

The background of the slide is a nighttime photograph of a city skyline, likely Dubai, featuring several illuminated skyscrapers and a prominent bridge structure in the foreground. The lights from the buildings and bridge are reflected in the water below. The overall scene is dark with vibrant blue and white lights from the city.

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Comprehensive Financial Services

UAE Corporate Tax Law and IFRS Perspectives on 'Deferred Taxes'

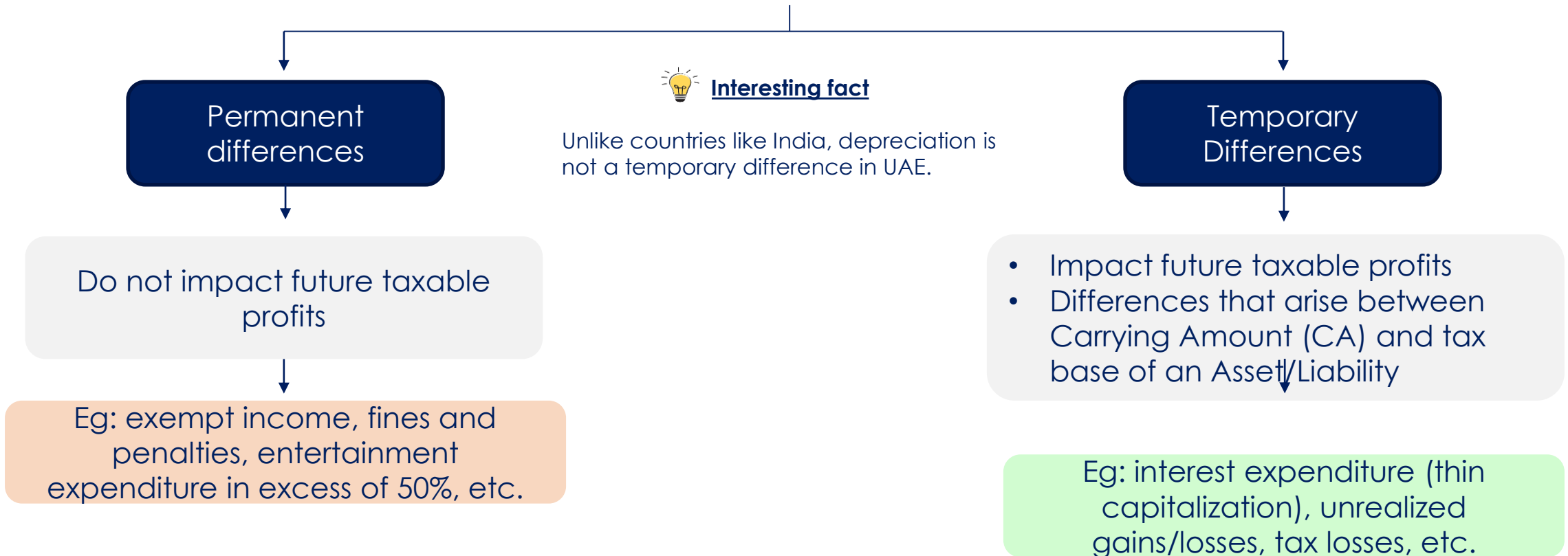
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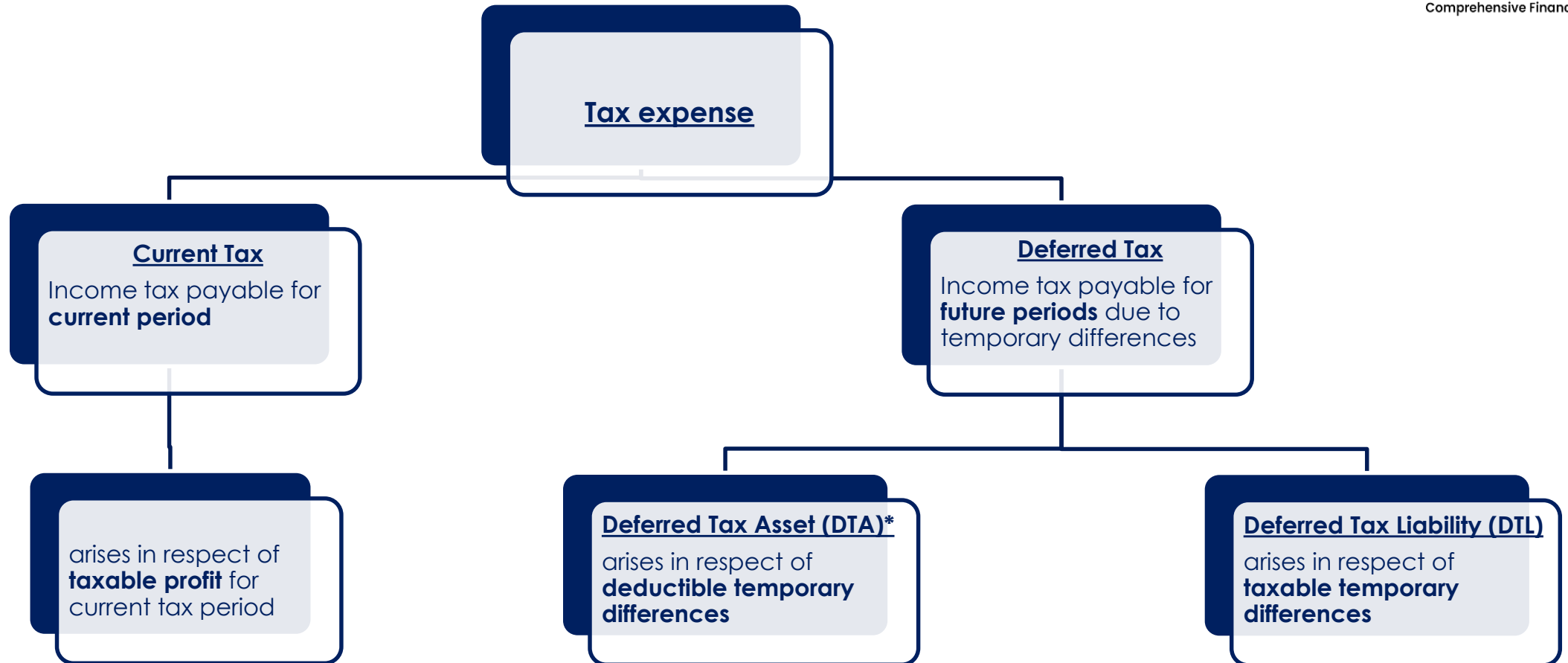
The following webinar is presented by a tax professionals and is based on our understanding of tax laws and regulations as of the knowledge as on current date. While we strive to provide accurate and reliable information, we cannot guarantee the completeness or accuracy of the content presented during this webinar. Tax laws can be complex and may vary depending on the specific circumstances and jurisdiction. Therefore, it is essential to conduct independent research and consult the relevant tax authorities to ensure that you have the most current and accurate information. By participating in this webinar, you acknowledge and agree that we shall not be held responsible for any errors, omissions, or damages arising from the use of the information provided. We disclaim any liability for any actions taken or decisions made based on the content of this webinar. Thank you for your understanding.

IAS-12 Income Taxes

- International Accounting Standard (IAS) - 12 prescribes guidelines for accounting of income taxes.
- The primary complexity in tax accounting stems from the difference between taxable profits and accounting profits.
- In essence all the differences can be divided into two categories.



Tax Expense: A broad overview



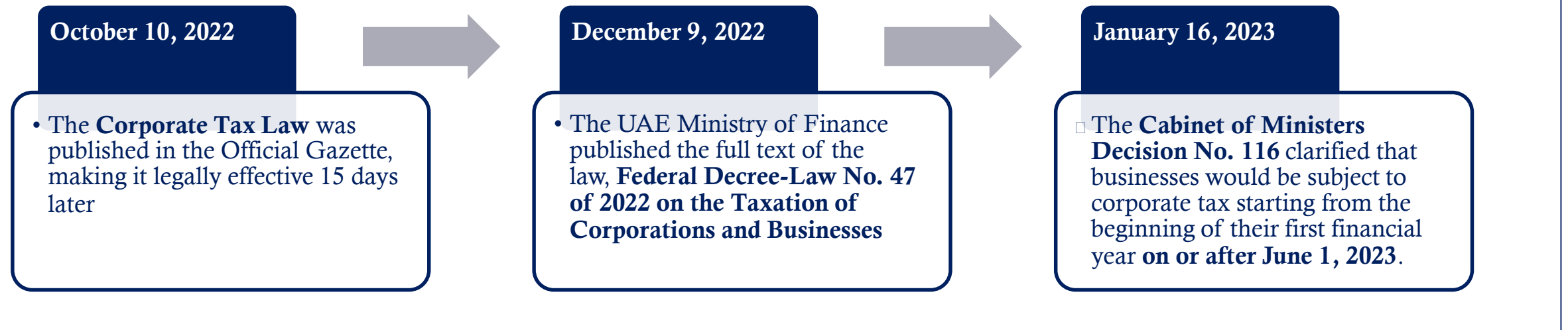
*DTA is recognized only if it is probable that taxable profits will be available in the future

UAE CT Law – Enacted or Substantively Enacted

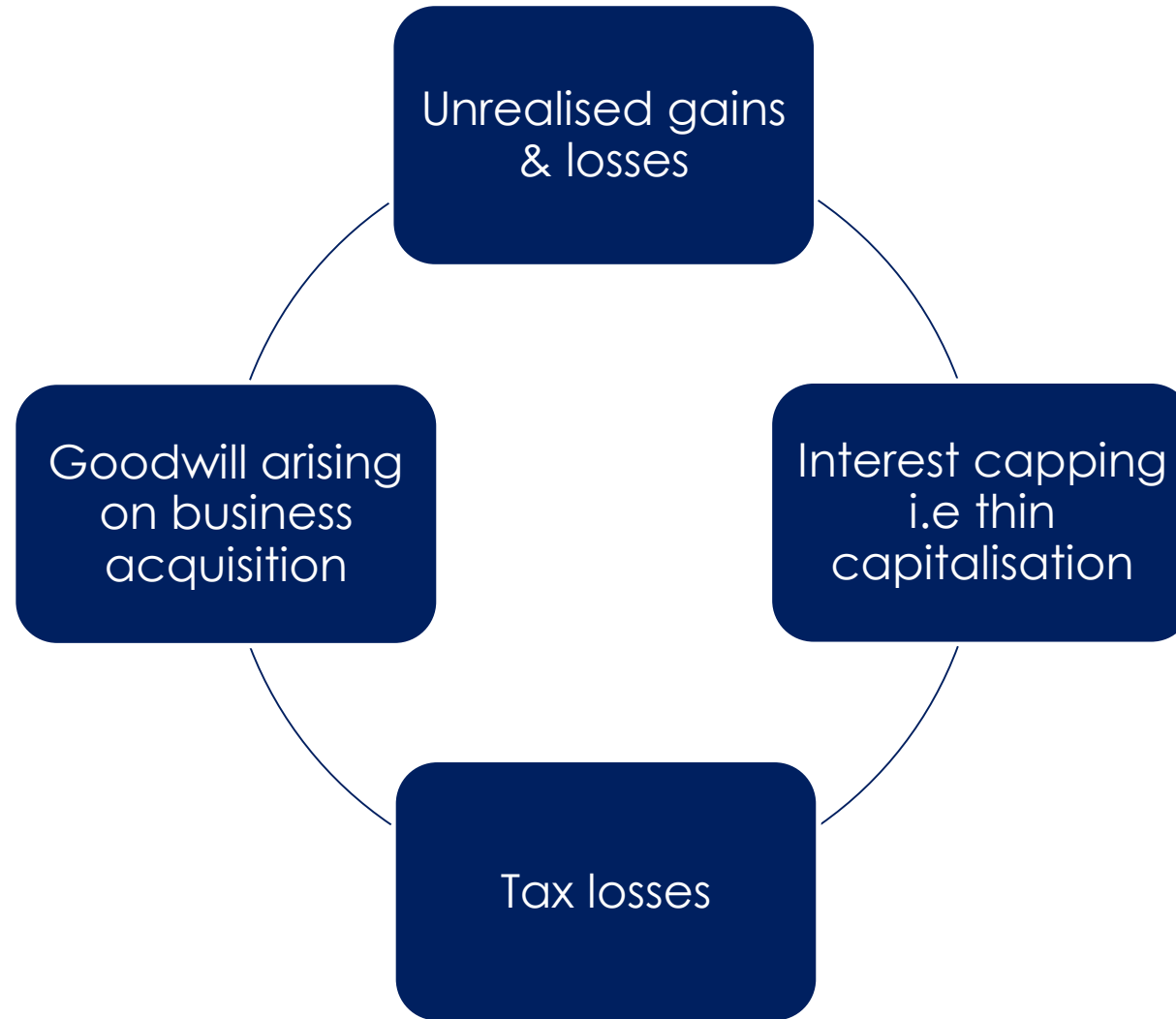
According to IAS-12:

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been **enacted** or **substantively enacted** by the end of the reporting period.

Here's a breakdown of the key dates related to the introduction of corporate tax in the UAE:

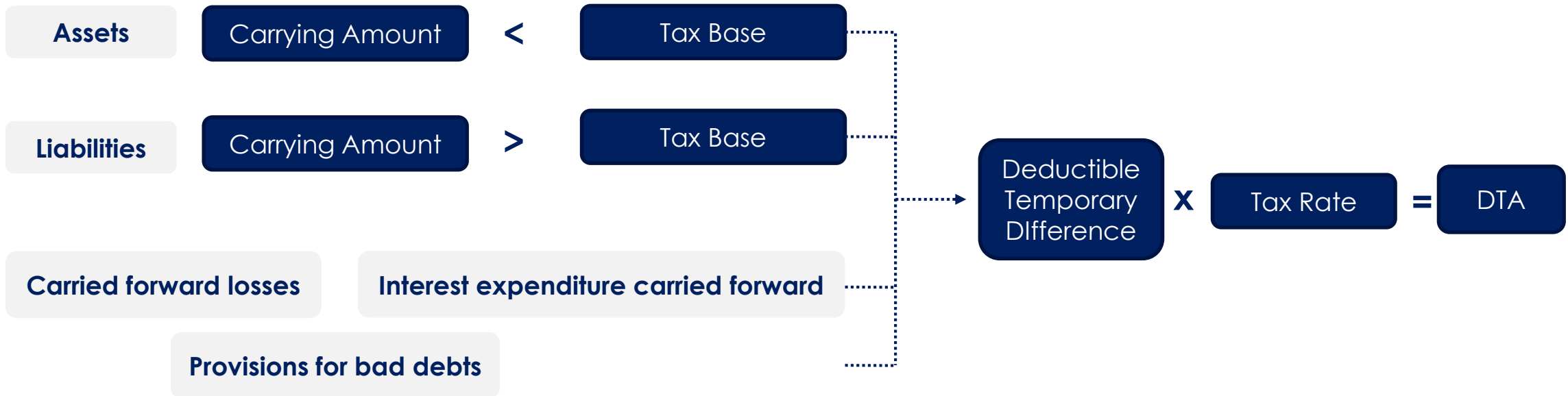


UAE CT Law- Potential Temporary Differences



Deferred Tax Assets (DTA)

- It arises due to deductible temporary differences.
- The fundamental principle is that you pay more taxes today, which will be allowed as a deduction in future while calculating tax expense.
- Instances that may lead to creation of Deferred Tax Asset:



Deferred Tax Assets (DTA)

Example- Net Interest Expenditure

Relevant extracts of Company X	Amount in AED	
	Amount	Amount
<u>Year-1</u>		
A- Net Interest Expenditure (assumed no interest income)		80,000,000
EBITDA	200,000,000	
(a) 30% EBITDA	60,000,000	
(b) de-minimis threshold	12,000,000	
B- Deductible interest expenditure for the tax period being higher of (a) and (b)		(60,000,000)
Interest expense disallowed and carried forward to subsequent tax period (A-B)		20,000,000
<u>Deferred Taxes</u>		
Amount booked in books of accounts (C)		80,000,000
Tax base (D)		60,000,000
Deductible temporary difference (E=C-D)		20,000,000
Tax rate(F)		9%
Deferred Tax Asset (E*F)		1,800,000

Deferred Tax Assets (DTA)

Example- Carried Forward Losses

Relevant extracts of Company X	Amount in AED	
	Year- 1	Year- 2
Taxable Income/(Losses)	(12,000,000)	13,000,000
Brought Forward Tax Losses	-	(12,000,000)
75% of taxable income	-	(9,750,000)
Loss eligible for set-off	-	(9,750,000)
Loss carried forward for indefinite period	(12,000,000)	(2,250,000)
<u>Deferred Taxes:</u>		
DTA – Opening Balance	-	1,080,000
DTA – For the Period	1,080,000	(877,500)*
DTA – Closing Balance	1,080,000	202,500

*DTA created in year – 1 reversed in year -2 up to set-off of AED 9,750,000

Deferred Tax Liabilities (DTL)

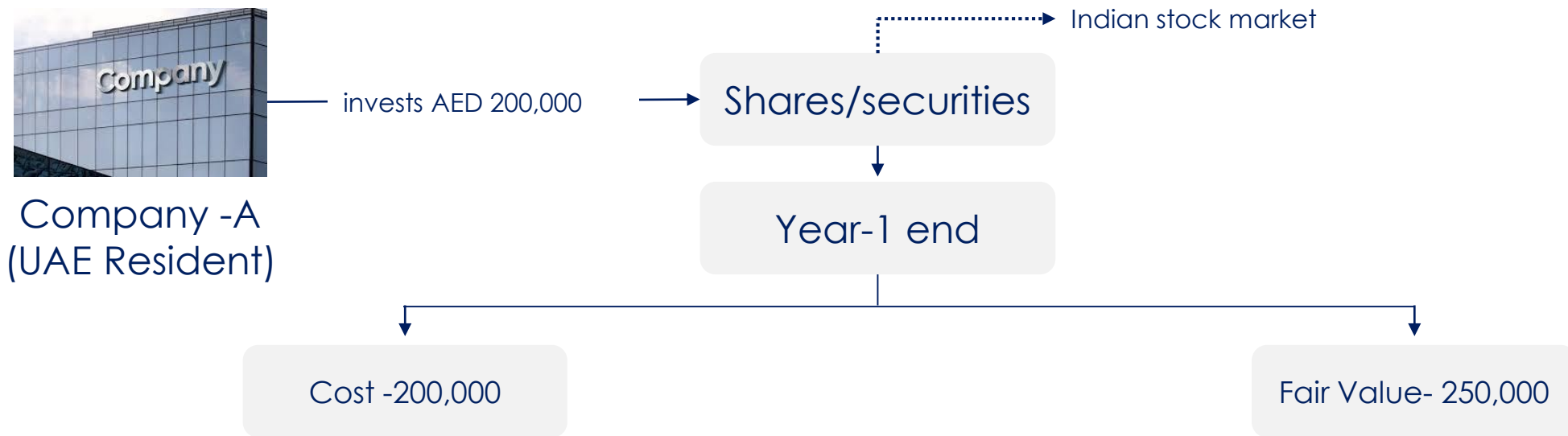
- It arises due to taxable temporary differences.
- The fundamental principle is that you pay less taxes today, which will be added while calculating tax expense in future.
- Instances that may lead to creation of Deferred Tax Liability:



 **Interesting fact**

Corporate Tax doesn't provide any unconditional benefit which may result into creation of DTL.

Deferred Tax Liabilities (DTL)



Deferred Tax Implications	Amount in AED
Historical cost	200,000
Carrying Amount	250,000
Tax Base	200,000
Taxable Temporary difference	50,000
Tax rate	9%
Deferred tax liability	4,500

*Company-A measures it's investments at FVTPL

**Company-A opts to tax gains on realization basis

Thoughts to Ponder

Free-Zones

Do QFZPs need to account for DTA/DTL?

Small Business relief

Are People opting for Small business relief required to account for DTA/DTL?

Participation exemption

Will this create a permanent difference or a temporary difference?

BEPS Pillar II

Are MNCs expected to create DTL since the 15% tax rate is substantively enacted?

Deferred Tax Evaluation – Opening balances

However, Cabinet of Ministers Decision No. 116 states that businesses would be subject to corporate tax starting from the beginning of their first financial year on or after June 1, 2023

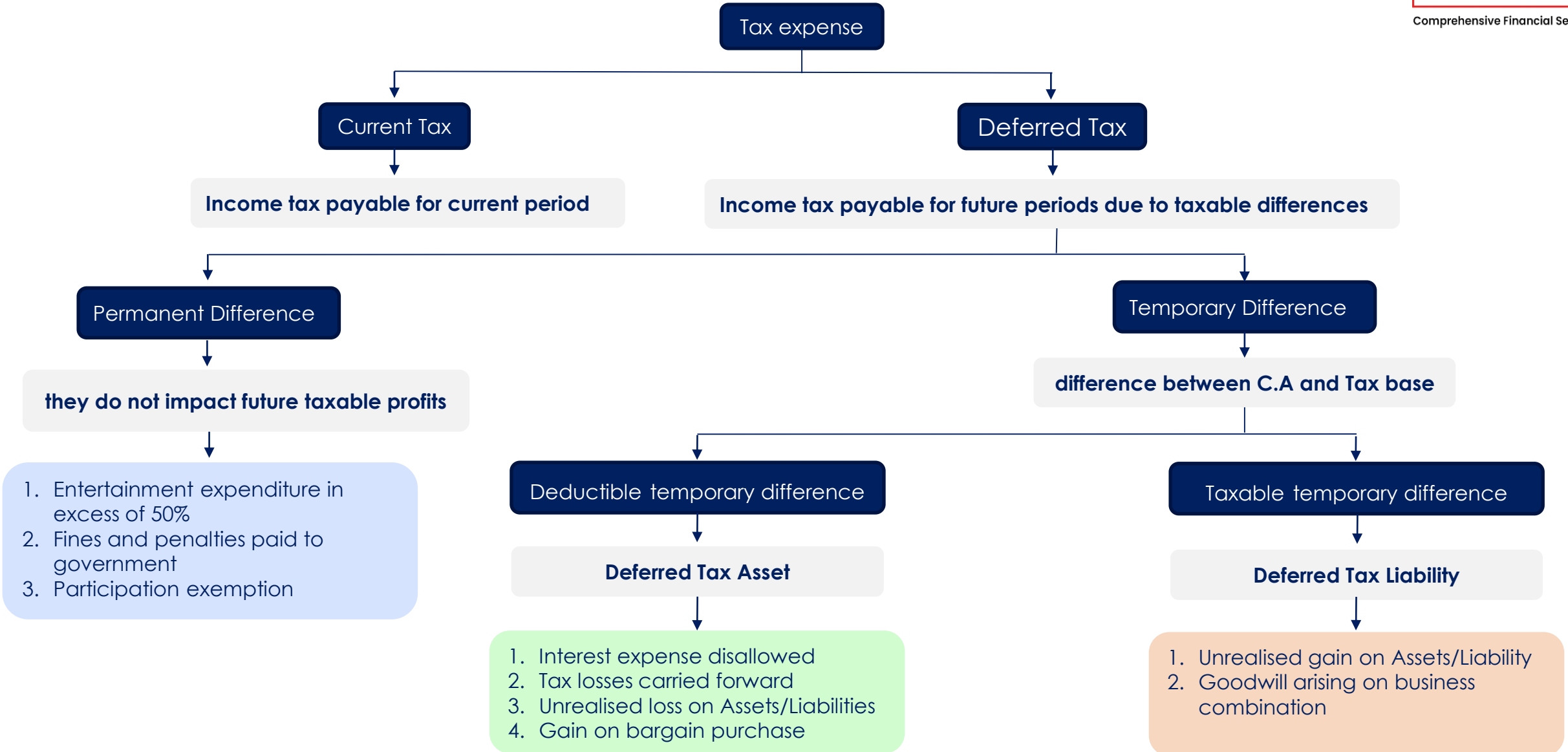
No corporate tax liability will arise for any gains during the financial year 2023. That is, even if the assets/liabilities are settled in future, the gain attributable to financial year 2023 will not be liable to tax.

According to IAS-12, the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

Since the economic benefits derived during the year 2023 are not subject to corporate tax, their tax base is equal to their carrying amount

Hence, DTA/DTL provisions may not be necessary for the financial year 2023.
(However, one may adopt a conservative approach and create DTA/DTL).

Summary



Thank you!



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