FINACT CONSULTANCY LLC

Corporate Tax Filing:

A Risk Assessment for UAE Entities

For taxable persons with a financial year ended 31 December 2025

Filing deadline: 30 September 2026

Prepared by Finact Consultancy LLC
Goldcrest Executive Tower, Cluster C, Jumeirah Lake Towers, Dubai, UAE
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Who This Applies To

If your company's financial year ended 31 December 2025, your UAE Corporate Tax return and any tax payment are both due by 30 September 2026, nine months after year-end, under Federal Decree-Law No. 47 of 2022. There is no separate, later payment window, and the Federal Tax Authority does not grant routine extensions.

This applies whether you are filing for the first time or have already been through one filing cycle. It applies to Mainland entities, Free Zone entities, and group structures alike. Every registered taxable person must file, even one that owes no tax.

This assessment sets out three areas where we are consistently seeing exposure in filings this season, followed by a self-assessment checklist and an outline of what a senior-led review checks before a return goes in.

Risk Area 1: Penalty Exposure

Corporate Tax penalties in the UAE are automatic. They do not require an audit or an investigation to trigger. Three separate obligations carry separate, cumulative penalties:

Late registration

A fixed AED 10,000 penalty applies. For entities with a financial year ended 31 December 2025, the waiver window (filing the first return within 7 months of year-end) closed on 31 July 2026. If your business has not yet registered, this penalty is likely already in effect.

Late filing

AED 500 for each month or part-month late, for the first 12 months, rising to AED 1,000 per month after that, charged automatically, whether or not tax is owed.

Late payment

A 14% annual rate on the unsettled amount, applied monthly, accrues from the day after the due date. This runs in parallel with the filing penalty, uncapped.

A return filed even a few months late, with a meaningful tax balance outstanding, can accumulate penalties and interest well beyond the underlying liability itself.

Summary of Key Penalties

Obligation	Penalty
Late registration	AED 10,000 (fixed)
Late filing (months 1–12)	AED 500 per month
Late filing (month 13+)	AED 1,000 per month
Late payment	14% per annum, applied monthly

Risk Area 2: Free Zone Qualification Gaps

Operating from a Free Zone does not, by itself, mean 0% Corporate Tax applies. Qualifying Free Zone Person (QFZP) status is a test a business must continue to meet every period, not a one-time registration outcome.

The gaps we see most often in Free Zone entities preparing their return:

Non-qualifying income

Non-qualifying income (including mainland-sourced income) exceeding the permitted de minimis threshold can disqualify the entire entity from QFZP treatment for the period, not just tax the excess portion. There are two limits: a percentage of total revenue and an absolute ceiling. Breaching either ends the status.

Economic substance

Insufficient economic substance in the UAE relative to the income being taxed at 0%. Core income-generating activities, assets, qualified employees, and operating expenditure must be located in the zone, not at a group company elsewhere.

Audited financial statements

A Qualifying Free Zone Person needs audited financial statements mandatorily. This is the condition most often discovered late.

Related party pricing

Related party and connected person transactions must be priced and disclosed on an arm’s length basis. Transfer pricing compliance is itself one of the conditions for the 0% rate.

Where QFZP status is lost for a period, the impact is the full 9% rate on taxable income above AED 375,000, not a partial adjustment. Failing a single condition can result in loss of the 0% rate for five years.

Risk Area 3: Related Party Disclosure and Transfer Pricing

This is the area where UAE filings are most exposed, and the least often prepared. All related party and connected person transactions must be priced on an arm's length basis under Article 34 of the Corporate Tax Law, regardless of whether a formal disclosure is required.

Disclosure thresholds

Related Party Transaction schedule: required once aggregate related party transactions exceed AED 40 million, with individual categories above AED 4 million disclosed separately.

Connected Persons schedule: required once aggregate transactions with any single connected person (and their related parties) exceed AED 500,000.

What companies get wrong

First, falling below these thresholds does not remove the obligation to price transactions at arm's length. Only the disclosure requirement changes. Second, the Federal Tax Authority can request full transfer pricing documentation (Local File, Master File where applicable) at any time under Article 55, with only 30 days to produce it. Businesses that treat documentation as something to prepare 'if asked' are routinely unable to meet that window.

Transfer pricing documentation

A Master File and Local File are required once your own revenue for the tax period, or your multinational group's consolidated revenue, reaches the stated thresholds. Even below those thresholds, the arm's length principle applies, and the FTA expects a reasoned basis for the prices used.

Intercompany agreements and benchmarking

Two practical gaps we identify frequently: intercompany agreements that either do not exist in writing or describe arrangements that differ from what actually happens. An agreement that contradicts the conduct is worse than no agreement, because it is the document you will be held to. And pricing that lacks a benchmarking study. Where external comparables are relevant, the FTA expects to see the analysis.

This is the single most common gap we identify in , and the one with the most direct bearing on a company's transfer pricing exposure going forward.

Risk Area 4: AED 375,000 Threshold and Small Business Relief

The first AED 375,000 of taxable income in a tax period is taxed at 0%, with 9% applying only above that threshold. A separate route, Small Business Relief, can bring taxable income to nil altogether, but the two reliefs are tested differently and interact differently with a business's later filings.

The points we see tested incorrectly, or not tested at all:

The 0% band applies to taxable income, not revenue

The AED 375,000 threshold is measured after all accounting-to-tax adjustments, not on turnover. A business with modest revenue can still owe tax above the threshold once non-deductible add-backs and related party adjustments are applied, while a high-revenue, thin-margin business can fall entirely within the 0% band.

Small Business Relief is revenue-tested, not profit-tested

Relief is available where revenue for the current tax period, and every prior tax period, does not exceed AED 3 million. Ministerial Decision No. 131 of 2026 extended eligibility to tax periods ending on or before 31 December 2029, later than many businesses assume, but the test is applied afresh each period and the relief is lost permanently once the ceiling is breached in any one of them.

Electing the relief has a cost

Electing Small Business Relief treats the business as having no taxable income for the period, but it also forecloses the carry forward of tax losses and disallowed net interest expenditure arising in that period, and it is incompatible with tax grouping and Qualifying Free Zone Person status. A business that elects in a loss-making year can permanently lose the use of that loss.

The election is made period by period

Eligibility, and the decision to elect, must be reassessed every tax period. Qualifying and electing last year does not carry the position forward automatically, and the return needs to show the test was actually performed for the current period.

Getting the rate mechanics wrong at this first step compounds through the rest of the return, since the threshold and the relief interact with almost every other position taken in it.

Risk Area 5: Exemptions and Reliefs (Participation Exemption, Tax Grouping, and Free Zone Incentives)

Several reliefs can remove income from Corporate Tax altogether, or allow group members to file and offset losses as a single taxable person. Each carries a strict, all-or-nothing set of conditions: partial compliance does not produce partial relief.

The conditions we see tested and failed most often:

Participation Exemption

Dividends and gains on a qualifying shareholding are exempt only where the interest is at least 5% of the investee's capital and profit entitlement, has been held (or is intended to be held) for an uninterrupted 12 months, the investee is itself subject to tax at a rate broadly comparable to the UAE's, and no more than 50% of the investee's own assets and income are of a kind that would not itself qualify. Failing any one condition brings the dividend or gain back into taxable income in full, not on a pro-rata basis.

Tax Grouping

Forming a Tax Group requires at least 95% common ownership of share capital, voting rights, and profit and net asset entitlement, held directly or indirectly by a UAE-resident parent over UAE-resident subsidiaries, all sharing the same financial year and the same accounting standard. Exempt Persons and Qualifying Free Zone Persons cannot be group members. Every member remains jointly and severally liable for the group's Corporate Tax liability for the periods it belonged to the group.

Free Zone incentives

The 0% Qualifying Free Zone Person rate is an incentive layered on top of the general rate rules, not a blanket exemption for every Free Zone entity, and every condition covered under Free Zone Qualification Gaps applies here as well. Where a Free Zone entity is also a shareholder claiming participation exemption, or a candidate for a tax group, the three regimes need to be tested together, not assumed to be compatible.

A relief claimed on an assumption rather than a tested position is one of the more common findings in a pre-filing review, and one of the most expensive to unwind once the return has been submitted.

Risk Area 6: Deductible vs. Non-Deductible Expenses (Accounting-to-Tax Adjustments)

Accounting profit is the starting point for taxable income, not the answer. A defined set of additions and disallowances converts one into the other, and the areas below are where we most often find an adjustment missed, or measured incorrectly.

The adjustments that most often go wrong:

Entertainment expenditure

Client and business entertainment, including meals, accommodation, and transportation provided for entertainment purposes, is only 50% deductible. The other half must be added back, and the add-back is easy to understate if entertainment is not tracked as its own expense category rather than absorbed into travel or marketing costs.

Interest limitation

Net interest expenditure is deductible only up to 30% of tax-adjusted EBITDA, subject to a de minimis threshold of AED 12 million, below which net interest is deductible in full regardless of the EBITDA calculation. A separate rule can disallow related party interest entirely where the funds were used to fund dividends, a capital reduction, or the acquisition of a related party interest, unless a valid commercial reason for the arrangement can be shown. Disallowed interest carries forward for ten tax periods only, so the position needs to be tracked, not written off in the year it arises.

Unrealized gains and losses

A business preparing accounts on an accrual basis is taxed by default on unrealized fair value movements as they arise. The realisation basis election defers this until a gain or loss is actually realized, but it is made once, applies consistently to assets and liabilities held on capital account, and is difficult to unwind. A business that has not made the election, or has applied it inconsistently across a group, can find paper gains taxed years before the cash is received.

Non-deductible items generally

Corporate Tax itself, fines and penalties other than for breach of contract, bribes and other illicit payments, dividends and profit distributions, and donations to bodies that are not Qualifying Public Benefit Entities are not deductible under any circumstance. These are easy to miss where they sit inside a larger expense line rather than their own account.

None of these adjustments are visible from the accounting profit figure alone. Each has to be identified, calculated, and supported on its own workings before the return is filed.

Self-Assessment: Questions to Answer Before You File

Every line below is a question the FTA can ask. The answer is cheaper to find now than in a review.

A. Filing Readiness

- ☐ Are the financial statements final and approved?
  Any subsequent changes may require an amended return.
- ☐ Have you identified adjustments between accounting profit and taxable income?
  Accounting income is not taxable income.
- ☐ Are you eligible for Small Business Relief, and do you understand what electing it means?
  It has a revenue threshold (AED 3 million) and a closing date. Electing it parks your tax losses.
- ☐ Have you made the applicable tax elections before filing?
  Realisation basis, transitional rules for assets held before Corporate Tax began, and tax group formation. Some cannot be undone.
- ☐ Can you support every figure in the return from your records?
  Records must be kept for the statutory retention period, including workings behind each adjustment.

B. Free Zone Position (if applicable)

- ☐ Have you tested every condition for QFZP status separately?
- ☐ Is the income actually qualifying income, activity by activity?
- ☐ Have you measured non-qualifying revenue against both de minimis limits?
- ☐ Is there adequate substance in the Free Zone itself?
- ☐ Do you have audited financial statements?
- ☐ Are related party transactions priced at arm's length and documented?

C. Related Parties and Transfer Pricing

- ☐ Have you listed every related party and connected person?
  Owners, their relatives, directors, officers, and the entities those people control.
- ☐ Are the transactions priced at arm's length, and can you show the reasoning?
- ☐ Do you need to file the Transfer Pricing Disclosure Form with the return?
- ☐ Do you need a Master File and a Local File?
- ☐ Could you actually produce them within 30 days of an FTA request?
- ☐ Have payments to connected persons been tested against market value?
  Salaries, benefits, and other payments to owners, directors, and their relatives are deductible only at market value.
- ☐ Do the intercompany agreements exist in writing, and do they match what actually happens?
- ☐ Is there a benchmarking study supporting the prices you have used?

D. Rate Determination and Small Business Relief

- ☐ Have you calculated taxable income before comparing it against the AED 375,000 threshold, rather than comparing revenue?
  The 0% band applies after accounting-to-tax adjustments, not before them.
- ☐ Is your revenue, for this period and every prior period, at or below the AED 3 million Small Business Relief threshold?
  Ministerial Decision No. 131 of 2026 extended eligibility to tax periods ending on or before 31 December 2029.
- ☐ If eligible, have you decided whether to elect Small Business Relief, and understood what electing it forecloses?
  It forecloses carrying forward tax losses and disallowed interest, and rules out tax grouping and QFZP status for the period.
- ☐ Have you re-tested eligibility and the election separately for this period, rather than carrying last year's position forward?

E. Exemptions and Reliefs

- ▢ Have you tested each Participation Exemption condition separately: ownership, holding period, subject-to-tax, and asset composition?

  Failing a single condition brings the full dividend or gain back into taxable income.
- ▢ If forming or maintaining a Tax Group, does every member meet the 95% ownership, residency, financial year, and accounting standard tests?

  Exempt Persons and Qualifying Free Zone Persons cannot be group members.
- ▢ Where a Free Zone entity also claims another relief, have the regimes been tested together rather than assumed compatible?
- ▢ Are you relying on a relief that has not actually been tested against this period's facts?

F. Deductible vs. Non-Deductible

- ▢ Have you added back 50% of entertainment expenditure, tracked separately from travel and marketing costs?
- ▢ Have you tested net interest expenditure against the 30% EBITDA cap and the AED 12 million de minimis threshold?

  Related party interest funding dividends, capital reductions, or acquisitions may be disallowed entirely without a valid commercial reason.
- ▢ Have you made a realisation basis election, and applied it consistently across the group?

  Without it, unrealized fair value gains are taxed as they arise.
- ▢ Have you identified all non-deductible items viz., fines, bribes, dividends, non-qualifying donations?

A line you could not answer with confidence is . It is the part of the filing worth a second pair of eyes before 30 September.

A Senior-Led Review

Every Finact engagement is personally led by a senior advisor with direct accountability for your deliverables. Your work is not handed to a rotating team . The same senior advisor oversees your engagement from first conversation to final delivery.

What a Finact review covers

Before any return goes in, our review works through the same structure regardless of engagement size:

Trial balance review for intercompany transactions and related party exposure not yet flagged internally.

Free Zone qualification test against current-period income mix and substance.

Cross-check of filing figures against underlying financial statements.

Related Party and Connected Persons disclosure thresholds . Confirming what must be scheduled and what documentation stands behind it.

A written summary of findings, with any TP documentation gap identified separately and explained in plain terms.

Rigorous methodology, fixed-scope pricing. You know what is being reviewed, what it costs, and what you receive at the , set out in transparent engagement terms before work begins.

Request a Consultation

If your team would find it useful to have a senior advisor review your position before 30 September, we are available to discuss your structure directly.

We aim to send a proposal within 6 hours of a scoping call.

Reach our advisory team directly:

Phone: +971 50 516 4914
WhatsApp: +971 50 516 4914
Email: info@finactuae.com
Online: www.finactuae.com

Finact Consultancy LLC
Goldcrest Executive Tower, Cluster C, Jumeirah Lake Towers, Dubai, UAE