



Deloitte Business Tax news:

UAE - New developments impacting investment funds and non-resident investors

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The United Arab Emirates (UAE) Federal Tax Authority (FTA) enhances exemption framework for Investment Funds and Limited Partnerships under Decision No. 34 of 2025 (read with Ministerial Decision No. 96 of 2025 and clarification for computation guidance in case of Real Estate Investment Trusts) and introduces conditions under which Non-Resident juridical investors in such Investment Funds will have Nexus in UAE through Decision No. 35 of 2025.

i. Decision No. 34 of 2025

Background

On 27 March 2025, the UAE FTA issued Cabinet Decision No. 34 of 2025 ("New Decision") repealing Cabinet Decision No. 81 of 2023 ("Repealed Decision"). The New Decision outlines updated conditions for Qualifying Investment Funds (QIFs), Real Estate Investment Trusts (REITs), and introduces conditions for exemption for Qualifying Limited Partnerships (QLPs) under Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses. Effective from 1 January 2025, this New Decision aims to align with international practices, provide flexibility for investment funds, and ensure consistency in the tax treatment of collective investment vehicles and their investors. It introduces new terminologies, definitions, and streamlined compliance processes to support UAE's ambition of becoming a leading investment hub.

The New Decision is applicable to the Tax Periods commencing on or after 1 January 2025. Repealed Decision remains applicable to tax periods that commenced prior to this date. Taxpayers and fund managers should immediately evaluate existing fund structures to assess compliance with the new exemption criteria and identify transitional actions, if any required, to maintain or obtain exempt status under the revised rules.

Key Changes introduced by the New Decision

Below is a summary of key changes introduced through the New Decision along with its likely impact on the taxpayers:

Topic	Article Reference	Key Change	Impact
Expanded Entity Coverage	Art. 1 & 5	The New Decision extends the exemption regime to also cover QLPs in addition to QIFs and REITs. A QLP is defined as a limited partnership that is a juridical person established pursuant to the relevant legislation in force in the State for the sole purpose of collective investment, under a legal framework that explicitly allowed for the establishment of such partnerships on or before 1 June 2023, or any other legal framework as may be prescribed by the Minister. Under the Repealed Decision, QLPs were not addressed.	Funds that were established on or before 1 June 2023 and are structured as limited partnerships with legal personality can now apply for a tax exemption, provided they meet the conditions of the QLP regime.

Definitions	Art. 1	<p>The New Decision gives definition of Immovable Property, Immovable Property Income, Immovable Property Percentage, and Net Profit. These terms were not included in the Repealed Decision.</p>	<p>These terms have been added to provide further explanation regarding property income and its calculation thereof. This helps funds, especially those dealing with real estate, better understand how tax will apply to them.</p>
Core QIF Exemption Criteria	Art. 2(1)	<p>The Repealed Decision required QIFs to meet several stringent conditions including the requirements to conduct Investment Business, to be managed by an Investment Manager with at least three investment professionals and to restricted investor control by a single investor. Under the new regulations, the requirement for a minimum number of investment professionals and the limit on investment by a single investor have been removed. However, the new rules continue to stipulate that the Fund must primarily conduct Investment Business, permitting up to 5% of its activities to be ancillary.</p> <p>Additionally, the new regulations introduce a requirement for QIFs to share any tax-relevant information with their investors.</p>	<p>The conditions to claim exemption for QIF are now simpler. There is no longer a need for a minimum number of investment professionals and the onus of the tax consequences of breaching the ownership thresholds (i.e. single investor not owning 30% or more of the Fund where total investors are less than ten and 50% or more where total investors are ten or more.) shifts to 'breaching' investor rather than the Fund's exempt status.</p>
Investor Tax Treatment – General	Art. 3(1)	<p>While the Repealed Decision required an investor to include income from a QIF in its taxable income, the New Decision provides that the taxable income of a Taxable Person who is an investor in an exempt QIF shall be adjusted to exclude any profit distributions received.</p>	<p>Investors in exempt funds no longer have to pay tax on their share of the fund's income unless the fund holds UAE immovable property or certain ownership thresholds are breached. This makes the funds more attractive to investors.</p>
Investor Tax Treatment – Concentrated Ownership	Art. 3(2–4)	<p>Retains the same ownership thresholds as the Repealed Decision (30% for funds with fewer than 10 investors, 50% for 10 or more), exempting from above threshold with certain conditions for first two Financial Years, but providing exception for any temporary breaches up to 90 days after the first two years, and for breaches occurring during liquidation. These exceptions were not available under the Repealed Decision.</p>	<p>This implies that even in case of breaching of the ownership conditions, Investor can still keep its exempt status even after the end of the first two years provided the issue is temporary (resolved within 90 days) or is due to liquidation. This gives funds more flexibility without risking their exemption.</p>

Real Estate Exposure – Taxation Threshold	Art. 3(5–6)	The Repealed Decision did not specify treatment for income of investor from real estate rich QIFs. The New Decision requires including 80% of income from such funds to be taxed. However, there is an exception for income earned by investors from such funds if 80% of its property income is distributed within nine months.	If a fund has real estate assets in UAE exceeding 10% of the total value of assets of the funds, it does not automatically lose its tax-exempt status. Only, 80% of the property income will be taxed. However, if up to 80% of such income is distributed within nine months, then exemption is available.
Investor Exit – Undistributed Income Relief	Art. 3(7)	The New Decision provides that if an investor disposes of their Ownership Interest in a QIF, the investor's taxable income may be adjusted to exclude any undistributed Income previously included in their taxable income, subject to not exceeding the taxable gain arising from such disposal. The Repealed Decision did not contain such relief.	If an investor sells their share in a fund and had already paid tax on income that was not distributed, they can offset their taxable gain by that amount. This mitigates the investor facing double taxation.
Depreciation Alignment	Art. 3(8–9)	Repealed Decision was silent on how to handle depreciation for investment funds using fair value accounting. New Decision assumes QIFs are using fair value depreciation and allows investors to adjust their own taxable income accordingly. If the property or fund units are sold, the earlier depreciation claims must be reversed.	Funds that use fair value accounting for property can now follow matching tax rules. Investors are also allowed to make tax adjustments. If the property or fund units are sold, earlier tax benefits are reversed, keeping things fair.
REIT-Specific Requirements	Art. 4	The New Decision clarifies and expands on the existing REIT exemption conditions under the Repealed Decision, including the AED 100 million property threshold, 20% public float or ownership by at least two unrelated institutional investors, a 70% rental asset mix, and 80% income distribution within nine months.	Real Estate Investment Trusts now have clearer and more detailed rules about asset value, public ownership, rental income levels, and profit distributions. This helps REITs better understand what they need to do to stay tax-exempt.
Introduction of QLP Conditions	Art. 5	<p>A QLP may apply for exemption if it is conducting Investment Business, not deriving any income from Immovable Property in the UAE and is not established for the principal purpose of minimizing Corporate Tax (CT).</p> <p>A Company that is owned and controlled by a QLP may also apply for exemption provided it meets certain conditions including undertaking of the activities of the QLP, being engaged in holding assets or investing funds for the benefit of the QLP.</p> <p>The Repealed Decision was silent on QLPs.</p>	A new exemption has been introduced for limited partnerships with separate legal personalities established on or before June 1st, 2023, are focused on investments and do not earn UAE property income. This is helpful for funds that were previously not covered by the law and that do not qualify as a QFZP or any other exemptions/relief available under the law.

Disqualification Period for QLPs

Art. 5(8-11)

The New Decision states that where a QLP fails to meet exemption conditions, it shall cease to be an Exempt Person for that Tax Period and the next four Tax Periods. It also sets the opening values for assets and liabilities if the QLP becomes taxable again.

Moreover, the taxable income of investor, being a juridical person in an exempt QLP shall be adjusted to include the prorated net income of the Qualifying Limited Partnership.

This implies the necessity to make an application in the first tax period and ensure that the requirements are met, otherwise, the taxpayer will lose QLP status for 5 years.

Tax Agent Appointment for Non-Residents

Art. 3(10), 5(7)

The New Decision allows a Non-Resident investor to appoint a Tax Agent to act on its behalf, either directly or through the QIF or its Investment Manager, for CT obligations. The Repealed Decision did not address appointment of Tax Agents by non-resident investors.

Foreign investors can now appoint a tax agent directly or through the fund manager to handle UAE tax matters. This may make tax compliance easier for investors who are not based in the UAE.

ii. Decision No. 35 of 2025

Background

The Ministry of Finance (MoF) of the UAE has also issued Cabinet Decision No. 35 of 2025, superseding Cabinet Decision No. 56 of 2023 on the determination of a Non-Resident Person's Nexus in the Emirates pursuant to Federal Decree-Law No. 47 of 2022 regarding the taxation of corporations and businesses.

This new Cabinet Decision outlines the conditions under which Non-Resident juridical investors, particularly those investing in Qualifying Investment Funds or Real Estate Investment Trusts, are considered to have a nexus in the Emirates and, consequently, are subject to CT therein.

Key Changes introduced by the New Decision

New Non-Resident Person's Nexus Criteria

Following the issuance of Cabinet Decision No. 34 of 2025, which notably amends the tax regime concerning Investor's income from QIFs and REITs under CT Law, the new Cabinet Decision introduces three new nexus criteria for Non-Resident Persons in the UAE. These criteria apply when taxable income adjustments are triggered under Cabinet Decision No. 34 of 2025.

While profit distributions received by a Taxable Person from an exempt QIF or REIT are, in principle, excluded from Taxable Income, Cabinet Decision No. 34 of 2025 stipulates specific conditions under which juridical persons must adjust their taxable income upwards. In such cases, a nexus in the UAE is established.

Ownership Interest Threshold

If a QIF, along with its related parties, has a single investor owning 30% or more of the ownership interests in the QIF when there are fewer than ten investors; or 50% or more when the QIF has ten or more investors (the "Diversity of Ownership Condition") then, the pro-rated share of the income from the QIF of the investor to be taxed under nexus regime.

Immovable Property Percentage

If the value of immovable property in the UAE held by the QIF exceeds 10% of the total asset value of the QIF in its financial year (the "Immovable Property Percentage") then, 80% of the income derived will be taxable.

Adjustment for REIT investors

The taxable income of a juridical person investing in an exempt REIT shall be adjusted to include 80% of the prorated income from immovable property, further adjusted to reflect depreciation deductions.

The previous nexus criterion already provided by the repealed Cabinet Decision No. 56 of 2023 is reaffirmed in the New Cabinet Decision.

Requirement to register for CT

A Non-Resident Person that has a nexus in the UAE, as discussed above, is also required to register for CT with the UAE Authority.

iii. Ministerial Decision No. 96 of 2025

Background

On 14 April 2025, the MoF issued Ministerial Decision No. 96 of 2025 ("MD 96"), supplementing Cabinet Decision No. 34 of 2025 on Qualifying Investment Funds and Qualifying Limited Partnerships. The Decision provides targeted relief to REITs that are seeking exemption from CT and are listing for the first time during a specific window in 2025.

Key Changes introduced by the New Decision

Reduced Public Float Threshold for REITs

MD 96 reduces the minimum float requirement for REITs listing for the first time on a Recognised Stock Exchange between 1 May 2025 and 31 May 2025 from 20% to 10%. This applies in place of the threshold prescribed in Article 4(1)(b)(1) of Cabinet Decision No. 34 of 2025 for the specified period only.

Impact: This change provides flexibility for REITs planning to access the markets within the given timeframe more easily, allowing them to reap the CT exemption provided other qualifying conditions are met.

iv. FTA Public Clarifications CTP005

Background

On 14 April 2025, the UAE FTA issued Public Clarification CTP005. This clarification addresses the treatment of Immovable Property Income for Resident and Non-Resident juridical investors in those REITs that are exempt from CT under Cabinet Decision No. 34 of 2025 and elaborates on the compliance obligations of such investors and REITs.

Key Changes introduced by the New FTA Clarification

Investment Managers and Custodians

Where REIT units are legally held by an investment manager or custodian on behalf of a group of investors, the investment manager or custodian is treated as the investor for CT purposes. They must include 80% of the REIT's prorated Immovable Property Income in their Taxable Income, even if this tax adjustment does not align with their own accounting. In such cases, the REIT's financial statements and any other available data must be used to support the numbers reported in the Tax Return.

Natural Persons

Only juridical persons that are Taxable Persons are required to include Immovable Property Income in their Taxable Income. Natural persons are not required to make such adjustments — even if they hold REIT investments as part of a business or Business Activity.

Non-Resident Investors - Nexus Trigger

A Non-Resident juridical investor will be considered to have a nexus in the UAE if they are required to include 80% of the REIT's Immovable Property Income in their Taxable Income. The nexus arises either:

- on the date dividends are distributed, if the REIT distributes 80% or more of its Immovable Property Income within 9 months from year-end, or
- on the date of acquisition of the Ownership Interest, if the REIT does not distribute 80% within the required timeframe.

However, if the investor has disposed of their entire REIT holding before the dividend distribution, no nexus is created and no tax adjustment is required.

Impact: This creates a CT registration obligation for Non-Residents based on ownership and the REIT's distribution pattern.

Tax Depreciation

Where applicable, investors may opt to adjust their Taxable Income to reflect tax depreciation for investment properties, in line with the decision issued by the Minister. This adjustment remains optional for investors.

Disposal

An investor who disposes of their entire Ownership Interest before the distribution of profits is not required to adjust their Taxable Income for the REIT's Immovable Property Income.

Timing of Income Inclusion

If the REIT is a distributing fund (i.e., distributes at least 80% of its Immovable Property Income within 9 months), the investor must include their share of income in their Tax Period in which the distribution occurs. If the REIT is a non-distributing fund, the income must be included in the Tax Period in which the REIT's financial year ends, proportionate to the investor's average ownership and holding period.

Disposal by Non-Resident Investor

When a Non-Resident investor disposes of their REIT interest, the gain is not considered attributable to a nexus in the UAE under Article 12(3)(c) of the CT Law and is therefore not subject to UAE CT. In such cases, the participation exemption need not be considered.

REIT's Obligation to Provide Information

To maintain exemption under Cabinet Decision No. 34 of 2025, REITs must provide investors with all relevant information required to compute their Taxable Income. This includes:

- Amount of Immovable Property Income of the REIT.
- Whether the REIT is a distributing fund for such Financial Year
- Amount of tax depreciation deduction for each investment property
- Any disposals of investment property for which a tax depreciation deduction was previously claimed

Impact: A REIT's failure to provide this information may result in loss of exempt status.

Key Takeaways

Impact on Investment Funds: The QIF exemption is no longer contingent on ownership thresholds, which is a positive development for the asset management industry. However, in practice, fund managers may still need to monitor investor composition and ownership percentages, particularly if the fund does not have a diversified investor base or holds UAE immovable property.

Investors will not be subject to double taxation on exempt fund income: If a fund is tax-exempt as a QIF, investors do not have to include income they receive from it in their own tax return, provided the fund has a diversified investor base (and thresholds are not triggered) and does not hold UAE immovable property.

Short-term rule breaches will not cancel exemption: If a fund temporarily breaks the ownership rules for up to 90 days or during liquidation, it will not lose its tax-exempt status.

Selling fund units will not lead to double tax: If investors have already paid tax on income that was not distributed and then sells their units, they can adjust their taxable profit by that amount.

Clearer rules for REITs: The rules now clearly explain what a REIT needs to do to stay tax-exempt and how the investors need to compute/treat the related income from it.

Property depreciation rules are now clear for funds: Funds using fair value for properties are now automatically treated as choosing depreciation for tax purposes. Investors can also adjust their taxable income but must reverse it later if the property or fund units are sold.

Non-Residents in the UAE: must reassess their positions due to introduction of the new nexus criteria. Significant QIF ownership or immovable property surpassing 10% of QIF assets triggers nexus of Non-Resident in the UAE now. REIT investors who will be including 80% of income from immovable property in their taxable income, will also have nexus in the UAE. Moreover, Non-Residents meeting these nexus criteria are required to register for CT with the UAE authority. However, foreign investors can now appoint a tax agent directly or through the fund manager to handle their UAE tax matters.

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