



Corporate Tax in the United Arab Emirates (UAE): Capital Gains & Dividends

– What Businesses Need to Know! –

As part of the UAE's new Corporate Tax regime, effective from 1 June 2023, businesses must understand how **capital gains** and **dividend income** are treated to benefit from significant tax exemptions. These exemptions support the UAE's position as an attractive destination for investment and holding structures.

Capital Gains & Dividends: Overview

Under Federal Decree-Law No. 47 of 2022, **capital gains** from the **sale of shares and dividends received** by UAE entities may be **exempt** from the standard **9% Corporate Tax rate** for taxable income exceeding **AED 375,000**, provided certain conditions are met.

Exemption for Capital Gains and Dividends

1. Capital Gains

Capital gains from the sale of assets, such as shares or real estate, are subject to corporate tax at the standard **9% rate** if they are part of a business activity.

However, for **individuals** holding shares or assets (not as part of a business), **capital gains** on the sale of assets are **not taxable** in the UAE.

Capital gains from the sale of shares in domestic or foreign companies are **exempt from Corporate Tax** if they relate to a **Qualifying Shareholding (QSH)**.

2. Dividends

Dividend Income: Dividends received by a company from other UAE companies are generally **tax-exempt** under the corporate tax law. This means that businesses receiving dividends from other companies in the UAE will not face additional tax on those dividends.

Foreign Dividends: For foreign dividend income, the tax treatment depends on the country of origin. The UAE does not impose withholding tax on outbound dividends, so if a UAE company receives dividends from abroad, there may be tax relief available based on double taxation agreements (DTAs) that the UAE has with other countries.

Dividends to Shareholders: Dividends paid to individuals or other companies (whether domestic or foreign) are **not subject to withholding tax** in the UAE. This makes it an attractive destination for companies to operate and distribute profits without additional taxation on distributions.

Dividends from UAE companies are automatically **exempt** from Corporate Tax. **Foreign dividends** are exempt if received from a **Qualifying Shareholding**.

What Is a Qualifying Shareholding (QSH)?

To benefit from the exemption, the UAE entity must:

- Own at least **5% of the shares or capital**.
- Hold the shares for at least **12 months**.
- Ensure the foreign entity is subject to **corporate tax of at least 9%**.
- Ensure the entity is not primarily earning passive or real estate income (unless qualifying exceptions apply).

Free Zone Entities

Qualifying Free Zone Persons (QFZPs) can benefit from a **0% Corporate Tax rate** on:

- Capital gains from share disposals.
- Dividends received from UAE and foreign companies.

To qualify, the Free Zone company must:

- Not conduct “excluded activities” (e.g., banking, oil & gas).
- Not earn income from the UAE mainland (unless limited qualifying transactions).

Key Benefits for UAE Entities

- **Tax-efficient holding structures** for domestic and international investments.
- **Exempt exit strategies** through tax-free capital gains.
- **International dividend income planning**, avoiding double taxation.
- **Free zone structures** offering 0% tax on passive income streams.

Compliance Note

Even if income is **exempt**, it must still be:

- **Reported** in the Corporate Tax return.
- Supported by appropriate **documentation** (e.g., ownership proof, holding period, tax residency of investee).

Quick Reference Table

Income Type	Corporate Tax	Exemption Requirements
Local Dividends	0%	Automatically exempt
Foreign Dividends	0% (if QSH)	≥5% ownership, ≥12 months, ≥9% tax at source
Capital Gains	0% (if QSH)	As above
Free Zone Income	0% (if QFZP)	No excluded activities, no or limited mainland income

Understanding these exemptions allows UAE businesses to **optimize their tax position**, ensure compliance, and retain more of their investment returns. For structured planning, especially with **foreign shareholdings** or **group reorganizations**, professional advice is highly recommended.

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