



Corporate Tax Implications for United Arab Emirates (UAE) Holding Companies and Financing Structures

– An overview! –

As the UAE's Corporate Tax (CT) regime comes into effect, understanding its impact on holding and financing structures is essential for business groups operating across borders. UAE holding companies—commonly used for managing investments, group financing, and intellectual property—are significantly affected by the new tax rules. Here's what you need to know:

1. UAE Holding Companies – Role and Function

A UAE holding company typically holds shares in one or more subsidiaries and derives income through:

- Dividends
- Capital gains
- Interest
- Royalties or IP-related revenues

These companies can be based in the mainland or a Free Zone and often serve as financial and structural anchors for regional or international groups.

2. Tax Treatment of Holding Company Income

Dividends

Foreign dividends received by a UAE company are exempt from Corporate Tax, provided they meet the participation exemption requirements:

- At least **5% ownership** in the subsidiary
- A minimum **holding period** of **12 months**
- The subsidiary is subject to a tax rate of at least **9%** or its equivalent

This applies not for UAE sourced dividends.

Capital Gains

Capital gains from the sale of shares in subsidiaries are also **exempt**, if the same participation exemption conditions are satisfied.

Interest Income

Interest income (e.g., from intercompany loans) is generally **taxable** at the standard 9% rate (on income above AED 375,000). Deductions for interest expenses are allowed but limited under:

- The 30% EBITDA rule (Earnings Before Interest, Taxes, Depreciation, and Amortization)
- **Transfer Pricing** and **arm's length** requirements
- **Anti-avoidance** and **thin capitalisation** provisions

Royalties and Other Passive Income

These income types are **taxable** unless specifically exempted. Any cross-border income must comply with **transfer pricing rules**, and proper documentation must be maintained.

3. Financing Structures and Intra-group Loans

Many UAE holding companies function as **group financing vehicles**, providing debt funding to subsidiaries.

While interest on loans may be deductible for the borrowing entity, the UAE CT regime imposes limitations to prevent base erosion and profit shifting (BEPS). This includes:

- Applying the **30% EBITDA interest deduction cap**

- Reviewing the **economic substance** of the lender
- Ensuring the interest rate aligns with market benchmarks (arm's length pricing)

4. Withholding Tax and Cross-border Considerations

Although the UAE does **not impose withholding tax** on outbound dividends, interest, or royalties, foreign jurisdictions may apply withholding tax on payments to UAE companies. Businesses should assess exposure and mitigate it via the UAE's **extensive network of Double Taxation Agreements (DTAs)**.

5. Free Zone Holding Companies

Holding companies established in **UAE Free Zones** may qualify for the **0% Corporate Tax rate**, but only if:

- They are a **Qualifying Free Zone Person**
- They earn only **Qualifying Income**, such as dividends and capital gains from foreign or Free Zone subsidiaries
- They do **not transact** with mainland UAE entities (or do so only in limited ways)

Meeting these conditions requires careful structuring and compliance with Free Zone-specific rules.

6. Compliance Requirements

All UAE companies, including holding and finance entities, must:

- **Register** for Corporate Tax
- File **annual tax returns**
- Prepare and maintain **Transfer Pricing documentation** for related-party transactions
- Ensure compliance with the **Economic Substance Regulations** (where applicable)

7. Summary of Key Tax Treatments

Income Type	Taxable?	Notes
Dividends	✗	Exempt under participation exemption
Capital Gains	✗	Exempt under participation exemption
Interest Income	✓	Taxable, deductions subject to rules
Royalties/IP	✓	Taxable, transfer pricing applies
Intra-group Loans	✓	Deductions allowed with limitations

8. Conclusion

UAE holding and financing structures remain attractive, but tax efficiency now hinges on compliance with the Corporate Tax law, especially around participation exemptions, intra-group financing rules, and Free Zone conditions. Businesses should review their structures proactively and seek professional advice to ensure alignment with the new regulatory landscape.

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