

Taxation of Natural Persons Under the Corporate Tax Law

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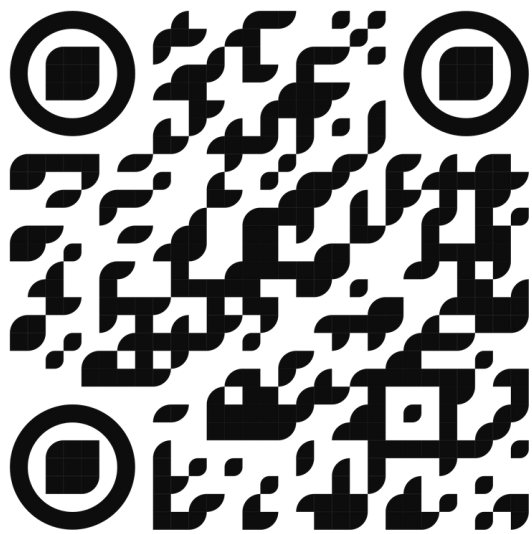


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Taxation of Natural Persons — The implementation of corporate tax represents a pivotal development in the nation's fiscal framework, fostering a more equitable tax system. While the tax primarily targets businesses, individuals conducting certain business activities may also be subject to corporate tax. This article delves into the specific considerations for natural persons under the corporate tax law.

Applicability of Corporate Tax to Natural Persons

Who is a Natural Persons?

A Natural Person(s), as defined under the UAE Corporate Tax Law, as an individual, regardless of age or residency status, who conducts a "Business" or "Business Activity" in the UAE, maintains a Permanent Establishment in the UAE, or generates State Sourced Income.

Key Considerations

Determining whether a natural person is subject to Corporate Tax hinges on several key factors:

1. Business or Business Activity: Natural persons conducting a Business or Business Activity in the UAE are considered Taxable Persons and Resident Persons under the Corporate Tax Law.

2. Turnover Threshold: Corporate Tax applies to natural persons only if their total Turnover from Business or Business Activities conducted in the UAE exceeds AED 1 million within a Gregorian calendar year.

3. Exempt Income Categories: Wage, Personal Investment income, and Real Estate Investment income are not considered to arise from a Business or Business Activity and are disregarded for Corporate Tax purposes.

Taxable Income for Natural Persons

Only income derived from a Business or Business Activity conducted in the UAE by a natural person is subject to Corporate Tax. If a natural person's total Turnover from such activities falls below the AED 1 million threshold, they are not liable for Corporate Tax.

Definition of Business and Business Activity

The Corporate Tax Law provides comprehensive definitions of Business and Business Activity. Business refers to any activity conducted regularly, on an ongoing and independent basis, while Business Activity encompasses any transaction or series of transactions undertaken by a Person in the course of their Business.

Businesses Subject to Corporate Tax

Corporate Tax applies to Business or Business Activities conducted by natural persons in the UAE if their total Turnover exceeds AED 1 million within a Gregorian calendar year. Turnover excludes

gross income from exempt sources. This threshold serves as a crucial benchmark, differentiating between individuals engaged in small-scale activities and those conducting more substantial business operations.

**Turnover is a fundamental concept representing the total gross revenue generated by a business during a specified period. As it sits at the very beginning of the financial statement, indicating the overall level of a company's sales or revenue-generating activities. This means that Turnover encompasses the total sum of all income earned by a business entity, before any expenses or deductions are taken into account. It represents the unfiltered, unadjusted revenue generated by the business's core operations.*

Determining Business Activity Nexus

Ascertaining whether income relates to a Business or Business Activity conducted in the UAE, factors such as the location of personnel, business development activities, and assets involved in producing or providing goods or services are conducted in the UAE, several factors are taken into consideration:

1. Location of Personnel: The location of the individual's primary place of business or employment is crucial in determining whether income is attributable to activities in the UAE. If the individual's primary business or employment activities are conducted within the UAE, their income is generally considered to be sourced from the UAE.

2. Business Development Activities: The extent to which the individual's business development activities are focused on the UAE market is also a significant factor. If the individual dedicates a substantial portion of their time and resources to developing business opportunities within the UAE, their income is likely connected to UAE-based activities.

3. Assets Involved in Producing or Providing Goods or Services: The location of the assets used to produce or provide goods or services is another key determinant. If the individual utilizes assets located within the UAE to generate income, this strongly suggests that their income is derived from UAE-based activities.

Corporate Tax Compliance for Natural Persons

Tax Registration

Natural persons engaged in Business or Business Activities subject to Corporate Tax are only required to register once their total Turnover surpasses AED 1 million within a Gregorian calendar year. Individuals involved in Unincorporated Partnerships that are not treated as Taxable Persons are still responsible for assessing their individual tax liability based on their distributive share in the partnership.

Tax Deregistration

Natural persons registered for Corporate Tax can only deregister if they have ceased conducting Business or Business Activities. Cessation should be reported to the FTA within three months.

Additional Resources

For comprehensive details regarding Corporate Tax obligations, please refer to the accompanying Guides, References, and Public Clarifications. Alternatively, you may engage with our professionals for further assistance.

- [Federal Tax Authority Website](#)
- [Taxation of Natural Persons under the Corporate Tax Law](#)

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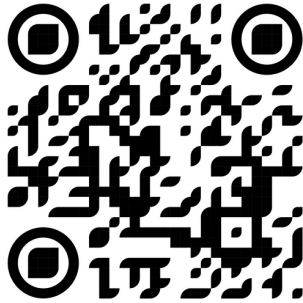
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Through our professional and best practices we have extended our services into more areas. In UAE, we have offices in Dubai, Abu Dhabi and Al Ain. Our staff strength is around 50+, which include Accountants, Auditors, Tax Consultants, Management Consultants, and ERP Consultants. Our present client strength is around 550 of varying discipline and sizes.

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