

UAE Launches Phase 1 of R&D Tax Incentives Programme

March 2026

The UAE Ministry of Finance has introduced an R&D tax credit regime pursuant to Cabinet Decision No. 215 of 2025, as further implemented through Ministerial Decision No. 24 of 2026

The regime applies to tax periods commencing on or after 1 January 2026 and is aimed at encouraging private sector investment in innovation, advanced industries, and technology-driven activities

Overview

The non-refundable R&D tax credit shall be utilised against the Corporate Tax and/or Top-up Tax liability of the Qualifying Entity (mainland entities, Free Zone entities, and Permanent Establishments of foreign entities undertaking Qualifying R&D Activities).

Mechanics of the Regime

The non-refundable R&D tax credit shall be utilised against the Corporate Tax and/or Top-up Tax liability of the Qualifying Entity (mainland entities, Free Zone entities, and Permanent Establishments of foreign entities undertaking Qualifying R&D Activities).

- ▶ The credit is computed by applying prescribed rates to qualifying R&D expenditure, with a tiered structure linked to qualifying expenditure and staffing levels.
- ▶ To qualify for a specific rate, both must be satisfied - minimum expenditure thresholds & minimum average R&D staff thresholds. Otherwise, the applicable rate is reduced
- ▶ **Minimum Expenditure Threshold:** A minimum spend of AED 500,000 per R&D project, excluding any uplift applied to staff costs, is required to access the regime

Maximum Qualifying R&D Expenditure per entity/ Tax Group (AED)	Average number of R&D Staff per entity/ Tax Group	R&D Tax Credit Rate
Upto 1million	At least 2	15%
1million – 2million	At least 6	35%
2million – 5million	At least 12	50%

Key Highlights:

- ▶ **Qualifying R&D Activities:** Activities conducted in UAE as part of an R&D Project that are novel, creative, uncertain in outcome, systematic, and capable of being transferable or reproducible. Assessment follows criteria in the OECD Frascati Manual guidelines for Collecting and Reporting Data on Research and Experimental Development.
- ▶ **Qualifying R&D Expenditure:** Eligible expenditure includes staff costs (including 30% uplift to account for overheads), consumables, subcontracting fees (subject to UAE nexus requirements), arm's length share of contributions under cost contribution arrangements and such mentioned cost capitalised in respect of internally generated intangibles resulting from Qualifying R&D Activities.
- ▶ **Staff Cost:** The regime includes rules covering part-time R&D involvement, seconded employees, externally provided workers, and cost contribution arrangements.

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- ▶ **Carry-forward of R&D Tax Credit:** Unutilised R&D tax credits may be carried forward and offset against Corporate Tax and/or Top-up Tax liabilities in subsequent Tax Periods or Fiscal Years, subject to continuity of at least 50% ownership or satisfaction of the business continuity test in case of a change in ownership. The regime also includes provisions for the transfer of R&D tax credits and for business restructuring, including clawback conditions.
- ▶ **Key Conditions to Claim R&D Credit:** Claims require pre-approval from the R&D Council and compliance with ongoing requirements. The qualifying entity must bear the financial burden of the R&D activities, be beneficially entitled to the results, and undertake R&D with a specified objective of increasing the stock of knowledge or devising new applications of existing knowledge.
- ▶ The regime provides detailed rules on the utilisation of R&D tax credits within Tax Groups and Domestic Groups, including order of utilisation, transfer of credits, and clawback provisions in cases of non-compliance or arrangements lacking commercial substance.

| Key Takeaways

The introduction of the R&D tax credit marks a significant evolution of the UAE Tax regime, reflecting a shift towards targeted incentives linked to real economic substance.

The decisions introduce a structured framework for the R&D Tax Credit regime, providing clarity on eligibility, qualifying activities, expenditure categories, and utilisation mechanisms. With the detailed rules now prescribed, businesses should proactively assess their R&D activities, cost structures, and documentation processes to align with the requirements.

A detailed alert covering the technical provisions of the R&D tax credit will be released soon.

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