

# UAE Corporate Tax Election Navigator

*Elections under the  
UAE Corporate Tax*



# Preface

The evolution of the United Arab Emirates' tax framework established under the Federal Decree Law 47 of 2022 (herein after referred as 'the UAE CT Law') has been both rapid and transformative, reflecting the country's commitment to aligning with international best practices while maintaining its competitive economic position. As the UAE continues to expand its tax regime, taxpayers and advisors are increasingly faced with a range of critical decisions (commonly referred to as Elections) that directly impact their compliance, tax planning, and financial outcomes.

This book serves as a comprehensive guide to the various elections available under UAE Corporate tax law. Whether discretionary or mandatory, these Elections often require strategic consideration and timely action. From applying transitional reliefs to opting to offer income to tax only on realisation, each Election represents a pivotal choice with lasting implications for businesses operating in the UAE.

The aim of this work compiled by the Tax team at CLA Emirates is to provide clear and structured overview of these Elections. We would like to extend our special thanks to our young talent Om Thakkar and Prachi Kala for their significant contribution in preparing this handbook.

This Book has been drafted considering the UAE CT Law and the Guidance Note issued as on date in respect of various Elections. The book draws upon legislation, Ministerial Decisions, and Federal Tax Authority (FTA) guidance, providing both the technical framework and real-world insights needed for effective tax decision-making.

This guide is intended for tax professionals, financial advisors, business owners, and legal practitioners who navigate the intricacies of UAE tax compliance. By organizing elections by tax type and detailing the rationale behind each, the book empowers readers to make informed choices and avoid common pitfalls.

# Contents

1. Glossary
2. Election 1: Transitional Rules: MD 120 of 2023
  - a. Broad Applicability
  - b. Qualifying Assets & Liabilities
  - c. Holding Period
  - d. Relief - Options for Computation
  - e. Details / Documents required
  - f. Summary Flowchart
3. Election 2: Realisation Basis: Article 20 (2) & 20 (3) read with MD 134 of 2023
  - a. Broad Applicability
  - b. Approach with Illustration
  - c. Investments recognised under Equity Method
  - d. Transfer of an assets/liabilities between Related Parties
  - e. Key Takeaways
4. Election 3: Small Business Relief
5. Election 4: Foreign Permanent Establishment Exemption
6. Election 5: Qualifying Group Relief
7. Election 6: Business Restructuring Relief
8. Abbreviations

# Glossary

Immovable Property	<ul style="list-style-type: none"> <li>Any area of land over which rights or interests or services can be created.</li> <li>Any building, structure or engineering work attached to the land permanently or attached to the seabed.</li> <li>Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed</li> </ul>
Realisation of an Asset	<ul style="list-style-type: none"> <li>Sale, disposal, transfer, &amp; complete worthlessness of an asset as per IFRS</li> </ul> <p># Not treated as realisation : The transfer of assets or liabilities between Taxable Persons under Qualifying Group &amp; Business Restructuring</p>
Realisation of an Liability	<ul style="list-style-type: none"> <li>Settlement, assignment, transfer and forgiveness of a liability as per IFRS</li> </ul>
Assets held on Capital account	<ul style="list-style-type: none"> <li>Assets that are not for trade,</li> <li>Assets eligible for depreciation,</li> <li>Non current Assets as per accounting standards</li> </ul>
Liabilities held on Capital account	<ul style="list-style-type: none"> <li>Liabilities that does not give rise to deductible expenditure</li> <li>Non current Liabilities as per accounting standards</li> </ul>
Market Value	<ul style="list-style-type: none"> <li>The price which could be agreed in an arm's-length free market transaction between Persons who are not Related Parties</li> </ul>
Foreign Permanent Establishment	<ul style="list-style-type: none"> <li>A place of Business or other form of presence outside the State of a Resident Person that is determined in accordance with the criteria prescribed in Article 14 of this Decree-Law.</li> </ul>



# Election 1 - Transitional Rules:

Ministerial Decision  
No. 120 of 2023

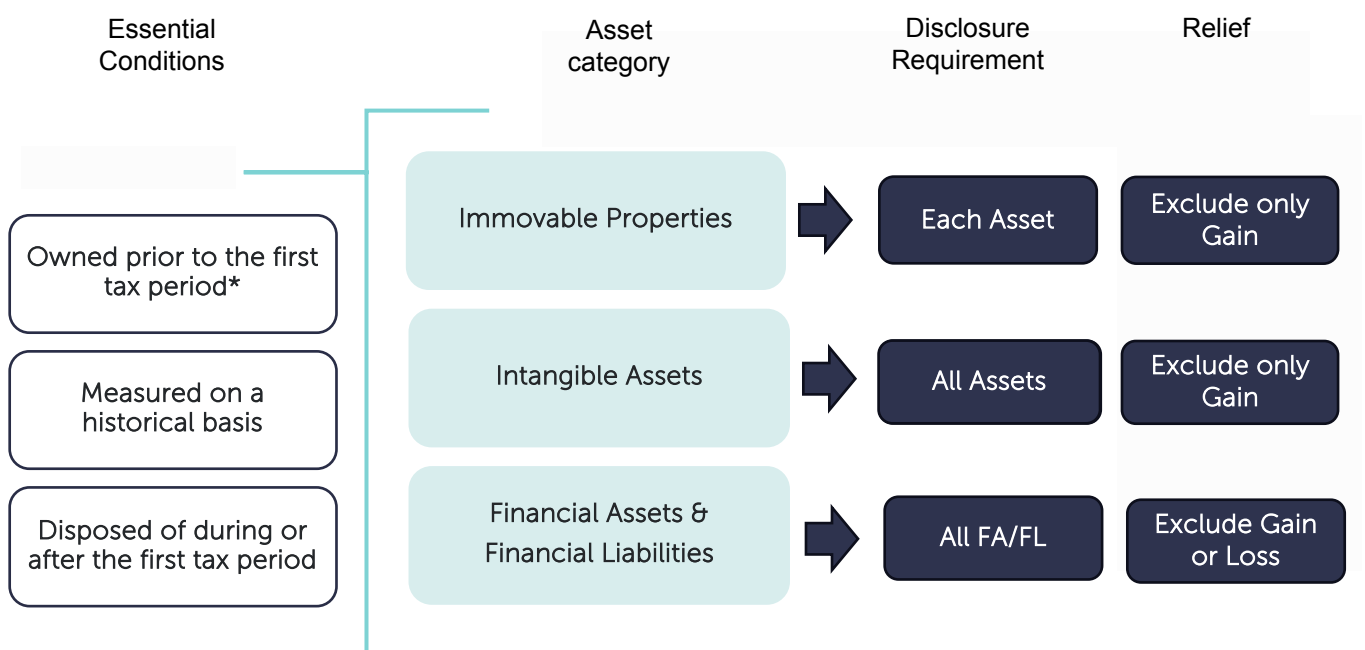
## a. Broad Applicability

Ministerial Decision No. 120 of 2023, issued on 26 May 2023, provides transitional rules to assist businesses in adjusting their taxable income upon the implementation of the UAE CT Law.

The objective of this decision is to ensure that only capital gains arising after the implementation of Corporate Tax are subject to taxation and gains related to pre Corporate Tax are exempted through the application of specific methods.

Note that this option must be elected in the first Corporate Tax Return, and the choice is **irrevocable**. Further, for immovable properties choice for election need to be made asset wise.

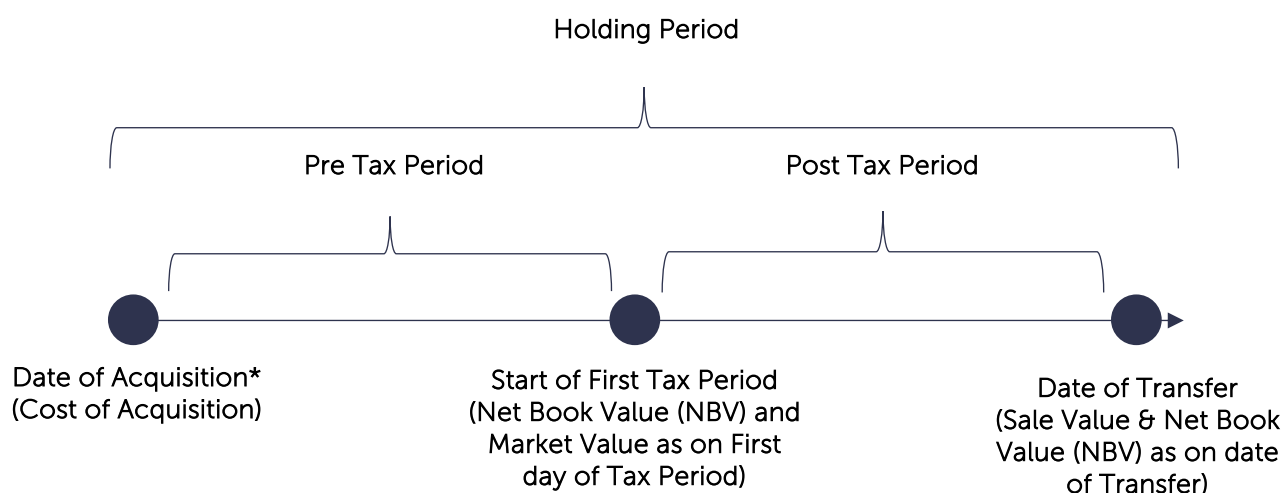
## b. Qualifying Assets & Liabilities



**\*Deemed to be fulfilled if owned by either the taxable person himself or any member of the same Qualifying Group or member of the same Tax Group.**

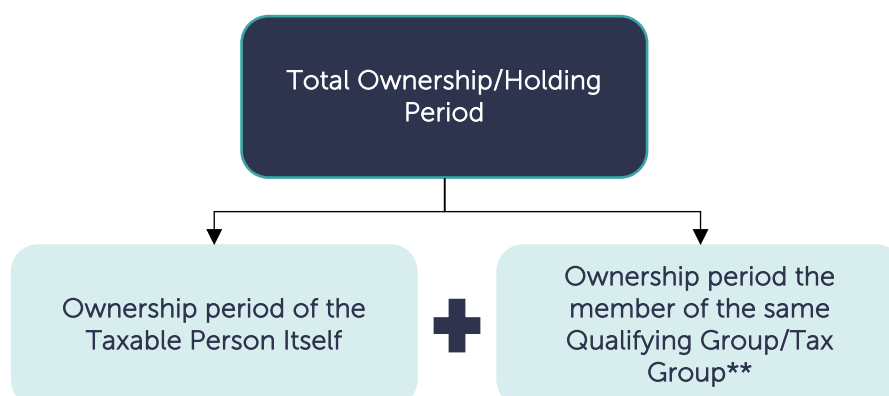
## c. Holding Period

### For Immovable Property/Intangible Assets/ Financial Assets or Liabilities



***\* In case of Intangibles the number of days shall not exceed a period equivalent to a maximum of (10) ten years, except under exceptional circumstances and pursuant to approval by the Authority.***

### For Tax & Qualifying Groups under MD 120



***\*\*Transfers to comply with Article 26(1) (Qualifying Group Transfers) or Article 42(1) (Tax Group Transfers) of the UAE Corporate Tax Law.***

## d. Relief Computation

ABC Manufacturing LLC bought a commercial building on 1 Jan 2021 for AED 1,000,000. On 1 Jan 2024 (start of the first Tax Period), its net book value (NBV) was AED 700,000, and fair market value (FMV) was AED 1,200,000. The property was sold on 30 June 2024 for AED 1,250,000, with NBV reduced to AED 650,000. Which method should ABC Manufacturing LLC elect?

### Option I: Valuation method

Particulars	Amount (in AED)	Reference
Sale Proceeds	1,250,000	A
NBV at sale	650,000	B
Gain on sale as per books	600,000	C=A-B
Fair market value on 1 Jan 2024	1,200,000	D
Higher of Original cost (1,000,000) or NBV (700,000)	1,000,000	E
<b>MD 120 Adjustment (Gain Relief)</b>	<b>200,000</b>	<b>F=D-E</b>
<b>Taxable Gains</b>	<b>400,000</b>	<b>C-F</b>

### Option II: Time Apportionment Method

Particulars	Amount (in AED)	Comments/Workings
Holding Period Gains	250,000	G=A-E
Total Holding Period (Days)	1,276	H = 1.1.21 to 30.6.24
Pretax Holding Period (Days)	1,095	I = 1.1.21 to 31.12.23
<b>MD 120 Adjustment (Gain Relief)</b>	<b>214,538</b>	<b>J = G*I/H</b>
<b>Taxable Gains</b>	<b>385,462</b>	<b>C-J</b>

**Conclusion:** Since Taxable gains AED 385,462 (Time-Appportionment) < AED 400,000 (Valuation), Option II: Time-Appportionment Method can be elected, yielding the lowest taxable gain.

### Note:

Methods Applicable for each category of Qualifying Assets/Liabilities

1. Immovable Property: Both Methods available
2. Intangibles: Time Apportionment Method only
3. FA/FL: Valuation Method only



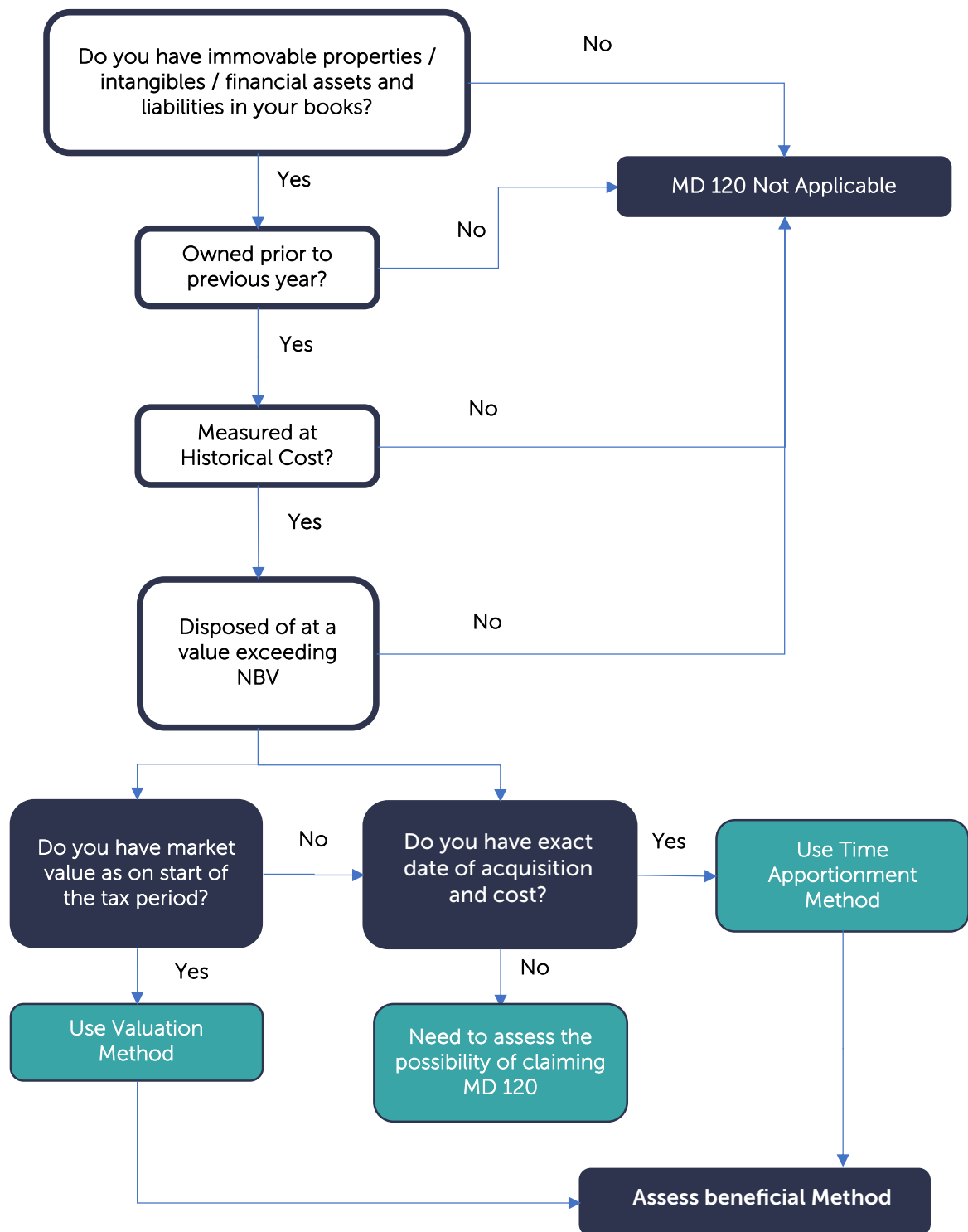
## e. Documentation Required to be Maintained by Business

### General Requirements (Illustrative)

- Document evidencing address of the Immovable Property,
- Document confirming ownership
- Document evidencing Date of acquisition of asset/liability
- Document evidencing Cost of acquisition,
- Documents having Makani Number/any other Identification Number of the Immovable Property (Optional)
- Sale deeds evidencing date of sale, transferee details & sale consideration,
- Market Valuation Reports from relevant competent authorities as on start of the First Tax Period,\*
- Documents evidencing transferee and transferor and date of transfer in case of intra tax group or intra qualifying group transfers
- Asset Register, including opening balances, depreciation charged, transfers & additions made and closing balances from the date of acquisition to the date of sale for each asset.

***\* Required only if Market Valuation Method opted***

## f. Transitional Rules – Summary Flowchart





# Election 2 - Realisation Basis:

Article 20 (2) & 20 (3) read with  
Ministerial Decision No. 134 of  
2023

## a. Broad Applicability

As per Article 20(2) of UAE CT Law , the Taxable income shall be adjusted for the following:

- " a. Any unrealised gain or loss under Clause 3 of this Article.
- b. ....
- i. Any other adjustments as may be specified by the Minister."

**Ministerial Decision No. 134 of 2023** issued on 29 May 2023 provides for general rules for determining the Taxable income.

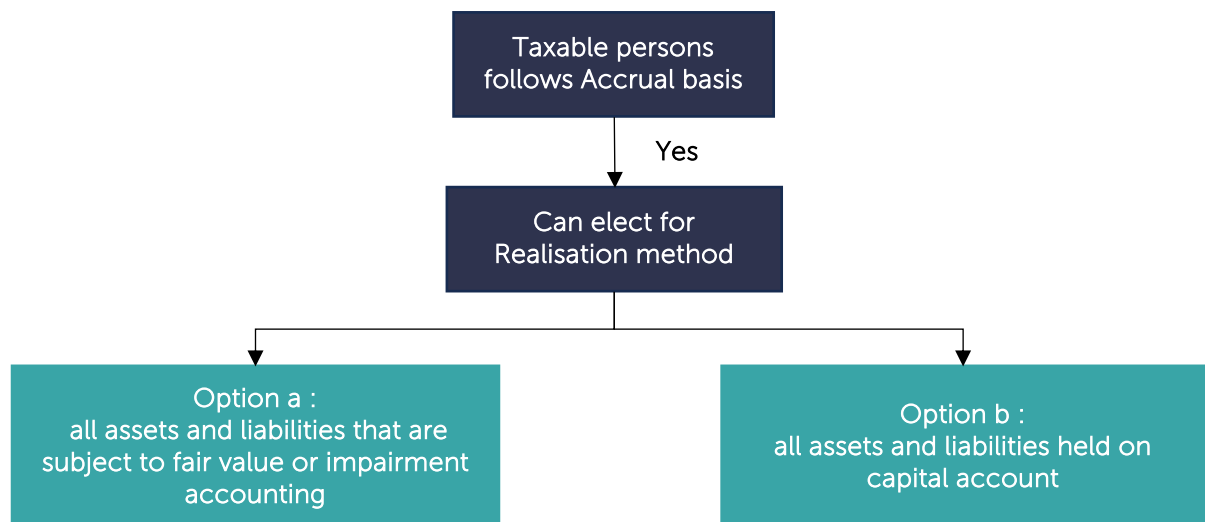
This Decision sets out the framework for deferring tax liabilities on **unrealised gains or losses until the underlying assets or liabilities are actually realised**.

It also provides guidance on the required adjustments for investments accounted for under the **Equity Method**, ensuring alignment with the cost method as prescribed under the UAE CT Law.

In addition, the Decision outlines the necessary adjustments for asset or liability transfers occurring within a Qualifying Group, under Business Restructuring Relief, or between Related Parties, in accordance with the applicable provisions.

It is important to note that this Election must be made in the first Corporate Tax Return and is **irrevocable**.

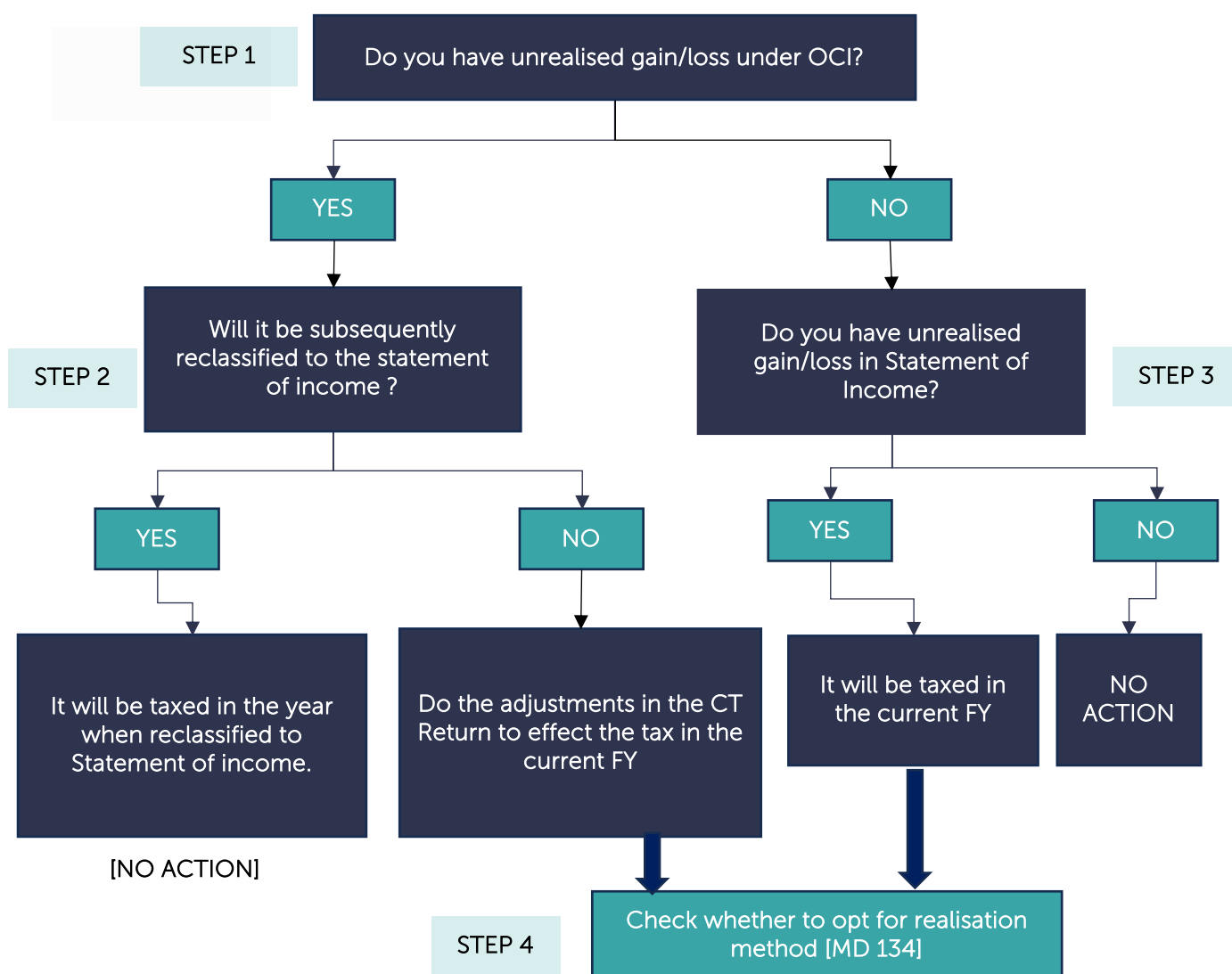
**Article 20(3) of UAE CT Law r.w.a. 20(2)(a) provides as under**

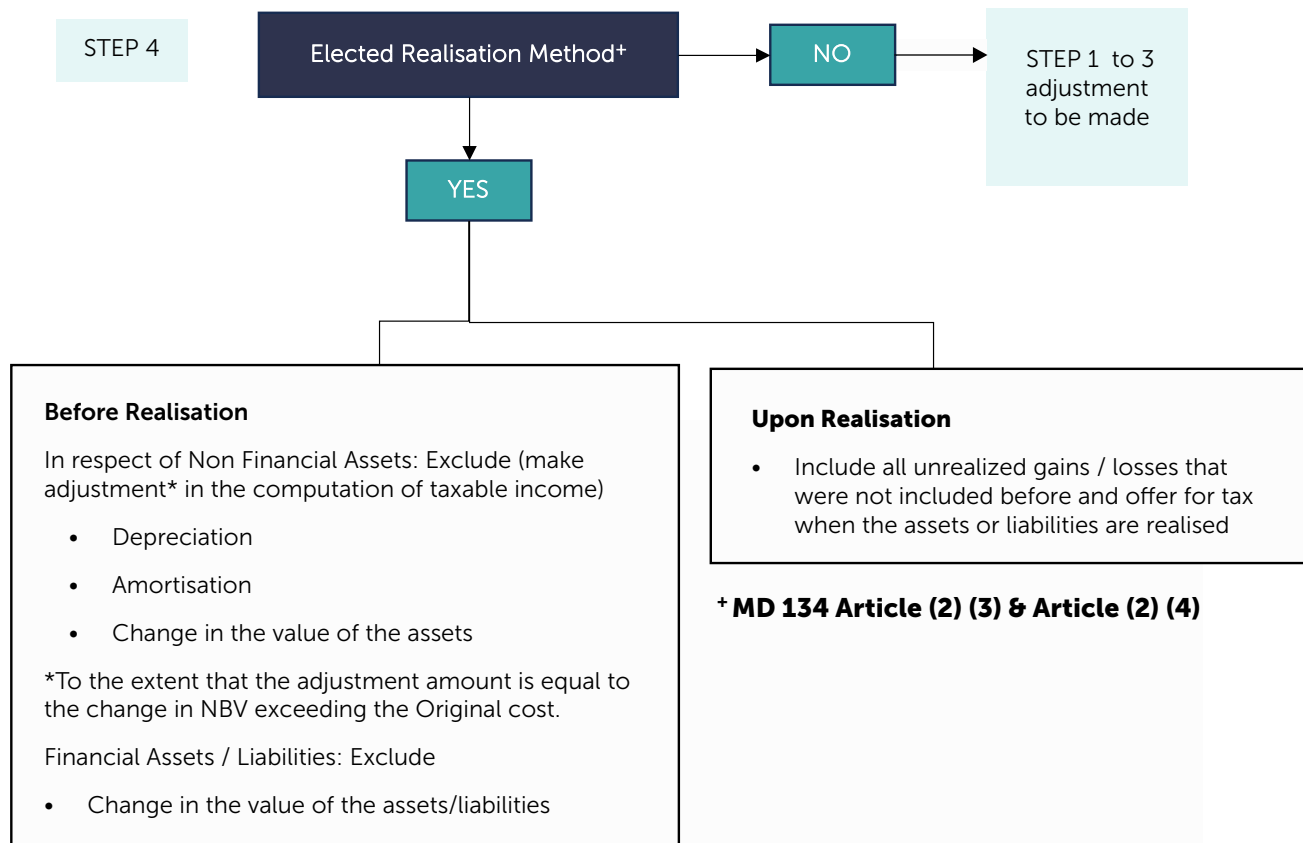


**\* For Bank and Insurance providers - Only Option b**

## b. Approach for Treatment of Realised & Unrealised gains/losses

MD 134 of 2023 Article (2)(1)





**The above adjustments to be made by the transferee to the taxable income in relation to transfers within Qualifying Group (MD 134 Article 4) and Business Restructuring Relief (MD 134 Article 5)**

## MD 134 of 2023 Article (2)(1)

**Illustration:** ABC Limited - Statement of profit or loss and other comprehensive income for the year ended 31 Dec 2024 is as below :

Particulars	Amount (in AED)
Revenue	50,000,000
Expenses	22,000,000
Net Profit Before tax	28,000,000
Other Comprehensive Statement	
Property Revalued [4M revalued to 6M]	2,000,000
Income from Foreign Operation translation	100,000
<b>Total Comprehensive Income for the year</b>	<b>30,100,000</b>

**Additional information:**

- Provision for doubtful debts (considered in P&L) is AED 200,000
- Depreciation charged on revalued amount included in Statement of Income is AED 600,000

## Treatment at the time of Computation of Income

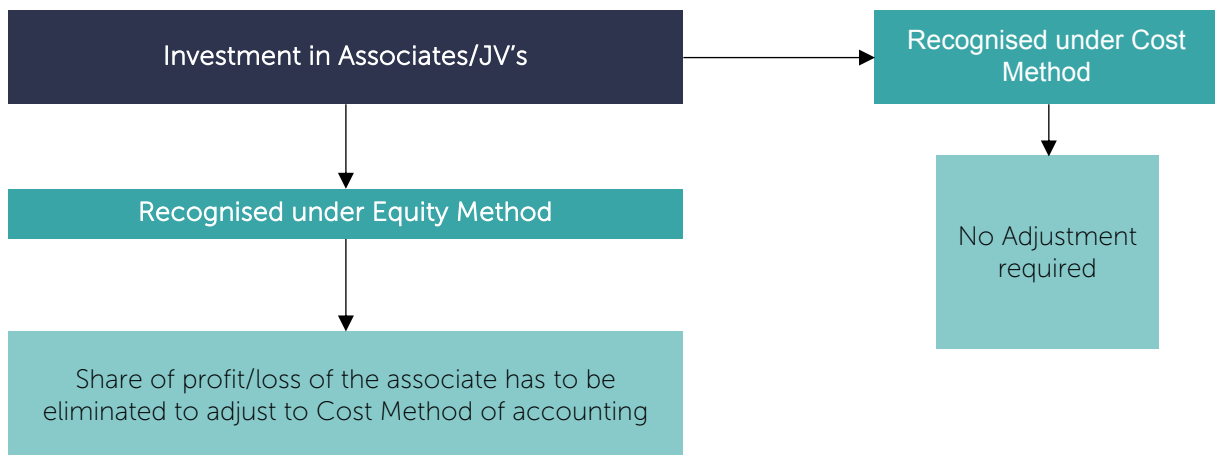
Particulars	If realisation method is not elected	If realisation method is elected – option a (all assets / liabilities)	If realisation method is elected – option b (Only capital assets / liabilities)
Net Income	28 M	28 M	28 M
Adjustments			
Income that are not subsequently reclassified to Statement of Income (134(2)(1))	2M <sup>(b)</sup>	-	-
Depreciation to be adjusted (134(2)(3))	-	0.6 <sup>(c &amp; e)</sup>	0.6 <sup>(d &amp; e)</sup>
Provision on Doubtful debts	-	0.2 <sup>(c)</sup>	-
<b>Adjusted Taxable Income</b>	<b>30 M</b>	<b>28.8 M</b>	<b>28.6 M</b>

### Key points:

- Income from Foreign Operation translation not to be adjusted since the item shall be reclassified subsequently to statement of income.
- Revaluation gain offered to tax and therefore no depreciation adjustment to be made.
- Depreciation and Provision on Doubtful debts to be adjusted since realisation is elected on all assets and liabilities that are subject to fair value & Impairment accounting
- Only depreciation shall be adjusted since realisation method is elected on assets or liabilities held on Capital account
- Depreciation shall be adjusted to the extent of the revaluation ( till NBV becomes equal to Original cost of the asset)
- To include all the adjustments made earlier to compute the tax liability when the asset/liabilities are realized (sold)

## c. When Investment is recognised under Equity Method

### MD 134 of 2023 Article (2)(2)



#### Illustration:

- Investments are recorded under Equity Method in the books of Company A.
- Net income of Company A is AED 50M
- Company A invested in 40% shares of Company B - AED 300 M
- Net income of Company B is AED 20M

### Taxable income for A will be adjusted as below:

Particulars	Amount (in AED)
Net Income	50 M
Less: Share of profits from B (40% of 20 M)	(8 M)
Adjusted Taxable income	42 M



## d. Transfer of an asset or a liability between Related Parties

### MD 134 of 2023 Article (3)

The transferee needs to adjust the Taxable income as below:

<b>Scenario 1</b> <b>If Consideration &gt; Market Value</b>	<b>Scenario 2</b> <b>If Consideration &lt; Market Value <sup>#</sup></b>
<p><b>Before Realisation</b></p> <p>Exclude (make adjustment* in the Computation of taxable income)</p> <ul style="list-style-type: none"> <li>• Depreciation</li> <li>• Amortisation</li> <li>• change in the value of the assets</li> </ul> <p><i>*To the extent that the adjustment amount is equal to the change in NBV as recognized by the transferee and the Market Value.</i></p> <p><b>Upon Realisation</b></p> <p>Include</p> <ul style="list-style-type: none"> <li>• any amount to which the net book value used by the transferee when calculating the gain or loss, exceeds the Market Value identified above</li> </ul>	<p><b>Before Realisation</b></p> <p>Exclude</p> <ul style="list-style-type: none"> <li>• change in the value of the assets</li> </ul> <p><i>*To the extent that the adjustment amount is equal to the change in Market Value and NBV as recognized by the transferee</i></p> <p><b>Upon Realisation</b></p> <p>Include</p> <ul style="list-style-type: none"> <li>• To reduce an amount of gain by the difference in the Market Value and NBV</li> </ul>

<sup>#</sup> where the transferor has included the difference between the Market Value and the consideration in its Taxable Income

## e. Key Take Away for electing Realisation Basis

- Identify the assets and liabilities subject to Fair value or impairment method of accounting
- To evaluate the unrealized gains not subsequently reclassified during the relevant tax period
- Elect whether gains/loss all assets/liabilities or only capital assets / liabilities would be offered to tax
- Maintain details of calculations of appreciation / amortisation / depreciation to be reviewed in the year of disposal
- Review the impact on Deferred Tax asset or liability.



# Election 3 - Small Business Relief

## Election 3: Small Business Relief

Article 21 of the UAE CT Law and Ministerial Decision No. 73 of 2023 introduces the Small Business Relief (SBR) to support small and micro businesses by reducing their Corporate Tax burden and compliance costs.

### Eligibility

- Eligible Taxable Person's Revenue (including exempt income/other income) must be below or equal to **AED 3 Million** for the relevant Tax Period and all previous Tax Periods that end on or before **31 December 2026**.
- SBR is not available to:
  1. Member of an MNE
  2. Qualifying Free Zone Person

Particulars	SBR
Required to register for Corporate Tax	✓
Tax Return	Simplified
Required to calculate Taxable Income	✗
Corporate Tax payable	✗
Must comply with Transfer Pricing documentation requirements	✓
Must comply with the Arm's Length Principle	✗
Can carry forward losses	✗
Cash Basis	✓

### Documents required to be maintained

- Sales ledgers Invoices or other records of daily earnings
- Bank statements
- Order records and delivery notes
- Other relevant Business correspondence

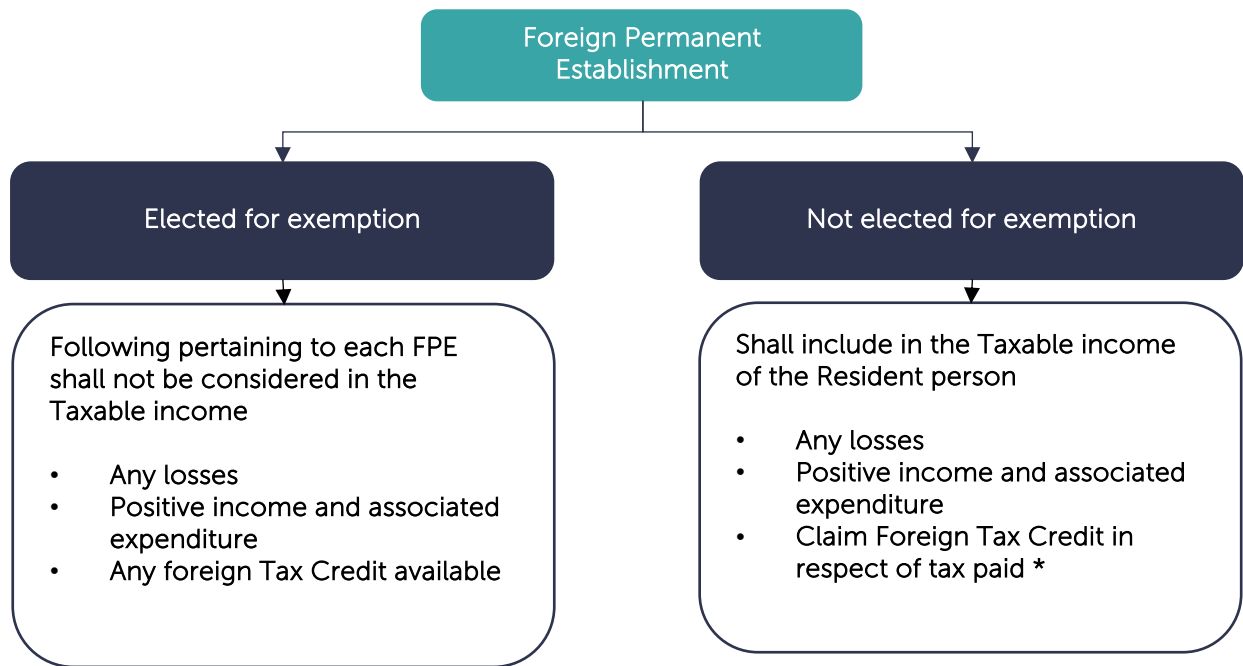


# **Election 4 - Foreign Permanent Establishment Exemption**

## Election 4: Foreign Permanent Establishment Exemption

Article 24 of UAE CT Law and Ministerial Decision No. 302 of 2024 addresses the exemption of income derived from a Foreign Permanent Establishment (FPE) by a UAE Resident Person. This provision aims to prevent double taxation and align with international tax standards.

This exemption shall only apply to a FPE that is subject to Corporate Tax or a tax of a similar character under the applicable legislation of the relevant foreign jurisdiction at a rate not less than 9%.

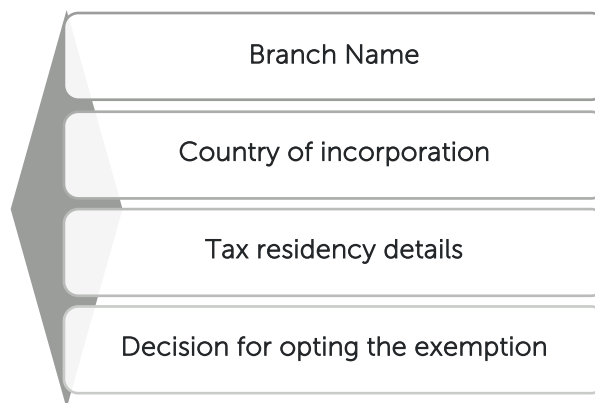


**\* The maximum Foreign Tax credit is the Corporate Tax due on the relevant foreign source income**

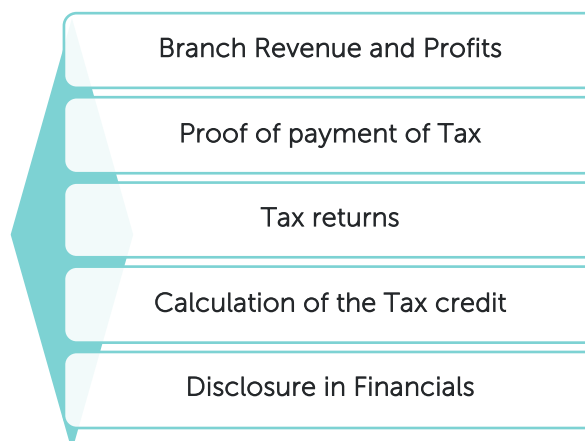
**Note:**

- The election shall apply to all FPE
- Any unutilized Foreign Tax Credit cannot be carried forward or carried back.

## Details required to be provided by Resident Person in the Corporate Tax Return



## Recommended Documents / details to be maintained by the Resident person





# Election 5 - Qualifying Group Relief

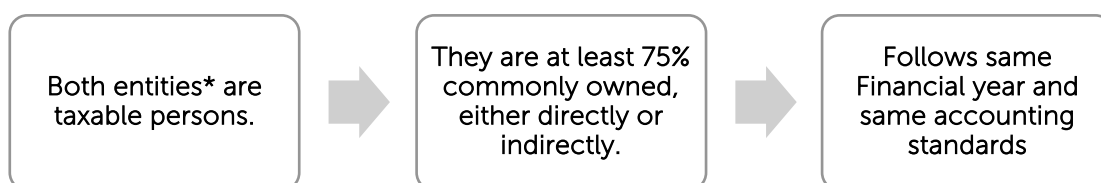


## Election 5: Qualifying Group Relief

Article 26 of UAE CT Law and Ministerial Decision No.132 of 2023 on the Taxation of Corporations and Businesses addresses "Transfers Within a Qualifying Group." This provision facilitates tax-neutral transfers of assets and liabilities between entities that are part of the same Qualifying Group.

This election to be made by the transferor in the First tax Return and is **irrevocable**

### • Conditions for Qualifying Group Status:



\*Should not be an Exempt persons or a Qualifying Free zone person

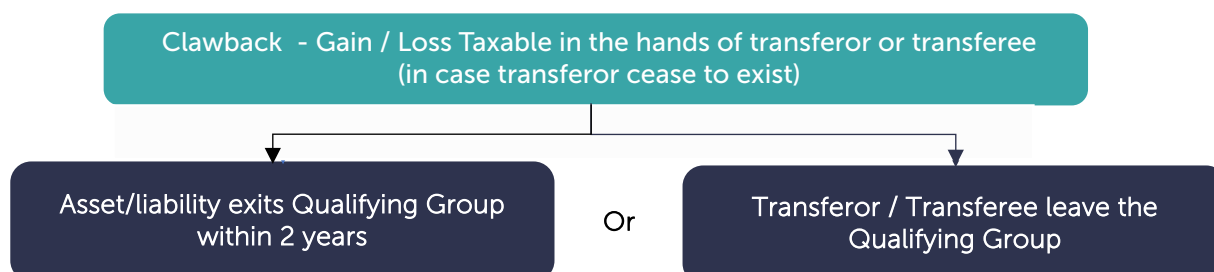
### • Eligible transfer:

- The assets and liabilities held on capital account with or without consideration.

### • Consequence of election for Qualifying Group Relief:

- The Asset or liability will be treated as transferred at its net book value at the date when the transfer transaction takes place.
- For the Transferor, there would be no taxable gain or loss on transfer of the asset or liability.

### • Clawback of the Qualifying Group Relief :



### • Recommended Documentation

Transfer Agreements & Valuation Records to be maintained.



# **Election 6 - Business Restructuring Relief**

## Election 6: Business Restructuring Relief

Article 27 of UAE CT Law and Ministerial Decision No.133 of 2023 on the Taxation of Corporations and Businesses addresses "Business Restructuring relief". This election facilitates mergers, demergers, and other corporate restructurings in a tax-neutral manner.

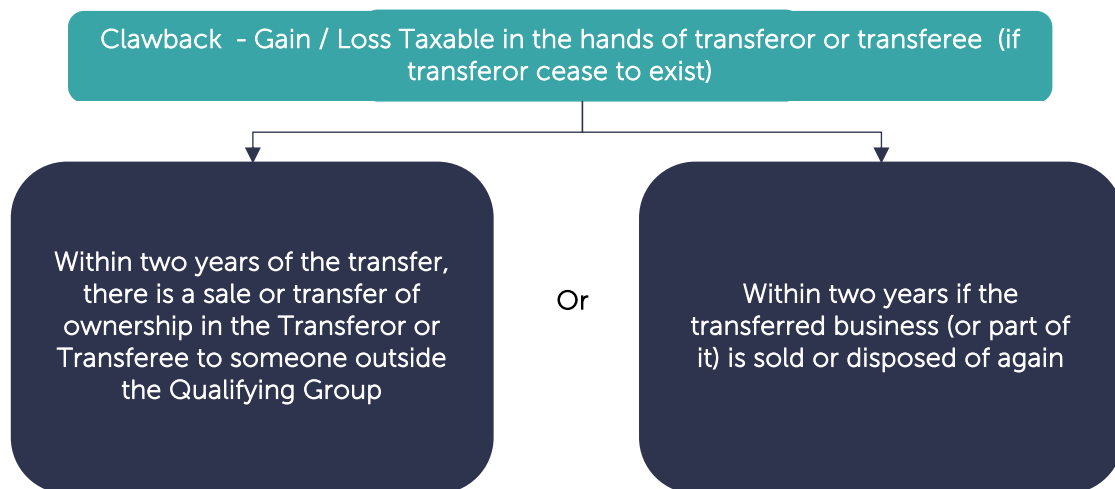
This election to be made in the First tax Return and it is **irrevocable** by the transferor

- **No gain or loss in determining taxable income when:**
  - Transfer of entire business
  - Transfer of an independent part of business
  - To taxable person
  - In exchange of shares or other ownership interest
  
- **Conditions to qualify a Business Restructuring Relief (Tax Neutral Transfer)**
  - Transfer undertaken in accordance with the UAE applicable legislation
  - Transferor and transferee are Residents or nonresidents having PE in UAE
  - Transferor and transferee are not Exempt or Qualifying Free Zone Persons
  - Transfer is done on valid commercial reasons conditions
  - Follows same Financial year and same accounting standards
  
- **Consequence of election for Business Restructuring Relief:**
  - When a business (or part of it) is transferred under Article 27 of the Corporate Tax Law, the assets and liabilities are transferred at their net book value, resulting in no taxable gain or loss for the transferor.
  - Any unutilised tax losses of the transferor may be carried forward and utilised by the transferee.

## • Consideration for the purpose of Business Restructuring Relief

- Mainly in shares or interest of the transferee
- Part consideration other than shares or interest subject to the following conditions.
  - Market Value of the other form of consideration does not exceed the lower of:
    - a. the net book value of the assets and liabilities transferred, or
    - b. 10% of the nominal value of the ownership interest issued.
- Consideration may be received by transferor or another person that has at least 50% director or indirect ownership interest.
- Consideration may be paid or issued by transferee or another person that has at least 50% director or indirect ownership interest.

## • Clawback of the Business Restructuring Relief :



## • Recommended Documentation

Transfer Agreements & Valuation Records to be maintained

## Details / Documents to claim Qualifying Group / Business Restructuring Relief

### **Details required to be provided for the purpose of electing for the Qualifying Group Relief or Business Restructuring Relief**

- Name and TRN of counterparty
- Market Value of asset and liability when they are transferred.(for Qualifying Group Relief)
- Net book value of the assets and liabilities of the Business at the date of transfer(for business restructuring relief)
- Date of transfer
- Gain or Loss on the transfer recognized in the Financial Statements
- Proceeds arising from transfer

### **Details required to be provided in case claw back is triggered after electing for Qualifying Group Relief or Business Restructuring Relief**

- Name and TRN of counterparty.
- If the Transferor still a Taxable Person
- Was the Taxable Person the Transferor or Transferee when this transaction took place
- Market Value of the asset or liability when the transfer took place
- Date of original transfer
- Gains and losses recognised in the current Tax Period as a result of the clawback

## Abbreviations

CT Return	Corporate Tax Return
FA	Financial Asset
FL	Financial Liability
FPE	Foreign Permanent Establishment
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MD	Ministerial Decision
MNE	Multinational Enterprise
NBV	Net Book Value
OCI	Other Comprehensive Income
PPE	Property, Plant & Equipments
Related Party (RP)	Juridical person owning 50% or more ownership, directly or indirectly, in another juridical person.
SBR	Small Business Relief
SLM	Straight Line Method
UAE CT Law	Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses

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- **Advisory**

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