



**UAE Corporate Tax –
Depreciation Adjustments
for Investment Properties
Measured at Fair Value**

Ministerial Decision
No. 173 of 2025

The UAE Ministry of Finance ('MoF') has recently issued a **Ministerial Decision 173 of 2025 ('MD' or the 'Decision')**, introduces a mechanism to claim notional **tax depreciation** for Investment Properties measured at fair value, **despite no accounting depreciation being charged in the financial statements**.

The Decision is applicable where a **Taxable Person**:

- ▶ Prepares Financial Statements on an Accrual Basis of Accounting; and
- ▶ Has elected to recognise gains and losses on a realisation basis pursuant to Clause (3) of Article (20) of the Federal Decree-Law No. 47 of 2022 ('the CT Law')¹.

Effective Date: This Decision applies to all Tax Periods **Starting on or after 1 January 2025**.

The key principles of the Decision have been captured as below:

1. Election to allow depreciation adjustment to Investment Property held at fair value

1.1 The Taxpayers who elect for **realisation basis** can make an **irrevocable election** to apply a **depreciation allowance** while computing their taxable income for Investment Property held at fair value. The Computation Mechanism of deductible depreciation are as under:

<p>Depreciation deduction is calculated as the lower of:</p>	4% of the Original Cost per 12-month Tax Period (prorated if the Tax Period is longer, shorter or the property was only partially held;
	The Tax Written Down Value at the start of the relevant Tax Period.

1.2 For the purposes of the above computation, the following are the broad definitions of key terms:

Key Terms	Definitions
Original Cost	It broadly means purchase cost, including capitalised costs.
Tax Written Down Value ('TWDV')	The Opening Value less depreciation previously claimed under this Ministerial Decision.
Opening value	<p>The Original Cost of the Investment Property reduced by a notional depreciation of 4% per year (or prorated) for each year the property was held prior to the Relevant Tax Period.</p> <p>The Relevant Tax Period is generally the first Tax Period beginning on or after 1 January 2025, unless:</p> <ul style="list-style-type: none"> ▶ The taxpayer has elected Small Business Relief; ▶ A new subsidiary joins a Tax Group; or ▶ The property is transferred under Qualifying Group Relief or Business Restructuring. <p>In such cases, the Decision prescribes specific timing rules for determining the Relevant Tax Period.</p>
Investment Property	A building or part thereof held to earn rental income, for capital appreciation, or both, in accordance with IAS 40. It excludes land and any items specifically excluded under IAS 40.

¹Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses

- 1.3 Once the election is made, it applies to all Investment Properties measured at fair value (as per applicable accounting standards) and is irrevocable.
- 1.4 MD 134 of 2023 requires the taxable person to elect for 'realisation basis' of taxation in their first tax return. However, as an exception this Decision provides another opportunity to elect 'realisation basis' of taxation provided the taxable person holds an Investment Property on which it wishes to avail tax depreciation pursuant to this MD.
- 1.5 For the purposes of this adjustment, the Opening Value and Original Cost of the Investment Property will be determined generally by the taxable person, but in certain cases such as transfer under Article (26) or (27) of the Corporate Tax Law, or between Tax Group members, these values are based on the transferor.

2. Election Timeline

Scenario	Tax Return in which the Election Must be Made
Investment Property held during the Tax Period on or after 1 January 2025 (i.e. first tax period to which Decision applies)	That first Tax Period
Investment Property held in later tax period	The Tax Period in which it is first held
Taxpayer electing for Small Business Relief (SBR)	First Tax Period in which SBR no longer applies

Failure to make the election within the specified timelines will result in the **forfeiture of the right to apply the depreciation adjustment.**

3. Determination of Gain or Loss upon Realisation of Investment Property and its Impact on previously claimed depreciation under this Ministerial Decision

For the Investment Property under this Decision, a realisation event is deemed to occur at the earliest of the following:

Realisation Event	Tax Period in which Depreciation to be added back
Sale, disposal, derecognition or worthless of the Investment Property	Tax Period in which the Realisation Event occurs
Change of accounting Policy from fair value to cost model	Tax Period in which the policy change occurs
Taxpayers become exempt Person or elect for Small Business Relief	Tax Period immediately preceding the one in which exemption or relief applies
Cessation of business or business activities	Final Tax Period of business operations

In all realisation events, the aggregate notional depreciation claimed under this Decision must be added back to taxable income, effectively reversing the benefit.

4. Adjustments to Taxable Income on Investment Property Transfers

- ▶ If an Investment Property is transferred under Article (26)² or (27)³ of UAE CT law or within a Tax Group, the **transferee** must **adjust their taxable income to exclude depreciation, amortization or value changes already claimed by the transferor**.
- ▶ When the **transferee** later sells / realises the Investment Property (other than above cases), the **previously excluded amounts must be added back to the transferee's taxable income**.

5. Specific Anti – Abuse Rule

The FTA may invoke anti-abuse rules under Article 50 of the CT Law to deny depreciation claims in intra-group transfers where transactions lack commercial substance or are entered into primarily for obtaining a tax advantage.

Andersen Takeaway

The decision provides clarity as to the value upon which depreciation can be claimed. It covers cases where the investment property is transferred between related parties or third parties or has been constructed/developed by the taxpayer.

Taxpayers in real estate, retail, hospitality, and similar asset-heavy sectors that commonly apply fair value accounting for Investment Properties now have the opportunity to claim a depreciation deduction for tax purposes.

The depreciation election under this Decision is irrevocable. A missed election results in permanent forfeiture of the deduction. Taxpayers should carefully assess the implications before making the election.

Taxpayers to maintain robust documentation and records of Original Cost, Tax Written Down Value, and transfer history to facilitate accurate adjustments and support the depreciation claims. Where transfers between related parties or within tax groups have occurred, the origin and basis of asset values should be clearly traceable.

Considering depreciation is not charged in the books under the fair value model, the tax depreciation deduction may create timing differences. Taxpayers should assess the need for deferred tax accounting and its implications on their financial statements.

The notional tax depreciation deduction—despite being non-accounting—may reduce Covered Taxes without a corresponding reduction in GloBE Income. This could impact a multinational group's Effective Tax Rate under the OECD Pillar Two rules and UAE DMTT rules. A sensitivity analysis should be undertaken where applicable.

Intra-group transfers and restructurings should be carefully reviewed to ensure adherence with **anti-abuse provisions**. Substance and documentation will be critical in defending tax positions and the general anti-abuse rules of the Corporate Tax Law.

²Transfers Within a Qualifying Group

³Business Restructuring Relief



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Reach us for expert advice



info@ae.andersen.com
800 2829

803, New Global Tower, Electra Street, Abu Dhabi
402, Arenco Tower, Dubai Media City, Dubai
AB 1002, Jafza One, Jebel Ali Free Zone, Dubai