

Pillar Two in the UAE
Snapshot, impacts and offering

February 2025

The United Arab Emirates (UAE) has introduced a **Domestic Minimum Top-up Tax (DMTT)** on business profits effective for financial years starting on or after 1 January 2025



Content

Deloitte has developed this document to provide businesses with key information around the new rules.



Key components of the UAE Domestic Minimum Tax (DMTT)



How can Deloitte help?

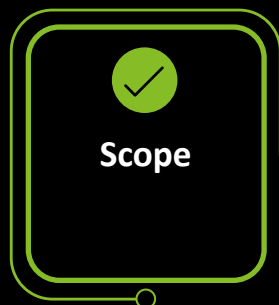


UAE CT and QDMTT interplay considerations



Contacts

UAE Domestic Minimum Top-up Tax regime – Key components



- **Taxable persons:** UAE Constituent Entities (including Permanent Establishments), Joint Ventures and Certain Reverse Hybrid entities that are part of a multinational enterprise (MNE) Group which meets the EUR 750m revenue threshold. **Therefore, purely domestic UAE groups are out (i.e., with no presence outside the UAE).**
- **Excluded entities:** Government bodies, international organizations, pension funds, investment funds and real estate funds (that are the Ultimate Parent Entity within a group). Sovereign Wealth Funds that qualify as Government Entities are not the Ultimate Parent Entity (UPE) of any group.

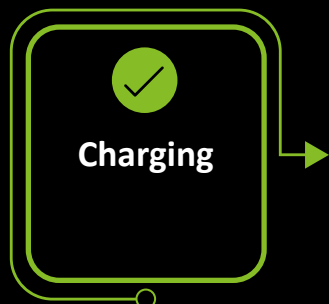


- **Pillar Two Income:** Net accounting profit with DMTT adjustments
- **Main DMTT adjustments:** Qualifying dividends, equity gains, revaluation gains through OCI, gains for internal reorganizations, fines / penalties
- **Elections:** Unrealized gains / losses, debt waiver, consolidated accounting treatment,
- **Other adjustments:** Transfer Pricing (TP), Qualified Refundable Tax Credits (QRTCs) and industry related adjustments (e.g., shipping)



- Applies where **the ETR is below 15%.**
- **Covered Taxes** include UAE Corporate Taxes, withholding taxes and deferred taxes subject to allocation rules
- Applies on **Excess Profits** (substance based carve out applies)

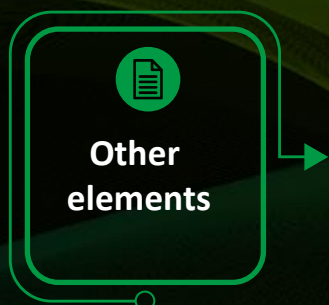
UAE Domestic Minimum Top-up Tax regime – Key components



- **Domestic pick up:** The UAE will collect top-up taxes on UAE low-taxed entities (LTCE) within scope.
- **Full tax collected in the UAE:** The full jurisdictional top-up tax will be collected regardless of the MNE Group's ownership interest in low-taxed constituent entities (LTCEs). Consequently, joint ventures and other partially owned entities will be responsible for paying the total amount of the top-up taxes, even if they are not fully owned by an MNE Group.
- **IIR and UTPR:** The UAE has not currently adopted the Income Inclusion Rule (IIR) and Under-Taxed Payments Rule (UTPR).









- **One filing entity:** Entities can appoint a Domestic Designated Filing Entity to pay the top-up tax and file the return on behalf of other members of the group.
- **Due dates:** The DMTT return is due 18 or 15 months after the Financial Year End (FYE). Any top-up tax payable is due on the same date as the DMTT return. The Pillar Two return is due 15 months after the FYE.
- **Registration:** The registration mechanics and due dates have not yet been announced.
- **Transitional CbCR Safe Harbours:** applies for Fiscal Years that begin before 1 January 2027 and end before 1 July 2028. If either the De minimis, simplified Effective tax rate (ETR) or Routine Profit test can be met, no top-up tax will be due in the UAE.



- General anti-abuse rules apply

Understanding the interplay between CT and DMTT is key

UAE Corporate Tax (CT)		Pillar Two (P2) / DMTT
Common permanent differences		
Accounting Income	Start: Book profit after tax	Financial Accounting Net Income / Loss
UAE CT	 Tax	Net Taxes Expenses
Participation Exemption	 Dividends & Cap Gains	Excluded Dividends & Excluded Equity Gains / Loss
Foreign PE Exemption	 Foreign branch results	Allocation rules for Main Entity and PEs
Business Restructuring Relief, Qualifying Group Transfer	 Intragroup relief	GloBE Reorganization
Fines, penalties, bribes, illicit payments	 Non-deductible expenses	Policy Disallowed Expenses
Arm's Length Principle	 Transfer pricing	Arm's Length Principle
Unique permanent differences		
<ul style="list-style-type: none"> General and Specific Interest Limitation rules Transitional election Entertainment expenses 		<ul style="list-style-type: none"> International Shipping Income and Qualified Ancillary International Shipping Income Accrued Pension Expenses
Common temporary differences		
Realization basis election	Unrealized gains / losses	Realization basis election

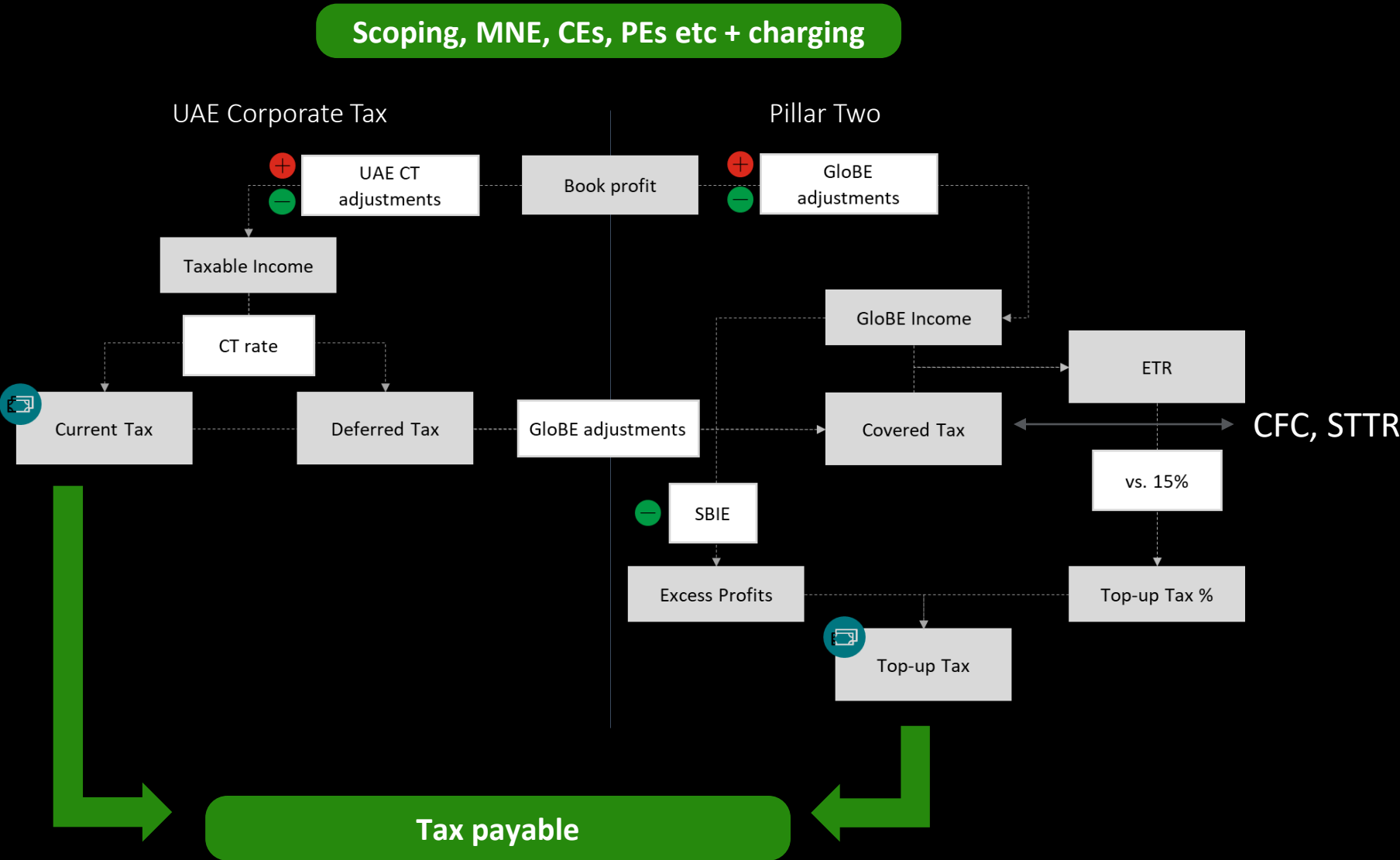
Understanding the interplay is key which requires a deep understanding of CT and P2.

Advising on CT without considering P2 is lethal.

CT and P2 should be considered as ONE direct tax.

Good news: CT and P2 can be fairly aligned and thus sometimes CT Taxable Income not far off from P2/QDMTT income.

Understanding the interplay between CT and DMTT is key



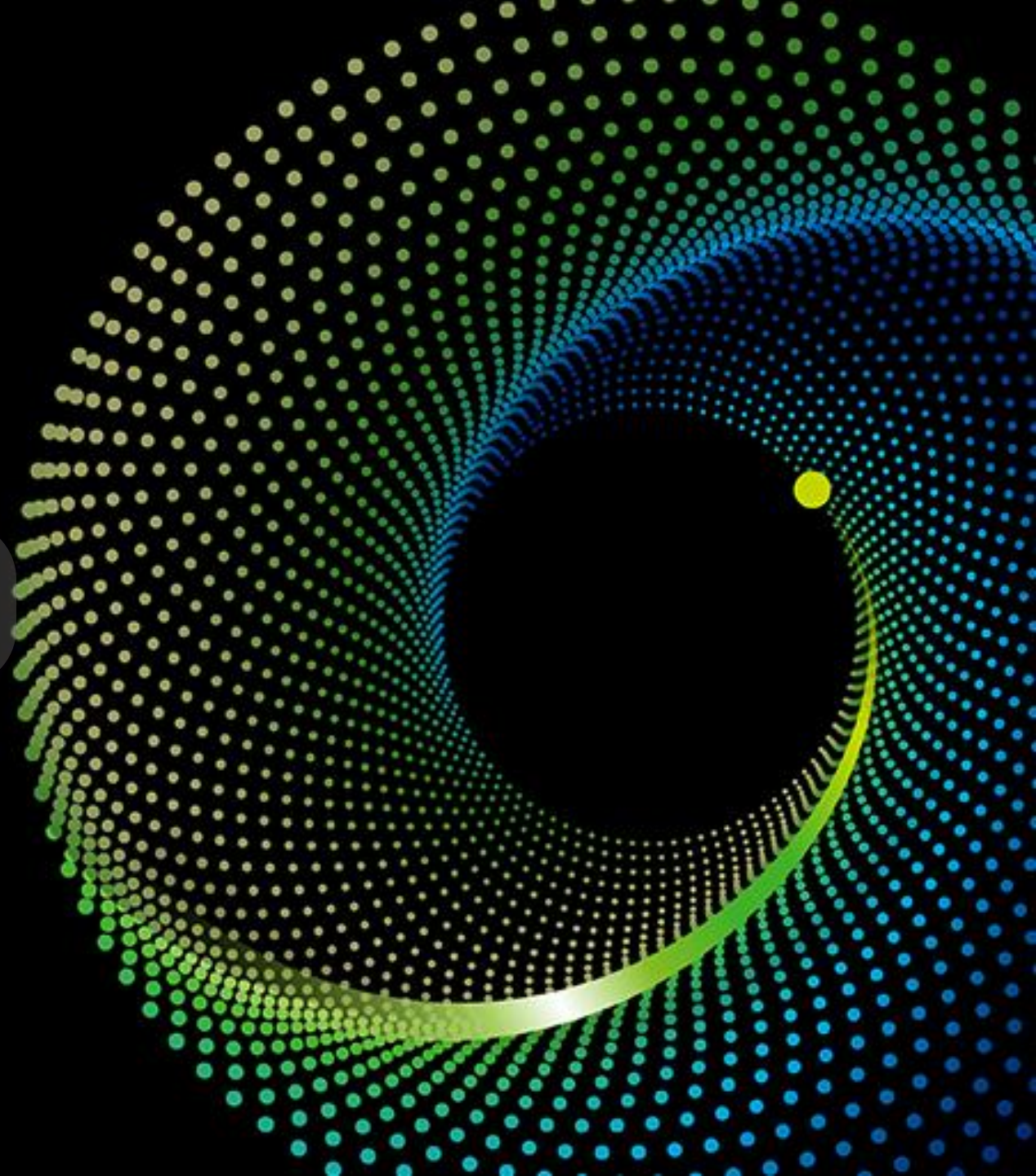
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How can Deloitte help?



Deloitte's service offering – DMTT readiness / building an effective roadmap

Wrap up

- Business profits in the UAE will be taxed under UAE Corporate Tax from 1 June 2023 and QDMTT from 1 January 2025.
- Businesses will need to file a CT return in 2025 and QDMTT return in 2027



What does it mean:

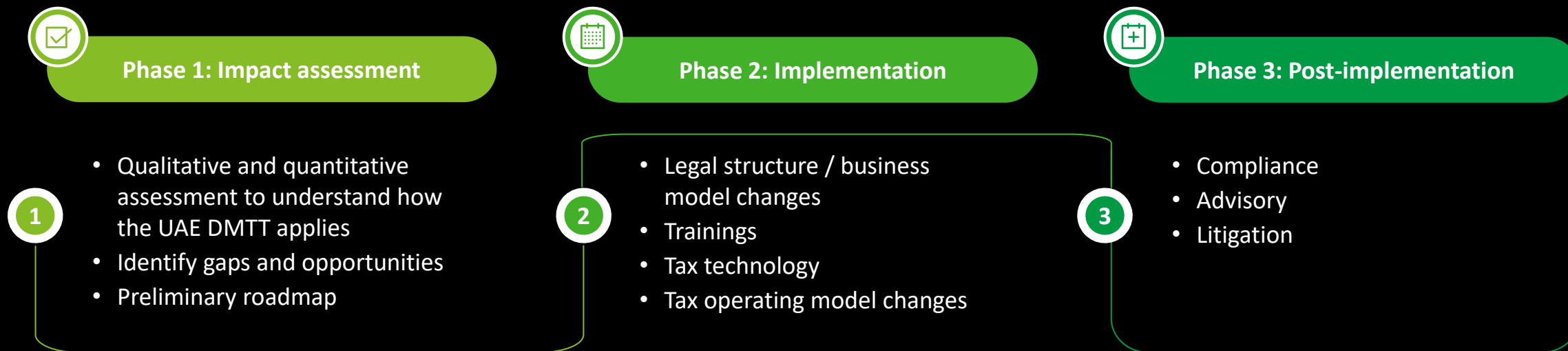


- With the new UAE DMTT regime, there is certainty around the key design principles of the DMTT regime.
- Tax and finance teams should start preparing a roadmap for change. In a first step, businesses should gain a good understanding of the proposed changes to fully assess the implications which can be far-reaching. The changes may have implications on, or require changes to, the legal structure, business model, contracting and (transfer) pricing, accounting, profit and systems & data, organization (e.g. resourcing). Finance/tax teams should be ready to have conversations with different departments within the business and stakeholders on the impact and need to be able to answer critical questions. There will be high interest from the Board, C-Suite and other stakeholder. We are here to support you with those discussions.



- This is a **marathon, not a sprint**, given the timing of the introduction, but there will be a lot to consider and act on.
- **Prioritizing** and identifying the various issues will be vital and a key early-stage value-add which we will be able to give to provide
- We see this as needing a **three-phased approach**, albeit that this is suitably flexible to reflect your needs

Deloitte's service offering: Our 3-phased approach



Deloitte’s service offering – Phase 1: Impact assessment

In Phase 1, businesses should start performing a high-level conceptual impact assessment based on the new UAE DMTT law with a view to identify gaps as well as opportunities. This review can include the following elements:

Financial / Technical	Scoping issues: Constituent Entity classification, JVs, PEs	Standalone data / accounts - gaps
	DMTT tax base determination and adjustments	DMTT Covered Taxes determination and deferred tax accounting
	Transitional rules	Loss carry forward and DTAs
	Rate - impact	Compliance, allocation and governance
	Interplay with UAE Corporate Tax	ERP functionality and Technology
Support with change management and project management activities		
Output	Insights on the application of UAE DMTT to your group and actionable next steps	

Team

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