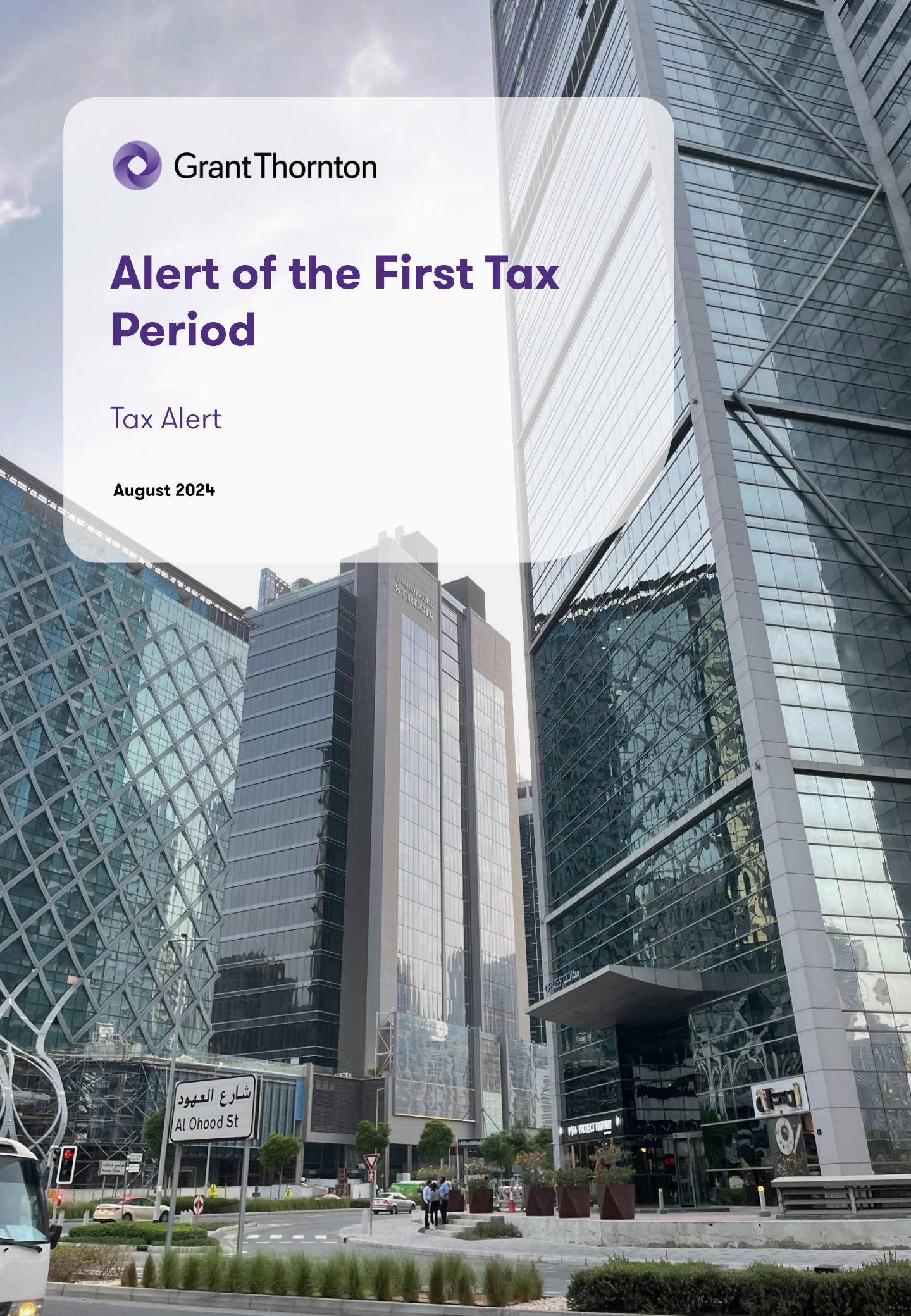


# Alert of the First Tax Period

Tax Alert

August 2024



# Overview of recent Public Clarification on First Tax Period of a juridical person

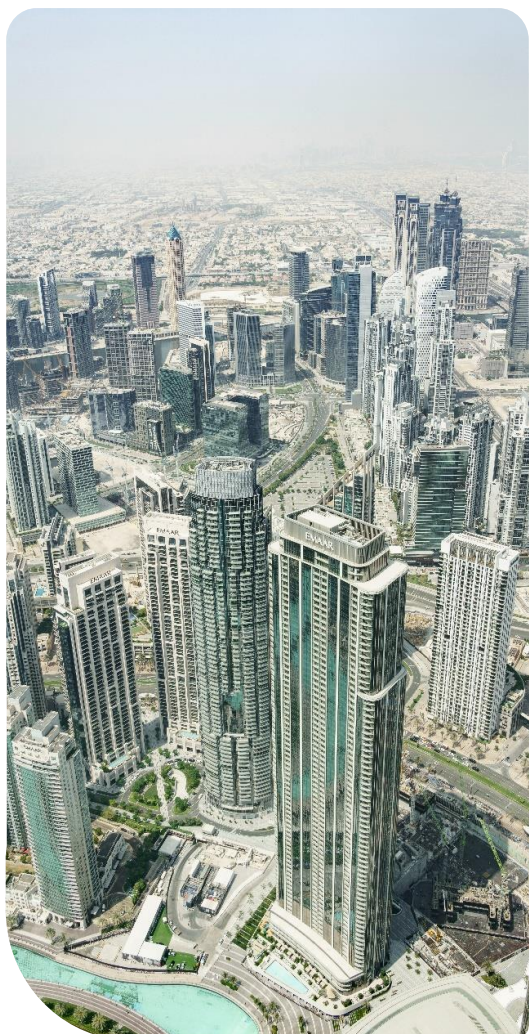
The UAE Federal Tax Authority (“FTA”) has recently issued a new clarification\* regarding Corporate Tax (“CT”) and the First Tax Period of a juridical person.

## Purpose of the Clarification:

- The Public Clarification was aimed at clarifying the first Tax Period applicable for the following Taxpayers:
  - Juridical persons which are incorporated, formed, or established under the Commercial Companies Law (hereinafter referred to as “UAE Juridical Persons”);
  - Resident Persons with the Place of Effective Management (“PoEM”) in UAE (hereinafter referred to as “UAE PoEMs”); and
  - Resident Persons with a Permanent Establishment (“PE”) in UAE (hereinafter referred to as “UAE PEs”).
- Moreover, the Public Clarification also provides timelines for deregistration for tax purposes upon liquidation/ cessation of business of a Taxpayer before or during the First Tax Period.



\* Corporate Tax Public Clarification (“CTP003”)



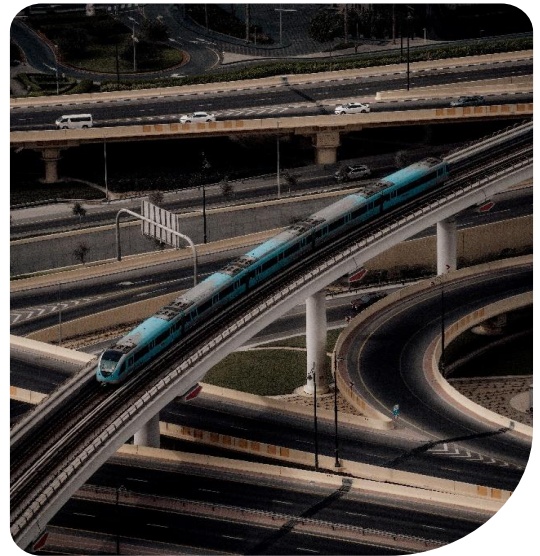
## Key Points to ponder:

### 1. First Tax Period:

- The First Tax Period of a taxpayer shall depend on the duration of its first financial statements. Under the UAE Companies Law, this shall typically begin at the date of incorporation of the entity and run till the end date of its financial period provided this duration runs for a minimum of 6 months and a maximum of 18 months.
  - Once the duration of a Taxpayer's first financial statement has successfully been determined, this shall likely also be the First Tax Period for the Taxpayer.
  - If the entity is incorporated prior to 1<sup>st</sup> June 2023, the First Tax Period for such UAE Juridical Person, as well as UAE PoEMs, and UAE PEs shall be the subsequent 12-month Financial Year commencing on or after 1st June 2023.
- If the entity is incorporated on or post 1<sup>st</sup> June 2023, the First Tax Period shall begin at the date of incorporation of the entity and run till the end date of its financial period provided this duration runs for a minimum of 6 months and a maximum of 18 months. The following practical example provided in the Clarification explains such as scenario:

“A company is incorporated on 5 June 2023: Under Article 28 of the Commercial Companies Law, the first Financial Year of the company will be from 5 June 2023 to 31 December 2023 (6 months and 26 days) and the first financial statements for this company will be prepared for the same period. Where this company is a Taxable Person under the Corporate Tax Law, its **First Tax Period will be the same as the first Financial Year under the Commercial Companies Law (from 5 June 2023 to 31 December 2023)**. Subsequent Tax Periods will be the subsequent Gregorian calendar years.”

- It is important to highlight that as per Clause 1 of Article 53 of the UAE CT Law a Taxable Person must file a Tax Return, no later than (9) nine months from the end of the relevant Tax Period, or by such other date as directed by the Authority. Hence, the deadline for submission of a tax return for a tax period which ended on 31<sup>st</sup> December 2023 should be 30 September 2024 (unless the FTA provides further clarification stating a different deadline).



## 2. Special Considerations for Non-resident persons with PE in UAE

- In addition, in relation to PEs, where a PE exists by virtue of having a fixed place of business in the UAE (e.g. a branch), then only after being operational for a period of 6 months from the start of CT shall the PE be deemed to exist, but with effect from when operations began, subject to provisions of any applicable Double Taxation Agreements. However, if a Permanent Establishment is deemed to be established through Agency PE, then such PE shall come into effect immediately.

## 3. Application for change in Tax Period

- Further, should the above lead to a shorter or longer First Tax Period for a taxpayer, an application shall not be required to be submitted to the Tax Authorities as previously prescribed by Article 58 of the UAE CT Law.

## 4. Pro-rating of thresholds

- Moreover, it is important to note that the pro-rating of the various thresholds prescribed by the UAE CT Law, e.g. the 0% slab rate for the initial AED 375,000 of Taxable Income, shall not be required as these thresholds are applicable for a “Tax Period”; i.e. a Tax Period shorter or longer than 12 months shall not mandate pro-rating of the thresholds.

- The only exception to the above threshold rule shall be the de minimis threshold applicable to the General Interest Deduction Limitation Rule (AED 12 million); as this shall be required to be prorated in line with the duration of the Tax Period.

## 5. Timeline for Deregistration

- Lastly, in relation to the Timelines for Deregistration, should a company have ceased to operate before the beginning of its First Tax Period, then such a company shall have no obligation to register for CT or file CT returns. However, should the company have not ceased business by the time its First Tax Period begins, then the company shall be required to deregister for CT purposes within 3 months of the date of cessation.



# Contact our Tax team

For more details regarding this Tax alert or other Tax issues, reach out to our team of experts on the latest Tax developments within the UAE and the Middle East region.



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