Comprehensive Financial Services

UAE Depreciation Rules for Investment Properties under Corporate Tax

Introduction

Ministerial Decision No. 173 of 2025, introduced new rules for **investment properties held at fair value** under UAE Corporate Tax. Effective **1 January 2025**.

Understanding Key Terms

Term	Definition
Investment Property	A building or part of a building is held to earn rental income or for capital appreciation under IAS 40, excluding land and other exclusions in IAS 40.
Original Cost	As defined under IAS 40 and includes capitalised costs
Tax Written Down Value	Opening Value minus depreciation deduction previously claimed under this Decision.
Opening Value	Original Cost less 4% per year held before the tax period where election applies.

Election to Apply Depreciation to Investment Property Held at Fair Value

Taxable Persons who use accrual basis accounting → and apply realisation basis under Corporate Tax Law → Can claim depreciation on investment properties held at fair value.

- **Depreciation is the lower of:**

4% of Original Cost per year (pro-rated if applicable), or

The Tax Written Down Value at the start of the Tax Period

- Taxpayers using accrual accounting may elect to recognise gains and losses on a realisation basis while making an election under this decision if not selected while filing tax return for first tax period.

- Such Election applies to all investment properties held at fair value.

Election Timeline

Holds property during any tax period on or after Jan 2025	Property acquired on or after Jan 2025 tax period	Person claiming Small Business Relief
The election may be made in the Tax Return for the relevant Tax Period.	The election must be made in the Tax Return for the Tax Period in which the first investment property is held	Election to be made in the Tax Period when Small Business Relief no longer applies.

Missed Election → Right to elect is considered forfieted if not made within Timelines.

Determination of Gain or Loss upon Realisation

Realisation events include (whichever is earlier)

- Sale, disposal, derocgnition, or worthlessness of the property
- Change from fair value to cost model
- Taxpayer becomes exempt or elects for Small Business Relief
- Business Cessation

Upon realisation, previously claimed depreciation must be → Reversed and added back to taxable income in the tax period when realisation event occurs

- However, when the taxpayer becomes exempt or claims Small Business Relief, then the adjustment must be made in tax period preceding the period in which the event occurred
- Further, when the transferor of property ceases to be a taxable person the accumulated depreciation claimed by the transferor is attributed to the transferee

Anti-Abuse Provision

- If an Investment Property is transferred between Related Parties without a valid commercial or non-fiscal purpose reflecting economic reality, the Authority may disallow the transferee's depreciation claim.

Treatment of Various Transfers

The treatment of investment property transfers:

- **Article 26** – Qualifying Group Relief
- **Article 27** – Business Restructuring Relief
- **Article 42** – Tax Groups

Who determines Opening Value and Original Cost?	Income Adjustment where transferor claimed depreciation and transferee uses cost model	When the Cessation Trigger apply to a transfer of investment property
The Transferor	Adjust taxable income to exclude depreciation, amortisation, or value changes.	Transferee must add back any prior depreciation that has not been adjusted yet.

MICS Insights

- The election is irrevocable and must be timed carefully, especially for groups with multiple investment properties.
- Properties held at fair value (IAS 40) are impacted—those using cost model remain unaffected by this decision.
- Maintain detailed asset registers showing acquisition cost, holding periods, and election status.
- Recognition of fair value in accounting and depreciation for tax purposes (at 4% or less) creates a temporary difference between accounting carrying value and tax base, likely resulting in a deferred tax liability.

Source: **Ministerial Decision No. 173 of 2025**

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