



TAXATION OF NATURAL PERSON UNDER UAE CORPORATE TAX LAW

Summary of UAE Corporate Tax Law for Natural Person

Aspect	Description
Applicability of Corporate Tax	Individuals subject to Corporate Tax include those conducting a business, having a Permanent Establishment in the UAE, or deriving State Sourced Income.
Exempt Income Categories	Exempt from Corporate Tax: Employment income, Personal Investment income, and Real Estate Investment income.
State Sourced Income	Includes income from various sources within the UAE, such as the sale of goods, provision of services, contracts, movable or immovable property, disposal of shares, and more.
Key Considerations for Taxable Persons	Considered Taxable Persons if conducting a business in the UAE. - Corporate Tax applicable if Turnover exceeds AED 1 million within a calendar year.
Exclusions from Corporate Tax	Certain types of income, including wages, personal investment income, and real estate investment income, are exempt from Corporate Tax.
Turnover Calculation	Calculated on an accrual basis, including gross income from all Business and Business Activities except exempt categories.
Small Business Relief	Available if Revenue does not exceed AED 3 million for each Tax Period. Natural persons may elect for this relief.
Interest Deduction	Full deduction allowed for Interest expenditure if incurred wholly and exclusively for the natural person's business and meets the arm's length principle.
General Deduction Rules	Deduction allowed for expenditure incurred wholly and exclusively for the natural person's business, subject to certain limitations.
Non-Deductible Expenditure	Disallowance for certain expenditures, including amounts withdrawn from a business by a natural person.
Related Parties	Transactions with Related Parties must follow the arm's length principle. Related Parties include owners, directors, officers, and partners in an Unincorporated Partnership.

Connected persons	Payments to Connected Persons deductible if consistent with the arm's length principle. Definition includes partners in an Unincorporated Partnership.
Tax Registration Threshold	Registration required if Turnover exceeds AED 1 million within a calendar year. Partners in Unincorporated Partnerships treated as conducting the business of the partnership.
Tax Deregistration Conditions	- Cessation of all Business or Business Activities. - Filing within 3 months of cessation. - Compliance with filing and payment requirements.
Death of the Taxable Person	Natural persons cease to be Taxable Persons upon death. Outstanding Corporate Tax liabilities settled from the estate value. Recourse against heirs if needed.
Tax Period	Gregorian calendar year. First potential Tax Period for a natural person is the 2024 Gregorian calendar year.
Accounting Standards and Statements	Standalone Financial Statements by IFRS or IFRS for SMEs (if Turnover ≤ AED 50 million). Audited Financial Statements required if Turnover exceeds AED 50 million.
Tax Return Filing	Must file a Corporate Tax Return within 9 months from the end of the relevant Tax Period. 'Nil' returns required when Turnover ≤ AED 1 million in subsequent Tax Periods.

Introduction

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses ("Corporate Tax Law") was issued on 3 October 2022 and was published in Issue #737 of the Official Gazette of the United Arab Emirates ("UAE") on 10 October 2022. The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits ("Corporate Tax") in the UAE. The provisions of the Corporate Tax Law shall apply to Tax Periods commencing on or after 1 June 2023.

The Corporate Tax Law in the UAE applies to individuals if they are running a business, have a Permanent Establishment in the UAE, or earn income directly from the UAE. However, certain types of income for individuals, like employment income, personal investment income, and real estate investment income, are always exempt from Corporate Tax.

It's important to note that international agreements, including Double Taxation Agreements, take precedence if there's a conflict between them and the Corporate Tax Law. So, when figuring out the tax implications for an individual, it's essential to consider the terms of any applicable agreements between the UAE and other countries.

Natural Person

The term natural person takes its ordinary meaning, and refers to a living human person of any age, whether resident in the UAE or elsewhere. For minors or incapacitated individuals, the Corporate Tax obligations shall be fulfilled by their Legal Representative.

Corporate Tax Law and natural persons

In order to level the playing field between incorporated businesses and unincorporated businesses conducted by individuals, the Corporate Tax Law applies to natural persons to the extent they are conducting a **Business or Business Activity** in the UAE, have a Permanent Establishment in the UAE, or derive State Sourced Income (i.e. income that is accrued in, or derived from, the UAE).

However, certain types of income are always exempt from Corporate Tax for natural persons. For a natural person, the Corporate Tax Law does not apply to their

- employment income,
- Personal Investment income,
- or Real Estate Investment income.

International agreements, including Double Taxation Agreements, prevail where there is an inconsistency between the provisions of the Corporate Tax Law and the agreement. Therefore, the position under applicable Double Taxation Agreements between the UAE and other jurisdictions should be considered in determining the residence and extent of UAE Corporate Tax for a natural person.

Key Considerations:

The following considerations are key when determining whether a natural person will be subject to Corporate Tax

- A natural person who conducts a Business or Business Activity in the UAE is considered to be a Taxable Person, and a Resident Person
- A natural person is subject to Corporate Tax on their Business or Business Activity only where the total Turnover derived from Business or Business Activities conducted in the UAE exceeds AED 1 million within a Gregorian calendar year
- For a natural person, income from the following categories is not considered as arising from a Business or Business Activity, and is disregarded when determining Turnover and not subject to Corporate Tax, regardless of the amount:
 - o Wage,
 - o Personal Investment income, and
 - o Real Estate Investment income.

Where the Turnover from Business or Business Activities conducted in the UAE exceeds AED 1 million within a Gregorian calendar year, the natural person (whether resident or non-resident) is required to comply with the obligations of the Corporate Tax Law, including registration for Corporate Tax purposes with the FTA, submitting Corporate Tax Returns and paying Corporate Tax.

Exclusions from Corporate Tax

For an individual, income derived from specific activities, such as wages, personal investment income, and real estate investment income, is exempt from Corporate Tax, as these sources are not classified as Business or Business Activities under the provisions of the Corporate Tax Law.

Furthermore, this income is excluded from the calculation when determining whether a natural person has exceeded a Turnover of AED 1 million in a Gregorian calendar year from Business or Business Activities conducted in the United Arab Emirates.

Real Estate Investment income

Real Estate Investment income is not subject to Corporate Tax when derived by natural persons if it is related, directly or indirectly, to the selling, leasing, sub-leasing, and renting of land or real estate property in the UAE that is not through a Licence nor requiring a Licence from a Licensing Authority.

Scenario:

Mr. Smith, a UAE resident, owns a piece of land in Dubai. He decides to generate income from this property through various real estate activities. Mr. Smith engages in the following transactions:

- 1. Leasing: He leases a portion of his land to a commercial entity for setting up a retail store.*
- 2. Sub-leasing: Within the leased space, the commercial entity sub-leases part of it to a smaller business for office purposes.*
- 3. Renting: Additionally, Mr. Smith rents out another section of his land to a construction company for a specific period.*

In this scenario, since Mr. Smith's Real Estate Investment income is derived from activities related to the selling, leasing, sub-leasing, and renting of land in the UAE, and these transactions do not involve a license requirement from a Licensing Authority, the income generated from these real estate activities is not subject to Corporate Tax for Mr. Smith. The exemption applies if the activities fall within the specified criteria outlined in the Corporate Tax Law.

Natural persons deriving State Sourced Income

State Sourced Income refers to money earned in the UAE under the following circumstances:

1. Income received from a person residing in the UAE.
2. Income generated from a business establishment in the UAE belonging to a person who is not a UAE resident.
3. Income obtained through activities, assets, investments, rights, or services carried out or located in the UAE.

State Sourced Income includes, but is not limited to, Dividends from UAE companies, payments from UAE Businesses, royalties paid from the UAE and Interest from a UAE bank account. The following are all examples of State Sourced Income:

- Income from the sale of goods in the UAE,
- Income from the provision of services that are rendered or utilised or benefitted from in the UAE,
- Income from a contract insofar as it has been wholly or partly performed or benefitted from in the UAE,
- Income from movable or immovable property in the UAE,
- Income from the disposal of shares or capital of a Resident Person,
- Income from the use or right to use in the UAE, or the grant of permission to use in the UAE, any intellectual or intangible property,
- Interest that meets any of the following conditions:
 - The loan is secured by movable or immovable property located in the UAE,
 - The borrower is a Resident Person, or

- The borrower is a Government Entity. - Insurance or reinsurance premiums in any of the following instances:
 - The insured asset is located in the UAE,
 - The insured Person is a Resident Person, or
 - The insured activity is conducted in the UAE

Certain State Sourced Income, derived by a Non-Resident Person including a natural person, that is not attributable to a Permanent Establishment, may be subject to Withholding Tax. The current Withholding Tax rate is 0%.

The Withholding Tax rate on State Source Income is currently 0%.

However, if the natural person is a Resident Person (or is a Non-Resident Person having a Permanent Establishment in the UAE), their related income would be subject to Corporate Tax at the applicable rate (rather than Withholding Tax). This would require them to register with the FTA for Corporate Tax purposes, subject to the key considerations.

Computation of Turnover

To calculate the Turnover of natural persons, gross income derived during a Gregorian calendar year **from all the categories of Businesses or Business Activities that they conduct should be taken into consideration.**

For example, income derived from a sole proprietorship or their share of income from a fiscally transparent Unincorporated Partnership would need to be combined.

Income derived from Wage, Personal Investments, or Real Estate Investments is excluded when determining the Turnover.

Turnover should be measured on an **accrual basis of accounting except where the natural person applies the Cash Basis of Accounting**

Example:

Natural person deriving income from sales of goods and receiving a Wage A natural person, Mr. O, based in the UAE, earns the following income during a Gregorian calendar year:

- Annual salary from an employment contract: AED 300,000
- Bonuses in accordance with the employment contract: AED 150,000
- Turnover from baking and selling cupcakes: AED 900,000 Only the income derived from the sale of the cupcakes should be taken into consideration when calculating the total Turnover as the rest of the income is Wage and should not be considered.

The Turnover is AED 900,000 and does not exceed the threshold of AED 1 million. Therefore, Mr. O is not subject to Corporate Tax in the calendar year.

Corporate Tax rate for natural persons

The below rates apply to the total Taxable Income of a natural person, i.e. the Taxable Income derived from all Businesses or Business Activities conducted in the UAE by such natural person and not the Taxable Income of each Business or Business Activity separately.

When the Turnover derived by the natural person in a Gregorian calendar year exceeds the AED 1 million, the Taxable Income of a natural person will be subject to Corporate Tax at the following rates:

- 0% on the portion of the Taxable Income not exceeding AED 375,000.
- 9% on the portion of the Taxable Income that exceeds AED 375,000

Example

A natural person, Miss P, based in the UAE, conducted the following activities during a Gregorian calendar year:

- Worked for 3 months under an employment contract and earned AED 200,000.
- Worked as a freelance graphic designer in the UAE generating AED 1,600,000 Turnover (assume AED 400,000 of deductible expenses).
- Ran a sole proprietorship that sold mobile phones and accessories in the UAE and overseas. The gross income from domestic sales amounted to AED 1,200,000, and AED 800,000 from overseas sales (assuming AED 1,400,000 of deductible expenses).

Step 1 – Calculation of the Turnover The income derived from freelance activity, and from the sole proprietorship (both domestic and overseas sales, as the latter is related to the activity conducted in the UAE) are taken into consideration in computing the Turnover. Wage income is not considered. Therefore:

Turnover = 1,600,000 + 1,200,000 + 800,000 = AED 3,600,000.

As such, the natural person is considered to conduct Business or Business Activities that are subject to Corporate Tax, and the Corporate Tax is computed on the Taxable Income, which is the Accounting Income after the relevant required adjustments as per the Corporate Tax Law.

Step 2 – Calculation of Taxable Income

Accounting Income = Turnover – expenses = 3,600,000 – (400,000 + 1,400,000) = AED 1,800,000.

Adjustments = 0.

In this case it is assumed no adjustments are required.

Taxable Income = Accounting Income + \- adjustments = 1,800,000 + \- 0 = AED 1,800,000.

Step 3 – Calculation of the Corporate Tax

AED 375,000 x 0% = 0.

(Taxable Income over AED 375,000): 1,425,000 x 9% = AED 128,250.

Corporate Tax Payable = AED 128,250

Small Business Relief

A natural person can elect for Small Business Relief under Article 21 of the Corporate Tax Law. The relevant conditions need to be satisfied, including the fact that the Revenue from the taxable Business or Business Activity of the natural person in the relevant Tax Period and previous Tax Periods does not exceed AED 3 million for each Tax Period.

Note that the Small Business Relief is based on Revenue, where Revenue is defined as the gross amount of income derived during a Tax period. A natural person's Tax Period is the Gregorian calendar year.

Thus, a natural person's Revenue will be the same as Turnover, being the gross amount of income derived during a Gregorian calendar year.

Example

A natural person electing for Small Business Relief A natural person, Mr. Q, based in the UAE, is self-employed and earns the following income during a calendar year:

- Real Estate Investment income: AED 2,300,000
- Income derived from providing consulting services: AED 1,900,000

Only the income derived from providing consulting services should be taken into consideration when calculating Turnover.

The Real Estate Investment income is not derived through a Licence and, thus, is not considered to be a Business or Business Activity for Mr. Q and, therefore, is not included in the Turnover.

The Turnover is AED 1,900,000. This exceeds the AED 1 million threshold but is below the AED 3 million threshold for Small Business Relief.

In this case, Mr. Q will have to register with the FTA for Corporate Tax purposes; and he may elect for Small Business Relief as his Turnover does not exceed AED 3 million if the Turnover from previous Tax Periods does not exceed AED 3 million and all other requirements for this relief are met.

Corporate Tax calculations for natural persons

Interest deduction

Where a natural person is subject to Corporate Tax, the **General Interest Deduction Limitation Rule does not apply.**

This rule would otherwise cap Interest deductions at the higher of AED 12,000,000 or 30% of their taxable earnings before the deduction of Interest, tax, depreciation and amortization (EBITDA).

Instead, for a natural person, provided that the Interest expenditure is incurred wholly and exclusively for the natural person's Business, and meets the arm's length principle, the Interest expenditure will be fully deductible.

General deduction rules relating to Business expenditure

Expenditure incurred by a natural person wholly and exclusively for **his or her business** that is not capital in nature shall be deductible in the Tax Period in which it is incurred. This general rule is subject to certain limitations.

Accordingly, **no deduction** is allowed about the following:

- a. Expenditure not incurred for the natural person's Business.
- b. Expenditure incurred in deriving Exempt Income (other than Interest expenditure).
- c. Losses not connected with or arising out of the natural person's Business.

If expenditure is incurred for more than one purpose, a deduction would be allowed for any identifiable part or proportion of the expenditure incurred wholly and exclusively to derive Taxable Income, or if not incurred wholly and exclusively for the purposes of Business, an appropriate proportion of any unidentifiable part or proportion of the expenditure incurred for the purposes of deriving Taxable Income that has been determined on a fair and reasonable basis, having regard to the relevant facts and circumstances of the natural person's Business.

Non-deductible expenditure rules and natural persons

Article 33 of the Corporate Tax Law disallows deductions for certain types of expenditure. This includes a specific disallowance for amounts withdrawn from a Business by a natural person.

For example, amounts withdrawn by a natural person from their sole proprietorship Business – even if described as Wage or salary – cannot be deducted in calculating the Taxable Income arising from that Business.

Related Parties for natural persons

The transactions of a natural person with Related Parties are required to follow the arm's length principle for the purposes of Corporate Tax.

The arm's length principle requires the results of transactions or arrangements between Related Parties to be consistent with the results that would have been realised if Persons who were not Related Parties had engaged in a similar transaction or arrangement under similar circumstances.

A natural person can be a Related Party of one or more natural or juridical persons. This is discussed below

Juridical persons

A natural person's Related Party relationships with juridical persons are identified based on ownership and Control.

- i. **Relationship based on ownership** A juridical person is considered to be a Related Party of a natural person if the natural person or one or more Related Parties of the natural person are shareholders in the juridical person, and the natural person, alone or together with its Related Parties, directly or indirectly owns a 50% or more interest in the juridical person.

- ii. ***Relationship based on Control*** A juridical person is considered to be a Related Party for a natural person if the natural person, alone or together with its Related Parties, directly or indirectly Controls the juridical person.

For a natural person, Control means the ability of the natural person to influence another Person. Control may be exerted in different ways:

- the ability to exercise 50% or more of the voting rights; or
- the ability to determine the composition of 50% or more of the board of directors; or
- the ability to receive 50% or more of the profits; or
- the ability to determine, or exercise significant influence over, the conduct of the Business and affairs.

Partners in the same Unincorporated Partnership ***Partners in an Unincorporated Partnership***, whether the Unincorporated Partnership has applied to be treated as a Taxable Person or not, are Related Parties. This is because of the partners' shared Control over the Business of the partnership.

Trusts and foundations A Person who is the trustee, founder, settlor or beneficiary of a trust or foundation will be considered Related Parties of the trust or foundation and its Related Parties

Connected Persons Similar to the requirement that transactions conducted between Related Parties should meet the arm's length principle for Corporate Tax purposes, a payment or benefit provided by a Taxable Person to its Connected Person in exchange for services (or whatever is otherwise provided), is deductible for Corporate Tax purposes only to the extent that it follows the arm's length principle.

A payment or benefit made by a Taxable Person to a Connected Person in excess of the Market Value in relation to such transactions is not deductible for such Taxable Person.

This is also subject to the expenditure meeting the general requirements to be deductible under Article 28 of the Corporate Tax Law. Unlike the Related Party rules, the Connected Persons provisions only apply to the Taxable Person making the payment, not the recipient.

Article 36 defines a Connected Person as an owner, director or officer of the Taxable Person, or a Related Party of any owner, director or officer. A Taxable Person that is a natural person will not have an owner, director or officer, as these concepts relate to juridical persons.

The only aspect of the definition of Connected Person which may apply to a natural person is that partners in an Unincorporated Partnership are Connected Persons with each other (and also the other partners' Related Parties, such as relevant family members).

Interaction with other Business forms and entities

Juridical person

A juridical person is a legal entity with a separate personality.

Ownership of a juridical person by a natural person does not in itself make the natural person a Taxable Person.

Subject to the conditions explained above, natural persons and juridical persons can be considered Related Parties or Connected Persons. If a natural person conducts Businesses or Business Activities in their own right, any transaction or arrangement they conduct with a juridical person that is a Related Party should meet the arm's length principle for the purposes of Corporate Tax.

Sole proprietorship

A sole proprietorship is a type of Business owned and conducted by a natural person on his/her account and in their name, as the case may be.

For Corporate Tax purposes, the sole proprietorship and the natural person are the **same because of their direct relationship and Control over the Business and their unlimited liability** for the debts and other obligations of the Business.

The natural person conducting the Business will be the Taxable Person, not the sole proprietorship itself.

Unincorporated Partnerships

An Unincorporated Partnership is a relationship established by contract between two Persons or more. Generally, each partner in an Unincorporated Partnership is treated as an individual Taxable Person for the Corporate Tax Law.

Subject to the Turnover threshold conditions (see Section 3.7), a natural person partner is subject to Corporate Tax directly on their distributive share and their Taxable Income is determined according to the standard rules.

The partners in the Unincorporated Partnership may apply to the FTA for the Unincorporated Partnership to be treated as a Taxable Person. Where such an application is approved, the income of the Unincorporated Partnership is taxed at the level of the Unincorporated Partnership instead of at the level of the partners.

In this situation, the partner would need to assess if they had any other Business (other than the partnership) which may be subject to Corporate Tax based on the principles explained in the previous sections. If not, such partner would not be subject to Corporate Tax (other than through the partnership).

Tax Registration

Natural persons conducting Businesses or Business Activities in the UAE that are subject to Corporate Tax are only required to register for Corporate Tax purposes once the total Turnover derived from such Businesses or Business Activities exceeds AED 1 million within a Gregorian calendar year.

In case a natural person is a partner in an Unincorporated Partnership that is not treated as a Taxable Person in its own right, they are treated as conducting the Business of the Unincorporated Partnership.

If following their initial Tax Registration, a natural person conducts new Business or Business Activities, the same Tax Registration Number will be utilised for such Business or Business Activities.

- In this case, the natural person is required to include the Taxable Income and the relevant information of the new Business or Business Activities in their Tax Return under the same Tax Registration Number

When a natural person who has registered for Corporate Tax with the FTA finds their Turnover not exceeding the AED 1 million threshold during any subsequent Gregorian calendar year, they will retain their Tax Registration status.

They are not permitted to deregister for Corporate Tax unless they have ceased conducting Business or Business.

Timeline for Tax Registration of Natural Persons

A natural person conducting a Business or Business Activity in the State shall submit a Tax Registration application in accordance with the following table:

Category of natural persons	Deadline for submitting a Tax Registration application
A Resident Person who is conducting a Business or Business Activity during the 2024 Gregorian calendar year or subsequent years whose total Turnover derived in a Gregorian calendar year exceeds the threshold specified in the relevant tax legislation	31 March of the subsequent Gregorian calendar year
A Non-Resident Person who is conducting a Business or Business Activity during the 2024 Gregorian calendar year or subsequent years whose total Turnover derived in a Gregorian calendar year exceeds the threshold specified in the relevant tax legislation	(3) three months from the date of meeting the requirements of being subject to tax

Tax Deregistration

Cessation of Business or Business Activity

A natural person registered for Corporate Tax purposes, or in certain cases, their Legal Representative, shall file a Tax Deregistration application with the FTA in case of cessation of Business or Business Activity whether by dissolution, liquidation or otherwise.

The application shall be filed within 3 months of the date of cessation of the Business or Business Activity.

The application shall not be filed if any of the natural person's Businesses or Business Activities are still active or being conducted, even if the natural person's Turnover falls under the AED 1 million threshold within a Gregorian calendar year. Since the Tax Period of a natural person is the Gregorian calendar year and their Taxable Income includes all Businesses or Business Activities conducted during that year a natural person has only one Tax Registration Number for all their Businesses or Business Activities.

If the natural person has more than one Business or Business Activity, then the natural person should deregister only when all Business or Business Activity has ceased.

Where a natural person has ceased Business or Business Activities part-way through a Tax Period, the Tax Period will come to an end.

The Tax Deregistration application must be submitted within 3 months of the cessation and the Tax Return will be due in line with ordinary time limits (9 months from the end of the Tax Period). The Tax Deregistration will not be approved where the natural person has not filed all the required Tax Returns, including the Tax Return for the Tax Period up to and including the date of cessation, and paid all due Corporate Tax and Administrative Penalties.

If a natural person applies for deregistration and then in the same year commenced a new Business or Business Activity following deregistration, the suspended Tax Registration Number is reactivated.

Death of the Taxable Person

In instances where a natural person conducting Business or Business Activities dies, the natural person ceases to be a Taxable Person. The settlement of any outstanding Corporate Tax liabilities due from the natural person before the date of death shall be made by the provisions of Article 42(1) of the Tax Procedures Law. These apply as follows:

- For Corporate Tax Payable due before the date of death, settlement shall be made from the value of the elements of the estate or income arising thereof prior to distribution among the heirs or legatees.
- If it transpires after the distribution of the estate that there is Corporate Tax Payable still outstanding, recourse shall be had against the heirs and legatees for settlement of such outstanding tax each to the extent of their share in the estate, unless a clearance certificate has been obtained from the FTA for the estate representative or any of the heirs.



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