

### UAE Update

## Key highlights of FTA's guide on determining taxable income

The Federal Tax Authority's (FTA) recent guide on determining taxable income provides valuable insights for businesses operating in the UAE. We have summarized the key highlights below:

### Potential for Withholding Tax

The guide's emphasis on considering withholding taxes and foreign tax credits indicates a potential shift towards domestic withholding taxes in the future.

### Acquisition Expenses

Costs incurred to acquire a participation interest (e.g., professional fees, due diligence costs, etc.) are currently non-deductible. The guide lacks clarity on the treatment of these expenses if the interest doesn't qualify for participation exemption or subsequently becomes a qualifying interest.

### Employee Benefits and Compensation

The definition of employee expenditure has expanded to include various benefits (car allowance, medical allowance, etc.). It is important to note that these allowances would also impact benchmarking managerial remuneration.

## Expense Allocation

The guide stresses the importance of accurate expense allocation to avoid disallowances in cases where expenditure is incurred for more than one purpose. While allocation keys are recommended, challenges may arise when apportionment is difficult, as the guide provides for a complete disallowance in those cases.

## Depreciation and Pre-Incorporation Expenses

Depreciation is restricted to deductible costs (i.e., any costs incurred that were not deductible otherwise would not be eligible for depreciation), and pre-incorporation expenses are deductible if recorded in financial statements and not claimed by another party.

## Provisions

The guide confirms that write-offs and reversals of provisions will be treated as deductible expenses or taxable income, respectively, even if they relate to periods before the introduction of corporate tax.

## Staff entertainment expenses

Staff-related costs are generally deductible. However, the guide clarifies that if the expenditure is purely private (such as a family wedding of staff), such expenses would not be allowed. However, expenses incurred for business-related events, including conferences where family members attend, are generally allowed as long as there is a clear business purpose.

### Our Comments

The FTA's guide is an essential tool for businesses navigating the complexities of tax compliance in the UAE. Its timely release provides much-needed clarity on a range of critical tax issues, empowering taxpayers to determine their tax liabilities accurately. By offering comprehensive explanations and practical examples, the guide significantly enhances businesses' ability to prepare and submit tax computations and returns correctly, reducing the risk of errors and penalties. The FTA is to be commended for producing such a valuable resource that supports businesses in fulfilling their tax obligations efficiently.

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