Interest Deduction Limitation Rules

Corporate Tax Guide | CTGIDL1

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Contents

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.

Bank: A Person licensed in the UAE as a bank or finance institution or an equivalent licensed activity that allows the taking of deposits and the granting of credits as defined in the applicable legislation of the UAE.

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 of 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.

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

Exempt Person: A Person exempt from Corporate Tax under Article 4 of the Corporate Tax Law.

Extractive Business: The Business or Business Activity of exploring, extracting, removing, or otherwise producing and exploiting the Natural Resources of the UAE, or any interest therein as determined by the Minister**.**

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 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.

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.

Government Controlled Entity: Any juridical person, directly or indirectly wholly owned and controlled by a Government Entity, as specified in a decision issued by the Cabinet at the suggestion of the Minister.

Government Entity: The Federal Government, Local Governments, ministries, government departments, government agencies, authorities and public institutions of the Federal Government or Local Governments.

IFRS: International Financial Reporting Standards.

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

Immovable Property: Means any of the following:

a. Any area of land over which rights or interests or services can be created.
b. Any building, structure or engineering work attached to the land permanently or attached to the seabed.
c. Any fixture or equipment which makes up a permanent part of the land or is permanently attached to the building, structure or engineering work or attached to the seabed.

Insurance Provider: A Person licensed in the UAE as an insurance provider that accepts risks by entering into or carrying out contracts of insurance, in both the life and non-life sectors, including contracts of reinsurance and captive insurance, as defined in the applicable legislation of the UAE.

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.

Islamic Financial Instrument: A financial instrument which is in compliance with Sharia principles and is economically equivalent to any instrument provided for under Article 2(2) of Ministerial Decision No. 126 of 2023, or a combination thereof.

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-Extractive Natural Resource Business: The Business or Business Activity of separating, treating, refining, processing, storing, transporting, marketing or distributing the Natural Resources of the UAE.

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. 302 of 2024.

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 Investment Fund: Any entity whose principal activity is the issuing of investment interests to raise funds or pool investor funds or establish a joint investment fund with the aim of enabling the holder of such an investment interest to benefit from the profits or gains from the entity's acquisition, holding, management or disposal of investments, in accordance with the applicable legislation and when it meets the conditions set out in Article 10 of the Corporate Tax Law.

Qualifying Infrastructure Project: A project that meets the conditions of Article 14 of Ministerial Decision No. 126 of 2023.

Qualifying Infrastructure Project Person: A Resident Person that meets the conditions of Article 14(2) of Ministerial Decision No. 126 of 2023.

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.

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 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.

Transfer Pricing: Rules on setting of arm's length prices for Controlled Transactions, including but not limited to the provision or receipt of goods, services, loans and intangibles.

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

UAE: United Arab Emirates.

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 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. This Decree-Law together with its amendments is referred to as the "Corporate Tax Law".

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 deductibility of Interest expenditure while calculating the Taxable Income of a Taxable Person. The guide elaborates on the following aspects:

- meaning of Interest under the Corporate Tax Law,
- application of the General Interest Deduction Limitation Rule and Specific Interest Deduction Limitation Rule,
- carry forward and utilisation of disallowed Net Interest Expenditure, and
- interaction of the Interest limitation rules with other provisions of the UAE Corporate Tax Law.

2.3. Who should read this guide?

The guide should be read by any Taxable Person that conducts Business in the UAE and incurs Interest expenditure. This guide explains the deductibility of Interest expenditure while calculating the Taxable Income of a Taxable Person who is not part of a Tax Group[1]. It is intended to be read in conjunction with the Corporate Tax Law, the implementing decisions and other relevant guidance published by the FTA.

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.

[1] For information on the deductibility of Interest for Tax Groups see the Corporate Tax Guide on Tax Groups

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 deductibility of Interest. 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 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. 56 of 2023 on Determination of a Non-Resident Person’s Nexus in the State 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. 56 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. 126 of 2023 on the General Interest Deduction Limitation Rule 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. 126 of 2023", and
- 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".

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 Interest expenditure under 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. Meaning of Interest

3.1. Overview

Interest, a common Business expenditure, is generally allowed as a deduction while calculating a Taxable Person's Taxable Income for a Tax Period. However, the deductibility of interest for Corporate Tax purposes is not without limits. It includes interest income and interest expenditure that typically represents amounts paid for use of money or credit, and other associated costs. This is subject to various Corporate Tax provisions, applied in the following order:

1. General principles of deductibility of expenditure (Section 4.1),
2. Arm's Length Principle (Section 4.3),
3. Specific Interest Deduction Limitation Rule (Section 5), and
4. General Interest Deduction Limitation Rule (Section 6).

The purpose of the Specific Interest Deduction Limitation Rule and General Interest Deduction Limitation Rule (together referred as "Interest limitation rules") is to ensure that the tax deduction for Interest expenditure does not result in the erosion of the UAE's tax base and shifting of profits away from the UAE.

The General Interest Deduction Limitation Rule does not apply to certain categories of persons, including Banks, Insurance Providers and natural persons doing business in the UAE (see Section 7).

3.1.1. What is "Interest"?

The Corporate Tax Law defines the term "Interest" broadly to reflect the fact that there is considerable flexibility in how financing arrangements may be structured, which may be different from the interest recorded for accounting purposes following the applicable Accounting Standards (i.e. IFRS or IFRS for SMEs). Taxable Persons will, therefore, be required to identify what constitutes "Interest" based on the definition provided under the Corporate Tax Law[2] rather than what constitutes interest under IFRS (or IFRS for SMEs).

The definition of Interest under the Corporate Tax Law covers the following elements:

- any amount accrued or paid for the use of money or credit (see Section 3.2),
- discounts and premiums (see Section 3.3),
- profit paid in respect of an Islamic financial instrument (see Section 3.4),
- other payments economically equivalent to Interest (see Section 3.5), and

[2] Article 1 of the Corporate Tax Law read with Ministerial Decision No. 126 of 2023.

- any other amounts incurred in connection with the raising of finance (see Section 3.10).

Interest does not include repayments of the principal loan or debt amount.[3]

3.1.2. Timing of recognition

The recognition of income or expenditure for Corporate Tax purposes follows the accounting method adopted by the Business, which can be either the Accrual Basis of Accounting or the Cash Basis of Accounting.

Under the Accrual Basis of Accounting, income or expenditure is generally recognised when it is earned or incurred, regardless of when the payment is made.

In the case of a Cash Basis of Accounting (allowed only where Taxable Person's Revenue is below AED 3 million or by way of specific application the FTA)[4], income or expenditure is accounted only when the payment is actually made.

Any income or expenditure that is treated as Interest will adopt the accounting method followed by the Business, except for capitalised interest (see Section 3.7) only where Accrual Basis of Accounting is followed.

3.2. Amount accrued or paid for use of money or credit

Interest may be charged as a result of borrowing funds or receiving credit. It is the additional amount that a borrower pays to a lender on top of the repayment of principal (the underlying amount borrowed/owed).

Any amounts which are accrued or paid for the use of money or credit are economically equivalent to Interest, and will be considered to be Interest (see Section 3.5).

Example 1: Use of money

A company takes out a bank loan of AED 500,000 at an interest rate of 6% per annum to finance the expansion of its operations. The annual expense of AED 30,000 is the charge for the use of the money and is treated as Interest expenditure.

[3] Article 1 of the Corporate Tax Law.

[4] Article 20(5) of the Corporate Tax Law and Article 2 of Ministerial Decision 114 of 2023.

Example 2: Use of overdraft facility

A company uses an overdraft facility with an annual interest rate of 20% to make purchases. During the year, it utilises the overdraft facility to the extent of AED 2 million, and is charged AED 33,333 (AED 2 million * 20% / 12 months) per month for the use of the overdraft facility. That charge is treated as Interest expenditure.

3.3. Discounts and premiums

Discounts and premiums are treated as Interest when they are related to the borrowing of money or the issuance of debt instruments because they represent the cost of borrowing or return on lending.

When a bond or debt instrument is issued at a price lower than its face value, the difference between the issue price and the face value is known as a “discount”. This may occur where the bond pays no interest (zero coupon) or the interest rate is below the market rate. This discount (which may be amortised over the term of the debt instrument) is treated as Interest. For example, a company issues a bond with a face value of AED 10,000 at a price of AED 9,500. The discount of AED 500 (which may be amortised over the term of the debt instrument) is considered to be Interest income for the lender (the holder) and Interest expenditure for the borrower (the issuer).

When a bond or debt instrument is issued for more than its face value, the excess amount is referred to as a “premium”. This may occur where the bond pays a rate of Interest higher than the prevailing market rate. This premium (which may be amortised over the term of the debt instrument) is considered to represent the lender’s reward for the loan of money and is, therefore, treated as Interest.

For example, a bond with a face value of AED 10,000 is subscribed at a market price of AED 10,200. The issuer (the borrower) must pay back AED 10,000 to the holder (the lender) being the face value of the bond. For the holder (the lender), the AED 200 premium is typically amortised and recognised in the income statement over the term of the bond, which will be treated as Interest expenditure whereas for the issuer (the borrower), the AED 200 is amortised over the term of the bond as a reduction to its Interest expenditure (i.e. it is considered as Interest income).

Discounts provided as sales incentives or for early payment are not considered Interest, as they are not related to the financing or borrowing of money. Other examples of discounts and premium that are not considered to be Interest include:

- **Trade discounts:** reductions from the list price of goods or services offered by sellers, for instance to preferred customers.
- **Volume discounts:** offered to customers for purchasing in large quantities.

- **Sales promotions and rebates:** reductions in the selling price of goods or services as part of promotional campaigns or as retrospective discounts.
- **Premium or discount on issuance of equity instruments:** arising when equity instruments are issued at a price above or below their face value.
- **Loyalty Points or Rewards:** discounts or benefits given to reward customer loyalty.

3.4. Payments made in respect of Islamic Financial Instruments

Islamic Financial Instruments[5] are designed to facilitate financial transactions, while adhering to Sharia principles, which prohibit Interest. Common examples of Islamic financing structures used to offer sharia-compliant products are Mudarabah, Murabaha, Ijara, Sukuk, etc.

Such instruments typically contain an element (such as "profit" or "mark-up") that is considered to be economically equivalent to Interest, regardless of the classification and treatment of the element under IFRS (or IFRS for SMEs).[6]

An Islamic Financial Instrument (or a combination of arrangements that form part of the same Islamic Financial Instrument) that is classified as an ownership interest under the Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") is not considered to have an Interest element.

Accordingly, in order to determine how these Islamic Financial Instruments should be treated for Corporate Tax purposes, it is necessary to understand how these instruments have been treated as per IFRS. For example, if the instrument is recognised as a debt instrument in accordance with IFRS, the corresponding profit distribution should be considered as equivalent to Interest for the purposes of the Interest limitation rules. Conversely, if the instrument is not classified as a debt instrument under IFRS, there would be no Interest equivalent element. For example, a profit distribution in respect of an instrument that is recognised as a debt in accordance with IFRS, such profit distribution should be considered as equivalent to Interest for the purposes of the Interest limitation rules.

Below are examples of Islamic Financial Instruments and the corresponding Interest equivalent element (assuming they are classified as a debt instrument under IFRS).

- A **Mudarabah** is a contractual relationship executed between two parties, one supplying the capital and the other supplying the labour and skill as an agent or

[5] Article 1 of Ministerial Decision No. 126 of 2023.
[6] Article 1 of the Corporate Tax Law read with Articles 1 and 4 of Ministerial Decision No. 126 of 2023.

manager, for investment purposes. Each party is granted a ratio of any earnings, determined at the time of making the investment. Such earnings would be typically treated as Interest equivalent for Corporate Tax purposes.

- In a **Murabaha** cost-plus financing structure, a bank purchases an asset and sells it to the borrower at an agreed price (including an agreed upon mark-up) on a deferred payment basis. The payments (which consist of principal plus mark-up) are paid by the borrower in instalments or a lump sum on an agreed future date or dates. The mark-up charged by the bank may be considered as Interest for Corporate Tax purposes.

- **Ijara** or Islamic leasing, is a Shariah-compliant financial structure where the lessor (financier) leases an asset to the lessee (borrower) for a specified period in exchange for rental payments. The ownership of the asset remains with the lessor, who also bears the risks associated with ownership, such as maintenance and insurance. Generally, in asset-based financing, the ownership of the asset is eventually transferred to the lessee at the end of the lease term, often for a nominal or minimal payment. The rental payments made by the lessee to the lessor can be fixed or variable, often linked to a benchmark rate, allowing for flexibility in adjusting payments over time. The rental payments include both a profit and principal element. The profit element may be considered as akin to Interest for Corporate Tax purposes (after adjustment for implied maintenance charges for the asset (if any)).

- As an alternative to conventional bonds, investors in a **Sukuk** (for example, a typical Murabaha-based Sukuk) may receive periodic distributions of profits as per the agreed mark-up. The mark-up element is typically considered as akin to Interest. In other structures, instead of fixed distribution payments, investors may receive income from a “right of use” asset, which may be considered to be equivalent to an Interest-like element.

- Sukuk can also be issued under other Islamic structures such as **Ijara**. The specific structure and its terms need to be assessed to determine if there is an element that can be considered as akin to Interest for Corporate Tax purposes.

- In a **Istisna** the financer or investor (typically a Bank) enters into a contract to facilitate in the construction of an asset. They agree to deliver the asset at a future date for a pre-agreed price, which can be paid in instalments or as a lump sum upon completion that includes a margin or mark-up. The profit margin or mark-up included in the price may be considered as Interest for Corporate Tax purposes.

- A **Salam** contract is in the nature of a forward contract that includes goods or products (typically agricultural products) where delivery is at a later date and with a pre-agreed mark-up. The profit margin or mark-up included in the price may be considered as Interest for Corporate Tax purposes.

3.5. Payments economically equivalent to Interest

The concept of "payments economically equivalent to Interest" encompasses a wide array of financial charges that, although not explicitly labelled as Interest, fulfil a similar economic role. These payments may occur within transactions or arrangements where the term 'Interest' has not been used but the economic substance of the transactions or arrangements are similar to a loan on which Interest should be charged.

When determining whether a payment is economically equivalent to Interest, it is essential to consider whether the economic substance provides financial returns that are akin to debt or equity. This substance may not necessarily follow the treatment under applicable Accounting Standards.

3.5.1. Performing and non-performing debt instruments[7]

A debt instrument is a contract where a person (the lender) provides money (the principal amount) to another person (the borrower) for a period of time, and the borrower agrees to pay back the principal amount along with interest to the lender at specified intervals or upon maturity.

A performing debt instrument is where the borrower is making payments of interest and/or repayments of the principal amount on the previously agreed dates. The interest that is paid is treated as Interest expenditure for the borrower and Interest income for the lender.

On the other hand, a non-performing debt instrument is where the borrower is not making the previously agreed payments. For the borrower, any penalties or higher interest charges resulting from the default is treated as Interest expenditure as well as the "standard" interest that it owes. For the lender, any amount receivable from the borrower that is not in respect of a repayment of the principal amount, is treated as Interest income.

A provision or write-off amount in respect of a loan is not considered to be Interest but depending on the accounting treatment, the amount could be a deductible expense for the lender (who has made a loss on the loan) subject to general principles of deductibility and other provisions of the Corporate Tax Law. The borrower (who no longer has a loan liability) would have corresponding Taxable Income where the liability (loan) is written back.

[7] Article 2(2)(a) of Ministerial Decision No. 126 of 2023.

3.5.2. Interest held in collective investment schemes that primarily invest in cash and cash equivalents[8]

A collective investment scheme is an arrangement that enables investors to effectively "pool" their respective assets within a fund scheme and typically have these professionally managed.

Collective investment schemes that invest "primarily" in cash and cash equivalents shall mean collective investment schemes investing more than 50% (fifty percent) of their portfolio in cash and cash equivalents. Whether or not a collective investment scheme primarily invests in cash and cash equivalents needs to be assessed on an ongoing basis.

Any returns from interests held in a collective investment scheme that does not primarily invest in cash and cash equivalents is not considered to be Interest but instead considered to be Dividends or other profit distributions.[9] However, where a collective investment scheme primarily invests in cash and cash equivalents, such as money markets or ultra short-term bonds, this is akin to lending money. For example, instead of directly providing a loan and receiving Interest income (which may be taxable), the lender could indirectly lend money via a collective investment scheme in order to receive a return that is a Dividend (which may be Exempt Income). To prevent this situation, where a Person invests in a collective investment scheme that primarily invests in cash and cash equivalents, any return receivable by the Person from that collective investment scheme is treated as Interest income.

Separate rules apply to a collective investment scheme that is a Qualifying Investment Fund – see the Corporate Tax Guide on Investment Funds and Investment Managers for more information.

Example 3: Receipts from collective investment schemes

Company A (incorporated and tax resident in the UAE) is a manufacturer but also invests in a collective investment scheme. The collective investment scheme has the following portfolio: 75% cash equivalent investments and 25% equity investments.

Company A's income and expenses during the calendar year 2025 include:

[8] Article 2(2)(b) of Ministerial Decision No. 126 of 2023.

[9] Article 1 of Ministerial Decision No. 302 of 2024.

- Income receivable from the collective investment scheme arising from its investment in short-dated government bonds: AED 25,000
- Income receivable from the collective investment scheme arising from its investment in equities: AED 30,000
- Interest payable on working capital borrowings: AED 150,000

All the income receivable from the collective investment scheme, regardless of its source, is considered to be Interest income because the collective investment scheme primarily invests in cash and cash equivalents. Therefore, the income receivable that is derived from the investment in equities is not considered to be a profit distribution / dividend income. It does not matter that the income receivable in respect of the investment in equities is more than the investment in respect of cash or cash equivalents in a given Tax Period.

Accordingly, for Tax Period 2025, AED 55,000 will be considered as part of Interest income while computing Net Interest Expenditure, and the same amount will be adjusted while computing adjusted EBITDA.

3.5.3. Collateralised asset-backed debt securities[10]

Collateralised asset-backed debt securities refer to financial products that are secured/backed by a pool of assets that generate cash flow, such as rental property.

Example 4: Mortgage-backed securities

Company B (incorporated and tax resident in the UAE) has invested in a mortgage-backed security whereby the underlying assets are a pool of residential mortgage loans. The borrowers (the homeowners) make repayments of the principal amount of the loans as well as interest payments.

As a holder of the mortgage-backed security, Company B received a total of AED 600,000 in its Tax Period for the year ended 31 December 2024. Of that amount, AED 350,000 was derived from repayments of the principal amount of the loans while AED 250,000 was in respect of interest payments made by the borrowers.

For the purposes of the Corporate Tax, Company B is treated as having Interest income of AED 250,000 in its 2024 Tax Period.

[10] Article 2(2)(c) of Ministerial Decision No. 126 of 2023.

3.5.4. Sale and subsequent repurchase agreement (repo)[11]

An agreement for the sale and subsequent re-purchase of the same security (or securities) is commonly known as a “repo”. Under a repo, the seller (borrower) sells a security to a buyer (lender) with a promise to buy back the same security at a future date for a predetermined, agreed-upon price.

The agreed repurchase price is typically higher than the original price, and the difference represents the cost of borrowing or financing. The element that represents the cost of borrowing or financing is treated as Interest income for the lender and Interest expense for the borrower.

Example 5: Tri-party repo

Company C (incorporated and tax resident in the UAE) specialises in developing software solutions. It needs short-term financing to manage its cash flows.

Company C owns government bonds worth AED 10 million. Via an agent, it enters into a repo agreement with a bank whereby Company C sells the government bonds to the bank for AED 9,500,000 and will repurchase the government bonds after 30 days for AED 9,531,667. The difference of AED 31,667 equates to an annual interest rate of 4%. In addition, Company C pays AED 20,000 to the agent.

Company C has Interest expenditure of AED 51,667. This is made up of the difference in price of AED 31,667 in respect of the repo agreement, and AED 20,000 which is an amount incurred in connection with the raising of finance (see Section 3.10).

3.5.5. Stock lending agreement[12]

Stock lending agreements, also known as securities lending agreements, are arrangements in which one party (the lender) temporarily transfers securities to another party (the borrower), typically in exchange for collateral, with the agreement that the borrower will return the equivalent securities at a later date. The borrower normally pays a fee to the lender for the use of the securities.

The fee paid by the borrower to the lender is compensation for the temporary use of the securities, akin to interest paid on a cash loan. Hence, the return or profit on a stock lending transaction is treated as Interest.

[11] Article 2(2)(d) of Ministerial Decision No. 126 of 2023.
[12] Article 2(2)(e) of Ministerial Decision No. 126 of 2023.

Example 6: Securities lending agreements, where Dividend is paid to the lender

Company D (incorporated and tax resident in the UAE) owns a portfolio of securities, including blue-chip equities.

Company X (incorporated and tax resident in the UAE), a trading company with fixed assets, expects that the market value of those blue-chip equities is going to fall. It, therefore, wants to short sell those equities, that is, sell the equities and then buy them back at a lower price, in order to make a profit.

Company D and Company X enter into an agreement whereby Company D lends to Company X its blue-chip equities which are worth AED 20 million at that time, for a period of 90 days. Under the agreement, Company D will charge Company X a fee of AED 98,630, which is the equivalent of an annualised lending fee of 2% (20,000,000 * 2% * 90/365). Since Company X intends to short sell the equities and there is no guarantee that it will be able to repurchase those equities to return to Company D, it places some fixed assets as collateral with Company D.

During the 90-day lending period, Company X, as the legal holder of the equities, receives a Dividend of AED 500,000 in respect of the equities. Under the agreement, Company X should forward any Dividend income to Company D (that is, the amount of Dividend received is not part of or factored into pricing of the arrangement).

At the end of the 90 days, Company X returns the equities it borrowed to Company D and Company D returns the collateral to Company X. In addition, Company X pays AED 598,630 to Company D. This amount is in respect of the lending fee of AED 98,630 and the AED 500,000 Dividend receipt.

For Company D (the lender), the fee of AED 98,630 is considered to be Interest income. Where the Dividend receipt of AED 500,000 retains its characteristic as Dividend income for Company D (following applicable accounting standards IFRS or IFRS for SMEs), this may be considered as Exempt Income (if all conditions are met) for Corporate Tax Purposes.

For Company X (the borrower), the fee of AED 98,630 is considered to be Interest expenditure. Although it received a Dividend of AED 500,000, this is not subject to tax for Company X because it passes this income to Company D. However, any profit or loss made from the short selling of the equities is subject to tax in accordance with the accounting treatment and the Corporate Tax rules.

Accordingly, the Dividend shall not be considered as a part of the Interest component.

Example 7: Securities lending agreements, where Dividend is retained by the borrower

Taking the same facts as in Example 6 above, except that Company X retains the Dividend of AED 500,000. In this case, Company X would be taxable on the Dividend income rather than Company D in accordance with the normal Corporate Tax rules. In certain situations, the Dividend may be exempt.[13]

3.5.6. Securitisation involving transfer of assets in exchange for securities[14]

Securitisation is the process of taking an asset or a group of assets and transforming those assets into an investable security. The process typically involves a special purpose vehicle (SPV) issuing securities to investors in exchange for cash. The SPV uses that cash to purchase assets that generate cash flows, for example, loans or receivables, such as mortgages, credit card receivables, auto (car) loans, or other types of debt. The cash flows typically include an interest component and, therefore, the economic substance of a securitisation transaction is similar to that of a loan arrangement between the investor and ultimate borrower.

The securities that are issued to the investors represent claims on the cash flows produced by the underlying assets, so although an investor may be receiving a return on a security, the investor is treated as receiving Interest income (rather than a Dividend), to the extent that the return is derived from a cash flow with an interest component. For the SPV that has issued the securities, the return on the underlying assets (excluding capital repayment) as well as the payment to investors represents compensation for the use of funds (a financing arrangement) and is treated as Interest expense.

Example 8: Securitisation of auto loans

A Bank wishes to dispose of a portfolio of auto (car) loans that it holds. The ultimate borrowers (who have purchased the cars) make monthly payments of interest as well as principal repayments.

[13] Article 22 and 23 of the Corporate Tax Law.
[14] Article 2(2)(f) of Ministerial Decision No. 126 of 2023.

The Bank sets up a special purpose vehicle (SPV). Neither the Bank nor the SPV is an Exempt Person for Corporate Tax purposes.

The SPV purchases the auto loans from Bank and then issues securities to investors. The monthly payments made by the ultimate borrowers are paid to the investors via the SPV.

The payments made to the investors that represent a return on their investment (payment of interest by the borrowers to the bank which is ultimately paid to the SPV) is considered to be Interest.

3.5.7. Hire purchase and finance leases[15]

There are different types of contracts whereby one party (the lessor) conveys an asset to another (the lessee) for a specified time, usually in return for a periodic payment.

Three such contracts are considered below: hire purchase, finance lease, and non-finance lease (also known as operating lease). Further, a "sale and leaseback" transaction could be either a finance lease or non-finance lease (see section 3.5.83.5.8), depending on the contractual terms.

Under a hire purchase contract, the lessee has the option to purchase the asset at the end of the contract term. Ownership of the asset is transferred from the lessor to the lessee after all payments have been made. Such payments include those related to purchasing the asset at the end of the hire purchase period.

Under a finance lease contract, legal title of the asset remains with the lessor but the lease term usually covers a significant portion of the asset's useful life. The lessee typically assumes most of the risks and rewards of ownership of the asset, and is, for example, responsible for maintenance, insurance and other costs associated with the asset. The finance lease payments are typically structured to cover the full cost of the asset plus a financing charge over the lease term, which is similar to a loan repayment schedule.

For both hire purchase and finance lease contracts, the lessee typically makes regular payments that cover both the cost of the leased asset and financing charge (associated with the lease liability) over the contract term. The lessee may be required under IFRS (or IFRS for SMEs) to record its "right of use" as an asset. If an asset is recorded, the financing charge is Interest expenditure.[16] If IFRS (or IFRS for SMEs)

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[15] Article 2(2)(g) and Article 5(1) of Ministerial Decision No. 126 of 2023.
[16] Article 5(1) of Ministerial Decision No. 126 of 2023.

requires the lessor to record a finance element in respect of the contract, that finance element is Interest income.

Example 9: Hire purchase of a car

Company E (incorporated and tax resident in the UAE) is a leasing company which has provided a car under hire purchase to Company G (incorporated and tax resident in the UAE) on 1 January 2025. Both companies follow the Gregorian calendar year as their Financial Year and Tax Period.

The detail of the hire purchase is given below:

- Cost of the car for Company G: AED 200,000
- Useful life: 4 years
- Hire purchase term: 4 years (with the option to purchase the car once all payments have been made)
- Annual lease payments: AED 53,717 due at the start of each year
- Implicit interest rate in the lease (as accounted for under IFRS): 5% per annum calculated as the opening balance minus annual lease payment, multiplied by 5%.

The amortisation of the lease is as follows:

Year	Opening balance	Payments	Implicit interest (as per IFRS)	Closing balance
1 – 2025	200,000	(53,717)	7,315	153,598
2 – 2026	153,598	(53,717)	4,994	104,875
3 – 2027	104,875	(53,717)	2,559	53,717
4 – 2028	53,717	(53,717)	0	0

The implicit interest component is treated as Interest for the relevant Tax Periods. For example, in the 2025 Tax Period, Company G should include AED 7,315 as Interest expenditure.

Any cancellation charges incurred due to the early termination of a hire purchase contract is not considered to be Interest.

3.5.8. Non-finance leases[17]

A non-finance lease, commonly referred to as an operating lease, is an arrangement where the lessor allows the lessee to use an asset for a specific period in exchange

[17] Article 5 of Ministerial Decision No. 126 of 2023.

for rental payments. Unlike a finance lease, an operating lease does not provide the lessee with all the benefits and risks typically associated with ownership of the asset.

A non-finance lease is still considered to have a finance element that represents the cost of funding, and that finance element is treated as Interest.[18]

For the lessee, where there is a right-of-use asset, there should be a finance element for accounting purposes, and this finance element is considered to be Interest.

For the lessor, there would be no finance element for accounting purposes, and therefore, the finance element, which is considered to be Interest, should be calculated as follows:[19]

$$\text{Finance element of non-finance lease payment} = \frac{\text{Lease payment * Total finance element of the lease}}{\text{Total cost of the lease}}$$

where:

- ***Lease payment*** *= specific instalment paid by the lessee to the lessor.*
- ***Total finance element*** *= the total financing cost over the lease term calculated as follows:*

$$\textit{Total finance element} = \textit{Total cost of the lease agreement} \; (-) \left\{ \textit{leased asset value at the start of the lease period} \; (-) \; \textit{expected depreciated value of the leased asset at the end of the lease period} \right\}$$

- ***Total cost of the lease*** *= the sum of all lease instalments over the lease term.*

Example 10: Non-Finance lease of machinery

Both Company K and Company L are incorporated and tax resident in the UAE. Company K provided machinery under a non-finance lease contract to Company L on 1 January 2025.

The details of the non-finance lease are as follows:

- Initial value of the machinery: AED 100,000
- Lease term: 5 years

[18] Article 5(2) of Ministerial Decision No. 126 of 2023.
[19] Article 5(3), 5(4) and 5(5) of Ministerial Decision No. 126 of 2023.

- Annual lease payment: AED 26,000 [Present value of lease: AED 118,195]
- Expected depreciated value of the machinery at the end of the lease period (residual value): AED 20,000
- Implicit interest rate (as accounted for under IFRS by lessee): 5% per annum calculated as the opening balance minus annual lease payment, multiplied by 5%.

The impact for 2025 Tax Period is as follows:

For Company L (lessee):

The lessee calculates implicit interest as AED 4,610 [(AED 118,195 less AED 26,000) * 5%] as per the relevant Accounting Standards followed by the Taxable Person which is considered as Interest.

For Company K (lessor):

If Company K accounts for this lease as a non-finance lease, with no implicit interest recorded. The calculation of Interest income is as under:

$$\text{Finance element of non-finance lease payment} = \frac{\text{Lease payment * Total finance element of the lease}}{\text{Total cost of the lease}}$$

Lease payment is AED 26,000.

The total finance element of the lease is the total cost of the lease less the difference between the initial value of the leased asset and the expected depreciated value at the end of the lease period.

Total cost of the lease is AED 26,000 * 5 = AED 130,000 (annual lease payment multiplied by the lease term)

Initial value of the leased asset = AED 100,000

Expected depreciated value at the end of the lease period = AED 20,000
Total finance element of the lease = 130,000 – (100,000 – 20,000) = AED 50,000

For the 2025 Tax Period, the finance element is therefore: 26,000 * (50,000 / 130,000) = AED 10,000. This represents Company K's annual Interest income in respect of the non-finance lease unless the terms of the lease change.[20]

3.5.9. Factoring and similar transactions[21]

A business may sell goods or services to customers on credit such that customers need only pay later. Those customers may be referred to as "debtors" and the amounts they owe may be referred to as "accounts receivable". The business might want or need immediate payment for cash flow or working capital purposes. Instead of taking out a loan to cover the period before the debtors make their payments, the business could sell the accounts receivable.

Factoring is where a business sells its accounts receivable to another party, known as a "factor", usually at a discount or "factoring fee". The factor then assumes the responsibility for collecting the payments from the business's customers (the debtors). There are two types of factoring arrangements:

- In a "recourse" factoring arrangement, the business retains the risk of non-payment by its debtors. So, if the debtor fails to pay, the factor can demand repayment from the seller. In this situation, the seller will suffer a bad debt expense, which may be a deductible expense (under the general principles of deductibility for Corporate Tax purposes).
- In a "non-recourse" factoring arrangement, the credit risk of non-payment is assumed by the factor. So, if the debtor fails to pay, the factor cannot seek repayment from the business. In this situation, the factor will suffer the bad debt expense, which may be deductible expense (under the general principles of deductibility for Corporate Tax purposes).

Given the differences in risks, the factoring fee is typically higher for non-recourse factoring compared to recourse factoring arrangements. Factoring is effectively a financing transaction and, therefore, the factoring fee, i.e. discount or any other Interest-like component, is treated as Interest at the time it is recognised under IFRS (or IFRS for SMEs).

[20] Article 5(5) of Ministerial Decision No. 126 of 2023.
[21] Article 2(2)(h) of Ministerial Decision No. 126 of 2023.

Example 11: Recourse factoring of accounts receivable

Company M (incorporated and tax resident in the UAE) develops residential and commercial properties in the UAE. It decides to use non-recourse factoring to improve its cash flow.

Company M sells its accounts receivable with a face value of AED 1 million to a factor in exchange for AED 960,000 in cash. The discount of 4%, that is, AED 40,000, is the cost of the factoring and treated as Interest expenditure for Company M.

3.6. Foreign exchange movements

Foreign exchange movement refers to the change in the value of one currency relative to another. These movements can result in gains or losses when a Business has assets, liabilities, income, or expenses denominated in a foreign currency.

Any foreign exchange gains or losses that are related to Interest or other payments economically equivalent to interest are considered to be Interest.[22] However, foreign exchange gains or losses arising from the principal portion of the loan (as distinct from interest on the loan) is not considered to be Interest. Similarly, foreign exchange gains and losses on other Business arrangements or transactions that are not related to Interest, for example, on the sale of finished products or the purchase of raw materials, should not be considered as Interest.

Example 12: Foreign exchange gain on Interest in relation to foreign currency loan

Company P (incorporated and tax resident in the UAE) has a Financial Year end of 30 June. It takes out a loan of 1 million Singapore Dollars (SGD) on 1 January 2024. The annual interest rate on the loan is 5%.

The interest of SGD 50,000 is due to be paid on 1 June 2024 but Company P actually pays the interest on 30 September 2024.

On 30 June 2024, the exchange rate is AED 2.60 : SGD 1
On 30 September 2024, the exchange rate is AED 2.65 : SGD 1

[22] Article 6 of Ministerial Decision No. 126 of 2023.

Thus, on 30 June 2024, an accrual is created for the interest payable of AED 130,000 (SGD 50,000 * 2.60) while on 30 September 2024, Company P actually pays interest of AED 132,500 (SGD 50,000 * 2.65).

The Interest expenditure for the Tax Period ending on 30 June 2024 is AED 130,000. For the Tax Period ending on 30 June 2025, the Interest expenditure includes the exchange movement of AED 2,500 (AED 132,500 less AED 130,000).

The foreign exchange movement on the principal portion of the loan is also taken into account for Corporate Tax purposes, but not as Interest income or expenditure.

3.7. Capitalised Interest

Generally, borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised based on IFRS (or IFRS for SMEs). Where capitalisation is appropriate, interest, processing fees and any other costs incurred in obtaining a loan to construct a long-term asset is added to the cost base of the asset rather than being immediately expensed in the income statement under IFRS (or IFRS for SMEs).

Capitalised interest is not deductible in the Tax Period in which it is incurred because it is capital in nature.[23] Instead, it should be treated as part of the cost of the related asset and, therefore, increases the cost base of that asset for depreciation purposes.

Income and expenditure attributable to the capitalised interest amount is subject to the General Interest Deduction Limitation Rule.[24] Any amount of income and expenditure attributable to capitalised interest in accordance with the Accounting Standards followed by the Taxable Person (i.e. IFRS or IFRS for SMEs) should be treated as part of Net Interest Expenditure in the Tax Period in which the capitalised interest is amortised over the useful life of the related asset, and not in the Tax Period in which the interest is incurred and capitalised.[25]

Accordingly, where the Taxable Person has capitalised interest in accordance with IFRS (or IFRS for SMEs), the Taxable Person must make the following adjustments when calculating Net Interest Expenditure and adjusted EBITDA:

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[23] Article 28(1) of the Corporate Tax Law read with Article 9(3) of Ministerial Decision 126.
[24] Article 7 of Ministerial Decision 126 of 2023.
[25] Article 9(3) of Ministerial Decision 126 of 2023.

a) Net Interest Expenditure - the capitalised interest should be spread on a straight-line basis over the useful life of the underlying asset, and the relevant portion for each Tax Period should be included in Net Interest Expenditure.
b) Adjusted EBITDA - to avoid double-counting, the amount of depreciation that is added back when calculating adjusted EBITDA should be reduced by the amount included in Net Interest Expenditure under (a) above because that amount is re-characterised from being depreciation to being Interest in that Tax Period.

If the related asset is disposed of in a Tax Period before the capitalised interest has been fully included in Net Interest Expenditure, the balance of the capitalised interest should be treated as part of Net Interest Expenditure in the Tax Period in which the asset is disposed of.

Example 13: Calculating Net Interest Expenditure and adjusted EBITDA where Interest is capitalised

Company Q (incorporated and tax resident in the UAE) follows the Gregorian calendar year as its Financial Year and Tax Period. It decided to build a machine in the UAE to manufacture drinks. To fund the machine, Company Q obtained a bank loan in its 2025 Tax Period of AED 10 million for a period of 1 year at an annual interest rate of 10% with an agreement that the principal will be repaid at the start of year 2. Company Q also paid the bank AED 200,000 in loan processing fees.

Based on the applicable Accounting Standards followed by Company Q, the following amounts were capitalised in the year ended 31 December 2025:

- AED 10 million spent on constructing the machine (assuming that the machine meets the asset recognition test as per IFRS or IFRS for SMEs),
- AED 1 million interest payable in 2025 (AED 10 million * 10%), and
- AED 200,000 loan processing fees.

The cost of the machine recorded in the Financial Statements at 31 December 2025 is AED 11.2 million. The machine was brought into use on 1 January 2026.

The useful life of the machine was estimated to be 10 years. However, Company Q decides to apply a rate of 15% applying the diminishing value approach for depreciation. Accordingly, during the 2026 Tax Period, a depreciation charge of AED 1,680,000 (15%*11.2 million) is recorded in the income statement.

During the 2026 Tax Period, AED 1.2 million (i.e. capitalised interest in Year 1 of AED 1 million and loan processing fees of AED 200,000) is amortised on a straight-line basis over the useful life of the asset of 10 years, being AED 120,000 per annum.

Accordingly, for Tax Period 2026, AED 120,000 is treated to be Interest while computing Net Interest Expenditure, and the same amount is excluded from depreciation while computing adjusted EBITDA.

Example 14: Capitalised Interest on an investment property valued at fair value (where election is made for realisation basis).

The facts are the same as for Example 13. However, during the 2026 Tax Period, the machine is fair valued at AED 12 million and the company records the fair value gain of AED 800,000 (AED 12 million less AED 11.2 million being the cost of the machine) in its income statement and elects for realisation basis.[26] This does not affect the calculation of Net Interest Expenditure and adjusted EBITDA.

The AED 1.2 million (the capitalised interest and loan processing fees) is still amortised on a straight-line basis over the useful life of the asset of 10 years, being AED 120,000 per annum. Accordingly, for the 2026 Tax Period, as per example 13 above, AED 120,000 is considered to be Interest when computing Net Interest Expenditure, and the same amount is excluded from depreciation while computing adjusted EBITDA.

Example 15: Disposal of asset

Continuing Example 13, Company Q sold the machine to a third party for AED 9 million at the end of year 4 (of its useful life of 10 years), in the 2029 Tax Period. The net book value on 31 December 2029 is AED 5,846,470.

Tax Period	Opening cost of asset (AED)	Depreciation @15% (AED)	Closing WDV (AED)
2026	11,200,000	1,680,000	9,520,000
2027	9,520,000	1,428,000	8,092,000
2028	8,092,000	1,213,800	6,878,200
2029	6,878,200	1,031,730	**5,846,470**

Accordingly, Company Q records a gain on sale of the machine in its income statement amounting to AED 3,153,530 (AED 9 million less AED 5,846,470).
Capitalised interest of AED 120,000 has been claimed for each of the years 2026, 2027 and 2028 (totalling AED 360,000). In the 2029 Tax Period, the unamortised

[26] Article 20(3) of the Corporate Tax Law.

amount of capitalised Interest of AED 840,000 (AED 1.2 million - AED 360,000), is considered to be Interest while computing Net Interest Expenditure, and the same amount is excluded from depreciation while computing adjusted EBITDA.

3.8. Hybrid instruments

Hybrid instruments are financial products that combine features of both debt and equity. Hybrid instruments can take various forms. For instance, convertible debentures or bonds are debt instruments that can be converted into equity of the issuing company.

To the extent a hybrid instrument is not converted to equity and not classified as equity under IFRS (or IFRS for SMEs), the income and expenditure in relation to it will be considered as Interest.[27]

However, if a hybrid instrument is classified as an equity interest under IFRS (or IFRS for SMEs), any income and expenditure in relation to the instrument will not be considered as Interest but instead considered to be a Dividend or other profit distribution.[28]

For example, profit participating loans or preference shares may be difficult to classify because they can be akin to debt or equity depending on their terms. Where they are classified as a financial liability for accounting purposes, the payments made by the issuer to the holder is considered to be Interest. Where they are classified as an equity instrument for accounting purposes, the payments made by the issuer to the holder is considered to be a Dividend.

3.9. Late payments

3.9.1. In relation to statutory dues

Late payment (or non-payment) of statutory dues, such as taxes, customs duties, or other government-imposed fees, typically incurs penalties or interest charges for the delay.

Regardless of how they are calculated, any charges in respect of a breach of law are considered to be fines or penalties and are not deductible expenditure for Corporate Tax purposes[29]. Any interest element will also not be considered as Interest.

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[27] Article 5 of Ministerial Decision No. 302 of 2024.
[28] Article 1 of Ministerial Decision No. 302 of 2024.
[29] Article 33(2) of the Corporate Tax Law.

3.9.2. In relation to commercial dues

Late payment of commercial or Business dues, such as invoices from suppliers or service providers, can result in additional charges, which can take the form of late payment fees or interest charges.

Unless the charges are specified as a fine or penalty in a relevant contract, such charges should be considered to be compensation to the creditor for the delayed use of funds that were due to them. Accordingly, these charges should be treated as Interest.

For example, if a company has agreed to payment terms with a supplier that include a charge at a rate of 1% per month on overdue invoice balances, and the company fails to pay an invoice on time, the additional amount charged should be treated as Interest. On the other hand, if the charge on overdue invoice balances is a one-off fixed penalty amount of say AED 10,000 regardless of when the overdue invoice is paid, the AED 10,000 would not be considered Interest.

3.10. Amounts incurred in connection with the raising of finance

The term "amounts incurred in connection with raising finance" refers to the various costs that a Business may incur when obtaining capital through borrowing or other financial instruments (other than equity instruments). These costs are considered to be Interest.[30]

Even if the amounts are capitalised as part of the cost of the asset under IFRS (or IFRS for SMEs), the capitalised amounts would still be treated as Interest (see Section 3.7).

The broad definition ensures that all forms of compensation to creditors or costs related to financing are captured, regardless of how they are structured or named. This includes but is not limited to:[31]

- **Guarantee fees:** When a company seeks a loan, it might require a Related Party or third-party guarantee to assure the lender of repayment. A fee charged by a guarantor for this would be considered an amount incurred in raising finance.[32] Where a Related Party does not charge a guarantee fee but a fee would be charged on an arm's length basis (i.e. under transfer pricing rules), such a deemed fee would also be considered as Interest. For example, if a company borrows AED

[30] Article 3(1) of Ministerial Decision No. 126 of 2023.
[31] Article 3(2) of Ministerial Decision No. 126 of 2023.
[32] Article 3(2)(a) of Ministerial Decision No. 126 of 2023.

10 million and the Bank requires a guarantee from a guarantor, a guarantee fee of 1% would be AED 100,000. This fee will be treated as Interest expenditure for the borrowing company and Interest income for the Related Party guarantor.

- **Arrangement fees:** These are fees charged by financial institutions for setting up a loan or credit facility.[33] For example, if a company arranges an AED 50 million credit line with a bank, and the bank charges a 0.5% arrangement fee, the company incurs an AED 250,000 fee. This fee is treated as Interest expenditure for the company.

- **Commitment fees:** These fees are charged by lenders for agreeing to provide a loan or credit facility, even if the borrower does not draw down the loan.[34] For example, if a company has an undrawn credit facility of AED 20 million with a commitment fee of 0.25% per annum, it will incur an AED 50,000 annual fee, which is treated as Interest expenditure.

Any other fees that are similar in nature to the above-mentioned fees should also be treated as "amounts incurred in connection with raising finance" and, hence, Interest.[35] Examples include:

- **Underwriting fees:** When a company issues bonds or other debt securities, it may use an underwriter to guarantee a certain price for the securities to investors. The underwriter may charge a fee for this service, which is an amount incurred in connection with raising finance. For example, if a company issues bonds (a debt instrument) worth AED 50 million and the underwriting fee is 2%, the company would incur an AED 1 million fee which should be treated as Interest expenditure.

- **Legal and professional fees**: The costs of legal advice, accounting services, and other professional fees directly related to the structuring and negotiation of financing are also considered amounts incurred in connection with raising finance. For example, if a company incurs AED 200,000 in legal fees to document and close a syndicated loan transaction, these fees should be treated as Interest expenditure.

- **Early or pre-payment of loan:** Pre-payment charges, pre-payment penalties or break costs are fees that lenders charge to compensate for the loss of expected income due to a loan being paid off before its maturity date. The penalty is directly related to the cost of borrowing and arises from the financing agreement between the borrower and the lender and hence is an amount incurred in connection with

[33] Article 3(2)(b) of Ministerial Decision No. 126 of 2023.
[34] Article 3(2)(c) of Ministerial Decision No. 126 of 2023.
[35] Article 3(2)(d) of Ministerial Decision No. 126 of 2023.

raising finance. Such pre-payment charges, if incurred by a company, should be treated as Interest expenditure.

3.10.1. Derivative contracts

Derivative contracts are not specifically defined but include financial contracts between two or more parties that derive their value from one or more underlying asset. They include forward contracts, futures contract, options, and swap agreements. These contracts may be used as a way of raising finance but they are more typically used to hedge risks connected with the raising of finance. For example, a company that has taken a variable interest rate loan could effectively fix the interest rate through an interest rate swap agreement.

Any interest component of a derivative contract is considered to be Interest.[36] The "interest component" would follow the interest or other financing amount or gain or loss taken to the income statement under IFRS (or IFRS for SMEs).

Costs directly related to entering into derivative contracts, such as fees, are also treated as Interest expenditure.

3.11. Disposal, sale or transfer

Where a debt instrument is disposed, sold or transferred, it may result in a gain or loss. Such gain or loss is considered as Interest to the extent it is treated as interest or other financing amount under IFRS (or IFRS for SMEs).

For example, a company that has invested in interest-bearing corporate bonds decides to sell these bonds before they mature. It realises a loss and records all of this as a loss on disposal of financial assets (not interest expense). Accordingly, no element of this loss is treated as Interest. However, that loss is included in Accounting Income and, therefore, brought into the Taxable Income calculation.[37]

Another example would be where a real estate company sells a property for an agreed sale price of AED 1 million. Instead of the buyer paying for the property in one lump sum, however, the company agrees that the buyer can pay for the property in six instalment payments of AED 200,000 over two years. The total amount received is, therefore, AED 1.2 million. The additional AED 200,000 over the sale price is recorded as Interest income for the real estate company. Each instalment payment would have an Interest element of AED 33,333 (being AED 200,000 / 6).

[36] Article 3(3) of Ministerial Decision No. 126 of 2023.
[37] Article 20 of the Corporate Tax Law.

4. Deductible Interest expenditure

4.1. Overview

As stated above in Section 3.1, deductibility of Interest is subject to various Corporate Tax rules. These Corporate Tax rules should be applied in the following order:

1. General principles of deductibility of expenditure (Section 4.2),
2. Arm's Length Principle (Section 4.3),
3. Specific Interest Deduction Limitation Rule (Section 5), and
4. General Interest Deduction Limitation Rule (Section 6).

The General Interest Deduction Limitation Rule must be applied after all the Corporate Tax rules, apart from the Tax Loss Provisions.[38]

Where adjustments are made to accounting or tax figures, for example, due to the General Anti-abuse Rule[39] applying or following a Tax Audit,[40] the calculations in respect of the General Interest Deduction Limitation Rule may need to be revised.

4.2. General principles of deductibility of expenditure

In general, Business expenditure is allowed as a deduction while calculating the Taxable Income of a Taxable Person if it is incurred wholly and exclusively for the purposes of the Taxable Person's Business and is not capital in nature. Such expenses are deductible in the Tax Period in which they are incurred. What constitutes "expenditure" generally follows the accounting classification and measurement per the Financial Statements that have been prepared in accordance with IFRS (or IFRS for SMEs) and, therefore, the Accounting Income figure within the income statement is the starting point when calculating Taxable Income.[41]

However, for Corporate Tax purposes, additional rules apply such that expenditure that is recognised as such for accounting purposes may not be deductible when calculating Taxable Income (see Section 4.2.1). Such rules also apply to Interest expenditure.

There are specific adjustments to be made items of expenditure in line with the following rules:[42]

[38] Chapter 11 of the Corporate Tax Law, covering Articles 37, 38 and 39.
[39] Article 50 of the Corporate Tax Law
[40] Article 1 and Chapter 3 of Federal Decree-Law No. 28 of 2022.
[41] Article 20(2) of the Corporate Tax Law.
[42] Article 28(2) of the Corporate Tax Law.

- expenditure not incurred for the purposes of the Taxable Person's Business (see Section 4.2.1),
- expenditure incurred in deriving Exempt Income, other than certain Interest expenditure (see Section 4.2.1), and
- losses that are not connected with or arising out of the Taxable Person's Business.

4.2.1. Expenditure not incurred for the purposes of the Taxable Person's Business

Business expenditure must be incurred "wholly and exclusively" for the purposes of the Taxable Person's Business. Therefore, regardless of the accounting, if the expenditure is not wholly and exclusively for the purposes of the Taxable Person's Business or is incurred for more than one purpose, all or part of the expenditure must be added back to the Accounting Income figure when calculating Taxable Income.[43]

For instance, if a company takes out a loan and the money is used to buy a private residential property that is used by a director and his family, and the property is not used for Business purposes, any Interest related to that loan is not deductible as Interest, even though it may be included in the income statement of the company.

If expenditure is incurred for more than one purpose, the portion of the expenditure that can be deducted must be determined as follows:[44]

- any identifiable part or proportion of the expenditure incurred wholly and exclusively for the purposes of deriving Taxable Income is deductible, and
- an appropriate proportion of any un-identifiable part or proportion of the expenditure incurred for the purposes of deriving Taxable Income should be deductible.

Any proportion should be determined on a fair and reasonable basis, having regard to the relevant facts and circumstances of the Taxable Person's Business. What is "fair and reasonable" will depend on the specific circumstances and facts, and there may be more than one method of apportioning expenses which is fair and reasonable.

4.2.2. Expenditure that is capital in nature

The Business expenditure must also not be "capital in nature".[45] What is "capital" generally follows the accounting classification in the Financial Statements (that have been prepared in accordance with IFRS or IFRS for SMEs).

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[43] Article 28(2)(a) of the Corporate Tax Law.

[44] Article 28(3) of the Corporate Tax Law.

[45] Article 28(1) of the Corporate Tax Law.

For example, purchasing a long-term asset like machinery would be a capital expense, but paying for routine maintenance to keep the machinery running would be a revenue expense.

4.2.3. Interest expenditure related to deriving Exempt Income

The general rule is that expenditure associated with deriving Exempt Income is not deductible.[46] However, there is an exception for Interest expenditure, which may still be deductible if it meets the criteria set by the General and Specific Interest Deduction Limitation Rules.[47] This exception applies specifically to Interest expenditure incurred in deriving any Exempt Income from Dividends and other profit distributions received from a juridical person that is a Resident Person or from a Participating Interest in a foreign juridical person, other income from a Participating Interest, income of a Foreign Permanent Establishment, and income derived by a Non-Resident Person from operating aircraft or ships in international transportation.[48] The tax deductibility of this Interest expenditure remains conditional upon the Interest expenditure meeting the criteria set by the General and Specific Interest Deduction Limitation Rules.[49]

For example, a company that borrows money to invest in a venture that generates Exempt Income from Dividends and other profit distributions would be entitled to deduct the Interest expenditure on those borrowings, subject to the General Interest Deduction Limitation Rule.

Interest expenditure incurred in relation to the acquisition and subsequent holding of a Participating Interest (that can result in Exempt Income) is allowed as a deduction subject to the General and Specific Interest Deduction Limitation Rules.[50]

If the loan used to finance the acquisition and subsequent holding of a Participating Interest is from a Related Party, it may be subject to the Specific Interest Deduction Limitation Rule in certain circumstances that could lead to a full disallowance of the Interest expenditure[51] (see Section 5).

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[46] Article 28(2)(b) of the Corporate Tax Law.
[47] Article 29 of the Corporate Tax Law.
[48] Article 28(2)(b) read with Article 22 of the Corporate Tax Law.
[49] Article 29 of the Corporate Tax Law.
[50] Article 11 of Ministerial Decision No. 302 of 2024
[51] Articles 29 and 31(1)(d) of the Corporate Tax Law read with Article 11(3) of Ministerial Decision No. 302 of 2024.

4.3. Interest expenditure due to Connected Persons and/or Related Parties

Any expenditure incurred in relation to transactions or arrangements with Connected Persons is deductible only to the extent that the payment or benefit corresponds with the Market Value of the service or benefit provided by the Connected Persons, and where the payment or benefit is incurred wholly and exclusively for the purposes of the Taxable Person's Business.[52] Similarly, transactions or arrangements with Related Parties must adhere to the arm's length standard.[53]

Where the Interest payable to a Related Party or Connected Person is adjusted to meet the arm's length / Market Value requirement, the amount of Interest after the adjustment is taken into account for the purposes of the Interest limitation rules (unless the Interest is already disallowable under another provision of the Corporate Tax Law).[54]

Example 16: Interest rate more than Market Value

Company T borrows AED 1 million from Ms U, who is a shareholder and director of Company T and, therefore, a Connected Person. Both Company T and Ms U are tax residents of the UAE.

Ms U charges Company T an interest rate of 8% on the loan even though the market interest rate for similar loans is 5%.

Interest paid at 8%: AED 1 million x 8% = AED 80,000
Arm's length Interest at 5%: AED 1 million x 5% = AED 50,000
Adjustment: AED 50,000 - AED 80,000 = AED 30,000

Even though the Financial Statements of Company T will account for Interest expense of AED 80,000, non-arm's length Interest of AED 30,000 shall be disallowed. The balance of Interest of AED 50,000 shall be deductible subject to the General Interest Deduction Limitation Rule.[55]

[52] Article 36 of Corporate Tax Law.
[53] Article 34 of the Corporate Tax Law.
[54] Article 30(5) of the Corporate Tax Law.
[55] Article 20(2)(e) of the Corporate Tax Law.

5. Specific Interest Deduction Limitation Rule

5.1. Overview

The Specific Interest Deduction Limitation Rule is a targeted provision designed to prevent the erosion of the Corporate Tax base. This could be achieved through the use of certain financial transactions between Taxable Persons and their Related Parties. For example, transactions could be carried out for the sole or main purpose of creating deductible Interest expenditure, while the Interest income derived may not be subject to tax.[56]

This Specific Interest Deduction Limitation Rule applies after the application of the general principles of deductibility for Interest expenditure (see Section **Error! Reference source not found.**), including the application of the Arm's Length Principle[57] but before the General Interest Deduction Limitation Rule (see Section 6).

5.2. Non-deductibility of Interest expenditure

The Specific Interest Deduction Limitation Rule disallows Interest expenditure incurred on a loan obtained, directly or indirectly, from a Related Party in respect of any of the following transactions:[58]

- Dividend or profit distribution to a Related Party,
- redemption, repurchase, reduction or return of share capital to a Related Party,
- capital contribution to a Related Party, and
- acquisition of ownership interest in a Person who is or becomes a Related Party after the acquisition.

The reference to "Interest expenditure incurred on a loan" is interpreted widely to include any kind of borrowings, line of credit, bonds or transactions akin to a loan.

However, this is subject to a "main purpose test".

5.3. Main purpose test

The Specific Interest Deduction Limitation Rule is not applicable if the main purpose of obtaining the loan and carrying out one of the transactions listed at Section 5.2 is not to obtain a Corporate Tax advantage.[59]

[56] Article 31 of the Corporate Tax Law.
[57] Article 34 of the Corporate Tax Law.
[58] Article 31(1) of the Corporate Tax Law.
[59] Article 31(2) of the Corporate Tax Law.

A "Corporate Tax advantage" is defined as including, but is not limited to the following:

- a refund or an increased refund of Corporate Tax,
- avoidance or reduction of Corporate Tax Payable,
- deferral of a payment of Corporate Tax or advancement of a refund of Corporate Tax, or
- avoidance of an obligation to deduct or account for Corporate Tax.[60]

Whether or not the main purpose of a obtaining a loan and carrying out a transaction referred to under Section 5.2 is to gain a Corporate Tax advantage is based on the specific facts and circumstances. The onus is on the Taxable Person to demonstrate that the main purpose is not to gain a Corporate Tax advantage.

Example 17: Interest subject to Specific Interest Deduction Limitation Rule

Company M (incorporated and tax resident in the UAE) is wholly owned by its parent company, Company O, incorporated and tax resident in a foreign country that does not have a Corporate Tax regime.

Company M borrows AED 10 million at an arm's length interest rate of 5% from Company O. It uses the funds to repurchase some of its shares from Company O, returning some of its share capital.

The annual interest rate on the loan is 5%, resulting in an annual Interest expense of AED 500,000 for Company M.

Company M is unable to demonstrate that the main purpose of obtaining the loan and using the funds to return share capital to Company O is not to gain a Corporate Tax advantage and, therefore, no deduction is allowed for the annual Interest expenditure of AED 500,000 when Company M calculates its Taxable Income.

5.3.1. Presumption of no Corporate Tax advantage for Non-Residents

No Corporate Tax advantage is deemed to arise where the Related Party is subject to Corporate Tax, or a tax of a similar character to Corporate Tax under the applicable legislation of a foreign jurisdiction, and at an effective tax rate of not less than 9% post meeting the arm's length standard.

If the Interest income is subject to an effective tax rate of less than 9% in the foreign jurisdiction of the Non-Resident Person (for example, the statutory rate is less than 9% or the income is exempt or enjoys preferential tax treatment that results in tax of

[60] Article 50(2) of the Corporate Tax Law.

less than 9%), the presumption will not apply. The Specific Interest Deduction Limitation Rule may apply, unless the Taxable Person can demonstrate that the main purpose of the arrangements was not to obtain a Corporate Tax advantage (see Section 5.2).[61]

Example 18: Related Party lender subject to effective tax rate of at least 9%

Company P (incorporated and tax resident in the UAE) wholly owns Company Q, incorporated and tax resident in country Q, with an effective tax rate of 9%.

Company P borrows AED 20 million from Company Q at an annual interest rate of 7% when the arm's length interest rate is 5%. It uses the loan to acquire shares in Company R, which becomes a Related Party of Company P after the acquisition.

Since the interest rate on the loan is not at arm's length, the Interest expenditure in respect of the loan for Company P must first be adjusted for Corporate Tax purposes to the arm's length rate, so from AED 1.4 million (20 million* 7%) to AED 1 million (20 million*5%). AED 400,000 is, therefore, disallowed Interest expenditure. This amount cannot be carried forward because it is not a disallowance under the General Interest Deduction Limitation Rule.

When applying the Specific Interest Deduction Limitation Rule, no Corporate Tax advantage is deemed to arise on the basis that Company Q is subject to tax at an effective rate of not less than 9% and, therefore, the AED 1 million of Interest expenditure is not further disallowed.

However, Company P will still need to consider whether the General Interest Deduction Limitation Rule would apply to disallow any of the AED 1 million Interest expenditure.

Example 19: Related Party lender subject to effective tax rate below 9%

Company S (incorporated and tax resident in the UAE) is 50% owned by Company U (incorporated and tax resident in the UAE) and 50% owned by Company T (incorporated and tax resident in Country T).

Country T has a Corporate Tax rate of 9%. However, it has a specific tax exemption for interest income received from foreign entities.

61 Article 31(2) and 31(3) of the Corporate Tax Law.

Company S takes out a loan of AED 30 million at an arm's length annual interest rate of 6% from Company T. It plans to use the funds to pay a dividend to its shareholders, Company T and Company U.

Since the interest income of AED 1.8 million that Company T receives from Company S is not subject to any tax in Country T, Company S needs to assess whether the main purpose of obtaining the loan and paying the dividend is to gain a Corporate Tax advantage. If Company S cannot demonstrate that it is not to gain a Corporate Tax advantage, then the AED 1.8 million of Interest expenditure is disallowed under the Specific Interest Deduction Limitation Rule when Company S calculates its Taxable Income.

If Company S can demonstrate that there is no main purpose of gaining a Corporate Tax, Company S will then need to bring in the Interest expenditure when applying the General Interest Deduction Limitation Rule.

6. General Interest Deduction Limitation Rule

6.1. Overview

The General Interest Deduction Limitation Rule under the Corporate Tax Law is intended to prevent abuse of debt financing to reduce the Taxable Income base.

6.2. The General Interest Deduction Limitation Rule

A Taxable Person's Net Interest Expenditure is subject to the General Interest Deduction Limitation Rule. The Net Interest Expenditure is the difference between the amount of Interest expenditure incurred (including any carried forward Net Interest Expenditure) 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 EBITDA (earnings before the deduction of Interest, tax, depreciation and amortisation) for a Tax Period, calculated as the Taxable Income for the Tax Period with adjustments for (referred to as "adjusted EBITDA"):[63]
  - Net Interest Expenditure for the relevant Tax Period,
  - depreciation and amortisation expenditure taken into account in determining the Taxable Income for the relevant Tax Period,
  - net Interest expenditure relating to historical financial assets or liabilities held prior to 9 December 2022, and
  - net Interest expenditure relating to Qualifying Infrastructure Projects.

- or the de minimis threshold of AED 12 million.[64]

If the relevant Tax Period is more than or less than 12 months, the de minimis threshold of AED 12 million is adjusted in proportion to the length of the Tax Period.

Where the Net Interest Expenditure is less than the higher of 30% of adjusted EBITDA and AED 12 million (as adjusted for a Tax Period of more than or less than 12 months), no adjustment is required under the General Interest Deduction Limitation Rule: the Net Interest Expenditure for the relevant Tax Period will be deductible.[65]

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[62] Article 30(2) of the Corporate Tax Law.
[63] Article 30(1) of the Corporate Tax Law and Article 9(1) of Ministerial Decision No. 126 of 2023.
[64] Article 8(1) of Ministerial Decision No. 126 of 2023.
[65] Article 8 of Ministerial Decision No. 126 of 2023.

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 it was incurred, under the “first in, first out” principle. This is subject to meeting the conditions of the General Interest Deduction Limitation Rule in the subsequent Tax Period.[66]

The carried forward Net Interest Expenditure cannot be transferred to or utilised by any other Taxable Person.

Where a Subsidiary with carried forward Net Interest Expenditure joins a Tax Group, the carried forward Net Interest Expenditure can only be utilised against the Taxable Income of the Tax Group that is attributable to the Subsidiary (and not the entire Taxable Income of the Tax Group).

To determine the deductible and non-deductible Net Interest Expenditure, the following components need to be calculated:

- Net Interest Expenditure, and
- 30% of adjusted EBITDA.

6.3. Calculation of Net Interest Expenditure

Net Interest Expenditure is the difference between the amount of Interest expenditure incurred (including any carried forward Net Interest Expenditure) and the Interest income. Net Interest Expenditure includes all the components of Interest discussed in Section 3.

However, the following will not be included when calculating the Net Interest Expenditure:

- Interest expenditure that is disallowed under any other provisions of the Corporate Tax Law,[67] for example, interest paid to Related Parties that exceeds a non-arm's length amounts,[68] the Specific Interest Deduction Limitation Rule[69] (see Section 5),
- Interest income or expenditure related to grandfathered debts, i.e. prior to 9 December 2022,[70] (see Section 8.4) and
- Interest income or expenditure in relation to Qualifying Infrastructure Projects (see Section 8.5).[71]

[66] Article 30(4) of the Corporate Tax Law.
[67] Article 30(2) read with Article 30(5) of the Corporate Tax Law.
[68] Article 34 of the Corporate Tax Law.
[69] Article 31 of the Corporate Tax Law.
[70] Article 11 of Ministerial Decision No. 126 of 2023.
[71] Articles 9(2) and 14 of Ministerial Decision No. 126 of 2023.

- Any income or expenditure of the member of the Tax Group who is a Bank or Insurance Provider, shall be disregarded while calculating the Net Interest Expenditure of the Tax Group (see Section 8.2).[72]

An illustrative list of the adjustments that may be relevant in calculating the Net Interest Expenditure is as follows:

Adjust	Item	Amounts (AED)
	Net interest expenditure as per Financial Statements (i.e. Interest expenditure less Interest income)	xxx
Add:	Items not included as interest for accounting purposes but treated as Interest expenditure.	xxx
Less:	Items not included as interest for accounting purposes but treated as Interest income.	(xxx)
Less:	Interest expenditure that is disallowed under any other provisions of the Corporate Tax Law including any disallowed amounts under the Arm's Length Principle[73] and Specific Interest Deduction Limitation Rule[74].	(xxx)
Less:	Net Interest Expenditure related to grandfathered debts[75]	(xxx)
Less:	Net Interest Expenditure related to Qualifying Infrastructure Projects[76]	(xxx)
Subtotal:	**Net Interest Expenditure for the relevant Tax Period (before carry forward Net Interest Expenditure amounts from previous Tax Periods)**	**XXX**
Add:	Net Interest Expenditure carried forward from previous 10 Tax Periods	xxx
Total: Net Interest Expenditure for the relevant Tax Period		**XXX**

6.4. Calculation of 30% of adjusted EBITDA

The starting point for "adjusted EBITDA" for a Tax Period is the Taxable Income calculated in accordance with the general rules for determining Taxable Income.[77] All tax adjustments are required to be made to Accounting Income except for adjustments in relation to the General Interest Deduction Limitation Rule itself and Tax Loss relief provisions.

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72 Article 12(5) of Ministerial Decision No. 126 of 2023

73 Article 34 of the Corporate Tax Law.

74 Article 30(5) of the Corporate Tax Law.

75 Articles 9 and 11 of Ministerial Decision No. 126 of 2023.

76 Articles 9 and 14 of Ministerial Decision No. 126 of 2023.

77 Article 20 of the Corporate Tax Law.

An adjustment is then required for the following items for the relevant Tax Period:[78]

- depreciation and amortisation expenditure taken into account in determining the Taxable Income for the relevant Tax Period,
- Net Interest Expenditure for the relevant Tax Period i.e. Interest expenditure less Interest income of the relevant Tax Period (before carried forward Net Interest Expenditure amounts from previous Tax Periods),
- any Interest income or expenditure relating to historical financial assets or liabilities held prior to 9 December 2022, and
- any Interest income or expenditure in relation to Qualifying Infrastructure Projects.

Any income or expenditure of the member of the Tax Group who is a Bank or Insurance Provider, shall be disregarded while calculating the EBIDTA of the Tax Group.[79]

If the adjusted EBITDA results is a negative amount, then the adjusted EBITDA will be AED 0.[80]

An illustrative list of the adjustments that may be relevant in calculating the adjusted EBITDA is as follows:

Adjust	Item	Amounts (AED)
	Accounting Income/(loss)	xxx/(xxx)
+/-	All adjustments as per Article 20 of the Corporate Tax Law, except General Interest Deduction Limitation Rule and Tax Loss provisions	xxx/(xxx)
+	Depreciation expenditure (Note below)	xxx
+	Amortisation expenditure	xxx
+	Net Interest Expenditure for the relevant Tax Period (before carry forward Net Interest Expenditure amounts from previous Tax Periods)	xxx
+	Net Interest Expenditure relating to grandfathered debt instruments	xxx
+	Net Interest Expenditure relating to Qualifying Infrastructure Projects	xxx
Total: adjusted EBITDA		**xxx**
30% of adjusted EBITDA		**xx**

[78] Article 9(1) and (2) of Ministerial Decision No. 126 of 2023.

[79] Article 12(5) of Ministerial Decision No. 126 of 2023

[80] Article 9 of Ministerial Decision No. 126 of 2023.

Note: Where a Taxable Person has capitalised interest, any interest element included in the depreciation charge must be removed before the deprecation charge is added back to Accounting Income for the purposes of calculating adjusted EBITDA. See Examples 13 to 15 at Section 3.7.

Example 20: Calculation of deductible Interest under General Interest Deduction Limitation Rule

Company V (incorporated and tax resident in the UAE) is a trading company. It prepares Financial Statements on an Accrual Basis of Accounting, and its Tax Period is the Gregorian calendar year.

During its 2025 Tax Period, Company V obtained a loan to acquire a 50% shareholding in Company S (incorporated and tax resident in Country S). Participation Exemption[81] applies and therefore the dividend income received from Company S is Exempt Income.[82]

Company V also received Interest income arising on loan agreements with third parties, for which the terms were agreed in 2024.

For its 2025 Tax Period, Company V has no brought forward Net Interest Expenditure.

An extract of the figures from the standalone Financial Statements of Company V for 2025 is as follows:

	2025 Amounts in AED
Revenue:	
Trading income	130,000,000
Dividend from Company S	20,000,000
Interest income arising from trade receivables (trade debtors)	10,000,000
Interest income arising from loans to third parties	10,000,000
Total Revenue (A)	**170,000,000**
Less: Expenditure*	
Cost of goods sold	29,500,000
Salaries and wages	15,000,000
General expenses	7,500,000

81 Article 23 of the Corporate Tax Law.

82 Article 22 of the Corporate Tax Law.

Depreciation of fixed assets	4,000,000
Interest payable on a loan for a share purchase	10,000,000
Guarantee fees in relation to the loan for a share purchase	1,000,000
Interest payable on a bank loan denominated in Euros (EURO bank loan)	30,000,000
Foreign exchange loss on interest on EURO bank loan	2,500,000
Interest payable on trade payables (trade creditors)	22,500,000
Interest payable on a personal loan taken out by a director	500,000
Total expenditure (B)	**122,500,000**
Accounting Income before tax (A) – (B)	**47,500,000**

**Does not include any expenses incurred for earning exempt income (except interest).*

Applicability of the General Interest Deduction Limitation Rule for 2025 Tax Period

Step 1: Calculation of Net Interest Expenditure

The calculation of Net Interest Expenditure for Company V for the 2025 Tax Period is as follows:

Net Interest Expenditure	2025 Amounts in AED
Interest income	
Interest income arising from trade receivables (trade debtors)	10,000,000
Interest income arising from loans to third parties (Note 1)	10,000,000
Total Interest income (A)	**20,000,000**
Interest expenditure	
Interest payable on a loan for a share purchase	10,000,000
Guarantee fees in relation to the loan for a share purchase[83]	1,000,000
Interest payable on EURO bank loan	30,000,000
Foreign exchange loss on interest on EURO bank loan[84]	2,500,000
Interest payable on trade payables (trade creditors)	22,500,000
Personal loan taken out by a director (Note 2)	Nil
Total Interest expenditure (B)	**66,000,000**
Net Interest Expenditure for current year (B) – (A)	**46,000,000**

[83] Article 3(2) of Ministerial Decision No. 126 of 2023, see Section 3.10 of this guide.
[84] Article 6 of Ministerial Decision No. 126 of 2023, see Section 3.6 of this guide.

Note 1: The interest income is subject to General Interest Deduction Limitation Rule because the terms of the loans were agreed after 9 December 2022.[85]
Note 2: The interest expenditure recorded in the Financial Statements in respect of the personal loan taken out by a director of AED 500,000 is not incurred wholly and exclusively for the purposes of Company V's Business and is therefore not a deductible expense for Corporate Tax purposes.[86] It is, therefore, not included in Net Interest Expenditure.

Step 2: Calculation of 30% adjusted EBITDA

The calculation of adjusted EBITDA for Company V for the 2025 Tax Period is as follows:

	adjusted EBITDA	2025 Amounts in AED
	Accounting Income before tax	47,500,000
-	Dividend from Company S subject to Participation Exemption and is therefore Exempt Income	(20,000,000)
+	Disallowed expenditure in respect of the personal loan taken out by a director.	500,000
	Taxable Income before General Interest Deduction Limitation Rule and Tax Loss relief	**28,000,000**
+	Depreciation of fixed assets	4,000,000
+	Net Interest Expenditure	46,000,000
	adjusted EBITDA	**78,000,000**

30% of adjusted EBITDA is **AED 23,400,000** (0.30 * 78,000,000).

Determining deductible and non-deductible Net Interest Expenditure

The deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA, and
- the de minimis threshold of AED 12 million.

In this case, 30% of adjusted EBITDA, being AED 23,400,000, which is higher than AED 12,000,000 is the deductible Net Interest Expenditure.

Company V has Net Interest Expenditure to be carried forward to the 2026 Tax Period, calculated as follows:

[85] Article 11 of Ministerial Decision No.126 of 2023.
[86] Article 28 of the Corporate Tax Law, see Section 4 of this guide.

	Amounts in AED
Total Net Interest Expenditure for 2025 Tax Period	46,000,000
Less: Net Interest Expenditure allowed for 2025 Tax Period	(23,400,000)
Net Interest Expenditure to carry forward to 2026 Tax Period[87]	**22,600,000**

Note that the disallowed amount of Net Interest Expenditure of AED 22,600,000 should be added back to Company V's Taxable Income[88] calculation when preparing Company V's Tax Return for 2025 Tax Period.

Example 21: Utilisation of carried forward Net Interest Expenditure

Continuing the above example, Company V's extract of standalone Financial Statements for 2026 is as follows:

	2026 Amounts in AED
Revenue:	
Trading income	170,000,000
Dividend from Company S	25,000,000
Interest income arising from trade receivables (trade debtors)	12,000,000
Interest income arising from loans to third parties	12,000,000
Total Revenue (A)	**219,000,000**
Less: Expenditure	
Cost of goods sold	50,500,000
Salaries and wages	34,000,000
General expenses	8,500,000
Depreciation of fixed assets	6,000,000
Interest expense:	
Interest payable on a loan for a share purchase	7,000,000
Interest payable on EURO bank loan	15,000,000
Foreign exchange loss on interest on EURO bank loan	2,500,000
Interest expense (trade payables i.e. creditors)	18,500,000

[87] Article 30(4) of Corporate Tax Law.
[88] Article 20(2)(d) of the Corporate Tax Law.

Interest payable on a personal loan taken out by a director	500,000
Total expenditure (B)	**142,500,000**
Accounting Income before tax (A) – (B)	**76,500,000**

Applicability of the General Interest Deduction Limitation Rule for 2026 Tax Period

Step 1: Calculation of Net Interest Expenditure

The calculation of Net Interest Expenditure for Company V for the 2026 Tax Period is as follows:

Net Interest Expenditure	**2026 Amounts in AED**
Interest income	
Interest income arising from trade receivables (trade debtors)	12,000,000
Interest income arising from loans to third parties	12,000,000
Total Interest income (A)	**24,000,000**
Interest expenditure	
Interest payable on a loan for a share purchase	7,000,000
Interest payable on EURO bank loan	15,000,000
Foreign exchange loss on interest on EURO bank loan	2,500,000
Interest expense (trade payables i.e. creditors)	18,500,000
Interest payable on a personal loan taken out by a director	Nil
Total Interest expenditure (B)	**43,000,000**
Sub-total: Net Interest Expenditure for 2026 Tax Period before carry forward amounts (B)–(A)	**19,000,000**
Net Interest Expenditure carried forward from Tax Period 2025	22,600,000
Total: Net Interest Expenditure for 2026 Tax Period	41,600,000

Step 2: Calculation of 30% adjusted EBITDA

		2026 Amounts in AED
	Accounting Income/(loss)	76,500,000
-	Dividend from Company S subject to Participation Exemption and is therefore Exempt Income	(25,000,000)
+	Disallowed expenditure in respect of the personal loan taken out by a director	500,000
	Taxable Income before General Interest Deduction Limitation Rule and Tax Loss relief	**52,000,000**

+	Depreciation of fixed assets	6,000,000
+	Net Interest Expenditure for 2026 Tax Period before carry forward amounts	19,000,000
	Adjusted EBITDA	**77,000,000**

30% of adjusted EBITDA is **AED 23,100,000** (0.3 * 77,000,000)

Determining deductible and non-deductible Net Interest Expenditure

The deductible Net Interest Expenditure is the greater of:

- 30% of adjusted EBITDA, and
- the de minimis threshold of AED 12 million.

In this case, 30% of adjusted EBITDA, being AED 23,100,000, which is higher than AED 12,000,000 is the deductible Net Interest Expenditure for 2026 Tax Period for Company V.

Company V has Net Interest Expenditure to be carried forward to the 2027 Tax Period, calculated as follows:

	Amounts in AED
Net Interest Expenditure which is deductible for 2026 Tax Period	23,100,000
Net Interest Expenditure brought forward from 2025 Tax Period	(22,600,000)
Net Interest Expenditure for 2026 Tax Period (balancing figure)	(500,000)
	nil
Net Interest Expenditure for 2026 Tax Period	19,000,000
Utilised in 2026 Tax Period (see above)	(500,000)
Net Interest Expenditure carried forward to 2027 Tax Period, all originating from 2026 Tax Period.[89]	**18,500,000**

The interaction of the General Interest Deduction Limitation Rule with certain special cases is discussed in Section 7.

89 Article 30(4) of Corporate Tax Law.

7. Special cases

7.1. Exempt Persons

Exempt Persons (listed below) are treated as Taxable Persons insofar as they conduct a Business or Business Activity other than the activity that meets the conditions to be exempt: [90]

- a Government Entity,[91]
- a Government Controlled Entity,[92]
- a person engaged in an Extractive Business,[93] and
- a person engaged in a Non-Extractive Natural Resource Business.[94]

The Taxable Income of the independent/other Business or Business Activity is determined in accordance with the provisions of the Corporate Tax Law.[95] This includes the General Interest Deduction Limitation Rule.

Where the Exempt Person incurs Interest expenditure for its exempt Business or Business Activity as well as for an independent/other Business or Business Activity which is taxable, the Interest expenditure will need to be identified and/or apportioned as the case may be between the two.

Where a loan is taken to purchase assets for the Business Activity, i.e. directly identifiable or attributable to the Business which is taxable, the corresponding Interest expenditure is deductible, subject to the General Interest Deduction Limitation Rule.

Where the Interest expenditure is not directly identifiable or attributable to the Business which is taxable, it will need to be apportioned on a "fair and reasonable" basis.[96] What is fair and reasonable will depend on the facts and circumstances of each case, and may be based on allocation keys such as headcount, floor space, usage, time spent, or any other measurable and reasonable basis.

In the case of Exempt Persons engaged in an Extractive Business and/or Non-Extractive Natural Resource Business, the common expenditures can be apportioned according to the Revenue of each Business in a Tax Period unless a different

[90] Article 13 of Ministerial Decision No. 126 of 2023.
[91] Article 5 of the Corporate Tax Law.
[92] Article 6 of the Corporate Tax Law.
[93] Article 7 of the Corporate Tax Law.
[94] Article 8 of the Corporate Tax Law.
[95] Articles 5(4), 6(4), 7(2)(b) and 8(2)(b) of the Corporate Tax Law.
[96] Article 28(3) of the Corporate Tax Law.

proportion is defined by the relevant local laws of the respective Emirate for the purpose of calculating the Emirate-level tax payable in respect of the Extractive Business/Non-Extractive Natural Resource Business.[97]

Any Interest expenditure incurred for the exempt Business or Business Activity is not deductible.[98]

Example 22: Interest expenditure on a working capital loan

Company Y (incorporated and tax resident in the UAE) follows the Gregorian calendar year as its Financial Year and operates two Businesses in Emirate A:

- oil extraction; and
- software development.

In the year ended 31 December 2024, Company Y:

- received Revenue of AED 15 million from oil extraction,
- received Revenue of AED 5 million from software development, and
- paid interest of AED 1 million in relation to a bank loan obtained for meeting the working capital requirements for both oil extraction and software development.

For Corporate Tax purposes, Company Y qualifies as an Exempt Person in relation to its Extractive Business of oil extraction, but not in respect of its software development Business. Company Y will, therefore, be subject to Corporate Tax in relation to its taxable Business of software development.

For the 2024 Tax Period, in calculating Taxable Income of the taxable Business, Company Y should recognise Revenue of AED 5 million. It should also recognise a portion of its Interest expenditure.

The amount of Interest expenditure may be apportioned on the basis of Revenue generated (assuming Emirate A has not provided an alternate method of apportioning). Accordingly, Interest expenditure of AED 250,000 [(AED 5 million/AED 20 million) * 1 million] is treated as Interest and will be subject to the General Interest Deduction Limitation Rule.

The balance of the Interest expenditure of AED 750,000 (AED 1,000,000 – AED 250,000) is allocated to the Extractive Business, which is exempt from Corporate Tax, and so is not deductible for Corporate Tax purposes.

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[97] Articles 7(4)(b) and 8(4)(b) of the Corporate Tax Law.
[98] Articles 28(2) and 28(3) of the Corporate Tax Law.

7.2. Non-Resident Persons

7.2.1. Overview

A juridical person that is a Non-Resident Person is subject to Corporate Tax on the following:[99]

- Taxable Income attributable to its Permanent Establishment in the UAE,
- Taxable Income that is attributable to its nexus in the UAE, and
- State Sourced Income that is not attributable to its Permanent Establishment in the UAE.

The General Interest Deduction Limitation Rule applies when determining the Taxable Income[100] attributable to a Permanent Establishment or to a nexus in the UAE.

The General Interest Deduction Limitation Rule does not apply in determining State Sourced Income.

7.2.2. "Interrupted" Permanent Establishment or nexus

The General Interest Deduction Limitation Rule allows a Taxable Person, which includes a Non-Resident Person, to carry forward disallowed Net Interest Expenditure for deduction in the subsequent 10 Tax Periods.[101]

If a Non-Resident Person's Permanent Establishment or nexus is interrupted, i.e. the Non-Resident Person ceases to have a taxable presence in the UAE, it ceases to be a Taxable Person for Corporate Tax purposes. This could occur when one project in the UAE ends before the next starts, in the case of Permanent Establishment. For nexus it could be because properties in the UAE are not continuously held.

Where a Taxable Person de-registers because it has ceased Business Activity,[102] any unutilised Net Interest Expenditure that has been carried forward will be forfeited upon de-registration. This applies even when a Non-Resident Person later re-establishes another Permanent Establishment or nexus.

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[99] Article 12 of the Corporate Tax Law.
[100] Article 20(2)(d) of the Corporate Tax Law.
[101] Article 304) of the Corporate Tax Law.
[102] Article 52 of the Corporate Tax Law.

Example 23: Interrupted Permanent Establishment

Company R (incorporated and tax resident in Country R) follows the Gregorian calendar year as its Financial Year.

Year ended 31 December 2024:

Company R executes a construction contract in the UAE from 1 January 2024 to 30 December 2024. For UAE Corporate Tax purposes, Company R has a permanent establishment and is a Non-Resident Person, i.e. a Taxable Person with a 2024 Tax Period.

Company R incurred Interest expenditure of AED 16 million in relation to its Permanent Establishment. Its adjusted EBITDA is AED 2 million.

Applying the General Interest Deduction Limitation Rule, the deductible Net Interest Expenditure is limited to the higher of:

- 30% of the adjusted EBITDA, which is AED 600,000 (30% of AED 2 million), or
- AED 12 million (the de minimis threshold).

Accordingly, Company R can deduct Net Interest Expenditure up to AED 12 million while calculating its Taxable Income for the 2024 Tax Period. The excess Net Interest Expenditure of AED 4 million (i.e. AED 16 million less AED 12 million) should be carried forward and utilised up to 10 subsequent Tax Periods i.e. till the 2034 Tax Period.

For the years ended 31 December 2025 and 2026:

Company R's construction project is completed in 2024 and it has no other Business activity or taxable presence in the UAE in 2025 and 2026. It should, therefore, de-register for Corporate Tax purposes.

The excess unutilised Net Interest Expenditure of AED 4 million is lost when Company R ceases to be a Taxable Person for Corporate Tax purposes.

For the year ended 31 December 2027:

Company R wins a new construction contract in the UAE to be executed from 1 July 2027 to 31 December 2027, thereby creating a Permanent Establishment in the UAE. Accordingly, Company R will be treated as a Taxable Person for the 2027 Tax Period.

When calculating its Taxable Income for the 2027 Tax Period, and in applying the General Interest Deduction Limitation Rule, Company R cannot take into account the excess unutilised Net Interest Expenditure of AED 4 million related to its previous Permanent Establishment, despite being within the original 10-year carry forward period.

7.3. Cash Basis of Accounting

7.3.1. Overview

Taxable Persons that earn Revenue that does not exceed AED 3 million in a Tax Period may use the Cash Basis of Accounting.[103] Once a Taxable Person's Revenue exceeds AED 3 million in a Tax Period, they must prepare Financial Statements using the Accrual Basis of Accounting, except under exceptional circumstances and following the FTA's approval.[104] The Revenue amount must be calculated in line with the arm's length standard.

Under the Cash Basis of Accounting, income and expenditure is recognised when cash payments are actually received or paid.

For example, if a Taxable Person (with a Gregorian calendar year Tax Period) following the Cash Basis of Accounting, lends money in 2024 but only receives interest income in 2025, that interest income should be included in the Revenue of the 2025 Tax Period. Similarly, if the Taxable Person takes out a loan and makes interest payments in the 2025 Tax Period, such interest payments, if deductible for Corporate Tax purposes, should be included in the expenditure of the 2025 Tax Period even if the interest payments fell due in either 2024 or 2026.

7.3.2. Interplay with General Interest Deduction Limitation Rule

Where a Taxable Person follows the Cash Basis of Accounting, Interest expenditure should be deducted when calculating Taxable Income for the Tax Period in which it is received/paid, rather than when it falls due, subject to the General and Specific Interest Deduction Limitation Rules.[105]

If, however, the Net Interest Expenditure is below the AED 12 million de minimis threshold for a Tax Period, the General Interest Deduction Limitation Rule does not apply.[106]

[103] Article 2(1) of Ministerial Decision No. 114 of 2023.
[104] Article 20(1) of the Corporate Tax Law and Article 2(2) of Ministerial Decision No. 114 of 2023.
[105] Article 30 and Article 31 of the Corporate Tax Law.
[106] Article 30(3) and Article 8(1) of Ministerial Decision No. 126 of 2023.

8. Exceptions to General Interest Deduction Limitation Rule

8.1. Overview

Considering Taxable Persons in different sectors may have different capital needs and risk profiles, the Corporate Tax Law provides an exception to the applicability of the General Interest Deduction Limitation Rule to the following:[107]

- Banks,
- Insurance Providers, or
- natural persons undertaking Business or Business Activity in the UAE,
- any other Person as may be determined by the Minister (none are currently specified).

This exception does not apply to treasury companies, captive insurance companies or other non-regulated financial entities that carry out quasi-banking or insurance activities, or to investment vehicles whether regulated (for example, by Securities and Commodities Authority (SCA), Dubai International Financial Center (DIFC) or Abu Dhabi Global Market (ADGM)) or not. These entities remain subject to the General Interest Deduction Limitation Rule.

The General Interest Deduction Limitation Rule also does not apply to historical financial assets and liabilities with terms agreed upon before 9 December 2022 (see Section 8.4) and Qualifying Infrastructure Projects (see Section 8.5).

8.2. Banks and Insurance Providers

A Bank is a Person licensed in the UAE as a bank or finance institution or an equivalent licensed activity that allows the taking of deposits and the granting of credit as defined in the applicable (non-tax) legislation of the UAE.[108]

An Insurance Provider is a Person licensed in the UAE that accepts risks by entering into or carrying out contracts of insurance, in both the life and non-life sectors, including contracts of reinsurance and captive insurance, as defined in the applicable (non-tax) legislation of the UAE.[109]

Banks and Insurance Providers will typically be in a net Interest income position, which is why they are not subject to the General Interest Deduction Limitation Rule,[110] but

[107] Article 30(6) of the Corporate Tax Law.
[108] Article 1 of the Corporate Tax Law.
[109] Article 1 of the Corporate Tax Law.
[110] Article 30(6) of the Corporate Tax Law.

the Interest expenditure they incur will still be subject to the other Corporate Tax rules in respect of Interest (Section 4.2).

If a Bank or an Insurance Provider operates within a group that includes other Taxable Persons not classified as a Bank or Insurance Provider, those other Taxable Persons remain subject to the General Interest Deduction Limitation Rule.

Where a member of a Tax Group is a Bank or Insurance Provider that is not subject to the General Interest Deduction Limitation Rule, any Interest income or expenditure of that member is ignored in calculating the total Net Interest Expenditure and adjusted EBITDA of the Tax Group.[111] For more information see the Corporate Tax Guide on Tax Groups.

8.3. Natural person undertaking Business or Business Activity in the UAE

A natural person that undertakes Business or Business Activity in the UAE is not subject to the General Interest Deduction Limitation Rule.[112] The Business or Business Activity should be conducted directly by the natural person, for instance as a sole establishment.

Where a natural person conducts Business or Business Activity through a juridical person such as a one-person company, the juridical person would be subject to the General Interest Deduction Limitation Rule (unless some other exemption applies).

Example 24: A natural person conducting Business in the UAE (sole establishment)

Ms. A is a freelance graphic designer in the UAE. Her Turnover from various clients in a Gregorian calendar year is AED 5.2 million.

The General Interest Deduction Limitation Rule will not apply to Ms. A due to the specific exclusion for natural persons.

Example 25: A natural person conducting Business in the UAE (using juridical person)

Mr B has set up a one-person company in the UAE, Company B, to provide graphic design services. Company B is a Taxable Person and has Turnover of AED 5.2 million in a Tax Period.

[111] Article 12 of Ministerial Decision No.126 of 2023

[112] Article 30(6) of the Corporate Tax Law.

As Company B is a juridical person, even though it has one sole natural person owner, the exception for natural persons from the General Interest Deduction Limitation Rule will not apply and, therefore, Company B is subject to the General Interest Deduction Limitation Rule.

8.4. Historical Financial Liabilities

Net Interest Expenditure in relation to any debt instruments or liabilities with terms agreed upon before 9 December 2022 ("pre-existing debt instruments or liabilities") is not subject to the General Interest Deduction Limitation Rule. This includes contracts entered into either before or after 9 December 2022 if their sole purpose was to hedge against interest rate risk.[113]

If a pre-existing debt instrument or liability includes provisions for principal which had not been drawn down at that date, the Net Interest Expenditure attributable to this amount is excluded from the General Interest Deduction Limitation Rule only to the extent the lender was legally required to provide the funds upon completion of specific deliverables or project phases agreed prior to 9 December 2022 and not merely at the request of the borrower.[114]

The Net Interest Expenditure attributable to the pre-existing debt instruments or liabilities is the lower of:[115]

- the actual Net Interest Expenditure that arises in the Tax Period, and
- the Net Interest Expenditure that would have arisen based on the terms as they stood on 9 December 2022.

The Net Interest Expenditure in relation to a pre-existing debt instrument or liability is still subject to:

- the general rules for deduction of expenditure, therefore Interest expenditure should be incurred wholly and exclusively for the purposes of the Business, should not be capital in nature, etc. (Section 4.2),[116] and
- the Specific Interest Deduction Limitation Rule (Section 5).[117]

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[113] Article 11(1) and 11(2) of Ministerial Decision No. 126 of 2023.
[114] Article 11(3) of Ministerial Decision No. 126 of 2023.
[115] Article 11(4) of Ministerial Decision No. 126 of 2023.
[116] Article 28 of the Corporate Tax Law.
[117] Article 31 of the Corporate Tax Law.

Example 26: Historical financial liabilities

Company C, a construction company (incorporated and tax resident in the UAE), entered into a fixed-rate loan agreement on 1 January 2022 to finance the development of a residential building.

The terms of the loan, including the interest rate, were fixed at the time of agreement. Since the loan was agreed upon before 9 December 2022, the Interest payments made by Company C in subsequent Tax Periods will not be subject to the General Interest Deduction Limitation Rule.

If any of the terms of the loan agreement changes (such as an interest rate change or amending security terms) after 9 December 2022, the loan agreement would no longer be a pre-existing debt instrument.

Example 27: Historical financial liabilities

Company D, an IT company (incorporated and tax resident in the UAE), took out a variable-Interest rate loan on 15 November 2022 to expand its data centre operations.

Company D entered into an interest rate swap agreement on 10 January 2023 to convert the variable interest payments to fixed payments, thereby reducing interest rate risk.

The Interest payments under the original loan and the swap agreement are not subject to the General Interest Deduction Limitation Rule because the initial loan agreement predates 9 December 2022, and the swap agreement was solely entered into for interest rate risk management.

Any profit or loss made in respect of the swap agreement that is not considered to be interest or a financing amount under the applicable Accounting Standards would not be considered Interest. However, that profit or loss would be included in Accounting Income and therefore brought into the Taxable Income calculation. [118]

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[118] See section 3.11

Example 28: Historical financial liability with drawdown facility

Company E (incorporated and tax resident in the UAE) is a property developer that follows the Gregorian calendar year as its Financial Year. It entered into a loan agreement with a bank on 1 July 2022 with an annual interest rate of 5%. The loan agreement specified that Company E can draw down tranches of the previously agreed principal amount as it reaches certain construction milestones on a development project.

The total principal amount was agreed to be AED 10 million, with an initial drawdown of AED 4 million at the signing of the agreement, and three further possible drawdowns:

- Milestone 1: Completion of the foundation work, eligible for an additional AED 2 million drawdown.
- Milestone 2: Completion of the structural framework, eligible for an additional AED 2 million drawdown.
- Milestone 3: Completion of the exterior cladding, eligible for an additional AED 2 million drawdown.

Company E completed Milestone 2 on 1 January 2024, which triggered the obligation for the bank to provide an additional AED 2 million in principal.

Interest expenditure for Company E for the 2024 Tax Period:

Principal	Amount (AED)	Interest rate	Interest expenditure (AED)
Initial drawdown (pre-9 December 2022)	4 million	5%	200,000
Additional drawdown (post-9 December 2022 on completion of milestone)	2 million	5%	100,000
Total for 2024	**6 million**		**300,000**

The interest expenditure of AED 300,000 (i.e. AED 200,000 plus AED 100,000) is recognised as Interest but it is excluded from the General Interest Deduction Limitation Rule as the loan agreement was entered into before 9 December 2022, and the drawdown of the additional principal was based on a milestone agreed upon in the original loan terms.

Therefore, Company E can deduct all of the Interest expenditure of AED 300,000 against its Taxable Income for the 2024 Tax Period.

8.5. Qualifying Infrastructure Projects

8.5.1. Overview

The Corporate Tax Law provides an exception to the application of the General Interest Deduction Limitation Rule to a Qualifying Infrastructure Project Person executing a Qualifying Infrastructure Project (see Sections 8.5.2 and 8.5.3).[119]

The Net Interest Expenditure incurred in relation to a Qualifying Infrastructure Project is still subject to:

- the general rules for deduction of expenditure (i.e. should be incurred wholly and exclusively for the purposes of the Business, should not be capital in nature, etc. see Section 4.2),[120] and
- the Specific Interest Deduction Limitation Rule (see Section 5).[121]

Example 29: Interest expenditure incurred by a Qualifying Infrastructure Project Person

Company G (incorporated and tax resident in the UAE) is engaged to carry out a Qualifying Infrastructure Project and is a Qualifying Infrastructure Project Person.

It has obtained a bank loan of AED 350 million at an annual interest rate of 4% to finance the Qualifying Infrastructure Project. Interest expenditure of AED 14 million (4% of AED 350 million) is recognised as Interest but it is not subject to the General Interest Deduction Limitation Rule. The Interest expenditure is, therefore, fully deductible against Taxable Income.

If the Qualifying Infrastructure Project Person incurs Net Interest Expenditure in relation to a Business or Business Activity that is not a Qualifying Infrastructure Project, that Net Interest Expenditure is subject to the General Interest Deduction Limitation Rule and other general principles of deductibility.

8.5.2. Qualifying Infrastructure Project Person

A Qualifying Infrastructure Project Person is a Resident Person that satisfies one of the following conditions in the relevant Tax Period:

- is responsible for the provision, maintenance or operation of a Qualifying Infrastructure Project, or

[119] Article 14 of Ministerial Decision No. 126 of 2023.
[120] Article 28 of the Corporate Tax Law.
[121] Article 31 of the Corporate Tax Law.

- carries on any other activity that is ancillary to, or facilitates the provision, maintenance or operation of a Qualifying Infrastructure Project.

For example, a contractor responsible for maintaining a public hospital will qualify as a Qualifying Infrastructure Project Person whereas a contractor responsible for maintaining a private shopping mall will not qualify.

A Resident Person that carries out another Business or Business Activity in addition to one related to a Qualifying Infrastructure Project may still qualify as a Qualifying Infrastructure Project Person.

8.5.3. Qualifying Infrastructure Project

A Qualifying Infrastructure Project is a project that satisfies all the following conditions:[122]

- it is exclusively for the public benefit of the UAE (see Section 8.5.3.1),
- it is exclusively for the purposes of providing transport, utilities, education, healthcare or any other service within the UAE (see Section 8.5.3.2),
- its assets may not be disposed of at the discretion of the relevant Qualifying Infrastructure Project Person (see Section 8.5.3.3),
- the assets provided, operated or maintained by the project should last, or be expected to last, not less than ten years (see Section 8.5.3.4),
- all its assets must be situated in the UAE's territory (see Section 8.5.3.5), and
- all its Interest income and Interest expenditure must arise in the UAE (see Section 8.5.3.6).

The conditions are designed to capture assets that have such a close connection with the public sector that related financing arrangements present little or no base erosion or profit shifting risk.

8.5.3.1. Exclusively for the public benefit of the UAE

A project that is exclusively for the public benefit is one that benefits a large subset of the public, as opposed to the private interests of investors, companies or a small group not otherwise in need. For example, a project to build a hospital that may be used by both expats and Emirati citizens, with or without private medical insurance, would qualify. On the other hand, a project to build a hospital for the exclusive use of a specific family would not.

The word "exclusively" means that there can be no part of the project that would not be for public benefit. So, for example, a project to build a hospital that may be used by

[122] Article 14(3) of Ministerial Decision No. 126 of 2023

the public but also includes a private wing for the exclusive use of a specific family who donated funds to the project would not qualify, even if that private wing could be considered to be an incidental part of the overall hospital.

Example 30: Project that is exclusively for the public benefit in the UAE

Company H (incorporated and tax resident in the UAE) is undertaking a project to operate hydroelectric dams to generate electricity.

Company H distributes the power generated to the public grid. However, it uses some of the power generated to power the company's own operations, such as the dam's control centre and maintenance facilities. This in itself does not prevent the project from being a Qualifying Infrastructure Project if the company's operations are wholly and exclusively required for the project.

Example 31: Project that is not exclusively for the public benefit in the UAE

Continuing the above example, Company H also sells some of the power generated privately or provides some of the electricity generated to related parties (undertaking other Business Activities) free of charge. In that case, the project is not exclusively serving the public benefit, and thus would fail to be a Qualifying Infrastructure Project.

8.5.3.2. Specified services

The project should be exclusively for the purposes of providing transport, utilities, education, healthcare or any other service within the UAE as may be specified by the Minister.[123] Such other services are currently not specified.

For example, a company undertakes a project to construct a natural gas pipeline within the UAE to supply gas to immoveable property situated in the UAE.

8.5.3.3. Asset disposal restriction

The assets related to the project may not be disposed of at the discretion of the relevant Qualifying Infrastructure Project Person.[124]

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[123] Article 14(3)(b) of Ministerial Decision No. 126 of 2023.
[124] Article 14(3)(c) of Ministerial Decision No. 126 of 2023.

This condition recognises that any assets that are generated by a Qualifying Infrastructure Project are not for the benefit of and do not belong to the Qualifying Infrastructure Project Person.

A Qualifying Infrastructure Project Person could, however, be given the discretion to dispose of assets with the intention of replacement, maintenance, or upgrading to continue or enhance the service, for public benefit.

For example, a company with a project to maintain a public school could be given the discretion to sell outdated computers as part of an upgrade to a new, state-of-the-art computer lab that will enhance the educational experience for students. Here, although the company is disposing of an asset, it is essentially replacing an asset rather than removing an asset from a Qualifying Infrastructure Project.

8.5.3.4. Asset longevity

The assets provided, operated or maintained by the project should last, or be expected to last, not less than 10 years, or another period as may be specified by the Minister.[125] Currently, such other period has not been specified.

The term "Assets" is not defined but generally refers to the underlying asset, which might need maintenance and updating within the 10-year period. For example, a company may have a project to resurface roads. The surface of a road might not be expected to last 10 years but the underlying road, which is the asset (rather than the road surface), should exist, or be expected to exist for at least 10 years.

8.5.3.5. Location of the assets

All assets related to the project must be situated in the UAE.[126]

For example, a company undertakes a project to construct a natural gas pipeline within the UAE to supply gas to immoveable property situated in the UAE. This would be a Qualifying Infrastructure Project. However, if the project includes construction of a pipeline that extends beyond the UAE's borders to supply gas outside of the UAE as well as within the UAE, the project would not qualify unless the construction extending beyond the UAE's borders is governed by an independent contract.

[125] Article 14(3)(d) of Ministerial Decision No. 126 of 2023.
[126] Article 14(3)(e) of Ministerial Decision No. 126 of 2023.

Example 32: Project situated within UAE

The UAE has agreed with a neighbouring country (Country A) to have a railway line that crosses their shared border, and both have agreed to engage the same company (Company J, a tax resident in the UAE) to construct the railway. However, the UAE will fund and retain responsibility for the railway line within the UAE, and Country A will fund and be responsible for the railway line in its own territory. Although the railway line will appear seamless, Company J has two projects: one within the UAE and one within Country A.

The UAE project to construct the railway line within the UAE could qualify as a Qualifying Infrastructure Project with Company J as the Qualifying Infrastructure Project Person.

8.5.3.6. Interest income and Interest expenditure

All the project-related Interest income and Interest expenditure must arise in the UAE.[127] Interest arises where it is paid from. In the case of Interest expenditure incurred by a Taxable Person, considering the capital would be employed for the UAE project (to meet other conditions of a Qualifying Infrastructure Project), it would naturally arise in the UAE. However, if surplus cash is deposited in a Bank outside the UAE, the Interest income would not arise in the UAE and the project would not meet this condition.

Example 33: Interest expenditure paid outside the UAE

Company K (incorporated and tax resident in the UAE) has a project to construct a new highway in the UAE. It secures a loan at an annual interest rate of 3% to fund the construction from a foreign bank which is not registered/licensed in the UAE.

Although the Interest expenditure is paid to a foreign bank, the Interest expenditure arises in the UAE and, therefore, the project can be a Qualifying Infrastructure Project.

If Company K receives interest income from the foreign bank because it has surplus funds, but those funds are unrelated to the construction project, that would not prevent the project from being a Qualifying Infrastructure Project.

[127] Article 14(3)(f) of Ministerial Decision No. 126 of 2023.

In addition to the above conditions in Sections 8.5.3.1 to 8.5.3.6, in order to be a Qualifying Infrastructure Project, the project must satisfy any other condition that may be prescribed by the Minister.[128] Currently no additional conditions have been prescribed.

8.5.4. Qualifying Infrastructure Project Person executing multiple projects

If a Qualifying Infrastructure Project Person has a Business or Business activity that is unrelated to a Qualifying Infrastructure Project, the Net Interest Expenditure related to the other Business or Business Activity will be subject to the General Interest Deduction Limitation Rule (unless some other exemption applies).

Example 34: Qualifying Infrastructure Project Person executing multiple projects

Company L (incorporated and tax resident in the UAE) and follows the Gregorian calendar year as its Financial Year and Tax Period. It is involved in the construction and operation of a rail transit system (the “rail project”) that connects various Emirates in the UAE. It also constructs residential buildings.

Company L is a Qualifying Infrastructure Project Person in respect of the rail project, which qualifies as a Qualifying Infrastructure Project. However, the construction of residential buildings does not qualify as a Qualifying Infrastructure Project.

Company L has the following Net Interest Expenditure for its 2024 Tax Period:

Items	Amounts in AED	
	Rail project	**Residential buildings**
Interest income from investment of surplus funds	300,000	500,000
Interest expenditure	6,600,000	13,000,000
Net Interest Expenditure	**6,300,000**	**12,500,000**
Total: Net Interest Expenditure for the 2024 Tax Period	**18,800,000**	

[128] Article 14(3)(g) of Ministerial Decision No. 126 of 2023.

The Net Interest Expenditure of AED 6.3 million in relation to the rail project is not restricted by the General Interest Deduction Limitation Rule as it relates to a Qualifying Infrastructure Project. This means that Company L can deduct Net Interest Expenditure of AED 6.3 million in full when calculating its Taxable Income for the 2024 Tax Period (subject to other rules applying).

However, Company L will be subject to the General Interest Deduction Limitation Rule in respect of its Net Interest Expenditure of AED 12.5 million in relation to its activity of constructing residential buildings, and will need to calculate its adjusted EBITDA (see section 6.4) to determine the disallowed amount (if any) in relation to this Business or Business Activity.

8.6. Small Business Relief

A Taxable Person that is a Resident Person may elect for Small Business Relief in respect of a Tax Period if certain conditions are met, including where the Revenue of the Person is less than or equal to AED 3 million in that Tax Period and all previous Tax Periods ending on or before 31 December 2026.[129]

If the Small Business Relief election is made for a Tax Period, the Person is treated as not deriving any Taxable Income and, therefore, cannot deduct any Net Interest Expenditure and cannot carry forward any Net Interest Expenditure incurred in the Tax Period to any subsequent Tax Period.[130]

If, however, the Person had Net Interest Expenditure disallowed under the General Interest Deduction Limitation Rule in a previous Tax Period in which an election for Small Business Relief was not made, the Person may carry forward the disallowed amount to subsequent Tax Periods in which an election for Small Business Relief is not made.

As discussed in Section 6.2, a Taxable Person can carry forward disallowed Net Interest Expenditure for up to 10 Tax Periods. This timeframe ignores the Tax Periods in which the Person elects for Small Business Relief because the previously disallowed Net Interest Expenditure carried forward cannot be utilised during these periods.

For example, Company M has disallowed Net Interest Expenditure in its 2024 Tax Period. It did not elect for Small Business Relief in 2024 but it elected for the relief for 2025 and 2026 Tax Periods, with Company M's Revenue below AED 3 million in all of

[129] Article 21 of the Corporate Tax Law read with Ministerial Decision No. 73 of 2023

[130] Article 21(2)(c) of the Corporate Tax Law read with Ministerial Decision No. 73 of 2023.

these Tax Periods. Small Business Relief is not available for Tax Periods after 31 December 2026. Company M can use the Net Interest Expenditure carried forward from 2024 Tax Period up to and including its 2036 Tax Period.

9. Updates and Amendments

Date of amendment	Amendments made
April 2025	• First version