Tax Groups in the UAE: Pros and Cons

When it makes sense to consolidate companies for corporate tax purposes

December 2024

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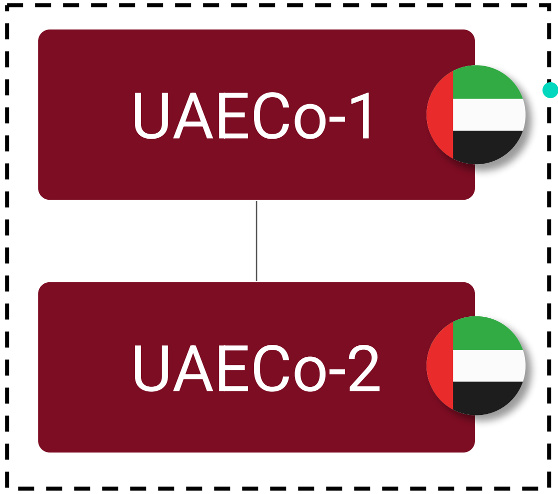
Tax Consolidation in UAE



Two or more companies in the UAE can form a tax group for corporate tax purposes

Advantages:

- Joint tax base
- Elimination of intercompany transactions for corporate tax purposes
- Preparation of a single corporate tax return

Procedure and Deadlines

Group formation is voluntary. The application is submitted by the parent company and subject to subsidiaries' approval (Clause 5.1 of the UAE Federal Tax Authority Guide on Tax Groups)

The application must be submitted by the end of the tax period for which the consolidated group is being formed (Clause 1, Article 5 of UAE Ministry of Finance Decision No. 125 of 2023)

Consequently, for the 2024 financial year, if it coincides with the calendar year, the application must be submitted by 31 December

Conditions and Limitations of Tax Consolidation

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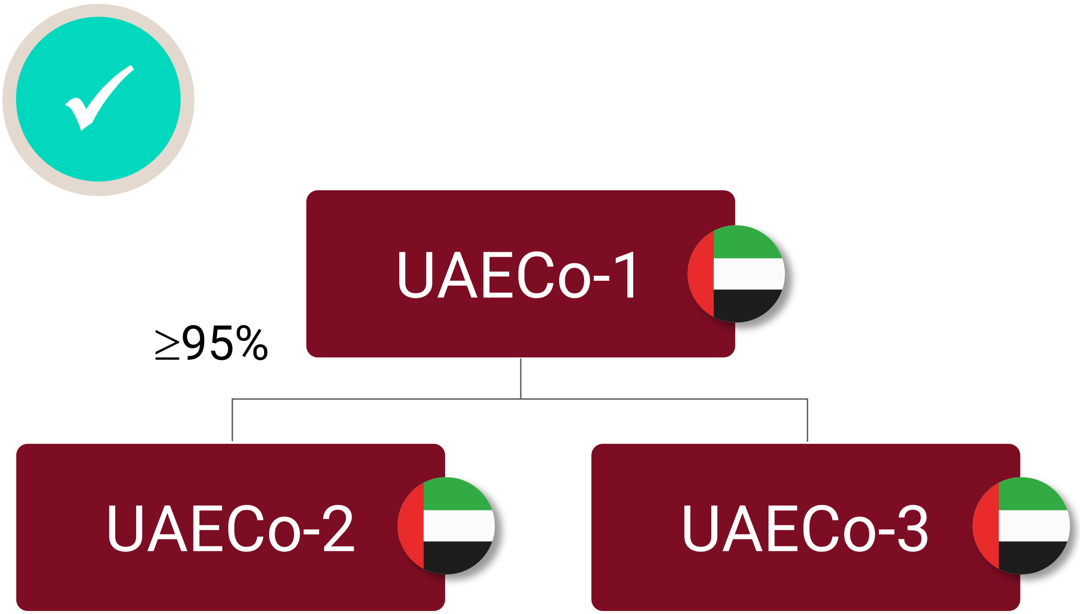
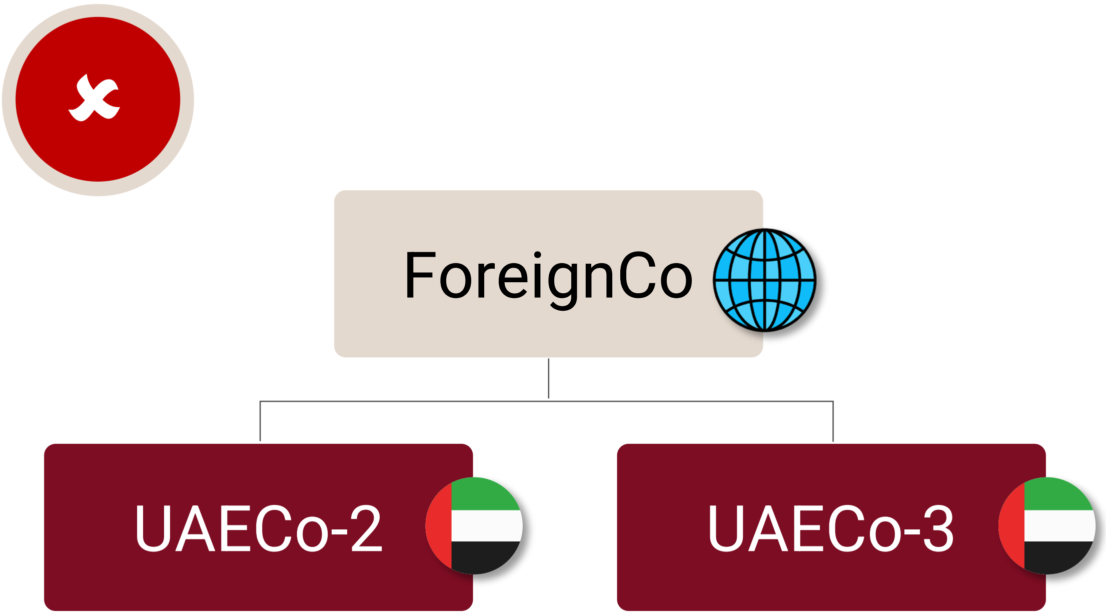
- The parent company in the UAE must own at least 95% of the capital and voting rights, as well as the right to receive at least 95% of the profits and net assets
- Companies that are qualified residents of free trade zones cannot be included in a tax group
- Other requirements include the same financial year and uniform accounting standards

Conditions and Limitations of Tax Consolidation





Disadvantages of Tax Consolidation

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- The 0% tax rate applies to AED 375,000 in profits for the entire group, not for each company individually
- The small business relief threshold of AED 3 million applies to the whole group as well
- The thin cap limit of AED 12 million also applies to the group, regardless of the number of companies in it

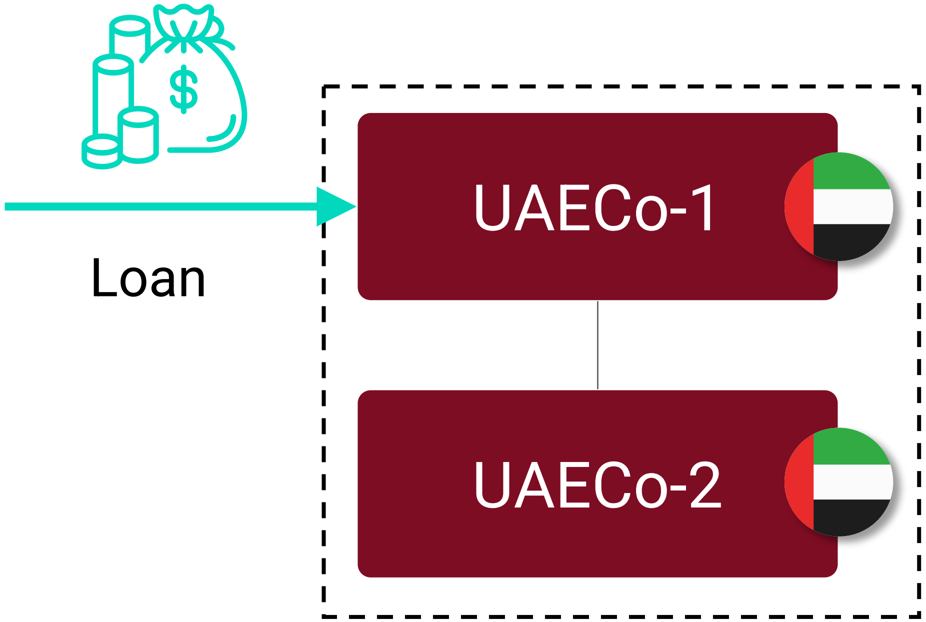
Tax Loss Transfer Instead of Tax Group

Tax loss transfer between companies is also possible in the UAE (Article 38 of Corporate Tax Law No. 47 of 2022)

Conditions are less strict:

- The shareholding threshold is 75%
- Foreign parent company does not prevent tax loss transfer
- Qualified FTZ residents are also excluded
- The same financial year condition applies

Tax Consolidation Advantage in LBO



In a leveraged buy-out (LBO) a mismatch of income and expenses often occurs

Conclusions

Tax consolidation has advantages, including simplified reporting and consolidation of income and expenses of multiple legal entities

There are disadvantages that, in some cases, make consolidation impractical. A simpler alternative – tax loss transfer – can be considered

The final decision on the necessity of consolidation for the 2024 financial year must be made by December 31 (if the financial year coincides with the calendar year)

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