

CORPORATE TAX

Exempt Income

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Exempt income (Article 22)

Income and related expenditure shall not be considered in determining the Taxable income

- Dividends and other profit distributions from **Resident Juridical person**
- Dividends and other profit distributions from **Participating Interest in Foreign Juridical person (Article 23)**
- Any other income from **Participating Interest (Article 23)**
- Income of a **Foreign PE (Article 24)**
- Income by a **NR Person** from Operating Aircraft or Ships in **International Transportation**
(in line with International Standards - "Reciprocity" Principle)

Income from Participating Interest is exempt subject to conditions

Participating Interest (5% or more ownership) - Conditions

- i. held or intention to hold for an uninterrupted period of at least 12 months
- ii. Is subject to CT tax or any similar tax in the territory/country at not less than 9%
- iii. Entitled to receive not less than 5% of profits available for distribution and 5% of the liquidation proceeds
- iv. Not more than 50% of the participation (directly and indirectly) assets that would NOT qualify for an exemption from UAE CT
- v. Any other conditions as may be prescribed by the Minister

The following income shall NOT be taken in calculating taxable income

- i. Dividends and other profit distributions from a foreign participation
(not a Resident Person)
- ii. Gains or losses on the transfer, sale or other disposals after the expiry
of time period
- iii. Foreign exchange gains or losses
- iv. Impairment gains or losses

Participation exemption – Article 23 (Continued..)

- Dividends and Capital gains, Revaluation, Foreign Exchange gains, are exempt
- No deduction for Capital losses, Foreign exchange losses or Impairment losses, **except** realized losses on liquidation of participation.
- Significant and long-term participation
- Expenditure in relation to the exempted income is non-deductible, **except** Interest expense (Interest in relation to exempt income is deductible – Article 29 and 30).

Ministerial-Decision No. 116 of 2023

- **An ownership interest shall include**, but not be limited to, holding any one or a combination of the following instruments:
 - Ordinary Shares
 - Preferred Shares.
 - Redeemable Shares.
 - Membership and Partner Interests.
 - Other types of securities, capital contributions and rights that entitle the owner to receive profits and liquidation proceeds.
- **All types of ownership interests** to be aggregated for computing the 5% threshold – Interest held by **Qualifying Group** can also be included.
- Income from a debt instrument, **if classified as equity interest** as per Accounting Standard followed would be treated as income from Participating interest
- If the acquisition cost of ownership interest is **equal to or more than AED 4 Mn**, the 5% minimum ownership requirement will be **considered satisfied** for claiming Participation Exemption.

Ministerial-Decision No. 116 of 2023

Subject to Tax criteria

- The entity in which ownership interest is held should be **subject to a minimum tax rate of 9%** in its home country.
- The condition will be considered satisfied if Effective Tax rate ("**ETR**") of 9% or higher can be demonstrated.
- If the participation is subject to tax on income, equity or net worth or a combination of any or all of these (**e.g. Zakat**), ETR of 9% needs to be demonstrated based on accounting profits recalculated as per UAE accounting standards

- A Resident Person can make an **ELECTION TO NOT TAKE INTO ACCOUNT THE INCOME AND ASSOCIATED EXPENDITURE** of its Foreign PEs in determining its Taxable Income.
- The exemption shall **ONLY** apply if the Foreign PE is subject to Corporate Tax or Similar Character Tax in relevant foreign jurisdiction **at a rate not less than 9%**

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THANK YOU

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