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Direct & International Tax Insights

Q2 2025

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Corporate and International Tax

Q2 Overview

In Q2 of 2025, there were new guidance on tax exemptions, help for late registrations, and an option for partnerships to choose entity-level taxation reflect the UAE's changing approach. This approach balances international standards with the practical ease of doing business. From a taxpayer's viewpoint, this quarter highlighted the importance of proactive choices, clear structuring, and timely registration to reduce compliance risk.

A. Key Regulatory Updates

1. Expansion of Corporate Tax Exemptions

Reference: Cabinet Decision No. 55 of 2025

Date of release: May 2025

Effective Date: 1 June 2023

This Decision expands the scope of exempt persons withing the UAE CT Law to include taxable persons that are incorporated or established outside the UAE and wholly owned and controlled by certain exempt UAE persons (e.g., government entities, pension funds, QIFs), provided certain conditions are met.

Andersen Takeaway:

This is a welcome clarification for holidng and sovereign wealth structures with offshore holdings / invesmtents. Groupsshould revisit offshore vehicles to assess if exemptions can now be claimed.

2. Election for Unincorporated Partnerships to be Treated as Taxable Persons

Reference: Cabinet Decision No. 63 of 2025 and FTA Administrative Decision No. 5 of 2025

Date of release: May 2025

Effective Date: 1 June 2023 (Cabinet Decision) and 1 July 2025 (FTA Decision)

The Cabinet Dcision provides that where relevant applications are approved, Unicorporated Partnerships (including foreign and family foundations) will be treated akin to juridical resident persons.

This FTA Decision provides detailed compliance rules and procedures for Unincorporated Partnerships (UPs), Foreign Partnerships, and Family Foundations, including:

- Registration and declaration obligations, and
- The application process for UPs to be treated as taxable persons under UAE CT Law.

It supplements Ministerial Decision No. 261 of 2024 and operationalizes the partnership-related provisions of the UAE Corporate Tax regime.

Andersen Takeaway:

Electing entity-level taxation may simplify compliance and allow access to incentives or exemptions otherwise unavailable at partner level. However, it requires careful evaluation of reporting obligations.

3. Administrative Grace Period for Late Registration Penalties Reference: Cabinet Approval (April 2025)

The FTA may waive or refund (where paid) late registration penalties if taxpayers / certain exempt person file their first CT return / annual declarations within seven (7) months of the end of their first tax period.

Andersen Takeaway:

This is a great pportunity to obtain releif from late registration penalties (including passive entities and exempt persons). Relevant taxpayers should assess this opootintiy and ensure to get their first reurn filed within the seven months.

B. Key client issues and Market Trends

- **Tax Registration Backlog:** Several taxpayers underestimated the requirements for CT registration. This led to last-minute filings and risk of non-compliance.
- **Late-stage Structuring Fixes:** Entity rationalisation, UAE DMTT impact and revisiting permanent establishment (PE) / Place of effective managemnt (PoEM) risks dominated structuring discussions, particularly for foreign groups.
- **Tax Accounting Strain:** Tax accounting and closing statutory audits along with aligning financial statement disclosures with EmaraTax return requirements posed operational hurdles.

C. Thought Leadership: The Mid-Year Tax Checkpoint

The second quarter of 2025 provides a natural inflection point. While Q1 focused on navigating rule changes, Q2 has been about getting ready for implementation. With the first corporate tax returns and transfer pricing forms due later this year, now is the time to:

- Reassess exemptions
- Elect intentionally and after careful thought
- Align books and returns
- Get TP-ready

Transfer Pricing

As the UAE's corporate tax regime matures, Transfer Pricing (TP) has become central to year-end financial reviews, audit readiness, and tax compliance. In Q2 2025, statutory auditors placed greater focus on TP documentation, benchmarking, and justification of intercompany transactions while auditing the FY24 financial statements.

Key challenges included interest-free or below-market loans, royalty payments without clear benchmarks, trading entities with low operating margins, and payments to connected persons. A critical consideration was whether TP adjustments should be recorded in the financials or made as out-of-books voluntary adjustments—each with different compliance implications.

With Q3 underway, businesses must now prioritise TP documentation, including Disclosure Forms, Master and Local Files (where applicable), and accurate segmental financials. These will be essential for supporting the arm's-length nature of related-party transactions.

Heading into tax return season, companies should:

- Conduct a TP health check
- Finalise intercompany agreements
- Engage auditors early on adjustments
- Align internal finance and tax teams through training

TP compliance is now a core part of corporate tax governance. Proactive planning and documentation are key to managing audit risks and ensuring accurate tax filings in the UAE's evolving fiscal landscape. Keep an eye out for Andersen's upcoming webinar series in Q3 helping taxpayers navigate the first tax return season.

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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

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

800 2829

info@ae.andersen.com