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GCC Tax & Regulatory Communique March 2024

UAE Tax and Regulatory updates

FTA Issued Guide on Taxations of Partnerships

On 4 March 2024, the UAE Federal Tax Authority ("FTA") issued a Corporate Tax ("CIT") Guide on Taxation of Partnership (CTGPTN1) on the FTA Portal . The key high-lights of the decisions are outlined below: -

Partnerships are categorized into two distinct types: **incorporated partnerships** and **unincorporated partnerships. Incorporated partnerships** are recognized as separate legal entities, **meaning they have a distinct legal personality apart from their partners.**

Unincorporated partnerships do not possess a separate legal personality from their partners. An **unincorporated partnership by default is not taxable** and is **considered as Fiscally Transparent entity** but the **relevant partners of such partnership are taxable on their distributive share of profits/gains.**

Where the **partners in an unincorporated partnership apply to the FTA to treat it as a taxable person,** such **partnership will be considered as Fiscally Opaque** subject to approval. In such case the **partnership will be liable to pay tax on its profits instead of its partners.**

For **natural persons who are partners in such partnerships, tax liability aligns with their share of the partnership's business outcomes,** assuming they meet the criteria for CIT liability.

Similarly, **juridical entities that are partners and residents in the UAE will face CIT in relation to their portion of the partnership's financial activities,** in addition to any other business ventures they undertake.

If a partnership is established or subsequently changes are made to obtain a Corporate Tax advantage , this could be subject to adjustment under the General Anti abuse Rule and the applicable penalties.

MOF Public Consultation on Global Minimum Tax

On 15 March 2024, The UAE Ministry of Finance (MoF) has released a consultation paper on the Global Minimum Tax or Global Anti-Base Erosion Model (Pillar Two) s to gather the views of stakeholders with respect to the potential policy design options to respond to the implementation of the GloBE Rules worldwide.

Below are the key highlights of the consultation paper-:

- UAE is not proposing to apply Income Inclusion Rules (IIR) to smaller headquartered MNE groups (revenue threshold below EUR 750 Million) in order to prevent the unnecessary compliance burden and associated cost.
- UAE is considering the common Euro threshold instead of an equivalent UAE Dirham threshold to avoid unnecessary discrepancies in the scope and operation of GloBE Rules.
- UAE is considering various options for designing a Qualified Domestic Minimum Top-up Tax (QDMTT) and allocation of QDMTT tax liability.
- UAE has proposed the adoption of International Financial Reporting standard (IFRS) for the purpose of the UAE QDMTT.
- MoF is evaluating the option of having a separate QDMTT return in addition to the GloBE Information Return (GIR). Also, two options are being considered for the payment of Top-up tax liability –either (i) paid annually in alignment with UAE Corporate Tax(CT) law payment date or (ii) follow the timelines set by the GloBE Rules.
- MoF is contemplating the introduction of substance-based tax incentives in the UAE CT regime that align with the GloBE rules based on either profitability or investment. Another alternative of providing grants or subsidies is also being considered.

The MoF is inviting businesses to contribute their perspectives on the Consultation Paper. This is a welcome move by the MoF to engage the stakeholders in the architectural design of the potential Pillar two ahead of the actual implementation.

The deadline for submissions is 10th April, 2024.

Dubai Emirate Law for Taxation of Foreign Banks

On 7 March 2024, H.H. Sheikh Mohammed Bin Rashid Al Maktoum, the Ruler of Dubai, published Law No. (1) of 2024 concerning the Taxation of Foreign Banks Operating in the Emirate of Dubai, UAE ("the new Emirate Law").The key highlights of the decisions are outlined below: -

- The Law applies to all foreign banks operating in Dubai, including special development zones and free zones, with the exception of foreign banks licensed to operate in the Dubai International Financial Centre ("DIFC").
- Foreign banks will be subject to 20% tax on their annual taxable income.
- Furthermore , in order to avoid double taxation, the new Emirate Law will allow a deduction (i.e., credit) of Federal Corporate Tax paid by branches of foreign banks operating in Dubai from the payable amount of its Emirate-level tax.

KSA Tax and Regulatory updates

New Bonded Zones Rules in Saudi Arabia

The Zakat, Tax and Customs Authority ("ZATCA") has recently approved the Bonded Zones Rules (the "Rules"), which were earlier made available for public consultation and have now been published official in "ZATCA" platform. The Rules outline ZATCA's responsibilities and duties, regulating customs aspects related to bonded zones and working controls in line with the GCC Common Customs Law. The Rules were published on 9 December 2023 under Administrative Resolution and shall be effective ninety 90 days from the date of publication i.e on 8 March 2024.

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International Tax updates

Poland announces date of the planned implementation of Global Minimum Tax (Pillar 2)

The legislative process for implementing the EU directive on global minimum tax has been initiated in Poland. It is intended that the relevant Act will be adopted in 2024 and be in force from 1 January 2025. The draft bill is expected in March 2024. The Polish administration intends to focus on introducing the Qualified Domestic Minimum Top-Up Tax in addition to adopting the Income Inclusion Rule and the Undertaxed Profit Rule.

US FY2025 Budget contains international tax proposals

The United States (US) Treasury explains several international tax proposals in the administration's FY 2025 budget. The international tax proposal key highlights of the budget are outlined below:-

- Raise the corporate income tax rate to 28% and limit the IRC Section 250 deduction to 25%, thereby raising the effective rate on global intangible low-taxed income (GILTI) to 21%.
- Modify the GILTI regime to align with the global minimum tax rules under Pillar Two of the Base Erosion and Profit Shifting initiative of the Organization for Economic Co-operation and Development (OECD).
- Replace the Base Erosion Anti-abuse Tax (BEAT) with an "undertaxed profits rule" (UTPR) that is consistent with the UTPR in the Pillar Two rules.
- Repeal the deduction for foreign-derived intangible income (FDII).
- Disallow deductions for expenses incurred when moving a US trade or business offshore.
- Limit foreign tax credits (FTCs) on sales of hybrid entities.
- Restrict deductions of excess interest expenses of members of a financial reporting group.
- Modify the treatment of certain derivative transactions for foreign investors.

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Canada-Quebec 2024-25 budget includes certain tax credit changes

On 12 March 2024, Quebec Finance Minister Eric Girard tabled the province's fiscal 2024-25 budget. The budget contains several tax measures affecting individuals and corporations. The budget contains no new taxes and no income tax increases . The key highlights of the budget are outlined below:

- The federal corporate income tax rates for manufacturers of qualifying zero-emission technology are reduced to 7.5% for eligible income otherwise subject to the 15% federal general corporate income tax rate or 4.5% for eligible income otherwise subject to the 9% federal small-business corporate income tax rate. These reductions are not reflected in the combined federal and Quebec rates above.
- An additional 1.5% federal tax applies to the taxable income of banks and life insurers (subject to a CA$100m exemption to be shared by group members).

United Kingdom presented Spring Budget 2024

On 06 March 2024, The Chancellor of the Exchequer presented his Spring Budget 2024 to Parliament which contains a number of important announcements and changes.

The key highlights of the budget are outlined below:

- Personal tax rates and allowances on income continue to be frozen at current levels
- Further cuts to National Insurance Contributions in addition to those announced in the Autumn Statement, to take effect in April 2024
- Increase in threshold for High Income Child Benefit Charge from £50,000 to £60,000 for 2024/25
- Maximum rate of CGT on residential property cut from 28% to 24% from 6 April 2024
- Advantageous tax treatment of furnished holiday lets abolished from 6 April 2025
- Advantageous tax treatment of ‘non-doms’ abolished from April 2025 and replaced with a ‘residence-based’ system
- Increase in turnover threshold for VAT registration to £90,000 from 1 April 2024

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