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CORPORATE TAX GROUP IN THE UAE

Corporate taxation in the UAE has transformed the business landscape, and one of the most beneficial frameworks introduced under the new tax regime is the corporate tax group concept. This arrangement allows eligible companies to be treated as a single taxable entity, making tax filing and compliance more efficient.

In a guide to corporate tax groups in the UAE, we explore how forming a UAE corporate tax group can optimise tax responsibilities, reduce administrative burden, and support smoother financial management for businesses operating across multiple entities.

WHAT IS A CORPORATE

TAX GROUP

A Corporate Tax Group refers to a structure where two or more eligible companies are treated as a single taxable entity for corporate tax purposes. Instead of filing separate tax returns, the group submits one consolidated tax return, simplifying compliance and potentially reducing the overall tax burden.

In the UAE corporate tax group framework, companies must share common ownership (at least 95% direct or indirect shareholding), follow the same financial year, and be resident of legal entities. When formed, a corporate tax group in the UAE allows businesses to offset profits and losses among group members, centralise tax management, and improve financial efficiency.

Creating a corporate tax group is especially beneficial for organisations with multiple subsidiaries or diverse business operations seeking streamlined reporting and tax advantages under UAE Corporate Tax Law.

WHO CAN FORM

A TAX GROUP IN THE UAE?

1. Legal Persons Only

- The parent company and subsidiaries must be juridical persons
- Natural persons (individuals) cannot form or be part of a tax group.

2. UAE Tax Residents

- All entities must be tax residents in the UAE.
- Foreign companies can qualify only if they have a permanent establishment in UAE.

3. Parent-Subsidiary Relationship

The parent company must own at least 95% of the subsidiary's share of capital, voting rights, and profits.

- **Same Financial Year:** All group members must follow the same financial year for accounting and tax reporting.
- **Unified Accounting Standards:** All companies must use the same accounting standards (such as IFRS).

4. Corporate Tax Registration

Each entity must be registered for UAE corporate tax before applying to form a tax group.

WHO CAN FORM

OF FORMING A TAX GROUP

The main objectives of forming a tax group in the UAE are as follows:

- Streamline corporate tax management by submitting one consolidated tax return instead of multiple filings.
- Allow group entities to offset internal profits and losses to improve the overall taxable position.
- Simplify the movement or transfer of assets, liabilities, and internal transactions between group companies without creating separate tax consequences.
- Optimise and potentially reduce the total corporate tax payable across the entire group.

ELIGIBILITY CRITERIA

FOR FORMING A CORPORATE TAX GROUP IN THE UAE

Businesses can create a corporate tax group only if they fulfil specific regulatory requirements set out under the UAE corporate tax regime. These include:

- **Shared Ownership Structure:** A single parent entity must control a minimum of 95% of the subsidiary's shareholding, voting power, and profit entitlements.
- **UAE Tax Residency Requirement:** Every company within the group must be classified as a UAE tax resident.
- **Aligned Financial Reporting Timeline:** All participating companies must operate on the same financial year calendar to maintain unified tax reporting.
- **Consistent Accounting Approach:** Members must adhere to identical accounting frameworks,
- **Entities Not Eligible to Join:** Certain businesses are restricted from forming or joining a corporate tax group, such as Free Zone companies claiming the 0% Corporate Tax incentive (unless they voluntarily switch to 9%),

KEY BENEFITS

OF FORMING A CORPORATE TAX GROUP IN THE UAE

The UAE Corporate Tax Grouping process is structured to ensure transparency and accurate financial reporting across all participating entities. Here's a clear roadmap to guide your corporate tax group formation:

Step 1: Confirm Eligibility

Step 2: Compile Required Documentation

Step 3: File the Application with the FTA

Step 4: FTA Assessment & Decision

Step 5: Formation & Tax Registration

CHALLENGES

OF FORMING A TAX GROUP IN THE UAE

While tax grouping delivers many operational and financial advantages, it also comes with specific challenges that companies should evaluate before proceeding:

1. **Collective Tax Responsibility:** Every entity within the group becomes jointly accountable for the total corporate tax due. If one company fails to meet its obligations, the burden may fall on the others.
2. **Financial Reporting Complexity:** Creating consolidated accounts requires consistent accounting policies, coordinated financial management, and, often, external professional support, increasing time and costs.
3. **Complications During Structural Changes:** Restructuring the group, such as adding a subsidiary or removing an existing member, can trigger tax consequences and require approval, documentation, and recalculation of taxable positions.

CRITERIA

FOR TRANSFERRING TAX LOSSES WITHIN A GROUP

Tax loss transfers can help balance profitability across group members, but only under specific conditions:

- The company receiving the loss must be at least 75% owned (directly or indirectly) by the same parent company.
- The receiving entity cannot be exempt from corporate tax and must not be based in a 0% Free Zone regime.
- The losses transferred are limited; they cannot exceed 75% of the company receiving the transfer taxable income.

EMPOWERING BUSINESSES THROUGH STRATEGIC

TAX GROUPING

In summary, forming a corporate tax group under the UAE corporate tax regime is a strategic way for businesses to simplify compliance, optimise tax planning, and streamline financial management.

As explained in A Guide to Corporate Tax Groups in the UAE, UAE Corporate Tax Grouping enables eligible companies to file a single tax return, offset profits and losses, and improve overall tax efficiency. While there are regulatory requirements and challenges to consider, the long-term benefits make corporate tax group formation a valuable option for multi-entity businesses.

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