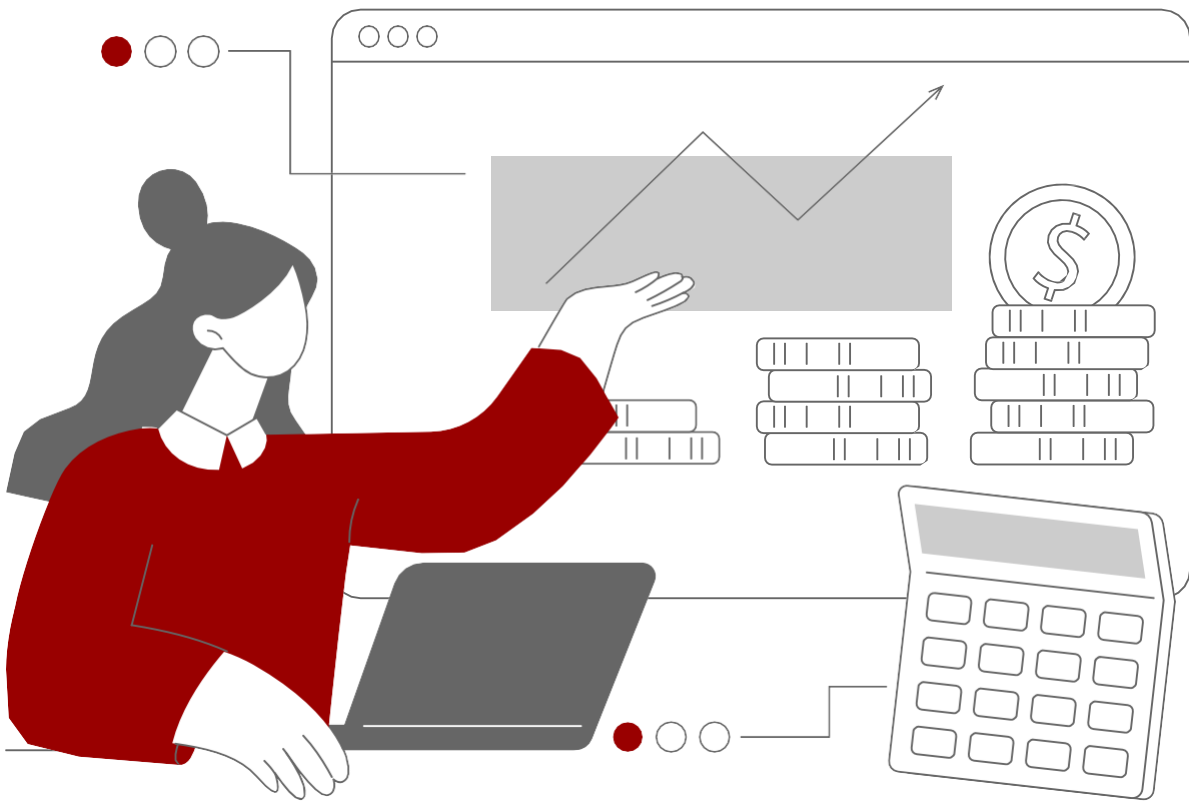


# Synopsis of UAE Corporate Tax Guide on Taxation of Natural Person





# A. Overview

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On November 25, 2023, the UAE Federal Tax Authority released a Corporate Tax guide outlining the taxation of Natural Persons. This guide provides an overview into the timing of Corporate Tax implications on the income of Natural Persons, computation of Corporate Tax and compliance of Corporate Tax regulations required by Natural Person. It also provides an overview of interactions with other businesses by Natural Person. This guide can be perused in conjunction with Cabinet Decision No. 49 of 2023.

This document summarizes the essential points derived from the guide.



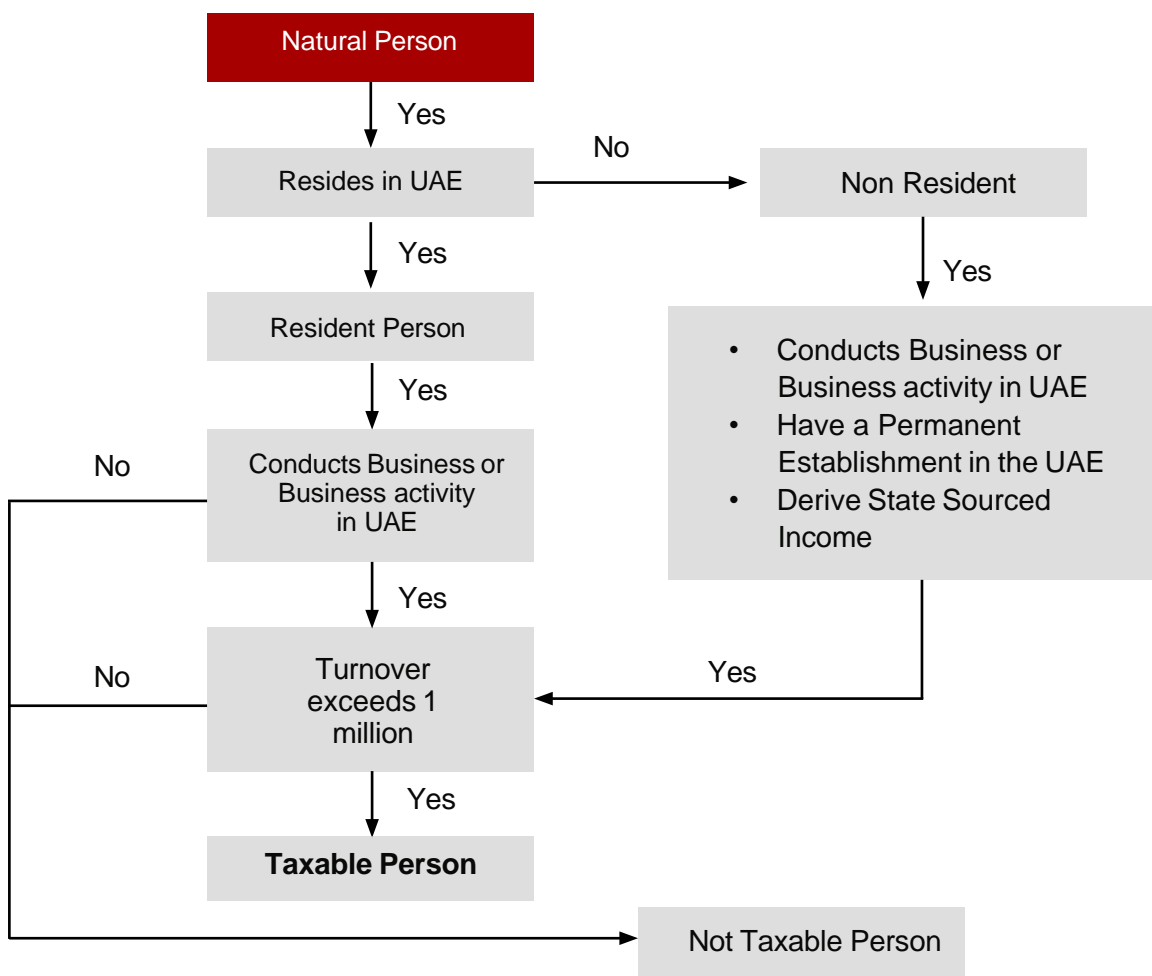
# B. Summary of Taxation of Natural Person Guide



## 1. Who is Natural Person?

The term Natural Person takes its ordinary meaning and refers to a living human person of any age, whether resident in the UAE or elsewhere. For minors or incapacitated individuals, the Corporate Tax obligations shall be fulfilled by their Legal Representative.

### 1.1 Natural Person - Residency and Taxability





## 2. Non-taxable Income for Natural Persons:

For a Natural Person, income from the following categories is not considered as arising from a Business or Business Activity and is disregarded when determining Turnover. Therefore such income is not subject to Corporate Tax, regardless of the amount.

### 2.1 Wage:

Wage, including any compensation or benefit received, whether in cash or in-kind, by any employee from their employer is not subject to Corporate Tax. Thus, a salary or other form of remuneration received by a Natural Person as an employee from their employer would not fall within the scope of Corporate Tax.

A Natural Person appointed as a director may receive fees and other similar payments for carrying out this role, either in the course of their employment or as an independent party appointed to a board of directors. Generally, director fees will not be considered as a Business or Business Activity, and therefore would not be subject to Corporate Tax.

### 2.2 Personal Investment Income:

Personal Investment Income derived by Natural Persons is exempt from Corporate Tax when conducted for personal accounts and not considered a commercial business under the Commercial Transactions Law.

The exemption applies if the activity is not conducted through or required to have a license. The various types such as industrial, commercial, crafts, tourism, agricultural, professional, or freelance licenses issued by local governments.

The key criteria are that it must be a non-commercial activity conducted on the individual's personal account without the need for a license as stipulated by the law.

### 2.3 Real Estate Investment Income:

Real Estate Investment Income is not subject to Corporate Tax when derived by Natural Persons if it is related, directly or indirectly, to the selling, leasing, sub-leasing, and renting of land or real estate property in the UAE that is not through a license nor requiring a license from a Licensing Authority.

*As per the FAQ No. 38 issued by the ministry if a Natural Person owns several commercial properties in their name, generating rental income above AED 1 million will not be subject to Corporate Tax provided it is not conducted or required to be conducted through a license.*



## 3. Business or Business Activities that are subject to Corporate Tax:

Business or Business Activities conducted by a Natural Person in the UAE are subject to Corporate Tax if the total Turnover exceeds AED 1 million within a Gregorian calendar year.

### 3.1 Business is defined as

- any activity conducted regularly, on an ongoing and independent basis.
- examples of activities constituting a Business: “industrial, commercial, agricultural, vocational, professional, service or excavation activities”.
- It includes any other activity related to the use of tangible or intangible properties that constitutes a Business.
- Short-term activities are also within the scope of business activities; however, ongoing basis will be evaluated on a case-by-case basis.

### 3.2 The term Turnover means

- The gross amount of income derived during a Gregorian calendar year before any costs are deducted measured on accrual basis unless the Natural Person has opted for cash basis of accounting.
- It may include “in-kind” payments which are valued at Market Value
- It does not include income derived from Wage, Personal Investment Income and Real Estate Investment income.
- It includes turnover derived within UAE and outside UAE in relation to the business activities conducted by Natural person by a resident Natural Person.
- A Non-Resident Natural Person’s taxable income includes only the turnover derived from business activities conducted in the UAE.

For determining whether the income earned outside UAE is in relation to the Business activities following elements shall be relevant:

- whether persons who contributed to producing or selling the goods or services are managed, working from or residents of the UAE,
- whether contracting or Business development related to selling the goods or providing the services was conducted from the UAE, or
- whether the assets that contributed to the production of the goods or rendering of the services are located in the UAE.



## 4. Treatment of Income earned by Natural Persons:

The treatment of income earned by Natural Persons (Individuals) with in a Gregorian calendar year under the UAE Corporate Tax regime is summarized hereunder:

Income	Taxability
<p>Wage and other employment income such as salary, remuneration, compensation and other benefits including bonus as an employee whether by Public or Private sector.</p> <p><b>(For Example:</b> Managerial Remuneration at arm's length price, director fee for attending board meetings, and other similar payments for carrying out the role.)</p>	<p>Not taxable as it does not fall within the scope of Corporate Tax.</p>
<p>Personal Investment Income derived from investments under Personal capacity.</p> <p><b>(For Example:</b> Investment in listed securities, Disposal of personal car, Portfolio income through UAE Based asset management company)</p>	<p>Corporate Tax not applicable provided the individual is not required to obtain a license or permit to do the activity nor considered as a commercial business in accordance with the Commercial Transactions Law (Federal Decree-Law No. 50 of 2022) and activity is conducted on person's personal account.</p>
<p>Dividends, capital gains and other income earned from owning shares or other securities in their personal capacity</p>	<p>Corporate Tax not applicable.</p>
<p>Real Estate Investment Income</p> <p><b>(For Example:</b> Selling of residential property, Leasing, Subleasing, Rental receipts)</p>	<p>Corporate Tax is not applicable provided the individual is not required to obtain a license or permit to do the activity.</p>
<p>Freelancing income (Self-employed)</p>	<p>Corporate Tax is applicable if the total income derived from such activities (that requires license) exceeds AED 1,000,000/-.</p>
<p>Income from social media (Influencer)</p>	<p>Corporate Tax is applicable if the total income derived from such activities exceeds AED 1,000,000/-</p>

Income	Taxability
<p>State sourced income derived by Non-resident Person from:</p> <ul style="list-style-type: none"> <li>• UAE Resident person</li> <li>• UAE Permanent Establishment of a Non-Resident Person</li> <li>• Activities performed, assets located, capital invested, rights used, or services performed or benefitted from in the UAE.</li> </ul> <p><b>(For Example:</b> Income from sale of goods or services rendered in UAE, Income from movable or immovable property in UAE)</p>	<p>Corporate Tax is applicable if total income derived exceeds AED 1,000,000/-</p> <p>Certain State Sourced Income, derived by Natural Person, that is not attributable to a Permanent Establishment, may be subject to Withholding Tax. The current Withholding Tax rate is 0%.</p>
<p>Income from Sole proprietorship where Natural Person and proprietorship are same because of their direct relationship, control and their unlimited liability for debts.</p>	<p>Corporate Tax is applicable if total income derived in the hands of proprietor exceeds AED 1,000,000/- from such Business or Business Activities.</p>
<p>Income from Unincorporated Partnership which has not applied for treating the Partnership as separate taxable person</p>	<p>Corporate Tax is applicable if total income derived in the hands of partners exceeds AED 1,000,000/- from such Business or Business activities.</p>
<p>Income derived through Family Foundation which is for the purpose of holding and managing personal assets and investments etc. and has made an application to be treated as Unincorporated Partnership.</p> <p><b>(For Example:</b> Contractual trust, Private trust company, foundation.)</p>	<p>Corporate Tax is applicable if total income derived in the hands of the beneficiaries exceeds AED 1,000,000/-</p>

### **Small Business Relief and Natural Persons:**

It is possible for a Natural Person to elect for Small Business Relief subject to fulfilment of conditions prescribed by the Law.



## 5. Corporate tax calculation:

### 5.1 Interest Deduction

The General Interest Deduction Limitation Rule does not apply, however, the Interest expenditure should be incurred wholly and exclusively for the purposes of the Natural Person's Business, and meets the arm's length principle.

### 5.2 Expenditure Deductibility

Expenditure incurred by a Natural Person wholly and exclusively for the purposes of his or her Business that is not capital in nature shall be deductible in the Tax Period in which it is incurred.

### 5.3 Non-Deductible Expenditure

Specific disallowance as per Article 33 of the Corporate Tax Law applies to Natural Person as well. This includes a specific disallowance for amounts withdrawn from a Business by a Natural Person. (**For example:** Amount withdrawn by Natural Person from their sole proprietorship business)

### 5.4 Related party transactions

The transactions of a Natural Person with Related Parties are required to follow the arm's length principle for the purposes of Corporate Tax.

#### 5.4.1 Related Parties for a Natural Person:

##### **With another Natural Person:**

Two or more Natural Persons are Related Parties if their relationship is within the fourth degree of kinship or affiliation, including by way of adoption or guardianship.

##### **With Juridical person:**

A Natural Person's Related Party relationships with juridical persons are identified based on ownership interest of 50% or more and Controlling interest of 50% or more directly or indirectly alone or together with its related parties.

##### **Unincorporated Partnership:**

Partners in Unincorporated Partnership are treated as Related Parties and Connected Persons.

##### **Trusts and foundations:**

A Person who is the trustee, founder, settlor or beneficiary of a trust or foundation will be considered Related Parties of the trust or foundation and its Related Parties.





## 6. Compliance Requirement by Natural Persons:

### 6.1 Registration / Deregistration under Corporate Tax

- Natural Persons conducting Businesses or Business Activities in the UAE that are subject to Corporate Tax are only required to register for Corporate Tax purposes once the total Turnover derived exceeds AED 1 million within a Gregorian calendar year.
- In the case of Unincorporated Partnership that is not treated as taxable person in its own right then the partners need to assess whether they have to register.
- A Natural Person has only one Tax Registration Number for all their Businesses or Business Activities
- Natural Person is not allowed to deregister after registration even if the turnover does not exceed AED 1 million.
- Deregistration is only when the Natural Person ceases to conduct the Businesses or Business Activities whether by dissolution or liquidation or otherwise. Application shall be made with 3 months of cessation.

*\* Upon registration as a Taxable Person, Natural Persons are required to adhere to all relevant regulations applicable to juridical persons like registration, preparation of Financial statements as per IFRS, Audit, tax return filing and payment of Corporate Tax.*

### 6.2 Accounting Standards and Financial Statements

- A Natural Person that is a Taxable Person shall prepare standalone Financial Statements in accordance with International Financial Reporting Standards (“IFRS”). However, where their Turnover does not exceed AED 50 million, they may apply the “IFRS for SMEs”.
- Where Natural Persons derive Turnover exceeding AED 50 million, they must prepare and maintain Audited Financial Statements for the relevant Tax Period

### 6.3 Tax Return

- A Natural Person that is a Taxable Person must file a Corporate Tax Return to the FTA no later than 9 months from the end of the relevant Tax Period.
- Natural persons should submit a single Tax Return for all their Businesses and Business Activities subject to Corporate Tax.
- If the turnover of the registered Natural Person falls below the threshold of AED 1 Million in the subsequent Tax Year, the Taxable Person should file NIL Return.



## C. Glossary

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- **Legal Representative:** The guardian or custodian of an incapacitated person or minor, or the bankruptcy trustee appointed by the court for a company that is in bankruptcy, or any other Person legally appointed to represent another Person.
- **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.
- **License:** 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.
- **Personal Investment:** Investment activity that a Natural Person conducts for their personal account that is neither conducted through a License or requiring a License from a Licensing Authority in the UAE, nor considered as a commercial business in accordance with the Federal Decree-Law No. 50 of 2022 issuing the Commercial Transactions 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 license from a Licensing Authority.
- **Revenue:** The gross amount of income derived during a Tax Period.
- **Turnover:** The gross amount of income derived during a Gregorian calendar year.
- **Gregorian calendar year:** 1st January to 31st December
- **FTA:** Federal Tax Authority

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  - Country by Country Reporting [CbCR]
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  - Review of International Transaction
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  - Tax Residency Certificate
  - Ultimate Beneficial Owner Regulation [UBO]

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  - VAT Return Filing & Refund
  - Registration/De-registration
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- Company Formation
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  - Free Zone
  - Offshore
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- Company Liquidation
- Offshore Registered Agent –JAFZA
- PRO Service



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