

UAE Direct and International Tax Insights

Q1 2025



Table of Contents

01	UAE Implements Domestic Minimum Top-Up Tax (DMTT)	04
02	OECD Guidance Adopted for Pillar Two Interpretation	04
03	New Rules for Qualifying Investment Funds and Partnerships	05
04	Non-Resident Nexus Rules Tightened	05
05	Mandatory Audited Financials Expanded	06
06	Sharjah Corporate Tax on Natural Resources	06
07	Advance Pricing Agreement	07

Direct Tax Insights

Q1 Overview

The first quarter of 2025 marked a defining moment for the UAE's Corporate Tax regime, with significant developments aimed at aligning the country's tax framework with international standards while preserving its competitive edge. The release of Cabinet Decision No. 142 of 2024 introduced the long-anticipated Domestic Minimum Top-Up Tax (DMTT), reinforcing the UAE's commitment to the OECD's Pillar Two standards. Effective for fiscal years starting on or after 1 January 2025, this move squarely impacts MNEs operating from or through the UAE, including Free Zone structures.

Alongside, Ministerial Decision No. 88 of 2025 incorporated OECD administrative guidance, giving taxpayers and advisors a familiar interpretive lens to navigate the new rules.

Additionally, Cabinet Decisions No. 34 and 35 of 2025 introduced important changes in fund and partnership tax treatment and redefined nexus thresholds for non-residents. Ministerial Decision No. 84 of 2025 also expanded the requirement to maintain audited financials — a key compliance trigger for Free Zone and large mainland entities.

These changes carry both technical and strategic implications. While alignment with global norms may reduce the risk of foreign top-up taxation, it also calls for sharper compliance protocols and revised entity-level assessments. Businesses must now consider not only whether they are in scope, but how to build sustainable structures that maximize UAE-specific exemptions, safe harbors, and credits.



1. UAE Implements Domestic Minimum Top-Up Tax (DMTT)

Date: February 2025

Reference: Cabinet Decision No. 142 of 2024

The UAE has enacted a 15% DMTT on MNEs through Cabinet Decision No. 142 of 2024. This applies to UAE Constituent Entities of MNE Groups with consolidated revenues of at least EUR 750 million in two of the last four fiscal years. Notably, qualifying free zone entities are not expressly excluded from the scope.

The rules incorporate **safe harbors**, **substance-based exclusions**, and a **zero top-up tax** for initial international expansions. A 15-month compliance deadline (extendable to 18 months in the first year) is provided.



Andersen Takeaway:

The introduction of the DMTT is not just a compliance event — it is a strategic shift. MNEs must revisit their UAE structures with a lens on substance, tax technology readiness, and top-up risk modelling. Those relying solely on Free Zone benefits must be particularly alert.

2. OECD Guidance Adopted for Pillar Two Interpretation



Date: March 2025

Reference: Ministerial Decision No. 88 of 2025

To support the DMTT framework, the UAE has adopted OECD-issued commentaries and administrative guidance documents as interpretative references under its local law.

This alignment offers UAE-based MNEs clarity and predictability in application — particularly around safe harbors, compliance obligations, and determining effective tax rates. It also provides foreign tax authorities a greater basis to accept the UAE's DMTT as a QDMTT.

Andersen Takeaway:

This move brings global symmetry to the UAE's Pillar Two implementation. Tax teams should incorporate OECD guidance into compliance playbooks and policy decisions.

3. New Rules for Qualifying Investment Funds and Partnerships

Date: March 2025

Reference: Cabinet Decision No. 34 of 2025

The new Decision replaces the earlier Decision for tax periods starting on or after 1 January 2025 that dealt with the Conditions for Qualifying Investment Funds to avail exemption under the UAE CT Law. As per the new Decision, it is clarified that the conditions under which investment vehicles — including **Qualifying Investment Funds (QIFs)**, **Real Estate Investment Trusts (REITs)**, and **Qualifying Limited Partnerships (QLPs)** — can qualify for exemption from corporate tax. The Decision introduces detailed pro-rata income inclusion thresholds, control tests, and distribution-based exemptions.

Of particular note are the consequences for investors: investors in funds that fail diversity or breach immovable property thresholds may be required to include pro-rata income in their UAE tax base, even if the fund itself is exempt.



4. Non-Resident Nexus Rules Tightened



Date: March 2025

Reference: Cabinet Decision No. 35 of 2025

The new Decision replaces the earlier Decision for tax periods starting on or after 1 January 2025 that dealt with the determination of a Non-Resident Person's Nexus in the State. As per the new Decision, non-resident entities will now be deemed to have a UAE **nexus** if they:

- Derive income from immovable property in the UAE,
- Hold interests in QIFs triggering pro rata income inclusion.

Such nexus will require **UAE Corporate Tax registration**, even in the absence of a physical presence.

¹ Cabinet Decision No. 81 of 2023 on Conditions for Qualifying Investment Funds for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses

² Cabinet Decision No. 56 of 2023 on Determination of a Non-Resident Person's Nexus in the State for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses

5. Mandatory Audited Financials Expanded

Date: March 2025

Reference: Ministerial Decision No. 84 of 2025

The new Decision replaces the earlier Decision for tax periods starting on or after 1 January 2025 that had specified the categories of taxable persons to prepare and maintain audited financial statements. As per the new Decision, for Tax Periods starting on or after 1 January 2025 onwards, audited financial statements are now required for:

- **All Qualifying Free Zone Persons (QFZPs)**
- **Taxable Persons other than Tax Groups** exceeding AED 50 million in revenue
- **Tax Groups** must maintain special purpose audited statements in accordance the form, procedures and rules to specified by the Federal Tax Authority (FTA)

Additional procedures (to be specified by the FTA) apply to designated zone distributors.



6. Sharjah Corporate Tax on Natural Resources



Date: February 2025

On 13 February 2025, Sharjah enacted Law No. 3 of 2025, establishing a 20% corporate tax on companies engaged in extractive and non-extractive natural resource activities within the emirate. This law replaces the previous tax regime under the 1968 decree, which imposed a tax rate of up to 55% on oil and gas companies.

Companies operating in this sector must reassess their tax strategies to ensure compliance with the new law. The provision for a federal tax credit is a positive step towards preventing double taxation; however, businesses should be vigilant in understanding the interplay between federal and emirate-level tax obligations.

7. Advance Pricing Agreement



Date: February 2025

As outlined in **Article 59 – Clarifications** of the UAE Corporate Tax Law (Federal Decree-Law No. 47 of 2022), companies will have the opportunity to proactively engage with the FTA by applying for an **Advance Pricing Agreement (APA)**. This mechanism allows taxpayers to agree in advance on the appropriate transfer pricing method for specific transactions or arrangements, promoting greater transparency and minimizing the risk of future tax disputes.

On February 19, 2025, the FTA issued a decision, effective from March 1, 2025, confirming that applications for unilateral APAs will be accepted starting in the fourth quarter of 2025. The timeline for accepting bilateral and multilateral APA applications will be announced following this period. Taxpayers interested in pursuing an APA are encouraged to begin preparations early and monitor official communications for further updates.

³ Ministerial Decision No. 82 of 2023 on the Determination of Categories of Taxable Persons Required to Prepare and Maintain Audited Financial Statements

Conclusion:

Q1 has clearly shown that the UAE Corporate Tax regime is moving from transitional to operational. The following key areas are coming into sharper focus:

- **Substance and compliance are no longer enough**

With the UAE adopting global rules and best practices, businesses must be able to defend their positions — not just file on time. Whether it's Free Zone status, or Pillar Two safe harbours, documentation, internal governance, and control frameworks will be key.

- **Transfer Pricing is no longer a back-office exercise**

The first round of Transfer Pricing studies revealed process gaps, missing intercompany agreements, and unclear transaction mapping. With Local File, Master File, and Advance Pricing Agreements around the corner, businesses must treat Transfer Pricing as part of their commercial operations, not just tax filings.

- **The Free Zone model needs to evolve**

Entities relying on 0% CT will need to reassess their operating structures — especially where they deal with mainland clients or have cross-border income. The bar to qualify as a QFZP is higher, and the risks of breaching de minimis or substance conditions are significant.

- **The compliance season will test internal readiness**

With the first tax return cycle fast approaching, many businesses are realizing that compliance is not just a filing task — it requires coordination between finance, legal, and tax teams. Early planning, system readiness, and cross-functional alignment will make the difference between smooth filings

At Andersen, we are seeing that clients who invest early in structure reviews, Transfer Pricing alignment, and data readiness are not just mitigating risk — they are also gaining agility in cross-border decision-making.

Our Experts



Anurag Chaturvedi

CEO

anurag.chaturvedi@ae.andersen.com



Prateem Sengupta

Partner, Direct and International Tax

prateem.sengupta@ae.andersen.com



Sahil Sharma

Director, Transfer Pricing

sahil.sharma@ae.andersen.com



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

☎ 800-ATAX

✉ info@ae.andersen.com

DISCLAIMER: This information cannot be considered as our recommendation and contains information in summary form. This is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Andersen in the UAE nor any member firm can accept any responsibility for loss occasioned by any person acting or refraining from action as a result of any material in this presentation. On any specific matter, reference should be made to the appropriate advisor (under contact information)