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UAE Corporate Tax:
Determination of Taxable Income Guide (CTGDT-1)Issued in July 2024

Key Takeaways –
Deductible / Non-deductible Expenses

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Introduction

Federal Tax Authority has released a Guide on Determination of Taxable Income in July 2024. This guide amongst other aspects provides general guidance for determining taxable income for calculation of tax payable.

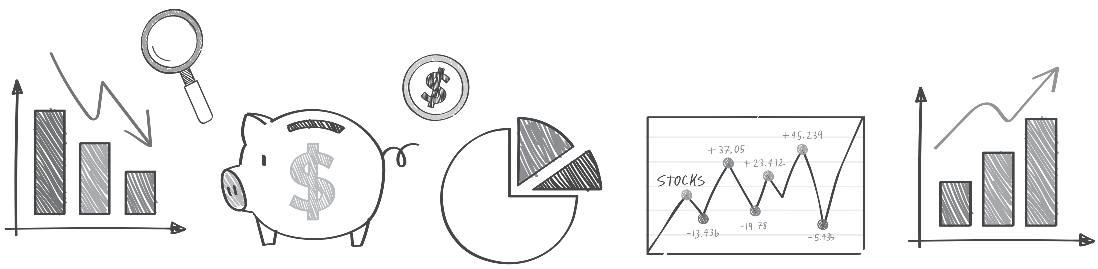
This publication summarizes specific aspects of Deductible and Non-deductible expenditure, which needs to be considered at the time of computation of taxable income.

Determination of Taxable Income Guide - Key Takeaways

No.	Expense types	Key Takeaways
1.	**General Condition to claim deduction for expenditure**	• Must be incurred wholly and exclusively for the business purposes (not for exempt business activities). • Must not be capital in nature. • Must be **incurred** in the Tax Period. • Arms' Length principle should be satisfied on all transaction with related party or connected person.
2.	**Expenses to earn exempt income**	• Not Deductible
3.	**Capital Expenditure**	• Low value capital asset can be expensed based on accounting policy. • Where non-deductible expenses are capitalized, any depreciation associated with these capitalized expenses will not be deductible for CT purposes. (eg. Fines or commission to RP over Arm's length capitalized).
4.	**Expenditure Incurred for more than one purpose**	• Expenditure incurred for more than one purpose needs to be proportioned based on Fair and Reasonable basis. • Allocation Keys used to be for assigning expenses on fair and reasonable basis, considering cause and effect relationship. • The selected allocation key must be used consistently for each Tax Period. • If the expenditure cannot be apportioned on a fair and reasonable basis, it will not be allowed as a deduction for CT purposes.
5.	**Pre-Incorporation and Pre-Trading expenses**	• Pre-Incorporation expenses will be allowed in the first Tax Period if booked in the accounts and not claimed for tax deduction by another Taxable Person. • Pre- trading expenditure are allowed as an expenses in the tax period when it is incurred (pre-launch and pre-commercial phase expenses).

No.	Expense types	Key Takeaways
6.	**Provisions**	• Provisions created for legal or constructive obligation as per applicable IFRS is allowed as expenses. • Reversal of provision created will be taxable (even if created before first Tax Period). • Provisions created for non-deductible expenses (i.e., Bribes etc.) are not allowed as deductions.
7.	**Bad-debts, write-off and recovery**	• Bad-debt expense would be deductible expense. • Bad-debt provision in accordance with IFRS is a deductible expense. • Bad-debt recovery is taxable in the period in which it is recognised.
8.	**Employment related expenses**	• Employee cost are generally considered to be wholly and exclusively incurred for Business purposes, provided they are not excessive. • When paid to Related Party / Connected Person should meet ALP. • Benefits provided to employees for personal use are allowed as expenditure (such as car, medical insurance or flight allowance for spouse and children.)
9.	**Fines & Penalty**	• Fines and Penalties are not allowed as deduction(eg, traffic fines, VAT penalty etc.). • Amounts awarded as compensation for damages or breach of contract is allowed as deduction. • Provision for fines and penalties (other than contractual) shall not be allowed as deduction.
10.	**Entertainment Expenses**	• Entertainment expenditure usually serves to build relationships and promote the Business in a more informal or social setting. • Only 50% deduction allowed for entertainment expenses incurred for customers, suppliers, business partners and shareholders. • The following type of expenses are covered under entertainment: Meals, Accommodation, Transportation, Admission Fees, Facilities and equipment used in connection with entertainment, amusement or recreation.

No.	Expense types	Key Takeaways
10.	A. Entertainment for Employees	• Employee related expenditure are not considered as entertainment expenditure and are fully allowed. • Expenses incurred for an event which is private in nature is not allowed as deductible expenses (wedding). • Examples of allowable employee related entertainment expenditure are staff parties, off-site events/away-days (which may include spouses and children) or rewards for meeting performance targets.
10.	B. Incidental Expenses	• Any expense incurred which is incidental to a Business purpose **shall not be** considered as entertainment expenditure. • Food and refreshments in an office setting would generally be considered as incidental. • Example- A retailer provides complimentary refreshments to prospective customers is completely allowable expenditure.
10.	C. Commercial Hospitality	• If commercial hospitality is provided as part of Business or Business Activity, such expenditure would not be considered as entertainment expenditure. • Example: airline provides a washbag or in-flight entertainment, or where hotels provide packaged or mid-week promotions.
10.	D. Marketing and Advertising Expenditure	• Marketing expenditure, such as advertising, online promotion, attending trade shows or direct marketing campaigns are not considered as Entertainment expenditures • Business advertising its own products and sponsoring an event is allowable deduction but taking clients to sporting event or a hotel stay is not allowable.



No.	Expense types	Key Takeaways
11.	**Illicit Payments**	• No deduction is allowed for bribes or other illicit payments even if the expenditure is recorded as a cost under accounting principles.
12.	**Pension Fund**	• Contributions made to a private pension fund is allowed as deductible to the extent it is paid. • The pension contribution made shall be allowable only up to a limit of 15% of an employee's remuneration.
13.	**Connected Persons**	• Shareholders involved in the day-to-day operation of company should have a signed employment contract. • Salary and other benefits provided to a connected person should be at fair market value.
14.	**Input Value Added Tax**	• Irrecoverable Input Value Added Tax is allowed as a deduction as it represents a permanent cost to the Business, provided the underlying expenditure meets the general rules of deduction • Non-recoverable Input Value Added Tax on personal (non-Business) expenditure is not deductible.
15.	**Net Interest Expenditure**	• Interest income or Interest expenditure related to grandfathered debts (i.e. prior to 9 December 2022) are not considered. • Interest expense on trade payables and interest income on trade receivables are part of the Net Interest Expenditure calculation. • Calculation of Net Interest Expenditure and Adjusted EBITDA demonstrated in the Guide.
16.	**Tax Loss**	• Taxable person must first offset the Tax Loss against its own Total Income before such losses can be transferred to another Taxable Person and/or carried forward to subsequent Tax Periods.
17.	**Taxes paid**	• Local taxes that are not in the nature of CT, such as municipal and property taxes, will be tax deductible. • Tax under Emirate Law is not allowed as deduction.

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Disclaimer

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