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Foundations & Family Foundations in the United Arab Emirates (UAE): Overview and Corporate Tax Treatment

– An overview! –

The UAE introduced its first-ever federal **Corporate Tax (CT)** effective from **1 June 2023**, marking a significant shift in the region's tax landscape. While the standard tax rate is **9%**, which could have a significate impact on UAE foundations and family foundations. This article attempts to give an overview about topic.

What is a UAE Foundation?

A UAE **foundation** is a legal entity that can **hold and manage assets independently** of its founder. It has its own legal personality and is commonly used for wealth protection, **succession planning, and charitable purposes**. It is established by a founder, who transfers assets to the foundation. The foundation is governed by a **foundation charter** and managed by a **council or board**.

What is a Family Foundation?

A family foundation is a private foundation set up to preserve **family** wealth, manage inheritance, and plan succession across generations. It can hold family businesses,

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real estate, or investments, and ensures smooth asset transfer without court involvement.

Legal Basis in the UAE

UAE foundations are regulated under:

- **DIFC** and **ADGM** foundation regimes (common law jurisdictions);
- **Ras Al Khaimah (RAK)** and other emirate-level laws for foundations and
- Federal laws where relevant (e.g., UAE Civil Code)

Each zone may have specific rules, especially around confidentiality, governance, and registration.

UAE Corporate Tax Treatment of Foundations

With the introduction of **UAE Corporate Tax (CT)**, foundations are recognized as taxable persons. However, they may qualify for special treatment:

1. Taxable Person by Default

A foundation is considered a **juridical person**, and is therefore **within the scope of UAE Corporate Tax** if it conducts a business or holds assets that generate income.

2. Exemption Option – Elect to be Treated Like a Trust

Foundations **may apply** to be treated as an **unincorporated arrangement**, similar to a **trust**, for UAE CT purposes. This means:

- The **foundation itself is not taxed**, but
- The **income is attributed to the beneficiaries** or the founder (depending on the structure)
- This allows for **transparent tax treatment**

To apply for such "treatment" under the UAE CT rules:

- A formal **election** must be made to the Federal Tax Authority (FTA)

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- The foundation must meet certain **conditions**, e.g.:
    - Not conducting commercial business;
    - Primarily holding assets for beneficiaries or philanthropic reasons;
    - Proper governance structure in place.

3. Foundations Holding Shares or Assets

If a foundation holds shares in operating businesses:

- **Dividends and capital gains** earned may be **exempt**, especially if the participation exemption applies
- **Passive income** (e.g., interest, royalties) is generally taxable unless exempted

Key Takeaways

- Foundations are **useful vehicles for succession, asset protection, and family wealth planning**.
- They are **treated as juridical persons** under UAE Corporate Tax unless an **election is made** to be treated like a **trust**.
- Foundations not engaged in commercial activity and holding only passive assets may benefit from **transparent or exempt tax treatment**.
- Proper **structuring and legal advice** are crucial, especially when electing for exemption or planning asset contributions and distributions.

Dubai, August, 2025 Verena Nosko