Tax alert | **Tax grouping**

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The introduction of corporate tax (CT) in the UAE from 1 June 2023 will increase the effective tax rate for UAE businesses – as well as compliance burdens. To maintain international tax competitiveness, the UAE's tax authority (the Federal Tax Authority (FTA)) has set out conditions for companies to form tax groups.

What if there is no tax group?

In the absence of a tax group, tax losses in one group company cannot be offset against the profits of another. Similarly, transfers of assets between group companies are subject to a capital gains tax based on the market value of the transferred asset at the date of transfer. Intra-group transactions are subject to transfer pricing (TP) rules, with companies required to maintain documentation to support the arm's length price charged in respect of these transactions.

Conditions and filing requirements for a tax group:

Treated as a single taxable person, a tax group consists of a resident parent company and its 95% owned or controlled (directly or indirectly) subsidiaries. The parent prepares consolidated financial statements for tax purposes and files a single tax return for the whole group. Every member of the tax group is jointly and severally liable to pay any corporate tax liabilities.

Benefits of establishing a tax group:

Group companies can surrender losses to each other, reducing the overall effective tax rate. Filing a single return for the entire group avoids the complexity of filing multiple returns. Intra-group restructuring and asset transfers are on a 'no gain, no loss' basis, provided the asset remains within the group for at least two years. From a TP perspective, intra-group transactions are treated as tax-neutral, (in principle) simplifying documentation requirements.

What should you do before forming a tax group?

- Revisit legal structures to identify companies meeting group ownership and control conditions
- Assess each company's tax position – including consistently loss-making businesses will reduce a group's overall effective tax rate
- Identify and exclude exempt or free zone companies (subject to a tax rate of 0%)
- Ensure fiscal year ends are consistent across the group
- Select a test year and analyse tax positions with and without grouping to determine tax and administrative savings

How can Keypoint help?

- Assess legal structures (including exempt businesses) and ownership levels
- Calculate tax positions for individual companies and on a group level
- Determine tax and administrative efficiencies

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