BDO GCC Tax update

Q1 April 2025

Contents

Introduction

BDO publishes a Gulf Cooperation Council (GCC) tax update on a quarterly basis and we're delighted to share the Q1 2025 edition with you.

This update provides a summary of the region's tax news and key changes from this year's first quarter.

The news flow has been a little quieter than normal this quarter, probably due to the combination of the New Year holidays and the natural slowdown of activity during the holy month of Ramadan. Nonetheless, there have been some interesting updates and, as has often been the case recently, much of the most significant activity has been in the UAE.

One common theme appearing in much of the region's tax news currently is the introduction of measures to support the OECD's Pillar Two initiatives.

In this edition of our quarterly tax update, Bahrain, Kuwait, Oman and the UAE all report progress with national legislation to implement a domestic minimum top-up tax, a key component of the pillar two framework. Each of the countries will approach the top-up tax slightly differently and this is undoubtedly a subject we will hear a lot more of in the coming months. In this edition we have provided some of the details of how the top-up tax will work in the UAE.

Elsewhere there is news of the ever-expanding tax treaty network between the GCC states and their trading partners.

There have also been a number of updates on the official guidance provided by the tax authorities in the UAE and Bahrain, an interesting tax incentive in Qatar and a number of important legislative changes across the region.

News from Saudi Arabia, meanwhile, is focused on guidelines for advance pricing agreements, as well as Phase 2 of the KSA e-invoicing integration and an update on ultimate beneficial owner (UBO) rules.

We hope you find this summary of the tax news for the region useful. If you would like further information on any of the topics covered, please get in touch with your usual BDO adviser: please see the contact details for all our GCC offices on the back page of this publication. You will also find additional information on the relevant BDO firm's web site.

The Kingdom of Bahrain

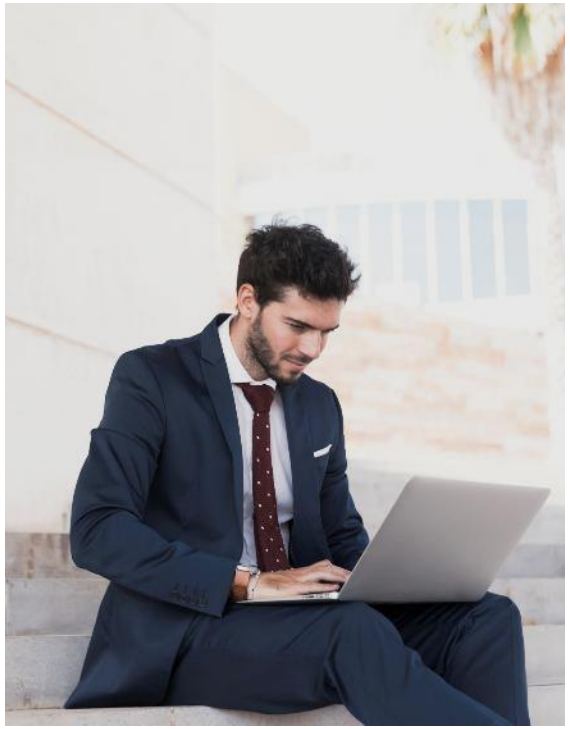
CORPORATE TAX

2025-2026 Budget proposals and introduction of corporate income tax (CIT)

On 2 March 2025, a cabinet delegation led by Bahrain's Minister of Finance and National Economy, H.E. Shaikh Salman bin Khalifa Al Khalifa, presented the draft of the 2025-2026 national budget to members of the National Assembly and the Shura Council.

This draft outlines a bold 12-point action plan designed to foster Bahrain's financial stability and restore fiscal balance. A key element of the plan is the introduction of corporate income tax (CIT) for businesses operating in Bahrain.

As the regional tax landscape evolves, the Bahraini government is committed to enhancing financial stability and strengthening fiscal health. Among the significant measures proposed, the implementation of CIT is set to reshape the business environment. Additionally, the government is considering adjustments to VAT rates to generate higher VAT revenues.



International tax treaties

On 4 February 2025, the Council of Representatives approved the income tax treaty between Bahrain and Guernsey, which is now under review by the Shura Council.

Bahrain has also announced plans to negotiate and sign an income tax treaty and Investment Protection Agreement (IPA) with Vietnam. On 13 February 2025, Bahrain ratified its IPA and double tax treaty with Hong Kong.

On 11 February 2024, Bahrain signed an agreement with the UAE to eliminate double taxation and prevent tax evasion, which was formally ratified under Law No. (8) of 2025 by His Majesty King Hamad Bin Isa Al Khalifa. This treaty aims to bolster economic relations and improve tax efficiency between the two countries.

Bahrain continued

VALUE ADDED TAX

Import & exports VAT guide

On 2 March 2025, the National Bureau for Revenue (NBR) updated the Imports and Exports VAT guide, specifically revising Section 1.2 on exports of goods and introducing a new sub-section on 'Multiple supplies resulting in a single export.'

The updated guide clarifies the distinction between direct and indirect exports, emphasising that a direct export occurs when the local supplier controls the export process, while an indirect export is when the overseas customer or their representative manages the shipment.

The new version of the guide highlights the conditions under which the zero-rate VAT applies to indirect exports, to assist stricter compliance with VAT regulations. The guide also emphasises the supplier's responsibility to maintain appropriate documentation and meet all the conditions to apply the zero-rate.

On-site inspections targeting tax evasion

The NBR conducted 1,875 tax inspections in 2024, leading to 320 reported violations. The majority of these violations were related to non-compliance with VAT regulations, including failure to charge or incorrectly applying VAT. Four cases were identified where excise goods were supplied without valid digital stamps.

During January 2025, the NBR carried out 161 inspections, uncovering 35 violations. These violations led to administrative penalties and legal actions, addressing non-compliance issues such as improper VAT invoicing, failure to display VAT-inclusive pricing and breaches in the digital stamp scheme for excise goods.

VAT and excise tax workshops

The NBR has announced a series of workshops throughout 2025 aimed at raising awareness and providing deeper insights into VAT and excise tax compliance. These workshops will cover various topics, including VAT obligations, industry-specific tax implications and the VAT refund process. Interested businesses and stakeholders can register for these sessions via the NBR's official web site.

VAT refunds for non-residents

Non-resident businesses that incur VAT on business-related expenses in Bahrain may be eligible for VAT refunds. To qualify, applicants must not be VAT registered in Bahrain, must hold a valid VAT registration or a similar tax registration in their home country, and must have incurred VAT on business-related expenses amounting to at least BHD 200. The deadline for submitting VAT refund applications for the current period is 31 March 2025.

Bahrain continued

DOMESTIC MINIMUM TOP-UP TAX

Tax objections committee

On 26 January 2025, Bahrain's Minister of Finance and National Economy, H.E. Shaikh Salman bin Khalifa Al Khalifa, issued Resolution no. (4) of 2025, formally establishing the tax objections committee for the domestic minimum top-up tax (DMTT) law.

This committee is tasked with overseeing DMTT-related objections and ensuring the fair application of the new tax provisions.

DMTT scope and registration guidelines

On 16 January 2025, the NBR released a guide detailing the scope of entities subject to the DMTT. This guide explains the key principles of the DMTT Law and its executive regulations, with insights into the obligations of multinational enterprise groups operating within Bahrain. Businesses are advised to review this guide alongside the OECD model rules and the associated administrative guidance to ensure full compliance.

On 9 March 2025, the NBR published the domestic minimum top-up tax (DMTT) registration manual. This manual provides step-by-step instructions on the registration process, including how to use the NBR's online portal for DMTT compliance.

Kuwait

DOMESTIC MULTINATIONAL TOP-UP TAX

Kuwait published Decree-Law no. 157 of 2024 on 31 December 2024, which implements a domestic minimum top-up tax (DMTT) at an effective rate of 15% for financial years beginning on or after 1 January 2025.

The DMTT will apply to multinational enterprises (MNEs) which fall within the scope of the OECD's Pillar Two proposals. The new law requires in-scope entities to register with the Ministry of Finance by 30 September 2025.

The Kuwait Ministry of Finance is currently in the process of drafting executive regulations to supplement the DMTT law. These executive regulations are expected to provide additional clarity and detail.

TAX CLAIM LIMITATIONS

Decree-Law No. 4 of 2025 amending the statute of limitation for tax claims

Kuwait has published Decree-Law no. 4 of 2025 which amends Article 441 of the Civil Code issued by Decree-Law no. 67 of 1980 regarding the statute of limitations for tax claims. As per the amended law, the statute of limitations period for tax claims has now been extended from five years to ten years. The new amendment aligns the limitation period stipulated in Decree-Law no. 157 of 2024, concerning the taxation of MNEs, which took effect on 1 January 2025.

Decree-Law no. 4 of 2025 was published on 19 January 2025 and is effective from the same date.

The Sultanate of Oman

PILLAR TWO

The first quarter of FY 2025 marked the introduction of a supplementary law in Oman which is effective from 1 January 2025. However, executive regulations are still awaited.

Multiple agreements are being executed between Oman and other nations, as highlighted below. It demonstrates efforts from Oman to enhance trade relations with other countries and attract foreign investments.

Pillar Two

On 31 December 2024, Royal Decree no. 70/2024 was issued by the Sultanate of Oman to implement Pillar Two rules, in line with Oman's commitment to introduce a minimum tax as a participant under the OECD's Inclusive Framework.

This new legislation is aligned with the OECD GloBE rules and introduces a domestic minimum top-up tax (DMTT) and an income inclusion rule (IIR) in the form of a 'supplemental tax'. Oman's tax authorities will be issuing executive regulations that will address the calculation of the tax, safe harbours and administrative procedures.

It should be noted that Oman has an existing CIT regime with a headline rate of 15%.

For further details and insight please refer to [Oman - Pillar Two Legislation in effect - BDO]

DOUBLE TAX AVOIDANCE AGREEMENTS

Oman has continued its efforts to strengthen international tax cooperation by signing double taxation avoidance agreements (DTAAs) with the following countries during the first quarter of 2025:

- Kingdom of Bahrain – Agreement signed on 15 January 2025
- Republic of India – Protocol signed on 27 January 2025.

The agreement aims to legally protect investors from the imposition of double taxes and regulate the imposition of tax between the two friendly countries. This will contribute to enhancing investments and trade.

The new tax treaties will come into force after ratification instruments are exchanged. Details of the treaties are awaited.

DIGITAL TAX STAMPS

The Oman tax authority has confirmed that the import of soft drinks, energy drinks and other excise products (except for sweetened beverages) will be banned unless they bear the appropriate digital tax stamp after 1 June 2025.

Qatar

QATAR FINANCIAL CENTRE ACTIVITY

Tax credit for web summit entities

The Qatar Financial Centre (QFC) has introduced a business-related expense incentive, allowing qualifying entities to receive a tax credit based on qualifying expenses.

This credit will match the entity's tax liability for five years following the licence date. The incentive period extends for five years from the issue of the QFC licence.

All qualifying entities remain subject to the QFC tax regulations and standard rules for computing taxable profits apply, along with all administrative requirements.

To be eligible, a firm must meet the following criteria:

- The QFC entity must have registered for and attended the web summit
- The QFC entity must not be a connected person to any entity already incorporated in the QFC that operates in the same or a similar industry
- The start up must have an innovative business model that incorporates technology as a key component
- The business model must be scalable and demonstrate significant growth potential.

When calculating their taxable profits, a qualifying entity will determine the tax credit due in respect of qualifying expenses. The tax credit results in a nil tax liability. If the tax due exceeds the qualifying expenses, the excess tax can be carried forward to the next period, allowing the firm to offset qualifying expenses against the current and carried-forward tax liabilities.

The incentive cannot be combined with any other tax relief or concession. It will be revoked if any changes in the firm's ownership or scope of licence result in the firm no longer meeting the qualifying criteria, or if it is misused.

Guidance on the operation of the tax credit available to all QFC web summit firms has now been published in the QFC Tax Manual. This provides detailed information on how the incentive works, with examples.

Qatar continued

INCOME TAX

General Tax Authority (GTA) announces tax return deadline extension

In March 2025, the GTA announced a four-month extension for submitting tax returns for the fiscal year ended 31 December 2024.

The new filing deadline is now 31 August 2025, instead of the previously set date of 30 April 2025, for those following the approved alternative accounting periods. This extension is intended to give taxpayers more time to complete their procedures and meet their tax obligations.

The extension applies to all individuals and entities subject to the provisions of Income Tax Law No. (24) of 2018 and its amendments, including tax-exempt companies, businesses owned by Qatari nationals or GCC citizens and companies with non-Qatari partners. However, companies involved in petroleum operations and petrochemical industries are excluded and must submit their tax returns by the original deadline of 30 April 2025.

The decision to extend the filing period underscores the GTA's commitment to supporting taxpayers. This extension complements the 100% financial penalty exemption initiative, offering taxpayers a greater opportunity to benefit from both the initiative and the extension, thus improving compliance with the regulations. Furthermore, the extension allows more time for taxpayers to prepare their returns thoroughly, verify their data and utilise the services and guidance available from the GTA.

The GTA encourages all taxpayers to file their returns electronically through the Dhareeba Tax Portal. For further assistance or to address any queries, taxpayers can contact the Call Centre at 16565 or email support@dhareeba.qa

Qatar continued

INCOME TAX

100% financial penalty exemption programme

Effective for a 6-month period as of 1 March 2025, the GTA has launched a 100% financial penalty exemption initiative, as part of its commitment to supporting business growth and national economic policies.

This initiative aims to ease the financial burden on businesses and provide them an opportunity to bring their tax compliance into order. Eligible businesses can apply for penalty exemptions through the Dhareeba Tax Portal during the initiative's duration. The GTA will review applications individually and notify applicants of the approval status through their portal accounts. This programme is part of the Authority's efforts to enhance transparency and improve service efficiency.

To participate, businesses must meet the following criteria:

- Register on the Dhareeba tax portal
- Ensure their taxpayer data is up to date
- Submit all required tax returns and financial statements as per regulations
- Commit to maintaining full compliance for the next three years (2026, 2027, and 2028) by submitting returns and paying taxes on time.

President of the GTA, His Excellency Mr. Khalifa bin Jassim Al-Jaham Al-Kuwari, commented: "The launch of this initiative highlights the GTA's ongoing commitment to improving Qatar's business environment and strengthening the competitiveness of the national economy. By reducing the financial burden on businesses, enhancing the tax system's efficiency and transparency and promoting sustainable growth, this initiative reinforces Qatar's position as a leading global and regional investment hub. We encourage all taxpayers to seize this unparalleled opportunity to improve their compliance, helping to build a prosperous economic future for the nation."

Qatar continued

DOUBLE TAXATION AGREEMENTS (DTAs)

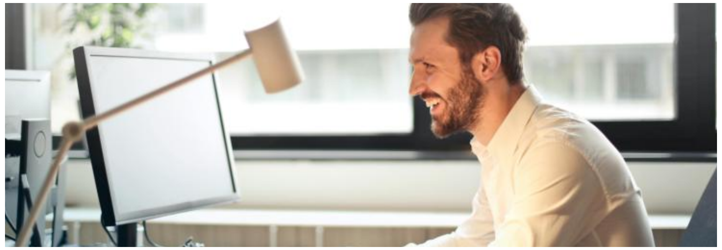
DTA between Qatar and Saudi Arabia

On 30 May 2024, the governments of Qatar and Saudi Arabia signed a double tax agreement (DTA) aimed at preventing double taxation, curbing tax evasion and promoting economic collaboration between the two nations.

The Saudi Shura Council approved the DTA on 2 October 2024. On 13 February 2025, the agreement's text was officially published in Qatar's Official Gazette, marking its ratification under Decree Law no. 1 of 2025, issued on 15 January 2025. The treaty will come into effect after the exchange of ratification instruments.

The agreement is expected to strengthen the economic ties between the two countries, encourage cross-border investments and provide greater tax certainty for businesses and individuals. By aligning with global tax standards and taking into account the specific tax systems of both nations, the DTA sets a standard for bilateral tax agreements in the region.

This DTA is a detailed agreement that covers various aspects of taxation, including its scope, definitions, rights to tax and dispute resolution processes. It is designed to address essential cross-border taxation issues, offering clear guidelines on the allocation of taxing rights, reducing the risk of double taxation and incorporating strong provisions against tax evasion and avoidance.



The agreement contains detailed provisions covering areas such as permanent establishment, income from immovable property, business profits, international transport, dividends, income from debt claims, royalties, technical services, capital gains, directors' fees, other income and methods for eliminating double taxation, ensuring a fair and transparent allocation of taxing rights.

The 8% withholding tax limit on royalties and technical services strikes a balance between generating tax revenue and fostering cross-border trade and investment.

DTA with India

The State of Qatar, represented by His Excellency Sheikh Mohammed bin Abdulrahman bin Jassim Al Thani, the Prime Minister and Minister of Foreign Affairs, and the Republic of India, represented by Her Excellency Nirmala Sitharaman, Minister of Finance, have signed an agreement to avoid double taxation and prevent tax evasion concerning income taxes.

Kingdom of Saudi Arabia

TRANSFER PRICING

Guidelines for advance pricing agreements

In February 2025, the Zakat Tax and Customs Authority (ZATCA) released the long-awaited guidelines on advance pricing agreements (APAs).

APAs are an essential tool for alleviating the tax compliance burden related to cross-border transactions for multinational companies, which might otherwise lead to expensive and time-consuming audits and treaty disputes. As such, an APA serves as a collaborative process between the taxpayer and tax authority to address transfer pricing issues in advance.

Some of the key issues addressed in the guidelines include:

Who is eligible to submit an APA application ?

Taxpayers with annual transactions exceeding SAR 100m can apply. In addition, exceptions may apply for complex transactions (e.g. where there is substantial doubt on the applicability of the TP method or TP methods with complex calculations) when this threshold is not met. Also, in cases where multiple transactions are closely linked, the transactions may be aggregated and treated as a single transaction to meet the threshold requirement.

Types of APA accepted by ZATCA

ZATCA is currently only considering unilateral APAs, i.e. agreements between the taxpayer and ZATCA only, rather than bilateral and multilateral APAs, which would involve foreign tax authorities.

APA pre-filing meeting?

Taxpayers have the option to request a pre-filing meeting prior to submitting their formal application. The aim of this meeting is to help the taxpayer thoroughly understand the APA process, clarify the procedural steps and resolve any initial concerns or questions.

Timeframe for APA application

The taxpayer must start the APA procedures at least twelve (12) months before the beginning of the first fiscal year contained in the application. Failure to submit a complete application by this deadline will result in rejecting the APA application automatically through the e-portal and the taxpayer will be required to change the effective starting year in order to be able to complete the application.

Kingdom of Saudi Arabia continued

TRANSFER PRICING continued

Duration

The APA is valid for three years, subject to annual compliance reports through which the taxpayers demonstrate adherence to the arm's length principle. ZATCA has confirmed that roll back cannot be applied.

Submission of APA applications

Taxpayers must submit their unilateral APA applications electronically via the electronic registration system (ERAD) portal. However, for complex transactions not meeting the threshold that are provided with an exemption from the authority, these must be submitted through an assigned relationship manager or by contacting the APA team through official communication channels.

An APA application must contain detailed information supporting the application of the chosen transfer pricing method and the conclusions drawn. The taxpayer is expected to provide a detailed analysis and explanation in accordance with the tax law, Zakat regulations, TP bylaws and TP guidelines, including a detailed functional analysis for all entities involved in the covered transactions.

Timeframe for concluding the APA

The estimated duration for finalising a unilateral APA is typically around 12 months. However, this timeframe is subject to the case's complexity, the taxpayer's cooperation and negotiation rounds needed to conclude the case.

Annual compliance

Once the APA has been concluded, the taxpayer must submit an annual compliance report (ACR) for each year covering the APA request. The ACR must be submitted within 120 days of the end of that financial year, along with the tax / Zakat return. Failure to do so may result in the cancellation of the APA.

Renewal of APA

Renewals will follow the same procedures as initial requests and must be submitted at least 12 months before the beginning of the first fiscal year concerning the new agreement. It is important to note that the APA request can be renewed for another 3 year-period, as long as there are no significant changes in the circumstances or critical assumptions, and subject to the mutual agreement of the parties.

Final comments

Negotiating an APA can be a time-consuming process but, based on our experience, the advantages of having one in place will outweigh the efforts involved in securing it.

The decision to pursue an APA should be based on factors such as the nature and complexity of the transaction, availability of internal resources, potential costs and benefits. Our team in Saudi Arabia is available to assist you in evaluating this process and providing guidance tailored to your specific needs.

Kingdom of Saudi Arabia continued

E-INVOICING

Phase II integration wave 22

On 22 March 2025, ZATCA confirmed that the criteria for taxpayers in wave 22 of the integration phase of e-invoicing will be taxpayers with taxable turnover exceeding SAR 1 million during 2022, 2023 or 2024.

This part is Phase 2 of KSA e-invoicing integration. Taxpayers falling within wave 22 should ensure integration with the Fatoora platform before 31 December 2025. ZATCA will notify all targeted taxpayers.

E-invoicing is part of the economic development and digital transformation taking place in the Kingdom. The process began on 4 December 2021 and obliges taxpayers subject to the e-invoicing regulations to cease generating handwritten invoices or computer-generated invoices through text editing software or spreadsheet software and to install a technical solution for e-invoicing.

Kingdom of Saudi Arabia continued

ULTIMATE BENEFICAL OWNER RULES

The Minister of Commerce has unveiled new rules that require all companies in Saudi Arabia (subject to some exemptions) to identify and disclose their ultimate beneficial owners (UBOs) and maintain accurate and up-to-date beneficial owner records. The rules come into effect from 3 April 2025.

ZATCA applies a look-through approach to determine the tax obligations of companies, based on the UBO. This method involves examining the ownership structure of a company to identify the natural persons who ultimately own or control the Saudi-established companies, ensuring that tax liabilities are appropriately determined and assigned.

Key aspects of the look-through approach:

- Identification of UBOs: The tax authorities trace the chain of ownership to identify individuals who have significant control or ownership, even if they do not hold shares directly in the company

- Tax classification: The tax treatment of a company is determined by the residency and nationality of its UBOs. For instance, if a company has both Saudi and non-Saudi shareholders, its income may be subject to different tax rates or obligations, such as Zakat for Saudi shareholders and corporate income tax for non-Saudi shareholders
- Impact of intermediary entities: The presence of intermediary entities in the ownership structure can influence the tax classification. For example, using a non-GCC entity to invest in Saudi Arabia might result in the income being subject to corporate income tax, regardless of the UBO’s nationality.

This approach ensures that tax obligations align with the economic realities of ownership and control, preventing tax avoidance through complex ownership arrangements. It's essential for businesses operating in Saudi Arabia to maintain transparent and accurate records of their ownership structure structures to comply with tax regulations and avoid potential penalties.

United Arab Emirates

DOMESTIC MINIMUM TOP-UP TAX FOR MULTINATIONAL ENTERPRISES

The UAE has introduced a domestic minimum top-up tax (DMTT) on multinational enterprises (MNEs) through the issue of Cabinet Decision 142 of 2024. This initiative is part of the broader framework established by the OECD under its base erosion and profit shifting (BEPS) project. The UAE's approach mirrors the steps taken by other GCC countries that have also recently announced a DMTT.

Cabinet Decision 142 of 2024, along with other legislation, provides enabling provisions for the DMTT within the existing corporate tax framework.

The DMTT applies to constituent entities of MNE groups with annual revenue of € 750 million or more in at least two of the four fiscal years preceding the tested fiscal year (threshold to be proportionally adjusted to correspond with the length of the fiscal year). Currently, the DMTT regulations do not provide for the introduction of the Inclusion Rule (IIR) and the under-taxed profits rule (UTPR).

To determine the top-up tax liability for an MNE group, the following steps must be taken:

1. Identify if the MNE group is within scope of Pillar 2 regulations
2. Compute the Pillar 2 income or loss for each constituent entity
3. Calculate the adjusted covered taxes for each constituent entity
4. Determine the effective tax rate for all constituent entities in the UAE
5. Compare the effective tax rate with the minimum tax rate to determine the top-up tax.

These steps are considered on the next page.

United Arab Emirates

DOMESTIC MINIMUM TOP-UP TAX FOR MULTINATIONAL ENTERPRISES continued

Step 1: Identify if the MNE group is within the scope of Pillar 2 regulations

The DMTT applies to constituent entities of MNE groups (other than excluded entities) with annual revenue of €750 million or more in at least two of the four fiscal years preceding the tested fiscal year. The threshold is proportionally adjusted to correspond with the length of the fiscal year).

Constituent entities include any entity within an MNE group or a permanent establishment of a main entity. The ultimate parent entity (UPE) holds the controlling interest and is not owned or controlled by another entity.

Certain entities are excluded, such as governmental entities (including Sovereign Wealth Funds which are UPEs), international organisations, not for profit entities, pension funds, investment funds (if a UPE) and real estate investment vehicles (if a UPE). However, their revenues are still considered when determining the revenue threshold.

Step 2: Compute Pillar 2 income or loss for each constituent entity

The ‘Pillar 2 income or loss’ of each constituent entity is calculated based on the ‘financial accounting net income or loss’, as per the entity's standalone financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). However, if using IFRS is impracticable, any other acceptable accounting standard may be adopted, subject to satisfaction of certain criteria. This income is then adjusted for specific items, elections and exclusions, including excluded dividends, certain gain and losses, certain pension expenses and income, allocation of income or loss between the main entity and its permanent establishment and the allocation of income or loss from a flow through entity, foreign exchange gains and losses.

United Arab Emirates

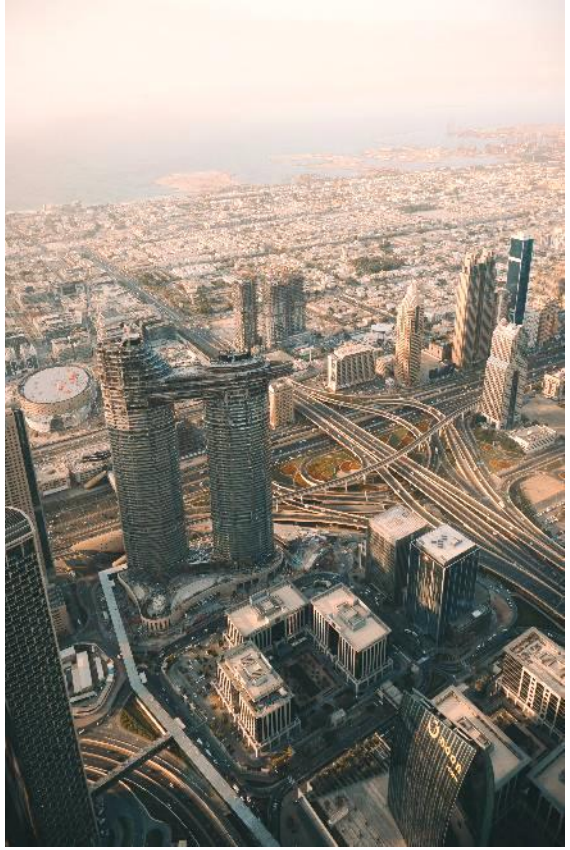
DOMESTIC MINIMUM TOP-UP TAX FOR MULTINATIONAL ENTERPRISES continued

Step 3: Calculate the adjusted covered taxes for each constituent entity

The adjusted covered taxes of a constituent entity are equal to the current tax expense accrued in its net income or loss, subject to adjustments for:

- Net additions and reductions to covered taxes
- Total deferred tax adjustment amount
- Impact of covered taxes recorded in equity or other comprehensive income.

Some of the key elements of these adjustments are set out below.



Net additions and reductions to covered taxes.

Additions to covered taxes:

- Any amount of covered taxes accrued as an expense in the profit before taxation in the financial accounts
- Pillar Two loss deferred tax assets
- Covered taxes paid to an uncertain tax position previously treated as a reduction to covered taxes
- Certain credits and refunds from tax credits recorded as a reduction to current tax expense.

Reductions to covered taxes:

- The amount of current tax expense with respect to income excluded from the computation of Pillar Two income or loss
- Any amount of credit, refund or transferable amount in respect of certain tax credits
- Any amount of covered taxes refunded or credited, or the amount received for the transfer of certain tax credits
- The amount of current tax expense related to an uncertain tax position
- Any amount of current tax expense not expected to be paid within three years of the last day of the fiscal year.

United Arab Emirates

DOMESTIC MINIMUM TOP-UP TAX FOR MULTINATIONAL ENTERPRISES continued

Total deferred tax adjustment amount

The total deferred tax adjustment amount is equal to the deferred tax expense accrued in its net income or loss if the applicable tax rate is below the minimum rate. Or, in any other case, such deferred tax expense recast at the minimum rate, with respect to covered taxes for the fiscal year, subject to specific exclusions and adjustments includes:

Exclusions from the total deferred tax adjustment amount:

- Deferred tax expense with respect to items excluded from the computation of Pillar Two income or loss
- Deferred tax expense with respect to disallowed accruals and unclaimed accruals
- The impact of a valuation adjustment or accounting recognition adjustment with respect to a deferred tax asset
- Deferred tax expense arising from a re-measurement due to a change in the applicable domestic tax rate
- Deferred tax expense with respect to the generation and use of tax credits.

Adjustments to total deferred tax adjustment amount:

- Increase by the amount of any unclaimed accrual paid during the fiscal year
- Increase by the amount of any recaptured deferred tax determined in a preceding fiscal year
- Reduction by the amount that would be a reduction to the total deferred tax adjustment amount due to recognition of a loss deferred tax asset for a current year tax loss, where a loss deferred tax asset has not been recognised because the recognition criteria are not met
- Recapture adjustment for deferred tax liability that is not paid within five subsequent fiscal years.

Alternatively, the constituent entity may apply for Pillar 2 loss adjustment that offers a specialised mechanism to handle the impact of losses.

United Arab Emirates

DOMESTIC MINIMUM TOP-UP TAX FOR MULTINATIONAL ENTERPRISES continued

Impact of covered taxes recorded in equity or other comprehensive income

Any increase or decrease in covered taxes recorded in equity or other comprehensive income relating to amounts included in the computation of Pillar Two income or loss must be suitably factored in the computation for adjusted covered taxes if such amounts will be subject to tax under local tax rules.

Step 4: Calculate effective tax rate

The effective tax rate (ETR) is calculated by dividing the sum of adjusted covered taxes by the net Pillar 2 Income (from Step 2) of the constituent entities in the UAE.

Effective tax rate is defined as the sum of adjusted covered taxes divided by net Pillar 2 income in the UAE.

Step 5: Determine top-up tax

If the ETR is below the 15% minimum, an additional top-up tax is imposed to bridge the gap. The top up percentage is applied to excess profits.

Substance-based income exclusion

This mechanism reduces the net Pillar two income of an MNE group by excluding certain income from substantial activities within a jurisdiction. This ensures income from genuine economic activities is not subject to additional tax. Enhanced rates are provided during the transitional period until financial year 2032.

The exclusion is calculated based on two main components: the payroll carve-out and the tangible asset carve-out. The law provides instructions on how this calculation should be made.

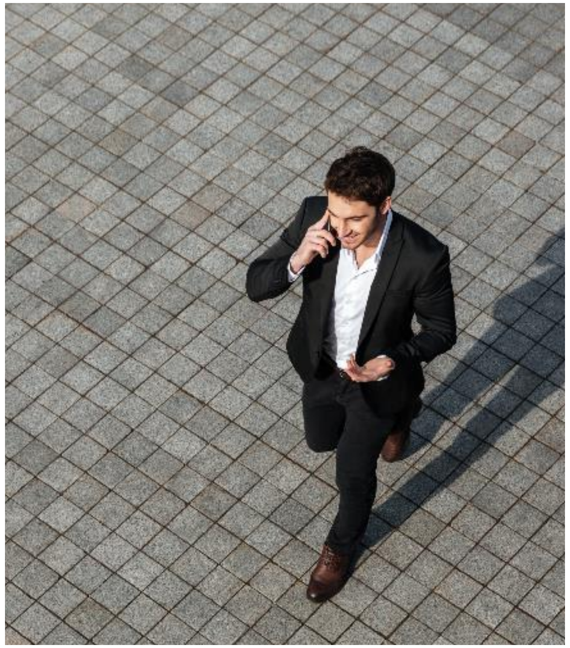
United Arab Emirates

DOMESTIC MINIMUM TOP-UP TAX FOR MULTINATIONAL ENTERPRISES continued

Safe harbours and transitional provisions

The UAE has introduced several safe harbours and transitional provisions to simplify compliance. These include:

- **Permanent de-minimise exclusion safe harbour:** The top-up tax, upon an annual election, will be deemed to be zero if the MNE group reports average Pillar 2 revenue of less than € 10 million and the average Pillar 2 income of less than € 1 million in the UAE
- **Permanent simplified calculations safe harbour**: Subject to an election, the top-up tax will be deemed to be zero upon satisfaction of one of a series of proscribed tests
- **Transitional CbCR safe harbour:** During the transition period (i.e. until 30 June 2028), subject to an election, the top-up tax will be deemed to be zero subject to certain tests
- **Transitional relief for deferred tax assets and liabilities:** All deferred tax assets and liabilities reflected in the financial accounts of constituent entities in the UAE for the transition year must be taken into account at the lower of the minimum rate or the applicable domestic tax rate while determining the covered taxes. Further, deferred tax assets recorded at a rate lower than the minimum rate may be taken into account at the minimum rate if attributable to a Pillar Two loss



United Arab Emirates

DOMESTIC MINIMUM TOP-UP TAX FOR MULTINATIONAL ENTERPRISES continued

- **Transitional relief for the initial phase of international activity:** The top-up tax liability will be effectively reduced to zero if the MNE group has entities in no more than six jurisdictions and the net book value of tangible assets in all jurisdictions, excluding the reference jurisdiction, does not exceed € 50 million, provided that none of the ownership interests of the entities located in the UAE are held by a parent entity subject to a qualified IIR in another jurisdiction. (This relief applies for up to five years after the MNE group first meets the threshold)

- **Transitional relief for substance-based income exclusion:** This will be available during the initial fiscal years until 2032. During this period, deductions will gradually decrease from 7.6% in 2025 to 5.4% in 2032 for tangible assets, and from 9.6% in 2025 to 5.8% in 2032 for payroll costs.

Other key provisions:

- **Tax registration and filing requirements**: Entities must register with the FTA and file a top-up tax return within within 15 months of the end of the reporting fiscal year. However, for the first transitional year, the return must be filed within 18 months of the end of the reporting fiscal year
- **Currency**: Computation must be in the functional currency of standalone financial statements
- All constituent entities are jointly and severally liable
- **General anti-avoidance rule (GAAR):** The FTA can disregard transactions undertaken for the purpose of obtaining a tax advantages.

United Arab Emirates

CORPORATE TAX

New Ministerial decisions on tax grouping, participation exemption and foreign permanent establishment.

The Ministry of Finance has announced significant amendments to treatment of tax grouping, participation exemption and foreign permanent establishment (PE) exemption. These changes are set out in Ministerial Decision no. (301) of 2024 and Ministerial Decision no. (302) of 2024 and will be effective from 1 January 2025.

For the fiscal year 2024, the previous decisions (Ministerial decision 116 of 2023 and Ministerial decision 125 of 2023) will remain in effect.

Ministerial decision 301 of 2024 on tax groups

The decision simplifies compliance requirements for dual-resident entities. Foreign juridical persons that are considered to be resident in the UAE can now be included in the tax group without the requirement of furnishing a confirmation from the foreign tax authority regarding tax residency status.

Similarly, a UAE resident person who becomes a tax resident in another country will simply cease to be part of the tax group from the beginning of the tax period.

The decision confirms that eligible members wishing to form a tax group must apply to the FTA before the end of the relevant tax period.

The decision also provides administrative relief to taxable persons with pre-grouping tax losses or unutilised net interest expenditure by allowing them to forfeit these amounts if they prefer not to determine the taxable income for the relevant tax group member on a standalone basis, in accordance with transfer pricing requirements. Additionally, this requirement is also waived in cases where a foreign tax credit needs to be claimed.

Ministerial decision 302 of 2024 on participation exemption and foreign permanent establishment (PE) exemption

The new decision clarifies that income from ownership transfers under qualifying group relief or business restructuring relief will not face double taxation, even if claw-back provisions under the participation exemption rules apply.

The decision resolves ambiguity regarding the 5% thresholds where the aggregate cost of acquisition criteria is met.

It clarifies that the 5% profits / liquidation proceeds test does not apply if the minimum acquisition cost exceeds AED 4 million. Previously, this relaxation seemed applicable only to the 5% ownership criteria.

The decision specifies that the asset test for participation exemption applies only when the participation is categorised as a related party under the UAE CT Law.

United Arab Emirates

CORPORATE TAX continued

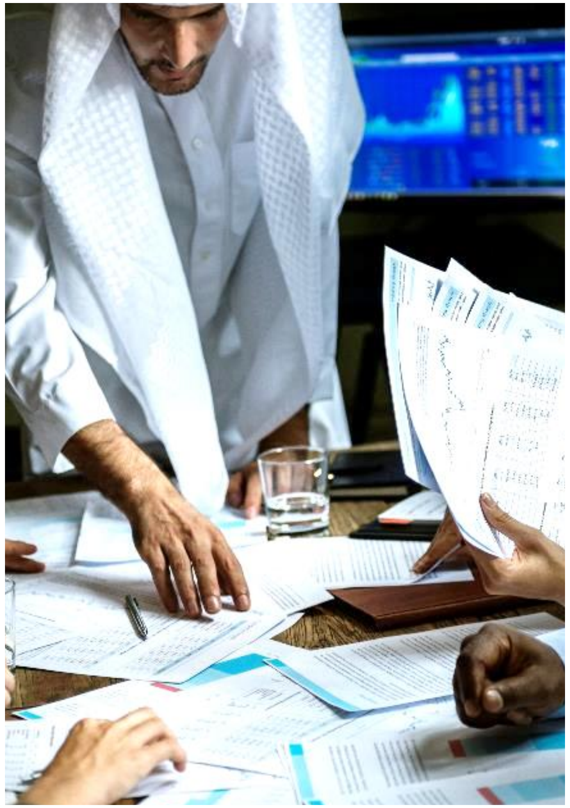
Ministerial decision 302 of 2024 on participation exemption and foreign permanent establishment (PE) exemption *continued*

The decision states that losses from the liquidation of a participation can be utilised only after adjustment against the following items in the relevant tax period and the preceding seven tax periods:

- Tax losses transferred from the participation
- Dividends and profit distributions that were exempted earlier
- Adjustments for asset / liability transfers undertaken with the participation on non-arm's length basis.

The above restrictions also apply to losses on the liquidation of a participation arising to a tax group.

The decision introduces restrictive measures in cases where the assets / liabilities of a foreign PE are transferred to the participation, and the losses of the foreign PE claimed earlier have not been fully offset against an equivalent amount of taxable income.



Natural persons to register for corporate tax before the end of March 2025 to avoid administrative penalties

The FTA has issued a reminder for all natural persons who are subject to corporate tax to submit their registration applications no later than 31 March 2025 in order to avoid administrative penalties.

Natural persons who fail to submit the application for registration by the deadline will be subject to a penalty of AED 10,000.

There is an FTA guide (CTGRNP1) on the registration of natural persons for corporate tax.

United Arab Emirates

VALUE ADDED TAX

Reverse charge mechanism on precious metals and precious stones.

A Cabinet Decision has been published to extend the scope of the reverse charge mechanism to include supplies of precious metals and precious stones between VAT registered businesses in the UAE.

Precious metals are defined as gold, silver, palladium and platinum. Precious stones cover natural and manufactured diamonds, pearls, rubies, sapphires and emeralds. Also included is jewellery made of both precious metals and stones, provided the value of the precious metals and stones exceeds the values of other components.

The cabinet decision highlights the requirement for a written declaration of intent (for resale /production) along with a proof of VAT registration from the recipient of goods.

In the absence of declarations from the recipient, the supply will not be taxable under reverse charge mechanism and the supplier will be responsible for accounting for VAT.

E-Invoicing public consultation

The Ministry of Finance (MoF) published an e-Invoicing consultation document in February 2025 outlining the forthcoming regulatory framework for the adoption of e-Invoicing in the UAE. This consultation is a critical step towards enhancing VAT compliance and the digitalisation of invoicing in the UAE.

This public consultation offered businesses the opportunity to provide feedback, recommendations, and queries to refine e-Invoicing data dictionary for specific business needs. The consultation period ended on 27 February 2025. Feedback may be published by the MoF in due course.

EXCISE TAX

Ministerial decision 1 of 2025, issued by the MoF on 3 January 2025, gives detailed guidelines for the implementation of Cabinet Decision No.52 of 2019 on excise goods, excise tax rates and the methods of calculating the excise rice.

The decision expands the excise tax framework by specifying the use of harmonised system (HS) cades for classifying tax liquids used in electronic smoking devices and the device themselves, including e-cigarettes, water pipes and related tools, whether or not they contain nicotine or tobacco.

It also introduces a new method for calculating the excise price of concentrates, powders, gels or extracts used to produce carbonated, energy or sweetened drinks as the higher of:

- The standard price as published by the FTA for excise goods - or
- The designated retail selling price declared by importers or producers prior to any discounts or offers

The decision also abrogates Ministerial Decision No. 236 of 2019 and conflicting provisions.

United Arab Emirates

TRANSFER PRICING

The FTA has recently issued Decision No. 2 of 2025, outlining its policy on issuing clarifications and directives.

According to this decision, individuals may apply to the FTA for the conclusion of an advance pricing agreement (APA) concerning a transaction or arrangement they have proposed or entered into, in accordance with the corporate tax law.

Applications for unilateral APAs will be accepted, starting from the fourth quarter of 2025. The FTA will announce the date for receiving applications for other types of APAs after this period. Additionally, the FTA has indicated that further details and processes will be provided to clarify the application and implementation procedures for these updates.

TAX PROCEDURES

FTA decision no 1 of 2025 on the extension of deadlines for reviews or reconsideration.

The FTA may accept late submissions for a tax assessment review request or reconsideration requests beyond the prescribed period of 40 working days in the following scenarios:

- An accident or serious illness to the authorised signatory
- The death of the authorised signatory, including the legal representative, or any of his/her family members (of first or second-degree)
- A temporary business disruption that is beyond the person’s control
- A damage of records due to a disaster
- A general malfunction in the FTA’s systems
- A sudden discontinuation of business or business records due to the installation of a new computer system.

The FTA’s request for additional documents from the taxpayer, provided that the taxpayer can prove the inability to obtain such documents within the legally prescribed deadlines. A force majeure to be determined at the Authority’s discretion.

United Arab Emirates

TAX PROCEDURES continued

FTA decision no 1 of 2025 on the extension of deadlines for reviews or reconsideration *continued*

The decision also highlights the instances where requests for extensions will be rejected. The cases for rejections are as follows:

- The taxpayer is unaware of their obligations
- The delay was caused by the negligence of a third party on whom the taxpayer relied, such as a tax agent or a legal representative
- A complexity in the topic, due to which the taxpayer could not submit the request on time
- The applicant was busy running their business.

Ministerial decision no 2 of 2025 - Policy on issuing clarifications

The decision provides updated guidelines regarding tax clarifications, providing clarity for businesses and individuals regarding their tax obligations. The main points are summarised below.

Applications for clarifications may be made by:

- Individuals or entities registered for tax purposes
- Non-registrants: Those not registered with the FTA but can justify non-registration (e.g. income below the threshold)
- Tax agents: Agents accredited with the FTA can apply on behalf of clients, but only for authorised tax types.

Applicable tax types:

- Excise tax - introduced with effect from 1 October 2017
- Value Added Tax - introduced with effect from 1 January 2018
- Corporate tax - introduced with effect from 1 June 2023.

The FTA will reject clarification requests submitted for administrative exceptions, use of a special apportionment method, tax residency certificates (unless the request relates to whether a person is eligible to apply for a certificate), tax assessment reviews, reconsideration and waivers, IT system issues / queries. Advance pricing agreements are excluded as they are covered by a separate process.

Requests for clarification must be submitted through the EmaraTax portal.

United Arab Emirates

TAX PROCEDURES continued

Ministerial decision no 2 of 2025 - Policy on issuing clarifications *continued*

When making the application, applicants are required to upload relevant documents, including:

- Contracts or agreements
- Sample invoices or receipts
- Evidence of tax calculation methods
- Cover letters summarising technical tax positions.

The FTA fees for clarifications are:

- AED 1,500 for clarifications involving a single tax type
- AED 2,250 for multiple tax types.

The FTA may refund the fee paid for a clarification request in certain circumstances.

Grace period for updating tax records

The Federal Tax Authority introduced a grace period from 1 January 2024 to 31 March 2025, allowing businesses to update their tax records without incurring administrative penalties. This initiative aims to support accurate tax compliance and encourage transparency among taxpayers. During this period, businesses can rectify their tax records without facing penalties for previously delayed corrections. Additionally, any penalties already imposed for failing to correct records before the grace period will be automatically reversed if the updates are completed within this timeframe.

The grace period closed at the end of March 2025 and future corrections may result in penalties.

United Arab Emirates

EMIRATE LEVEL TAXATION – SHARJAH

On 13 February 2025, Sharjah enacted Law no. 3 of 2025, establishing a tax framework for companies involved in the extraction and processing of natural resources.

This legislation aims to regulate the taxation of both extractive and non-extractive businesses operating within the emirate.

Effective date and scope: The law took effect immediately upon issue, superseding any conflicting previous laws. It applies to all companies engaged in the extraction and processing of natural resources in Sharjah

Tax rates and credits: A uniform tax rate of 20% is imposed on the taxable base of affected companies. Businesses can claim a credit for taxes paid under the UAE Federal Corporate Tax Law

Tax base calculation: For extractive businesses, the tax base is determined by the value of oil and gas produced, as agreed with the Sharjah Petroleum Department. Non-extractive businesses calculate their tax base according to net taxable profits, with specific adjustments for asset depreciation and tax losses

Filing and payment: Extractive businesses follow filing and payment procedures outlined in their agreements with the Sharjah Petroleum Department. Non-extractive businesses must pay taxes within nine months after the fiscal year ends

Compliance and audits: The law mandates detailed record-keeping for seven years and outlines procedures for tax audits to ensure compliance.

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