following in respect of an Immovable Property:

- Original cost: AED 20 million
- Accumulated depreciation: AED 3 million
- Net book value: AED 17 million

The Immovable Property was purchased on 1 August 2020 (assumed to be at arm's length) and is measured on a historical cost basis.

The Immovable Property is a Qualifying Immovable Property.

In the Tax Return of the first Tax Period, Company C makes an election for the transitional relief (under the valuation method) in respect of the Immovable Property.

Market Value at the start of the first Tax Period:

Step 1 – Company C obtains a valuation from the relevant government competent authority in the UAE and the Market Value of the Qualifying Immovable Property on 1 August 2023, as determined by the government competent authority is AED 24 million.

Taxable Income adjustments upon disposal:

Step 2 - Company C sells the Immovable Property for AED 27 million on 31 July 2024, when its net book value is AED 16,000,000 following the recognition of depreciation of AED 1,000,000 for the year ended 31 July 2024.

The Taxable Income adjustments for the Tax Period of disposal will therefore be as follows:

| Calculation of total gain                                  | Amounts (in AED) |
|--|------------------|
| Sale price   | 27,000,000       |
| Net book value   | 16,000,000       |
| Total gain   | 11,000,000       |
| Calculation of excluded gain (i.e. pre-Corporate Tax gain) |                  |
| Market Value   | 24,000,000       |



|  |            |
|--|------------|
| Higher of the original cost and the net book value (i.e. AED 20,000,000 vs AED 17,000,000) | 20,000,000 |
| Excluded gain<br>(Market Value - Higher of the original cost and the net book value)       | 4,000,000  |
| Calculation of taxable gain (i.e. post-Corporate Tax gain)                                 |            |
| Taxable gain<br>(Total gain – Excluded gain)   | 7,000,000  |

#### Method 2: Time apportionment method

The excluded gain amount is calculated by applying four steps to pro-rate the excluded gain based on the period elapsed between the time the asset was purchased and the start of the first Tax Period.

To explain these steps, the same facts mentioned in the previous example are used below (except that the Taxable Person elects to use the time apportionment method):<sup>69</sup>

#### **Example 16: Time apportionment method on Qualifying Immovable Property (same facts as Example 15)**

The Taxable Income adjustments for the Tax Period of disposal will be as follows:

Calculation of the excluded gain (i.e. pre-Corporate Tax gain):

Step 1 - Calculate the amount of gain that would have arisen upon the disposal of the Qualifying Immovable Property, had its cost been equal to the higher of the original cost and the net book value at the start of the first Tax Period.

$$\text{Gain} = 27,000,000 - 20,000,000 = 7,000,000$$

Step 2 - Divide the number of days the Qualifying Immovable Property is owned before the first Tax Period by the total number of days the Qualifying Immovable Property is owned.

<sup>69</sup> Article 2(2)(b) of Ministerial Decision No. 120 of 2023.



$$A = \frac{\text{the number of days the Qualifying Immovable Property is owned before the first Tax Period}}{\text{The total number of days the Qualifying Immovable Property is owned}}$$

$$A = \frac{1,094 \text{ (Number of days between 1 August 2020 and 31 July 2023)}}{1,460 \text{ (Number of days between 1 August 2020 and 31 July 2024)}} = 0.7493$$

Step 3 - Multiply the amount calculated in Step 1 by the amount calculated in Step 2

$$B = \text{Gain} \times A$$

$$B = 7,000,000 \times 0.7493 = 5,245,100$$

Step 4 - The amount calculated in Step 3 shall be the amount of gain on the Qualifying Immovable Property excluded from the Taxable Income during the relevant Tax Period.

$$\text{Excluded gain amount} = 5,245,100$$

Calculation of the taxable gain (i.e. post-Corporate Tax gain):

$$\begin{aligned} \text{Total gain} &= \text{Sale price} - \text{Net book value} \\ &= 27,000,000 - 16,000,000 \\ &= 11,000,000 \end{aligned}$$

$$\begin{aligned} \text{Taxable gain} &= \text{Total gain} - \text{Excluded gain} \\ &= 11,000,000 - 5,245,100 = 5,754,900 \end{aligned}$$

### 7.3. Gains on disposal of Qualifying Intangible Assets

A Taxable Person may elect to adjust its Taxable Income for calculating the gains on disposal of all Qualifying Intangible Assets.<sup>70</sup> This could include, for example goodwill, trademarks and patents.

The election applies to all Qualifying Intangible Assets, i.e. it is not an asset-by-asset election and will be deemed irrevocable except under exceptional circumstances and pursuant to approval by the FTA.<sup>71</sup>

<sup>70</sup> Article 3(1) of Ministerial Decision No. 120 of 2023.

<sup>71</sup> Article 3(4) of Ministerial Decision No. 120 of 2023.



### 7.3.1. What is a Qualifying Intangible Asset

A Qualifying Intangible Asset is defined as any Intangible Asset that meets all of the following conditions:<sup>72</sup>

- it is owned prior to the first Tax Period;
- it is measured in the Financial Statements on a historical cost basis; and
- it is disposed of or deemed to be disposed of during or after the first Tax Period for the purposes of determining the Taxable Income for a value exceeding the net book value.

An Intangible Asset is defined as an intangible asset as defined in the Accounting Standards applied by the Taxable Person.<sup>73</sup>

### 7.3.2. How to compute the excluded gain

Only the time apportionment method can be used to calculate the excluded gain for Qualifying Intangible Assets. It is based on the period elapsed between the time the asset was purchased and the start of the first Tax Period.<sup>74</sup>

Except under exceptional circumstances and pursuant to approval by the FTA, only a maximum period of (10) ten years can be used to calculate the number of days the Qualifying Intangible Asset is owned before the first Tax Period.<sup>75</sup>

The calculation is demonstrated in the following example:

#### **Example 17: Taxable Income adjustments for Qualifying Intangible Assets**

Company D has a first Tax Period starting from 1 August 2023 to 31 July 2024. On 1 August 2023, its opening balance sheet shows the following in respect of Intangible Assets:

- Original cost: AED 15 million
- Amortisation: AED 5 million
- Net book value: AED 10 million

The Intangible Assets were acquired on 1 August 2021 on an arm's length basis, and are measured on a historical cost basis.

<sup>72</sup> Article 3(1) of Ministerial Decision No. 120 of 2023.

<sup>73</sup> Article 1 of Ministerial Decision No.120 of 2023.

<sup>74</sup> Article 3(2) of Ministerial Decision No. 120 of 2023.

<sup>75</sup> Article 3(5) of Ministerial Decision No. 120 of 2023.



Company D sells the Intangible Assets on 31 July 2024 for AED 20 million. The Intangible Assets are considered Qualifying Intangible Assets.

In the Tax Return of the first Tax Period, Company D makes an election for the transitional relief in respect of all its Qualifying Intangible Assets.

Calculation of the excluded gain (i.e. pre-Corporate Tax gain):

Step 1 – Calculate the amount of gain that would have arisen upon the disposal of the Qualifying Intangible Asset, had its cost been equal to the higher of the original cost and the net book value at the start of the first Tax Period.

$$\text{Gain} = 20,000,000 - 15,000,000 = 5,000,000$$

Step 2 - Divide the number of days the Qualifying Intangible Asset is owned before the first Tax Period by the total number of days the Qualifying Intangible Asset is owned.

$$A = \frac{\text{the number of days the Qualifying Immovable Property is owned before the first Tax Period}}{\text{The total number of days the Qualifying Immovable Property is owned}}$$

$$A = \frac{729 \text{ (Number of days between 1 August 2021 and 31 July 2023)}}{1,095 \text{ (Number of days between 1 August 2021 and 31 July 2024)}} = 0.6657$$

Step 3 - Multiply the amount calculated in Step 1 by the amount calculated in Step 2

$$B = \text{Gain} \times A$$

$$B = 5,000,000 \times 0.6657 = 3,328,500$$

Step 4 - The amount calculated in Step 3 shall be the amount of gain on the Qualifying Intangible Asset excluded from the Taxable Income during the relevant Tax Period.

$$\text{Excluded gain amount} = 3,328,500$$

Calculation of the taxable gain (i.e. post-Corporate Tax gain)

$$\begin{aligned} \text{Total gain} &= \text{Sale price} - \text{Net book value} \\ &= 20,000,000 - 10,000,000 \\ &= 10,000,000 \end{aligned}$$

$$\begin{aligned} \text{Taxable gain} &= \text{Total gain} - \text{Excluded gain} \\ &= 10,000,000 - 3,328,500 \\ &= 6,671,500 \end{aligned}$$



## 7.4. Gains and losses on disposal of Qualifying Financial Assets and Qualifying Financial Liabilities

A Taxable Person may elect to adjust its Taxable Income when calculating the gains and losses on all Qualifying Financial Assets and Qualifying Financial Liabilities.<sup>76</sup> This could include, for example, investments held on trading account (for example shareholdings which do not qualify for the Participation Exemption) and loans payable or receivable.

When made, this election applies to all Qualifying Financial Assets and Qualifying Financial Liabilities, i.e. it is not made at the level of individual assets and liabilities. It is deemed irrevocable except under exceptional circumstances and pursuant to approval by the FTA.<sup>77</sup>

Unlike other similar adjustments (see Sections [7.2](#) and [7.3](#)), this election applies not only for gains but also for losses.

### 7.4.1. What is a Qualifying Financial Asset

A Qualifying Financial Asset is defined as a Financial Asset that meets all of the following conditions:<sup>78</sup>

- it is owned prior to the first Tax Period; and
- it is measured in the Financial Statements on a historical cost basis.

A Financial Asset is a financial asset as defined in the Accounting Standards applied by the Taxable Person.<sup>79</sup>

### 7.4.2. What is a Qualifying Financial Liability

A Qualifying Financial Liability is defined as a Financial Liability that meets all of the following conditions:<sup>80</sup>

- it is owned prior to the first Tax Period; and
- it is measured in the Financial Statements on a historical cost basis.

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<sup>76</sup> Article 4(1) of Ministerial Decision No. 120 of 2023.

<sup>77</sup> Article 4(3) of Ministerial Decision No. 120 of 2023.

<sup>78</sup> Article 1 and Articles 4(1)(a) and 4(1)(b) of Ministerial Decision No. 120 of 2023.

<sup>79</sup> Article 1 of Ministerial Decision No. 120 of 2023.

<sup>80</sup> Article 1 and Article 4(1)(a) and 4(1)(b) of Ministerial Decision No. 120 of 2023.





A Financial Liability is a financial liability as defined in the Accounting Standards applied by the Taxable Person.<sup>81</sup>

### 7.4.3. How to compute the excluded gain or loss

There is only one method available for computing the excluded gain or loss on Qualifying Financial Assets and Qualifying Financial Liabilities. The Taxable Person excludes the amount of the gain or loss that would have arisen, at the start of the first Tax Period, had the Qualifying Financial Assets or Qualifying Financial Liabilities been disposed of at Market Value and considering the cost of these Assets or Liabilities as being equal to the net book value.<sup>82</sup>

There is no requirement for Market Value to be determined by a competent government authority.

#### **Example 18: Taxable Income adjustments for Qualifying Financial Assets**

Company E has a first Tax Period from 1 February 2024 to 31 January 2025. On 1 February 2024, its opening balance sheet shows the following Financial Assets:

Shares in Company Z: AED 10,000 representing 1,000 shares for a cost of AED 10 per share.

The shares in Company Z are Qualifying Financial Assets. These shares were bought on the stock exchange, i.e. on an arm's length basis, in September 2023 for AED 10,000 and do not benefit from any other exemption or relief for Corporate Tax purposes.

In its first Tax Return, Company E makes the election to apply the transitional relief in respect of all its Qualifying Financial Assets and Qualifying Financial Liabilities.

Company E sells the shares in August 2025 on the stock exchange for AED 5 per share and for a total of AED 5,000.

Calculation of the excluded gain (loss), i.e. pre-Corporate Tax gain (loss):

Step 1 – Market Value at the start of the first Tax Period

<sup>81</sup> Article 1 of Ministerial Decision No. 120 of 2023.

<sup>82</sup> Article 4(2) of Ministerial Decision No. 120 of 2023.



Since the shares are traded on a stock exchange, the Market Value at the start of the first Tax Period, would be the price traded as of 1 February 2024. Assuming the price per share was AED 7:

Total Market Value = AED 7,000

Step 2 – The cost (equal to the net book value)

The cost (equal to the net book value) = AED 10,000

Step 3 – Excluded gain (loss) amount

Excluded gain (loss) amount =  
Market Value at the start of the first Tax Period – the cost (equal to the net book value)

Excluded gain (loss) amount  
= 7,000 – 10,000  
= (3,000)

Calculation of the taxable gain (loss), i.e. post-Corporate Tax gain (loss):

Total gain (loss) = Sale price – Net book value  
= 5,000 – 10,000  
= (5,000)

Taxable gain or allowable (loss) = Total gain (loss) – Excluded gain (loss)  
= (5,000) – (3,000) = (2,000)

## 7.5. Impact of group ownership

Where relevant assets and liabilities (Immovable Property, Intangible Assets, or Financial Assets and Financial Liabilities) are owned by another member of a Qualifying Group or a Tax Group prior to acquisition by the Taxable Person, there is a “look through” provision such that the calculation of the excluded gain or loss also takes account of that period of ownership.<sup>83</sup> The conditions are set out below.

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<sup>83</sup> Article 5 of Ministerial Decision No. 120 of 2023.



### 7.5.1. Ownership of Transferred Assets and Liabilities

Transferred Assets and Liabilities are Immovable Property, Intangible Assets, Financial Assets and Financial Liabilities that have been held solely by the Taxable Person and by one or more of the following Persons:<sup>84</sup>

- a member of the same Qualifying Group of the Taxable Person that has acquired the relevant assets or liabilities in accordance with Article 26(1) of the Corporate Tax Law; or
- a member of the same Tax Group of the Taxable Person that has acquired the relevant assets or liabilities in accordance with Article 42(1) of the Corporate Tax Law.

The term ownership includes the ownership by any Person who falls within the above categories.

### 7.5.2. Calculation of the period of ownership of Non-Financial Transferred Assets

Assets, other than Financial Assets, which are included within the definition of Transferred Assets and Liabilities are referred to as Non-Financial Transferred Assets.<sup>85</sup>

For the purpose of calculating the excluded amount of gain in respect of Non-Financial Transferred Assets under the time apportionment method, the period of the ownership includes the period of ownership by:<sup>86</sup>

- any member of the same Qualifying Group of the Taxable Person that has acquired the relevant assets in accordance with Article 26(1) of the Corporate Tax Law; or
- any member of the same Tax Group of the Taxable Person that has acquired the relevant assets in accordance with Article 42(1) of the Corporate Tax Law.

Any period of ownership before the most recent Non-Qualifying Transfer is excluded.<sup>87</sup> A Non-Qualifying Transfer is a transfer that is not covered, or would not have been covered had the Corporate Tax Law been effective, under Article 26(1) or under Article 42(1) of the Corporate Tax Law.<sup>88</sup>

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<sup>84</sup> Article 5(1) of Ministerial Decision No. 120 of 2023.

<sup>85</sup> Article 5(2)(a) of Ministerial Decision No. 120 of 2023.

<sup>86</sup> Article 5(3) of Ministerial Decision No. 120 of 2023.

<sup>87</sup> Article 5(4) of the Ministerial Decision No. 120 of 2023.

<sup>88</sup> Article 5(2)(c) of Ministerial Decision No. 120 of 2023.



### Example 19: Computation of excluded gain of an Immovable Property for a Taxable Person within a Qualifying Group

Company F and G are members of a Qualifying Group.<sup>89</sup> Both companies have a first Tax Period from 1 January 2024 to 31 December 2024. On 1 January 2024, Company G's opening balance sheet includes land of AED 30,000,000.

Additional information:

- Both companies are subsidiaries of Company H. Since 2010, Company H has owned 90% of Company F and 70% of Company G. Company H's shareholding in Company G increased to 90% on 1 January 2021.
- Company F purchased the land from a third party on 1 January 2019 for AED 27,000,000.
- On 1 September 2020, Company F transferred the land to Company G for AED 30,000,000.
- The sale transaction was conducted at arm's length.
- The land is recorded in Company G's Financial Statements on a historical cost basis.
- Company G sells the land on 31 December 2024 to a third party for AED 35,000,000.
- Company G elects to adjust their Taxable Income for calculating the gain for the land using the time apportionment method (see Section [7.2](#)).

Summary of the relevant facts for the calculation of the excluded amount of gain:

| Particulars | Purchase date and amount (AED) | Transfer date and amount (AED) | Sale date and amount (AED) |
|-------------|--------------------------------|--------------------------------|----------------------------|
| Land        | 1 January 2019                 | 1 September 2020               | 31 December 2024           |
|             | 27,000,000                     | 30,000,000                     | 35,000,000                 |

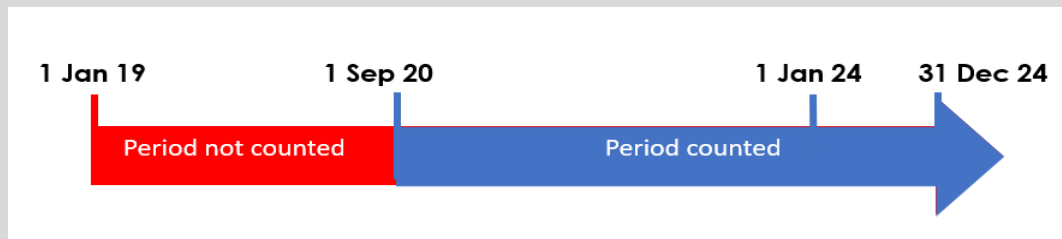
Analysis:

Both Company G and Company F are members of a Qualifying Group in 2024. However, they would not have been members of the same Qualifying Group had the Corporate Tax Law been effective on 1 September 2020 (the date of the transfer). This is because Company H had a 70% shareholding in Company G at the time of transfer. Accordingly, the ownership period from 1 January 2019 to 1 September

<sup>89</sup> Article 26 of the Corporate Tax Law.



2020 when the Immovable Property was held by Company F cannot be included in the total ownership period of Company G in the same asset.



Note: Had Company H held more than 75% in both Company G and Company F at the time of transfer, then Company G's ownership period would have been counted from 1 January 2019.

Calculation of the excluded amount of gain of the land:

Step 1 - Calculate the amount of gain that would have arisen upon the disposal of the Qualifying Immovable Property, had its cost been equal to the higher of the original cost and the net book value at the start of the first Tax Period.

$$\text{Gain} = 35,000,000 - 30,000,000 = 5,000,000$$

Step 2 - Divide the number of days the Qualifying Immovable Property is owned before the first Tax Period by the total number of days the Qualifying Immovable Property is owned.

$$A = \frac{\text{the number of days the Qualifying Immovable Property is owned before the first Tax Period}}{\text{The total number of days the Qualifying Immovable Property is owned}}$$

$$A = \frac{1,216 \text{ (Number of days between 1 September 2020 and 31 December 2023)}}{1,582 \text{ (Number of days between 1 September 2020 and 31 December 2024)}} = 0.7686$$

Only the period from 1 September 2020 is considered.

Step 3 – Multiply the amount calculated in paragraph Step 1 by the amount calculated in Step 2

$$B = \text{Gain} \times A$$

$$B = 5,000,000 \times 0.7686 = 3,843,000$$

Step 4 - The amount calculated in Step 3 shall be the amount of gain on the Qualifying Immovable Property excluded from the Taxable Income during the relevant Tax Period.



Excluded gain = 3,843,000

Accordingly, the taxable gain would be decreased by AED 3,843,000 as follows:

| Description   | Amount in AED |
|---------------|---------------|
| Total gain    | 5,000,000     |
| Excluded gain | (3,843,000)   |
| Taxable gain  | 1,157,000     |

## 7.6. Subsequent movements in other assets or liabilities in the opening balance sheet

The Corporate Tax treatment of movements in other items in the opening balance sheet will follow the accounting treatment. For example, a provision in respect of inventory recorded before a company was subject to Corporate Tax and then reversed after it was subject to Corporate Tax would normally be taxable at the time the credit was recorded in the accounts. This is because inventory is not an Immovable Property, an Intangible Asset or a Financial Asset eligible for the transitional relief.

## 7.7. Arm's length principle: opening balance sheet

Items in the opening balance sheet relating to transactions with Related Parties, such as other group companies, should reflect arm's length market pricing, consistent with the arm's length principle.<sup>90</sup> Where this is not the case, any deductible or taxable amounts in the first and subsequent Tax Periods (where relevant) should be adjusted to reflect the arm's length basis.

For example, if inventory was acquired from another group company prior to the first Tax Period at a price higher than the Market Value, the subsequent tax deduction in respect of the related cost of goods would be limited to the arm's length amount.

<sup>90</sup> Article 61(2) of the Corporate Tax Law.



## 8. Updates and Amendments

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