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The Cost of Getting It Wrong

UAE Corporate Tax after the first filing cycles: where value leaks, what the FTA now expects, and a control framework for CFOs and Heads of Tax



THE COST OF GETTING IT WRONG

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Prepared by Oblique Consult. Information current to 30 September 2026. Superscript numbers refer to the numbered references at the end of the paper.

Executive Summary

The UAE Corporate Tax regime has entered its third year of returns. Businesses with 31 December year ends filed their first returns by 30 September 2025.²⁴ The second cycle closed on 30 September 2026.⁵⁹ Corporate Tax registrations passed 543,000 by May 2025,²¹ and the FTA completed more than 245,000 registration applications during 2025.²³

The rules have moved fast since the first returns. Between March 2025 and September 2026 the Ministry of Finance and the Federal Tax Authority issued new rules on audited financial statements, qualifying free zone activities, downward transfer pricing adjustments, advance pricing agreements, the implementation of the 15% domestic minimum top-up tax, an R&D tax credit, e-invoicing and the Tax Procedures Law. A tax position built on the 2024 rulebook needs review.

This paper puts numbers on what errors cost. A late return costs AED 500 a month in its first year.⁴ The largest costs come from the structure of the regime. A free zone company that exceeds the de minimis limit by AED 1 million loses its 0% rate for five tax periods.¹¹ On AED 20 million of annual taxable income, that is AED 8.8m of tax. A tax difference found by the FTA carries a fixed 15%

penalty. A voluntary disclosure made before the FTA notifies an audit avoids it.⁴ Transfer pricing sits behind most of these exposures because it decides how profit is split between 0% and 9% entities.

We model a composite mid-sized group, Group X, that makes five common errors. Over five years they cost AED 9.5m, equal to 71% of the tax the group should have paid in that period.

For groups with consolidated revenue of EUR 750 million or more, the Domestic Minimum Top-up Tax changes the arithmetic from 1 January 2025.⁹ Free zone profit taxed at 0% now counts in a single UAE effective tax rate that must reach 15%. In our illustration, a group paying AED 9.0m of Corporate Tax on AED 300 million of profit owes a further AED 34.6m of top-up tax. For that group, free zone status is worth AED 0.7m a year. Outside the top-up tax, the same status would be worth AED 18.0m.

The paper closes with a control framework built on five controls: an entity and elections register, a quarterly qualifying income test, transfer pricing evidence, a close-to-return bridge and a disclosure protocol. A calendar sets out the dates that matter between now and 2029.

AED 8.8m

cost of an AED 1m free zone de minimis overshoot over five periods (Example C)

AED 9.5m

five-year cost of five common errors for composite Group X

AED 34.6m

annual top-up tax for an in-scope group with a 0% free zone entity (Example F)

Key Findings

5 TAX PERIODS

Loss of Qualifying Free Zone Person status runs for the period of the breach and the following four.¹¹ An AED 1m overshoot on AED 20m of annual taxable income costs AED 8.8m.

AED 5m HARD CAP

For free zone companies with revenue above AED 100m, the AED 5m limit on non-qualifying revenue binds before the 5% test. At AED 150m of revenue, AED 6m of non-qualifying revenue is 4% and still a breach.

15% FIXED PENALTY

A tax difference found by the FTA attracts 15% plus 1% a month. A voluntary disclosure made before an audit notice attracts the 1% a month only.⁴

14% A YEAR

Late payment of Corporate Tax accrues at 14% per annum, charged monthly.⁴ Six months late on AED 2m of tax costs AED 143,000 with filing penalties.

71% UPLIFT

Five common errors add AED 9.5m to the five-year tax cost of our composite Group X.

30 Nov 2026

Registration deadline for the 15% top-up tax for calendar-year groups. First top-up returns are due 30 June 2027.^{50,51}

91,000 BUSINESSES

The FTA expects over 91,000 beneficiaries from its late registration penalty waiver, a measure of how widespread late compliance has been.²²

2029 SBR EXTENDED

Small Business Relief now runs to tax periods ending on or before 31 December 2029. The AED 3m revenue test is unchanged.^{16,58}

PART ONE

Where the Regime Stands



01 The Regime in Year Three

02 What the First Filing Cycle Exposed

01

PART ONE

The Regime in Year Three

The core architecture dates from 2023. Its detail changes often. The table sets out the rules a CFO needs in view before signing a return. Article references are to Federal Decree-Law No. 47 of 2022 as amended.¹

AREA	RULE	SOURCE
Headline rate	0% on taxable income up to AED 375,000. 9% above. ²	Art. 3; CD 116/2022
Qualifying Free Zone Person	0% on Qualifying Income. 9% on other taxable income. ¹	Art. 3(2), Art. 18
Large multinationals	Domestic Minimum Top-up Tax to a 15% effective rate for groups with revenue of EUR 750m or more. ^{9,29}	Art. 3(3); CD 142/2024
Withholding tax	0% on UAE-source payments to non-residents. ⁵⁵	Art. 45
Return and payment	Within nine months of the end of the tax period. ²⁴	Arts. 48, 53
Tax losses	Carried forward and set against up to 75% of taxable income in a later period.	Art. 37
Interest	Net interest expense deductible up to 30% of tax-adjusted EBITDA, with an AED 12m safe amount. Disallowed interest carries forward for 10 years. ^{1,7}	Art. 30; MD 126/2023
Tax groups	Parent holds at least 95% of capital, votes and profit entitlement. Members are jointly liable.	Art. 40
Participation exemption	At least 5% held for 12 months (or AED 4m acquisition cost), subject to tax of at least 9%.	Art. 23; MD 116/2023
Audited accounts	Required where revenue exceeds AED 50m, for every QFZP, and for tax groups (from 2025 periods). ¹⁰	MD 84/2025
Small Business Relief	Revenue of AED 3m or less. Extended to periods ending by 31 December 2029. Not available to QFZPs or MNE group members. ^{5,16}	Art. 21; MD 73/2023; MD 131/2026
Records	Kept for seven years after the end of the tax period.	Art. 56
Registration	Entities incorporated from 1 March 2024 register within three months. Late registration costs AED 10,000. ^{19,20}	FTA Decision 3/2024; CD 10/2024

01 THE REGIME IN YEAR THREE CONTINUED

From law to full operation

The regime has been phased in since October 2022. Each phase added a compliance layer on top of the last. The next twelve months add two more: the first top-up tax returns and mandatory e-invoicing.



Figure 1. Milestones in the UAE Corporate Tax regime. Teal marks events from October 2026 onwards. Sources: CT Law, CD 142/2024, FTA and MoF announcements.^{1,9,12,24}

The size of the taxpayer base

543,000+

Corporate Tax registrations by May 2025.²¹

245,000+

Corporate Tax registration applications completed during 2025.²³

137

Double tax agreements concluded by the UAE.³⁴

The FTA has not published the number of returns filed or a compliance rate for the first cycle. The federal budget for 2026 sets revenue at AED 92.4 billion and attributes its growth mainly to Corporate Tax, but does not show Corporate Tax as a separate line.³⁵ The tax base sits inside an economy that grew 6.2% in real terms in 2025 to AED 1.9 trillion.⁶⁰

Reading the regime. Most operative detail sits outside the Decree-Law. The de minimis figures for free zones, the five-period disqualification rule, the documentation thresholds and the audit requirement all live in Ministerial Decisions. These can change with little notice. MD 229 of 2025 replaced its predecessor with retroactive effect to 1 June 2023.¹¹

01 THE REGIME IN YEAR THREE CONTINUED

What changed between March 2025 and September 2026

Thirteen changes in eighteen months. Several apply retroactively or to periods already open. Each one below changes either a tax computation, a documentation duty or a deadline.

WHEN	INSTRUMENT	WHAT IT DOES
Mar 2025	MD 84 of 2025	Restates audited accounts for every QFZP regardless of revenue and adds audited special purpose statements for tax groups. ¹⁰
Apr 2025	FTA waiver initiative	AED 10,000 late registration penalty waived if the first return is filed within seven months of the first period end. ²¹
Aug 2025	MD 229 of 2025	Replaces MD 265 of 2023 from 1 June 2023. Wider commodity list, 51% threshold on distribution and logistics revenue for commodity traders, treasury for own account. ^{11,45}
Aug 2025	OECD status	UAE top-up tax granted transitional qualified status and QDMTT safe harbour. ³⁰
Q4 2025	FDL 28 of 2025	Order of set-off for tax credits and refund of unused incentive credits (new Art. 49 bis). ⁵⁵
Dec 2025	APA Guide CTGAPA1	Domestic unilateral advance pricing agreements open. AED 30,000 fee, three to five year term. ²⁷
Dec 2025 to Mar 2026	CD 215 of 2025, MD 24 of 2026	R&D tax credit of 15% to 50% on up to AED 5m of qualifying spend, for periods from 1 January 2026. ^{13,14}
Jan 2026	FDL 17 of 2025	Tax Procedures Law: five-year refund window, extended audit periods in defined cases, binding FTA directives. ^{32,56}
Apr 2026	CD 129 of 2025	VAT and excise penalties realigned to the Corporate Tax model: 14% a year late payment, 1% a month on disclosures. ⁵⁷
Jun 2026	FTA Decision 6 of 2026	Free zone distributors need an auditor's agreed-upon procedures report from 2026 periods. ⁴⁴
Jul 2026	CTP011	Downward transfer pricing adjustments may be self-assessed, with full disclosure. ⁴³
Jul 2026	MD 131 of 2026	Small Business Relief extended to periods ending by 31 December 2029. ^{16,58}
Jul to Aug 2026	FTA Decision 12 of 2026, MD 133 of 2026	Top-up tax registration timelines and Pillar Two information return filers. ^{15,51}

02

PART ONE

What the First Filing Cycle Exposed

The FTA has published no error statistics for the first cycle. The evidence comes from FTA announcements and from advisers who prepared and reviewed the first returns. The same themes recur across them.

1 Free zone relief lost through process gaps

EY reports that several taxpayers could not claim Qualifying Free Zone Person relief because internal processes failed a condition. Filing the first return at 9% locks the entity out for the following four periods.³⁸

2 Elections made in haste

First-year choices on the realisation basis and transitional relief are hard or impossible to reverse. EY found many were rushed or uninformed. DLA Piper notes these elections shape a company's tax position for years.^{38,39}

3 Returns that do not reconcile to audited accounts

Incomplete reconciliations and delayed audits produced mismatches in related party, property and other tax-sensitive disclosures.³⁸

4 Transfer pricing data built after the fact

EY names transfer pricing as a key challenge. The disclosure form asks for both the recorded value and the arm's length value of each transaction category.^{38,40}

5 Registration data flowing wrongly into returns

EmaraTax pre-populates returns from registration records. Errors in those records, common for foreign entities, carried into the return.^{38,40}

6 Tax groups formed without testing the downside

Groups were formed without assessing how pre-grouping losses and interest capacity would be restricted.³⁸

7 Non-deductible items not isolated in the ledger

Entertainment is 50% deductible and penalties are not deductible. Ledgers that do not tag these items make the adjustment a manual estimate.^{1,39}

8 Late registration at scale

The FTA's penalty waiver had 68,600 beneficiaries by May 2026. The FTA expects the total to pass 91,000.²²

02 WHAT THE FIRST FILING CYCLE EXPOSED CONTINUED

From error to consequence to control

Each failure point maps to a defined consequence under the law and to a control that prevents it. The controls are developed in Section 07.

FAILURE POINT	CONSEQUENCE	CONTROL
QFZP condition missed in one period	Status lost for that period and the next four; 9% on all taxable income above AED 375,000	Quarterly qualifying income test with named owner
Election made without modelling	Hard or impossible to revisit	Elections register with board sign-off and modelling on file
Return and accounts disagree	FTA query; incorrect return penalty; voluntary disclosure	Close-to-return bridge reviewed before filing
TP disclosure built from estimates	Adjustment; 15% plus 1% a month if found on audit	Intercompany agreements, benchmarks and ledger mapping refreshed annually
Connected person pay above market	Excess disallowed; penalties if found on audit	Benchmark owner and director remuneration each year
EmaraTax record out of date	Wrong data in the return; AED 1,000 penalty for failing to notify changes	Registration record checked against licence and cap table before each return
Error found after filing	Voluntary disclosure at 1% a month; audit finding at 15% plus 1% a month	Disclosure protocol with a decision deadline

A new procedural backdrop. From 1 January 2026, the amended Tax Procedures Law gives five years to claim refunds of credit balances. It lets the FTA audit beyond the normal five-year limit in defined cases, which DLA Piper puts at up to 15 years for evasion or failure to register. Non-material errors may be corrected without a voluntary disclosure unless the FTA requires one.^{32,56} Balances already time-barred can still be claimed until 31 December 2026.⁵⁶

Six questions before signing the next return

1. Does every free zone entity pass each Article 18 condition for the whole period, and who has tested it?
2. Which elections are locked in, and until which period?
3. Does the return reconcile line by line to the audited accounts?
4. Can we produce the master file and local file within 30 days of a request?
5. Are connected person payments benchmarked to market value?
6. Have errors found since the last return been quantified, and has a disclosure decision been made?

PART TWO

Where Value Leaks



03 The Cost Stack

04 Free Zones: A Conditional 0%

05 Transfer Pricing

03

PART TWO

The Cost Stack

Cabinet Decision No. 75 of 2023 sets the Corporate Tax penalties.⁴ The schedule has not changed since the late registration penalty was added in 2024. Cabinet Decision No. 129 of 2025 brought VAT and excise penalties into line with it from April 2026.⁵⁷ Penalties are not deductible for Corporate Tax.¹

VIOLATION	PENALTY
Failure to keep records	AED 10,000 per violation; AED 20,000 if repeated within 24 months
Late registration	AED 10,000 ¹⁹
Late filing of return	AED 500 a month for 12 months, then AED 1,000 a month
Late payment	14% per annum, applied monthly on the unpaid tax
Incorrect return	AED 500, unless corrected before the filing deadline
Voluntary disclosure of an error	1% of the tax difference for each month from the return due date
Tax difference found by the FTA	Fixed 15% of the tax difference, plus 1% a month
Failure to facilitate a tax auditor	AED 20,000

The price of waiting for the FTA

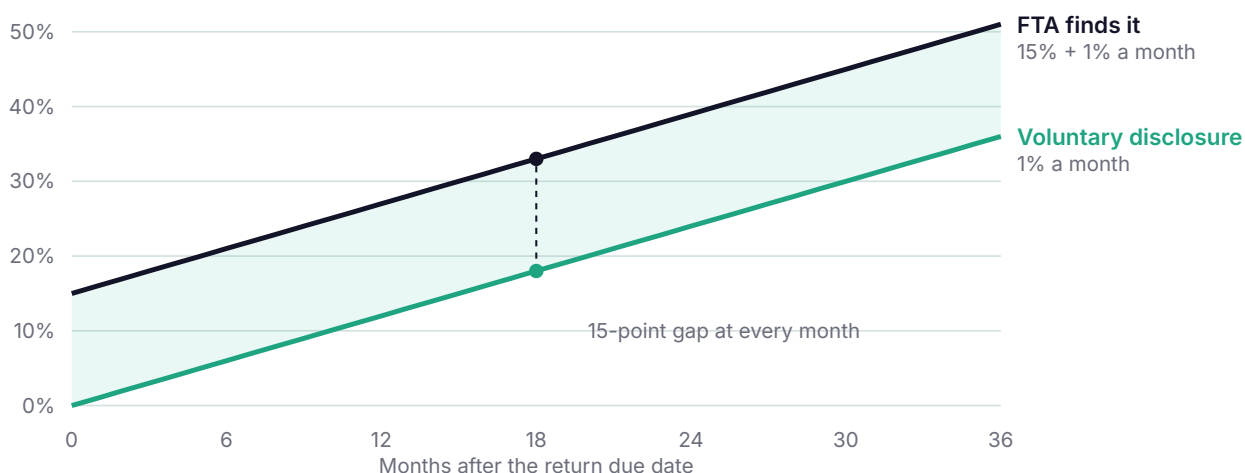


Figure 2. Cumulative penalty as a percentage of the tax difference. Voluntary disclosure compared with a difference found by the FTA. Source: CD 75/2023 items 10 and 11.⁴

03 THE COST STACK CONTINUED

Two worked examples

The monthly penalties compound the cost of delay. The fixed 15% applies only where the FTA finds the error first. The examples use the rates in Cabinet Decision No. 75 of 2023.⁴

EXAMPLE A Filing and paying six months late	EXAMPLE B Disclose it or wait to be found
A company owes AED 2,000,000 of Corporate Tax. It files and pays six months after the deadline.	A company understated its tax by AED 1,000,000. The error is dealt with 18 months after the return was due.
Late filing: $\text{AED } 500 \times 6 \text{ months}$ AED 3,000	Voluntary disclosure: $1\% \times 18 \text{ months}$ AED 180,000
Late payment: $\text{AED } 2,000,000 \times 14\% \times 6/12$ AED 140,000	FTA finding: $15\% + (1\% \times 18 \text{ months})$ AED 330,000
Total penalties AED 143,000	Cost of waiting AED 150,000
As a share of the tax owed 7.15%	

In Example B the voluntary disclosure penalty keeps growing at 1% a month until the disclosure is made. Each month of delay costs 1% of the difference. Discovery by the FTA, or a disclosure made after an audit notice, adds 15% at once.

Where the penalty clock starts. Late payment penalties run from the day after the payment due date, on the same date each month. Disclosure and audit penalties run from the day after the return due date until the disclosure or the tax assessment.⁴

Penalty on an AED 1m tax difference

MONTHS AFTER THE RETURN DUE DATE	VOLUNTARY DISCLOSURE	FOUND BY THE FTA	COST OF WAITING
3	AED 30,000	AED 180,000	AED 150,000
6	AED 60,000	AED 210,000	AED 150,000
12	AED 120,000	AED 270,000	AED 150,000
24	AED 240,000	AED 390,000	AED 150,000
36	AED 360,000	AED 510,000	AED 150,000

Structural errors cost more

Structural errors scale with profit. The loss of a relief or a tax rate applies to the whole taxable base for as long as the condition is failed. The next page models both together.

03 THE COST STACK CONTINUED

Group X: five errors over five years

Group X is a composite of the issues described in Section 02. It is hypothetical. It has a mainland operating company with correct taxable income of AED 30m a year and a free zone trading company with AED 150m of revenue and AED 20m of taxable income a year. Five things go wrong:

- The free zone company earns AED 6m of non-qualifying revenue in year one, AED 1m above the cap (Section 04).
- The mainland company pays a AED 15m headquarter services fee to the free zone company, a qualifying activity. The arm's length value is AED 9m (Section 05). The free zone company's AED 20m is stated at arm's length, with a corresponding adjustment assumed.
- Owner-director pay of AED 3.6m exceeds a market value of AED 1.8m.
- The FTA audits years one and two, assessing them 24 and 12 months after their return due dates. Group X corrects years three to five in its own returns.
- Year one's mainland return is filed and paid six months late, with late payment penalties on the tax as filed. Records supporting the fee are missing twice.

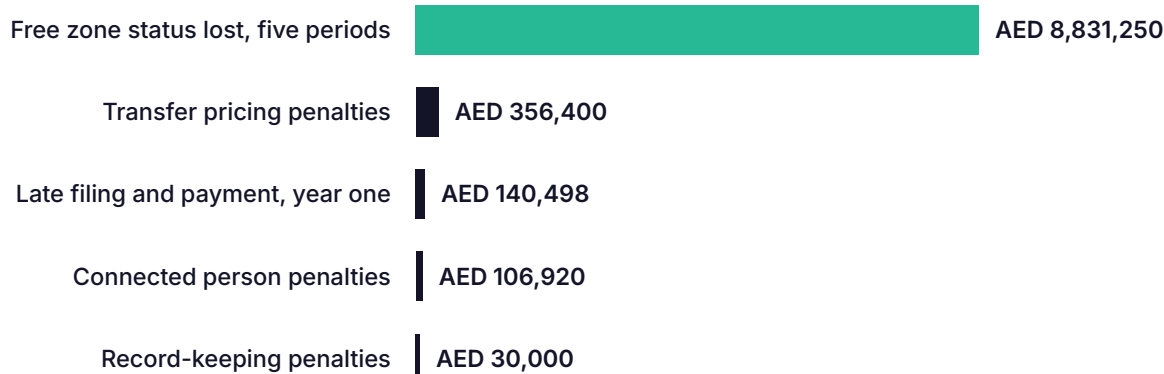


Figure 3. Five-year cost of errors for Group X, AED. Penalties and lost relief only. Tax that was due in any case is excluded.

AED 9.5m

five-year cost of error

71%

of the AED 13.3m of tax Group X should have paid

Assumptions: 9% on taxable income above AED 375,000; profits constant over five years; no time value of money; the free zone breach is identified and the return filed on time. With the corresponding adjustment, the transfer pricing correction moves profit between two entities taxed at 9% and leaves total tax unchanged. The remuneration adjustment brings forward AED 324,000 of tax for years one and two that was due in any case. The free zone breach accounts for 93% of the total. Figures are rounded to the nearest dirham.

04

PART TWO

Free Zones: A Conditional 0%

The UAE has more than 40 free zones.³⁶ A company incorporated in one is a Free Zone Person. It becomes a Qualifying Free Zone Person, taxed at 0% on Qualifying Income, only while it meets every condition in Article 18 at all times during the tax period.¹

40+

free zones in the UAE.³⁶

5% or AED 5m

limit on non-qualifying revenue, whichever is lower.¹¹

5 periods

of 9% tax after a single failed condition.¹¹

The conditions

1. **Adequate substance.** Core income-generating activities carried out in a free zone with adequate assets, qualified full-time staff and operating expenditure.⁸
2. **Qualifying Income.** Income from the four categories set by Cabinet Decision No. 100 of 2023.⁸
3. **No election** to be taxed at standard rates. An election applies for five tax periods.^{1,46}
4. **Transfer pricing compliance** with Articles 34 and 55.¹
5. **De minimis.** Non-qualifying revenue no more than 5% of total revenue or AED 5m, whichever is lower.¹¹
6. **Audited financial statements**, for every QFZP regardless of size.^{10,11}

What counts as Qualifying Income

1. Income from transactions with other Free Zone Persons, where the counterparty is the beneficial recipient.
2. Income from transactions with non-free zone persons, but only from a Qualifying Activity.
3. Income from qualifying intellectual property, under a nexus approach.
4. Any other income, if the de minimis test is met.⁸

Income from a domestic or foreign permanent establishment is taxed at 9%. It is left out of both sides of the de minimis test. So is revenue from immovable property that is not Qualifying Income, and from non-qualifying intellectual property.⁸

The five-period rule. A QFZP that fails a condition ceases to qualify from the start of that tax period and for the following four.¹¹ The rule sits in the Ministerial Decision, made under Article 18(3).

04 FREE ZONES: A CONDITIONAL 0% CONTINUED

The AED 5m cap binds first for larger companies

The de minimis limit is the lower of two numbers. Below AED 100m of revenue, the 5% test binds. Above AED 100m, the fixed AED 5m cap binds. A finance team that monitors only the percentage will miss a breach.

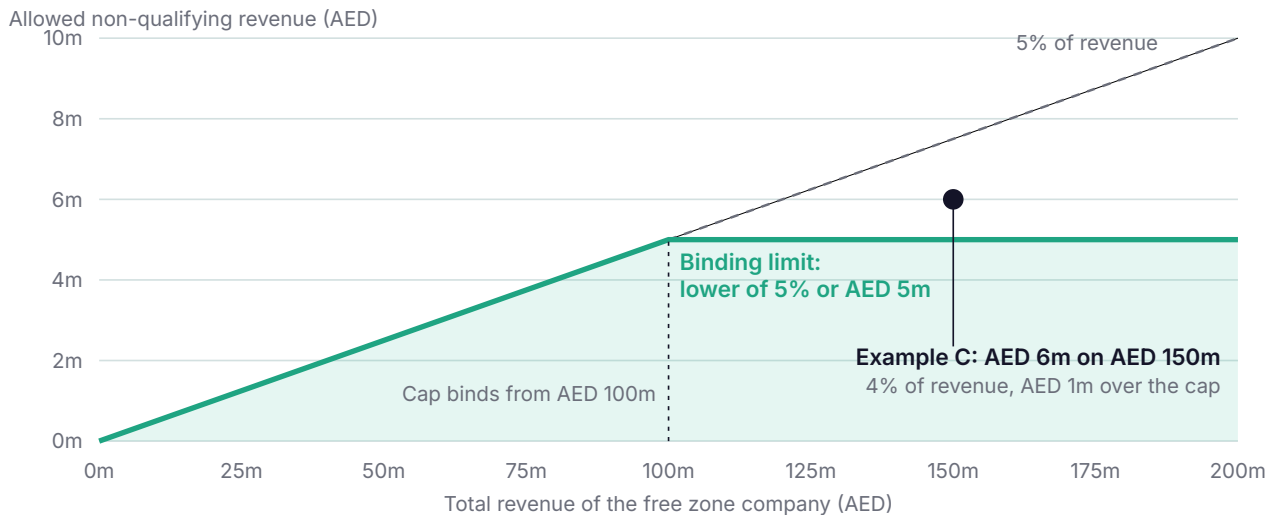


Figure 4. Maximum non-qualifying revenue under the de minimis test. Source: MD 229/2025, Article 3.¹¹

EXAMPLE C An AED 1m overshoot

A free zone company has revenue of AED 150m and taxable income of AED 20m a year. AED 6m of revenue comes from services to mainland customers, which are not a Qualifying Activity.

5% of revenue	AED 7,500,000
Limit: lower of 5% and AED 5m	AED 5,000,000
Non-qualifying revenue	AED 6,000,000 (4% of revenue)
Overshoot	AED 1,000,000
Tax each year: $9\% \times (20,000,000 - 375,000)$	AED 1,766,250
Tax over five periods	AED 8,831,250

Assumes constant profit and no other non-qualifying income. Once the company ceases to be a QFZP, standard rates apply, including the 0% band on the first AED 375,000. The figure is before any tax a compliant structure would have paid on the AED 1m of excess revenue, for example by routing those contracts through a mainland entity.

04 FREE ZONES: A CONDITIONAL 0% CONTINUED

What changed in 2025 and 2026

MD 229 of 2025 replaced the qualifying activities list with retroactive effect to 1 June 2023. It widens the commodities that qualify and accepts prices from recognised price reporting agencies. It adds structured commodity financing. Commodity trading no longer qualifies where distribution, warehousing or logistics make up 51% or more of revenue. Treasury activity now qualifies when carried out for the company's own account.^{11,45}

FTA Decision No. 6 of 2026 requires a free zone distributor to obtain an agreed-upon procedures report from a UAE-licensed auditor. The report evidences that customers resell or process the goods and that goods were imported through a Designated Zone. It is due within 30 days after the return deadline, for periods from 1 January 2026. Without it, the distribution activity is treated as not meeting its conditions.⁴⁴

FTA private clarifications bind only the applicant. The summary published in 2026 shows the FTA's approach: a QFZP does not lose status because related party transactions were booked off arm's length, provided the return carries the adjustment. Branches in different free zones are assessed together. Mainland branches are assessed separately.²⁸

Dubai Executive Council Resolution No. 11 of 2025 lets free zone companies obtain a licence or permit to operate on the Dubai mainland, with separate financial records.¹⁸ For Corporate Tax, a mainland place of business is a domestic permanent establishment. Its income is taxed at 9% as if it were a separate related party, and it sits outside the de minimis test.⁸ The branch profit attribution therefore needs transfer pricing support.

Where free zone companies fail

FAILURE POINT	WHY IT FAILS	RULE
Services to mainland or overseas clients	Consulting, marketing and IT services are not on the qualifying activity list. The revenue counts against the de minimis limit.	CD 100/2023 Art. 3(1)(b)
Sales to individuals	Transactions with natural persons are excluded activities, with limited exceptions.	MD 229/2025 Art. 2(2)(a)
Sales to another free zone company	Qualifies only where the buyer is the beneficial recipient. Evidence is needed.	CD 100/2023 Art. 3(1)(a)
Flexi-desk or outsourced substance	Core activities must be performed in the zone, or outsourced under adequate supervision.	CD 100/2023 Art. 8
Distribution to the mainland	Qualifies only from a Designated Zone, to resellers or processors, with an AUP report from 2026.	MD 229/2025; FTA Decision 6/2026
Accounts audited late or not at all	Audited financial statements are a condition of QFZP status.	MD 84/2025; MD 229/2025 Art. 5

A VAT Designated Zone and a Corporate Tax free zone are separate concepts. Designated Zone status gives no 0% Corporate Tax rate by itself. It matters for Corporate Tax only for the distribution activity.⁸ The FTA's Free Zone Persons guide dates from May 2024 and predates MD 229 of 2025 and FTA Decision 6 of 2026, so it should be read alongside them.²⁵

05

PART TWO

Transfer Pricing

Transfer pricing decides how profit is split between entities taxed at 0%, 9% and, for large groups, 15%. It sits behind most free zone, connected person and top-up tax questions. Article 34 requires arm's length pricing using the five OECD methods, or another method where none can reasonably apply.¹

A related party includes anyone holding 50% or more, or exercising significant influence. Payments to connected persons, meaning owners, directors, officers and their related parties, are deductible only at market value and only if incurred wholly and exclusively for the business. Listed and regulated entities are exempt from the connected person rule.¹

Thresholds and duties

OBLIGATION	TRIGGER	SOURCE
Master file and local file	The taxable person's own revenue of AED 200m or more, or group revenue of AED 3.15bn or more	MD 97/2023 Art. 2 ⁶
Local file scope	Transactions with non-residents, exempt persons and residents on a different tax rate, including QFZP to mainland	MD 97/2023 Art. 2 ⁶
Related party disclosure schedule	Aggregate related party transactions above AED 40m; each category above AED 4m reported	FTA Returns Guide ⁴¹
Connected person schedule	Payments or benefits to a connected person above AED 500,000	FTA Returns Guide ⁴¹
Production on request	Master file and local file within 30 days of an FTA request	Art. 55 ¹
Country-by-country report	UAE-parented groups with revenue of AED 3.15bn or more; due 12 months after year end	CR 44/2020 ¹⁷

The FTA's Transfer Pricing Guide treats the interquartile range as an appropriate arm's length range. It prefers local comparables, then regional, then global.^{26,42} Where a guide is silent, it directs taxpayers to the OECD Guidelines.²⁶

05 TRANSFER PRICING CONTINUED

Three developments that change the workflow

Downward adjustments

Public Clarification CTP011 (July 2026) lets taxpayers self-assess downward adjustments without prior FTA approval. Every such transaction must be disclosed, whatever its value, with evidence of a symmetrical adjustment by the counterparty.⁴³

Advance pricing agreements

Domestic unilateral APAs opened in December 2025. The indicative threshold is AED 100m of controlled transactions a year. The fee is AED 30,000, the term three to five periods, with no rollback. Advisers point to free zone to mainland flows as a natural use case.^{27,48,49}

Audit focus

Baker Tilly UAE reports FTA audits testing management fees for proof of services, allocation keys and benefit, and following intra-group flows across free zone, mainland and overseas entities.⁴⁷

What an adjustment costs

EXAMPLE D A management fee without evidence	
A mainland company pays a AED 15m management fee to a free zone affiliate. On audit, the FTA accepts AED 9m as arm's length.	
Adjustment each year	AED 6,000,000
Additional tax each year at 9%	AED 540,000
Year 1 penalty: 15% + 24 months at 1%	AED 210,600
Year 2 penalty: 15% + 12 months at 1%	AED 145,800
Penalties for two years	AED 356,400

EXAMPLE E Owner-director pay above market	
An owner-director is paid AED 3.6m. A benchmark supports AED 1.8m.	
Excess over market value	AED 1,800,000
Tax on the disallowance each year	AED 162,000
Penalties if found for years 1 and 2	AED 106,920

What evidence for a management fee looks like

- A signed intercompany agreement that describes the services and the charging basis.
- Records of services actually rendered: deliverables, time records, named staff.
- An allocation key that is documented, consistent and linked to benefit.
- A benefit test showing the recipient would pay a third party for the service.
- A benchmark of the mark-up. We recommend a full search every three years, rolled forward annually.
- Invoices and ledger postings that match the agreement and the disclosure form.

Examples D and E feed Group X in Section 03. The additional tax was due in any case. The penalties are the cost of the error. Where the affiliate remains a Qualifying Free Zone Person, it gains no relief from the corresponding reduction in its income, because that income was taxed at 0%.

PART THREE

What Comes Next



06 Pillar Two: The 15% Floor

07 The CFO Control Framework

08 Oblique Case Notes

06

PART THREE

Pillar Two: The 15% Floor

Federal Decree-Law No. 60 of 2023 gave the Cabinet power to impose a top-up tax so that large multinationals pay an effective 15%.³ Cabinet Decision No. 142 of 2024 did so from 1 January 2025.⁹

Scope

The Domestic Minimum Top-up Tax applies to UAE constituent entities of groups with consolidated revenue of EUR 750m or more in at least two of the four preceding years.²⁹ Purely domestic groups are out of scope. It is computed on a single UAE effective tax rate across all group entities in the country. The UAE has chosen not to apply an Income Inclusion Rule.²⁹

In August 2025 the OECD granted the UAE regime transitional qualified status, including the QDMTT safe harbour. Other countries' top-up rules therefore treat top-up tax on UAE entities as nil.³⁰

The side-by-side package

On 5 January 2026 the Inclusive Framework agreed a package that exempts US-parented groups from the Income Inclusion Rule and the Undertaxed Profits Rule. Domestic minimum taxes are unaffected.^{37,52} US-parented groups still pay UAE top-up tax on low-taxed UAE profit.

Deadlines

OBLIGATION	CALENDAR-YEAR GROUPS
Register with the FTA (within 7 months of the first in-scope year end; transitional date for years ending before 30 April 2026)	30 November 2026 ⁵¹
FY2025 top-up return, information return and payment (18 months for the transition year)	30 June 2027 ⁵⁰
FY2026 return and payment (15 months)	31 March 2028*

* Oblique calculation from the 15-month rule. Ministerial Decision No. 133 of 2026 sets which UAE entities file the Pillar Two information return.¹⁵ Ministerial Decision No. 96 of 2026 adopts the OECD 2026 commentary and guidance.^{16,53} The FTA states a late registration penalty of AED 10,000 per entity.⁵¹

Free zone income in the top-up calculation. Qualifying Income taxed at 0% adds profit with no tax to the UAE rate calculation. It pulls the rate down and raises the top-up.

06 PILLAR TWO: THE 15% FLOOR CONTINUED

What free zone status is worth to an in-scope group

EXAMPLE F An in-scope group with a free zone entity

Entity A (mainland) earns AED 100m of GloBE income. Entity B (QFZP) earns AED 200m, all Qualifying Income. FY2026. Eligible payroll AED 50m, eligible tangible assets AED 100m. Deferred tax and other adjustments ignored.

Corporate Tax: $9\% \times (100\text{m} - 0.375\text{m})$	AED 8,966,250
UAE effective tax rate: $8,966,250 \div 300\text{m}$	2.99%
Top-up percentage: $15\% - \text{ETR}$	12.01%
Substance carve-out: $9.4\% \times 50\text{m} + 7.4\% \times 100\text{m}$	AED 12,100,000
Excess profit: $300\text{m} - \text{carve-out}$	AED 287,900,000
Top-up tax: top-up % $\times$ excess profit	AED 34,580,389
Total UAE tax	AED 43,546,639 (14.52%)

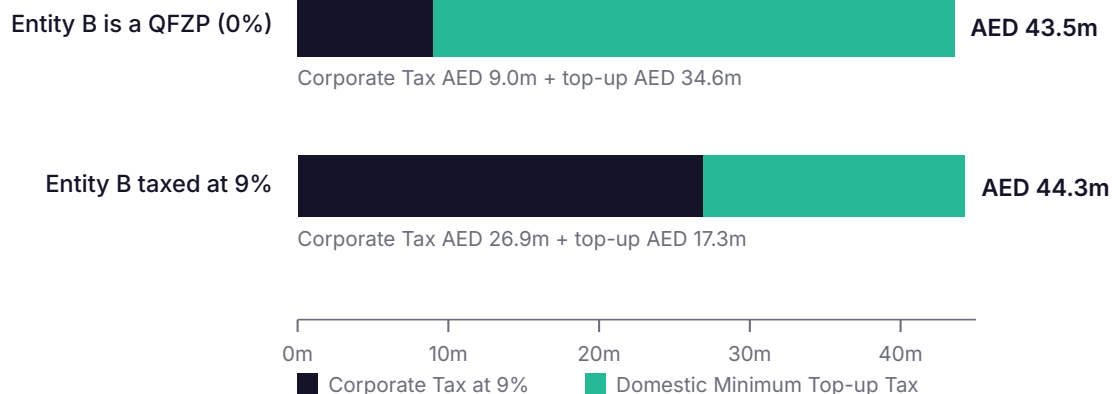


Figure 5. Total UAE tax for the Example F group, with Entity B as a QFZP and with Entity B taxed at 9%. Hypothetical. Carve-out rates for 2026 per the GloBE transition schedule.⁵⁰

Percentages are shown rounded. The top-up is calculated on unrounded figures.

With Entity B taxed at 9%, Corporate Tax rises to AED 26.9m and the top-up falls to AED 17.3m. Total UAE tax differs by AED 0.7m a year. For a group outside the top-up tax, Entity B's free zone status would be worth AED 18.0m a year. The compliance cost of keeping the status is the same in both cases. In-scope groups should re-test whether each QFZP is worth its controls, and should model the substance carve-out, which falls each year to 5% from 2033.⁵⁰

06 PILLAR TWO: THE 15% FLOOR CONTINUED

The substance carve-out shrinks

Top-up tax applies to profit above a carve-out based on payroll and tangible assets in the UAE. The rates fall each year.⁵⁰

YEAR BEGINNING IN	PAYROLL	TANGIBLE ASSETS
2025	9.6%	7.6%
2026	9.4%	7.4%
2027	9.2%	7.2%
2028	9.0%	7.0%
2029	8.2%	6.6%
2030	7.4%	6.2%
2031	6.6%	5.8%
2032	5.8%	5.4%
2033 onwards	5.0%	5.0%

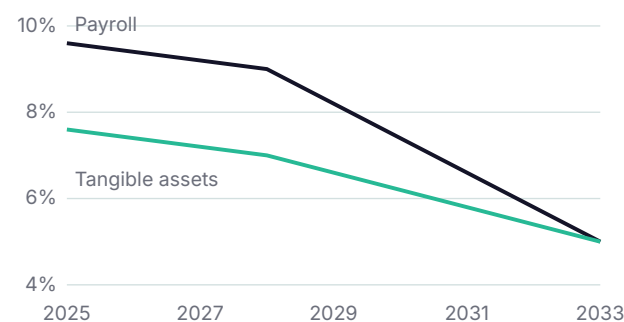


Figure 6. Carve-out rates by year. Source: GloBE Model Rules Article 9.2 transition rates; UAE adoption per PwC.⁵⁰

The R&D tax credit

From periods starting 1 January 2026, a tiered credit applies to qualifying UAE R&D spend, with pre-approval from the Emirates Research and Development Council. The minimum spend is AED 500,000 per project.^{13,14,31}

QUALIFYING SPEND BAND	RATE	MIN. R&D STAFF	CREDIT
First AED 1m	15%	2	AED 150,000
AED 1m to AED 2m	35%	6	AED 350,000
AED 2m to AED 5m	50%	14	AED 1,500,000
Maximum credit			AED 2,000,000

Phase 1 credits are non-refundable. They can be carried forward and set against Corporate Tax or top-up tax.^{13,54} A non-refundable credit reduces covered taxes under the GloBE rules. Alvarez & Marsal argues it can fall within the new substance-based incentive safe harbour adopted through MD 96 of 2026.⁵³ A high-value employment credit was announced in December 2024. We have found no legislation implementing it.

For Heads of Tax. Registration is due before most groups finish their first GloBE computation. Three data sets drive the UAE number: GloBE income by entity, covered taxes including deferred tax, and payroll and tangible assets by entity for the carve-out.

07

PART THREE

The CFO Control Framework

The first filing cycles showed where controls were missing. Each of the five controls below closes a failure point from Section 02. Each has a named owner and a cadence. Together they give the board evidence that the return is right before it is filed.

1	Entity and elections register Every UAE entity, its tax status, and each election with its lock-in period: QFZP status or the Article 19 election (five periods), realisation basis, transitional relief, tax group, Small Business Relief.	OWNER Head of Tax CADENCE Before each return; board-approved
2	Qualifying income test Revenue classified by activity and counterparty each quarter. Headroom to the lower of 5% or AED 5m tracked. Beneficial recipient evidence, substance file and, for distributors, AUP evidence maintained.	OWNER Financial Controller CADENCE Quarterly
3	Transfer pricing evidence Signed intercompany agreements, refreshed benchmarks, proof of services for management fees, allocation keys, connected person pay benchmarks. Disclosure form values mapped to the ledger.	OWNER Head of Tax CADENCE Annual; refresh on change
4	Close-to-return bridge Audited accounts reconciled line by line to the return. Non-deductible items tagged in the ledger. Interest limitation computed. EmaraTax record checked against licences and ownership.	OWNER CFO CADENCE Each year end
5	Disclosure protocol Every error found after filing is quantified and a disclosure decision made within a set period. The cost of waiting (1% a month, plus 15% if the FTA finds it) is put in front of the decision-maker.	OWNER CFO and Audit Committee CADENCE On discovery

For groups in scope of the top-up tax, add a sixth control: a GloBE data model that produces the UAE effective tax rate each quarter, so free zone, R&D credit and structuring decisions are taken with the top-up in view.

07 THE CFO CONTROL FRAMEWORK CONTINUED

A decision framework for free zone entities

Is the group in scope of the top-up tax?

Yes. Model the UAE effective rate with and without QFZP status. The saving is the Corporate Tax difference less the extra top-up. In Example F it is AED 0.7m a year.

No. The saving is 9% of qualifying profit. In Example C it is AED 1.8m a year.

Can the entity pass every condition, every period?

Test: customer mix, activity list, headroom to the AED 5m cap, substance, audit timetable, AUP for distributors.

Price the failure: five periods at 9% on all taxable income above AED 375,000.

Is the saving larger than the cost of controls and the expected cost of failure?

Yes: keep the status and run control 2 quarterly.

No: consider restructuring non-qualifying activity or electing for standard rates, noting the five-period lock-in.

Twelve dates to 2029

30 Sep 2026	FY2025 returns filed and tax paid for December year ends. ⁵⁹
30 Oct 2026	E-invoicing: businesses with revenue of AED 50m or more appoint an accredited service provider. ³³
30 Nov 2026	Top-up tax registration for groups with first in-scope years ending before 30 April 2026. ⁵¹
31 Dec 2026	Last date to claim refunds already time-barred under the amended Tax Procedures Law. ⁵⁶
1 Jan 2027	E-invoicing go-live for businesses with revenue of AED 50m or more. ^{12,33}
31 Mar 2027	E-invoicing: businesses below AED 50m appoint a service provider. ¹²
30 Jun 2027	FY2025 top-up return, Pillar Two information return and payment. ⁵⁰
1 Jul 2027	E-invoicing go-live for businesses below AED 50m. ¹²
30 Sep 2027	FY2026 Corporate Tax returns. First year of R&D credit claims. ¹⁴
30 Oct 2027	First AUP reports for free zone distributors, 30 days after the FY2026 return deadline. ⁴⁴
31 Mar 2028	FY2026 top-up return and payment (Oblique calculation).
31 Dec 2029	Last tax period end for Small Business Relief. ¹⁶

08

PART THREE

Oblique Case Notes

Three engagements show the control framework in practice. Client details are withheld and facts simplified.

CASE 1

Separating qualifying and non-qualifying activity for a GCC platform business

SITUATION

A regional platform business operating across the GCC needed a UAE structure that kept activities able to qualify for the 0% rate apart from activities that cannot.

WHAT WE DID

We restructured the UAE operations into Qualifying Free Zone Person and non-qualifying entities, set up the related party arrangements between them, and priced and documented those arrangements for transfer pricing.

OUTCOME

A clear boundary between 0% and 9% income, with the intercompany evidence in place to defend it.

CASE 2

Relocating an Asian energy multinational to the UAE

SITUATION

A multinational energy group moved operations to the UAE. It needed a set-up that worked for Corporate Tax and for cross-border royalty payments.

WHAT WE DID

We supported the set-up in the UAE, Corporate Tax registration and compliance, and the tax treatment of royalty flows.

OUTCOME

An operating UAE presence with registrations, filings and cross-border tax positions settled.

CASE 3

Transfer pricing and restructuring for a global luxury group

SITUATION

A global luxury goods group needed its intercompany arrangements reviewed under the new rules.

WHAT WE DID

We delivered transfer pricing analysis and supported a restructuring designed for tax efficiency.

OUTCOME

Intercompany pricing aligned with the functions performed, and documented.

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About Oblique Consult

Oblique Consult is a Dubai-headquartered tax, accounting and advisory firm, founded in 2018.

We advise multinationals, regional groups, founder-led businesses and public institutions across the UAE and Saudi Arabia.

Our Corporate Tax practice covers structuring, free zone qualification, transfer pricing, returns, voluntary disclosures and FTA audits. We pair specialist review with AI-powered tools and processes, so every position is checked against the law and every figure against its source.

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Methodology and Disclaimer

Methodology

This paper draws on the primary legislation, Cabinet and Ministerial Decisions, FTA decisions, guides and public clarifications, and Ministry of Finance announcements available on 30 September 2026. Where a primary text could not be accessed, we relied on published alerts from Big Four, mid-tier and law firms, and on press reports, and cite them as such.

All worked examples and Group X are hypothetical. They apply the rates in force to simplified facts: constant profits, no time value of money, and no deferred tax. Calculations were performed twice and independently checked. Figures are rounded to the nearest dirham unless stated.

The FTA has not published the number of returns filed, audit statistics or Corporate Tax receipts. Statements about common errors in the first filing cycle reflect published adviser commentary.

Disclaimer

This publication contains general information only. It is not tax, legal, accounting or investment advice and should not be relied on as such. Tax law in the UAE changes frequently, and several instruments cited here apply retroactively. The application of the law depends on specific facts.

Before acting on anything in this paper, obtain advice on your circumstances from a qualified adviser. Oblique Consult accepts no liability for any loss arising from reliance on this publication.

Client case notes are anonymised and simplified. They describe the nature of the work performed and do not disclose confidential information.

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