

UAE CORPORATE TAX

–EXPERT TAX INSIGHTS



UNDERSTANDING INTEREST EXPENDITURE AND INCOME UNDER UAE CORPORATE TAX REGULATIONS

Areas Covered:

- Overview of General Interest Deduction Limitation Rule
- Specific Interest Deduction Limitation Rule
- Impact of Interest Expenditure on Deferred Taxes
- Detailed Case Study

KEY PROVISIONS RELATED TO INTERST DEDUCTION IN UAE CORPORATE TAX

OVERVIEW

This guide covers the regulations specified in Articles 29, 30, and 31 of the Federal Decree-Law No. 47 of 2022, along with Ministerial Decision No. 126 of 2023 providing a structured framework for taxable persons, detailing what constitutes interest, the limits and thresholds for claiming deductible interest, interest on loans from related parties, and other pertinent requirements.

DEFINITION OF 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.

INTEREST EXPENDITURE (ARTICLE 29)

Interest expenditure is deductible in the tax period it is incurred.

GENERAL INTEREST DEDUCTION LIMITATION RULE (ARTICLE 30)

The Corporate Tax Law refers to the amount of Interest that is deductible as "Net Interest Expenditure".

Net interest expenditure Calculation	EBITDA Calculation	Interest includes the following:
<div><div>i. Interest expenditure during the year</div><div>+</div><div>ii. Interest expenditure carried forward</div><div>-</div><div>iii. Interest Incomes</div></div> <p>If Net Interest Expenditure exceeds AED 12 Million, maximum deduction allowed is the higher of;</p> <div><div>i. AED 12 Million or</div><div>ii. 30% of EBITDA.</div></div> <p>Any difference arising from above calculation is deductible against future taxable income and can be carried forward up to ten taxable periods.</p> <p>Note:</p> <p>Financing arrangements agreed before the publication date of the Corporate Tax Law (i.e. 9 December 2022), and meeting the other conditions specified in Ministerial Decision No. 126 of 2023, are not subject to the General Interest Deduction Limitation Rule restrictions.</p>	<div><div>i. Higher of AED 0 or the Taxable Income as per Corporate Tax law</div><div>+</div><div>ii. Net Interest Expenditure for the period</div><div>+</div><div>iii. Depreciation and amortisation expense for the period</div><div>+</div><div>iv. Expenditure related to historical financial assets or liabilities held before 9th December, 2022</div><div>-</div><div>v. Interest income for the period</div></div> <p>Note:</p> <p>Interest income and expenditure from Qualifying Infrastructure Projects are not included in the Taxable Person's EBITDA calculation.</p>	<div>Interest includes the following:</div> <div><div>• Performing & Non-Performing debts</div><div>• Investment schemes</div><div>• Asset backed debt securities</div><div>• Futures, forward contract</div><div>• Factoring</div><div>• Lease/Hire purchase</div><div>• Repo, reverse repo transactions</div><div>• Inter company loans</div><div>• Foreign exchange gains/losses accruing on interest</div><div>• Finance element of Finance/Non-finance lease</div><div>• Options, interest rate & Foreign exchange swap agreements & financial derivatives</div><div>• Financial Islamic instruments</div><div>• Finance lease payments' finance element and non-finance lease payments are treated as Interest under the General Interest Deduction Limitation Rule.</div><div>• All foreign exchange gains and losses accruing from Interest shall be considered as Interest.</div><div>• Capitalised Interest amount under IAS 23 (Borrowing Cost)</div></div> <div>Amounts incurred in raising finance are considered interest.</div> <div>This includes fees such as:<div><div>• Guarantee fees</div><div>• Arrangement fees</div><div>• Commitment fees</div><div>• Any other fees of a similar nature</div></div></div>

EXCEPTIONS TO GENERAL INTEREST DEDUCTION LIMITATION RULE

General interest deduction limitation rule does not apply to:

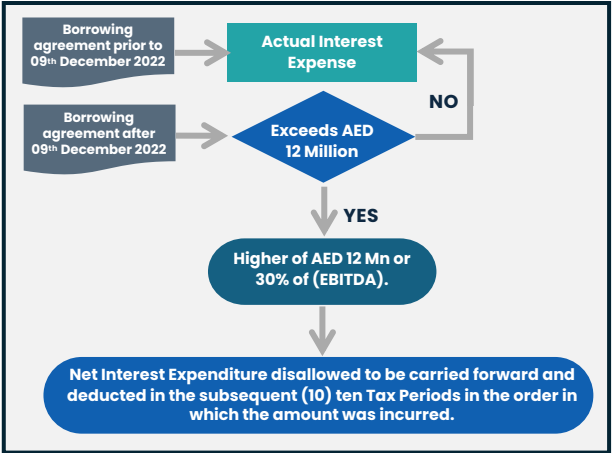
- Banks
- Insurance providers
- Natural persons conducting business in the State
- If the borrowing agreement was executed before December 09, 2022, or where agreements are executed after December 09, 2022, and interest cost does not exceed AED 12 million.

QUALIFYING INFRASTRUCTURE PROJECTS

A Qualifying Infrastructure Project must fulfill the following conditions:

- Exclusively serves the public benefit of the State.
- Solely aims to provide transport, utilities, education, healthcare, or other services specified by the Minister within the State.
- Assets cannot be disposed of at the discretion of the Qualifying Infrastructure Project Person.
- Assets provided, operated, or maintained are expected to last at least ten years or a period specified by the Minister.
- All assets are located within the State's territory.
- All interest income and interest expenditure arise within the State.
- It meets any additional conditions prescribed by the Minister.

SUMMARY OF GENERAL INTEREST DEDUCTION LIMITATION RULE



KEY PROVISIONS RELATED TO INTERST DEDUCTION IN UAE CORPORATE TAX

SPECIFIC INTEREST DEDUCTION LIMITATION RULE (ARTICLE 31)

Deduction of interest expenses incurred on loans obtained from related parties in certain transactions.

Interest expenses cannot be deducted if the loan is used for:

- Distributing dividends or profits
- Redeeming or repurchasing share capital
- Making capital contributions or acquiring ownership in a person who later becomes a related party.

Note 1:

These restrictions do not apply if the taxpayer can demonstrate that obtaining the loan and conducting the transaction were not aimed at gaining a corporate tax advantage.

Note 2:

No corporate tax advantage is recognized if the related party paying the interest is subject to a corporate tax or similar tax in a foreign jurisdiction at a rate not lower than 9%.

EXAMPLE – COMPUTATION OF DEDUCTIBLE INTEREST EXPENSE UNDER UAE TAX LAW

XYZ LLC P&L EXTRACT

	AED in '000			
	F.Y 20x4	F.Y 20x5	F.Y 20x6	F.Y 20x7
Gross Profit	30,000	40,000	50,000	60,000
Expenses;				
Entertainment	(4,000)	(6,000)	(7,000)	(8,000)
Depreciation	(6,250)	(22,917)	(22,917)	(22,917)
Financial Charges	(13,000)	(15,000)	(17,000)	(18,000)
Other income (interest income)	500	500	500	500
Gain on Disposal of Investment	-	5,000	-	-
Other Comprehensive Income (Fair value on Investments)	10,000	-	-	-
Other Comprehensive Income (Fair Value Gain on fixed assets)	-	50,000	-	-
Accounting Income	17,250	51,583	3,583	11,583

Note;

Policy adopted by XYZ LLC for Gain/Losses is upon Realisation Only.

Solution;

Calculation of Deductible Interest Expense

	20x4	20x5	20x6	20x7
Taxable Income (Working -1)	9,250	37,500	30,000	19,750
Additions;				
Net Interest Expenditure (Working -2)	12,500	15,000	16,500	17,500
Depreciation & Amortisations	6,250	22,917	22,917	22,917
Interest on assets & liabilities held prior to Dec 09, 2022	-	-	-	-
EBITDA	28,000	75,417	69,417	60,167
30% of EBITDA -----(a)	8,400	22,625	20,825	18,050
Fixed Limit----- (b)	12,000	12,000	12,000	12,000
Higher from above ----- (c)	12,000	22,625	20,825	18,050
Net Interest Expenditure ----- (d)	12,500	15,000	16,500	17,500

Calculation for Carry forward of Interest

	20x4	20x5	20x6	20x7
Opening carry forward of Interest Expenditure	-	500	-	-
Carry forward interest expense during the year (c-d)	500	-	-	-
Carry Forward/(Adjusted) during the year	-	(500)	-	-
Closing carry forward of Interest Expenditure	500	-	-	-

Deferred tax Asset

	20x4	20x5	20x6	20x7
Deferred Tax Asset on Carry forward of financial charges @ 9%	45	-	-	-

Working -1

XYZ LLC TAXABLE INCOME COMPUTATION

	20x4	20x5	20x6	20x7
Accounting Income as per IFRS	17,250	51,583	3,583	11,583
Adjustments;				
Entertainment @ 50% disallowed	2,000	3,000	3,500	4,000
Other Comprehensive Income (Fair Value Gain on investment)	(10,000)	10,000	-	-
Depreciation Disallowed during the year	-	22,917	22,917	4,167
Other Comprehensive Income (Fair Value Gain on Fixed Assets)	-	(50,000)	-	-
Taxable Income	9,250	37,500	30,000	19,750

Working -2

Computation of Net Interest Expenditure

	20x4	20x5	20x6	20x7
Financial Charges	13,000	15,000	17,000	18,000
Carry forward of Financial Charges	-	500	-	-
Other income (interest income)	(500)	(500)	(500)	(500)
	12,500	15,000	16,500	17,500

Consult with our tax experts!



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