



# M2K UAE Knowledge Series

**Corporate tax calculations, payments,  
tax credits & refund**

***ALERT #6***

## Preface

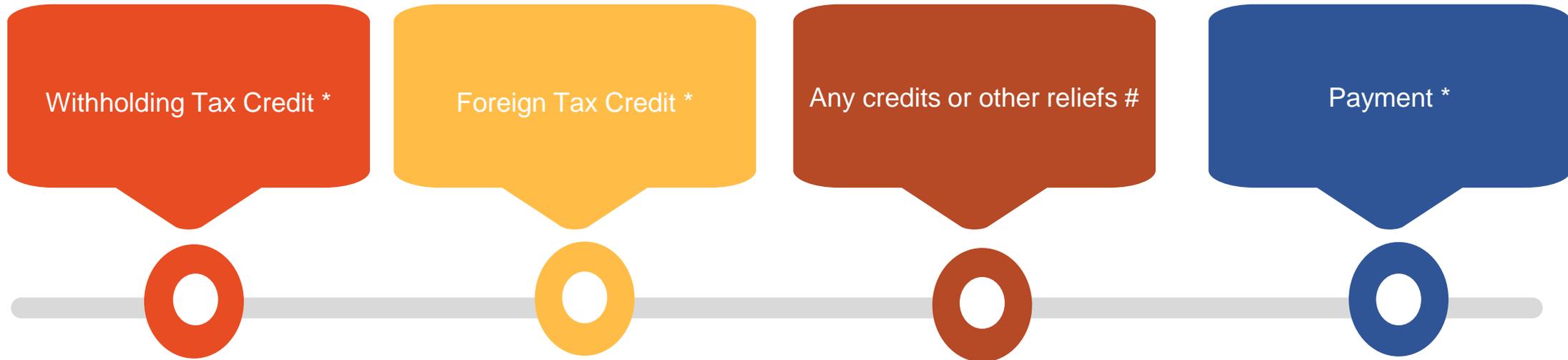
The principal provisions of UAE Corporate Tax Law in relation to determination of taxable income was discussed in our previous alert ([\*\*Alert #5\*\*](#)). Once taxable income is determined, the next step would be to calculate the tax payable. The provisions dealing with the same is to be discussed in this alert.

It has been provided that all amounts must be quantified in United Arab Emirates Dirham (AED). The amounts denominated in other currencies are to be converted into AED using the exchange rates prescribed by the Central Bank of UAE on a transaction-by-transaction basis (i.e. exchange rate on the date of accrual of income and incurring of the expenditures to be considered for respective transactions).



# Calculation and Settlement of Corporate Tax

The gross tax liability is determined by applying the prescribed tax rate ([Refer our Alert #1](#)) on the taxable income. The Corporate tax liability is to be settled in the following order:



*UAE businesses are not required to make advance UAE Corporate Tax payments. Hence, the need for estimation to taxable income for the year and payment of tax in installments on such estimated income do not arise. The same enhances the ease of compliance in UAE.*

\* Discussed in subsequent slides # To be specified in cabinet decision.

# Foreign Tax Credit (1/2)

- Where a UAE resident earns any income from a foreign country, a situation may arise that such income is subject to corporate tax in UAE by virtue of residency and the same income may also be taxable in the foreign country, based on the source of such income.
- One of the methods through which such double taxation is mitigated includes grant of credit by the country of residence of taxpayers in respect of tax paid in the country of source of income.
- The claim of foreign tax credit are subject to any conditions set out in Double Taxation Avoidance Agreements ('DTAA') between UAE and foreign country/ territory.
- The provisions of the UAE Corporate Tax Law in connection with "Foreign Tax Credit" are as follows:
  - Foreign Tax Credit is allowed to be adjusted against the corporate tax payable in UAE (subject to the order of adjustment, discussed in earlier slide).
  - However, the amount of foreign tax credit is restricted to the amount of corporate tax payable in UAE. Any utilized foreign tax credit on account of the said restriction would lapse. (i.e. cannot be carried forward/ carried back).
  - Necessary records in connection with foreign tax credit should be maintained by the taxpayer.

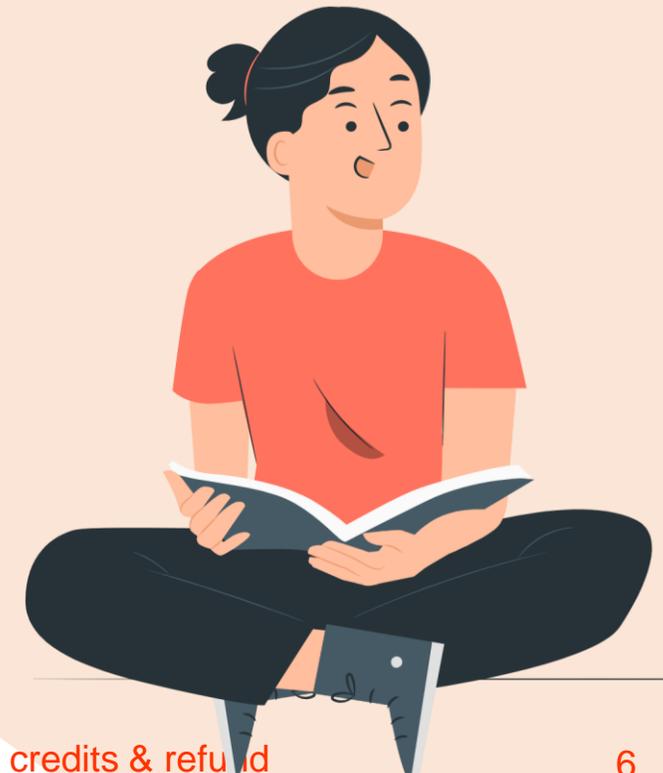


## Foreign Tax Credit (2/2)

Based on the above provisions, few examples that could give rise to foreign tax credit which is not eligible under UAE Corporate Tax are as follows:

- Where the applicable tax rate in the source country is higher than UAE Corporate Tax, the higher amount of tax paid in the source country would not be eligible for claim of credit.
- Where tax is calculated on different base in source country as compared to UAE, (say, source country may tax on gross income, whereas UAE may charge the income net of expenses to tax), the benefit of foreign tax credit granted in UAE is limited to Corporate tax payable in UAE. Hence, higher amount of tax paid in the source country would not be eligible for claim of credit.
- Dividend received from a foreign participation satisfying the prescribed conditions is exempt from corporate tax in UAE. However, the same may be taxable in source country. In the instant case, the tax paid in source country would not be eligible for claim of credit.

*Further, as discussed in our previous alert on determination of taxable income (Alert #5), it is to be noted that the tax paid in foreign country is not a deductible expenditure in computation of taxable income.*



# Payment of taxes

Any tax payable after adjustment of withholding tax credit and eligible foreign tax credit should be paid within 9 months from the end of relevant tax period \*. The relevant procedures prescribed under Federal Decree Law # are as follows:

- The type of tax and relevant tax period should be specified by the taxpayer at the time of payment of tax.
- Where the taxpayer has not specified the tax period and type of tax, the tax authorities would have the right to allocate the full or part of the amount for settlement of tax dues in accordance with the executive regulation.

\* Guidance on approved payment methods to be provided in due course.

# Federal Decree Law No. 28 of 2022 on Tax Procedures



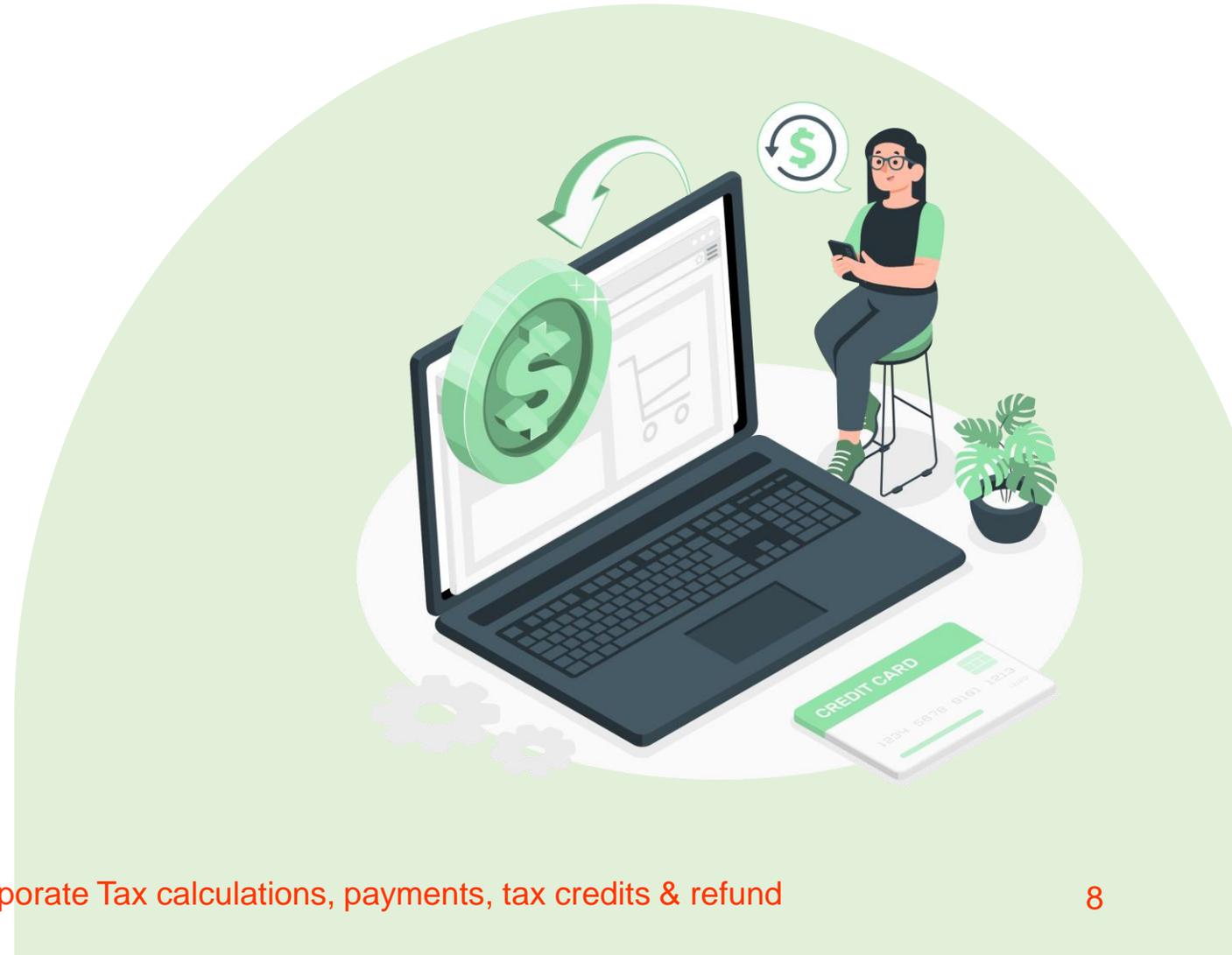
# Corporate Tax Refund

**A taxpayer can make an application for refund of corporate tax in the following circumstances: (A) the withholding tax credit available to the taxpayer exceeds his corporate tax liability (B) The taxpayer has paid corporate tax in excess of his liability and the tax authorities are satisfied with such claim.**

However, it is to be noted that foreign tax credit cannot be claimed as refund. The decision of the tax authority with respect to the application for refund of corporate tax would be communicated by way of a notice.

The tax authorities shall adjust the refund with any undisputed or penalties payable by the taxpayer. The application for refund of corporate tax may be rejected in the following circumstances:

- existence of disputed tax amounts in relation to the taxpayer
- the taxpayer is subject to tax audit (subject to conditions set out in a decision of the tax authorities)
- according to the order of a competent court



# Recent updates in UAE Corporate Tax

- Refer our previous [alert #5 \(Slide 5\)](#) for the updates on 'Small Business Relief'.
- **Exemption from obtaining tax registration:**
  - Taxable persons are required to obtain tax registration under the UAE Corporate Law. An exemption has been granted from the said requirement in the case of the following persons, who are **not** carrying out any taxable business:
    - government entities, and government controlled entities,
    - persons engaged in extractive business,\*
    - persons engaged in non-extractive natural natural resources business\*
  - Further, a NR deriving a state sourced income, without constituting a PE in UAE is also exempt from obtaining tax registration.

*As of date, the withholding tax in respect of a state sourced income earned by a NR without constituting a PE in UAE has been set at 0% and exemption has been granted from tax registration. Hence, it could be inferred that UAE income of the NRs without PE in UAE are not subject to tax and are not required to carry out any compliances in UAE.*

*The above would hold good till any cabinet decision is issued specifying a withholding tax rate or any other developments. It is important to watch out and keep abreast of the developments.*

- Further, a decision# has been issued in connection with treatment of all business and business activities conducted by Government Entity as a Single Taxable Person. The definitions determining the scope of this facility, conditions to be satisfied and the modus operandi for compliances under Corporate Law are provided.

\* subject to conditions specified under Chapter Three of the UAE Corporate Tax Law on Exempt Person. Refer our alert #4 (Slide #5).

# Ministerial Decision No. 68 of 2023

# Stay tuned for more updates on UAE!

Please find below the list of completed & upcoming alerts from the series. In case you have missed the previous alerts, click on the hyperlink for the completed alerts to refer the same.

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# THANK YOU

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