



Corporate Tax in the UAE

Impact on Contracts

Corporate Tax (CT) is becoming a reality in the United Arab Emirates (UAE). With effect from financial years starting on or after 1 June 2023, businesses will be subject to UAE CT. Specifically, UAE companies and other legal persons incorporated in the UAE, foreign legal entities that have a permanent establishment in the UAE and limited liability partnerships will be subject to UAE CT.

As expected, the introduction of CT will bring significant compliance obligations on companies in the form of tax returns, Transfer Pricing documentation and document retention. In addition to these, there will also be a definitive impact on the overall financial position of the companies as elaborated below.

Purchase costs: Suppliers may revise their prices upwards to protect their own margins from being eroded due to the additional CT cost. While suppliers may adopt different strategies in revising their prices, companies can generally expect their costs to increase once UAE CT comes into force thereby eroding their existing (pre-UAE CT) margins.

Sales pricing: Companies that are subject to UAE CT and have generated taxable income will be liable for UAE CT which will impact their existing margins. In order to maintain their profitability, companies will have to review their pricing strategies to ensure that their economic position is maintained or at least not too adversely impacted.

Given the potentially adverse impact on their bottom lines, companies should at the very least review their significant ongoing contracts (both purchases and sales) and engage with their

suppliers and customers to agree on pricing changes. As many companies would be expected to review their pricing in light of the UAE CT, this presents an opportunity for businesses to consider whether there may be strategic/commercial advantages that can be gained.

Additionally, for both ongoing and new contracts, companies will have to ensure that the contract terms provide for tax stability in such a way that the prices can be adjusted in the event of any adverse impact to the economic position of the parties, due to changes in tax law (i.e., a tax stability clause). Please note that whilst the statutory UAE CT rate is 9%, a higher rate may apply for entities that are part of large multinational groups.

Also, whilst the withholding tax rate is currently set at 0%, it is possible that the UAE may increase this in the future. Accordingly, withholding tax clauses (e.g., gross up clauses) should be considered as well particularly for payments that may be subject to withholding taxes.

Given that there is adequate information to perform an impact assessment, companies should start reviewing their existing purchase and sales contracts. Deloitte, given its vast experience, can support companies requiring any professional inputs on the above aspects.

Contacts

If you require assistance at any stage during the CT implementation, please get in touch with one of our tax experts listed on the following [page](#).

You can also contact us and submit all your queries on this email cituae@deloitte.com.

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