



The Interplay & Interaction of Accounting Standards To Corporate Tax

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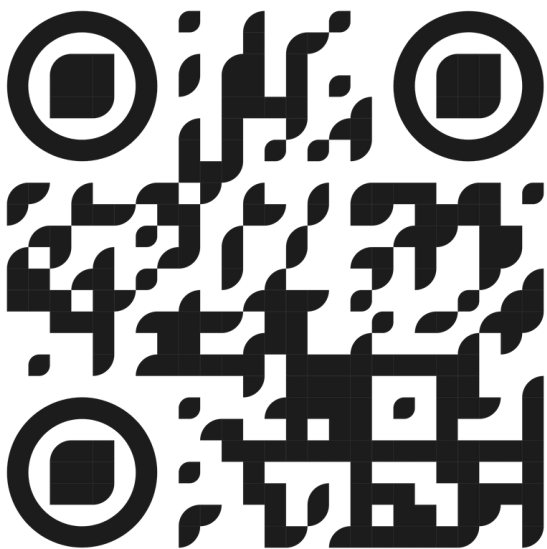


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Adherence To Accounting Principles

Pursuant to Ministerial Decision No. 114 of 2023, each Taxable Person's Taxable Income is to be determined independently, utilizing duly prepared, individual (unconsolidated) Financial Statements that adhere to the Accounting Standards recognized in the UAE for Corporate Tax purposes.

IFRS and IFRS for SMEs: The Pillars of Corporate Tax Reporting

The Corporate Tax Law mandates the use of either International Financial Reporting Standards (IFRS) or International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) for the preparation of financial statements for corporate tax purposes. The choice between these two standards depends on the revenue of the taxable entity.

- IFRS: IFRS, the more comprehensive and stringent standard, is mandatory for taxable entities with revenue exceeding AED 50 million in a tax period. It provides a globally recognized framework for preparing financial statements, ensuring comparability and reliability across jurisdictions.
- IFRS for SMEs: IFRS for SMEs, a simplified and less costly alternative, is designed for smaller entities with revenue not exceeding AED 50 million in a tax period. It offers a streamlined set of accounting standards tailored to the

specific needs of SMEs while maintaining a high level of financial reporting quality.

Exemptions and Special Provisions

Exempt persons under the Corporate Tax Law, such as government entities and extractive businesses, are not subject to the mandatory use of IFRS or IFRS for SMEs for their overall financial reporting. However, if any business or business activity of an exempt person falls under the category of a separate taxable business, IFRS or IFRS for SMEs must be used to prepare the financial statements for that taxable activity.

Audit Requirement For Financial Statements

In accordance with the UAE's corporate tax regime, taxable entities with revenue surpassing AED 50 million during the relevant tax period and all qualifying free zone entities, regardless of their revenue level, are mandated to prepare and maintain audited financial statements for corporate tax purposes.

Accounting Methods: Accrual and Cash Basis

Two primary accounting methods are recognized for corporate tax purposes in the UAE:

- 1. Accrual Basis of Accounting:** The primary

accounting method used for corporate tax purposes in the UAE. Under this method, revenue and expenditure recognition aligns with the time they are earned or incurred, irrespective of the timing of cash payments or invoice issuance. This approach provides a more accurate representation of the financial performance of a business over time.

2. Cash Basis of Accounting: Entities may be eligible to use the Cash Basis of Accounting under exceptional circumstances. This simplified accounting method recognizes revenue and expenses solely when cash is received or disbursed. The Cash Basis of Accounting is generally suitable for small businesses with straightforward financial transactions.

Eligibility for Cash Basis of Accounting

For Corporate Tax purposes in the United Arab Emirates, entities can utilize the CBA under specific eligibility criteria:

- **Revenue Threshold:** Entities with an annual revenue of AED 3 million or less can prepare financial statements using the CBA for Corporate Tax purposes. This threshold applies to the total revenue generated from all business activities conducted by the entity.
- **Exceptional Circumstances:** Entities exceeding the AED 3 million revenue threshold may still be eligible to use the CBA under exceptional circumstances. These circumstances are not explicitly defined in the

Corporate Tax Law, but they may include situations where the use of the accrual basis would cause undue hardship or administrative burdens for the entity.

Conclusion

The UAE's corporate tax regime establishes a robust framework for accounting and reporting, ensuring that taxable entities adhere to internationally recognized standards and maintain transparency in their financial disclosures. The choice between IFRS and IFRS for SMEs, the application of the Accrual Basis of Accounting, and the eligibility for the Cash Basis of Accounting are key considerations for taxable entities in the UAE.

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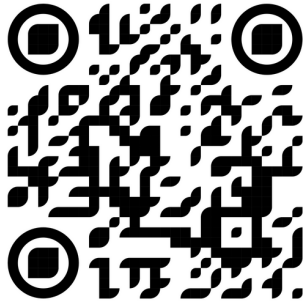
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Parker Russell UAE — Our firm was established in 1998 as “Haris & Associates Auditing” in Dubai, providing Audit Assurance and Accountancy services on an efficient and cost-effective basis around the region.

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.

It is operating and is placed in one of the leading audit firms in Dubai with its branches in Dubai and Abu Dhabi. Parker Russell is incorporated in the year 1998, with the ideology of highly qualified, experienced, and capable chartered accountants and accounting executives, with much dedication and passion in providing high-quality financial services to any corporation or individual that is in need and imparting professional financial insights without compromising excellence.