



Taxation of Partnerships

Corporate Tax Guide | CTGPTN1

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1. Glossary

Accounting Income: The accounting net profit or loss for the relevant Tax Period as per the Financial Statements prepared in accordance with the provisions of Article 20 of the Corporate Tax Law.

Accounting Standards: The accounting standards specified in Ministerial Decision No. 114 of 2023.

Accrual Basis of Accounting: An accounting method under which the Taxable Person recognises income when earned and expenditure when incurred.

AED: The United Arab Emirates dirham.

Authority: Federal Tax Authority.

Business: Any activity conducted regularly, on an ongoing and independent basis by any Person and in any location, such as industrial, commercial, agricultural, vocational, professional, service or excavation activities or any other activity related to the use of tangible or intangible properties.

Business Activity: Any transaction or activity, or series of transactions or series of activities conducted by a Person in the course of its Business.

Business Restructuring Relief: A relief from Corporate Tax for business restructuring transactions, available under Article 27 of the Corporate Tax Law and as specified under Ministerial Decision No. 133 of 2023.

Cash Basis of Accounting: An accounting method under which the Taxable Person recognises income and expenditure when cash payments are received and paid.

Connected Person: Any Person affiliated with a Taxable Person as determined in Article 36(2) of the Corporate Tax Law.

Corporate Tax: The tax imposed by the Corporate Tax Law on juridical persons and Business income.

Corporate Tax Law: Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments.

Corporate Tax Payable: Corporate Tax that has or will become due for payment to the FTA in respect of one or more Tax Periods.



Dividend: Any payments or distributions that are declared or paid on or in respect of shares or other rights participating in the profits of the issuer of such shares or rights which do not constitute a return on capital or a return on debt claims, whether such payments or distributions are in cash, securities, or other properties, and whether payable out of profits or retained earnings or from any account or legal reserve or from capital reserve or revenue. This will include any payment or benefit which in substance or effect constitutes a distribution of profits made in connection with the acquisition or redemption or cancellation of shares or termination of other ownership interests or rights or any transaction or arrangement with a Related Party or Connected Person which does not comply with Article 34 of the Corporate Tax Law.

Double Taxation Agreement: An international agreement signed by two or more countries for the avoidance of double taxation and the prevention of fiscal evasion on income and capital.

Exempt Income: Any income exempt from Corporate Tax under the Corporate Tax Law.

Financial Statements: A complete set of statements as specified under the Accounting Standards applied by the Taxable Person, which includes, but is not limited to, statement of income, statement of other comprehensive income, balance sheet, statement of changes in equity and cash flow statement.

Financial Year: The Gregorian calendar year, or the twelve-month period for which the Taxable Person prepares Financial Statements.

Foreign Partnership: A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with laws of a foreign jurisdiction.

Foreign Tax Credit: Tax paid under the laws of a foreign jurisdiction on income or profits that may be deducted from the Corporate Tax due, in accordance with the conditions of Article 47(2) of the Corporate Tax Law.

Free Zone: A designated and defined geographic area within the UAE that is specified in a decision issued by the Cabinet at the suggestion of the Minister.

Free Zone Person: A juridical person incorporated, established or otherwise registered in a Free Zone, including a branch of a Non-Resident Person registered in a Free Zone.

FTA: Federal Tax Authority, being the Authority in charge of administration, collection and enforcement of federal taxes in the UAE.



General Interest Deduction Limitation Rule: The limitation provided under Article 30 of the Corporate Tax Law.

IFRS: International Financial Reporting Standards.

IFRS for SMEs: International Financial Reporting Standard for small and medium-sized entities.

Interest: Any amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic financial instrument and other payments economically equivalent to interest, and any other amounts incurred in connection with the raising of finance, excluding payments of the principal amount.

Licence: A document issued by a Licensing Authority under which a Business or Business Activity is conducted in the UAE.

Licensing Authority: The competent authority concerned with licensing or authorising a Business or Business Activity in the UAE.

Market Value: The price which could be agreed in an arm's-length free market transaction between Persons who are not Related Parties or Connected Persons in similar circumstances.

Net Interest Expenditure: The Interest expenditure amount that is in excess of the Interest income amount as determined in accordance with the provisions of the Corporate Tax Law.

Non-Resident Person: The Taxable Person specified in Article 11(4) of the Corporate Tax Law.

Participating Interest: An ownership interest in the shares or capital of a juridical person that meets the conditions referred to in Article 23 of the Corporate Tax Law.

Participation: The juridical person in which the Participating Interest is held.

Participation Exemption: An exemption from Corporate Tax for income from a Participating Interest, available under Article 23 of the Corporate Tax Law and as specified under Ministerial Decision No. 116 of 2023.

Permanent Establishment: A place of Business or other form of presence in the UAE of a Non-Resident Person in accordance with Article 14 of the Corporate Tax Law.

Person: Any natural person or juridical person.



Personal Investment: Investment activity that a natural person conducts for their personal account that is neither conducted through a Licence or requiring a Licence from a Licensing Authority in the UAE, nor considered as a commercial business in accordance with the Federal Decree-Law No. 50 of 2022.

Qualifying Free Zone Person: A Free Zone Person that meets the conditions of Article 18 of the Corporate Tax Law and is subject to Corporate Tax under Article 3(2) of the Corporate Tax Law.

Qualifying Income: Any income derived by a Qualifying Free Zone Person that is subject to Corporate Tax at the rate specified in Article 3(2)(a) of the Corporate Tax Law.

Real Estate Investment: Any investment activity conducted by a natural person related to, directly or indirectly, the sale, leasing, sub-leasing, and renting of land or real estate property in the UAE that is not conducted, or does not require to be conducted through a Licence from a Licensing Authority.

Related Party: Any Person associated with a Taxable Person as determined in Article 35(1) of the Corporate Tax Law.

Resident Person: The Taxable Person specified in Article 11(3) of the Corporate Tax Law.

Revenue: The gross amount of income derived during a Tax Period.

Small Business Relief: A Corporate Tax relief that allows eligible Taxable Persons to be treated as having no Taxable Income for the relevant Tax Period in accordance with Article 21 of the Corporate Tax Law and Ministerial Decision No. 73 of 2023.

Specific Interest Deduction Limitation Rule: The limitation provided under Article 31 of the Corporate Tax Law.

State: United Arab Emirates.

State Sourced Income: Income accruing in, or derived from, the UAE as specified in Article 13 of the Corporate Tax Law.

Subsidiary: A Resident Person in which the share capital or Membership or Partnership Capital, as applicable, is held by a Parent Company, in accordance with Article 40(1) of the Corporate Tax Law.



Tax Group: Two or more Taxable Persons treated as a single Taxable Person according to the conditions of Article 40 of the Corporate Tax Law.

Tax Loss: Any negative Taxable Income as calculated under the Corporate Tax Law for a given Tax Period.

Tax Period: The period for which a Tax Return is required to be filed.

Tax Registration: A procedure under which a Person registers for Corporate Tax purposes with the FTA.

Tax Registration Number: A unique number issued by the FTA to each Person who is registered for Corporate Tax purposes in the UAE.

Tax Return: Information filed with the FTA for Corporate Tax purposes in the form and manner as prescribed by the FTA, including any schedule or attachment thereto, and any amendment thereof.

Taxable Income: The income that is subject to Corporate Tax under the Corporate Tax Law.

Taxable Person: A Person subject to Corporate Tax in the UAE under the Corporate Tax Law.

Turnover: The gross amount of income derived during a Gregorian calendar year.

UAE: United Arab Emirates.

Unincorporated Partnership: A relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the applicable legislation of the UAE.

Withholding Tax: Corporate Tax to be withheld from State Sourced Income in accordance with Article 45 of the Corporate Tax Law.



2. Introduction

2.1. Overview

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (“Corporate Tax Law”) was issued on 3 October 2022 and was published in Issue #737 of the Official Gazette of the United Arab Emirates (“UAE”) on 10 October 2022.

The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits (“Corporate Tax”) in the UAE.

The provisions of the Corporate Tax Law shall apply to Tax Periods commencing on or after 1 June 2023.

2.2. Purpose of this guide

This guide is designed to provide general guidance on the taxation of partnerships. The guide provides the following:

- a general understanding of how the Corporate Tax Law treats partnerships,
- information about how the Corporate Tax Law applies to a partnership and its partners, including special provisions that apply to partnerships and the tax treatment of commonly occurring events, and
- information regarding the registration, filing requirements, compliance and other tax obligations related to partnerships and partners.

2.3. Who should read this guide?

The guide should be read by Persons that are carrying on a Business in the UAE, with other Persons by way of a partnership arrangement or trust or any other similar association of Persons.

2.4. How to use this guide

The relevant articles of the Corporate Tax Law and the implementing decisions are indicated in each section of the guide.

It is recommended that the guide is read in its entirety to provide a complete understanding of the definitions and interactions of the different rules. Further guidance on some of the areas covered in this guide can be found in other topic-specific guides.

In some instances, simple examples are used to illustrate how key elements of the Corporate Tax Law apply to partnerships. The examples in the guide:



- show how these elements operate in isolation and do not show the interactions with other provisions of the Corporate Tax Law that may occur. They do not, and are not intended to, cover the full facts of the hypothetical scenarios used nor all aspects of the Corporate Tax regime, and should not be relied upon for legal or tax advice purposes; and
- are only meant for providing the readers with general information on the subject matter of this guide. They are exclusively intended to explain the rules related to the subject matter of this guide and do not relate at all to the tax or legal position of any specific juridical or natural persons.

2.5. Legislative references

In this guide, the following legislation will be referred to as follows:

- Federal Law No. 5 of 1985 promulgating the Civil Transactions Law, and its amendments, is referred to as “Civil Code”;
- Federal Decree-Law No. 32 of 2021 on Commercial Companies is referred to as “Commercial Companies Law”;
- Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses, and its amendments, is referred to as “Corporate Tax Law”;
- Cabinet Decision No. 116 of 2022 on the annual Taxable Income subject to Corporate Tax is referred to as “Cabinet Decision No. 116 of 2022”;
- Cabinet Decision No. 49 of 2023 on Specifying the Categories of Businesses or Business Activities Conducted by a Resident or Non-Resident Natural Person that are Subject to Corporate Tax is referred to as “Cabinet Decision No. 49 of 2023”;
- Cabinet Decision No. 100 of 2023 on Determining Qualifying Income for the Qualifying Free Zone Person for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Cabinet Decision No. 100 of 2023”;
- Ministerial Decision No. 43 of 2023 Concerning Exception from Tax Registration for the Purpose of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 43 of 2023”;
- 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 is referred to as “Ministerial Decision No. 73 of 2023”;
- Ministerial Decision No. 82 of 2023 on the Determination of Categories of Taxable Persons Required to Prepare and Maintain Audited Financial Statements for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 82 of 2023”;
- Ministerial Decision No. 114 of 2023 on the Accounting Standards and Methods for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 114 of 2023”;



- Ministerial Decision No. 127 of 2023 on Unincorporated Partnership, Foreign Partnership and Family Foundation for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 127 of 2023”;
- Ministerial Decision No. 134 of 2023 on the General Rules for determining Taxable Income for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 134 of 2023”;
- Ministerial Decision No. 265 of 2023 Regarding Qualifying Activities and Excluded Activities for the Purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “Ministerial Decision No. 265 of 2023”; and
- Federal Tax Authority Decision No. 16 of 2023 on Determining the Requirements for the Registration of the Unincorporated Partnership and Determining the Distributive Shares of Partners in an Unincorporated Partnership for the purposes of Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses is referred to as “FTA Decision No. 16 of 2023”.

2.6. Status of this guide

This guidance is not a legally binding document, but is intended to provide assistance in understanding the tax implications for partnerships relating to the Corporate Tax regime in the UAE. The information provided in this guide should not be interpreted as legal or tax advice. It is not meant to be comprehensive and does not provide a definitive answer in every case. It is based on the legislation as it stood when the guide was published. Each Person’s own specific circumstances should be considered.

The Corporate Tax Law, the implementing decisions and the guidance materials referred to in this document will set out the principles and rules that govern the application of Corporate Tax. Nothing in this publication modifies or is intended to modify the requirements of any legislation.

This document is subject to change without notice.



3. Overview of partnerships

3.1. What is a partnership?

A partnership is normally an arrangement, relationship or contract between two or more Persons to carry on Business together, and to share the profits and losses of that Business.

In the UAE context, a partnership may be an incorporated partnership, or an Unincorporated Partnership. The key distinguishing factor between the two is that an incorporated partnership has a separate legal personality distinct from its partners whereas an Unincorporated Partnership does not. Incorporated partnerships are considered juridical persons for the purposes of the Corporate Tax Law. The Corporate Tax Law contains specific provisions for Unincorporated Partnerships, which are considered later in this guide.

3.2. Incorporated partnerships

Whether an entity is treated as an incorporated partnership i.e. a juridical person with a separate legal personality depends on the legislation under which it is incorporated, established or set up.

The legal status of an incorporated partnership will be informed by the relevant legislation in the UAE. The relevant legislation includes the Federal, Emirate and Free Zone legislation and regulations.

Based on the relevant legislation, the following is an illustrative list of entities considered as incorporated partnerships and, therefore, treated as juridical persons under the Corporate Tax law.

- a) **Joint Liability Company:** A Joint Liability Company established under the Commercial Companies Law is a company which consists of two or more physical partners that are severally and jointly liable in all their personal assets for the company's obligations.¹
- b) **Limited Partnership Company:** A Limited Partnership Company established under the Commercial Companies Law is a company which consists of one or more joint partners, having the capacity of traders, who are liable, severally and jointly, for the partnership's obligations, and one or more silent partners who are not liable for the partnership's obligations except to the extent of their contribution to the partnership's capital. Silent partners do not have the capacity of a trader.²

¹ Article 39 of the Commercial Companies Law.

² Article 62 of the Commercial Companies Law.



- c) Civil Company:** As established under Article 92(e) of the Civil Code, a contract, by which two or more persons undertake to contribute jointly to an undertaking of a pecuniary nature by providing a contribution of property or services, with the objective of sharing in the profits or the losses of the undertaking.³ These are known as civil companies or business partnerships in general parlance.
- d) General Partnership:** A General Partnership established under the General Partnership Law Dubai International Finance Centre (DIFC) Law No. 11 of 2004 is a relationship which exists between two or more persons who agree to carry on any Business with the intention of making a profit.⁴ Each partner of a General Partnership is jointly and severally liable with the other partners for all debts and obligations of the General Partnership incurred while he is a partner.⁵
- e) Limited Liability Partnership:** A Limited Liability Partnership established under the Limited Liability Partnership Law DIFC Law No. 5 of 2004 is established between two or more persons to conduct any lawful business.⁶ The members of a Limited Liability Partnership have liability to contribute to its assets in the event of it being wound up.⁷
- f) Limited Partnership:** A Limited Partnership established under the Limited Partnership Law DIFC Law No. 4 of 2006 for any lawful purpose by two or more persons and may consist of any number of persons but includes: (a) one or more persons called General Partners, who are liable for all debts and obligations of the Limited Partnership; and (b) one or more persons called Limited Partners, who make a contribution at the time of entering the partnership (either in money, money's worth or any other property), and are not liable for the debts and obligations of the partnership beyond the amount of their contribution.⁸

Note that partnerships listed under (a), (b) and (c) above are incorporated under UAE federal law whereas others are typically found under the laws of Free Zones. The above is not an exhaustive list of incorporated partnership forms.

The above partnerships, under the applicable legislation, have a separate legal identity from their partners.⁹ That is to say the partnerships themselves have their own rights,

³ Article 92(e) and Article 655 of the Civil Code.

⁴ Article 8 and Article 11 of the General Partnership Law DIFC Law No. 11 of 2004.

⁵ Article 28 of the General Partnership Law DIFC Law No. 11 of 2004.

⁶ Article 8 of Limited Liability Partnership Law DIFC Law No. 5 of 2004.

⁷ Article 15 of Limited Liability Partnership Law DIFC Law No. 5 of 2004 and Article 1 of ADGM Limited Liability Partnership Regulations 2015.

⁸ Article 9 of the Limited Partnership Law DIFC No. 4 of 2006.

⁹ Article 21 of the Commercial Companies Law (for Joint Liability Company and Limited Partnership Company), Article 92 and Article 655 of the Civil Code (for partnerships i.e. civil companies), Article 24 of the General Partnership Law DIFC Law no. 11 of 2004 (for General Partnership), Article 15 of the Limited Liability Partnership Law DIFC Law no. 5 of 2004 (for Limited Liability Partnership), Article 19 of the Limited Partnership Law DIFC Law no. 4 of 2006 (for Limited Partnership).



obligations and liabilities. Accordingly, the above partnerships are juridical persons under the applicable legislation, as well as for the purposes of the Corporate Tax Law.

On the basis that they are juridical persons, the Corporate Tax treatment of incorporated partnerships is aligned with the tax treatment of other juridical persons such as Limited Liability Companies (LLCs). The partners in these partnerships are not directly taxed on the Business conducted by the partnership, as this is taxed at the level of the incorporated partnership. The partners will generally receive a share in profits that will not be subject to Corporate Tax as the partnership is treated as a Resident Person in the UAE, and the Corporate Tax Law exempts Dividends and other profit distributions from a juridical person that is a Resident Person.¹⁰

3.3. Unincorporated Partnerships

The Corporate Tax Law defines an Unincorporated Partnership as a relationship established by contract between two or more Persons, in accordance with the applicable legislation of the UAE.¹¹ This can be to carry on a Business or a project and share its profits and losses, such as a partnership, trust, joint venture, consortium, association of persons, etc. The contract can be verbal or written. The reference to a contractual relationship in the definition of Unincorporated Partnership means that, legally, the Business of the Unincorporated Partnership and its owners is or can be considered the same.

Certain illustrative factors that may indicate that an entity or an arrangement is an Unincorporated Partnership include:

- A contract (written or verbal) entered into by all the Persons concerned.
- The intention to share the profits and losses of the Business.
- The partners are conducting the Business Activities jointly.
- The partnership does not have a separate legal personality, distinct from its partners.

The above factors are merely illustrative and are not conclusive to determine whether an Unincorporated Partnership exists.

The following examples demonstrate some common situations and whether they create an Unincorporated Partnership between the Persons involved:

¹⁰ Article 22(1) of the Corporate Tax Law.

¹¹ Article 1 of the Corporate Tax Law.



Example 1: Mere use of the expression “partners” not decisive

Two brothers each carry on a separate, independent Business from the same premises. They acquired the premises through a mortgage loan. The mortgage documents refer to the brothers as “partners”.

However, the two brothers do not conduct a joint Business and have no intention of sharing the profits and losses of their independent Businesses. The simple use of the expression “partners” cannot by itself be treated as the basis for concluding that a partnership exists.

Example 2: Joint profit-seeking motive

The brothers mentioned in the above example decide, through a verbal agreement, to use part of the premises as a joint canteen (potentially profit-making) to sell food to the employees working for their respective Businesses. This will be considered as an Unincorporated Partnership as the brothers are conducting Business Activities jointly, and have agreed to share Business profits and losses.

Example 3: Statement of intent

The brothers mentioned in the above examples formalise the agreement regarding the joint canteen through a written contract (though not incorporated/established under any federal or Emirate level laws). In the written contract, they include the statement that “there is no intention to create a partnership”. Such a statement by itself will not prevent their Business from being considered as an Unincorporated Partnership for the purpose of the Corporate Tax Law.

Example 4: Joint bank account

An account is opened in the joint names of a sole proprietor and their Business manager, for seamless execution of Business operations. This arrangement does not by itself create an Unincorporated Partnership.

Example 5: A husband and wife

A husband and wife agree to enter into a partnership with a food influencer and use their home to bake and sell cupcakes, with the intent of sharing the profits and losses based on each Person’s financial contributions, added value, and invested effort. Their agreement, even if only verbal, constitutes an Unincorporated Partnership as two (or more) Persons constitute a partnership if they jointly conduct Business.



Example 6: Public and private partnerships

An arrangement between a public sector entity (a government department) and a private sector company wherein the public sector entity awards a contract/project to the private sector company for a stipulated period would not, in itself, be considered to be an Unincorporated Partnership if none of the key elements of an Unincorporated Partnership are met.

Typically, the intention of such a contract is not to execute the project jointly. Instead, the public sector company engages/awards the project to a private sector company with the intention of encouraging private sector participation in economic and social development, utilising financial, technical, and technological potential/experience of the private sector, transferring knowledge from private to public sector, etc.

Typically, the private sector company implements, finances, owns, reaps the commercial benefits and operates a project for an agreed term after which the ownership of the project site is transferred back to the public sector entity.

Example 7: Consortium of companies or contractual joint venture

Company A and Company B collaborate to bid for a government project to construct and operate a national highway for 30 years. During this period, Company A and Company B sign an agreement to build the highway, share the profits, losses and management of the project equally.

After the stipulated tenure the project site is expected to be handed over to the government department. The consortium of companies/contractual joint venture (i.e. between Company A and Company B) would be treated as an Unincorporated Partnership.

On the other hand, if the project is conducted through a special purpose vehicle such as a Limited Liability Company in which Company A and Company B hold shares, the joint venture would not be an Unincorporated Partnership.



4. Unincorporated Partnerships for Corporate Tax

4.1. Overview

As noted above, the Corporate Tax Law defines an Unincorporated Partnership as a relationship established by contract between two Persons or more, such as a partnership or trust or any other similar association of Persons, in accordance with the applicable legislation of the UAE.¹²

A Foreign Partnership may also be treated as an Unincorporated Partnership if certain conditions are satisfied (see Section [8](#) for further details).

An Unincorporated Partnership as defined in the Corporate Tax Law does not necessarily have to adopt a formal written partnership agreement. A verbal agreement can also be sufficient, whereby the parties agree to share Business profits and losses. In addition, an Unincorporated Partnership can take on various forms, including a trust or similar association of persons which is not a juridical person.

As per the Corporate Tax Law, the default position is that an Unincorporated Partnership is not considered a Taxable Person in its own right. Instead, the Corporate Tax Law “looks through” the Unincorporated Partnership and taxes each partner directly on their share of profits or gains. Such a partnership is considered to be “fiscally transparent”.

The partners in an Unincorporated Partnership can make an application to the FTA for the Unincorporated Partnership to be treated as a Taxable Person in its own right.¹³ An Unincorporated Partnership treated as a Taxable Person is considered to be “fiscally opaque”.

Unincorporated Partnerships, and their treatment for Corporate Tax purposes, are discussed in more detail in the following Sections.

4.2. Who can be a partner in an Unincorporated Partnership?

The word “Person” is defined in the Corporate Tax Law as a natural person or a juridical person.¹⁴ Hence a partner in a partnership can be an individual or a legal entity.

An Unincorporated Partnership relationship can exist between a number of natural persons, a number of juridical persons or a combination of juridical persons and

¹² Article 1 of the Corporate Tax Law.

¹³ Article 16(8) of the Corporate Tax Law.

¹⁴ Article 1 of the Corporate Tax Law.



natural persons. The partners can be incorporated partnerships, residents and non-resident persons, UAE and foreign incorporated companies.

Where a partnership itself is not treated as a distinct legal entity, separate from its partners, the partnership cannot become a partner in another partnership. Only partnerships that have their own separate legal personality can become a partner in another partnership.

Thus, an Unincorporated Partnership cannot become a partner in a partnership as it does not have a separate legal personality (i.e. is not a juridical person), even where the Unincorporated Partnership is treated as a Taxable Person in its own right.

The Corporate Tax Law provides for the concept of a Tax Group.¹⁵ This enables a parent company, together with one or more juridical Resident Persons (i.e. its Subsidiaries) to be treated as a single Taxable Person, subject to the satisfaction of certain conditions. Even though the Tax Group is treated as a Taxable Person for the purposes of the Corporate Tax Law, the Tax Group itself is not a Person. It is merely a construct of the Corporate Tax Law. Therefore, a Tax Group cannot be a partner in an Unincorporated Partnership. However, the Parent Company, or the Subsidiaries that are members of the Tax Group, can individually be partners in an Unincorporated Partnership, as they are juridical persons with a separate legal personality.

4.3. Key features of an Unincorporated Partnership

4.3.1. Liability of the Unincorporated Partnership and its partners for Corporate Tax

An Unincorporated Partnership is the result of a contractual relationship between its partners. Thus, the Business of an Unincorporated Partnership and its owners or partners is considered to be the same, i.e. the partners are deemed to be conducting the Business of the Unincorporated Partnership and they remain jointly and severally liable for the Corporate Tax Payable for the Tax Periods when they are partners in the Unincorporated Partnership.¹⁶

4.3.2. Partnership deed/agreement

A partnership arrangement is typically governed by a partnership deed or agreement which lays down the essential terms and conditions of the Business relationship of all the parties involved. This may cover initial contributions into the Business, distributive share or profit/loss sharing ratio, rights and obligations, terms of admission of new partner/s, exit process, interest payable on capital contributions, etc.

¹⁵ Article 40 of the Corporate Tax Law.

¹⁶ Article 16(9)(b) of the Corporate Tax Law.



As discussed earlier, it is not necessary for the Unincorporated Partnership to have a formal written contract. Partners in an Unincorporated Partnership may opt to agree the terms of their Business relations verbally.

4.3.3. Distributive share of partners

Generally, the distributive share of partners is defined prior to the commencement of Business or during the course of Business of the Unincorporated Partnership by way of a partnership deed or agreement (see section [4.3.2](#)).

Accordingly, the assets, liabilities, income and expenditure of the Unincorporated Partnership are allocated to each partner based on their agreed distributive share, depending on the agreement between the partners.¹⁷

In case the distributive share of any partner in an Unincorporated Partnership cannot be identified (for example, due to a dispute between partners, addition of new partners or departure of existing partners), then the assets, liabilities, income and expenditure of the Unincorporated Partnership will be treated by FTA as allocated equally to each partner.¹⁸

4.3.4. Capital contributions by partners

Typically, partners of a partnership will mutually agree the initial contribution from each partner. Partners who join at a later date may also provide a contribution.

The total capital contribution by a partner may include the amount that the partner has contributed to the partnership in cash or in kind (though not including any loans) but exclude amounts that the partner has drawn out or received, directly or indirectly.

Capital contributions by partners may take different forms. A partner may, by mutual agreement, contribute capital in the form of cash or in kind which may include real property, shares, securities, intellectual property, technical know-how, labour, etc.

It is not mandatory for all partners to contribute capital to the partnership or to contribute equal capital. The partners can agree on the contribution of each partner and the form of contribution.

¹⁷ Article 16(3) of the Corporate Tax Law.

¹⁸ Article 16(3) of the Corporate Tax Law read with Article 4 of FTA Decision No. 16 of 2023.



4.3.5. Payments to partners

Partners may receive certain payments from the partnership such as interest on the amount of capital contributed or loan advanced to the partnership, salary for working partners, or payment for rendering services to the partnership (beyond the capacity of a partner).

The Corporate Tax considerations in relation to such payments are discussed in Section [5](#).

4.3.6. Dissolution of partnership

Dissolution of a partnership is the winding up of the Business of the partnership, including disposing of all assets, discharging all liabilities and the settlement of accounts, etc.

Dissolution may be voluntary when it is mutually agreed by all partners or if the purpose for which the partnership was incorporated has been achieved, for example the completion of a project for which the partnership was established. Typically, a partnership may not be dissolved by the actions of fewer than all partners, unless such powers expressly exist in the partnership agreement, or this is permitted by the laws governing the partnership. If the reason is due to a dispute among the partners, the partnership interest of one or more partners may be purchased by the other partners instead of the dissolution of the partnership.

Dissolution may be compulsory in certain instances, for example due to the Business becoming insolvent or being specifically ordered by a court.



5. Unincorporated Partnerships and Corporate Tax

5.1. Unincorporated Partnership treated as fiscally transparent

The default position in the Corporate Tax Law is that an Unincorporated Partnership is treated as fiscally transparent, meaning that it is not treated as a Taxable Person, and is not subject to Corporate Tax. Instead, each partner is treated as conducting the Business of the Unincorporated Partnership and subject to Corporate Tax on their distributive share of assets, liabilities, income and expenditure in the Unincorporated Partnership.

Therefore, it is the partners, not the fiscally transparent Unincorporated Partnership, that must consider their Corporate Tax position.¹⁹

5.1.1. Where a partner is a natural person

A natural person that is a partner in a fiscally transparent Unincorporated Partnership, will be subject to Corporate Tax in proportion to their distributive share if they fall within the scope of Corporate Tax.

The Corporate Tax Law treats partners in an Unincorporated Partnership as conducting the Business of that partnership. Thus, for a natural person, when considering if they fall within the scope of Corporate Tax, they must consider the nature of the Business or Business Activity conducted by the Unincorporated Partnership and whether it would constitute Personal Investment or Real Estate Investment. If so, the income from such activities is disregarded by the natural person as it falls outside of the scope of Corporate Tax.²⁰

In relation to any other Business or Business Activity conducted by the Unincorporated Partnership, the natural person must include their distributive share of the Turnover of such partnership with any other Turnover of such natural person to determine whether it exceeds AED 1 million in a Gregorian calendar year.

Turnover is defined as the gross amount of income (before adjusting for any expenses) derived during a Gregorian calendar year.²¹ Therefore, the gross amount of income they receive from the Unincorporated Partnership is aggregated with all of their income from other Business or Business Activity conducted in the UAE when considering the AED 1 million threshold.

¹⁹ Article 16(1) of the Corporate Tax Law.

²⁰ Article 2(2) of Cabinet Decision No. 49 of 2023.

²¹ Article 11(6) of the Corporate Tax Law read with Cabinet Decision No. 49 of 2023.



If their Turnover does not exceed AED 1 million, the natural person is not required to register for Corporate Tax purposes.²²

In addition, and where all the relevant conditions are met, Small Business Relief may be available for Resident Persons where the Revenue threshold is not exceeded (currently AED 3 million, see Section [10](#)).²³ For a fiscally transparent Unincorporated Partnership, Small Business Relief will be considered for each of the partners separately.

5.1.2. Where a partner is a juridical person

5.1.2.1. Juridical person that is a Resident Person

A juridical person that is a Resident Person is subject to Corporate Tax in proportion to its distributive share in the fiscally transparent Unincorporated Partnership together with any other Business it conducts. However, whether or not it has a Corporate Tax liability will depend on multiple factors, including, whether it is eligible to make an election for Small Business Relief.

5.1.2.2. Juridical person that is a Non-Resident Person

A juridical person that is a Non-Resident Person is subject to Corporate Tax if it has a Permanent Establishment in the UAE²⁴ or derives State Sourced Income²⁵ or has a nexus in the UAE.²⁶

Accordingly, a juridical person that is a Non-Resident Person will be subject to Corporate Tax on its distributive share in the fiscally transparent Unincorporated Partnership if the Unincorporated Partnership constitutes a Permanent Establishment in the UAE or nexus in the UAE. If not, the distributive share of that partner in the Unincorporated Partnership will be treated as State Sourced Income.²⁷

5.1.3. Mixed partnership

A mixed partnership is a partnership that has both natural persons and juridical persons as partners. An Unincorporated Partnership may have both as partners.

²² Article 2(3) of Cabinet Decision No. 49 of 2023.

²³ Article 21 of the Corporate Tax Law read with Ministerial Decision No. 73 of 2023.

²⁴ Article 11(4)(a) read with Article 14 of the Corporate Tax Law.

²⁵ Article 11(4)(b) read with Article 13 of the Corporate Tax Law.

²⁶ Article 11(4)(c) of the Corporate Tax Law read with Cabinet Decision No. 56 of 2023.

²⁷ As per Article 45(1) of the Corporate Tax Law, certain categories of State Sourced Income derived by a Non-Resident Person that is not attributable to a Permanent Establishment, may be subject to Withholding Tax. The current Withholding Tax rate is 0%.



Example 8: A natural person forms an Unincorporated Partnership with a company

Mr A (a natural person residing in the UAE) and Company B (a company incorporated in and a tax resident of the UAE) form an Unincorporated Partnership with a distributive share of 10% and 90%, respectively.

The income from the Business conducted by the Unincorporated Partnership within the first Gregorian calendar year is AED 10 million.

If the Unincorporated Partnership is treated as fiscally transparent:

- The Unincorporated Partnership is not subject to Corporate Tax.
- The share of income for Mr A is AED 1 million (10% of AED 10 million).
- The share of income for Company B is AED 9 million (90% of AED 10 million).

Assume that Mr A's distributive share of income is equal to his Turnover, and Mr A has no other income. Then, as the Turnover (AED 1 million) derived by Mr A from conducting the Business of the Unincorporated Partnership does not exceed AED 1 million within a Gregorian calendar year, Mr A is not subject to Corporate Tax and is not required to register for Corporate Tax purposes.²⁸

Unlike natural persons, a juridical person that is a Taxable Person is required to register for Corporate Tax purposes irrespective of their Turnover. Accordingly, Company B will be required to register for Corporate Tax and will be subject to Corporate Tax. 90% of the income and expenditure of the Unincorporated Partnership is attributable to Company B and will be considered for the purpose of determining the Taxable Income of Company B.

Example 9: A natural person forms an Unincorporated Partnership with a company and has Turnover of more than AED 1 million.

Mr. A (a natural person residing in the UAE) and Company B (a company incorporated in and a tax resident of the UAE) form an Unincorporated Partnership with a distributive share of 20% and 80%, respectively.

The total income earned and expenditure incurred for the Business conducted by the Unincorporated Partnership for the 2025 Gregorian calendar year is as follows:

- Income: AED 10 million
- Expenditure: AED 6 million

²⁸ Article 2(3) of Cabinet Decision No. 49 of 2023.



The distributive share of each partner in relation to the above is as follows:

Item	Mr. A (20%)	Company B (80%)
	Amounts in AED	
Income from Business	2,000,000	8,000,000
Less: Expenditure incurred for Business	(1,200,000)	(4,800,000)
Net income (assuming no other adjustments)	800,000	3,200,000

If the Unincorporated Partnership is treated as fiscally transparent, it is not subject to Corporate Tax. Instead, the partners are subject to Corporate Tax individually.

In this case, as the Turnover (i.e. AED 2,000,000) derived by Mr. A from conducting the Business of the Unincorporated Partnership exceeds AED 1 million, Mr. A will be subject to Corporate Tax and is required to register for Corporate Tax purposes.²⁹

Unlike natural persons, a juridical person that is a Taxable Person is required to register for Corporate Tax purposes irrespective of their Turnover. Accordingly, Company B will be required to register for Corporate Tax and will be subject to Corporate Tax. 80% of the income and expenditure of the Unincorporated Partnership is attributable to Company B and will be considered for the purpose of determining the Taxable Income of Company B.

5.2. Unincorporated Partnership treated as fiscally opaque

The partners of an Unincorporated Partnership have the option to make an application to the FTA for the Unincorporated Partnership to be treated as a Taxable Person, i.e. fiscally opaque.³⁰

If the application is approved by the FTA, the Unincorporated Partnership will be treated as a Taxable Person. It will be subject to Corporate Tax as a Resident Person. As a Taxable Person, it will determine its Taxable Income and pay Corporate Tax on its own profits, instead of the partners.

However, the partners will still be jointly and severally liable for the Corporate Tax Payable by the Unincorporated Partnership for the Tax Periods during which they are partners.³¹

²⁹ Article 3(2) of Cabinet Decision No. 49 of 2023.

³⁰ Article 16(8) of the Corporate Tax Law.

³¹ Article 16(9)(b) of the Corporate Tax Law.



5.3. Determining Taxable Income for an Unincorporated Partnership and its partners

The partners of an Unincorporated Partnership are the Taxable Persons in respect of the partnership's Business unless an application has been made by the partners to treat the Unincorporated Partnership as a Taxable Person and such application is approved by the FTA.

Irrespective of who is the Taxable Person in a partnership arrangement (i.e. the partners or the partnership itself), each Taxable Person is required to determine their Taxable Income separately based on adequate, standalone Financial Statements prepared based on International Financial Reporting Standards or the International Financial Reporting Standard for SMEs (if the Taxable Person derives Revenue that does not exceed AED 50 million).³²

In addition:

- If partners are treated as Taxable Persons (in the case of a fiscally transparent Unincorporated Partnership), each partner is required to prepare and maintain audited Financial Statements if their individual Revenue exceeds AED 50 million.³³
- If the Unincorporated Partnership is treated as a Taxable Person (in the case of a fiscally opaque Unincorporated Partnership), the partnership is required to prepare and maintain audited Financial Statements if its Revenue exceeds AED 50 million.³⁴

To determine the Taxable Income of the Taxable Person, the starting point is the Accounting Income (i.e. accounting net profit or loss) for the relevant Tax Period as per the Financial Statements. This is then adjusted according to the general rules prescribed for determining the Taxable Income.³⁵

In relation to partners in a fiscally transparent Unincorporated Partnership, for practical purposes, the partners will need to determine the joint income and expenditure and resultant net income of the Unincorporated Partnership first, in order to split such income and expenditure and resultant net income in proportion to each partner's distributive share. They will then need to add their share of the partnership net income to their net income from any other Business or Business Activity.

Generally, income arising from the operation of the partnership Business will be included in the income of each partner in accordance with their distributive share in

³² Ministerial Decision No. 114 of 2023.

³³ Article 54(2)(1) read with Ministerial Decision No. 82 of 2023.

³⁴ Article 54(2)(1) read with Ministerial Decision No. 82 of 2023.

³⁵ Article 20 of the Corporate Tax Law.



relation to a fiscally transparent Unincorporated Partnership. However, some forms of income and expenditure arising in the context of an Unincorporated Partnership warrant specific consideration as discussed below.

5.4. Income received by the Unincorporated Partnership and/or its partners

5.4.1. Investment income received by an Unincorporated Partnership and its partners

The Corporate Tax implications for the Unincorporated Partnership and its partners on receipt of income from investments, such as (a) Dividends or other profit distributions or (b) gains or losses on transfer, sale, or disposal of shares or ownership interest in another juridical person are as follows:

Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
Income from investments made by the Unincorporated Partnership	<p>If the partner is a juridical person:</p> <p>Income in the nature of Dividends or other profit distributions from a juridical person will directly pass through to the partners in proportion to each partner's distributive share and will be subject to Corporate Tax in the hands of each individual partner. Such income will be exempt from Corporate Tax in the hands of the partners if:</p> <p>(a) it is received from a juridical person that is a Resident Person (without any conditions)³⁶ or</p> <p>(b) it is received from a Participating Interest in a foreign juridical person.³⁷</p>	<p>Any income received by a fiscally opaque Unincorporated Partnership will be treated for Corporate Tax purposes as income in the hands of the partnership and not in the hands of the individual partners.</p> <p>Income in the nature of Dividends or other profit distributions from a juridical person will be exempt from Corporate Tax in the hands of the partnership if:</p> <p>(a) it is received from a juridical person that is a Resident Person (without any conditions)⁴³ or</p> <p>(b) it is received from a Participating Interest in a foreign juridical person.⁴⁴</p>

³⁶ Article 22(1) of the Corporate Tax Law.

³⁷ Article 22(2) read with Article 23(5) of the Corporate Tax Law.

⁴³ Article 22(1) of the Corporate Tax Law.

⁴⁴ Article 22(2) read with Article 23(5) of the Corporate Tax Law.



Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
	<p>Income in the nature of gains or losses on the transfer, sale or disposal of shares of a UAE or foreign juridical person will also pass through to the partners and will be dealt with for Corporate Tax in the hands of the individual partners. Such income will be exempt from Corporate Tax in the hands of the partners if received from a Participating Interest.³⁸</p> <p>If the partner is a natural person:</p> <p>In case of partners that are natural persons, Dividends or other profit distributions (from a foreign juridical person) and gains or losses on the transfer, sale or disposal of shares (of a UAE or foreign juridical person) will be treated as Personal Investment income if the same is on their personal account and is neither conducted through a Licence or requiring a Licence from a Licensing Authority in the UAE, nor considered as a commercial business ³⁹ and hence there is no need to consider whether the conditions of a Participation Exemption are met for the natural persons.⁴⁰</p>	<p>Income in the nature of gains or losses on the transfer, sale or disposal of shares of a UAE or foreign juridical person will also be dealt with for Corporate Tax at the partnership level. Such income will be exempt from Corporate Tax in the hands of the partnership if received from a Participating Interest.⁴⁵</p>

³⁸ Article 22(3) read with Article 23(5) of the Corporate Tax Law.

³⁹ Cabinet Decision No. 49 of 2023.

⁴⁰ Article 23 of the Corporate Tax Law.

⁴⁵ Article 22(3) read with Article 23(5) of the Corporate Tax Law.



Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
	<p>Where such receipts are received by the natural persons in the course of a Business Activity and not on their personal account, such receipts will not constitute Personal Investment income, and therefore, will need to be considered in the determination of Taxable Income of the natural persons. In which case they would need to consider whether the conditions of the Participation Exemption are met.⁴¹</p> <p>Note, Dividends or other profit distributions from a Resident Person will remain exempt from Corporate Tax without any conditions.⁴²</p>	

Example 10: Unincorporated Partnership claiming Participation Exemption

Mr A, Mr B and Mr C form an Unincorporated Partnership in the UAE that is active in the food and beverage industry. All three partners have made an equal contribution towards the capital and have agreed to share profits and losses equally.

The partners acquire, on behalf of the partnership, a 15% stake in Company Z (a company incorporated in and a tax resident of Country Z). Twelve months later, they receive Dividends from Company Z. A further twelve months later, they sell their shares in Company Z for a profit.

Variation 1 – if Unincorporated Partnership is fiscally transparent

⁴¹ Article 22 read with Article 23 of the Corporate Tax Law.

⁴² Article 22(1) of the Corporate Tax Law.



In this case, each partner is considered a Taxable Person conducting the Business of the partnership. Partners are treated as holding any assets that the partnership holds, allocated in accordance with their distributive share.⁴⁶ The Participation Exemption relief will be tested in the hands of the individual partners and not the Unincorporated Partnership since it is not a Taxable Person.

Accordingly, each partner is treated as holding 5% (1/3rd of 15%) of Company Z, thus meeting one of the requirements for the Participation Exemption (i.e. owning minimum 5% of the ownership interest in Company Z). If the other relevant Participation Exemption conditions are met, the partners can exclude their respective share of Dividends and capital gains or losses in respect of Company Z when determining their Taxable Income.⁴⁷

Variation 2 – if Unincorporated Partnership is fiscally opaque (i.e. treated as a Taxable Person)

If the partners make an application to the FTA to treat the Unincorporated Partnership as a Taxable Person (and the same is approved), the Participation Exemption will be tested at the level of the Unincorporated Partnership and not the individual partners.

The partnership is treated as holding 15% of Company Z, thus meeting one of the requirements for the Participation Exemption (i.e. owning minimum 5% of the ownership interest in Company Z). If the other relevant Participation Exemption conditions are met, the partnership can exclude from its Taxable Income the Dividend received from Company Z and the gain or loss on disposal of shares of Company Z.⁴⁸

5.4.2. Distribution of profits by Unincorporated Partnership to its partners

The Corporate Tax implications in relation to a share of profits received by the partners in an Unincorporated Partnership are as follows:

Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
Share of profits in the partnership	Income from the Business of the Unincorporated Partnership is subject to Corporate Tax in the	Any income received by a partner (natural or juridical person) will not be considered when

⁴⁶ Articles 16(2)(a), 16(2)(c) and 16(3) of the Corporate Tax Law.

⁴⁷ Article 22(2) and Article 22(3) read with Article 23(5) of the Corporate Tax Law.

⁴⁸ Article 22(2) and Article 22(3) read with Article 23(5) of the Corporate Tax Law.



Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
received by the partners	hands of the partners in accordance with their distributive share taking into consideration whether the partner is a natural person or a juridical person.	determining the Taxable Income in the hands of the partners, on the basis that the income is already taken into account in the determination of the Taxable Income of the fiscally opaque Unincorporated Partnership. ⁴⁹

5.4.3. Transfer of partner's distributive share in an Unincorporated Partnership

The Corporate Tax implications in relation to the gain or loss on transfer, sale or disposal of a partner's distributive share in the Unincorporated Partnership are as follows:

Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
Gain or loss on transfer, sale or disposal of partner's distributive share in the partnership	The partners are deemed to be conducting the Business of the Unincorporated Partnership. The Unincorporated Partnership does not have a separate legal personality distinct from its partners. Hence any gain or loss on transfer, sale or other disposal of a partner's distributive share in the Unincorporated Partnership will be treated as Business income, subject to Corporate Tax in the hands of the partners.	Any gain or loss on transfer, sale, or other disposal of a partner's distributive share in the Unincorporated Partnership, or part thereof, is not subject to Corporate Tax in the hands of the partners, provided that the distributive share meets all the conditions of paragraphs (a) to (e) of Article 23(2) of the Corporate Tax Law (the Participation Exemption). ⁵⁰ The FTA will apply the Participation Exemption even though the Unincorporated Partnership itself is not a juridical person.

⁴⁹ Article 20(2)(i) of the Corporate Tax Law read with Article 6(1) of Ministerial Decision No. 134 of 2023.

⁵⁰ Article 20(2)(i) of the Corporate Tax Law read with Article 6(2) of Ministerial Decision No. 134 of 2023.



Example 11: Tax implications for partners of a fiscally opaque Unincorporated Partnership

(A) In relation to profits distributed by the partnership to its partners:

Mr D and Ms E are partners in a fiscally opaque Unincorporated Partnership in the UAE with an equal distributive share in the partnership.

If Mr D and Ms E receive any profit distribution from the fiscally opaque Unincorporated Partnership, the partners can exclude such income while determining their Taxable Income on the basis that such income has already been subject to Corporate Tax at the level of the partnership.⁵¹

(B) In relation to gains or losses on sale or transfer or disposal of distributive share in the partnership:

If Mr D and Ms E decide to sell or transfer or dispose of their distributive share in the Unincorporated Partnership, any gain or loss from such disposal is excluded while determining their Taxable Income provided that the distributive share in the Unincorporated Partnership meets all the conditions of paragraphs (a) to (e) of Article 23(2) of the Corporate Tax Law.⁵²

5.5. Deductible expenditure

For the most part, the general Corporate Tax rules on deductible expenditure apply similarly to partners and Unincorporated Partnerships that are treated as Taxable Persons, respectively. Thus, this Section only considers in greater depth the provisions that relate specifically to Unincorporated Partnerships.

Notably, in relation to a fiscally transparent Unincorporated Partnership, the Taxable Income of a partner must take into account their distributive share of expenditure, and any expenditure incurred by the partner directly in conducting the Business of the Unincorporated Partnership.⁵³

⁵¹ Article 20(2)(i) of the Corporate Tax Law read with Article 6(1) of Ministerial Decision No. 134 of 2023.

⁵² Article 20(2)(i) of the Corporate Tax Law read with Article 6(2) of Ministerial Decision No. 134 of 2023.

⁵³ Article 16(4) of the Corporate Tax Law.



5.5.1. Expenditure incurred for Business purposes

The general rule is that expenditure incurred wholly and exclusively for the purposes of a Business is deductible, provided such expenditure is not capital in nature.⁵⁴

If any expenditure is incurred for more than one purpose, i.e. it is not exclusively related to the Business, then only the portion that can be identified or reasonably allocated to the Business is allowed as a deduction for the purposes of calculating Taxable Income.⁵⁵

There are also specific rules that restrict or disallow the deductibility of certain types of expenditure. Non-deductible expenditure relevant to both fiscally transparent and fiscally opaque Unincorporated Partnerships, includes:

- Dividends, profit distributions or similar amounts paid to an owner of the Taxable Person;⁵⁶ and
- amounts withdrawn by a partner in an Unincorporated Partnership.⁵⁷

Accordingly, if any expenditure is incurred by an Unincorporated Partnership which constitutes a payment to or on behalf of a partner by an Unincorporated Partnership (i.e. not wholly and exclusively for the purposes of the Unincorporated Partnership's Business), the same will not be allowed as a deduction while determining the Taxable Income of:

- the fiscally opaque Unincorporated Partnership as it would be treated as Dividends, profit distributions or similar amounts paid to an owner (i.e. the partners) of the Taxable Person (i.e. the opaque Unincorporated Partnership);⁵⁸ or
- the partners in a fiscally transparent Unincorporated Partnership, as the same would be treated as amounts withdrawn by the partner from the Business.⁵⁹

Example 12: Partial deduction of expenditure

Mr A, Mr B and Mr C are partners in a fiscally opaque Unincorporated Partnership in the UAE that is engaged in a pharmaceutical Business. The partners lease office premises from a third party with a storage facility attached. The lease rent for the Tax Period is AED 1 million.

⁵⁴ Article 28(1) of the Corporate Tax Law.

⁵⁵ Article 28(3) of the Corporate Tax Law.

⁵⁶ Article 33(4) of the Corporate Tax Law.

⁵⁷ Article 33(5) of the Corporate Tax Law.

⁵⁸ Article 33(4) of the Corporate Tax Law.

⁵⁹ Article 33(5) of the Corporate Tax Law.



The attached storage facility is not needed for the Business. It is intended to provide space to store personal items of Mr C (paintings and antiques bought as personal investments). The storage facility accounts for 5% of the total office space.

A question may arise whether the partnership can claim a deduction for the entire lease rent of AED 1 million for the Tax Period or should it be restricted to 95% (100% minus 5% used by Partner C for personal purposes).

In this case, given that 5% of the lease rental paid by the partnership does not relate to expenditure incurred wholly and exclusively for the purpose of the Business of the Unincorporated Partnership, that portion will not be allowed as deductible expenditure while determining the Taxable Income of the partnership.⁶⁰

5.5.2. Interest expenditure

Interest incurred for the purposes of a Taxable Person's Business is allowed as a deduction, subject to the General and Specific Interest Deduction Limitation Rules.⁶¹

5.5.2.1. General Interest Deduction Limitation Rule

The Corporate Tax Law refers to the amount of Interest that is deductible as Net Interest Expenditure. Net Interest Expenditure is the difference between the amount of Interest expenditure incurred and the Interest income derived during a Tax Period.⁶²

When the Net Interest Expenditure exceeds AED 12 million in a Tax Period, the amount of deductible Net Interest Expenditure is the greater of 30% of adjusted EBITDA (earnings before the deduction of Interest, tax, depreciation and amortisation) for a Tax Period, and the de minimis threshold of AED 12 million.⁶³ This is known as the "General Interest Deduction Limitation Rule".

Any Net Interest Expenditure disallowed in a Tax Period by the General Interest Deduction Limitation Rule can be carried forward and utilised in the subsequent 10 Tax Periods in the order in which the amount was incurred, subject to the same conditions.⁶⁴

⁶⁰ Article 28(2)(a) of the Corporate Tax Law.

⁶¹ Article 29 read with Articles 30 and 31 of the Corporate Tax Law.

⁶² Article 30(2) of the Corporate Tax Law.

⁶³ Article 8 of Ministerial Decision No. 126 of 2023.

⁶⁴ Article 30(4) of the Corporate Tax Law.



The applicability of the General Interest Deduction Limitation Rule is tested in the hands of a Taxable Person. Whether the rules apply in the case of an Unincorporated Partnership will depend on its status for Corporate Tax purposes.

In the case of a fiscally transparent Unincorporated Partnership, the partners are treated as the Taxable Persons in relation to the partnership Business. Hence the applicability of the General Interest Deduction Limitation Rule will be tested in the hands of the individual partners.

- If the partner is a natural person, the General Interest Deduction Limitation Rule will not apply, considering the specific exclusion for natural persons conducting Business in the UAE.⁶⁵
- If the partner is a juridical person, the General Interest Deduction Limitation Rule will apply (the 30% limitation will be applicable based on the adjusted EBITDA of the juridical person, not the partnership).

In the case of a fiscally opaque Unincorporated Partnership that is treated as a Taxable Person in its own right, the General Interest Deduction Limitation Rule will apply irrespective of who the partners are, i.e. natural persons or juridical persons. The 30% limitation will be applicable based on the adjusted EBITDA of the partnership.

5.5.2.2. Allocation of unutilised Net Interest Expenditure

Where a fiscally opaque Unincorporated Partnership has unutilised Net Interest Expenditure that has been carried forward to subsequent Tax Periods, it can be utilised only by the Unincorporated Partnership and not the partners. If any partner exits the partnership, no portion of the carried forward Net Interest Expenditure relating to the partnership will be allocated to the exiting partner.

5.5.2.3. Specific Interest Deduction Limitation Rule

No deduction is allowed for Interest expenditure incurred on a loan obtained, directly or indirectly, from a Related Party in respect of any of the following transactions:⁶⁶

- A Dividend or profit distribution to a Related Party.
- A redemption, repurchase, reduction or return of share capital to a Related Party.
- A capital contribution to a Related Party.
- The acquisition of an ownership interest in a Business that is, or becomes, a Related Party following the acquisition.

⁶⁵ Article 30(6)(c) of the Corporate Tax Law.

⁶⁶ Article 31 of the Corporate Tax Law.



The purpose of this provision is to prevent the Corporate Tax base from being eroded by transactions or arrangements between Taxable Persons and their Related Parties for the sole or main purpose of creating deductible Interest expenditure where the income derived from the relevant transaction or arrangement can benefit from an exemption from Corporate Tax.

Whilst generally these deductions are not allowable for Corporate Tax purposes, the deduction restriction does not apply if the Taxable Person can demonstrate that the main purpose of obtaining the loan and carrying out the transaction is not to gain a Corporate Tax advantage.⁶⁷ This will be based on the specific facts and circumstances applicable to each transaction. However, if it can be demonstrated that the Related Party receiving the Interest is subject to Corporate Tax or a similar tax in a foreign country at a rate of at least 9% on the Interest income, then no Corporate Tax advantage will be deemed to have arisen.⁶⁸

In the context of an Unincorporated Partnership, the applicability of the Specific Interest Deduction Limitation Rule will be tested in the hands of the relevant Taxable Person:

- In the case of a fiscally transparent Unincorporated Partnership, the Specific Interest Deduction Limitation Rule will be tested in the hands of the partners.
- In the case of a fiscally opaque Unincorporated Partnership, the Specific Interest Deduction Limitation Rule will be tested in the hands of the partnership.

Thus, if either an Unincorporated Partnership or its partners receives a loan from its Related Party, the deductibility of Interest on such loan will be determined based on the Special Interest Deduction Limitation rule.⁶⁹

5.5.3. Interest paid to partners on their capital contribution

As noted above, the Net Interest Expenditure incurred for the purposes of a Taxable Person's Business is allowed as a deduction subject to the General and Specific Interest Deduction Limitation Rules.⁷⁰

If an Unincorporated Partnership pays Interest to its partners on their capital contribution, the same shall be treated as an "allocation of income" or "profit distributions" to the partners for the purposes of the Corporate Tax Law. The Corporate Tax implications for the Unincorporated Partnership and the partners in relation to Interest paid on capital contributions is as follows:

⁶⁷ Article 31(2) of the Corporate Tax Law.

⁶⁸ Article 31(3) of the Corporate Tax Law.

⁶⁹ Article 31 of the Corporate Tax Law.

⁷⁰ Articles 30 and 31 of the Corporate Tax Law.



Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
<p>Interest paid to partners on their capital contribution by the Unincorporated Partnership</p>	<p>Implications for the Unincorporated Partnership:</p> <p>Not applicable as the fiscally transparent Unincorporated Partnership is not treated as a Taxable Person.</p> <p>Implications for the partners:</p> <p>Interest paid by a fiscally transparent Unincorporated Partnership to its partners on their capital account is treated as an allocation of income to the partner. Therefore, it is not considered as deductible expenditure when calculating the Taxable Income of the partners in relation to the Unincorporated Partnership Business.⁷¹</p> <p>Thus, Interest expenditure on a capital contribution must be disregarded by such partners in the determination of their Taxable Income to the extent of their distributive share.</p> <p>If the partners receive Interest on their capital contribution, the same will be treated as Interest income i.e. taxable receipt, and must be considered in the</p>	<p>Implications for the Unincorporated Partnership:</p> <p>Interest paid by a fiscally opaque Unincorporated Partnership to its partners on their capital contribution is treated as a profit distribution or benefit of a similar nature. Hence it will not be allowed as a deduction in determining the Taxable Income of the fiscally opaque Unincorporated Partnership.⁷²</p> <p>Implications for the partners:</p> <p>Interest on capital contribution received by partners in a fiscally opaque Unincorporated Partnership will be excluded from the Taxable Income of the partners on the basis that such income has already been subject to Corporate Tax at the level of the partnership.⁷³</p>

⁷¹ Article 16(5) of the Corporate Tax Law.

⁷² Article 33(4) of the Corporate Tax Law.

⁷³ Article 20(2)(i) of the Corporate Tax Law read with Article 6(1) of Ministerial Decision No. 134 of 2023.



	determination of the Taxable Income of the partners.	
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5.5.4. Interest paid to partners on loan advanced by partners

As noted above, Interest expenditure incurred for the purposes of a Taxable Person's Business is allowed as a deduction, subject to the General and Specific Interest Deduction Limitation Rules.⁷⁴

The Corporate Tax implications for the Unincorporated Partnership and the partners on Interest in relation to loans advanced by partners (i.e. not in relation to capital contributions) are as follows:

Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
Interest paid to partners on loans advanced by partners	<p>Implication for the Unincorporated Partnership:</p> <p>Not applicable as the fiscally transparent Unincorporated Partnership is not treated as a Taxable Person.</p> <p>Implication for the partners:</p> <p>If the Unincorporated Partnership obtains a loan from any of the partners wholly and exclusively for the purposes of the Business, and Interest paid on such loans is at arm's length, the Interest expenditure will be deductible while determining the Taxable Income of the partners to the extent of their distributive share.</p> <p>For the partner (or partners) receiving such interest income, it must be taken into account</p>	<p>Implication for the Unincorporated Partnership:</p> <p>Interest paid by a fiscally opaque Unincorporated Partnership to its partners on loans advanced by the partners will be deductible while determining the Taxable Income of the partnership if the Interest paid on the loans was incurred wholly and exclusively for the purposes of the Business of the partnership and is at arm's length.</p> <p>Implication for the partners:</p> <p>Interest income received by the partners on loans advanced to the partnership will be Taxable Income in the hands of the partners and will be taken into account while determining the Taxable Income of the partners.</p>

⁷⁴ Article 28 read with Articles 30 and 31 of the Corporate Tax Law.



	when determining the Taxable Income of the partner.	
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Example 13: Interest paid to a partner on loan from the partner

Mr A, Mr B and Mr C are partners in a fiscally transparent Unincorporated Partnership in the UAE. Each partner contributes equally towards their capital contribution. The partnership deed specifies that each partner will be eligible for interest at 4% on their respective capital contribution.

The partnership decides to expand its Business. However, it is unable to obtain a loan from the bank. Mr A agrees to lend money to the partnership for the expansion at market interest rates (i.e. as per arm's length standard) in a personal capacity. No other partner makes a loan to the partnership.

Interest on capital contribution:

As the payment of the Interest is treated as an allocation of income, each partner will be subject to Corporate Tax on any Interest received from the partnership in respect of its capital contribution.⁷⁵ Such interest expenditure would not be deductible in the determination of the Taxable Income of the respective partners.

Interest on loan advanced by Mr A:

Interest received by Mr A from the partnership in respect of the loan advanced by Mr A would be included in the total income of Mr A when determining the Taxable Income of Mr A. However, such Interest expenditure should be deductible in the determination of Taxable Income for all the partners, including Mr A, as per their respective distributive share.

Note that for the purposes of this example, it is assumed that Mr A's total Turnover from Business exceeds AED 1 million within a Gregorian calendar year. Mr A is, therefore, subject to Corporate Tax.⁷⁶

5.5.5. Interest expenditure incurred by partners to fund capital contributions

If a partner takes a loan in their individual capacity to fund their capital contributions in the Unincorporated Partnership Business and incurs Interest expenditure on the loan, such Interest expenditure will be deductible while determining the Taxable Income of the partner subject to the General and Special Interest Deduction Limitation Rules⁷⁷

⁷⁵ Article 16(5) of the Corporate Tax Law.

⁷⁶ Cabinet Decision No. 49 of 2023.

⁷⁷ Article 16(4)(b) of the Corporate Tax Law read with Articles 29, 30 and 31 of the Corporate Tax Law.



and the specific situation of the partner (natural person or juridical person)(refer Section [5.5.2](#)).

5.5.6. Salary paid to partners in an Unincorporated Partnership

Partners normally receive a share of profit from the partnership. However, a partnership can also pay a salary to its partners if this is specifically provided for in the partnership deed or agreement.

The Corporate Tax implications for the Unincorporated Partnership and the partners in cases where the partnership decides to pay a salary to its partners are discussed below. Note this Section is relevant only where the partners are natural persons as a salary cannot be paid to a partner that is a juridical person.

Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
Salary paid to partners by the Unincorporated Partnership	<p>Implications for the Unincorporated Partnership:</p> <p>Not applicable as the fiscally transparent Unincorporated Partnership is not treated as a Taxable Person.</p> <p>Implication for the partners that are natural persons:</p> <p>The partners of a fiscally transparent Unincorporated Partnership are treated as Taxable Persons and subject to Corporate Tax.</p> <p>Any salary received by the partners (natural persons) will be treated as an amount withdrawn from the Business and hence the same will be non-deductible while determining</p>	<p>Implications for the Unincorporated Partnership:</p> <p>Where in a fiscally opaque Unincorporated Partnership salary is paid to a partner, the same will be treated as profit distributions or benefits of a similar nature paid to the owner, i.e. the partner (natural person). Hence such salary will be non-deductible for Corporate Tax purposes for the partnership.⁷⁹</p> <p>Implications for the partner that is a natural person:</p> <p>A salary received by the relevant partner will be excluded from the Taxable Income of such partner on basis that such income has already</p>

⁷⁹ Article 33(4) of the Corporate Tax Law.



	<p>the Taxable Income of the partners.⁷⁸</p> <p>The partner receiving such amount must include such amount in the determination of its Taxable Income.</p>	<p>been subject to Corporate Tax at the level of the partnership.⁸⁰</p>
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Example 14: Treatment of salary received by natural persons in fiscally transparent Unincorporated Partnership

Mr A and Mr B are partners in a fiscally transparent Unincorporated Partnership with equal distributive shares in the Unincorporated Partnership.

During a Tax Period, the income and expenditure of the Unincorporated Partnership is AED 75,000,000 and AED 65,000,000, respectively. The expenditure includes salary paid to Mr A of AED 10,000,000 and to Mr B of AED 15,000,000 in the Tax Period.

The Unincorporated Partnership is fiscally transparent and hence the partners will be subject to Corporate Tax on their distributive share of income and expenditure. However, the salaries of the partners will not be considered as deductible expenditure while determining the Taxable Income of the partners as the same will be treated as an amount withdrawn from the Business.⁸¹

Taxable Income of Mr A and Mr B is calculated as follows:

Particulars	Mr A (amounts in AED)	Mr B (amounts in AED)
Distributive share of income	37,500,000	37,500,000
Less: Distributive share of expenditure	32,500,000	32,500,000
Accounting Income	5,000,000	5,000,000
Add: non-deductible expenditure i.e. salary drawn by partners	10,000,000	15,000,000
Taxable Income of the partners	15,000,000	20,000,000

⁷⁸ Article 33(5) of the Corporate Tax Law.

⁸⁰ Article 20(2)(i) of the Corporate Tax Law read with Article 6(1) of the Ministerial Decision No. 134 of the 2023.

⁸¹ Article 33(5) of the Corporate Tax Law.



5.5.7. Payment to partners for services provided to an Unincorporated Partnership

During the course of conducting Business, partners may render services to the Unincorporated Partnership (other than as an employee). The Corporate Tax implications for the Unincorporated Partnership and the partners in relation to the provision of services are as follows:

Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
<p>Payment to partners for provision of services</p>	<p>Implications for the Unincorporated Partnership (expenditure):</p> <p>Not applicable as the fiscally transparent Unincorporated Partnership is not treated as a Taxable Person.</p> <p>Implication for the partners (expenditure):</p> <p>If a partner renders services to the Unincorporated Partnership not in their capacity as a partner (or employee), but as a service provider, where such services are wholly and exclusively for the purposes of the Business, and payment for such services are at arm's length, the payment for services will be deductible while determining the Taxable Income of the partners to the extent of their distributive share.</p>	<p>Implications for the partnership (expenditure):</p> <p>If a partner renders certain services to a fiscally opaque Unincorporated Partnership not in their capacity as a partner (or employee), but as a service provider, payment for such services should be allowed as a deduction in determining the Taxable Income of the Unincorporated Partnership, provided that payment meets the arm's length standard and is incurred wholly and exclusively for the purpose of the Business of the Unincorporated Partnership.</p>
	<p>Implications for the partner (income) in relation to both transparent and opaque Unincorporated Partnerships:</p> <p>Any income received by a partner for the services rendered will be taken into account in that partner's Taxable Income, separate and in addition to the partner's income from the partnership and accordingly will be included in determining that partner's Taxable Income.</p>	



If the income is received by a partner who is a natural person, it would be subject to Corporate Tax if their total Turnover from Business or Business Activities conducted in the UAE exceeds AED 1 million within a Gregorian calendar year.⁸²

If the income is received by a partner who is a juridical person, it would generally be part of their Taxable Income for Corporate Tax.

Example 15: Rent paid to a partner by fiscally opaque Unincorporated Partnership

A fiscally opaque Unincorporated Partnership requires an office space to conduct its Business. Mr A who is a partner in the partnership, has a property which he is willing to rent to the Unincorporated Partnership.

The property provided to the Unincorporated Partnership is not in the nature of a capital contribution of Mr A.

Any rent paid by the Unincorporated Partnership to Mr A should be allowable as a deduction in determining the Taxable Income of the Unincorporated Partnership, as long as the partnership would in any event have paid an equivalent rent for an equivalent property to a third party, if not renting from Mr A, i.e. if the rent meets the arm's length standard.

The rental income earned by Mr A will typically be Real Estate Investment income and, therefore, not be subject to Corporate Tax (assuming that Mr A does not conduct a rental Business under a Licence and does not require a Licence).⁸³

5.5.8. Reimbursements of expenditure to partners

Partners may incur certain expenditure on behalf of the Unincorporated Partnership. Such expenses may then be reimbursed by the Unincorporated Partnership in whole or in part.

The Corporate Tax implications for the Unincorporated Partnership and the partners on such reimbursement of Business expenditure are as follows:

⁸² Cabinet Decision No. 49 of 2023.

⁸³ Article 1 and Article 2(2) of Cabinet Decision No. 49 of 2023.



Item	Fiscally transparent Unincorporated Partnership	Fiscally opaque Unincorporated Partnership
<p>Reimbursement of expenditure to partners</p>	<p>Implications for the partnership:</p> <p>Not applicable as the fiscally transparent Unincorporated Partnership is not a Taxable Person and is not subject to Corporate Tax.</p> <p>Implications for the partner: If a partner directly incurs expenditure which is wholly and exclusively for the purposes of the Business of the fiscally transparent Unincorporated Partnership, such expenditure would be treated as follows:</p> <p>Where such expenditure is reimbursed to the partner in the accounts of the Unincorporated Partnership, such reimbursed cost would be deductible by the partners in proportion to their distributive share.⁸⁴</p> <p>For the partner that is being reimbursed, the amount of income received from the fiscally transparent Unincorporated Partnership would be set-off against the expenditure incurred by the relevant partner based on the relevant Accounting Standards applied by the partner. Therefore, in the case of the reimbursement, such partner is</p>	<p>Implications for the partnership:</p> <p>If a partner directly incurs expenditure, which is wholly and exclusively for the purposes of the Business of the fiscally opaque Unincorporated Partnership, and if the partnership reimburses the relevant amount to the partner then the partnership can claim the reimbursement as a deduction when determining the Taxable Income of the Unincorporated Partnership subject to the general deductibility rules.</p> <p>Implications for the partner: The partner would similarly set-off the expenditure incurred against the reimbursement received in the determination of its own Taxable Income separate from that of the partnership, if applicable.</p> <p>In a case where a partner is incurring an expenditure which is wholly and exclusively for the purposes of the Business of the Unincorporated Partnership but the partner is not reimbursed (or only partially reimbursed), then the partner cannot claim a deduction of such expenditure against any other taxable Business it is conducting,</p>

⁸⁴ Article 16(4)(a) of the Corporate Tax Law.



	effectively entitled to the deduction of such expenditure to the extent of the reimbursement.	because it is not incurred wholly and exclusively for the purposes of such other taxable Business. The fiscally opaque Unincorporated Partnership is considered as a separate Taxable Person.
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5.6. Tax Loss relief and limitation on Tax Loss carry forward

The Corporate Tax Law allows a Taxable Person to reduce its Taxable Income by offsetting part of the Tax Loss accumulated in previous years. However, a Taxable Person cannot claim Tax Loss relief for:⁸⁵

- Losses incurred before the date of commencement of Corporate Tax,
- Losses incurred before a Person becomes a Taxable Person, and
- Losses incurred from an asset or activity that generates income which is exempt from Corporate Tax.

A Taxable Person can use a Tax Loss up to an amount of 75% of the Taxable Income (before any Tax Loss relief) for the relevant Tax Period.⁸⁶ An unutilised Tax Loss can be carried forward and utilised in subsequent Tax Periods indefinitely subject to the fulfilment of one of the following conditions:⁸⁷

(a) Continuity of ownership:⁸⁸ At least 50% of the owners of the Taxable Person continue to be the same from the beginning of the Tax Period in which the Tax Loss is incurred to the end of the Tax Period in which such Tax Loss or part thereof is offset against Taxable Income of that period.

(b) Continuity of Business:⁸⁹ Where there has been a change of more than 50% in the ownership (i.e. the above condition (a) is not met) the Tax Loss can still be carried forward if the Taxable Person continues to conduct the same or a similar Business following the change in ownership.

Thus, even if the continuity of ownership test is not satisfied, the Tax Loss can be carried forward if the Taxable Person continues to carry on the same or similar Business.

In the context of an Unincorporated Partnership, the limitation on carry forward of a Tax Loss would only be a relevant consideration if it was fiscally opaque and at least

⁸⁵ Article 37(3) of the Corporate Tax Law.

⁸⁶ Article 37(2) of the Corporate Tax Law.

⁸⁷ Article 37(4) read with Article 39 of the Corporate Tax Law.

⁸⁸ Article 39(1)(a) of the Corporate Tax Law.

⁸⁹ Article 39(1)(b) of the Corporate Tax Law.



50% of the ownership in the Unincorporated Partnership, as represented by the partners' distributive shares, did not remain the same.

Further, where a fiscally opaque Unincorporated Partnership has incurred a Tax Loss which is carried forward to subsequent Tax Periods,⁹⁰ that Tax Loss can only be utilised to offset the Taxable Income of the fiscally opaque Unincorporated Partnership and not the Taxable Income of the partners. If any partner exits the partnership, no portion of the Tax Loss relating to the partnership will be allocated to the exiting partner.

Example 16: Change in ownership interest of fiscally opaque Unincorporated Partnership and impact on carry forward of Tax Loss

Partnership D is a fiscally opaque Unincorporated Partnership with three partners: Mr A, Mr B and Mr C. Its Business is manufacturing clothes in the UAE. Each partner holds an equal distributive share in the partnership.

Partnership D incurs a Tax Loss in both the 2024 and 2025 Gregorian calendar years, while Mr A, Mr B and Mr C are the only partners. The Tax Loss is not utilised entirely in those years.

During the 2026 Gregorian calendar year, Mr B and Mr C (representing a 2/3rd distributive share in the partnership) decide to leave the partnership. In their place, Mr K and Mr L join the partnership, acquiring the distributive share of the departing partners. The partnership continues the same Business of manufacturing clothes.

In this case, even though more than 50% of the ownership interest of the fiscally opaque Unincorporated Partnership has changed, it can continue to use and/or carry forward the remainder of the Tax Loss generated in 2024 and 2025 since its Business continues to be the same.

5.7. Foreign Tax Credit

If the Unincorporated Partnership has suffered any foreign tax, a credit may be available against the Corporate Tax Payable by the Unincorporated Partnership where it is treated as a Taxable Person, subject to the facts and circumstances. Where it is fiscally transparent, the Foreign Tax Credit is allocated among the partners in accordance with their distributive share in the Unincorporated Partnership.⁹¹

⁹⁰ Article 39 of the Corporate Tax Law.

⁹¹ Article 16(6) of the Corporate Tax Law.



Example 17: Foreign Tax Credit in case of Unincorporated Partnership

Company A and Company B are partners in a fiscally transparent Unincorporated Partnership. Both companies are incorporated in and are residents of the UAE with a distributive share of 40% and 60%, respectively.

During the relevant Tax Period, net income of the Unincorporated Partnership is AED 5 million out of which foreign source income is AED 2 million arising from Country X. The foreign tax paid in Country X in respect of this foreign source income was the equivalent of AED 200,000.

The Corporate Tax Payable by the partners Company A and Company B on the income of the Unincorporated Partnership shall be as follows. Note that neither partner is eligible for Small Business Relief.

Item	Company A (40%)	Company B (60%)
	Amounts in AED	
Taxable Income/Distributive share of net income (assuming there are no other adjustments)	2,000,000	3,000,000
Corporate Tax due on Taxable Income (A)	146,250 [(2,000,000-375,000)*9%]	236,250 [(3,000,000-375,000)*9%]
Less: Foreign Tax Credit (B) being the lower of the following:	58,500	94,500
The actual amount of foreign tax paid in the foreign jurisdiction (allocated as per distributive share)	80,000	120,000
The amount of the Corporate Tax due on the foreign source income: Total Corporate Tax due * allocable foreign source income / allocable total Taxable Income	58,500 [146,250 * 800,000 / 2,000,000]	94,500 [236,250 * 1,200,000 / 3,000,000]
Corporate Tax Payable [(A) - (B)]	87,750	141,750



6. Application to be treated as Taxable Person

6.1. Application and timing of change in status to Taxable Person

The partners of an Unincorporated Partnership can file an application with the FTA for the Unincorporated Partnership to be treated as a Taxable Person in its own right.⁹² This is in contrast to the default position where the Unincorporated Partnership is treated as fiscally transparent, with the partners being subject to Corporate Tax on their distributive share.

Where the application is approved, the Unincorporated Partnership will be treated as a Taxable Person from:⁹³

- the beginning of the Tax Period during which the application was filed by the partners,
- the beginning of a future Tax Period, or
- any other date determined by the FTA.

6.2. Other Corporate Tax consequences of being treated as a Taxable Person

Upon the change in the status of an Unincorporated Partnership from fiscally transparent to fiscally opaque due to a successful application,⁹⁴ any gain or loss on a transfer may be covered under Business Restructuring Relief.⁹⁵ This is subject to satisfaction of the following conditions:⁹⁶

- The transfer is done in accordance with the applicable legislation of the UAE,
- The partners and the partnership are subject to UAE Corporate Tax,
- None of the partners or the partnership itself is an Exempt Person,
- None of the partners or the partnership itself is a Qualifying Free Zone Person,
- The partners and the partnership have the same Financial Year,
- The partners and the partnership prepare their Financial Statements using the same Accounting Standards, and
- The transfer is undertaken for valid commercial or other non-fiscal reasons which reflect economic reality.

When a successful application results in the Unincorporated Partnership becoming a Taxable Person, i.e. fiscally opaque, this is treated for Corporate Tax purposes as each partner transferring their portion of the Unincorporated Partnership's assets and

⁹² Article 16(8) of the Corporate Tax Law.

⁹³ Article 16(8) and 16(10) of the Corporate Tax Law.

⁹⁴ Article 16(8) of the Corporate Tax Law.

⁹⁵ Article 27 of the Corporate Tax Law read with Article 7 of Ministerial Decision No. 133 of 2023.

⁹⁶ Article 27(2) of the Corporate Tax Law.



liabilities to the Unincorporated Partnership. However, the application does not trigger a legal transfer of assets and liabilities. In such circumstances, the no gain or loss treatment under Business Restructuring Relief can be available, even if the Unincorporated Partnership doesn't legally issue a consideration. In addition, the no gain or loss treatment will be available even if the partners of the Unincorporated Partnership are not Taxable Persons.⁹⁷

6.3. Whether an application to be treated as a Taxable Person can be revoked

An application by the partners for the Unincorporated Partnership to be treated as a Taxable Person, once approved by the FTA, is irrevocable.⁹⁸ In other words, once an Unincorporated Partnership is treated as a Taxable Person, it will continue to be treated as such, until dissolved/liquidated. However, the application can be revoked under exceptional circumstances and pursuant to the approval by the FTA.⁹⁹

6.4. Procedural aspects

Once the FTA approves the application for an Unincorporated Partnership to be treated as a Taxable Person, the Unincorporated Partnership is required to notify the FTA within 20 business days from the time any partner joins or leaves the Unincorporated Partnership.¹⁰⁰

Example 18: An Unincorporated Partnership splits into two Unincorporated Partnerships

Partnership A is a fiscally transparent Unincorporated Partnership between 5 natural persons (Mr K, Mr E, Mr N, Mr D and Mr L) with an equal distributive share in the partnership. The FTA approved the application made by the partners to treat Partnership A as a Taxable Person, i.e. fiscally opaque.

Partnership A has registered for Corporate Tax purposes and been issued with a Tax Registration Number.

However, due to an internal dispute, Mr D, Mr E and Mr L decide to exit the partnership and establish a new Unincorporated Partnership (Partnership B). Mr K and Mr N continue to be the partners of Partnership A.

⁹⁷ Article 27(4)(c) of the Corporate Tax Law read with Article 7 of the Ministerial Decision No. 133 of 2023.

⁹⁸ Article 3(1) of Ministerial Decision No. 127 of 2023.

⁹⁹ Article 3(1) of Ministerial Decision No. 127 of 2023.

¹⁰⁰ Article 3(2) of Ministerial Decision No. 127 of 2023.



Merely because some partners left the partnership does not mean that Partnership A has the choice to be treated as fiscally transparent. Partnership A will continue to be treated as a Taxable Person until it ceases to exist. Additionally, it will have to notify the FTA regarding the partners (Mr D, Mr E and Mr L) that have left Partnership A within 20 business days.

Since Partnership B is a new and separate Unincorporated Partnership, it will be treated as fiscally transparent unless the partners (Mr D, Mr E and Mr L) make an application to the FTA to treat Partnership B as a Taxable Person, i.e. fiscally opaque.

Regardless of whether it applies to be a separate Taxable Person or not, Partnership B will have to register for Corporate Tax purposes and obtain a Tax Registration Number.¹⁰¹

6.5. Implications of partners following different methods of accounting

If partners in a fiscally transparent Unincorporated Partnership follow different methods of accounting, i.e. accrual basis versus cash basis, and make an application for the Unincorporated Partnership to be treated as a Taxable Person, i.e. fiscally opaque, the partners should continue to apply their respective accounting methods in relation to transactions which occurred during the periods when the partnership was fiscally transparent. This is in order to prevent cases of non-taxation.

For example, if a partner follows the Cash Basis of Accounting it would not have included in its Taxable Income any income or expenditure accrued in a prior Tax Period when the Unincorporated Partnership was treated as fiscally transparent. When this is received or paid in a future Tax Period, when the Unincorporated Partnership is treated as fiscally opaque, it should be included in the Taxable Income of that partner (following Cash Basis of Accounting) at the time of receipt/payment. In other words, that partner (following Cash Basis of Accounting) should apply the method of accounting consistently.

Example 19: Partners of a fiscally transparent Unincorporated Partnership, following different methods of accounting, make an application to treat the Unincorporated Partnership as a Taxable Person, i.e. fiscally opaque

Company P (a company incorporated in and tax resident of the UAE) and Ms Q (a natural person residing in the UAE) are partners in a fiscally transparent Unincorporated Partnership with distributive shares of 80% and 20%, respectively.

¹⁰¹ Article 2 of FTA Decision No. 16 of 2023.



Facts:

- Both partners and the partnership apply the Gregorian calendar year as their Tax Period.
- Company P applies the Accrual Basis of Accounting.
- Ms Q applies the Cash Basis of Accounting (as her Turnover does not exceed AED 3 million) but has not elected for Small Business Relief.
- The Unincorporated Partnership applies the Accrual Basis of Accounting.

Chronology of events:

- On 1 December 2024, the partnership earned income of AED 10 million from sale of goods (assuming no offsetting costs/expenditure).
- On 15 December 2024, the FTA approved the partnership to be treated as a Taxable Person from 1 January 2025 onwards.
- On 25 January 2025, payment was received for the sale of the goods.

The Corporate Tax implications in the hands of Company P, Ms Q and the Unincorporated Partnership for the 2024 Tax Period are as follows (assuming there is no other income):

- The Unincorporated Partnership is fiscally transparent. Hence it is not treated as a Taxable Person for Corporate Tax purposes. The partners (Company P and Ms Q) will be treated as Taxable Persons, individually, in relation to their respective distributive shares in the partnership.
- Company P's distributive share of income is AED 8 million (i.e. 80% of AED 10 million). As Company P applies the Accrual Basis of Accounting, AED 8 million is accrued to Company P (even though payment is not received) and, hence, the same will be subject to Corporate Tax for the 2024 Tax Period.
- Ms Q's distributive share of income is AED 2 million (i.e. 20% of AED 10 million). However, as Ms Q applies the Cash Basis of Accounting, in the absence of the actual receipt of income during the 2024 Tax Period, no income is recognised by Ms Q in the 2024 Tax Period. Hence, she will not be subject to Corporate Tax on the AED 2 million in the same Tax Period.

The Corporate Tax implications in the hands of Company P, Ms Q and the Unincorporated Partnership for the 2025 Tax Period are as follows (assuming there is no other income):

- For the 2025 Tax Period the partnership is treated as a Taxable Person, i.e. when it is fiscally opaque.
- Company P will not be subject to Corporate Tax in relation to the partnership Business. It will continue to remain a Taxable Person in relation to any Business income other than the partnership Business.
- However, Ms Q, though not subject to Corporate Tax in relation to the partnership Business, will be required to recognise the AED 2 million for



Corporate Tax purposes as the same is paid in the 2025 Gregorian calendar year and pertains to a Tax Period where the partnership was not a Taxable Person.

- The fiscally opaque Unincorporated Partnership: Even though the partnership receives payment of AED 10 million, this income has not “accrued” to the partnership in the 2025 Gregorian calendar year (as it applies Accrual Basis of Accounting). It was accrued in the prior period (when the partnership was not treated as a Taxable Person). Hence, no Corporate Tax is payable by the partnership on the receipt of AED 10 million.



7. Corporate Tax compliance obligations

7.1. Corporate Tax registration

7.1.1. Fiscally transparent Unincorporated Partnership

Individual partners of a fiscally transparent Unincorporated Partnership must determine their Corporate Tax obligations in relation to their individual distributive share in the Unincorporated Partnership. Whether a partner is required to register for Corporate Tax purposes and file a Tax Return will depend on their individual circumstances.

If a partner is a juridical person, it will already be registered for Corporate Tax (and will not be required to obtain a separate/additional Tax Registration for Corporate Tax purposes by virtue of being a partner in an Unincorporated Partnership).

If a partner is a natural person, they will be required to register for Corporate Tax only if their total Turnover (i.e. the gross amount of income before adjusting any expenditure) from all their Business or Business Activities conducted in the UAE exceeds the threshold of AED 1 million within a Gregorian calendar year.¹⁰²

In addition to the above, the partners of a fiscally transparent Unincorporated Partnership are required to appoint one of the partners as an authorised partner to act on behalf of all the partners in any tax obligations and procedures. The authorised partner is required to submit an application to the FTA for registration of the Unincorporated Partnership for Corporate Tax purposes and obtain a Tax Registration Number, which will not be active. Obtaining the Tax Registration Number does not make the fiscally transparent Unincorporated Partnership a Taxable Person subject to Corporate Tax, but is a compliance requirement.¹⁰³

7.1.2. Fiscally opaque Unincorporated Partnership

The partners of an Unincorporated Partnership can make an application to the FTA to treat the Unincorporated Partnership as a Taxable Person, i.e. fiscally opaque. If the application is approved, the Unincorporated Partnership will be subject to Corporate Tax as a Taxable Person and its Tax Registration Number will be changed from an inactive number to an active number.

¹⁰² Article 11(6) of the Corporate Tax Law read with Cabinet Decision No. 49 of 2023.

¹⁰³ Article 51(2) of the Corporate Tax Law read with FTA Decision No. 16 of 2023.



Pursuant to the above, the partners may file a deregistration application (if they are already registered for Corporate Tax) provided they do not conduct any other Business or do not have any other Taxable Income which is subject to Corporate Tax.

7.2. Tax Returns

7.2.1. Fiscally transparent Unincorporated Partnership

If an Unincorporated Partnership is treated as fiscally transparent, it is not required to file a Tax Return. The partners of the Unincorporated Partnership are required to file their individual Tax Return for their distributive share in the Unincorporated Partnership by the normal deadline of 9 months from the end of the relevant Tax Period.

However, the partners of the fiscally transparent Unincorporated Partnership must appoint one of the partners as an authorised partner to act on behalf of all partners in relation to any tax obligations and procedures.¹⁰⁴

As indicated above, the authorised partner must apply to the FTA to register the Unincorporated Partnership for Corporate Tax purposes and obtain a Tax Registration Number. The authorised partner must submit an annual declaration on behalf of all the partners within 9 months from the end of the relevant Financial Year of the Unincorporated Partnership or part thereof. The annual declaration should include details regarding all the data necessary to determine the Taxable Income of the partners in the Unincorporated Partnership, including but not limited to, total assets and liabilities, the income and expenses of the Unincorporated Partnership and the distributive share of each partner.¹⁰⁵

7.2.2. Fiscally opaque Unincorporated Partnership

If an Unincorporated Partnership is treated as a Taxable Person, i.e. fiscally opaque, it is required to file its Tax Return by the normal deadline of 9 months from the end of the relevant Tax Period.

7.3. Tax Periods

A Tax Period of a Taxable Person is the period for which a Tax Return is required to be filed. This is the Gregorian calendar year for a natural person, or the 12-month period for which it prepares Financial Statements for a juridical person.

¹⁰⁴ Article 51(2) of the Corporate Tax Law read with FTA Decision No. 16 of 2023.

¹⁰⁵ Article 53(6) of the Corporate Tax Law read with FTA Decision No. 16 of 2023.



7.3.1. Fiscally transparent Unincorporated Partnership

If the Unincorporated Partnership is treated as fiscally transparent, the partners are the Taxable Persons who are required to file a Tax Return based on their own Tax Period. The authorised partner of the Unincorporated Partnership is required to file a declaration with the FTA pertaining to the total assets and liabilities, the income and expenses of the Unincorporated Partnership and the distributive share of each partner, within 9 months from the end of the relevant Financial Year of the Unincorporated Partnership or part thereof.¹⁰⁶

7.3.2. Fiscally opaque Unincorporated Partnership

If the Unincorporated Partnership is treated as a Taxable Person, i.e. fiscally opaque, it is required to file its Tax Return based on the period for which it prepares Financial Statements, in the same way as any other Taxable Person.

Example 20: Different Tax Period followed by Unincorporated Partnership and its Partners

Mr P (a natural person residing in the UAE) and Company Q (a company incorporated in and a tax resident of the UAE) are partners in a fiscally transparent Unincorporated Partnership established on 1 January 2025 to execute construction projects in the UAE. The distributive share of the partners is 70% and 30%, respectively.

- Mr P and the partnership follow the Gregorian calendar year as their Tax Period.
- Company Q follows a Tax Period from 1 April to 31 March.
- Both Mr P and Company Q apply the Accrual Basis of Accounting.

The partnership Business earned income of AED 20 million during the 2025 Gregorian calendar year. Assume there are no offsetting costs and the income accrued equally each month.

Each partner's distributive share of income is as follows:

- For Mr P: AED 14 million (i.e. 70% of AED 20 million)
- For Company Q: AED 6 million (i.e. 30% of AED 20 million)

Corporate Tax implications for Mr P:

Since the partnership and Mr P follow the same Tax Period, the entire AED 14 million will accrue to Mr P during the 2025 Gregorian calendar year and will be subject to Corporate Tax.

¹⁰⁶ Article 53(6) of the Corporate Tax Law read with FTA Decision No. 16 of 2023.



Corporate Tax implications for Company Q:

The Tax Period followed by Company Q is different from the Tax Period followed by the partnership. AED 6 million will accrue to Company Q over Two Tax Periods and will be subject to Corporate Tax as follows:

- AED 1.5 million (relating to 1 January 2025 to 31 March 2025, i.e. 3 months) will be subject to Corporate Tax in Tax Period 1 April 2024 to 31 March 2025; and
- AED 4.5 million (relating to 1 April 2025 to December 2025, i.e. 9 months) will be subject to Corporate Tax in Tax Period 1 April 2025 to 31 March 2026.

7.4. Financial Statements

The FTA can request any Taxable Person to submit the Financial Statements used to determine the Taxable Income for a particular Tax Period in the form and manner and within the timeline prescribed by the FTA.¹⁰⁷

Where the partners of an Unincorporated Partnership have made an application to the FTA to treat the partnership as a Taxable Person, the FTA can request Financial Statements directly from the Unincorporated Partnership.¹⁰⁸

In the case of a fiscally transparent Unincorporated Partnership, the FTA can request the authorised partner to provide Financial Statements showing the total assets, liabilities, income and expenditure of the Unincorporated Partnership along with each partner's distributive share in the Unincorporated Partnership's income, expenses, assets and liabilities.¹⁰⁹

If the Revenue of a fiscally opaque Unincorporated Partnership exceeds AED 50 million during a Tax Period, then the partnership is required to prepare and maintain audited Financial Statements.¹¹⁰ In the case of a fiscally transparent Unincorporated Partnership, the threshold of AED 50 million applies at the level of each partner, meaning the partner would be responsible for having their accounts audited if they exceed the threshold of AED 50 million.

¹⁰⁷ Article 54(1) of the Corporate Tax Law.

¹⁰⁸ Article 54(1) of the Corporate Tax Law.

¹⁰⁹ As per Article 54(3) of the Corporate Tax Law.

¹¹⁰ Article 2 of Ministerial Decision No. 82 of 2023.



8. Tax treatment of Foreign Partnerships

A Foreign Partnership is a relationship established by contract between two or more Persons, such as a partnership or trust or any other similar association of Persons, in accordance with the laws of a foreign jurisdiction.¹¹¹

8.1. Conditions to be treated as an Unincorporated Partnership

A Foreign Partnership is treated as a fiscally transparent Unincorporated Partnership for the purposes of the Corporate Tax Law provided it satisfies all of the following conditions:¹¹²

- a) The Foreign Partnership is not subject to tax under the laws of the foreign jurisdiction where it is established.¹¹³

If the foreign jurisdiction has a mixed approach where it considers the Foreign Partnership as fiscally transparent for certain tax purposes and fiscally opaque for other tax purposes, then that Foreign Partnership will not satisfy this condition.

If the Foreign Partnership is established in a foreign jurisdiction that does not have tax legislation that addresses the tax treatment of partnerships, then that Foreign Partnership will be deemed to have met this condition.

- b) Each partner in the Foreign Partnership is individually subject to tax on their distributive share of any income of the Foreign Partnership as and when the income is received by or accrued to the Foreign Partnership.¹¹⁴ Each partner in the Foreign Partnership will be considered to be subject to tax if they would be subject to tax on their distributive share of any income in the Foreign Partnership in the jurisdiction in which the partner is a tax resident.¹¹⁵

If the Partners are tax resident in a foreign jurisdiction that does not have a tax legislation or tax legislation for individuals, then this condition will be deemed to have been satisfied.

¹¹¹ Article 1 of the Corporate Tax Law.

¹¹² Article 16(7) of the Corporate Tax Law and Article 4 of the Ministerial Decision No. 127 of 2023.

¹¹³ Article 16(7)(a) of the Corporate Tax Law.

¹¹⁴ Article 16(7)(b) of the Corporate Tax Law.

¹¹⁵ Article 4(2) of Ministerial Decision No. 127 of 2023.



- c) The Foreign Partnership submits an annual declaration to the FTA to confirm that it has met the conditions (a) and (b) listed above.¹¹⁶ The FTA will prescribe the form and manner and timeline of the declaration.
- d) There are adequate arrangements for cooperation between the UAE and the foreign jurisdiction under whose applicable laws the Foreign Partnership is established, for the purpose of sharing tax information of the partners in the Foreign Partnership.¹¹⁷ Examples of such arrangements are an Agreement with the UAE on Exchange of Information on Tax Matters, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters established by the Organisation for Economic Cooperation and Development (OECD) or a Double Taxation Agreement with the UAE with Exchange of Information provisions.

8.2. Foreign Partnership not treated as an Unincorporated Partnership

If a Foreign Partnership does not meet the conditions specified in Section [8.2](#), then it will be regarded as a fiscally opaque entity for Corporate Tax purposes and will be subject to Corporate Tax in the UAE on the same basis as a Non-Resident Taxable Person if it has a Permanent Establishment or nexus in the UAE.¹¹⁸

¹¹⁶ Article 16(7)(c) of the Corporate Tax Law read with Article 4(1)(a) of Ministerial Decision No. 127 of 2023.

¹¹⁷ Article 16(7)(c) of the Corporate Tax Law read with Article 4(1)(b) of Ministerial Decision No. 127 of 2023.

¹¹⁸ Article 11(4) read with Article 12(3) of the Corporate Tax Law.



9. Interaction with Free Zone Persons

9.1. Can a partnership be a Free Zone Person?

A Free Zone Person is a juridical person incorporated, established or otherwise registered under the rules and regulations of a Free Zone, including a branch of a foreign or a UAE juridical person registered in a Free Zone.¹¹⁹

Thus, incorporated partnerships which are treated as juridical persons as per the respective Free Zone laws could be treated as a Free Zone Person.

An Unincorporated Partnership that is not a juridical person cannot be a Free Zone Person. An Unincorporated Partnership that is treated as a Taxable Person (i.e. fiscally opaque) is not a juridical person.¹²⁰ Accordingly, such a fiscally opaque Unincorporated Partnership will not be covered under the definition of a Free Zone Person, even if all the partners of the fiscally opaque Unincorporated Partnership are juridical persons.

9.2. Can a Free Zone Person be a partner in an Unincorporated Partnership?

A partner in an Unincorporated Partnership can be either a natural or juridical person. As discussed above, a Free Zone Person is a juridical person and thus can be a partner in an Unincorporated Partnership.

9.3. Corporate Tax implications where a Free Zone Person is a partner in an Unincorporated Partnership

If the Unincorporated Partnership is fiscally transparent, the Free Zone partner would have to evaluate how it is subject to Corporate Tax on its distributive share from the Unincorporated Partnership depending on whether it is a Qualifying Free Zone Person earning Qualifying Income.¹²¹

If the Unincorporated Partnership is treated as a Taxable Person (i.e. fiscally opaque), the partnership itself would be subject to Corporate Tax. The tax treatment for a Free Zone Person, that is a partner in a fiscally opaque Unincorporated Partnership, is the same as for any other type of partner. The Free Zone partner can exclude, from its own Taxable Income, its distributive share of income in the Unincorporated

¹¹⁹ Article 1 of the Corporate Tax Law.

¹²⁰ Article 16(8) of the Corporate Tax Law.

¹²¹ Article 18 of the Corporate Tax Law read with Cabinet Decision No. 100 of 2023 and Ministerial Decision No. 265 of 2023.



Partnership, to the extent that the fiscally opaque Unincorporated Partnership has recognised such income as Taxable Income.¹²²

9.4. Branch of Unincorporated Partnership in a Free Zone

As noted above, a Free Zone Person is a juridical person incorporated, established or otherwise registered under the rules and regulations of a Free Zone, including a branch of a foreign or a UAE juridical person registered in a Free Zone.

Since an Unincorporated Partnership (whether fiscally transparent or opaque) is not a juridical person, even if it sets up a branch in the Free Zone, it will not be eligible to benefit from the Free Zone Corporate Tax regime.

¹²² Article 20(2)(i) of the Corporate Tax Law read with Article 6(1) of Ministerial Decision No. 134 of 2023.



10. Interplay with Small Business Relief

Small Business Relief is a Corporate Tax relief that allows eligible Taxable Persons to be treated as having no Taxable Income for the relevant Tax Period. A Taxable Person that is a Resident Person and whose Revenue in the current and previous Tax Periods does not exceed AED 3 million can claim Small Business Relief.¹²³

In the case of a fiscally transparent Unincorporated Partnership, each partner will need to determine whether they are a Taxable Person (that is a Resident Person) for Corporate Tax purposes who is subject to Corporate Tax. Hence eligibility for Small Business Relief is evaluated at the level of the individual partners.

Where a fiscally opaque Unincorporated Partnership is treated as a Taxable Person that is a Resident Person, the eligibility for Small Business Relief is determined at the level of the Unincorporated Partnership, rather than at the individual partner level.

¹²³ Article 21 of the Corporate Tax Law read with Article 2 of Ministerial Decision No. 73 of 2023.



11. Unincorporated Partnership and Business events

11.1. Overview and general principles

An Unincorporated Partnership is a Business relationship established by contract between two or more persons who jointly conduct the Business of the Unincorporated Partnership and agree to share the assets, liabilities, income and expenditure of the Unincorporated Partnership in proportion to their distributive share in that Unincorporated Partnership.¹²⁴

11.2. A partner's distributive share

A partner's distributive share is a representation of each partner's proportionate rights and obligations in respect of the assets, liabilities, income and expenditure of the Unincorporated Partnership.¹²⁵ On the basis that an Unincorporated Partnership is a contract between the partners, the contract creates rights and obligations for each partner. The rights are defined by reference to the individual partner's distributive share. On establishment of the Unincorporated Partnership, typically each partner will contribute assets or capital to the partnership and effectively is contributing an undivided share of the asset or capital to the other partner(s). Such undivided share attributable to each partner of the assets, liabilities, income and expenditure is represented by the partner's distributive share. As such, this distributive share constitutes an asset in the hands of a partner for the purposes of Corporate Tax. Therefore, any change in the distributive share of a partner may result in a taxable event for the relevant partner. This is the case whether the Unincorporated Partnership is fiscally transparent or fiscally opaque.

Based on the above, there are Business events in relation to Unincorporated Partnerships which may have Corporate Tax implications for the partners. Examples of these Business events and the tax implications have been considered in the subsequent Sections.

11.3. Unincorporated Partnerships and Business events

11.3.1. A change in a partner's distributive share

The following situations may give rise to a change in a partner's distributive share:

- a partner joining an Unincorporated Partnership,
- a partner leaving an Unincorporated Partnership, and
- changes in distributive share of partners (without entry or exit of a partner).

¹²⁴ Article 16(3) of the Corporate Tax Law.

¹²⁵ Article 16(3) of the Corporate Tax Law.



For the above situations, the transfer, sale or disposal of a distributive share may give rise to gains or losses and may be regarded as a taxable event.

11.3.2. Disposal of distributive share

Where a partner disposes of their distributive share, either by dilution through part disposal when a new partner joins, or a disposal in full when a partner leaves a fiscally transparent Unincorporated Partnership, this will constitute a transfer of an asset by the partner, being their distributive share of the partnership. In such circumstances, having regard to the treatment of the transaction for accounting purposes under IFRS, the partner will need to consider the proceeds received and the original expenditure incurred to acquire the partner's distributive share. The gain or loss made on the disposal of the partner's distributive share will be considered for the determination of the partner's Taxable Income, if the partner is a Taxable Person. The gain or loss is the difference between the proceeds received and the original cost incurred in acquiring the distributive share in the partnership.

However, for a fiscally opaque Unincorporated Partnership, any gains or losses on the transfer, sale, or other disposal of the distributive share in the Unincorporated Partnership, or part thereof, would not be subject to Corporate Tax in the hands of the partners provided that the ownership interest meets all the conditions of paragraphs (a) to (e) of Article 23(2) of the Corporate Tax Law on Participation Exemption.¹²⁶

11.3.3. Consideration for transfer or sale

For a partner joining or leaving an Unincorporated Partnership, or a change in distributive share, the partners are Related Parties, in which case any consideration exchanged for the partners' distributive share must meet the arm's length standard.¹²⁷ Where the transfer of the Unincorporated Partnership is to a Taxable Person who is not a Related Party, the transfer is considered to be at arm's length.

Typically, the consideration for transfer or sale or disposal of a distributive share in an Unincorporated Partnership is a commercial matter that may be influenced by factors including the Market Value of the Unincorporated Partnership's Business.

A lack of compensation is not necessarily an indicator of a non-arm's length transaction, provided the new partner is not a Related Party or Connected Person prior to joining the partnership. There could be scenarios where the transfer of a partner's distributive share to Related Parties or Connected Persons may not give rise to gains or losses, even if no consideration is paid (i.e. a gift or inheritance). This can happen

¹²⁶ Article 20(2)(i) read with Article 6(2) of Ministerial Decision No. 134 of 2023.

¹²⁷ Article 34(1) and Article 35(1)(e) of the Corporate Tax Law.



if the transfer of the partner's distributive share to Related Parties or Connected Persons is structured as a bona fide transaction or arrangement based on the arm's length standard.¹²⁸

11.3.4. Cost of acquisition of distributive share

The cost of acquisition of a distributive share is generally the expenditure incurred by the partner in acquiring their distributive share, which can be incurred in cash or in-kind. This cost is generally recorded in the balance sheet of the accounts for each partner in accordance with applicable Accounting Standards, being IFRS or IFRS for SME's.

The following examples illustrate situations where there is a change in the distributive share of the Unincorporated Partnership.

Example 21: A new partner joining an Unincorporated Partnership

Company A and Company B are companies incorporated in and tax residents of the UAE. They form a fiscally transparent Unincorporated Partnership with a distributive share of 60% and 40%, respectively.

After two years, Company A and Company B agree to collaborate with Company C (a company incorporated in and a tax resident of the UAE) to continue the Business of the partnership jointly.

Company C is to have a distributive share of 20% in the partnership for which both Company A and Company B agree to sacrifice part of their existing distributive share. The new distributive share in the partnership is 48%, 32% and 20% as between Company A, Company B and Company C, respectively.

Company C agrees to make a capital contribution of AED 10 million for a 20% distributive share in the partnership. The capital contribution made by Company C will be split between Company A and Company B in their original distributive share of 60% and 40% i.e. Company A will receive AED 6 million and Company B will receive AED 4 million.

In addition to the above, and based on the Market Value of the partnership Business, Company C also agrees to pay a further AED 6 million to Company A and AED 4 million to Company B to compensate them for sacrificing their future share of the profit of the partnership. Therefore, the total amounts received by Company A and B are AED 12 million and AED 8 million, respectively.

¹²⁸ Articles 34 and 35 of Corporate Tax Law.



The above change in the distributive share of the partnership due to the introduction of Company C is a disposal by Company A and Company B of part of their distributive share in the partnership, i.e. the distributive share of Company A and Company B has reduced from 60% to 48 % and 40% to 32%, respectively.

To calculate the gains or losses on the disposal of their distributive share for Company A (12%) and Company B (8%) with respect to the above, it is relevant to determine the cost incurred by Company A and Company B to acquire their respective distributive share in the Unincorporated Partnership.

The assets reflected at historical cost, which were contributed by the two partners upon establishment of the Unincorporated Partnership, in accordance with applicable Accounting Standards was AED 50 million, which was contributed as follows:

- Company A – AED 30 million (60% of AED 50 million)
- Company B – AED 20 million (40% of AED 50 million)

Particulars	For Company A		For Company B	
	Total before disposal	Disposal	Total before disposal	Disposal
% of distributive share	60%	12%	40%	8%
Cost	AED 30 million	AED 6 million	AED 20 million	AED 4 million

The gains or losses are determined as follows:

Particulars	For Company A	For Company B
Received from Company C	AED 12 million	AED 8 million
Less: cost	(AED 6 million)	(AED 4 million)
Equals: Gain on disposal of distributive share	AED 6 million	AED 4 million

The gains on disposal of the distributive share will be subject to Corporate Tax in the hands of Company A and Company B. The same treatment would have applied if the partners were natural persons.



Variation: If the Unincorporated Partnership is fiscally opaque:

A Taxable Person that is a partner in a fiscally opaque Unincorporated Partnership should exclude any gains or losses on the transfer, sale, or other disposal of their distributive share in the Unincorporated Partnership when determining their Taxable Income provided the conditions of paragraphs (a) to (e) of Article 23(2) (i.e. Participation Exemption), are met.¹²⁹ The same treatment would have applied if the partners were natural persons.

Example 22: Existing partner leaves/retires from the Unincorporated Partnership

Mr M, Mr N and Mr O (all are natural persons residing in the UAE), are partners in a fiscally transparent Unincorporated Partnership with equal distributive shares. The total partnership assets at the time of the inception of the partnership are AED 30 million contributed equally (i.e. an AED 10 million contribution by each partner). The Unincorporated Partnership is set up on 1 January 2024.

After several years of running the partnership, Mr M retired from the partnership and Mr N and Mr O decided to carry on the Business thereafter. The partners decide to revalue the partnership assets and pay out Mr M's distributive share in the partnership. The Market Value of partnership assets at the time of Mr M's retirement is AED 36 million based on revaluation. This equates to each partner's distributive share in the partnership assets being AED 12 million.

As part of the deal, Mr N agreed to buy out Mr M's distributive share for AED 12 million being the Market Value of Mr M's distributive share, in cash. This results in Mr N holding a two-thirds distributive share.

Mr M receives total compensation of AED 12 million. His original contribution was AED 10 million. The additional AED 2 million is his gain which will need to be considered when Mr M determines his Taxable Income.

Variation: if the Unincorporated Partnership is fiscally opaque:

A Taxable Person that is a partner in a fiscally opaque Unincorporated Partnership should exclude any gains or losses on transfer, sale, or other disposal of their distributive share in the fiscally opaque Unincorporated Partnership when determining their Taxable Income provided the distributive share meets the

¹²⁹ Article 20(2)(i) read with Article 6(2) of Ministerial Decision No. 134 of 2023.



conditions of paragraphs (a) to (e) of Article 23(2) of the Corporate Tax Law (i.e. Participation Exemption).¹³⁰

The same treatment would have applied if the partners were juridical persons.

Example 23: Change in the contractual terms of the partnership without consideration

Company A and Company B, both juridical persons, are partners in a fiscally transparent Unincorporated Partnership with a distributive share of 75% and 25%, respectively.

After several years, it is agreed that Company A will take responsibility for a key client relationship as well as new Business development, while the role of Company B will be largely unchanged. As a result, the distributive share of Company A and Company B are revised from 75% and 25% to 80% and 20%, respectively.

From a Corporate Tax perspective, the increase in the distributive share of Company A and the decrease of the distributive share of Company B is a part disposal of Company B's distributive share in the partnership.

Assuming the Market Value of 5% of the partnership Business is AED 1.5 million, then Company B would have to evaluate whether it is subject to Corporate Tax on this amount (i.e. AED 1.5 million).

Company A does not pay any compensation to Company B for acquiring the additional 5% of distributive share in the partnership. The economic circumstances and commercial rationale are that the incremental time and efforts from Company A (after having acquired the additional 5%) would give rise to an overall increase in the partnership profit such that Company B would not expect their share of future profit to reduce in absolute terms. In this case Company B would not have to adjust its Tax Return to reflect Taxable Income from the transaction. The economic circumstances and commercial rationale should be consistent with the arm's length standard.

But, alternatively, in the absence of such a commercial rationale, Company B would need to include the AED 1.5 million in the determination of its Taxable Income.

¹³⁰ Article 20(2)(i) read with Article 6(2) of Ministerial Decision No. 134 of 2023.



11.3.5. Application for a fiscally transparent Unincorporated Partnership to be treated as a Taxable Person, i.e. fiscally opaque

As explained above, where an application to treat an Unincorporated Partnership as a Taxable Person, i.e. fiscally opaque¹³¹ is approved by the FTA, individual partners are no longer subject to Corporate Tax in respect of the partnership's Business. Instead it is the Unincorporated Partnership that is subject to Corporate Tax in relation to the partnership's Business. This application does not affect the distributive share of the partners. The Corporate Tax consequences of a fiscally transparent Unincorporated Partnership being treated as a Taxable Person, i.e. fiscally opaque are covered in Section [6.2](#).

11.3.6. Transfer of the Unincorporated Partnership's Business

A partnership may transfer its entire Business or an independent part of its Business to a third party, and in consideration can receive cash or shares in a juridical person. Generally, such transfers could give rise to taxable gains or losses in the hands of the partners in accordance with their distributive share, unless Business Restructuring Relief applies.¹³²

Example 24: Partners transfer independent part of Business

Mr A and Mr B are partners in a fiscally transparent Unincorporated Partnership with equal distributive shares. Both partners are Taxable Persons as the distributive share of income (i.e. Turnover) from the Unincorporated Partnership for each partner exceeds AED 1 million.¹³³ Their Tax Period ends on 31 December 2025.

The partnership is in the Business of manufacturing cleaning products for (a) industrial use and (b) home use. As part of its forward-looking Business strategy, the partners decide to focus on the industrial use cleaning products Business. On 1 January 2026, the partners dispose of the home use cleaning products Business to Company Z, an independent third party. This is in exchange for shares in Company Z (allocated to them in line with their existing distributive shares) which are recorded at the net book value of AED 30 million consistent with the conditions for Business Restructuring Relief.¹³⁴ The Market Value at that time was AED 35 million.

By virtue of Company Z and Mr A and Mr B being Taxable Persons, the transfer will qualify for Business Restructuring Relief as the transfer is in exchange for ownership

¹³¹ Article 16(8) of the Corporate Tax Law.

¹³² Article 27 of the Corporate Tax Law.

¹³³ Cabinet Decision 49 of 2023.

¹³⁴ Article 27 of the Corporate Tax Law.



interests, assuming the other conditions for Business Restructuring Relief are met. As a result, no gain or loss arises on this transfer while determining the Taxable Income of Mr A and Mr B. The Market Value is irrelevant in this scenario.

Variation: Company Z pays the Market Value in cash to the partners.

In this case, the transfer is not in exchange for ownership interests (for example shares) and so it does not satisfy the conditions for Business Restructuring Relief. As a result, the gain or loss arising is subject to Corporate Tax in the hands of the partners.

11.4. Treatment of income or expenditure for a fiscally transparent Unincorporated Partnership after a partner leaves or retires

Once a partner leaves or retires from an Unincorporated Partnership, the partner ceases to carry on the Business and hold their distributive share in the Unincorporated Partnership, even though the Business may be continued by other partners. A partner who leaves, loses the right to their distributive share in the Unincorporated Partnership that arises after they exit the partnership Business.

There could be a situation that items of income or expenditure relating to the partnership's Business, at the time of partner's exit, are subsequently materialised at a different value. For example, a receivable previously written off is recovered, or an unanticipated expenditure (for example due to customer warranties) is payable after a partner leaves or retires.

In the case of a fiscally transparent Unincorporated Partnership, where the partners are treated as Taxable Persons, the treatment of any post-departure income or expenditure would be dealt with for Corporate Tax purposes in the Tax Period in which it is required to be accounted for by the partner, depending on the accounting method adopted by such partner. A partner that leaves or retires from the partnership Business is required to account for (on an accrual or cash basis) only such income and expenditure that relates to the Tax Period (or part thereof) when they were a partner in the fiscally transparent Unincorporated Partnership. The leaving or retiring partner will not be subject to Corporate Tax in relation to any income or expenditure that relates to a period after they cease to be a partner in the Unincorporated Partnership.

Thus, if the profit for the exiting partner's final period was adjusted, they would need to reflect that in their Tax Return. However, if the income or expense were recorded in a subsequent period, it would be reflected only in the remaining partners' Tax Returns, not the partner who had left in an earlier period. This principle is however subject to the commercial arrangement mutually agreed between the partners at the time of leaving or at the inception (i.e. in partnership deed/agreement).



In the case of a fiscally opaque Unincorporated Partnership, the partnership is treated as a Taxable Person that is subject to Corporate Tax in relation to the partnership Business. Any income or expenditure arising after a partner leaves or retires from the Business will be taken into account at the partnership level as Corporate Tax is paid at the partnership level. Hence, the above discussion is not applicable in case of a fiscally opaque Unincorporated Partnership.

Example 25: Partner leaves a fiscally transparent Unincorporated Partnership where different methods of accounting are followed by the partners

Company A, Company B and Company C are partners in a fiscally transparent Unincorporated Partnership with a distributive share of 45%, 45% and 10% in the partnership, respectively.

All partners follow the Gregorian calendar year as their Tax Period. Company A and Company B follow the Accrual Basis of Accounting. Company C follows the Cash Basis of Accounting (as its Turnover does not exceed AED 3 million but it has not elected for Small Business Relief).

For the 2024 Tax Period:

On 1 January 2024, the fiscally transparent Unincorporated Partnership is awarded a project by Company U lasting 12 months and worth AED 3 million (Revenue). Payment from Company U for executing the project is not received by the partners or the partnership during the 2024 Tax Period. Income from other contracts of AED 17 million is received during the year. The partners incur expenditure of AED 16 million in the year.

Company C exits the partnership on 31 December 2024. Company A and Company B decide to continue the partnership Business with an equal distributive share after the exit of Company C.

At the time of Company C's exit, it is mutually and commercially agreed between all the partners that no payment will be made to Company C even if any payment is received from Company U in the future. The entire payment from Company U will be retained by Company A and B in the partnership.

The distributive share in the income and expenditure of the partnership for the 2024 Tax Period, for each partner, is as follows:



(Amounts in AED)

Particulars	Company A	Company B	Company C
Income of the partnership	9,000,000	9,000,000	2,000,000
Less: expenditure of the partnership	(7,200,000)	(7,200,000)	(1,600,000)
Net income from the partnership Business	1,800,000	1,800,000	400,000

The treatment of the income and expenditure for each partner is as follows:

- Company A and B will include their share of income and expenditure (i.e. net income of AED 1,800,000 each) from the partnership Business on an accrual basis when calculating their Taxable Income for the 2024 Tax Period. This includes the expected income from Company U even though it was not received during the period.
- As Company C follows the Cash Basis of Accounting, it will include only its share of the income received, i.e. AED 1,700,000, in its Taxable Income for the 2024 Tax Period (being its share of total income receivable of AED 2,000,000 less its share of the unpaid amount from Company U of AED 300,000 [10% of AED 3,000,000]). Company C will include all of its share of expenditure (AED 1,600,000) when calculating its Taxable Income for the 2024 Tax Period as all of this expenditure was actually paid in the period.

For the 2025 Tax Period:

On 30 November 2025, Company U paid AED 3 million to the partnership for executing the project. Company A and Company B had already accounted for their share (at the time) of this income in the 2024 Tax Period on an accrual basis, being in total AED 2,700,000 (45% each). Accordingly, Company A and Company B will be required to include the excess amount that they have become entitled to due to Company C's exit in their 2025 Taxable Income, being AED 300,000 (AED 150,000 each given the distributive share is now 50:50).

As agreed between the partners, Company C will not be entitled to receive any of this income. In the absence of any receipt of the income by Company C in the 2025 Tax Period, Company C does not need to include it in its Taxable Income. Accordingly, the income attributable to Company C does not escape taxation.

Variation: If it is mutually and commercially agreed between all the partners that Company C will receive its erstwhile distributive share of the income of AED 3,000,000 whenever received from Company U, then Company C will be required to include that amount (AED 300,000) in its Taxable Income in the year of receipt.



11.4.1. Treatment of Corporate Tax Payable after a partner leaves or retires from an Unincorporated Partnership

In the case of a fiscally transparent Unincorporated Partnership, Corporate Tax is not paid at the level of the Unincorporated Partnership. Instead, the partners are subject to Corporate Tax individually on their respective distributive share of assets, liabilities, income and expenditure. Hence, this discussion is not applicable in the case of a fiscally transparent Unincorporated Partnership.

In the case of a fiscally opaque Unincorporated Partnership, the partnership is treated as a Taxable Person. However, each partner remains jointly and severally liable for the Corporate Tax Payable by the Unincorporated Partnership for those Tax Periods when they are partners in the Unincorporated Partnership.¹³⁵

In terms of calculating the profits or losses of a fiscally opaque Unincorporated Partnership, the profits or losses earned before a partner leaves or retires will be attributable to the former set of partners following the former distributive share, while any profits or losses earned after the change will be attributable to the remaining partners according to the new distributive share. The exiting partner shall continue to remain jointly and severally liable for the Corporate Tax Payable by the Unincorporated Partnership for those Tax Periods when they were a partner in the Unincorporated Partnership.¹³⁶

Example 26: Corporate Tax Payable after a partner leaves or retires from an Unincorporated Partnership

Company X, Company Y and Company Z are partners in a fiscally opaque Unincorporated Partnership with an equal distributive share. The partnership follows the Gregorian calendar year as its Tax Period.

On 30 June 2026, i.e. in the middle of the 2026 Gregorian calendar year, Company X exits the partnership. The Unincorporated Partnership settles Company X's account as on that date.

As part of the cessation and computation of full and final settlement to Company X, the Unincorporated Partnership determines the Taxable Income for the six months (i.e. 1 January 2026 to 30 June 2026) as follows:

¹³⁵ Article 16(9)(b) of the Corporate Tax Law.

¹³⁶ Article 16(9)(b) of the Corporate Tax Law.



Particulars	Amounts in AED
Accounting Income	50,000,000
Add/Less: assuming no adjustment	-
Taxable Income subject to Corporate Tax	50,000,000

The Corporate Tax Payable on Taxable Income for the above mentioned 6 months of the Tax Period is withheld while settling Company X's capital account following the Accrual Basis of Accounting based on its distributive share. Thereafter, Company Y and Company Z continue the Business of the Unincorporated Partnership for the rest of the Tax Period.

Due to unforeseeable circumstances Company Y and Company Z fail to settle the Corporate Tax for the Tax Period by the due date of 30 September 2027 (due to Company Y and Company Z becoming bankrupt, for instance).

In such a case, Company X can be held liable to pay the Corporate Tax relating to the time it was a partner, i.e. up to 30 June 2026. This is regardless of the fact that its share of the estimated Corporate Tax Payable was already withheld by the remaining partners. For the remaining six months of the Tax Period, after Company X left the partnership, it will not be liable for the Corporate Tax Payable of the Unincorporated Partnership.



12. Transactions with Related Parties and Connected Persons

The Corporate Tax Law contains transfer pricing rules to ensure that the value of a transaction is not distorted by the relationship between the parties involved. To achieve this outcome, the Corporate Tax Law prescribes the application of the internationally recognised arm's length standard to transactions and arrangements between Related Parties.¹³⁷

Related Parties (which includes partners in the same Unincorporated Partnership) and Control for the purposes of the Corporate Tax Law are defined in Article 35 of the Corporate Tax Law. These concepts are relevant to the application of various provisions of the Corporate Tax Law, including the transfer pricing rules.¹³⁸

In the context of Unincorporated Partnerships, partners in an Unincorporated Partnership shall be treated as Connected Persons and any payment between such partners should be in accordance with the arm's length standard. The same applies to any Related Party of a partner in an Unincorporated Partnership.¹³⁹ In an Unincorporated Partnership, all transactions with and between the partners should be in accordance with the arm's length standard.

Further, a payment or benefit provided by a Taxable Person to its Connected Person is deductible only to the extent it is at Market Value and incurred wholly and exclusively for the purpose of the Taxable Person's Business.¹⁴⁰

Example 27: Transactions with Connected Persons in case of an Unincorporated Partnership

Company A (a company incorporated in the UAE) and Company B (a company incorporated in a UAE Free Zone) are partners in a fiscally transparent Unincorporated Partnership, with a distributive share of 90% and 10%, respectively.

A Related Party of Company A sells goods to the Unincorporated Partnership at a price higher than the Market Value by AED 2 million. The income of the Unincorporated Partnership for the relevant Tax Period is AED 10 million (before any adjustment).

¹³⁷ Article 34 of the Corporate Tax Law.

¹³⁸ Article 34 of the Corporate Tax Law.

¹³⁹ Article 36(4) of the Corporate Tax Law.

¹⁴⁰ Article 36(1) of the Corporate Tax Law.



In accordance with the arm's length standard, the income needs to be increased by AED 2 million to reflect the non-Market Value element of the cost of goods (i.e. overstatement of the cost of goods).

Considering the distributive share of Company A and Company B in the fiscally transparent Unincorporated Partnership, the income before and after the adjustment in relation to the Market Value of the goods sold is stated below:

Particulars	Income prior to adjustment	Income after adjustment
	Amounts in AED million	
Distributive share of income for Company A (90% of AED 10 million/AED 12 million)	9,000,000	10,800,000
Distributive share of income for Company B (10% of AED 10 million/AED 12 million)	1,000,000	1,200,000
Total income of the fiscally transparent Unincorporated Partnership	10,000,000	12,000,000



13. General Anti-abuse Rule

The General Anti-abuse Rule allows the FTA to counteract or adjust any transaction or arrangement (or any part thereof) which lacks commercial substance or does not reflect economic reality and is undertaken for the main purpose of, or where one of the main purposes is, obtaining a Corporate Tax advantage that is not consistent with the intention of the Corporate Tax Law.¹⁴¹

Thus, if a partnership and/or its partner(s) enter into a transaction or arrangement with the main purpose or one of the main purposes of obtaining a Corporate Tax advantage, the FTA can counteract the tax advantage by disallowing any exemption, deduction, relief, reallocating income from one person to another, recharacterising the nature of any payment or otherwise disregarding the effect of the relevant tax provisions.

For example, if a partnership is established or subsequent changes are made to obtain a Corporate Tax advantage, this could be subject to adjustment under the General Anti-abuse Rule and the applicable penalties.

¹⁴¹ Article 50 of the Corporate Tax Law.



14. Updates and Amendments

Date of amendment	Amendments made
March 2024	<ul style="list-style-type: none">• First version