



UAE Corporation Tax: Small Business Relief

**Tax Alert – Ministerial Decision
No. 73 of 2023**

April 2023

The UAE Ministry of Finance has issued Ministerial Decision No. 73 of 2023 on Small Business Relief for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses.

Article 21 of the Decree-Law (Small Business Relief) describes that Taxable Resident Persons with revenue below a set threshold may elect to be treated as not having taxable income in a particular tax period subject to meeting certain conditions. The Decision stipulates the revenue threshold and provides further clarifications which can be summarised as follows:

- Small Business Relief is available for a business with **revenue below AED 3 million** in a relevant tax period and previous tax periods.
- The revenue threshold will apply to **tax periods starting on or after 1 June 2023** and will continue to apply to subsequent **tax periods that end on or before 31 December 2026**.
- Small Business Relief will **not be available to Qualifying Free Zone Persons. It will also not apply to members of MNE Groups**, described in Cabinet Decision No.44 of 2020 as groups of companies with operations in more than one jurisdiction with consolidated group revenue equal to or more than AED 3.15 billion.
- Tax losses and disallowed net interest expenses **incurred in tax periods where the election for small business relief is not made** can be carried forward and offset against future taxable profits.

The release of this Decision will be very welcome for many businesses, who will be able to steer clear of potential tax liabilities.

Based on our interpretation and understanding of the Decree-Law, the Decision and the FAQs issued by the Ministry of Finance we have outlined some initial points for consideration:

- **Businesses will need to make election** to the FTA to claim Small Business Relief, it does not apply automatically. Careful thought should be given by businesses as to **whether making the election would be beneficial**, as there are some circumstances where this may not be the case.
- **The revenue for a tax period should be determined based on applicable accounting standards.** The FAQs defined revenue as “the gross amount of income derived in a tax period from sales of inventory and properties, services, royalties, interest, premiums, dividends and any other amounts, before deducting any type of costs or expenditure”.
- The FAQs indicate that the application of Small Business Relief will be **restricted to legal entities established in the UAE and individuals who are UAE residents**. Non-residents of the UAE, such as permanent establishments of foreign companies, would not be eligible to apply for the relief.
- Currently, businesses that make the application for Small Business Relief would **still be required to submit a tax return for each relevant tax period**. The FAQs indicated that there would potentially be simplified compliance requirements for entities eligible for Small Business Relief, however at present no additional compliance reliefs or exemptions have been published.
- The FTA may request additional information to assess **whether there has been an artificial separation of businesses** with the aim to claim Small Business Relief. The FTA would look to understand the commercial rationale of certain arrangements, such as where several entities are strongly interconnected and carry on a similar business, with each claiming Small Business Relief.
- Such artificial separation would be considered as an arrangement to **obtain a Corporate Tax advantage as per the General Anti-abuse Rule** set out in the Decree-Law and the FTA could then look to assess businesses for any tax shortfall arising from the advantage.

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